The LEGO Group

Annual Report 2018

LEGO A/S, Aastvej 1, 7190 Billund.

As approved at the Annual General Meeting on 30 April 2019.

Claus Andersen
Chairman of the meeting

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Residence: Billund
Financial Year: 1 January – 31 December
Internet: www.LEGO.com

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Niels B. Christiansen
CEO, the LEGO Group

Letter from the CEO

2018 was a defining year for the toy industry. Disruption in retail channels and increasing digitalisation reshaped the landscape and set a course of unprecedented change.

However, I am pleased to report that even in the face of these external challenges, the LEGO Group stabilised its business during 2018 and achieved modest top- and bottom-line growth. This improved performance over the previous year is the result of the efforts of our dedicated colleagues who are driven by our mission to inspire and develop the builders of tomorrow.

And why is this such a motivating mission?

For more than 85 years, we've seen the power of play inspire, delight, and educate children. When children play, they learn. They learn skills such as creativity, problem-solving, self-awareness and empathy – all necessary to compete in tomorrow's workforce. Seeing the joy in children as they play with LEGO® bricks is truly special, but what gives real meaning to our work is knowing that we are nurturing the skills to help the next generation shape the world.

This purpose also drives our ambition to introduce LEGO play to more children in new markets around the world. During 2018, we continued to expand our presence in China, home to more than 270 million children. Here, we achieved double-digit growth through building our online and retail presence and now have more than 60 stores in 18 cities, including a new flagship store in Shanghai.

60th anniversary of the LEGO® brick

We also celebrated an important milestone in 2018: the 60th birthday of the brick. We are proud of this achievement and honoured that families, generation after generation, build, create and play with our bricks.

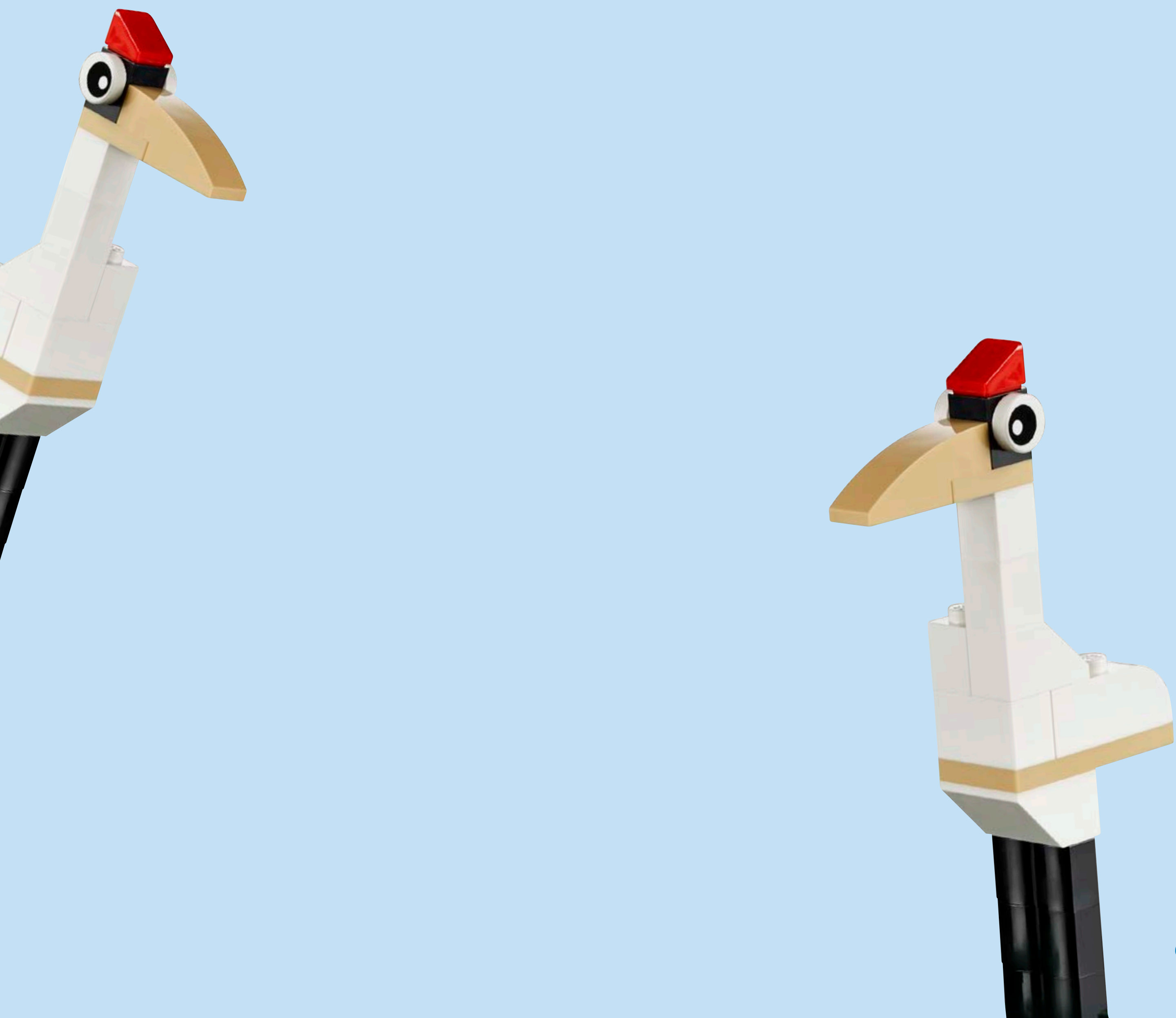
Digitalisation is changing almost every aspect of our daily lives, and we are embracing these opportunities. While physical play remains our core, we will continue to invest in innovative, fun and safe ways to integrate the brick with the myriad possibilities of digital play. We know from talking to more than 13,000 children and parents as part of our landmark Play Well Report that children see no distinction between physical and digital play, while parents appreciate the benefits, both offer. We brought this idea of 'fluid play' to life in 2018 through products that further explored augmented reality, such as LEGO AR Playground app; a LEGO® DUPLO® train which brings coding to our youngest fans; and LEGO BOOST Creative Toolbox which makes robotics intuitive and fun.

Finally, I would like to thank our incredible team of talented colleagues across the LEGO Group who work tirelessly, every day to bring LEGO play to children and fans everywhere.

Our team has demonstrated the power of global collaboration, creative thinking, and resilience and has put the LEGO Group back on a path to sustainable growth.

Niels B. Christiansen
CEO, the LEGO Group

Management's Review



Company Information

Executive Leadership Team

Niels B. Christiansen, President and Chief Executive Officer
Marjorie Lao, Chief Financial Officer
Julia Goldin, Chief Marketing Officer
Loren I. Shuster, Chief People Officer
Carsten Rasmussen, Chief Operations Officer

Ulrik Gernow, Chief Business Transformation Officer
Claus Flyger Pejstrup, Senior Vice President, LEGO Retail
Eric Maugein, Senior Vice President, Market Group APAC
Skip Kodak, Senior Vice President, Market Group Americas
Victor Saeijs, Senior Vice President, Market Group EMEA

Board of Directors

Jørgen Vig Knudstorp
Executive Chairman of LEGO A/S since May 2017.
Executive Chairman of LEGO Brand Group since January 2017.
Member of the Board of Starbucks Corporation.
President and Chief Executive Officer of the LEGO Group from 2004–2016.

Thomas Kirk Kristiansen
Deputy Chairman of LEGO A/S since May 2016 (member since 2007).
Deputy Chairman of LEGO Brand Group since January 2017.
Representing the fourth generation of the owner family.
Member of the Board of KIRKBI A/S and 4 fully owned subsidiaries.
Chairman of the Board of LEGO Foundation.
Executive Management member of Kirk & Kirk Holding ApS and management roles in 4 subsidiaries.

