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ANNUAL REPORT 2017

Koldingvej 2
DK–7190 Billund
CVR-no. 18591235

Generalforsamling: 2. maj 2018
Dirigent: Sidsel Marie Kristensen

KIRKBI

CONTENTS

FINANCIAL HIGHLIGHTS

KIRKBI Group

(m DKK)	2017	2016	2015	2014	2013
Income statement:					
Operating profit from strategic activities	12,342	14,254	14,041	11,020	10,317
Operating profit from investment activities	4,000	2,960	3,307	3,373	1,789
Total operating profit	16,002	16,885	16,997	14,101	11,873
Profit for the year	12,679	13,285	13,396	10,818	9,205
Balance sheet:					
Total assets	95,456	85,667	75,463	59,851	48,108
KIRKBI Group's share of equity	76,305	66,407	56,295	45,218	36,610
Non-controlling interests	5,285	5,105	4,460	3,206	2,767
Liabilities	13,866	14,155	14,708	11,427	8,731
Cash flow statement:					
Cash flows from operating activities	10,253	12,516	12,076	10,163	7,591
Investment in property, plant and equipment	(2,233)	(7,572)	(4,473)	(6,803)	(3,708)
Investment in intangible assets	(143)	(92)	(126)	(59)	(103)
Employees:					
Average number (full-time)	16,909	17,136	14,241	12,781	11,956
Financial ratios (in %):					
Equity ratio	85.5 %	83.5 %	80.5 %	80.9 %	81.9 %
Return on equity	15.0 %	17.8 %	21.9 %	22.1 %	23.1 %

Financial ratios

Financial ratios have been calculated in accordance with the "Guidelines and Financial Ratios", issued by the Danish Society of Financial Analysts.

Return on equity (ROE):

$$\frac{\textbf{Profit for the year (excl. non-controlling interests) x 100}}{\text{Average equity (excl. non-controlling interests)}}$$

Equity ratio:

$$\frac{\textbf{Equity (incl. non-controlling interests) x 100}}{\text{Total liabilities and equity}}$$

KIRKBI

– A family-owned holding and investment company

Our aspiration is to enable the Kirk Kristiansen family to succeed with the mission through generations

KIRK KRISTIANSEN FAMILY → 100 % OWNERSHIP → **KIRKBI GROUP**

2017 KEY FIGURES

16,909
Full-time employees

10.3 (bn DKK)
Cash flow from Operating activities

12.7 (bn DKK)
Profit for the year

81.6 (bn DKK)
Total equity

ASSOCIATED FOUNDATIONS

KIRKBI provides administrative support to associated foundations:

The LEGO Foundation

OLE KIRK's Fond

Strategic activities

Managed by LEGO Brand Group

THE LEGO GROUP
75 %

Revenue	35.0 bn DKK	Founded by Ole Kirk Kristiansen in 1932. Based on the LEGO® brick, the company provides unique play experiences for children
Profit for the year	7.8 bn DKK	
Investments	1.5 bn DKK	
Employees (FTE)	16,480	

MERLIN ENTERTAINMENTS PLC
29.7 %

Revenue	13.4 bn DKK	Europe's leading and the world's second-largest visitor attraction operator. Owns the LEGOLAND® parks which were founded by Godtfred Kirk Christiansen in 1968 and the LEGOLAND® Discovery Centres, among other activities
Profit for the year	1.8 bn DKK	
Investments	2.9 bn DKK	

TRADEMARKS
100 %

Royalty	1.3 bn DKK	The LEGO® and LEGOLAND® trademarks

RENEWABLES

Borkum Riffgrund 1		KIRKBI has invested into two offshore wind-farms named Borkum Riffgrund 1 (Germany) and Burbo Bank Extension (UK). The purpose of renewable investments is to support the LEGO Group's goal to generate enough renewable energy to meet 100 % of its energy consumption by 2020
Ownership	31.5 %	
Capacity	312 MW	
Burbo Bank Extension		
Ownership	25 %	
Capacity	258 MW	

Investment activities

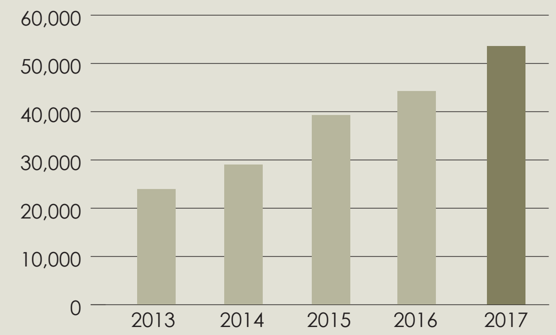
LONG TERM INVESTMENTS

- Long-term equity
  Falck, ISS, Nilfisk, minimax VIKING
- Real Estate
- Private Equity
- Alternatives

LIQUID INVESTMENTS

- Bonds and corporate debt
- Quoted equities

INVESTMENT PORTFOLIO
(m DKK)



Kjeld Kirk Kristiansen and Søren Thorup Sørensen

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Only the best is good enough

Ole Kirk Kristiansen,
Founder of the LEGO Group

2017 AT A GLANCE

2017 has been a good year for the KIRKBI Group impacted by a **good result in LEGO A/S and strong performance in the investment activities.**

In 2017, employees in the LEGO Group and KIRKBI celebrated the 85th anniversary of the LEGO Group. Not many companies continue to develop and succeed through 85 years. We believe the LEGO Group is able to do so due to a fantastic product, a meaningful purpose and loyal and engaged employees. Furthermore, the anniversary is also an important milestone from an owner's perspective, because it reminds us of our legacy, and the impact and importance 85 years of family ownership has had to the LEGO Group.

In January 2017, LEGO Brand Group was established within the KIRKBI Group. The establishment of LEGO Brand Group is an important step in the continued development of the Kirk Kristiansen family's commitment to maintain an active and engaged family ownership of the LEGO Group and to protect, develop and leverage the LEGO brand in the long term. During the year, LEGO Brand Group has worked dedicated on building a strong foundation, from which LEGO Brand Group can deliver on these important tasks.

2017 HIGHLIGHTS

Profit for the year for the KIRKBI Group amounted to DKK 12.7 billion compared to DKK 13.3 billion last year.

The LEGO Group delivered a good result in 2017 despite a challenging year. Revenue for the full year declined to DKK 35.0 billion compared with DKK 37.9 billion in 2016 and profit before tax declined to DKK 10.2 billion from DKK 12.4 billion. Revenue declined primarily due to actions taken to clean up inventories at the retail level. Furthermore, the LEGO Group simplified and reduced the size of the organisation to meet current business requirements. The balance sheet and profitability remained sound and the LEGO Group had strong operational cash flows of DKK 10.7 billion in 2017 against DKK 9.1 billion in 2016.

On 1 October 2017 Niels B. Christiansen assumed the position as CEO for the LEGO Group.

Within Merlin Entertainments plc, the total number of visitors grew by 3.5 % to 66 million and revenue grew by 11.6 % in 2017. In the LEGOLAND parks, revenue increased by 18.2 %, driven by the opening of LEGOLAND Japan; LEGOLAND park number eight in the world. During 2017, plans for LEGOLAND New York were announced, with targeted opening in 2020.

Within Renewables, the wind farm Burbo Bank Extension was fully commissioned during the first half of 2017, whereby the second of KIRKBI's investments in offshore wind farms became fully operational. By the completion of Burbo Bank Extension, the LEGO Group's commitment towards balancing the company's global consumption of energy was reached three years earlier than originally planned.

The return from the investment portfolio was a net gain of DKK 4.0 billion against DKK 3.0 billion last year. The investment result was positively impacted by strong performance within Quoted Equities, Long-term Equities and Private Equity, and negatively impacted by the declining USD rate.

The investment portfolio in KIRKBI increased by the end of 2017 to DKK 54 billion from DKK 44 billion at the end of 2016. In December, KIRKBI signed an agreement to acquire a 49.8 % stake in Välinge, a Swedish industrial R&D company. The investment complements the KIRKBI Long-Term Equity portfolio and underpins our strategy to be a significant investor with a long-term investment profile. In addition, the investment in Nilfisk increased to 13.5 %. In 2017, we also completed Real Estate investments in Switzerland and in Munich.

We would like to thank all employees for their contributions, engagement and professional support within a broad range of services and disciplines. We look forward to continuing the positive development of KIRKBI in 2018.

Kjeld Kirk Kristiansen
Chairman of the Board

Søren Thorup Sørensen
CEO

ANNUAL REVIEW

INCOME STATEMENT

The KIRKBI Group's profit for the year for 2017 amounted to DKK 12,679 million against DKK 13,285 million in 2016. The profit exclusive non-controlling interests for 2017 was DKK 10,720 million compared with DKK 10,924 million for 2016.

The profit for the year is considered satisfactory and in line with the expectations disclosed in the financial statements for 2016.

It is proposed to distribute dividend in the amount of DKK 200 million.

BALANCE SHEET

At the end of the year, the total assets amounted to DKK 95.5 billion against DKK 85.7 billion in 2016. The increase is primarily due to investments in the LEGO Group, finance lease related to LEGOLAND® Japan and investment-related securities. The equity ratio was 85.5 % against 83.5 % in 2016.

CASH FLOWS

In 2017, cash flows from operating activities were DKK 10,253 million against DKK 12,516 million in 2016. Cash flows from investing activities were DKK -7,987 million against DKK -10,013 million in 2016.

DEVELOPMENT IN THE KIRKBI GROUP'S ACTIVITIES AND FINANCIAL POSITION

The satisfactory result for the year is due to good returns from the investment activities offset by reduction in earnings from the LEGO Group and impacted by the increased results from Renewables.

For the LEGO Group, 2017 was the first year in recent years with a decline in revenue and earnings. The company's net revenue decreased by 8 % to DKK 35.0 billion. Earnings decreased by 17 % as net profit was DKK 7,806 million against DKK 9,436 million in 2016.

Merlin Entertainments plc improved net revenue compared to 2016. Net revenue increased to GBP 1,594 million and profit for the year was GBP 209 million which is slightly below last year's profit of GBP 211 million. The LEGOLAND park in Japan, which assets are owned by KIRKBI but leased to and operated by Merlin Entertainments plc, opened in April 2017.

Within Renewables, KIRKBI Group's investment in Burbo Bank Extension became fully operational during 2017. From summer 2017, the KIRKBI Group had investments in two fully operational offshore wind farms. Net result from Renewables for the KIRKBI Group for 2017 amounted to DKK 398 million against DKK 118 million for 2016.

Due to the decline in revenue in the LEGO Group, royalty income for the KIRKBI Group decreased by 6 % to DKK 1,346 million in 2017 compared to DKK 1,437 million in 2016.

The investment activities yielded a return of DKK 4,000 million compared to DKK 2,960 million in 2016. This result is mainly driven by strong performance from Quoted Equities, Long-term Equities and Private Equities.

During the year, the investment portfolio increased around DKK 10 billion to DKK 54 billion, impacted by cash inflow from the LEGO Group, return from the investment portfolio and positive cash flow from Renewables.

PEOPLE RESOURCES

In the KIRKBI Group's core activities, employees are the single most critical resource. The KIRKBI Group's results are accomplished thanks to the motivation and commitment of the employees. As part of the overall corporate strategy, employees and management work together to continuously secure job satisfaction and a strong working environment.

In 2017, the average number of full-time employees in the KIRKBI Group was 16,909 against 17,136 in 2016. These numbers are exclusive of the employees in Merlin Entertainments plc. More than 97 % of the employees work in the LEGO Group.

All employees of the LEGO Group and KIRKBI are subject to a Performance Management Programme, which aims to link business goals with individual employee goals. This programme includes a tiered bonus scheme.

RISKS

The KIRKBI Group's risks primarily relate to developments within the global markets where the LEGO Group is active, the market for family entertainment and other leisure activities, and the financial markets.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Parent Company does not engage in research or development activities. Group enterprises conduct research and development within their respective business areas.

EXPECTATIONS FOR 2018

The investment activities will be impacted by the development in the global economy in 2018 and hence it is difficult to express clear expectations of the results for the year. The objective for the KIRKBI Group is to create satisfactory long-term returns.

The year 2018 has started acceptable from a financial point of view. The overall result for 2018 for the KIRKBI Group is expected to be satisfactory.

ABOUT KIRKBI

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KIRKBI FUNDAMENTALS

KIRKBI A/S is the Kirk Kristiansen family's holding and investment company.
The KIRKBI Fundamentals serve as the compass in all business activities.

The KIRKBI Fundamentals are based on the LEGO Idea Paper – a short internal document written by the Kirk Kristiansen family.

The LEGO Idea Paper describes the foundation for all Kirk Kristiansen enterprises – the LEGO Foundation, the LEGO Group, LEGO Education and KIRKBI. Common to all enterprises is the shared mission, promises, spirit and values.

KIRKBI's aspiration is to enable the Kirk Kristiansen family to succeed with the mission through generations and to create a positive impact through responsible ownership and investments.

ACTIVE AND ENGAGED FAMILY OWNERSHIP THROUGH GENERATIONS

Active and engaged family ownership is crucial to the Kirk Kristiansen family. Being an active and engaged owner is about having a deep interest and engagement in how the family enterprises develop, how the enterprises engage with children of all ages as well as stakeholders in general, what the culture is like and how the values are lived and not least - caring for employees.

In short, an active and engaged ownership is about being guardians of how the Kirk Kristiansen family enterprises do business.

To ensure a continued active and engaged family ownership, the Kirk Kristiansen family has carefully prepared for the smooth handover between the 3rd and 4th generation, which is ongoing.

In 2016, Kjeld Kirk Kristiansen and Thomas Kirk Kristiansen took the first steps in the smooth handover as they swapped roles in the Board of Directors in LEGO A/S where Thomas Kirk Kristiansen became deputy chairman and Kjeld Kirk Kristiansen became an ordinary board member. On the board of the LEGO Foundation, Thomas Kirk Kristiansen became chairman and Kjeld Kirk Kristiansen deputy chairman. Kjeld Kirk Kristiansen continues to be the chairman of the board of KIRKBI A/S.

As a part of the transition and the future family ownership, the Kirk Kristiansen family decided that in each generation one person should be taking the role as the most active owner. The most active owner will, on behalf of the whole family, be close to the LEGO Group, the LEGO Foundation, LEGO Education and KIRKBI. The family agreed that Thomas Kirk Kristiansen should assume this role in the fourth generation.

Furthermore, the family agreed that all owners in each generation are engaged and responsible shareholders as well as ambassadors and culture carriers of the family's core values. All owners are engaged in different ways in the business of the LEGO Group, KIRKBI and the associated foundations – acting as members of the Board or undertaking representative duties.

▶ The LEGO House – Home of the Brick – opened in September 2017 in Billund, Denmark. The LEGO House is a dream come true for Kjeld Kirk Kristiansen. Inspired by LEGO fans of all ages, the LEGO House is an experience house, where guests can explore the endless possibilities of the LEGO brick and get a deep understanding of what the LEGO Idea is all about.

THE KIRKBI FUNDAMENTALS

MISSION	Inspire and develop the builders of tomorrow		
ASPIRATION	Enable the Kirk Kristiansen family to succeed with the mission through generations and to create a positive impact through responsible ownership and investments		
PROMISES	**People Promise** Succeed together	**Partner Promise** Mutual value creation	**Planet Promise** Positive impact
SPIRIT	Only the best is good enough — always strive to do better		
VALUES	Imagination — Creativity — Fun — Learning — Caring — Quality		

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My vision with the LEGO House is to create the ultimate LEGO experience, which truly unfold the endless possibilities and opportunities that the LEGO brick and the LEGO System in Play have to offer. And to gather all these experiences in one house – the Home of the Brick.

Furthermore, in my family we would like to share the story about how the LEGO products have developed and how the LEGO Group has grown during our 85 years of history.

Kjeld Kirk Kristiansen,
3rd generation LEGO Group owner, in his speech at the LEGO House opening ceremony, September 2017.

THE ORIGIN OF THE KIRKBI NAME

The company name KIRKBI reflects the family ownership and heritage as it is a combination of the family name 'Kirk' and the city 'Billund' in Denmark. In 1932, Ole Kirk Kristiansen started making wooden toys in his workshop in Billund, Denmark, and from 1934, he sold them as LEGO® toys. Today, KIRKBI owns 75 % of the LEGO Group. The remaining 25 % is owned by the LEGO Foundation.

BUSINESS AREAS

KIRKBI is centered around three business areas
– strategic activities, investment activities and support functions.

KIRKBI has a clear focus on the development and ownership of the Kirk Kristiansen family's strategic activities, ensuring financial security and delivering highly professional support.

Through the three business areas – Strategic Activities, Investment Activities and Support – KIRKBI delivers on the aspiration, which is to enable the Kirk Kristiansen family to succeed with the mission through generations and to create a positive impact through responsible ownership and investments.

▼ The LEGO Brand Group is managed by Jørgen Vig Knudstorp (Executive Chairman) and Thomas Kirk Kristiansen (Deputy Chairman)

THREE BUSINESS AREAS

1 STRATEGIC ACTIVITIES
KIRKBI has the following strategic activities:

Strategic Activities managed by LEGO Brand Group

- 75 % ownership of the LEGO Group.
- 29.7 % ownership of Merlin Entertainments plc that among other activities operates the LEGOLAND® Parks and LEGOLAND Discovery Centres.
- 100 % ownership of LEGO® and LEGOLAND® trademarks.

Strategic Activities – Renewables

- Investments in renewable energy to support the commitment of the Kirk Kristiansen family and the LEGO Group towards balancing the Group's global energy consumption with renewable energy, while at the same time delivering attractive long-term returns on investment.

Read more about KIRKBI's Strategic Activities on pages 28-33.

About LEGO Brand Group
In January 2017, LEGO Brand Group was established as a virtual entity within the KIRKBI Group.

The purpose of the LEGO Brand Group is to protect, develop and leverage the full potential of the LEGO brand in the longer term and to ensure active and engaged family ownership of the LEGO branded entities through generations.

The LEGO brand, driven by the LEGO Group, has developed rapidly. Over the past decades, the LEGO Group has expanded its global presence and the LEGO brand has become not only a well-known but a highly trusted and strong brand across global markets.

The LEGO brand is also part of a larger ecosystem of brands due to partnerships and licensed agreements. Additionally, the brand is more exposed than ever, and more and more strategic opportunities arise.

The LEGO Brand Group sets the long-term direction for the development of the LEGO brand within the entire LEGO ecosystem.

At the same time, the LEGO Brand Group will work to ensure that the future of the LEGO brand is managed with care and that the LEGO brand remains true to the essential LEGO idea and the family's overall mission to inspire and develop the builders of tomorrow.

The LEGO Brand Group is managed in a partnership between Jørgen Vig Knudstorp (Executive Chairman) and Thomas Kirk Kristiansen (Deputy Chairman) together with a small team.

LEGO Brand Group exercises the owner governance of the LEGO brand through the boards of the relevant entities.

2 INVESTMENT ACTIVITIES
The investment portfolio includes long-term investments in companies such as ISS, Nilfisk, Välinge (pending closing), Falck and Minimax Viking.

Moreover, the investment portfolio includes real estate investments in Denmark, UK, Germany, the Czech Republic and Switzerland together with a portfolio of fixed income investments, quoted equities and private equity funds.

KIRKBI has a long-term investment profile and wants to act as a professional and responsible investor with high ethical standards.

Read more about the investment portfolio on pages 34-39.

KIRKBI'S INVESTMENTS

Long-term investments

- Long-term Equity
- Private Equity
- Real Estate investments
- Alternatives

Financial investments

- Fixed Income
- Quoted Equities

3 SUPPORT FUNCTIONS
KIRKBI has various support functions such as HR, Finance, Legal and Communication, which assist the business areas and the Kirk Kristiansen family as well as provide administrative support to the LEGO Foundation and Ole Kirk's Fond.

ASSOCIATED FOUNDATIONS

The LEGO Foundation

The LEGO Foundation promotes learning through play and aims to empower children around the world to become creative, engaged, lifelong learners. As part of the ongoing commitment to giving children better opportunities to reach their full potential, the LEGO Group owner family has entrusted the LEGO Foundation with 25 % ownership of the LEGO Group. This is how the LEGO Foundation funds its activities.

In 2017, the LEGO Foundation reached more than 1.3 million children around the world, including children in vulnerable situations reached though LEGO Charity product donations. The total LEGO Foundation activities amounted to DKK 407 million.

Read more at: www.legofoundation.com

OLE KIRK'S Fond

Ole Kirk's Fond was established in 1964 by the Kirk Kristiansen family in memory of the LEGO Group founder, Ole Kirk Kristiansen. The foundation is philanthropic and its purpose is to improve quality of life for children and their families, mainly in Denmark.

In 2017, Ole Kirk's Fond and the Danish Refugee Council (DRC) developed a new type of cooperation between a foundation and a humanitarian organisation, which allows DRC to respond to the global refugee crisis in only a matter of days.

Furthermore, the building of a new world-class children's hospital in Copenhagen reached a milestone in 2017 - a winner of the architectural competition was announced. 'Playful Logic' is the architects' universal theme of the building shaped as two hands – a theme that is aligned with the main concept for the hospital: to make play an integral element whilst giving the best treatment and care.

Donations to other projects amounted to DKK 90 million in 2017.

Read more at: www.olekirksfond.dk

CORPORATE RESPONSIBILITY

In KIRKBI, corporate responsibility is integrated in our Fundamentals and **the three Promises to people, to partners and to the planet.** With these promises, we aim to fulfil a strong focus on creating a positive impact through responsible ownership and investments.

KIRKBI aspires to enable the Kirk Kristiansen family to succeed with our mission through generations.

As part of the Fundamentals, KIRKBI has Promises to people, to partners and to the planet.

The promises encompass the approach to corporate responsibility and are corner-stones for everything we do in KIRKBI.

We continuously strive to develop the Promises approach and refine how we live them – and always with a longer-term orientation in mind.

The overview on the opposite page shows KIRKBI's focus areas within each of the three Promises, which we believe have the greatest potential to deliver enhanced value and a positive impact for and with all stakeholders.

LIVING OUR PROMISES

Investing responsibly and investing in responsible companies are vital to secure financial returns in the long term while delivering on the Promises to people, partners and the planet.

Below, it is outlined how we invest and our processes for people development within KIRKBI together with some of the results achieved in 2017.

HOW WE INVEST

Screening

Based on an outline of areas that are incompatible with our mission and values, we avoid investments in the following activities:

- Tobacco
- Armament
- Adult entertainment
- Gambling

Assessing potential investments

When assessing a potential investment, we take a long-term ownership and investment approach.

Being long-term oriented, means having an approach that addresses all material risks and focusses on protecting and enhancing value, minimize risks and seeking long-term returns.

During the due diligence process, we assess how the company that KIRKBI considers to invest in manages its corporate responsibility – in particular with focus on the three Promises.

In KIRKBI, we do this because we firmly believe that taking account of how a company manages its environmental and people aspects of its business as well as corporate governance contribute to good risk management, better-informed investment decisions and thereby higher value creation in the long term.

Engaging actively

As a responsible long-term oriented owner and investor, we regularly monitor and track financial data as well as key performance indicators on material sustainability-related risks on each investment.

Moreover, to underpin the long-term orientation, we engage actively with the companies and investment partners.

KIRKBI seeks to contribute positively to the strategic direction and creation of sustainable growth with each of the companies and investment partners for the long term.

This includes actively supporting the pursuit of new business opportunities and mitigation of material risks within the focus areas of our Promises.

PROCESSES FOR PEOPLE DEVELOPMENT

KIRKBI consists of specialised and experienced professionals in such diverse fields as investment and treasury management, board assignments, real estate investments and operations, business administration and controlling, legal advisory, communication and HR.

As part of KIRKBI's People Promise, we are determined to support our people's ongoing development of competencies and performance, and ensuring continued development of leadership capabilities for our leaders.

In KIRKBI, we do this to enable execution of the business strategy and to build the long-term health of the company - we believe that it is our people, our determi-nation to succeed together as well as our ability to live the KIRKBI Fundamentals that make the difference.

Enabling and maintaining competencies

KIRKBI has created a Human Resource Annual Cycle with the aim of enabling and maintaining our people's compe-tencies through a continuous focus on development.

MISSION	Inspire and develop the builders of tomorrow		
ASPIRATION	Enable the Kirk Kristiansen family to succeed with the mission through generations and to create a positive impact through responsible ownership and investments		
PROMISES	**People Promise** Succeed together	**Partner Promise** Mutual value creation	**Planet Promise** Positive impact
SPIRIT	Only the best is good enough — always strive to do better		
VALUES	Imagination — Creativity — Fun — Learning — Caring — Quality		

People Promise

DESCRIPTION

People Promise – Succeed together

To enable execution of the business strategy and to build the long-term health of the company – we believe people and values make the difference

FOCUS AREAS

To create a positive impact internally and with stakeholders

- People diversity
- People development
- Work environment
- Customer safety
- Respect for human and labour rights
- Leadership capabilities
- Succession planning

Partner Promise

DESCRIPTION

Partner Promise – Mutual value creation

To build partnerships that enhance mutual value creation, entail openness and trust – partners should feel energised and inspired from their involvement with KIRKBI

FOCUS AREAS

To create a positive impact internally and with stakeholders

- Good corporate governance
- Good corporate behaviour
- Tax governance

Planet Promise

DESCRIPTION

Planet Promise – Positive impact

To create a positive impact on the planet through responsible investments and ownership – a commitment to society to keep earning a trusted position

FOCUS AREAS

To create a positive impact internally and with stakeholders

- Assessing the environmental footprint
- Assessing the use of natural capital
- Seeking environmental opportunities
- Polution and waste

ABOUT KIRKBI

The number of employees in KIRKBI is **144** at year-end.

KIRKBI's headquarter is in **Billund**.

KIRKBI also has offices in **Copenhagen** in Denmark **and Baar** in Switzerland.

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It is at the very heart of our companies to always strive to do better. We want to be the best partner to work with, to be the best workplace for our people, and to be the best company for society.

Thomas Kirk Kristiansen
Representing the fourth generation of the owner family

The HR Annual cycle consists of three main processes: A Performance Management Programme (PMP), an Individual Development Plan (IDP) and an employee engagement survey, PULSE.

With a focused, measurable and effective PMP, we want to meet our most critical business objectives and to create motivation, inspiration and satisfaction in the daily work.

In this continuous process, every employee focus, prioritises and reaches Key Performance Indicators with a clear connection between individual and team KPI's and the priorities of KIRKBI as a group.

KIRKBI's PMP process is linked to an incentive program with the purpose of rewarding and encouraging successful performance.

The PMP process is also closely linked with every employees' IDP, which is an investment in our people's personal and professional development.

We believe that focusing on what motivates and energises our employees as well as the competencies each employee needs in order to realise career goals are crucial to obtain motivation and satisfaction.

Once a year, we measure employee motivation, satisfaction and engagement in our PULSE survey. The KIRKBI results are benchmarked towards EEI (Ennova's International Employee Index). In 2017, the PULSE survey showed high motivation and engagement scores.

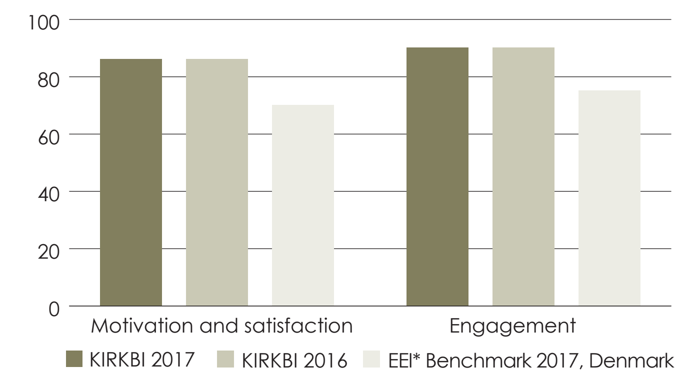
For example, we use the E-NPS (Employee Net Promoter Score) as a leading indicator for engagement and motivation. The E-NPS is based on the results for the Pulse question; "I would recommend KIRKBI as an employer to other people." Here, the KIRKBI score was 79/100.

A safe and healthful working environment
We want to make sure that KIRKBI's working environment is safe and healthful – both the mental and psychical working environment.

This area is therefore highly prioritised making sure that each activity is planned and executed in a safe and healthy way in accordance with laws, regulatory requirements and core values.

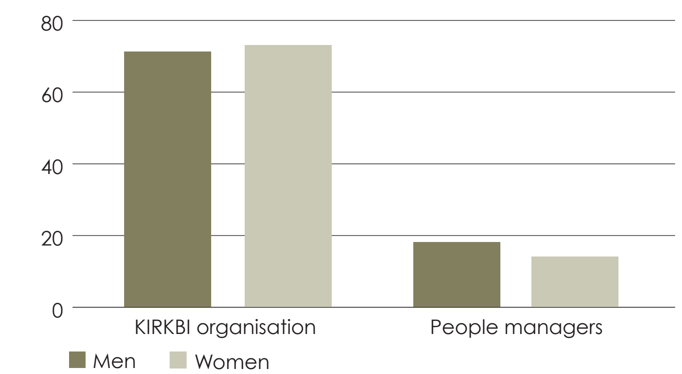
KIRKBI has a Working Environment Committee whose objective is to ensure focus on the area and to identify areas of improvement. However, it is viewed as a common responsibility between management and employees in KIRKBI to contribute to a safe and healthful working environment.

PULSE SURVEY
100 as the highest score. Response rate 2017: 97%



*EEI (Ennova Employee Index) is an international benchmark survey.

GENDER COMPOSITION IN KIRKBI
Number of employees



In 2017, we have had two key focus areas. One was to provide our people with a first aid course. Another key focus area was to improve awareness of good ergonomics in the workplace by having a specialist in ergonomics visit our different office locations on a regular basis.

People diversity
KIRKBI wants to have a diverse working environment. We believe that a truly diverse organisation presents an opportunity to succeed in the long term. As a result, we attract and retain people with different skills and backgrounds in order to succeed – giving all our current and future people opportunities to develop in KIRKBI. At any time, we aim at recruiting the best qualified to the job disregarding the person's ethnicity, religion, gender and sexual orientation.

The figure on page 20 shows the gender composition for the entire KIRKBI organisation and for people managers.

The Board of Directors of KIRKBI is constantly working to ensure the right combination of competencies to support the further development of the KIRKBI Group. This includes a focused effort to increase diversity. It is the intention to meet the target of hiring at least one female member to the board by the end of 2021. At present, there are no female board members. The target for 2017 was not met, due to no new menbers entering the board.

FACTS

THE KIRKBI GROUP'S RESPONSIBILITY POLICY

KIRKBI's resposibility policy is to secure high standards for corporate responsibility in all operations carried out by the company, and KIRKBI supports the LEGO Group commitment to United Nations Global Compact and the Responsibility Report, describing how the LEGO Group is working within the areas of human rights, labour standards, environment and anti corruption.

The LEGO Group and Merlin Entertainments plc both work comprehensively with corporate responsibility matters and continuously communicate their progress.

Please refer to the LEGO Group's Responsibility Report for 2017, available at www.LEGO.com/responsibility, and Merlin Entertainmanets plc's webpage www.merlinentertainments.biz

REAL ESTATE INVESTMENTS GO HAND IN HAND WITH KIRKBI'S PLANET PROMISE

In KIRKBI's Real Estate investment portfolio, we work actively with the Planet Promise. For example, we have an energy improvement plan for every property we own making sure that each building over time reaches the highest energy class possible.

COOPERATION WITH A SUSTAINABILITY RESEARCH COMPANY

KIRKBI cooperates with a sustainability research company. The company has developed a global ethical standard based on systematic screening of international companies regarding their compliance with international conventions and guidelines on environment, human rights and corruption.

DUE DILIGENCE

In 2017, our focus has been to develop our due diligence processes and check lists further when assessing a potential investment with regards to environmental, social and governance impact.

Every portfolio asset class team has its own specific guideline and has appointed a responsibility champion to facilitate ESG training and maintain consistent assessments of potential investments.

INAUGURATION OF THE BURBO BANK EXTENSION WIND FARM

The Burbo Bank Extension wind farm was inaugurated in Liverpool on 17 May 2017. KIRKBI owns a 25 % share of the wind farm.

The inauguration of the wind farm meant that the LEGO Group achieved its 2020 target of balancing the global consumption of energy with an equivalent volume of renewable energy three years sooner than anticipated. Read more about Renewables on page 33.

BOARD OF DIRECTORS

Kjeld Kirk Kristiansen

Chairman of the Board and member since 1974

Majority Shareholder of KIRKBI A/S

President and CEO of the LEGO Group 1979-2004

Chairman of the Board of Koldingvej 2 Billund A/S and Ole Kirk's Fond. Deputy Chairman of the Board of the LEGO Foundation and Board member in LEGO A/S and Capital of Children Office A/S and 4 fully owned subsidiaries of KIRKBI A/S

Niels Jacobsen

Deputy Chairman of the Board and member since 2008

CEO of William Demant Invest A/S

Chairman of the Board of Jeudan A/S, Nissens A/S and Össur hf

Deputy Chairman of the Board of William Demant Holding A/S and A. P. Møller-Mærsk A/S

Member of the Board of Boston Holding A/S

Jeppe Fonager Christiansen

Member of the Board since 2008

CEO of Maj Invest Holding A/S

Chairman of the Board of Haldor Topsøe A/S

Deputy Chairman of the Board of Maj Bank A/S and Novo Nordisk A/S

Member of the Board of Novo Holdings A/S and Symphogen A/S

Member of the executive management of Maj Invest Equity A/S, Det Kgl. Vajsenhus and Emlika ApS

Peter Gæmelke

Member of the Board since 2001

Farmer and former President of the Danish Agriculture & Food organisation

Chairman of the Board of Danske Spil A/S, The Loevenholm Foundation, NGF Nature Energy Biogas A/S, Norliv fmba and The Green Museum

Member of the Board of DLR Kredit A/S, Nordea Liv & Pension, Fællesfonden and Askov High School.