Kjeld Kirk Kristiansen
Member of the Board of LEGO A/S since 1975 (Deputy Chairman from 1996 to May 2016).
Chairman of the Board of KIRKBI A/S and board member in 4 fully owned subsidiaries.
Deputy Chairman of the Board of LEGO Foundation.
Chairman of the Board of Ole Kirk's Foundation and Koldingvej 2, Billund A/S.
Member of the Board of Capital of Children Office A/S.
President and Chief Executive Officer of the LEGO Group 1979-2004.

Kåre Schultz
Member of the Board of LEGO A/S since 2007.
Chief Executive Officer of Teva Pharmaceutical Industries Ltd.

Søren Thorup Sørensen
Member of the Board of LEGO A/S since 2010.
Chief Executive Officer of KIRKBI A/S.
Member of the Board of Falck A/S, Merlin Entertainments plc, Ole Kirk's Fond, Koldingvej 2, Billund A/S, Boston Holding A/S and 6 fully owned subsidiaries of KIRKBI A/S.

Eva Berneke
Member of the Board of LEGO A/S since 2011.
Chief Executive Officer of KMD A/S.
Member of the Board of DTU.
Member of the Board of Directors of Nationalbanken.
Member of the Conseil d'administration of École Polytechnique Université Paris-Saclay.

Jan Thorsgaard Nielsen
Member of the Board of LEGO A/S since 2013.
Chief Investment Officer (CIO) of A.P. Møller Holding A/S.
Deputy Chairman of the Board of Danske Bank.
Member of the Board of APMH Invest A/S.
Member of the Board of A.P. Møller Capital P/S and A.P. Møller Capital GP ApS.

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab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Management's Report

2018 was a year of stabilisation and modest growth in the LEGO Group. Revenue for the full year increased 4% to DKK 36.4 billion compared with DKK 35.0 billion in 2017. Excluding the impact of foreign currency exchange, revenues for the full year increased 7% compared with 2017.

Our established market groups delivered single-digit revenue growth in 2018, while China achieved double-digit revenue growth.

The LEGO Group's profit before tax amounted to DKK 10.5 billion in 2018 against DKK 10.2 billion the year before, an increase of 3%.

Overall, Management is satisfied with the Group's financial performance in 2018.

Revenue

In 2018, the LEGO Group stabilised sales and achieved a 4% global growth. In most markets revenue grew low single-digits. In China, there was strong double-digit growth as the Group continues to expand its presence through traditional retail channels, branded stores, e-commerce and digital platforms.

Operating profit

The LEGO Group's operating profit amounted to DKK 10.8 billion in 2018 an increase of 4% against DKK 10.4 billion in 2017. The operating margin was 29.6% in 2018, unchanged from 2017.

Financial income and expenses

Net financials created a total expense of DKK 264 million in 2018 against an expense of DKK 158 million in 2017. The increase is driven by currency exchange losses.

Corporate income tax

Corporate income tax amounted to DKK 2.4 billion compared with DKK 2.4 billion the prior year. The effective tax rate for the year is 23.2% against 23.5% in 2017.

Profit for the year

The LEGO Group's net profit for the year was DKK 8.1 billion in 2018 an increase of 3% compared with DKK 7.8 billion in 2017. The higher level of profit in 2018 is primarily driven by the LEGO Group's higher revenues during the year.

Cash flows and equity

The LEGO Group's assets increased to DKK 31.5 billion in 2018 compared to DKK 29.9 billion in 2017. Cash flows from operating activities amounted to DKK 9.8 billion, against DKK 10.7 billion in 2017.

After recognition of the profit for the year and distribution of dividend, the LEGO Group's equity has increased by DKK 1.0 billion to DKK 21.8 billion in 2018.

At the end of 2018, the equity ratio of the LEGO Group was 69.1% against 69.3% in 2017.

Return on equity for the LEGO Group was 38.0% in 2018 against 38.3% in 2017.

Investments

During 2018, investments in property, plant and equipment amounted to DKK 1.4 billion, compared with DKK 1.5 billion in 2017. These investments included a phased expansion of facilities at two manufacturing plants to meet future demand for LEGO® products.

At the company's plant in Monterrey, Mexico, work continued in 2018 to expand its warehouse, and in Nyíregyháza, Hungary, construction of additional warehouse and processing capacity continued during the year. Both projects are expected to be completed in 2019.

Research and development activities

Each year, new product launches account for approximately 60% of the LEGO Group's sales to consumers. More than 250 designers from more than 40 different countries make up the creative core of product development within the company, with the majority being based in the company's headquarters in Billund, Denmark.

The development activities that enable such an extensive degree of innovation comprise a wide range of initiatives from trend spotting and anthropological studies to the development of specific products and campaigns.

The LEGO Group also co-operates with a number of educational institutions concerning various research projects within, among other topics, children's play and new technologies.

Intellectual capital resources
The number of employees at the end of 2018 was 17,385 compared with 17,534 at the end of 2017.

It is key to the company and its performance to ensure a clear link between the overall targets and objectives of the company and the individual employees' targets. Therefore, all employees in the LEGO Group participate in the Performance Management Programme (PMP). This programme ensures that the targets set for the performance of the employees relate directly to the overall objectives of the Group.

In 2018 the PMP framework was simplified to better align Key Performance Indicators across the full organisation and focus colleagues on executing the Group's plan to get back to growth. At year-end evaluation, the amount of bonus for each employee is determined by the performance compared with the defined targets.

Responsible business conduct
The LEGO Group works to have a positive impact on its stakeholders and its local communities.

This is at the core of the Group's culture and the foundation of the strategy it pursues. In 2003, the LEGO Group was the first company in the toy industry to sign the United Nations Global Compact. This was a confirmation of the company's many years of support of human rights, labour standards, anti-corruption and the environment. The Group's Responsibility Report 2018 (COP report) describes how it is working to adhere to the Compact.

Pursuant to section 99 a and 99 b of the Danish Financial Statements Act, the Responsibility Data Report 2018 constitutes the statutory statement of corporate social responsibility. This includes the required targets for gender representation on the Board of Directors.

The Responsibility Data 2018 is available at:
www.LEGO.com/responsibility

Market development
The LEGO Group's main activity is the development, production, marketing and sale of play materials. The global market for traditional toys, in which the Group operates, saw flat growth during 2018.

Portfolio performance
The top selling themes in 2018 were LEGO® City, LEGO® Technic™, LEGO® *Star Wars™*, LEGO® Friends and LEGO® NINJAGO®. LEGO® Harry Potter™, LEGO® Jurassic World™ and LEGO® Creator also performed strongly. We are pleased with the performance of our homegrown themes which continue to delight builders year after year.

Trade receivables
The LEGO Group has no significant trade receivables risk concentrated in specific countries, but has some single significant trade debtors. The LEGO Group has fixed procedures for determining the granting of credit. The LEGO Group's risk relating to trade receivables is considered to be moderate. For more information, see note 25.

The majority of the LEGO Group's sales are in foreign currency, and the risks relating to currency are described in note 25.

Events after the reporting date
No events have occurred after the balance sheet date that would influence the evaluation of the Annual Report.

Expectations for 2019
The LEGO Group expects that revenue will grow single-digits in 2019. This goal is considered to be achievable given the Group's focus on product innovation and expansion in established and emerging markets, such as China. The Group also plans to continue investing in initiatives to drive longer-term sustainable growth.