Member of the Board of Representatives of The Danish Central Bank, Hedeselskabet and Sydbank A/S

Thomas Kirk Kristiansen

Member of the Board since 2007

Shareholder of KIRKBI A/S and representing the fourth generation of the owner family

Chairman of the Board of the LEGO Foundation

Deputy Chairman of LEGO Brand Group, LEGO A/S and Board member in 4 fully owned subsidiaries of KIRKBI A/S

Executive Management member of Kirk og Kirk Holding ApS and management roles in 4 subsidiaries

THE LEADERSHIP TEAM INCLUDES FOUR MEMBERS. FROM THE LEFT:

Steen Pedersen
(Head of Global Real Estate)

Søren Thorup Sørensen
(Chief Executive Officer)

Thomas Lau Schleicher
(Chief Investment Officer)

Kurt Carstensen
(Chief Financial Officer)

LEADERSHIP TEAM

Steen Pedersen
Head of Global Real Estate

Born: 1960

Education: BSc in Civil Engineering, Technical University of Denmark, 1986. Executive MBA, Scandinavian International Management Institute, 2003. Executive education at INSEAD, Wharton and London Business School

Career and positions

1986-1993	ABB Energy and Industry, Project Manager and Manager
1993-2010	NNE Pharmaplan. (1993-1997) Manager. (1997-2010) Vice President
2010-2013	Alvent A/S. (2010-2011) Director. (2011-2013) CEO & Co-owner
2013-	KIRKBI A/S, Head of Global Real Estate

Other management positions
Member of the Board of nine fully owned subsidiaries of KIRKBI A/S

Thomas Lau Schleicher
Chief Investment Officer

Born: 1973

Education: MSc in Finance and Accounting, Aarhus School of Business, 1998

Career and positions

1998-2000	Handelsbanken, Associate
2000-2001	Alfred Berg Bank, Associate
2001-2010	EQT Partners, Director
2010-	KIRKBI A/S, CIO

Other management positions
Member of the Board of Founders A/S, Boston Holding A/S and one fully owned subsidiary of KIRKBI A/S. Supervisory Board Member and Advisory Board Chairman of Minimax Viking Group

Søren Thorup Sørensen
Chief Executive Officer

Born: 1965

Education: MSc in Accounting and Audit. State Authorised Public Accountant

Career and positions

1987-2006	KPMG, Partner
2006-2009	A. P. Møller Mærsk, CFO
2010-	KIRKBI A/S, CEO

Other management positions
Member of the Board of LEGO A/S, Falck A/S, Merlin Entertainments plc, Ole Kirk's Foundation, Koldingvej 2 Billund A/S, Boston Holding A/S (chairman) and five fully-owned subsidiaries of KIRKBI A/S

Kurt Carstensen
Chief Financial Officer

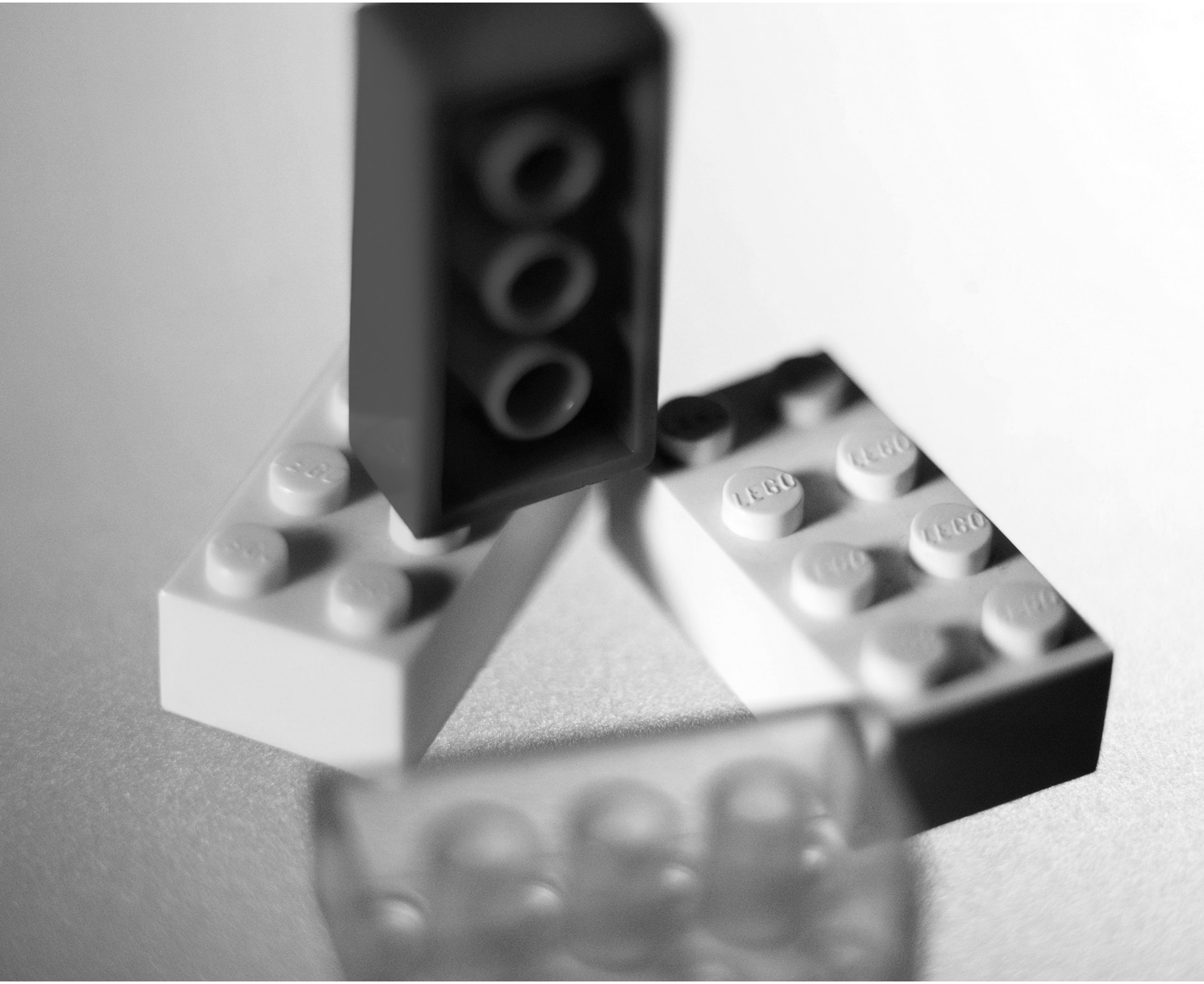
Born: 1961

Education: MSc in Finance and Accounting, University of Southern Denmark, 1990. State Authorised Public Accountant

Career and positions

1992-1997	Deloitte, Partner
1997-2004	LEGO System A/S, Vice President
2005-2006	Alstom Power FlowSystems, CFO
2006-2008	Louis Poulsen Lightning A/S, CFO
2009-2011	GPV International A/S, CFO
2011-	KIRKBI A/S, CFO

Other management positions
Chairman of the Board of Kvist Industries A/S. Member of the Board in Isabella Holding Vejle, A/S, Sirena A/S, Dansk Skorstensteknik A/S and twelve fully owned subsidiaries of KIRKBI A/S



BUSINESS AREAS

CONTENTS

THE LEGO GROUP

ABOUT THE LEGO GROUP

The LEGO Group is engaged in the development of children's creativity through play and learning. Based on the world-famous LEGO® brick, the company today provides unique play experiences to children of all ages.

The name LEGO® was created by the two Danish words LEg GOdt, meaning "play well", and the development of children's creativity through play and learning has been at the core of the company ever since it was founded. The LEGO brick, which was invented in its present form in 1958, and the LEGO building system form the platform for open-ended play and provide children with endless possibilities of realising their true potential.

The mission of the company is to "inspire and develop the builders of tomorrow", and all products are based on the underlying philosophy of development through play. It is the LEGO philosophy that "good quality play" enriches a child's life – and lays the foundation for its development throughout life.

The LEGO Group was founded by the Kirk Kristiansen family in 1932 and has since then been headquartered in Billund, Denmark. Production takes place in Denmark, the Czech Republic, Hungary, China and Mexico, and other large locations are USA, Germany, Singapore and the UK.

The LEGO Group is owned 75 % by KIRKBI A/S, and the remaining 25 % is owned by the LEGO Foundation through Koldingvej 2, Billund A/S.

HIGHLIGHTS FOR 2017

2017 was a challenging year for the LEGO Group. Revenue for the full year declined to DKK 35.0 billion compared with DKK 37.9 billion in 2016. Excluding the impact of foreign currency exchange, revenues for the full year declined by 7 % compared with 2016.

Revenue in established markets declined primarily due to actions taken to clean up inventories at the retail level. This decline impacted the operating profits. Furthermore, the LEGO Group simplified and reduced the size of the organisation to meet current business requirements. The LEGO Group ended the year in a better position. In December, consumer sales grew in 7 of the 12 largest markets and the LEGO Group entered 2018 with healthier inventories.

The LEGO Group's profit before tax amounted to DKK 10.2 billion in 2017 against DKK 12.4 billion the year before, a decrease of 17.7 %. The reduction in profit was mainly a result of the lower revenue and continued investments in innovation and product development. The LEGO Group had strong operational cash flows of DKK 10.7 billion in 2017 against DKK 9.1 billion in 2016.

The number of average full-time employees decreased by 2 % to 16,480 employees in 2017.

On 1 October 2017 Niels B. Christiansen assumed the position as CEO. During 2018 the LEGO Group will stabilise the business by continuing to invest in quality play experiences, effective global marketing and improved execution. Long-term, the LEGO Group expects to grow low single digits in line with the global toy market.

MANAGEMENT

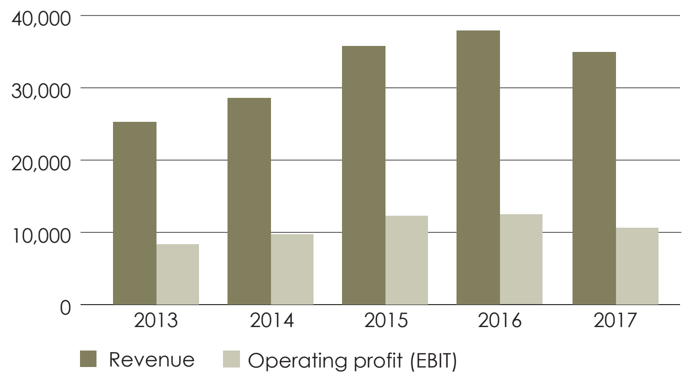
Niels B. Christiansen, President and Chief Executive Officer
Marjorie Lao, Chief Finanical Officer

BOARD OF DIRECTORS

Jørgen Vig Knudstorp, Chairman
Thomas Kirk Kristiansen, Deputy Chairman
Eva Berneke
Kjeld Kirk Kristiansen
Jan Nielsen
Kåre Schultz
Søren Thorup Sørensen


Photo: The LEGO Group

5 YEARS' PERFORMANCE
(m DKK)



FINANCIAL HIGHLIGHTS
(m DKK)

	2017	2016
Revenue	34,995	37,934
Operating profit	10,359	12,448
Profit for the year	7,806	9,436
Equity	20,714	20,039
Cash flow from operating activities	10,691	9,084
Investments	(1,529)	(3,000)
Average number of employees (FTE)	16,480	16,836

MERLIN ENTERTAINMENTS PLC

ABOUT MERLIN ENTERTAINMENTS PLC

Merlin Entertainments plc is Europe's leading and the world's second-largest visitor attraction operator. At the end of December 2017, Merlin operated 124 attractions in 25 countries across four continents. The aim for Merlin Entertainments is to create a high growth, high return, family entertainment company based on strong brands and a global portfolio that is naturally balanced against the impact of external factors. It delivers memorable experiences to over 66 million visitors worldwide.

Merlin Entertainments operates through three operating groups: LEGOLAND® Parks, Resort Theme Parks and Midway Attractions, using a number of international brands including SEA LIFE, Madame Tussauds, the Dungeons, LEGOLAND Discovery Centres and The Eye.

Midway Attractions are predominantly indoor attractions located in city centres or resorts providing visits of shorter duration. Resort Theme Parks are standalone national brands generally aimed at families, teenagers and young adults.

The eight LEGOLAND resorts across Europe, USA and Asia offer a unique LEGO® themed experience for families with children often including highly themed accommodation and based on interactivity, imagination and family fun. Also in the 18 LEGOLAND Discovery Centres across Europe, USA and Asia, families with young children are offered an indoor, interactive and immersive experience.

Merlin Entertainments plc is a listed company on the London Stock Exchange.

KIRKBI is a significant shareholder of Merlin Entertainments plc with a 29.7 % interest.

HIGHLIGHTS FOR 2017

Merlin Entertainments' results represent a solid performance in a challenging market environment, where a combination of ongoing security concerns impacted Merlin's city centre tourist destinations in particular together with extreme weather at peak trading periods in Northern Europe, Italy and Florida.

Total number of visitors grew by 3.5 % to 66 million and revenue grew by 11.6 % in 2017 (52 weeks' basis). Profit for the year decreased by 1.0% to GBP 209 million due to increases in depreciation and amortisation from roll out of new attractions.

For the LEGOLAND parks revenue increased by 18.2 %, driven by the opening of LEGOLAND Japan, which is LEGOLAND park number eight in the world. A total of 307 rooms were opened in LEGOLAND parks during 2017 from expansions in Billund, Florida and Windsor. Further 252 rooms are expected in LEGOLAND Japan during 2018. During 2017 plans for LEGOLAND New York were announced, targeted to open in 2020.

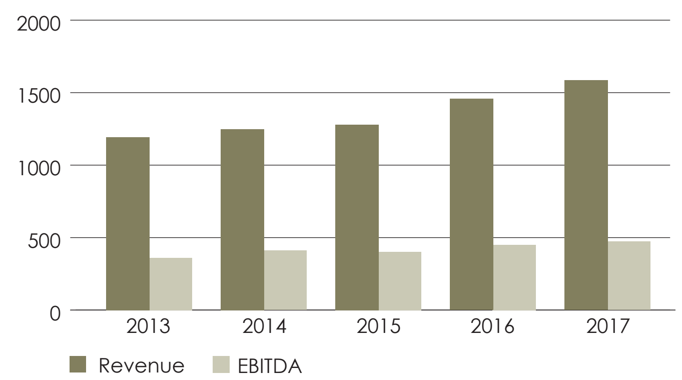
The number of LEGOLAND Discovery Centres increased during the year by 2 new Centres to a total number of 18 LEGOLAND Discovery Centres. The new openings were in Melbourne and Philadelphia.

BOARD OF DIRECTORS

Sir John Sunderland, Chairman
Nick Varney, CEO
Anne-Francoise Nesmes, CFO
Yun (Rachel) Chiang
Charles Gurassa
Fru Hazlitt
Ken Hydon
Trudy Rautio
Søren Thorup Sørensen

Photo: Merlin Entertainments plc, LEGOLAND Entrance Japan

5 YEARS' PERFORMANCE
(m GBP)



FINANCIAL HIGHLIGHTS
(m GBP)

	2017	2016
Revenue	1,594	1,457
Underlying EBITDA	474	451
Profit for the year	209	211
Equity	1,563	1,424
Cash flow from operating activities	413	433
Visitors (millions)	66	65.1
Ownership of Merlin Entertainments plc	29.7 %	29.8 %
KIRKBI's share of profit for the year (m DKK)	**522**	**552**

The Burbo Bank Extension wind farm off the coast of Liverpool, UK, was officially opened in May 2017. The development meant that the LEGO Group reached its 100 % renewable energy milestone three years ahead of target. To celebrate, the LEGO Group built the largest ever LEGO® brick wind turbine, a Guinness World Records™ title, and challenged children from the Liverpool area to create their own renewable energy solutions. Photo: The LEGO Group

RENEWABLES

KIRKBI wants to make a **positive impact on the global environment** focusing on renewable energy, whereby Renewables is a strategic investment area for the KIRKBI Group

ABOUT RENEWABLES

Renewables is a strategic activity for KIRKBI. The primary reason behind the investments is to support the LEGO Group's commitment towards balancing their global consumption of energy with renewable energy, while at the same time delivering attractive long-term returns on investment.

In addition, this investment area is also a clear evidence of the fact that the Kirk Kristiansen family wants to make a positive impact on the planet for future generations.

KIRKBI targets direct minority investments in solar, onshore wind and offshore wind assets. KIRKBI actively influences from a board perspective, but is not involved in the day-to-day asset operations. The intention is to form long-term partnerships and to be long-term owners of the underlying assets.

The geographic focus is on Northern Europe, North America and Japan. Renewables currently consists of investments into two offshore wind farms named Borkum Riffgrund 1 and Burbo Bank Extension.

HIGHLIGHTS FOR 2017

In the beginning of 2016, KIRKBI entered into an agreement to acquire 25 % of the Burbo Bank Extension offshore wind farm located in the UK. During 2016 and 2017, the wind farm has been constructed and the last turbine was commissioned in May 2017.

The commissioning of the wind farm at Burbo Bank Extension was an important step for the KIRKBI Group, as with this new capacity, the goal of balancing the LEGO Group's global consumption of energy with renewable energy was reached.

ABOUT BURBO BANK EXTENSION

In 2016, KIRKBI and PKA invested jointly into Burbo Bank Extension with 25 % ownership each and Ørsted (DONG Energy) retained 50 % ownership. Ørsted has handled the construction of the wind farm and will also handle future operation of the wind farm.

Burbo Bank Extension is located approximately 7 kilometers off the coast of Liverpool in the UK. The wind farm consists of 32 MHI Vestas 8 MW turbines with a total capacity of 258 MW and is expected to provide green energy to 230,000 UK households. The wind farm was officially opened in May 2017.

ABOUT BORKUM RIFFGRUND 1

In 2012, KIRKBI and William Demant Invest jointly invested in Borkum Riffgrund 1, with KIRKBI owning 31.5 %. Ørsted (DONG Energy) has retained 50 % ownership and has handled the construction and operations of the wind farm.

Borkum Riffgrund 1 is located in Germany, approximately 54 kilometres from shore and 37 kilometers from the island Borkum in the North Sea. The wind farm consists of 78 Siemens 4 MW turbines with a total capacity of 312 MW and is capable of providing green energy to 320,000 German households.
The wind farm was officially opened in October 2015.

LOCATION

FINANCIAL HIGHLIGHTS (m DKK)	2017	2016
Profit for the year	398	118
Carrying amount	5,175	5,953

INVESTMENT ACTIVITIES

The KIRKBI Fundamentals have formed the basis of the current investment strategy. **We build a sound financial foundation on ongoing value creation** to support the KIRKBI Fundamentals and inherently the shared mission

ABOUT OUR INVESTMENT ACTIVITIES

The economic purpose for the investment portfolio is to balance financial security and flexibility for the KIRKBI Group with the objective of delivering a stable long-term growth of capital through an attractive risk-adjusted return.