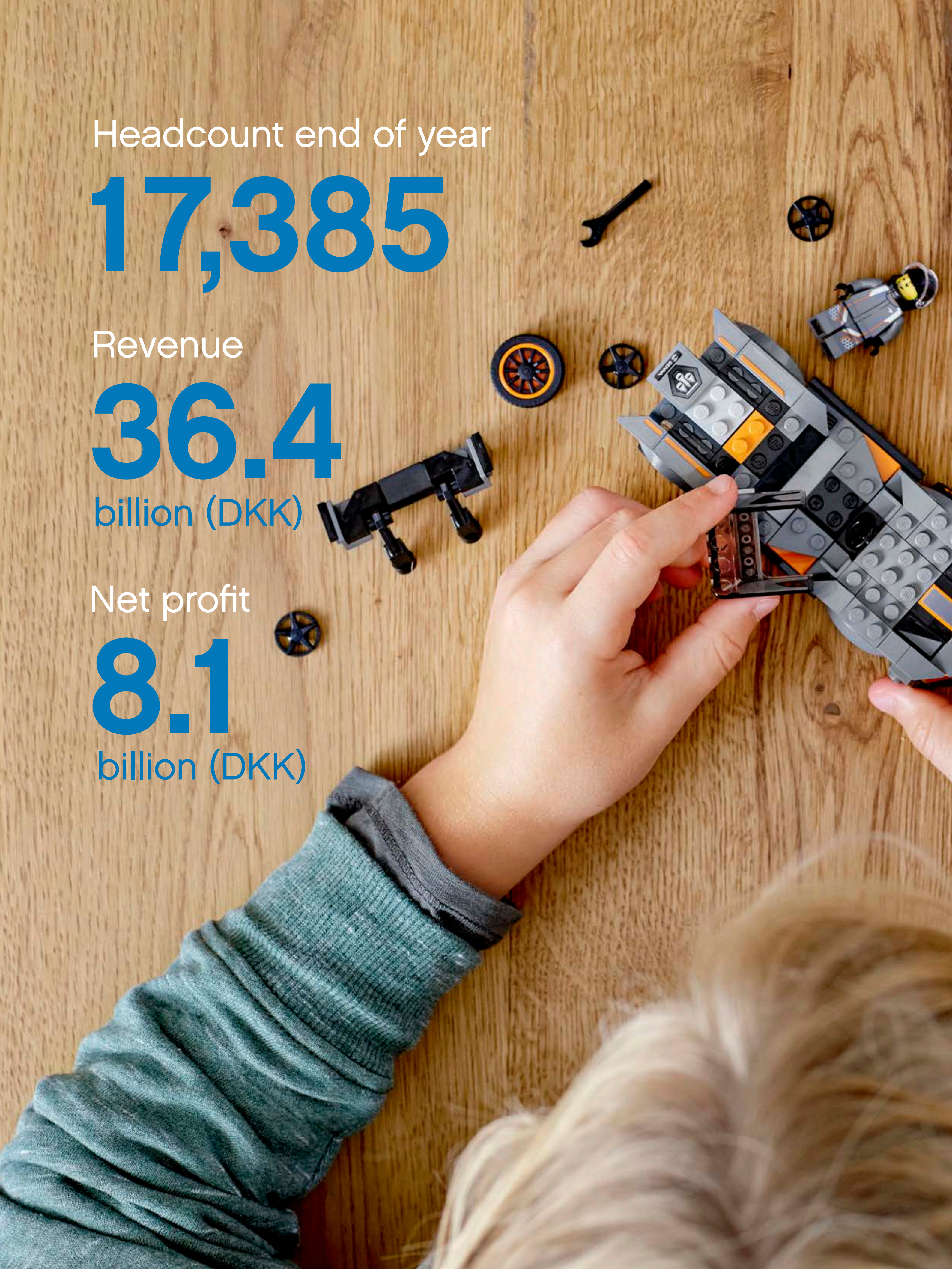
Financial Highlights of the LEGO Group

(mDKK)	2018	2017	2016	2015	2014
Income Statement					
Revenue	36,391	34,995	37,934	35,780	28,578
Expenses	(25,617)	(24,636)	(25,486)	(23,536)	(18,881)
Operating profit	10,774	10,359	12,448	12,244	9,697
Financial income and expenses	(264)	(158)	(57)	(96)	(206)
Profit before income tax	10,510	10,201	12,391	12,148	9,491
Net profit for the year	8,076	7,806	9,436	9,174	7,025
Balance Sheet					
Total assets	31,485	29,911	29,937	27,877	21,419
Equity	21,753	20,714	20,039	17,751	12,832
Liabilities	9,732	9,197	9,898	10,126	8,587
Cash Flow Statement					
Cash flows from operating activities	9,847	10,691	9,084	10,559	7,945
Investment in intangible assets	54	35	92	126	59
Investment in property, plant and equipment	1,448	1,494	2,908	2,822	3,115
Cash flows from financing activities	(7,781)	(9,378)	(6,575)	(6,816)	(5,302)
Total cash flows	574	(210)	(483)	808	(521)
Employees					
Average number (full-time)	15,050	16,480	16,836	13,974	12,582
Headcount end of year	17,385	17,534	19,061	17,294	14,762
Other financials (in %)					
Revenue growth in constant currency	7	(7)	6	19	15
Financial ratios (in %)					
Gross margin	71.4	70.7	72.2	72.6	71.8
Operating margin	29.6	29.6	32.8	34.2	33.9
Net profit margin	22.2	22.3	24.9	25.6	24.6
Return on equity (ROE)	38.0	38.3	49.9	60.0	58.8
Return on invested capital (ROIC)	78.9	72.3	92.0	107.3	100.5
Equity ratio	69.1	69.3	66.9	63.7	59.9

The Financial Highlights for 2016 have been adjusted as a consequence of a change in classification in the Income Statement in 2017. The Financial Highlights for 2015 and 2014 have not been changed.

Financial ratios have been calculated in accordance with the guidelines from the Danish Society of Financial Analysts. For definitions, please refer to note 1.

Parentheses denote negative figures.



Headcount end of year

17,385

Revenue

36.4

billion (DKK)

Net profit

8.1

billion (DKK)

Consolidated Financial Statements

Income Statement and Statement of Comprehensive Income

1 January – 31 December

(mDKK)	Note	2018	2017
Income Statement			
Revenue	3	36,391	34,995
Production costs	4,6,7	(10,417)	(10,239)
Gross profit		25,974	24,756
Sales and distribution expenses	4,6,7	(10,740)	(10,208)
Administrative expenses	4,5,6,7	(2,246)	(2,352)
Other operating expenses	4,6,8	(2,214)	(1,837)
Operating profit		10,774	10,359
Financial income	9	9	13
Financial expenses	10	(273)	(171)
Profit before income tax		10,510	10,201
Tax on profit for the year	11	(2,434)	(2,395)
Net profit for the year		**8,076**	**7,806**

(mDKK)	2018	2017
Statement of Comprehensive Income		
Profit for the year	8,076	7,806
Items that will be reclassified to the income statement, when specific conditions are met:		
Change in market value of cash flow hedges	(99)	277
Reclassification of cash flow hedges from equity to be recognised as part of:		
Revenue in the income statement	14	(122)
Production costs in the income statement	–	(9)
Tax on cash flow hedges	19	(32)
Currency translation differences	10	(243)
Items that will not be reclassified to the income statement:		
Remeasurements of defined benefit plans	28	(3)
Tax on remeasurements of defined benefit plans	(9)	1
Total comprehensive income for the year	**8,039**	**7,675**

Balance Sheet

at 31 December

(mDKK)	Note	2018	2017
ASSETS			
Non-current assets			
Development projects		93	71
Software		147	192
Licences, patents and other rights		13	24
Intangible assets	12	253	287
Land, buildings and installations		5,253	5,300
Plant and machinery		3,136	3,536
Other fixtures and fittings, tools and equipment		1,192	1,304
Fixed assets under construction		2,140	1,386
Property, plant and equipment	13	11,721	11,526
Deferred tax assets	19	638	591
Investments in associates	14	–	3
Prepayments		142	146
Other non-current assets		780	740
Total non-current assets		12,754	12,553
Current assets			
Inventories	15	2,579	2,383
Trade receivables	16,26	6,766	6,333
Other receivables	26	931	868
Prepayments		250	146
Current tax receivables		249	178
Receivables from related parties	26,30	6,858	6,688
Cash at banks	26,29	1,098	762
Total current assets		18,731	17,358
Total assets		**31,485**	**29,911**

Balance Sheet

at 31 December

(mDKK)	Note	2018	2017
EQUITY			
Share capital	17	20	20
Reserve for hedge accounting		(32)	34
Reserve for currency translation		(571)	(581)
Retained earnings	18	22,336	21,241
Total equity		**21,753**	**20,714**
LIABILITIES			
Non-current liabilities			
Borrowings	26	157	167
Deferred tax liabilities	19	134	158
Pension obligations	20	161	184
Provisions	22	60	56
Deferred revenue	23	12	36
Other debt	21,26	139	80
Total non-current liabilities		663	681
Current liabilities			
Borrowings	26	10	11
Trade payables	26	3,207	2,811
Current tax liabilities		257	200
Provisions	22	54	219
Deferred revenue	23	249	178
Debt to related parties	26,30	–	600
Other debt	21,26	5,292	4,497
Total current liabilities		9,069	8,516
Total liabilities		**9,732**	**9,197**
Total equity and liabilities		**31,485**	**29,911**

Statement of Changes in Equity

1 January – 31 December

2018 (mDKK)	Share capital	Reserve for hedge accounting	Reserve for currency translation	Retained earnings	**Total equity**
Balance at 1 January	20	34	(581)	21,241	**20,714**
Profit for the year	–	–	–	8,076	**8,076**
Comprehensive income/(expenses) for the year	–	(66)	10	19	**(37)**
Dividend paid relating to prior year	–	–	–	(7,000)	**(7,000)**
Balance at 31 December	**20**	**(32)**	**(571)**	**22,336**	**21,753**

2017 (mDKK)	Share capital	Reserve for hedge accounting	Reserve for currency translation	Retained earnings	**Total equity**
Balance at 1 January	20	(80)	(338)	20,437	**20,039**
Profit for the year	–	–	–	7,806	**7,806**
Comprehensive income/(expenses) for the year	–	114	(243)	(2)	**(131)**
Dividend paid relating to prior year	–	–	–	(7,000)	**(7,000)**
Balance at 31 December	**20**	**34**	**(581)**	**21,241**	**20,714**

Cash Flow Statement

1 January – 31 December

(mDKK)	Note	2018	2017
Cash flows from operating activities			
Cash generated from operations	28	12,351	12,735
Interest received	9	9	13
Interest paid	10	(37)	(32)
Income tax paid		(2,476)	(2,025)
Net cash generated from operating activities		9,847	10,691
Cash flows from investing activities			
Purchases of intangible assets	12	(54)	(35)
Purchases of property, plant and equipment	13	(1,448)	(1,494)
Proceeds from sale of property, plant and equipment		10	6
Net cash used in investing activities		(1,492)	(1,523)
Cash flows from financing activities			
Repayments of borrowings		(11)	(40)
Repayments from related parties	30	12,069	10,134
Payments to related parties	30	(12,839)	(12,472)
Dividend paid to shareholders	18	(7,000)	(7,000)
Net cash used in financing activities		(7,781)	(9,378)
Total cash flows		**574**	**(210)**
Cash and cash equivalents at 1 January		762	906
Effect of exchange (losses)/gains		(238)	66
Cash at banks at 31 December	29	**1,098**	**762**

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Note 1. Significant accounting policies

The Consolidated Financial Statements of the LEGO Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements.

The Consolidated Financial Statements have been prepared in accordance with the historical cost convention, with the exception of financial assets and financial liabilities (including financial instruments), which are measured at fair value.

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 2018 have been adopted by the LEGO Group.

IFRIC 23 Uncertainty over Income Tax Treatments has been issued by IASB but not yet endorsed by the EU. The LEGO Group does not anticipate any significant impact on future periods from the adoption of IFRIC 23.

From 1 January 2018, the LEGO Group has adopted the below standards and interpretation with no significant impact on recognition and measurement:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRS 9 Financial Instruments is the new standard for classification and measurement of financial instruments.

The LEGO Group has adopted IFRS 9 using 1 January 2018 as the date of initial application.

The adoption of IFRS 9 has had no significant impact on the Consolidated Financial Statements. IFRS 9 changes the basis for calculating the allowance for doubtful receivables from incurred losses to expected losses which does not materially impact the allowances.

IFRS 15 Revenue from Contracts with Customers establishes a single comprehensive framework for revenue recognition.

The LEGO Group has adopted IFRS 15 using the modified retrospective approach with 1 January 2018 as the date of initial application.

The adoption of IFRS 15 has had an insignificant impact on the Consolidated Financial Statements.

IFRS 16 Leases

The LEGO Group has not yet applied IFRS 16 Leases which is effective from 1 January 2019. The standard is endorsed by the EU. Management has in all material respect concluded analysis of the impending changes resulting from the new standard.

The change in lease accounting requires capitalisation of operational lease contracts, which will have an impact on total assets and a corresponding impact on the total liabilities. Hence this will affect the financial ratios related to the balance sheet. IFRS 16 requires the lease payment to be split between a depreciation charge included in operating costs and an interest expense on lease liabilities.

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 2018, an increase in total assets and total liabilities of approximately DKK 2.3 billion is expected at 1 January 2019. The adoption of IFRS 16 is expected to have an impact below DKK 0.1 billion on the net result in the Income Statement.

Consolidation practice

The Consolidated Financial Statements comprise LEGO A/S (Parent Company) and the companies in which LEGO A/S directly or indirectly holds more than 50% of the votes or otherwise exercises control (subsidiaries). LEGO A/S and these companies are referred to as the LEGO Group.

Subsidiaries are fully consolidated from the date on which control is transferred to the LEGO Group. They are deconsolidated from the date on which control ceases. Associates are all entities over which the LEGO Group has significant influence but not control, and are generally represented by a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted

Note 1 (continued)

for using the equity method of accounting and are initially recognised at cost.

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 LEGO Group.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the LEGO 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 comprehensive income and classified as a separate reserve for exchange adjustments under equity.

Derivative financial instruments

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognised in comprehensive income and in a separate reserve under equity. Income and expenses relating to these hedge transactions are reclassified from equity when the hedged item affects the income statement, or the hedged transaction is no longer to take place. The amount is recognised in the same line as the hedged item.

The gain or loss relating to the ineffective portion of changes in the fair value of derivative financial instruments is recognised immediately in the income statement, within financial items.

When option contracts are used to hedge forecast transactions, the LEGO Group designates only the intrinsic value of the option contract as the hedging instrument.

Income statement

Revenue recognition

Revenue is recognised when the LEGO Group has fulfilled its contractual performance obligations towards the buyer.

Revenue from the sale of goods

Revenues from the sale of goods are recognised when control over the goods has been transferred to the buyer. This condition is usually met by the time the products are delivered to the customers.

Revenues are measured as the transaction price agreed with the customer excluding value added tax and after deduction of provisions for returned products, rebates and sales incentives relating to the sale.

Provisions and accruals for rebates to customers are made in the period in which the related sales are recorded.

Note 1 (continued)

Historical data are readily available and reliable and are used for estimating the amount of the reduction in sales.

Sale of goods that results in award credits under the LEGO Group's consumer loyalty programme, is accounted for by allocating the transaction price between the goods supplied and the award credits granted based on a relative stand-alone selling price basis. Revenue from the award credits is recognised when they are redeemed or when they expire.

Revenue from licence agreements

Licence fees are recognised as revenue when the performance obligations in the relevant agreements have been satisfied. Revenue from licence agreements comprise both agreements where performance obligations are satisfied over time such as sales-based agreements and agreements where performance obligations are satisfied upon delivery.

Revenues are measured at the fair value of the consideration received or receivable.

Deferred revenue

Revenue attributable to gift cards and award credits granted is deferred and recognised as revenue when the gift cards and award credits are redeemed and the LEGO Group's performance obligations towards the buyer have been fulfilled.

Prepaid licence fee is recognised as deferred revenue until the performance obligations in the relevant agreements have been satisfied.

Production costs

Production costs comprise costs incurred to achieve revenue for the year. Costs comprise raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation, etc.

Administrative expenses

Administrative expenses comprise expenses for Management, administrative staff, office expenses, depreciation, etc.

Sales and distribution expenses

Sales and distribution expenses comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses as well as depreciation, etc.

Other operating expenses

Other operating expenses include royalty and research and development costs.