The approach is fundamentally driven with investments actively managed by a dedicated and agile organisation within the principles of a family-owned company and our Fundamentals:

- Long-term focused, fundamentally and value-driven investor.
- Being ambitious and active business owners of the companies we invest in.
- Making responsible investments to act as a good corporate citizen, because we believe investing responsibly will create superior long-term value.
- In areas where we choose to work with external partners, we seek partners with high integrity and aim to build long-term relationships.
- Focusing on transparent investment structures in order to be comfortable with the underlying risk and return factors.

MAKING RESPONSIBLE INVESTMENTS

KIRKBI aspires to enable the Kirk Kristiansen family to succeed with the mission of inspiring and developing the builders of tomorrow through generations and to create a positive impact through responsible ownership and investments.

To fulfil the inherent responsibility in the Fundamentals, KIRKBI has made separate Promises to the planet, to its people and to its partners. The promises include an aspiration to ensure high ethical standards in investments and engagements as well as making a credible contribution to solving the sustainability issues that are most relevant to KIRKBI's business and of particular importance to the owner family.

KIRKBI finds sustainability factors to be a fundamental part of assessing the attractiveness and performance of an investment. Not only in the due diligence phase but also as part of the ongoing monitoring of our businesses and investments as KIRKBI will – as an ambitious and active owner – exercise our rights and encourage companies to improve the management of material risks in order to protect our value and enhance long-term returns.

In addition to the assessment of factors, we exclude investments in certain industries such as tobacco, armament, gambling and adult entertainment. The investments are regularly screened for their compliance with international conventions and norms.

Read more about the Promises on page 18.

PORTFOLIO STRATEGY

The investment portfolio is divided into long-term investments and financial investments with the purpose of securing diversification as well as sufficient financial flexibility at all times. Based on a belief in value creation through long-term focus as well as a long-term illiquidity premium, we expect long-term investments to be a growing part of the total portfolio.

HIGHLIGHTS FOR 2017

In 2017, the consolidated investment activities yielded a return of DKK 4.0 billion and the investment portfolio ended at DKK 53.6 billion.

The portfolio return is positively affected by solid performance from all major asset classes. Most notably is the return from both Long-term Equity and Quoted Equities.

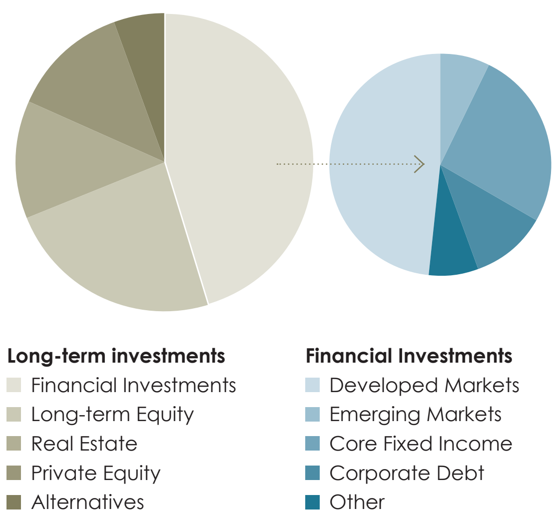
Within Long-term Equity, the gains are mainly attributable to solid performance of Minimax Viking Group and Nilfisk A/S, while the investment in Falck A/S showed a negative return. During 2017, KIRKBI aquired 13.5 % of Nilfisk A/S and at the end of the year, KIRKBI signed an agreement to acquire 49.8 % of the Swedish flooring technology company Välinge (pending closing).

Quoted Equities outperformed the broader market due to stock picking. The overall result from Financial investments reflects that both the Fixed Income and the Quoted Equities portfolio did well.

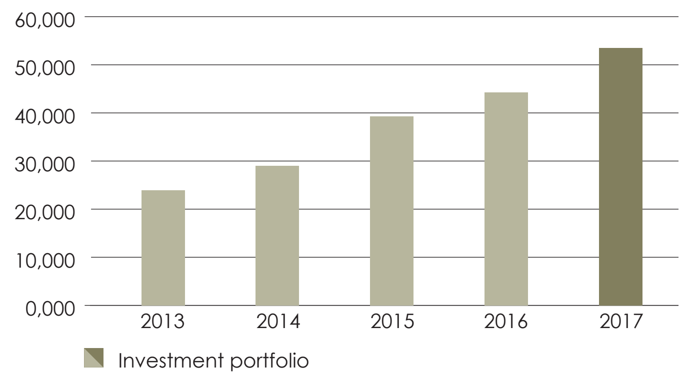
In the Private Equity portfolio, an underlying strong year both to the preferred buyout funds and co-investments was partly offset by a declining USD. During 2017, we made three new commitments to funds and made two new co-investments with our partners.

In 2017, Real Estate completed the acquisition of four new investment properties: A building in Munich fully let to the City of Munich, an 11,600 m² retail dominated property in Baar, Switzerland, as well as two buildings totalling 10,500 m² office space in Baden, Switzerland.

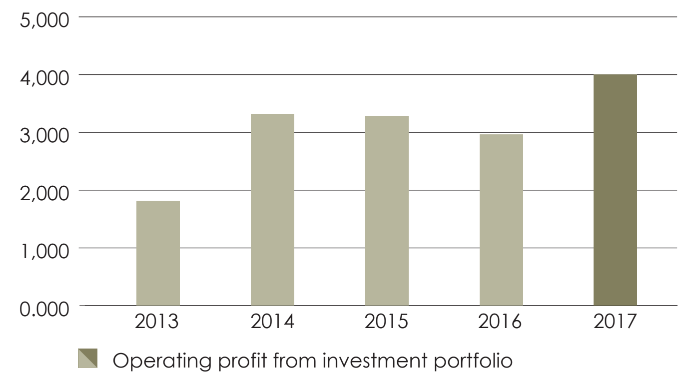
ALLOCATION OF INVESTMENT PORTFOLIO YEAR-END 2017



INVESTMENT PORTFOLIO AT YEAR-END
(m DKK)



5 YEARS' PERFORMANCE
(m DKK)



FINANCIAL HIGHLIGHTS

(m DKK)	2017	2016
Operating profit from investment activities	4,000	2,960

LONG-TERM EQUITY INVESTMENTS

It is a priority for the KIRKBI Group to **grow the long-term equity investments** with an aim of acquiring significant minority stakes of high-quality companies with a long-term value potential

ABOUT KIRKBI'S LONG-TERM EQUITY INVESTMENTS

KIRKBI's Investment strategy is focused on more long-term value creating assets. It is a priority for the KIRKBI Group to grow the long-term equity investments with high-quality companies with a long-term value potential.

KIRKBI INVESTS WITHIN ATTRACTIVE AND GROWING INDUSTRIES

KIRKBI's strategy is to be an active owner of significant minority stakes. Thus, KIRKBI is represented on the boards of most of the long-term equity investments in order to support the companies with strategic and operational issues in relation to their long-term growth and further development – and our Promises.

HIGHLIGHTS FOR 2017

During 2017, KIRKBI has acquired a 13.5 % ownership position in Nilfisk A/S and increased ownership in ISS A/S to 12.7 %.

KIRKBI's long-term equity portfolio amounts to DKK 12.8 billion end of 2017.

At the end of 2017 KIRKBI signed an agreement to acquire 49.8 % of the Swedish flooring technology company Välinge. The investment is subject to approval from the competition authorities and completion is expected to happen in first half of 2018.

◀ During 2017, KIRKBI has acquired a 13.5 % ownership position in Nilfisk A/S. Nilfisk was during 2017 demerged from NKT A/S and thereby seperately listed on Copenhagen Stock Exchange.

KIRKBI'S PORTFOLIO OF LONG-TERM EQUITY INVESTMENTS

Falck A/S

Falck's activities are directed at preventing accidents and disease; providing assistance in situations of emergency, accidents and need; and helping people move on with their lives after illness or accidents. Falck has more than 38,000 employees and business activities in 45 countries on six continents. Falck provides ambulance services to the general public and works in close collaboration with the authorities on 5 continents. Operating more than 2,500 ambulances, Falck has the world's largest international ambulance fleet. In 2017 Jakob Riis joined as new CEO in Falck A/S and a new strategy was announced in the autumn of 2017.

KIRKBI owns 27.7 % of Falck A/S.

ISS A/S

The ISS Group was founded in Copenhagen in 1901 and has grown to become one of the world's leading Facility Services companies. ISS offers a wide range of services such as: Cleaning, Catering, Security, Property and Support Services as well as Facility Management. ISS has approximately 500,000 employees and local operations in more than 50 countries across Europe, Asia, North America, Latin America and Pacific, serving thousands of both public and private sector customers. ISS A/S is listed on OMX Nordic Stock Exchange.

KIRKBI owns 12.6 % of ISS A/S.

Minimax Viking Group

Minimax Viking is a global market leader in the active fire protection industry specialised in the development, manufacture and supply of fire suppression and prevention systems including related detection and control technology. The Minimax Viking Group also offers engineering, installation and commissioning of the systems as well as after-sales services for the business sector. Minimax Viking's primary markets are Germany and North America while business is emerging in Asia. Minimax Viking has more than 7,000 employees.

KIRKBI owns 29.4 % of Minimax Viking Group.

Nilfisk A/S

Nilfisk is a global market leader for professional cleaning equipment with sales in more than 100 countries and 16 production sites. Nilfisk offers an extensive portfolio of high quality products through the brands Nilfisk® and Viper. Nilfisk was during 2017 demergered from NKT A/S and thereby separately listed on Copenhagen Stock Exchange. Nilfisk has a yearly revenue above 1 billion EUR and has around 5,600 employees.

KIRKBI owns 13.5 % of Nilfisk.

REAL ESTATE INVESTMENTS

The focus for the KIRKBI Group is to **maintain and increase the real estate portfolio** with sound and high-quality properties with a long-term value potential

ABOUT KIRKBI'S REAL ESTATE INVESTMENTS

The KIRKBI Group believes in value creation through long-term focus. In light of this belief, a growing real estate footprint is a strategic choice for KIRKBI. Consequently, the focus for the KIRKBI Group in terms of real estate is to maintain and increase the real estate portfolio with sound and high-quality properties as well as redevelopment opportunities with a long-term value potential, primarily within the office and retail sectors.

KIRKBI PRIMARILY INVESTS IN FOUR STRATEGIC LOCATIONS

KIRKBI's current real estate strategy identifies four strategic locations for the future real estate investments: Copenhagen, London, Munich and the German speaking part of Switzerland. All investments are evaluated based on their long-term potential, where both the return component and the environmental impact and potential are of high importance. Focusing on the environmental impact and potential of each property supports KIRKBI's Planet Promise. KIRKBI currently has 27 real estate investments located in Copenhagen and Billund (Denmark), London (Great Britain), Baar, Olten, Cham, Baden and Rapperswil (Switzerland), Munich and Hamburg (Germany) and Prague and Kladno (Czech Republic). The total size of the portfolio by the end of 2017 measured more than 275,000 m^2 of space.

HIGHLIGHTS FOR 2017

In 2017, KIRKBI acquired 4 new investment properties located in Munich (Germany), Baar and Baden (Switzerland).

The investment in Munich is a former office building of 16,500 m^2 located inside Mittlerer Ring, which is rented to the City of Munich on a long-term lease contract.

In Baar, KIRKBI acquired a retail dominated property of 11,600 m2 which is fully let. In Baden, 2 office buildings of 3,400 m^2 and 7,000 m^2 respectively were acquired as redevelopment projects running until mid 2019. Most of the space has already been pre-let.

Oberneuhofstrasse 1-3 in Baar with KIRKBI's Swiss Office on the top floor. When KIRKBI bought the building in 2012, an energy improvement plan was made for the property. A complete renovation in 2014 brought the property to a green building standard similar to the LEED Gold label.

CONSOLIDATED FINANCIAL STATE-MENTS

CONTENTS

CONSOLIDATED INCOME STATEMENT

(m DKK)	Notes	2017	2016
LEGO Group [1]	2.3	10,201	12,391
Royalties [1]		1,346	1,437
Merlin activities	2.4	567	571
Trademark and administration costs	2.3	(170)	(263)
Operating profit from LEGO Brand Group activities	**2.1, 2.2**	**11,944**	**14,136**
Renewables	3.1, 3.2	398	118
Operating profit from strategic activities		**12,342**	**14.254**
Operating profit from investment activities	4.1, 4.2	4,000	2,960
Administration costs	2.3	(340)	(329)
Total operating profit		**16,002**	**16,885**
Financial items		42	(13)
Profit before tax		**16,044**	**16,872**
Tax on profit for the year	6.1	(3,365)	(3,587)
Profit for the year		**12,679**	**13,285**
Appropriation to			
Parent company shareholders		10,720	10,924
Non-controlling interests	9.4	1,959	2,361
		12,679	**13,285**

[1] Operating profit from the LEGO Group and royalties include royalty from the LEGO Group of DKK 1,258 million (2016 DKK 1,363 million)

CONSOLIDATED STATEMENT OF COMPRE-HENSIVE INCOME

(m DKK)	Notes	2017	2016
Profit for the year		**12,679**	**13,285**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to the income statement:			
Exchange differences, foreign subsidiaries and associates		(592)	(350)
Net gain/(loss) on cash flow hedges		153	(127)
Net gain/(loss) on cash flow hedges associates		9	(8)
Tax on entries directly in equity		(31)	25
Items that will not be reclassified to the income statement:			
Remeasurements of defined benefit plans		(3)	(7)
Other equity movements in associates		5	(15)
Other comprehensive income for the year		**(459)**	**(482)**
Total comprehensive income		**12,220**	**12,803**
Appropriation to			
Parent company shareholders		10,294	10,478
Non-controlling interests	9.4	1,926	2,325
		12,220	**12,803**

BALANCE SHEET AT 31 DECEMBER PART 2

BALANCE SHEET AT 31 DECEMBER

ASSETS (m DKK)	Notes	2017	2016
Non-current assets			
Goodwill, trademarks, patents and other intangible rights	7.3	1,963	1,873
Software		192	270
Development projects		71	39
Intangible assets	7.2	**2,226**	**2,182**
Property		7,010	7,057
Plant and equipment		8,711	6,657
Other fixtures, fittings, tools and equipment		2,090	1,635
Fixed assets under construction		1,972	5,232
Property, plant and equipment	7.4	**19,783**	**20,581**
Investment real estate	4.3	7,267	6,371
Investments in associates	2.4	4,090	3,894
Receivables from associates		598	268
Finance leases	2.5	1,298	-
Other investments		102	109
Prepayments		146	159
Deferred tax assets	6.2	582	603
Other non-current assets		**14,083**	**11,404**
Total non-current assets		**36,092**	**34,167**
Current assets			
Inventories	5.1	2,493	3,103
Trade receivables	5.2	6,520	7,294
Other receivables		2,135	1,320
Assets held for sale	5.3	489	-
Prepayments		148	135
Current tax receivables		164	493
Securities	4.4	45,648	37,541
Cash		1,767	1,614
Total current assets		**59,364**	**51,500**
TOTAL ASSETS		**95,456**	**85,667**

EQUITY AND LIABILITIES (m DKK)	Notes	2017	2016
EQUITY			
Share capital	9.3	200	200
Retained earnings		76,105	66,207
KIRKBI Group's share of equity		**76,305**	**66,407**
Non-controlling interests	9.4	5,285	5,105
Total equity		**81,590**	**71,512**
LIABILITIES			
Non-current liabilities			
Borrowings		2,418	2,307
Deferred tax liabilities	6.2	978	783
Pension obligations	9.5	184	198
Provisions	5.5	298	323
Other long-term liabilities	5.4	178	250
Total non-current liabilities		**4,056**	**3,861**
Current liabilities			
Borrowings		1,360	1,144
Trade payables		3,014	2,896
Current tax liabilities		375	256
Provisions	5.5	226	78
Other short-term liabilities	5.4	4,835	5,920
Total current liabilities		**9,810**	**10,294**
Total liabilities		**13,866**	**14,155**
TOTAL EQUITY AND LIABILITIES		**95,456**	**85,667**

STATEMENT OF CHANGES IN EQUITY

(m DKK)	Share capital	Retained compre-hensive income	KIRKBI Group's share of equity	Non-controlling interests	Total equity
Balance at 1 January 2017	**200**	**66,207**	**66,407**	**5,105**	**71,512**
Profit for the year	–	10,720	10,720	1,959	12,679
Other comprehensive income for the year	–	(426)	(426)	(33)	(459)
Total comprehensive income for the year	**–**	**10,294**	**10,294**	**1,926**	**12,220**
Acquisition of non-controlling interests	–	–	–	6	6
Equity-settled share-based transactions in associates	–	4	4	–	4
Dividend	–	(400)	(400)	(1,752)	(2,152)
Balance at 31 December 2017	**200**	**76,105**	**76,305**	**5,285**	**81,590**
Balance at 1 January 2016	**200**	**56,095**	**56,295**	**4,460**	**60,755**
Profit for the year	–	10,924	10,924	2,361	13,285
Other comprehensive income for the year	–	(446)	(446)	(36)	(482)
Total comprehensive income for the year	**–**	**10,478**	**10,478**	**2,325**	**12,803**
Acquisition of non-controlling interests	–	–	–	70	70
Equity-settled share-based transactions in associates	–	34	34	–	34
Dividend	–	(400)	(400)	(1,750)	(2,150)
Balance at 31 December 2016	**200**	**66,207**	**66,407**	**5,105**	**71,512**

CASH FLOW STATEMENT 1 JANUARY – 31 DECEMBER

(m DKK)	Notes	2017	2016
Profit before tax		16,044	16,872
Income tax paid		(2,701)	(3,745)
Reversals of items with no effect on cash flows	5.6	(2,406)	(234)
Changes in working capital	5.7	(684)	(377)
Cash flows from operating activities		**10,253**	**12,516**
Acquisition of securities, net		(5,611)	(2,349)
Acquisition of intangible assets		(143)	(92)
Sale of property, plant and equipment		48	24
Acquisition of property, plant and equipment		(2,281)	(7,596)
Cash flows from investing activities		**(7,987)**	**(10,013)**
Dividend paid to shareholders		(400)	(400)
Dividend paid to non-controlling interests		(1,752)	(1,750)
New borrowings		579	354
Repayments of borrowings		(540)	(1,396)
Cash flows from financing activities		**(2,113)**	**(3,192)**
Net cash flows for the year		**153**	**(689)**
Cash and cash equivalents at 1 January		1,614	2,303
Cash and cash equivalents at 31 December		**1,767**	**1,614**

Accounting policies
The consolidated cash flow statement shows cash flows for the year broken down by operating, investing and financing activities, changes for the period in cash and bank overdrafts and cash and bank overdrafts at the beginning of the year.