Taxes

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 comprehensive income. In this case, the tax is also recognised in comprehensive income.

Deferred income 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 profit 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.

Balance sheet

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 3-5 years. Other development costs are recognised in the income statement. An annual impairment test of the intangible assets under construction is performed.

Borrowing costs related to financing development projects that take a substantial period of time to complete are included in the cost price.

Note 1 (continued)

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.

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

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	40 years
High bay warehouses	40 years
Installations	5-20 years
Plant and machinery	5-15 years
Moulds	2 years
Furniture, fittings 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.

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 LEGO 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 period of the lease.

Impairment of assets
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 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 value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Inventories
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.

Other receivables and prepayments
Other receivables and prepayments recognised under assets include VAT, financial instruments, royalty and prepaid expenses on leases.

Trade receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less write down for losses. Provisions for losses are made by applying the

Note 1 (continued)

expected loss impairment model and provisions are made based on an objective indication if an individual receivable or a portfolio of receivables are impaired.

Equity

Reserve for hedge accounting

The reserve for hedge accounting consists of the effective portion of gains and losses on hedging instruments designated as cash flow hedges.

Reserve for currency translation

The reserve for exchange adjustments consists of exchange rate differences that occur when translating the foreign subsidiaries' financial statements from their functional currency into the LEGO Group's presentation currency. On disposal of the net investment, the reserve for exchange adjustments of that foreign subsidiary is recognised in the income statement. Reduction of a net investment in a foreign operation which does not result in loss of control is not treated as a disposal.

Dividend distribution

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

Liabilities

Borrowings

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 LEGO Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Employee benefits

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

Pension obligations

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 LEGO 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.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to comprehensive income in the period in which they occur.

Past service costs are recognised immediately in the income statement.

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

Provisions

Provisions are recognised when the LEGO 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 LEGO

Note 1 (continued)

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.

Other liabilities

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

Cash flow statement

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 operating profit adjusted for non-cash items, financial expenses paid, income taxes paid and changes in working capital.

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

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

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

Financial highlights

Revenue growth in constant currency is calculated as revenue growth adjusted for exchange rate translation effects.

Financial ratios have been calculated in accordance with the guidelines from the Danish Society of Financial Analysts.

Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Operating margin	$\frac{\text{Operating profit (EBIT)} \times 100}{\text{Revenue}}$
Net profit margin	$\frac{\text{Net profit for the year} \times 100}{\text{Revenue}}$
Return on equity (ROE)	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$
Return on invested capital (ROIC)	$\frac{\text{Operating profit (EBIT)} \times 100}{\text{Average invested capital}}$
Equity ratio	$\frac{\text{Equity} \times 100}{\text{Total liabilities and equity}}$

Note 2. Significant accounting estimates and judgements

When preparing the Consolidated Financial Statements 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 that Management assesses to be material:

Property, plant and equipment

Assessment of estimated residual value and useful life of property, plant and equipment requires estimates. It is Management's assessment that the estimates are reasonable (note 13).

Inventories

Calculation of indirect production costs requires estimates and judgements regarding various assumptions. The sensitivity of the measurement to these assumptions can be significant. It is the assessment of Management that the assumptions and estimates made are reasonable (note 15).

Trade receivables

Management makes allowance for doubtful trade receivables in anticipation of estimated losses resulting from the subsequent inability of customers to make required payments. Management analyses trade receivables and examines historical bad debt, customer concentrations, customer creditworthiness, payment history and changes in customer payment terms (note 16).

Note 3. Revenue

(mDKK)	2018	2017
Sale of goods	35,882	34,383
Licence income	509	612
	36,391	**34,995**
Sales of goods per region		
Americas	13,769	13,457
Europe, Middle East & Africa	16,644	15,898
Asia & Pacific	5,469	5,028
	35,882	**34,383**

Note 4. Expenses by nature

(mDKK)	Note	2018	2017
Raw materials and consumables used		5,401	5,283
Employee expenses	6	6,482	6,676
Depreciation and amortisation	7	1,329	1,490
Licence and royalty expenses		2,689	2,583
Other external expenses		9,716	8,604
		25,617	**24,636**

Note 5. Auditors' fee

(mDKK)	2018	2017
Fee to PwC		
Statutory audit of the Financial Statements	10	10
Other assurance engagements	1	1
Tax assistance	14	13
Other services	14	13
	39	**37**

Note 6. Employee expenses

(mDKK)	Note	2018	2017
Wages and salaries		5,871	5,800
Termination benefit and restructuring		(16)	232
Pension costs	20	215	211
Other expenses and social security expenses		445	470
Total employee costs for the year		6,515	6,713
Employee costs included in:			
Intangible assets		(2)	(2)
Property, plant and equipment		(31)	(35)
Total employee costs expensed in the income statement		**6,482**	**6,676**
Classified as:			
Production costs		1,895	1,956
Sales and distribution expenses		2,663	2,825
Administrative expenses		1,430	1,547
Other operating expenses		494	348
		6,482	**6,676**
Including Key Management Personnel (Executive Leadership Team) [1]			
Salaries		62	86
Pension		2	3
Short-term incentive plans		26	9
Long-term incentive plans		16	(3)
		106	**95**
Severance payments and other one-offs		13	31
Chief Executive Officer and Board of Directors [2]			
Salaries and other remuneration		40	77

[1] The Executive Leadership Team has 12 members at the end of 2018 (12 members in 2017). Average number of members during the year is 12 (8 average members in 2017).
[2] Since the Executive Management only consists of one member, the remuneration of the Chief Executive Officer (Executive Management) and the Board of Directors is disclosed collectively with reference to § 98b (3) of the Danish Financial Statement Act.

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.

	2018	2017
Average number of employees (full-time)	15,050	16,480
Number of employees end of year (headcount)	17,385	17,534

Note 7. Depreciation, amortisation and impairment

(mDKK)	2018	2017
Software	76	82
Licences, patents and other rights	11	13
Buildings and installations	180	284
Plant and machinery	849	891
Other fixtures and fittings, tools and equipment	213	220
	1,329	**1,490**
Classified as:		
Production costs	1,096	1,236
Sales and distribution expenses	137	151
Administrative expenses	96	103
	1,329	**1,490**

Note 8. Research and development expenses

(mDKK)	2018	2017
Research and development expenses	822	550
	822	**550**

Note 9. Financial income

(mDKK)	2018	2017
Interest income from credit institutions measured at amortised cost	8	12
Other interest income	1	1
	9	**13**

Note 10. Financial expenses

(mDKK)	2018	2017
Interest expenses on mortgage loans measured at amortised cost	1	1
Interest expenses to related parties	25	23
Interest expenses to credit institutions measured at amortised cost	1	1
Other interest expenses	10	7
Exchange losses, net	236	139
	273	**171**

Note 11. Tax on profit for the year

(mDKK)	2018	2017
Current tax on profit for the year	2,381	2,301
Deferred tax on profit for the year	30	(32)
Other tax for the year	53	30
Deferred tax, effect of change in tax rate	3	82
Adjustment of tax relating to previous years, current tax	50	(7)
Adjustment of tax relating to previous years, deferred tax	(83)	21
	2,434	**2,395**
Income tax expenses are specified as follows:		
Calculated 22.0% tax on profit for the year before income tax	2,312	2,244
Tax effect of:		
Higher/lower tax rate in subsidiaries	15	22
Non-taxable income	(4)	(1)
Non-deductible expenses	30	50
Deferred tax, not recognised on losses arising in the year	27	29
Deferred tax, effect of change in tax rate	3	82
Adjustment of tax relating to previous years	(33)	14
Other	84	(45)
	2,434	**2,395**
Effective tax rate	23.2%	23.5%