Cash flows from operating activities are calculated indirectly as the profit for the year adjusted for non-cash items, income taxes paid and changes in working capital.

Cash flows from investing activities comprise payments relating to acquisitions and disposals of securities, intangible assets, property, plant and equipment, fixtures and fittings as well as fixed asset investments.

Cash flows from financing activities comprise proceeds from borrowings, repayment of interest-bearing debt and dividend paid to shareholders and non-controlling interests.

Cash and cash equivalents comprise cash and bank overdrafts etc. that can readily be converted into cash reduced by short-term bank debt.

THE KIRKBI GROUP

CONTENTS

SECTION 1 – BASIS FOR PREPARATION

1.1. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

When preparing the annual report, it is necessary that management makes a number of accounting estimates and judgements that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses.

Estimates and judgements used in the determination of reported results are continuously evaluated. Management bases the judgements on historical experience and other assumptions that management assesses are reasonable under the given circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The following accounting estimates and judgements are those which management assesses to be material for the annual report.

Investment in associates
The KIRKBI Group's investment in entities in which it has significant influence, is accounted for using either the equity method or fair value through profit and loss depending on the classification of each single entity.

Entities, in which the KIRKBI Group has significant influence and which are considered a strategy activity are accounted for using the equity method. Based on this judgement for instance Merlin Entertainments plc is accounted for using the equity method.

Entities, in which the KIRKBI Group has significant influence, which are defined as an investment activity (Long-term equity) are accounted for using fair value through the income statement and accounted for in accordance with IAS 39, which goes for the investments in Falck A/S and Minimax Viking GmbH.

Please refer to the KIRKBI Group Structure for a complete overview of which companies are accounted for using the equity method and which companies are accounted for using fair value through the income statement.

It is management's assessment that the assumptions are reasonable.

Unquoted Long-term equity
Valuation of unquoted Long-term equity investments is based on estimates and assumptions as regards the fair value of each individual company. The fair value is estimated using a valuation model based on relevant multiples of a set of comparable companies, pro-forma adjusted operating income and adjusted net interest bearing debt. The valuation is performed by internal portfolio managers.

The most subjective parameter in the valuation model is the multiples from comparable companies. If the multiples were reduced by 1.0x point, it would have a negative effect on profit before tax of around DKK 600 million, which is described in note 4.4.

It is management's assessment that the assumptions and estimates are reasonable.

Real estate investments
Within other non-current assets the valuation of Investment Real estate requires estimates and judgements on future cash flows, yields and market values for similar properties. The most subjective parameter is the yield used in the calculation. If the yield in the calculations increases by 1 % point, the impact on profit before tax would be negative with around DKK 1,300 million. Please refer to note 4.3 for a description of the impact on each geografical area. It is management's assessment that the estimates are reasonable.

1.2. BASIS OF REPORTING

The consolidated financial statements of the KIRKBI Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements.

Certain reclassifications have been made to prior year financial statements to conform to classifications used in the current year. These reclassifications had no impact on net result, shareholders' equity or cash flows as previously reported.

EFFECTS OF NEW AND AMENDED ACCOUNTING STANDARDS
All amended standards and interpretations issued by IASB and endorsed by the EU effective as of 1 January 2017 have been adopted by the KIRKBI Group.

IFRIC 22, Foreign Currecny Transactions and Advance Consideration and IFRIC 23, Uncertainty over income tax treatments, have been issued by IASB but not yet endorsed by the EU. The KIRKBI Group does not anticipate any significant impact on future periods from the adoption of IFRIC 22 or IFRIC 23.

The KIRKBI Group has not yet applied the following standards:

* IFRS 9, Financial instruments which will be effective from 1 January 2018

* IFRS 15, Revenue from contracts with customers which will be effective from 1 January 2018

* IFRS 16, Leases which will be effective from January 2019

Management has in all material respect concluded analysis of the impending changes resulting from the new standards. The conclusions are explained below.

IFRS 9 Financial instruments
The implementation of IFRS 9 will not affect the current classification and measurement of the financial instruments in the KIRKBI Group significantly, and the new standard does not fundamentally change the hedge relations. The effect of the change from the 'incurred loss' model in IAS 39 to the 'expected credit loss' model in IFRS 9 is expected to have an immaterial impact.

IFRS 15 Revenue from contracts with customers
The KIRKBI Group's current practices for recognizing revenue have shown to comply in all material aspects with the concepts and principles encompassed by the new standard.

IFRS 16 Leases
Management has performed an initial investigation of the impact on the Consolidated Financial Statements upon adoption of IFRS 16. Based on the contractual obligations at 31 December 2017, an increase in total assets and total liabilities between DKK 1 and 2 billion is expected at 1 January 2019. The adaption of IFRS 16 is not expected to have a significant impact on the Income Statement.

CONSOLIDATION PRACTICE
Subsidiaries are fully consolidated from the date on which control is transferred to the KIRKBI Group. They are de-consolidated from the date on which control ceases.

Associates are all entities over which the KIRKBI Group has significant influence, but which it does not control, and are generally represented by a shareholding of between 20 % and 50 % of the voting rights. Associates classified as strategic investments are accounted for using the equity method of accounting and are initially recognised at cost. Assoicates classified as investments are valuated using fair value through profit and loss (IAS 39).

The KIRKBI Group's share in joint operations is recognised in the consolidated balance sheet through recognition of the KIRKBI Group's own relative share of assets, liabilities, income and expenses.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the KIRKBI Group.

Non-controlling interests include third-party shareholders' share of equity and the results for the year in subsidiaries which are not 100 % owned.

The part of the subsidiaries' results that can be attributed to non-controlling interests forms part of the profit or loss for the year. Non-controlling interests' share of equity is stated as a separate item in equity.

Amounts and qualitative information that are considered unimportant for the accounting user are omitted.

FOREIGN CURRENCY TRANSLATION
Functional and presentation currency
Items included in the financial statements of each of the KIRKBI Group's entities are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Danish kroner (DKK), which is the functional and presentation currency of the Parent Company.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as reserve for exchange rate adjustments.

Group companies
The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each subsidiary are translated into DKK at the closing rate at the balance sheet date.
- Income and expenses for each subsidiary are translated at average exchange rates.
- Differences deriving from translation of the foreign subsidiaries' opening equity to the exchange rates prevailing at the balance sheet date, and differences owing to the translation of the income statements of the foreign subsidiaries from average exchange rates to balance sheet date exchange rates are recognised in other comprehensive income.

SECTION 2 – OPERATING PROFIT FROM LEGO BRAND GROUP ACTIVITIES

2.1. DEFINITION OF LEGO BRAND GROUP ACTIVITIES

LEGO Brand Group activities are defined as activities around the LEGO® brand, which inlude ownership of the LEGO Group, trademark royalties and ownership of and assets leased to Merlin Entertainments plc as owners of the LEGOLAND® parks and LEGO-LAND Discovery Centres.

Accounting policies
Net profit before tax from LEGO A/S, a company in which the KIRKBI Group has significant influence, is fully consolidated into the Operating profit from the LEGO Group.

Merlin Entertainments plc, in which KIRKBI owns 29.7 %, is accounted for using the equity method. Changes to the carrying amount of the investment are charged into operating profit from Merlin activities. Assets owned by the KIRKBI Group and leased to Merlin Entertainments plc are included in operating profit from Merlin activities.

2.2. REVENUE

(m DKK)	2017	2016
Sale of play materials	34,383	37,379
License income	612	555
Trademark royalties	1,346	1,437
Total revenue from LEGO Brand Group activities	**36,341**	**39,371**
Sale of goods and services	397	82
Revenue from Renewables	770	261
Rental income	502	372
Other revenue	12	24
Total revenue for the KIRKBI Group	**38,022**	**40,110**

Accounting policies
Sales represent the fair value of the sale of goods or services excluding VAT and after deduction of provisions for returned products, rebates and trade discounts relating to the sale.

Provisions and accruals for rebates to customers are made in the period in which the related sales are recorded. Historical data are readily available and reliable and are used for estimating the amount of the reduction in sales.

Revenue from the sale of goods or sevices are recognised when all the following specific conditions have been met and the control over the goods has been transferred to the buyer.

- Significant risks and rewards of ownership of the goods have been transferred to the buyer
- Revenue can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the KIRKBI Group.
- Costs incurred or to be incurred in respect of the transaction can be measured reliably.

These conditions are usually met by the time the products are delivered to the customers.

Licence fees are recognised on an accruals basis in accordance with the relevant agreements.

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from rents is accrued to the financial year it covers.

2.3. EXPENSES BY NATURE

(m DKK)	2017	2016
Raw materials and consumables	5,283	5,587
Employee expenses	6,676	6,788
Depreciation and amortisation	1,490	1,295
License and royalty expenses	2,583	2,893
Other external expenses	8,604	8,923
Total operating expenses from LEGO Group	**24,636**	**25,486**
Administration and trademark costs	510	592
Total operating expenses from KIRKBI Group	**25.146**	**26,078**
Research and development costs charged during the year	**550**	**567**

2.4. INVESTMENTS IN ASSOCIATES

Investments in associates defined as strategic activities include the ownership of Merlin Entertainments plc and Kabooki A/S.

(m DKK)	2017	2016
Cost at 1 January	2,573	2,573
Disposals	-	-
Cost at 31 December	**2,573**	**2,573**
Value adjustment at 1 January	1,321	1,081
Exchange adjustment to year-end rate	(127)	(471)
Dilution	(21)	-
Share of profit	522	552
Share of comprehensive income	10	351
Dividend	(188)	(192)
Value adjustment at 31 December	**1,517**	**1,321**
Carrying amount at 31 December	**4,090**	**3,894**

General information on associates

Company name	**Merlin Entertainments plc**	**Kabooki A/S**
Country	UK	DK
Ownership / Votes	29.7 %	19.8 %
Functional currency	GBP	DKK

Merlin Entertainments plc is listed on the London Stock Exchange. The investment has a carrying amount at 31 December 2017 of DKK 4,087 million (2016 DKK 3,891 million) and a market value of DKK 9,223 million (2016 DKK 11,817 million).

Financial information of associates (m DKK)	**Merlin Entertainments plc**	**Kabooki A/S**	**2017**	**2016**
Revenue	13,393	–	13,393	12,717
Profit for the year	1,756	–	1,756	1,845
KIRKBI Group's share of profit for the year	**522**	–	**522**	**552**
Total assets	30,728	–	30,728	28,674
Total equity	13,112	–	13,112	12,381
KIRKBI Group´s share of equity	3,897	3	3,900	3,704
Goodwill	190	–	190	190
Carrying amount of associates	**4,087**	3	**4,090**	**3,894**

Accounting policies

The KIRKBI Group's investment in entities in which the group has significant influence is allocated to either strategic activities or investment activities. Please refer to section 1.1 for a description of significant accounting estimates and judgements.

The entities Merlin Entertainments plc and Kabooki A/S, which are allocated to the strategic activities are accounted for using the equity method. Under the equity method, investments in associates are initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the share of the net assets of the associate since the acquisition date.

At each reporting date, the KIRKBI Group determines whether there is objective evidence that the investment in associate is impaired. If there is such evidence, the KIRKBI Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and then recognises the loss in the income statement.

The carrying amount of associated companies allocated to strategic activities is classified in the balance sheet as Other non-current assets.

2.5. FINANCE LEASES

(m DKK)	**2017**	**2016**
Repayment within 1 year	38	–
Repayment between 1 and 5 years	150	–
Repayment after 5 years	1,658	–
Gross investment in finance leasing:	**1,846**	**–**
Hereof unearned future finance income	(548)	–
Net Investment in finance lease	**1,298**	**–**
Repayment within 1 year	20	–
Repayment between 1 and 5 years	76	–
Repayment after 5 years	1,202	–
Net investment in finance lease	**1,298**	**–**

Accounting policies

KIRKBI's leasing operations comprise solely of finance lease on property. A finance lease is reported as receivable from the lessee in the balance sheet at an amount equal to the net investment in the lease. The lease payment excluding cost of services is recorded as repayment of principal and interest income. The income allocation is based on a pattern reflection a constant periodic return on the net investment outstanding in respect of the finance lease.

SECTION 3 – RENEWABLES

3.1. DEFINITION OF RENEWABLES

KIRKBI has invested into renewable energy to support the LEGO Group's commitment towards balancing their global consumption of energy with renewable energy, while at the same time delievering long-term return targets. KIRKBI has invested into two offshore windfarms, Borkum Riffgrund 1 and Burbo Bank Extension in order to balance the consumption of energy in the LEGO Group.

Accounting policies

Investments in the offshore windfarms Borkum Riffgrund 1 and Burbo BankExtension, both classified as joint operations, are pro-rata consolidated into operating profit from strategic activities.

3.2. JOINT ARRANGEMENTS

Profit from joint arrangements, pro-rata consolidated into the income statement as operating profit from strategic activities covering:

(m DKK)	**2017**	**2016**
Borkum Riffgrund 1	315	137
Burbo Bank Extension	83	(19)
Operating profit from joint arrangements	**398**	**118**

The operating profit from joint arrangements can be split into:

(m DKK)	**2017**	**2016**
Revenue	770	261
Operation costs	(146)	(74)
Depreciation	(211)	(71)
Financial items	(15)	2
Operating profit from joint arrangements	**398**	**118**
Non-current assets from joint arrangements:		
Property, plant and equipment	**5,175**	**5,953**

Accounting policies

The offshore windfarms Borkum Riffgrund 1 offshore Windpark A/S GmbH & Co. OHG and Burbo Bank Extension Ltd. are companies whose legal form confers separation between the parties to the joint arrangement and the companies themselves. Furthermore, there are no contractual arrangements or any other facts and curcumstances that indicate that the parties of the respective joint arrangements have rights to the assets and obligations for the liabilities of the joint arrangement. However, there is a contractual arrangement that secures the parties with control over the output from the joint arrangement. Accordingly, Borkum Riffgrund 1 offshore Windpark A/S GmbH & Co. OHG and Burbo Bank Extension Ltd. are classified as joint operations in the KIRKBI Group, and consolidated on a pro rata basis.

Cost comprises acquisition price and estimated costs for decommisioning. Depreciation is calculated using the straight-line method to allocate the cost of each asset until decommisioning.

SECTION 4 – OPERATING PROFIT FROM INVESTMENT ACTIVITIES

4.1. DEFINITION OF INVESTMENT ACTIVITIES

The KIRKBI Group invests its cash in mortage bonds, corporate debt, quoted equities, private equity, real estate and larger equity investments. These investments are managed by KIRKBI's portfolio managers with the purpose of creating long-term value for the KIRKBI Group. KIRKBI's investment portfolio amounts at year-end 2017 to DKK 53.6 billion (2016 DKK 44.3 billion).

Accounting policies
The investment portfolio has been designated as financial assets at fair value through profit and loss as the portfolio is managed and evaluated on a fair value basis in accordance with the KIRKBI Group´s investment strategy. Securities are measured at fair value, which equals listed prices or internationally accepted valuation models for private equity. Realised and unrealised gains and losses (including unrealised foreign exchange rate gains and losses) are recognised in the income statement. Transactions are recognised at the trade date.

The KIRKBI Group's investment in entities in which the group has significant influence is allocated to either strategic activities or investment activities. Please refer to section 1.1 for a description of significant accounting estimates and judgements.

The entities Falck A/S and Minimax Viking GmbH, both associated companies, are allocated to KIRKBI's investment portfolio and thereby managed and evaluated on a fair value basis in accordance with the KIRKBI Group's investment strategy. The investment portfolio is measured at fair value through the income statement and accounted for in accordance with IAS 28.

4.2. OPERATING PROFIT FROM INVESTMENT ACTIVITIES

Operating profit from investment avtivities consists of:

(m DKK)	2017	2016
Net gain or loss on financial assets at fair value through profit and loss	1,540	1,235
Realised net gain or loss on financial assets	2,159	1,391
Net income from Investment real estate (note 4.3)	301	334
	4,000	**2,960**

The investment portfolio consists of the following items from KIRKBI's balance sheet

	2017	2016
Investment real estate (note 4.3)	7,267	6,371
Receivables from associates	598	268
Securities (note 4.4)	45,648	37,541
Other receivables	59	82
	53,572	**44,262**

4.3. INVESTMENT REAL ESTATE

(m DKK)	2017	2016
Net income:		
Rental income	374	315
Direct expenses	(85)	(92)
Net result from operation	**289**	**223**
Fair value adjustments:		
Fair value adjustment for the year, net	213	344
Exchange adjustment to real estate for the year, net	(201)	(233)
Fair value adjustments:	**12**	**111**
Net income from Investment real estate	**301**	**334**
Fair value:		
Fair value at 1 January	6,371	5,362
Exchange adjustment to year-end rate	(201)	(233)
Additions, new real estates	826	867
Additions, improvement of existing real estate	58	31
Disposals	–	–
Fair value adjustment for the year, net	213	344
Fair value at 31 December	**7,267**	**6,371**

Investment properties are stated at fair value, using the following yields based on location:	**Yield 2017**	**Yield 2016**	**Effect of 1% point increase in yield** (mDKK)
Billund, Denmark	5.75 - 9.00 %	5.75 - 9.00 %	(11)
Copenhagen, Denmark	4.00 - 5.25 %	4.50 - 6.00 %	(236)
London, UK	4.50 - 4.75 %	4.5 %	(259)
Prague and Kladno, Czech Republic	6.00 - 8.75 %	6.75 - 8.75 %	(50)
Baar, Switzerland	4.50 - 5.00 %	4.50 - 5.00 %	(374)
Hamburg, Germany	6.00 %	6.25 %	(22)
Munich, Germany	4.00 - 4.50 %	4.25 - 4.50 %	(355)
			(1,307)

Accounting policies

Investment real estate is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at the expected fair values from a net cash transaction at the balance sheet date.