Note 12. Intangible assets

2018 (mDKK)	Development projects	Software	Licences, patents and other rights	**Total**
Cost at 1 January	71	516	225	**812**
Exchange rate adjustment to year-end rate	–	–	10	**10**
Additions	54	–	–	**54**
Disposals	–	(70)	–	**(70)**
Transfers	(32)	32	–	–
Cost at 31 December	**93**	**478**	**235**	**806**
Amortisation and impairment losses at 1 January	–	324	201	**525**
Exchange rate adjustment to year-end rate	–	1	10	**11**
Amortisation for the year	–	76	11	**87**
Disposals	–	(70)	–	**(70)**
Amortisation and impairment losses at 31 December	**–**	**331**	**222**	**553**
Carrying amount at 31 December	**93**	**147**	**13**	**253**

2017 (mDKK)	Development projects	Software	Licences, patents and other rights	**Total**
Cost at 1 January	39	517	251	**807**
Exchange rate adjustment to year-end rate	(1)	(3)	(26)	**(30)**
Additions	33	2	–	**35**
Cost at 31 December	**71**	**516**	**225**	**812**
Amortisation and impairment losses at 1 January	–	247	209	**456**
Exchange rate adjustment to year-end rate	–	(5)	(21)	**(26)**
Amortisation for the year	–	82	13	**95**
Amortisation and impairment losses at 31 December	**–**	**324**	**201**	**525**
Carrying amount at 31 December	**71**	**192**	**24**	**287**

Note 13. Property, plant and equipment

2018 (mDKK)	Land, buildings and installations	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construction	**Total**
Cost at 1 January	6,500	8,468	2,510	1,386	**18,864**
Exchange adjustment to year-end rate	–	(35)	30	71	**66**
Additions	73	353	72	950	**1,448**
Disposals	(51)	(177)	(66)	–	**(294)**
Transfers	110	127	30	(267)	**–**
Cost at 31 December	**6,632**	**8,736**	**2,576**	**2,140**	**20,084**
Depreciation and impairment losses at 1 January	1,200	4,932	1,206	–	**7,338**
Exchange adjustment to year-end rate	7	(15)	24	–	**16**
Depreciation for the year	180	849	213	–	**1,242**
Disposals	(8)	(166)	(59)	–	**(233)**
Depreciation and impairment losses at 31 December	**1,379**	**5,600**	**1,384**	**–**	**8,363**
Carrying amount at 31 December	**5,253**	**3,136**	**1,192**	**2,140**	**11,721**
Including assets under finance leases	6	–	–	–	**6**

Property, plant and equipment in general

An obligation regarding the purchase of property, plant and equipment of DKK 850 million exists at 31 December 2018 (DKK 980 million at 31 December 2017).

Assets under finance leases

Assets under finance leases consist of buildings.

Note 13 (continued)

2017 (mDKK)	Land, buildings and installations	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construction	**Total**
Cost at 1 January	6,353	8,207	2,292	1,457	**18,309**
Exchange adjustment to year-end rate	(100)	39	(116)	(103)	**(280)**
Additions	178	474	80	762	**1,494**
Disposals	(4)	(194)	(30)	–	**(228)**
Corrections	60	(398)	(96)	3	**(431)**
Transfers	13	340	380	(733)	**–**
Cost at 31 December	**6,500**	**8,468**	**2,510**	**1,386**	**18,864**
Depreciation and impairment losses at 1 January	1,001	4,497	1,099	–	**6,597**
Exchange adjustment to year-end rate	(11)	38	(57)	–	**(30)**
Depreciation for the year	184	891	220	–	**1,295**
Impairment losses for the year	100	–	–	–	**100**
Disposals	–	(167)	(26)	–	**(193)**
Corrections	(44)	(331)	(56)	–	**(431)**
Transfers	(30)	4	26	–	**–**
Depreciation and impairment losses at 31 December	**1,200**	**4,932**	**1,206**	**–**	**7,338**
Carrying amount at 31 December	**5,300**	**3,536**	**1,304**	**1,386**	**11,526**
Including assets under finance leases	9	–	–	–	**9**

Property, plant and equipment in general

The impairment losses in 2017 are due to changes in the timing of expansion of production facilities.

Note 14. Investments in associates

(mDKK)	2018	2017
Cost at 1 January	4	4
Disposals	(4)	–
Cost at 31 December	**–**	**4**
Value adjustment at 1 January	(1)	(1)
Disposals	1	–
Value adjustment at 31 December	**–**	**(1)**
Carrying amount at 31 December	**–**	**3**

Investments in associates comprise KABOOKI A/S, Denmark. In the beginning of 2018, the LEGO Group has sold its shares in the company. Prior to the sale the LEGO Group owned 19.8% of the share capital, and was considered to have significant influence in the company as the LEGO Group was represented on the Board of Directors of the company. The company is therefore classified as investment in associates.

Note 15. Inventories

(mDKK)	2018	2017
Raw materials	163	90
Work in progress	1,139	1,063
Finished goods	1,277	1,230
	2,579	**2,383**
Indirect production costs included in inventories	882	909
Share of total inventories	34.2%	38.2%
The cost of inventory recognised as an expense during the year	7,441	7,099
Including:		
Write-down of inventories to net realisable value income/(expense)	5	(11)

Note 16. Trade receivables

(mDKK)	2018	2017
Trade receivables (gross)	**7,599**	**6,919**
Provision for bad debts		
Balance at 1 January	(586)	(373)
Exchange rate adjustment to year-end rate	(9)	26
Change in provision for the year	(247)	(249)
Realised losses for the year	9	10
Balance at 31 December	**(833)**	**(586)**
Trade receivables (net)	**6,766**	**6,333**

All trade receivables fall due within one year. Due to the short-term nature of the trade receivables, their carrying amount is considered to be the same as their fair value.

The age distribution of trade receivables is as follows:

2018 (mDKK)	Gross carrying amount	Provision for bad debts	Net carrying amount
Not overdue	6,624	(368)	6,256
0-60 days overdue	580	(120)	460
61-120 days overdue	34	(10)	24
121-180 days overdue	8	(2)	6
More than 180 days overdue	353	(333)	20
	7,599	**(833)**	**6,766**

2017 (mDKK)	Gross carrying amount	Provision for bad debts	Net carrying amount
Not overdue	6,321	(423)	5,898
0-60 days overdue	348	(7)	341
61-120 days overdue	182	(109)	73
121-180 days overdue	–	–	–
More than 180 days overdue	68	(47)	21
	6,919	**(586)**	**6,333**

The LEGO Group has no significant trade receivables concentrated in specific countries, but has some single significant trade debtors. The LEGO Group has fixed procedures for determining the LEGO Group's granting of credit.

The LEGO Group's risk relating to trade receivables is considered to be moderate.

For more information, see note 25.

Note 17. Share capital

	2018	2017
The share capital consists of:		
A-shares of DKK 100,000	9	9
A-shares of DKK 10,000	10	10
B-shares of DKK 500,000	3	3
B-shares of DKK 100,000	67	67
B-shares of DKK 10,000	80	80
C-shares of DKK 500,000	16	16
C-shares of DKK 100,000	20	20
Total shares at 31 December	**205**	**205**

The total number of shares is 205 (205 in 2017). All issued shares are fully paid up.

Each ordinary A-share of DKK 1,000 gives 10 votes, while each ordinary B-share of DKK 1,000 gives 1 vote, and each ordinary C-share of DKK 1,000 gives 1 vote. C-shares can as a maximum receive an annual dividend of 8%.

Shareholders that own more than 5% of the share capital:
KIRKBI A/S, Koldingvej 2, 7190 Billund, Denmark
Koldingvej 2, Billund A/S, Koldingvej 2, 7190 Billund, Denmark

Note 18. Dividend per share

Dividend of DKK 7,000 million was paid in April 2018, corresponding to DKK 34.1 million in average per share (DKK 7,000 million in 2017, DKK 34.1 million in average per share).

Proposed dividend for 2018 is DKK 8,000 million, corresponding to DKK 39.0 million in average per share.

Note 19. Deferred tax

(mDKK)	2018	2017
Deferred tax, net at 1 January	433	571
Change in tax rates recognised in income statement	(3)	(82)
Exchange rate adjustments	11	(36)
Income statement charge	53	11
Charged to comprehensive income	10	(31)
Deferred tax, net at 31 December	**504**	**433**
Classified as:		
Deferred tax assets	638	591
Deferred tax liabilities	(134)	(158)
	504	**433**

2018 (mDKK)	Deferred tax assets	Deferred tax liabilities	**Deferred tax net**
Non-current assets	104	(158)	**(54)**
Inventories	248	(127)	**121**
Receivables	88	(1)	**87**
Provisions	199	(1)	**198**
Other liabilities	171	(26)	**145**
Offset	(179)	179	**–**
Tax loss carry-forwards	7	–	**7**
	638	**(134)**	**504**

2017 (mDKK)	Deferred tax assets	Deferred tax liabilities	**Deferred tax net**
Non-current assets	60	(132)	**(72)**
Inventories	229	(128)	**101**
Receivables	85	(1)	**84**
Provisions	187	–	**187**
Other liabilities	136	(21)	**115**
Offset	(124)	124	**–**
Tax loss carry-forwards	18	–	**18**
	591	**(158)**	**433**

Tax loss carry-forwards

Tax assets arising from tax losses carried forward are capitalised based on an assessment of whether they can be utilised in the future.

DKK 7 million of the LEGO Group's capitalised tax losses expire after 5 years (DKK 18 million in 2017 expire after 5 years).

Note 20. Pension obligations

Defined contribution plans

In defined contribution plans, the LEGO 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 LEGO Group has no further pension obligations towards current or past employees. The pension plans in the Danish companies and some of the foreign companies are defined contribution plans. In the LEGO Group, DKK 201 million (DKK 216 million in 2017) have been recognised in the income statement as costs relating to defined contribution plans.

Defined benefit plans

In defined benefit plans, the LEGO Group is obliged to pay a certain pension benefit. The major defined benefit plans in the LEGO Group include employees in Germany and in the US. In the LEGO Group, a net obligation of DKK 161 million (DKK 184 million in 2017) has been recognised relating to the LEGO Group's obligations towards current or past employees concerning defined benefit plans. The obligation is calculated after deduction of the plan assets. In the LEGO Group, DKK 20 million (DKK 1 million in 2017) has been recognised in the income statement as costs and DKK 28 million (DKK -3 million in 2017) has been recognised in comprehensive income.

(mDKK)	**2018**	**2017**
The amounts recognised in the balance sheet are calculated as follows:		
Present value of funded obligations	(140)	(154)
Fair value of plan assets	139	141
	(1)	(13)
Present value of unfunded obligations	(160)	(171)
Net liability recognised in the balance sheet	**(161)**	**(184)**
Of which included as part of the liabilities	(161)	(184)
The change in present value of defined benefit obligations for the year is as follows:		
Present value at 1 January	(325)	(340)
Exchange adjustment to year-end rate	(4)	16
Pension costs relating to current year	(13)	(12)
Pension costs relating to prior year	(1)	17
Interest expenses	(9)	(9)
Remeasurement gains/(losses)	35	(6)
Benefits paid	17	9
Present value at 31 December	**(300)**	**(325)**

Note 20 (continued)

(mDKK)	2018	2017
The change in fair value of plan assets for the year is as follows:		
Plan assets at 1 January	141	142
Exchange rate adjustment to year-end rate	–	(3)
Interest income	3	3
Remeasurement gains/(losses)	(7)	3
Employer contributions	14	–
Benefits paid	(12)	(4)
Plan assets at 31 December	**139**	**141**
Movements in the net liability recognised in the balance sheet are as follows:		
Net liability at 1 January	(184)	(198)
Exchange rate adjustment to year-end rate	(4)	13
Total (expenses)/income charged to the income statement	(20)	(1)
Total income/(expenses) charged to comprehensive income	28	(3)
Contributions paid	19	5
Net liability at 31 December	**(161)**	**(184)**
The actual return on plan assets amounts to	(4)	6

The actuarial assumptions applied in the calculations vary from country to country due to local economic and social conditions. The average assumptions applied are specified as follows:

	2018	2017
Discount rate	2%-10%	1%-8%
Future salary increases	1%-5%	1%-6%
Future pension increases	0%-3%	2%-3%

Note 21. Other debt

(mDKK)	2018	2017
Wage-related payables and other charges	1,768	1,411
Finance lease obligations	10	16
VAT and other indirect taxes	371	405
Amortised debt	65	88
Sales incentives	1,266	1,029
Other liabilities to related parties	504	443
Other current liabilities	1,447	1,185
	5,431	**4,577**
Specified as follows:		
Non-current	139	80
Current	5,292	4,497
	5,431	**4,577**

Finance lease 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.

(mDKK)	2018	2017
Obligations regarding finance leases are as follows:		
0-1 year	7	8
1-5 years	4	10
> 5 years	–	–
	11	**18**
Reconciliation of carrying amount and gross liability:		
Carrying amount of the liability	10	16
Interest expenses not yet accrued	1	2
Gross liability	**11**	**18**

No contingent leases have been recognised in expenses in 2018 or 2017. None of the assets under finance leases have been subleased.

Note 22. Provisions

2018 (mDKK)	Restructuring	Other	**Total**
Provisions at 1 January	194	81	**275**
Exchange adjustment to year-end rate	–	1	**1**
Additions	1	47	**48**
Used	(170)	(13)	**(183)**
Reversed	(24)	(3)	**(27)**
Provisions at 31 December	**1**	**113**	**114**

Specified as follows:	
Non-current	60
Current	54
	114

Other provisions consist of various types of provisions, primarily provisions for asset retirement regarding leased premises.

Note 23. Deferred revenue

(mDKK)	2018	2017
Consumer loyalty programme	136	112
Other	125	102
	261	**214**
Specified as follows:		
Non-current	12	36
Current	249	178
	261	**214**

Revenue recognised included in deferred revenue at the beginning of 2018 amounts to DKK 152 million.

Note 24. Contingent assets, contingent liabilities and other obligations

(mDKK)	2018	2017
Guarantees	636	647
Operating lease obligations	2,600	2,438
Other obligations	1,337	259
	4,573	**3,344**

Guarantees relate to bank guarantees for commitments.

The LEGO Group has entered various contracts with vendors on usual terms and conditions of sales.

The LEGO Group leases various offices, LEGO Brand Retail stores, warehouses and plant and machinery under non-cancellable operating leases. The leases have varying terms, clauses and rights.

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

(mDKK)	2018	2017
Lease expenses for the year charged to the income statement amount to	848	858

Note 24 (continued)

Future minimum lease payments under non-cancellable operating leases are specified as follows:

(mDKK)	2018	2017
Related parties		
0-1 year	54	58
1-5 years	148	166
> 5 years	150	175
	352	**399**
Other		
0-1 year	559	517
1-5 years	1,122	1,111
> 5 years	567	411
	2,248	**2,039**

Security has been given in land, buildings and installations with a net carrying amount of DKK 443 million (DKK 462 million in 2017) for the LEGO Group's mortgage loans.

The LEGO 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 90 million (DKK 90 million in 2017), of which DKK 0 million has been recognised as a provision for deferred tax. The amount of DKK 90 million (DKK 90 in 2017) is not expected to be recaptured.

The Danish companies in the LEGO Group are jointly and severally liable for corporate income tax according to the joint taxation in the LEGO Group, KIRKBI A/S and in the companies controlled by KIRKBI A/S. The total amount of current tax liabilities, as well as related current tax credit counterparts are shown in the Annual Report of KIRKBI A/S, which is the administration company of the joint taxation. The Danish companies in the LEGO Group are furthermore jointly and severally liable for Danish taxes at source withheld on behalf of nonresident companies for dividend, royalty and interest.

Note 25. Financial risks

The LEGO Group has centralised the management of financial risks. The overall objectives and policies for the LEGO Group's financial risk management are outlined in a Treasury Policy.

The LEGO Group only hedges commercial exposures and consequently does not enter into derivative transactions for trading or speculative purpose. A fully integrated Treasury Management System is used to manage all financial positions.