Fair value is determined by management using approved valuation methods based on the capital value calculated on expected cash flows. If current market prices for comparable properties are available, these will be incorporated as part of the fair value valuation.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise. for in accordance with IAS 28.

Valuation method:

The fair value is assessed by the KIRKBI Group's real estate team at year-end on the basis of a return-based model. Valuations rely substantially on non-observable input and are based on cash flow estimates and on the required rate of return (yield) calculated for each property that reflects the price at which the property can be exchanged between knowledgeable, willing parties under current market conditions. The cash flow estimates are determined on the basis of the market rent for each property. The required rate of return (yield) on a property is dertermined on the basis of its location, type, possible uses, layout and condition as well as on the terms of lease agreements, rent adjustment and the credit quality of lessees.

The return-based model used is:

Rental income
+ vacant rents
- operating costs such as taxes, insurances and utilities
- maintenance
- administration
= Net cash flow
/ Yield
= Capitalised fair value
- vacant rents
+ Deposits
+/- corrections for known circumstances
= Fair value

4.4. SECURITIES

Securities consists of mortage bonds, corporate debt, quoted equities, private equity and investments in associated companies. Associated companies classified as investment activities and included in Securities are listed in note 9.8 Securities can be purchased and sold in established markets.

All securities and investments recognised under Securities are classified as "financial assets at fair value through profit or loss" are reported at fair value by level of the following fair value measurement hierarchy for:

* Quoted prices (unadjusted) in active markets for identical assets (level 1)

* Inputs other than quoted prices included within level 1 that are observable for the assets either directly or indirectly (level 2)

* Inputs for the asset or liability that are not based on observable market data (level 3)

Specification of Securities into fair value measurement, currency allocation in DKK/EUR and % of investments rated:

	2017			Carrying amount	
(m DKK)	Fair value measurement hierarchy	% of investment in DKK or EUR	% of investments rated	2017	2016
Liquid bonds	Level 1	100 %	100 % AAA	6,502	6,484
Corporate debt etc.	Level 1	87 %	27 % inv. Grade	4,922	4,455
Quoted equities and long-term equity	Level 1	58 %	n/a	22,476	16,950
Private and unquoted long-term equity	Level 3	60 %	n/a	11,748	9,652
Carrying amount at 31 December				**45,648**	**37,541**

For descriptions of credit risk, and foreign exchange risk please refer to note 8.2, where risks from a group perspective are considered low.

Reconciliation of fair value of level 3 financial instruments

The KIRKBI Group carries unquoted equity as financial assets at fair value through profit and loss classified as level 3 within the fair value hierarchy.

Private and unquoted long-term equity

(m DKK)	2017	2016
1 January	9,652	7,299
Total gains and losses recognised in profit and loss	1,158	1,273
Purchases	2,639	1,894
Sales	(1,701)	(814)
Carrying amount 31 December	**11,748**	**9,652**

Financial instruments, which are priced using non-observable input, include private placement in private equity funds and private placement in unquoted equities (Long-term Equity).

For Private Equity, valuation is based on IPEV (International Private Equity and Venture Capital Valuation Guidelines) valuations guidelines, which set out the principles for determining the price for which independent parties would trade the shares. The fair value would not vary significantly if one or more inputs were changed.

For unquoted equities (Long-term equity), valuation is based on a valuation model using input such as relevant multiples of a set of comparable companies, pro-forma adjusted operating income and adjusted net interest bearing debt. For the carrying amount of 2017 valuation based on this method is used for the investments in Falck A/S and Minimax Viking GmbH.

Investments in unquoted Long-term equity are stated at fair value using a valuation model based on the following inputs:

	2017	2016
Pro-forma adjusted operating income	Individual	Individual
Multiples for comparable companies	11.8x - 14.4x	9.9x - 15.3x
Adjusted net interest bearing debt	Individual	Individual

The most significant input for the valuation model is the multiples for comparable companies. If this multiple decreased by 1.0x, the fair value would be reduced by around DKK 600 million.

For financial information about associates accounted for using fair value through profit and loss, please refer to the websites of the associates to have sufficient, relevant and updated information. For Falck, please refer to www.falck.com/en/company/financials/ and for Minimax Viking, please refer to www.minimax.de/en/.

Accounting policies

Securities are measured at fair value, which equals listed prices or internationally accepted valuation models for private equity. Realised and unrealised gains and losses (including unrealised foreign exchange rate gains and losses) are recognised in the income statement as operating profit from investment activities. Transactions are recognised at the trade date.

The entities Falck A/S and Minimax Viking GmbH, both associated companies, are allocated to KIRKBI's investment portfolio and thereby managed and evaluated on a fair value basis in accordance with the KIRKBI Group's investment strategy. Securities are designated at fair value through profit or loss and accounted for in accordance with IAS 28.

SECTION 5 – WORKING CAPITAL

5.1. INVENTORIES

(m DKK)	2017	2016
Raw materials and components	90	138
Work in progress	1,063	1,405
Finished goods	1,340	1,560
	2,493	**3,103**
The cost of inventory recognised as an expense in operating profit from the LEGO Group	**7,099**	**7,569**
including write-down of inventories to net realisable value (expense)	**(11)**	**(69)**

Accounting policies
Inventories are measured at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

The cost of raw materials, consumables and purchased goods comprises the invoice price plus delivery expenses. The cost of finished goods and work in progress comprises the purchase price of materials and direct labour costs plus indirect production costs. Indirect production costs include indirect materials and wages, maintenance and depreciation of plant and machinery, factory buildings and other equipment as well as expenses for factory administration and management.

5.2. TRADE RECEIVABLES

(m DKK)	2017	2016
Trade receivables (gross)	7,106	7,667
Provisions for bad debts:		
Balance at the beginning of the year	(373)	(360)
Exchange adjustment to year-end rate	26	(4)
Change in provisions for the year	(249)	(28)
Realised losses for the year	10	19
Balance at the end of the year	**(586)**	**(373)**
Trade receivables (net)	**6,520**	**7,294**

All trade receivables fall due within one year. The nominal value is considered equal to the fair value of receivables falling due within one year from the balance sheet date.

The age distribution of gross trade receivables is as follows:

(m DKK)	2017	2016
Not overdue	6,654	7,272
0 - 60 days overdue	151	296
61 - 120 days overdue	233	22
121 - 180 days overdue	–	7
More than 180 days overdue	68	70
	7,106	**7,667**

The KIRKBI Group has no single significant trade debtor, nor are the trade receivables concentrated in specific countries. The KIRKBI Group has fixed procedures for determining the KIRKBI Group's granting of credit. The KIRKBI Group's risk relating to trade receivables is considered to be moderate.

Accounting policies
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less provisions for bad debt. Provisions for bad debt are made on the basis of an individual assessment of the risk relating to each receivable.

5.3. ASSETS HELD FOR SALE

Assets held for sale consist of an asset related to the investments in renewables. The asset is expected to be sold in 2018 and is presented at the lower of carrying amount and fair value. Comparative figures are not restated.

5.4. OTHER LIABILITIES

(m DKK)	2017	2016
Liabilities related to wages and other charges	1,445	1,643
Other current liabilities	3,568	4,527
	5,013	**6,170**
Specified as follows:		
Non-current	178	250
Current	4,835	5,920
	5,013	**6,170**

Financial obligations
The fair value of obligations regarding assets under finance leases corresponds to the carrying amount. The fair value is estimated to equal the present value of expected future cash flows at a market interest rate for similar leases.

(m DKK)	2017	2016
Obligations regarding finance leases are as follows:		
0-1 year	8	6
1-5 years	10	21
> 5 years	–	–
	18	**27**
Reconciliation of carrying amount:		
Carrying amount of the liability	16	23
Interest expenses not yet accrued	2	4
	18	**27**

Accounting policies
Other liabilities are measured at amortised cost unless specifically stated otherwise.

Borrowings are initially recognised at fair value, net of transaction expenses incurred. Borrowings are subsequently measured at amortised cost. Any differences between the proceeds and the redemption value are recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the KIRKBI Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

5.5. PROVISIONS

(m DKK)	2017	2016
Restructuring	194	55
Decommisioning windfarms	211	236
Other	119	110
Provisions at 31 December	**524**	**401**
Specified as follows:		
Non-current	298	323
Current	226	78
	524	**401**

Provisions for restructuring relate primarily to close-down and movement of activities and redundancy programmes in the LEGO Group. The majority of these obligations are expected to result in cash outflows in 2018.

Provision for decommisioning of windfarms relates to obligation to restore the areas with expected cash outflows more than 20 years from now.

Other provisions consist of various types of provisions, primarily provisions for asset retirement regarding leased premises and employee related provisions comprising retirement packages and severance.

Accounting policies
Provisions are recognised when the KIRKBI Group identifies legal or constructive obligations as a result of past events and it is probable that it will lead to an outflow of resources that can be reliably estimated. In this connection, the KIRKBI Group makes the estimate based upon an evaluation of the individual, most likely outcome of the cases. In cases where a reliable estimate cannot be made, these are disclosed as contingent liabilities.

Further provisions for restructuring expenses are only recognised when the decision is made and announced before the balance sheet date. Provisions are not made for future operating losses.

Provisions are measured at the present value of the estimated obligation at the balance sheet date.

5.6. REVERSALS OF ITEMS WITH NO EFFECT ON CASH FLOWS

(m DKK)	2017	2016
Depreciation, amortisation and impairment	1,647	1,109
Revaluation of securities etc.	(3,818)	(875)
Net movements in provisions	109	243
Net income from associates	(344)	(711)
	(2,406)	**(234)**

5.7. CHANGES IN WORKING CAPITAL

(m DKK)	2017	2016
Inventories	610	(253)
Trade and other receivables	(543)	(144)
Trade and other payables	(751)	20
	(684)	**(377)**

SECTION 6 – TAXES

6.1. INCOME TAX EXPENSE

(m DKK)	2017	2016
Current tax on profit for the year	3,176	3,637
Deferred tax on profit for the year	39	(82)
Effect of change in tax rate	82	–
Other	38	6
Prior year adjustments	30	26
	3,365	**3,587**
Income tax expenses are specified as follows:		
Calculated 22 % (22 %) tax on profit for the year before income tax	3,530	3,712
Tax effect of		
Higher/(lower) tax rate in subsidiaries	(17)	70
Non-taxable income	(308)	(244)
Non-deductible expenses	51	95
Effect of change in tax rate	82	1
Adjustment of tax relating to previous years	30	26
Other	(3)	(73)
	3,365	**3,587**
Effective tax rate	21.0 %	21.3 %

Accounting policies
The tax expenses for the period comprise current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income. In this case, tax is also recognised in other comprehensive income.

6.2. DEFERRED TAX

(m DKK)	2017	2016
Deferred tax, net at 1 January	(180)	(283)
Exchange adjustment to year-end rate	(39)	3
Income statement charge	(60)	63
Charged to other comprehensive income	(28)	37
Effect of change in tax rate	(82)	-
Other	(7)	-
Deferred tax, net at 31 December	**(396)**	**(180)**
Classified as:		
Deferred tax assets	582	603
Deferred tax liabilities	(978)	(783)
	(396)	**(180)**

(m DKK)	Deferred tax asset	Deferred tax liability	Deferred tax net
2017			
Non-current assets	50	(952)	(902)
Receivables	85	(1)	84
Inventories	229	(128)	101
Provisions	187	–	187
Other liabilities	137	(21)	116
Other	–	–	–
Offset	(124)	124	–
Tax loss carry-forwards	18		18
	582	**(978)**	**(396)**
2016			
Non-current assets	132	(920)	(788)
Receivables	77	(1)	76
Inventories	271	(138)	133
Provisions	164	-	164
Other liabilities	157	(41)	116
Other	121	(22)	99
Offset	(339)	339	-
Tax loss carry-forwards	20	-	20
	603	**(783)**	**(180)**

Tax loss carry-forwards
Tax assets relating to tax loss carry-forwards are capitalised based on an assessment of whether they can be utilised in the future. DKK 18 million of the KIRKBI Group's capitalised tax losses expires after 5 year (DKK 20 million in 2016 expires after 5 years).

Accounting policies
Deferred tax on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts is provided in full in the consolidated financial statements, using the liability method.

Deferred tax reflects the effect of any temporary differences. To the extent calculated deferred tax is positive, this is recognised in the balance sheet as a deferred tax asset at the expected realisable value. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Any changes in deferred tax due to changes in tax rates are recognised in the income statement.

SECTION 7 – INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

7.1. DEPRECIATION AND AMORTISATION

(m DKK)	2017	2016
Trademarks, patents and other intangible rights	13	13
Software	82	60
Property	383	234
Plant and equipment	1,102	870
Other fixtures, fittings, tools and equipment	274	209
	1,854	**1,386**

In 2017, the KIRKBI Group did not recognise impairment losses on intangible assets (2016 DKK 0 million). On property, plant and equipment the KIRKBI Group recognised impairment losses of DKK 146 million related to production facilities in the LEGO Group and other development projects (2016 DKK 0 million).

Accounting policies
Depreciation is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life as follows:

Buildings	25-50 years
Installations	10-20 years
Plant and machinery	2-25 years
Other fixtures, fittings, tools and equipment	3-10 years

The residual values and useful lives of the assets are reviewed and adjusted, if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

7.2. INTANGIBLE ASSETS

2017 (m DKK)	Goodwill, trade-marks, patents and other intangible rights	Software	Development projects	Total
Cost at 1 January	2,082	517	39	2,638
Exchange adjustment to year-end rate	(26)	(3)	(1)	(30)
Additions	108	2	33	143
Transfers	–	–	–	–
Cost at 31 December	**2,164**	**516**	**71**	**2,751**
Amortisation and impairment losses at 1 January	(209)	(247)	–	(456)
Exchange adjustment to year-end rate	21	5	–	26
Amortisation for the year	(13)	(82)	–	(95)
Depreciation and impairment losses at 31 December	**(201)**	**(324)**	**–**	**(525)**
Carrying amount at 31 December	**1,963**	**192**	**71**	**2,226**

2016 (m DKK)	Goodwill, trade-marks, patents and other intangible rights	Software	Development projects	Total
Cost at 1 January	2,062	325	139	2,526
Exchange adjustment to year-end rate	20	–	–	20
Additions	–	18	74	92
Transfers	–	174	(174)	–
Cost at 31 December	**2,082**	**517**	**39**	**2,638**
Amortisation and impairment losses at 1 January	(176)	(187)	–	(363)
Exchange adjustment to year-end rate	(20)	–	–	(20)
Amortisation for the year	(13)	(60)	–	(73)
Amortisation and impairment losses at 31 December	**(209)**	**(247)**	**–**	**(456)**
Carrying amount at 31 December	**1,873**	**270**	**39**	**2,182**

Accounting policies
Goodwill, trademarks, patents and other intangible rights
Goodwill and trademarks are initially recognised in the balance sheet at cost and are not amortised.

Acquired patents and other intangible rights are capitalised on the basis of the costs incurred. These costs are amortised over the shorter of their estimated useful lives and the contractual duration.

The carrying amount of goodwill, trademarks, patents and other intangible rights is allocated to the cash generating assets at the acquisition date and is tested for impairment at that level.

Software and development projects
Research expenses are charged to the income statement as incurred. Software and development projects that are clearly defined and identifiable and which are expected to generate future economic profit are recognised as intangible non-current assets at historical cost less accumulated amortisation and any impairment loss. Amortisation is provided on a straight-line basis over the expected useful life which is normally 5–10 years. Other development costs are recognised in the income statement. An annual impairment test of the intangible fixed assets under construction is performed.

Borrowing costs related to financing development projects that take a substantial period of time to complete and whose commencement date is on or after 1 January 2009 are included in the cost price.

Licences, patents and other rights
Acquired licences, patents and other rights are capitalised on the basis of the costs incurred. These costs are amortised over the shorter of their estimated useful lives and the contractual duration.

7.3. IMPAIRMENT TEST

Impairment test of trademarks
Annual impairment test is carried out of the carrying amount of trademarks with indefinite useful lives. The impairment test in 2017 did not give rise to recognising any impairment losses.

The carrying amount of trademarks at 31 December is related to the cash-generating operational units and breaks down as follows:

(m DKK)	2017	2016
LEGO Group	**1,831**	**1,831**

The recoverable amount is based on the value in use, which is calculated by means of the realised net cash flows from trademark royalties for the current year using a discount rate (WACC) of 8 % (2016 8 %).

Accounting policies
Assets that are subject to depreciation and amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets under development and intangible assets which are not subject to amortisation are tested for impairment at each reporting date.

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset less expenses to sell and the value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

7.4. PROPERTY, PLANT AND EQUIPMENT

2017 (m DKK)	Real estate	Plant and equipment	Other fixtures, fittings, tools and equipment	Fixed assets under construction	Total
Cost at 1 January	8,425	11,219	2,858	5,232	27,734
Exchange adjustment to year-end rate	(138)	36	(123)	(202)	(427)
Additions	300	475	262	2,153	3,190
Disposals	(7)	(194)	(41)	(10)	(252)
Corrections	60	(381)	(36)	3	(354)
Transfers	36	2,781	593	(3,410)	–
Transfers to current assets	–	–	–	(1,787)	(1,787)
Cost at 31 December	**8,676**	**13,936**	**3,513**	**1,979**	**28,104**
Depreciation and impairment losses at 1 January	(1,368)	(4,562)	(1,223)	–	(7,153)
Exchange adjustment to year-end rate	17	(38)	60	–	39
Depreciation for the year	(237)	(1,102)	(274)	–	(1,613)
Impairment losses for the year	(139)	–	–	(7)	(146)
Corrections	44	314	(4)	–	354
Transfers	17	(4)	(13)	–	–
Disposals	–	167	31	–	198
Depreciation and impairment losses at 31 December	**(1,666)**	**(5,225)**	**(1,423)**	(7)	**(8,321)**
Carrying amount at 31 December 2017	**7,010**	**8,711**	**2,090**	**1,972**	**19,783**
Including assets held under finance leases	**9**	**–**	**–**	**–**	**9**

Proterty, plant and equipment in general
An obligation related to the purchase of property, plant and equipment of DKK 3,293 million exists at 31 December 2017 (DKK 4,108 million at 31 December 2016).

2016 (m DKK)	Real estate	Plant and equipment	Other fixtures, fittings, tools and equipment	Fixed assets under construction	Total
Cost at 1 January	7,666	6,964	2,749	4,302	21,681
Exchange adjustment to year-end rate	(199)	(1)	(28)	(70)	(298)
Additions	422	903	227	5,214	6,766
Disposals	(56)	(250)	(90)	(19)	(415)
Transfers	592	3,603	–	(4,195)	–
Cost at 31 December	**8,425**	**11,219**	**2,858**	**5,232**	**27,734**
Depreciation and impairment losses at 1 January	(1,156)	(3,931)	(1,100)	–	(6,187)
Exchange adjustment to year-end rate	21	(2)	2	–	21
Depreciation for the year	(234)	(870)	(209)	–	(1,313)
Disposals	1	241	84	–	326
Depreciation and impairment losses at 31 December	**(1,368)**	**(4,562)**	**(1,223)**	–	**(7,153)**
Carrying amount at 31 December 2017	**7,057**	**6,657**	**1,635**	**5,232**	**20,581**
Including assets held under finance leases	**15**	**–**	**–**	**–**	**15**

Accounting policies

Cost

Land and buildings comprise mainly factories, warehouses and offices. Property, plant and equipment are measured at cost, less subsequent depreciation and impairment losses, except for land, which is measured at cost less impairment losses.

Cost comprises acquisition price and expenses directly related to the acquisition until the time when the asset is ready for use. The cost of self-constructed assets comprises direct expenses for wage consumption and materials. Borrowing costs related to financing self constructed assets that take a substantial period of time to complete and whose commencement date is on or after 1 January 2009 are included in the cost price.

Leases

Leases of assets where the KIRKBI Group has substantially all risks and rewards of ownership are capitalised as finance leases under property, plant and equipment and depreciated over the estimated useful lives of the assets, according to the periods listed under the section Property, plant and equipment. The corresponding finance lease liabilities are recognised in liabilities.

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

SECTION 8 – RISK MANAGEMENT

8.1. CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

Contingent liabilities and other obligations (m DKK)	2017	2016
Remaining obligations in investment projects	11,543	11,016
Guarantees	757	681
Operating lease obligations	2,048	2,530
Other obligations	442	422
	14,790	**14,649**

The KIRKBI Group leases various offices, warehouses and plants and machinery under non-cancellable operating leases. The leases have varying terms, clauses and rights.

The KIRKBI Group also leases plants and machinery under cancellable operating leases. The KIRKBI Group is required to give various notices of termination of these agreements.

	2017	2016
Lease expenses for the year charged to the income statement amount to:	**858**	**820**

Future minimum lease payments under non-cancellable operating leases are specified as follows:	2017	2016
0-1 year	526	576
1-5 years	1,111	1,388
> 5 years	411	566
	2,048	**2,530**

Security has been given in land, buildings and installations at a net carrying amount of DKK 2,435 million (DKK 3,236 million in 2016) for the mortgage loans.

The KIRKBI Group has utilised tax losses in non-Danish jurisdictions in the Danish joint taxation until 31 December 2004. The deferred tax of this amounts to DKK 80 million, of which DKK 0 million has been recognised as a provision for deferred tax. The amount of DKK 80 million is not expected to be recaptured.

8.2. FINANCIAL RISKS

The financial risks of the KIRKBI Group are managed centrally from the Parent Company as well as decentralised by the operating companies. The overall risk management guidelines have been approved by the Board of Directors and include the KIRKBI Group's treasury and investment policy related to securities. The KIRKBI Group's risk management guidelines are established to identify and analyse the risk faced by the KIRKBI Group, to set the appropriate risk limits and controls to monitor the risks and ensure adherence to limits.

The overall purpose of the investment portfolio is to create economical value in accordance with the KIRKBI values, i.e to

- Protect the investment portfolio in the long run
- Support the LEGO Group and other strategic assets through delivering a stable growth of capital with an attractive risk-adjusted return
- Avoid negative spill-over effects on the LEGO brand, the LEGOLAND brand and reputation
- Ensure high ethical standard in investments and engagements

Therefore, the investment policy includes, among other items, guidelines and ranges for which investments are considered to be eligible investments and which investment parameters are to be applied such as limits on issuer, duration, credit rating, country, or economic sector.

The guidelines are reviewed regularly to reflect changes in market conditions, the KIRKBI Group's activities and financial position. A separate and independent risk management function reviews managers' compliance with the mandates and the adequacy of the mandates to risks and exposures facing the KIRKBI Group.

Investment approach and asset allocation
The KIRKBI Group's activities consist of holdings in the strategic assets, the LEGO Group, Merlin Entertainments plc and renewables as well as investments within the areas of real estate, long-term equity, private equity, quoted equities and fixed income.

The overall purpose implies a portfolio strategy based on firm and conservative investment principles and beliefs learned and built over time. Combined with the financial strength of KIRKBI and continued success of the LEGO Group, it allows KIRKBI to have a relatively aggressive asset allocation focused on long-term ownership of equities. However, the clear long-term focused investment beliefs and the focus on the portfolio consequences provide the foundation for a sustained long-term investment strategy.

Financial risk management
For the KIRKBI Group, the concept of risk is divided into two sub-concepts:

- Short-term risk of temporary loss of capital – i.e. quotation risk
- Long-term risk of permanent loss of capital – i.e. capital loss risk

As a long-term investor, the most important risk to avoid is the permanent loss of capital. However, as the financial investments function as a liquid buffer to cover obligations and non-financial risks, the financial investment portfolio is subject to short-term quotation risk.

Credit risk
Financial instruments are entered into with counterparts with investment grade level ratings.

Similarly, the KIRKBI Group only engages with insurance companies with investment grade ratings.

For banks and financial institutions, only independently rated parties with an acceptable long-term rating are accepted. Credit risk regarding trade receivables is disclosed in note 5.2. The credit risks of the KIRKBI Group are considered to be moderate.

Foreign exchange risk
The foreign exchange risk for the KIRKBI Group is mostly related to net inflows in the LEGO Group and investments denomited in foreign currencies.

The LEGO Group's foreign exchange risk is managed centrally in LEGO System A/S based on a foreign exchange policy approved by the Board of Directors. Forward contracts and options are used to hedge purchases and sales in foreign currencies for the LEGO Group. These forward contracts are mainly classified as hedges and meet the accounting requirements for hedging of future cash flows.

The foreign exchange risks of the investments are managed centrally from the Parent Company. The overall risk management guidelines have been approved by the Board of Directors and include the KIRKBI Group's treasury and investment policy.

The most significant exchange risks are in the currencies of USD and GBP. A negative 10 % change in the GBP currency would effect the income statement of the KIRKBI Group by DKK 100 million and reduce equity by DKK 700 million. A negative 10 % change in the USD currency would effect the income statement by DKK 1,000 million and would also reduce equity by DKK 1,000 million. A negative 10 % change in the CHF currency would effect the income statement and the equity by DKK 300 million. Based on this, the foreign exchange risks from a group perspective are considered moderate.

Interest rate risk
The KIRKBI Group's interest rate risk relates mainly to the portfolio of core fixed income and corporate debt instruments. With the current interest rate levels and the composition of the portfolio, an increase of 1% in the interest rate would negatively effect the income statement with DKK 100 million. The KIRKBI Group's interest rate risk is considered low.

Liquidity risk
Liquidity is managed centrally and is continuously assessed. It is ensured that, at any given time, sufficient financial resources are available. Based on cash and the liquid investment portfolio of bonds and quoted equities, the liquidity risk is considered insignificant.

8.3. DERIVATIVE FINANCIAL INSTRUMENTS

Total hedging activities
The derivatives used by the KIRKBI Group mainly relate to the LEGO Group. The LEGO Group uses a number of derivatives to hedge currency exposure. The hedging activities are categorised into hedging of forecast transactions (cash flow hedges), and hedges of assets and liabilities (fair value hedges).

The changes in fair value of the financial instruments qualifying for hedge accounting are recognised directly under other comprehensive income until the hedged items affect the income statement.

The changes in fair value of the financial instruments not qualifying for hedge accounting are recognised directly in the income statement. This includes the time value of options.

All changes in fair value of hedging of assets and liabilities (fair value hedging) are recognised directly in the income statement.

Hedging of forecast transactions
The main hedging of forecast transactions relates to USD where the LEGO Group is hedging for a period up to 8 months. For 2017, a total of DKK 0.5 billion (2016 DKK 3.2 billion) has been recognised as forecast transactions in USD qualifying for hedge accounting. The fair value adjustment for USD directly in the income statement is below DKK 100 million and is not considered material to the consolidated KIRKBI Group income statement.

Hedging of balance sheet items
The main hedging of balance items relates to USD where the LEGO Group is hedging for a period up to 2 months. For 2017, a total of DKK 0.2 billion (2016 DKK 0.6 billion) has been recognised as hedging of balance sheet items in USD. The fair value adjustment for USD directly in the equity of the consolidated KIRKBI Group is below DKK 100 million and is not considered material.

Cash flow hedges for which hedge accounting is not applied
Cash flow hedges for which hedge accounting is not applied are insignificant in the consolidated KIRKBI Group figures.

Accounting policies
Derivative financial instruments are initially recognised in the balance sheet at fair value and are subsequently measured at fair value. Derivative financial instruments are recognised in other receivables and other current liabilities.

Changes to the fair value of derivative financial instruments which meet the criteria for hedging the fair value of a recognised asset or a recognised liability are recognised in the income statement together with any changes in the fair value of the hedged asset or liability attributable to the hedged risk.

The effective portion of changes to the fair value of derivative financial instruments which meet the criteria for hedging future cash flows are recognised in other comprehensive income. Income and expenses relating to these hedge transactions are transferred from equity when the hedged item affects the income statement. The amount is recognised in financial income or expenses.

In case of settlement of a derivative designated as a cash flow hedge, the accumulated fair value adjustment remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to take place, any accumulated fair value adjustments are transferred from equity to the income statement under financial income or expenses.

SECTION 9 – OTHER NOTES

9.1. EMPLOYEE EXPENSES

Employee expenses (m DKK)	2017	2016
Wages and salaries	6,176	6,281
Termination benefit and restructuring	232	33
Pension costs, defined contribution plans	224	348
Other expenses and social security costs	478	625
	7,110	**7,287**
Average number of full-time employees	**16,909**	**17,136**
Executive Management and Board of Directors:		
Salaries and other remuneration	21	21
Short-term incentive plans	2	2
Long-term incentive plans	14	12
	37	**35**

Since the Executive Management only consists of one member, the remuneration of the Executive Management and the Board of Directors is disclosed collectively with reference to § 98b (3) of the Danish Financial

Incentive plans comprise a short-term incentive plan based on yearly performance and a long-term incentive plan related to long-term goals regarding value creation.

Accounting policies

Wages, salaries, social security contributions, paid annual leave and sick leave, bonuses and non-monetary employee benefits are accrued in the year in which the associated services are rendered by the employees of the KIRKBI Group. Where the KIRKBI Group provides long-term employee benefits, the costs are accumulated to match the rendering of the services by the employees concerned.

9.2. AUDITORS' FEE

Employee expenses (m DKK)	2017	2016
Fee to Deloitte:		
Statutory audit of the financial statements	3	2
Other assurance engagements	–	–
Tax assistance	2	2
Other services	2	4
	7	**8**
Fee to PwC:		
Statutory audit of the financial statements	10	11
Other assurance engagements	1	3
Tax assistance	13	11
Other services	13	21
	37	**46**
Total auditors´ fees	**45**	**54**

9.3. SHARE CAPITAL

The share capital consists of: (m DKK)	
1	A-share of DKK 1,000 or multiples thereof
199	B-shares of DKK 1,000 or multiples thereof
200	**Total shares at 31 December 2017**

Each ordinary A share of DKK 1,000 gives 1,000 votes, while each ordinary B share of DKK 1,000 gives 1 vote.

Dividend has been distributed at DKK 2.00 per share (2016 DKK 2.00).

Within the last 5 years, there have been no changes in the share capital.

Accounting policies

Dividends are recognised as a liability in the period in which they are adopted at the Annual General Meeting.

9.4. NON-CONTROLLING INTERESTS

Information about the KIRKBI Group's subsidiaries which have non-controlling interests.

Non-controlling part	**Koldingvej 2, Billund A/S**		**Other**	
Subsidiary	**LEGO A/S**		**Other**	
(m DKK)	**2017**	**2016**	**2017**	**2016**
Statement of comprehensive income in subsidiary				
Revenue	34,995	37,934	373	50
Net profit (loss) for the year allocated to the parent company shareholders	7,806	9,436	65	26
Total comprehensive income allocated to the parent company shareholders	7,675	9,288	65	26
Balance sheet in subsidiary				
Non-current assets	12,553	12,836	1,270	1,122
Current assets	17,358	17,101	125	97
Total Liabilities	(9,197)	(9,898)	(172)	(104)
Equity	20,714	20,039	1,223	1,115
Cash flow in subsidiary				
Cash flow from operating activities	10,691	9,084	65	20
Cash flow from investing activities	(1,523)	(2,992)	–	(705)
Dividend to shareholders	(7,000)	(7,000)	–	–
Ownership interest of non-controlling interests	25 %	25 %	6-49 %	6-10 %

Consolidation into the KIRKBI Group					**Total**	
(m DKK)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Carrying amount 1 January	**5,010**	**4,438**	**95**	**22**	**5,105**	**4,460**
Share of net profit allocated to the non-controlling interests	1,952	2,358	7	3	1,959	2,361
Non-controlling interests of net profit	**1,952**	**2,358**	**7**	**3**	**1,959**	**2,361**
Share of comprehensive income allocated to non-controlling interest	(33)	(36)	–	–	(33)	(36)
Non-controlling interests of total comprehensive income	**1,919**	**2,322**	**7**	**3**	**1,926**	**2,325**
Other adjustments:						
Aquisition of non-controlling interests	–	–	6	70	6	70
Dividend paid	(1,750)	(1,750)	(2)		(1,752)	(1,750)
Carrying amount 31 December	**5,179**	**5,010**	**106**	**95**	**5,285**	**5,105**

9.5. PENSION OBLIGATIONS

Defined contribution plans:
In defined contribution plans, the KIRKBI Group recognises in the income statement the premium payments (e.g. a fixed amount or a fixed percentage of the salary) to the independent insurance companies responsible for the pension obligations. Once the pension contributions for defined contribution plans have been paid, the KIRKBI Group has no further pension obligations towards current or past employees. The pension plans in the Danish companies and some of the non-Danish companies are defined contribution plans. In the KIRKBI Group, DKK 216 million (DKK 239 million in 2016) has been recognised in the income statement as costs relating to defined contribution plans.

Defined benefit plans:
In defined benefit plans, the KIRKBI Group is obliged to pay a certain pension benefit. The defined benefit plans include employees in Germany and in the UK. In the KIRKBI Group, a net obligation of DKK 184 million (DKK 198 million in 2016) has been recognised relating to the KIRKBI Group's obligations towards current or past employees concerning defined benefit plans. The obligation is calculated after deduction of the plan assets. In the KIRKBI Group, DKK 1 million (DKK 105 million in 2016) was recognised in the income statement and DKK 3 million (DKK 9 million in 2016) has been recognised in other comprehensive income. All defined benefit plans relate to the LEGO Group and no new employees will be included in the defined benefit plans.

Accounting policies
Costs regarding defined contribution plans are recognised in the income statement in the periods in which the related employee services are delivered.

Net obligations in respect of defined benefit pension plans are calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. Discount rates are based on the market yield of high quality corporate bonds in the country concerned approximating to the terms of the KIRKBI Group's pension obligations. The calculations are performed by a qualified actuary using the Projected Unit Credit Method. When the benefits of a plan are increased, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement over the vesting period. To the extent that the benefits are vested, the expense is recognised in the income statement immediately.

Actual gains and losses are recognised in other comprehensive income in the period in which they occur.

Net pension assets are recognised to the extent that the KIRKBI Group is able to derive future economic benefits in the way of refunds from the plan or reductions of future contributions.

9.6. RELATED PARTY TRANSACTIONS

KIRKBI A/S' related parties comprise Kjeld Kirk Kristiansen, Sofie Kirk Kristiansen, Thomas Kirk Kristiansen, Agnete Kirk Thinggaard and the Board of Directors and the Executive Management of KIRKBI A/S. Related parties also comprise subsidiaries and associates. Related parties further comprise companies where the mentioned shareholders have significant influence.

Kjeld Kirk Kristiansen, Sofie Kirk Kristiansen, Thomas Kirk Kristiansen and Agnete Kirk Thinggaard have as shareholders significant influence in KIRKBI A/S.

In the financial year, a limited number of transactions related to services took place between the owners of KIRKBI A/S and the KIRKBI Group. These services were paid on normal market terms and the total fee paid to KIRKBI A/S amounts to DKK 16 million (2016 DKK 18 million).

Interests paid to owners of KIRKBI A/S amounted in the financial year to DKK 23 million (DKK 28 million in 2016). Transactions related to sales of products and services between associates and the KIRKBI Group amounted to DKK 685 million (DKK 610 million in 2016), which was paid on normal market terms.

There were no transactions with the Board of Directors or the Executive Management besides transactions related to the employment except for the circumstances described above.

For information about remuneration to the Board of Directors and the Executive Management, see note 9.1.

Loans, receivables and commitments related to associates are specified in the KIRKBI Group's balance sheet.

9.7. POST BALANCE SHEET EVENTS

From the period from 31 December 2017 and until adoption at the annual report, no events have occurred that could have significant effect on the annual report for 2017.

9.8. GROUP STRUCTURE

Ownership is 100 % unless stated otherwise

KIRKBI A/S

LEGO A/S, 75 % (Denmark / Danmark)

Denmark
LEGO System A/S
LEGO Security Billund ApS

Europe
LEGO Park Holding UK Ltd.
– LEGO Lifestyle International Ltd. (UK)
LEGO Company Limited (UK)
LEGO Belgium n.v.
LEGO Netherland B.V.
LEGO Sverige AB
LEGO Norge A/S
Oy Suomen LEGO Ab (Finland)
LEGO GmbH (Germany)
LEGO Handelsgesells. GmbH (Austria)
LEGO S.A.S. (France)
LEGO S.p.A. (Italy)
LEGO Brand Retail S.A.S (France)
LEGO S.A. (Spain)
LEGO Lda. (Portugal)
LEGO Production s.r.o. (Czech Republic)
LEGO Trading s.r.o. (Czech Republic)
LEGO Schweiz AG
LEGO Hungária Kft.
LEGO Manufacturing Kft. (Hungary)
LEGO Polska Sp. z.o.o.
LEGO Romania S.R.L.
LEGO Ukraine LLC
OOO LEGO (Russia)
LLD Share verwaltungs GmbH (Germany)
– LLD Share Gmbh & Co. KG (Germany)
LEGO Turkey Oyuncak Tieraet Anonim Sirketi

Americas
LEGO do Brasil Comercio e Distribuicão de Brinquedos Ltda
LEGO Canada Inc.
LEGO Mexico S.A. de C.V
Administración de Servicios LEGO, S. de R.L. de C.V. (Mexico)
LEGO Operaciones de Mexico S.A. de C.V. (Mexico)
LEGO Real Estate, S.A. de C.V. (Mexico)
LEGO System Inc. (US)
– LEGO Brand Retail Inc. (US)

Asia,Africa and Australia
LEGO Hong Kong Limited
LEGO Australia Pty. Ltd.
LEGO New Zealand Ltd.
LEGO Korea Co. Ltd.
LEGO South Africa (Pty.) Ltd.
LEGO Japan Ltd.
LEGO Company Ltd. (Hong Kong)
LEGO Singapore Pte. Ltd.
LEGO Trading CO Ltd. (Beijing)
LEGO India Private Limited
LEGO Trading Sdn. Bhd (Malaysia)
LEGO Toy Manufacturing Co., Ltd. (Jiaxing)
LEGO Toy Co., Ltd. (Shanghai)
LEGO Trading Co., Ltd. (Taiwan)

Associates
KAABOOKI A/S, 19,8 % (Denmark / Danmark)

KIRKBI Invest A/S, 100 % (Denmark)

Denmark
LEGO Juris A/S
KIRKBI Anlæg A/S
KIRKBI Real Estate Investment A/S
K & C Holding A/S
– Blue Hors ApS
– Schelenborg Gods ApS
– Privathospital Mølholm P/S, 91 %
– HCM ApS, 51 %

Europe
KIRKBI Estates Ltd. (UK)
KIRKBI Palác Karlin Property s.r.o (Czech Republic)
KIRKBI Real Estate Investment s.r.o (Czech Republic)
Valdek Praha Spol s.r.o (Czech Republic)
KIRKBI Real Estate Investment GmbH (Germany)
Einsteinstrasse GmbH, 90 % (Germany)
Elsenheimerstrasse GmbH (Germany)
Maxor 4 GmbH, 94 % (Germany)
KIRKBI AG (Switzerland)

Asia
LLJ Investco KK (Japan)

Associates (accounted for using the equity method)
Merlin Entertainments plc, 29.7 % (UK)
Founders A/S, 33.3 % (Denmark)

Associates (accounted for using fair value through profit and loss)
Falck A/S, 27.7 % (Denmark)
MV Holding GmbH, 29.4 % (Germany)

Joint Operations (accounted for using pro-rata consolidation)
Boston Holding A/S, 63 % (Denmark)
– Borkum Riffgrund I Offshore Windpark A/S Gmbh & Co. OHG, 50 % (Germany)
KIRKBI Burbo Extension Holding Ltd. (UK)
– Burbo Extension Holding Ltd., 25 % (UK)
– Burbo Extension Ltd., 25 % (UK)

KIRKBI Real Estate Investment AG, 100 % (Switzerland)

Europe / (Europa)
KIRK AG (Switzerland)
Hotel Valbella Inn AG (Switzerland)

PARENT COMPANY

CONTENTS

INCOME STATEMENT & COMPREHENSIVE INCOME 1 JANUARY – 31 DECEMBER

(m DKK)	Note	2017	2016
Dividend from investments in subsidiaries		5,250	5,250
Other net income		18	22
Administration costs	2	(268)	(377)
Operating profit		**5,000**	**4,895**
Financial income	3	20	–
Financial expenses	4	(6)	(7)
Profit before tax		**5,014**	**4,888**
Tax on profit for the year	5	75	49
Profit for the year		**5,089**	**4,937**
Statement of comprehensive income			
Profit for the year		5,089	4,937
Other comprehensive income after tax		3	(4)
		5,092	**4,933**
Proposed distribution			
Dividend		200	200
Transferred to retained comprehensive income		4,892	4,733
		5,092	**4,933**

BALANCE SHEET AT 31 DECEMBER

(m DKK)	Note	2017	2016
ASSETS			
Non-current assets			
Property		522	436
Other fixtures, fittings, tools and equipment		13	9
Fixed assets under construction		374	140
Property, plant and equipment	6	**909**	**585**
Investments in subsidiaries	7	36,342	17,442
Other non-current assets		**36,342**	**17,442**
Total non-current assets		**37,251**	**18,027**
Current assets			
Receivables from subsidiaries		5,435	20,595
Current tax receivables		688	486
Other receivables		33	23
Cash		5	2
Total current assets		**6,161**	**21,106**
TOTAL ASSETS		**43,412**	**39,133**

BALANCE SHEET AT 31 DECEMBER

(m DKK)	Note	2017	2016
EQUITY AND LIABILITIES			
EQUITY			
Share capital		200	200
Retained comprehensive income		42,405	37,713
Proposed dividend		200	200
Total equity		**42,805**	**38,113**
LIABILITIES			
Non-current liabilities			
Borrowings	8	164	175
Deferred tax liabilities	9	2	2
Other long-term liabilities	8	97	53
Total non-current liabilities		**263**	**230**
Current liabilities			
Borrowings	8	10	8
Payables to subsidiaries		152	644
Trade payables		87	25
Other short-term liabilities		95	113
Total current liabilities		**344**	**790**
Total liabilities		**607**	**1,020**
TOTAL EQUITY AND LIABILITIES		**43,412**	**39,133**
Contingent liabilities and other obligations	10		

STATEMENT OF CHANGES IN EQUITY

(m DKK)	Share capital	Retained comprehen-sive income	Proposed dividend	Total
2017				
Equity at 1 January	**200**	**37,713**	**200**	**38,113**
Profit for the year	-	4,889	200	5,089
Other comprehensive income for the year	-	3	-	3
Total comprehensive income for the year	**-**	**4,892**	**200**	**5,092**
Dividend	-	(200)	(200)	(400)
Equity at 31 December	**200**	**42,405**	**200**	**42,805**
2016				
Equity at 1 January	**200**	**33,180**	**200**	**33,580**
Profit for the year	-	4,737	200	4,937
Other comprehensive income for the year	-	(4)	-	(4)
Total comprehensive income for the year	**-**	**4,733**	**200**	**4,933**
Dividend	-	(200)	(200)	(400)
Proposed dividend	-	-	200	200
Equity at 31 December	**200**	**37,713**	**200**	**38,113**

CASH FLOW STATEMENT 1 JANUARY – 31 DECEMBER

(m DKK)	Note	2017	2016
Operating profit		5,000	4,895
Interest received		20	–
Interest paid		(6)	(7)
Income tax (paid)/received		(127)	49
Reversals of items with no effect on cash flows		67	21
Changes in working capital		(4,198)	(4,443)
Cash flows from operating activities		**756**	**515**
Purchases of property, plant and equipment		(346)	(118)
Proceeds from sale of property, plant and equipment		2	1
Cash flows from investing activities		**(344)**	**(117)**
Dividend paid to shareholders		(400)	(400)
Repayments of borrowings		(9)	–
Cash flows from financing activities		**(409)**	**(407)**
Net cash flows		**3**	**(9)**
Cash at 1 January		2	11
Cash at 31 December		**5**	**2**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The annual report of the Parent Company KIRKBI A/S has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements of the Danish Financial Statements Act for reporting class C enterprises (Large).

The accounting policies for the Parent Company and for the KIRKBI Group are identicalexcept for the following:

Dividend from investments in subsidiaries
Dividend from investments in subsidiaries is recognised in the income statement of the parent company in the year the dividends are declared. If the dividend distributed exceeds the comprehensive income of the subsidiaries in the period the dividend is declared, an impairment test is performed.

Investments in subsidiaries
Investments in subsidiaries are measured at acquisition cost. The acquisition cost includes the fair value of the purchase consideration plus direct purchase costs.

If there is an indication of impairment, impairment testing is carried out as described in the accounting policies for the consolidated financial statements. Where the carrying value exceeds the recoverable amount, it is written down to the recoverable amount.

NOTE 2. EMPLOYEE EXPENSES

(m DKK)	2017	2016
Wages and salaries	226	327
Pension costs	3	2
Other staff costs and social security costs	1	1
	230	**330**
Including fee to Executive Management and Board of Directors	**36**	**34**
Number of employees	**98**	**81**

Since the Executive Management only consists of one member, the remuneration of the Executive Management and the Board of Directors is disclosed collectively with reference to § 98b (3) of the Danish Financial Statements.

Incentive plans comprise a short-term incentive plan based on yearly performance and a long-term incentive plan related to long-term goals regarding value creation.

NOTE 3. FINANCIAL INCOME

(m DKK)	2017	2016
Other interest and exchange gains	20	–
	20	**–**

NOTE 4. FINANCIAL EXPENSES

(m DKK)	2017	2016
Interest to subsidiaries	1	2
Other interest and exchange losses	5	5
	6	**7**

NOTE 5. TAX ON PROFIT FOR THE YEAR

(m DKK)	2017	2016
Current tax on profit for the year	(48)	(53)
Changes in deferred tax	-	–
Adjustment of tax relating to previous years, current tax	(27)	4
	(75)	**(49)**
Income tax expenses are specified as follows:		
Calculated 22 % (22 %) tax on profit for the year before income tax	1,103	1,075
Non-taxable income	(1,155)	(1,134)
Non-deductable costs	4	6
Change in valuation of deferred tax	-	–
Adjustment of tax relating to previous years	(27)	4
	(75)	**(49)**

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

2017 (m DKK)	Property	Other fixtures, fittings, tools and equipment	Fixed asset under construction	Total
Cost at 1 January	554	11	140	705
Additions	60	4	282	346
Disposals	(48)	-	-	(48)
Transfer	48	-	(48)	-
Cost at 31 December	**614**	**15**	**374**	**1,003**
Depreciation and impairment losses at 1 January	118	2	-	120
Depreciation for the year	20	-	-	20
Disposals	(46)	-	-	(46)
Depreciation and impairment losses at 31 December	**92**	**2**	**-**	**94**
Carrying amount at 31 December	**522**	**13**	**374**	**909**

2016 (m DKK)	Property	Other fixtures, fittings, tools and equipment	Fixed asset under construction	Total
Cost at 1 January	500	10	79	589
Additions	3	1	114	118
Disposals	(2)	–	–	(2)
Transfer	53	–	(53)	–
Cost at 31 December	**554**	**11**	**140**	**705**
Depreciation and impairment losses at 1 January	101	2	–	103
Depreciation for the year	18	–	–	18
Disposals	(1)	–	–	(1)
Depreciation and impairment losses at 31 December	**118**	**2**	**–**	**120**
Carrying amount at 31 December	**436**	**9**	**140**	**585**

NOTE 7. INVESTMENTS IN SUBSIDIARIES

(m DKK)	2017	2016
Cost at 1 January	17,442	17,442
Addistions (Conversion of receivable from subsidiaries)	18,900	-
Cost at 31 December	**36,342**	**17,442**

Subsidiaries	Domicile	Currency	Nominal capital	Ownership/Votes %
LEGO A/S	Denmark	DKK	20,000,000	75 %
KIRKBI Invest A/S	Denmark	DKK	126,000,000	100 %
INTERLEGO AG	Switzerland	CHF	67,000,000	100 %

NOTE 8. NON-CURRENT LIABILITIES

(m DKK)	Total debt	Due within 1 year	Due between 2 and 5 years
Borrowings	174	10	41
Other long-term liabilities	97	-	97
	271	**10**	**138**

NOTE 9. DEFERRED TAX

(m DKK)	2017	2016
Deferred tax, net at 1 January	2	2
Change in deferred tax	–	–
Provision for deferred tax, net at 31 December	**2**	**2**
Classified as:		
Deferred tax liabilities	2	2
	2	**2**

NOTE 10. CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

(m DKK)	2017	2016
Remaining obligations in investment projects	1,319	1,544
Guarantees for group enterprises´ balances with credit institutions	932	889
Liabilities operational lease contracts	7	5
Total	**2,258**	**2,438**

Security has been given in land, buildings and installations at a net carrying amount of DKK 173 million (DKK 260 million in 2016) for the company's mortgage loans.

The Parent Company is the KIRKBI Group's administration company in relation to the Danish tax authorities in as far as national, joint taxation is concerned.

NOTE 11. RELATED PARTY TRANSACTIONS

KIRKBI A/S´ related parties comprise Kjeld Kirk Kristiansen, Sofie Kirk Kristiansen, Thomas Kirk Kristiansen, Agnete Kirk Thinggaard and the Board of Directors and the Executive Management of KIRKBI A/S. Related parties also comprise subsidiaries and associates and Boards of Directors and Executive Management in these companies. Related parties further comprise companies where the mentioned shareholders have significant influence.

Kjeld Kirk Kristiansen, Sofie Kirk Kristiansen, Thomas Kirk Kristiansen and Agnete Kirk Thinggaard have as shareholders significant influence in KIRKBI A/S.

In the financial year a limited number of transactions related to services took place between the owners of KIRKBI A/S and the KIRKBI Group. These services have been paid on normal market conditions and the total fee paid to KIRKBI A/S does not exceed DKK 1 million (2016 DKK 1 million).

There were no transactions in the financial year with the Board of Directors or the Executive Management besides transactions related to employment, except from the circumstances described above.

For information of remuneration to the Board of Directors and the Executive Management, see note 2.

Transactions with subsidiaries and associates have included the following:

(m DKK)	2017	2016
Rental income	42	41
Sale of services	66	63
Financial expenses	(1)	(2)
Rental expenses	(3)	(3)
Purchase of services	(33)	(28)

Loans, receivables and commitments related to subsidiaries and associates are specified in the balance sheet.

ADDITIONAL INFOR-MATION

CONTENTS

MANAGEMENT's STATEMENT

Today, the Board of Directors and Executive Management have discussed and approved the annual report of KIRKBI A/S for the financial year 1 January – 31 December 2017.

The annual report is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the Parent Company financial statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2017 and of the results of the Group's and the Parent Company's cash flows for the financial year 1 January – 31 December 2017 in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

In our opinion, the management's review includes a fair review of the development in the Group's and the Parent Company's operations and economic conditions, the results for the year and the financial position of the Group and the Parent Company, as well as a review of the most significant risks and elements of uncertainty facing the Parent Company and the Group, in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

We recommend the adoption of the annual report at the annual general meeting of shareholders.

Billund, 6 March 2018

EXECUTIVE MANAGEMENT

Søren Thorup Sørensen,
CEO

BOARD OF DIRECTORS

Kjeld Kirk Kristiansen,
Chairman

Niels Jacobsen,
Deputy Chairman

Jeppe Fonager Christiansen

Peter Gæmelke

Thomas Kirk Kristiansen

INDEPENDENT AUDITOR's REPORT

To the shareholders of KIRKBI A/S

OPINION

We have audited the consolidated financial statements and the parent financial statements of KIRKBI A/S for the financial year 01.01.2017 - 31.12.2017, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, for the Group as well as the Parent. The consolidated financial statements and the parent financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2017, and of the results of their operations and cash flows for the financial year 01.01.2017 - 31.12.2017 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

STATEMENT ON THE MANAGEMENT'S REVIEW

Management is responsible for the management's review.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management's review and, in doing so, consider whether the management's review is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management's review is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management's review.

Management's responsibilities for the consolidated financial statements and the parent financial statements

Management is responsible for the preparation of consolidated financial statements and parent financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Entity 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 the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and these parent financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Aarhus, 6 March 2018

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