Interest rate risk

The LEGO Group's interest rate risk relates to interest-bearing debt and interest-bearing assets. The LEGO Group's interest-bearing assets consist mainly of bank deposits and deposit with KIRKBI Invest A/S. An increase in the interest level of 1 percentage point for 2018 would have had a positive impact on the LEGO Group's profit before tax of approx. DKK 47.6 million in 2018 (DKK 34.4 million in 2017). The LEGO Group's interest rate risk is considered immaterial and is not expected to have a significant impact on the LEGO Group's results.

Foreign exchange risk

The LEGO Group's presentation currency is DKK, but the majority of the LEGO Group's activities and investments are denominated in other currencies. Consequently, there is a substantial risk of exchange rate fluctuations having an impact on the LEGO Group's reported cash flow, profit (loss) and/or financial position in DKK.

The LEGO Group's foreign exchange risk is managed centrally based on a Treasury Policy approved by the Board of Directors. Forward contracts and options are used to cover purchases and sales in foreign currencies. These forward contracts and options are classified as hedging when they meet the accounting requirements for hedging future cash flows.

The isolated effects of the financial instruments on profit and equity after tax of a currency strengthening of 10% against DKK at 31 December 2018 are specified below for the most important currencies in the LEGO Group. The sensitivities are based only on the impact of the financial instruments that are outstanding at the balance sheet date, and are thus not an expression of the LEGO Group's total currency risk. The financial instruments included in the analysis are the LEGO Group's: Cash at banks, Trade receivables, Trade payables, Borrowings, foreign exchange forwards and foreign exchange options.

(mDKK)	%-change	**2018**	**2017**
EUR			
Equity	10%	(48)	(38)
Net profit for the year	10%	(48)	(38)
USD			
Equity	10%	(170)	12
Net profit for the year	10%	(2)	53
GBP			
Equity	10%	19	12
Net profit for the year	10%	(19)	–
CZK			
Equity	10%	37	94
Net profit for the year	10%	37	94
MXN			
Equity	10%	137	103
Net profit for the year	10%	137	103
HUF			
Equity	10%	114	109
Net profit for the year	10%	114	109
CNY			
Equity	10%	140	152
Net profit for the year	10%	140	152
SGD			
Equity	10%	(36)	7
Net profit for the year	10%	(36)	7
CAD			
Equity	10%	(40)	(21)
Net profit for the year	10%	2	(11)

Note 25 (continued)

Credit risk

Financial instruments are entered into with counterparties with investment grade level ratings.

Similarly, the LEGO Group only uses insurance companies with investment grade level ratings.

For trade receivables the exposures are managed globally through fixed procedures, and credit limits set as deemed appropriate for the customer taking into account current local market conditions. The LEGO Group has no significant trade receivables risk concentrated in specific countries, but has some single significant trade debtors. Credit risk relating to trade receivables is disclosed in note 16.

For banks and financial institutions, only independently rated parties with investment grade level ratings are accepted as main banks. The LEGO Group uses the related company KIRKBI Invest A/S for deposits. No independent rating exists but no significant risks are recognised. The maximum credit risk corresponds to the carrying amount of loans granted and receivables disclosed in note 26.

The overall credit risk of the LEGO Group is considered to be low.

Liquidity risk

Liquidity is managed centrally and is continually assessed. It is ensured that, at any given time, sufficient financial resources are available. Based on the financial reserves with banks and credit facilities available in credit institutions and from related parties, there are no significant liquidity risks. Furthermore, excess liquidity is placed at KIRKBI Invest A/S, which is why the counterparty risk is assessed to be low.

Capital risk management

Dividend of DKK 7,000 million has been paid in April 2018 (DKK 7,000 million in 2017).

It is expected that the dividend for 2018, to be paid in 2019, will amount to DKK 8,000 million.

The dividend payment reflects the strategy behind the capital structure where the LEGO Group is the operational company and any surplus liquidity is distributed to the owners.

Note 26. Financial assets and liabilities

The maturity profile of financial liabilities is disclosed according to category and class distributed on period to maturity. All interest payments on and repayments of financial assets and liabilities are based on contracts. None of the cash flows are discounted.

At 31 December 2018 forward contracts and options have been applied for hedging of cash flows covering future financial periods. The hedging mainly relates to the LEGO Group's sales of goods and services in USD, EUR, GBP, JPY, AUD and CAD as well as purchases of goods in CZK, MXN and HUF. All contracts are expected to expire – and thus affect results – in the financial year 2019.

Note 26 (continued)

The following table shows the timing of cash flows related to financial liabilities and hedging instruments

2018 (mDKK)	Carrying amount	Fair value	0–1 year	1–5 years	Over 5 years	**Total cash flows**
Measured at amortised cost (liabilities)						
Debt to credit institutions	167	167	10	43	120	**173**
Trade payables	3,207	3,207	3,207	–	–	**3,207**
Other debt [1]	3,168	3,168	3,165	4	–	**3,169**
	6,542	6,542	6,382	47	120	**6,549**
Derivative financial instruments						
Measured at fair value through the income statement	48	48	48	–	–	**48**
Measured at fair value through comprehensive income (cash flow hedging)	74	74	74	–	–	**74**
	122	122	122	–	–	**122**
Total financial liabilities	**6,664**	**6,664**	**6,504**	**47**	**120**	**6,671**
Measured at amortised cost (loans and receivables)						
Trade receivables	6,766	6,766	6,766	–	–	**6,766**
Other receivables[1]	502	502	502	–	–	**502**
Receivables from related parties	6,858	6,858	6,858	–	–	**6,858**
Cash at banks	1,098	1,098	1,098	–	–	**1,098**
	15,224	15,224	15,224	–	–	**15,224**
Derivative financial instruments						
Measured at fair value through the income statement	11	11	11	–	–	**11**
Measured at fair value through comprehensive income (cash flow hedging)	32	32	32	–	–	**32**
	43	43	43	–	–	**43**
Total financial assets	**15,267**	**15,267**	**15,267**	**–**	**–**	**15,267**

[1] Non-contractual items such as taxes, duties payable and wage related payables are excluded from other receivables and other debt balance as this analysis is only required for financial instruments.

Note 26 (continued)

2017 (mDKK)	Carrying amount	Fair value	0-1 year	1-5 years	Over 5 years	**Total cash flows**
Measured at amortised cost (liabilities)						
Debt to credit institutions	178	178	11	43	130	**184**
Debt to related parties	600	600	619	–	–	**619**
Trade payables	2,811	2,811	2,811	–	–	**2,811**
Other debt [1]	2,751	2,751	2,759	10	–	**2,769**
	6,340	6,340	6,200	53	130	**6,383**
Derivative financial instruments						
Measured at fair value through the income statement	2	2	2	–	–	**2**
Measured at fair value through comprehensive income (cash flow hedging)	1	1	1	–	–	**1**
	3	3	3	–	–	**3**
Total financial liabilities	**6,343**	**6,343**	**6,203**	**53**	**130**	**6,386**
Measured at amortised cost (loans and receivables)						
Trade receivables	6,333	6,333	6,333	–	–	**6,333**
Other receivables[1]	426	426	426	–	–	**426**
Receivables from related parties	6,688	6,688	6,688	–	–	**6,688**
Cash at banks	762	762	762	–	–	**762**
	14,209	14,209	14,209	–	–	**14,209**
Derivative financial instruments						
Measured at fair value through the income statement	53	53	53	–	–	**53**
Measured at fair value through comprehensive income (cash flow hedging)	44	44	44	–	–	**44**
	97	97	97	–	–	**97**
Total financial assets	**14,306**	**14,306**	**14,306**	**–**	**–**	**14,306**

[1] Non-contractual items such as taxes, duties payable and wage related payables are excluded from other receivables and other debt balance as this analysis is only required for financial instruments.

Note 26 (continued)

Financial assets and liabilities measured at fair value concern derivative financial instruments. The calculation of fair value of the LEGO Group's derivative financial instruments is based on observable inputs like interest rates etc. (level 2) as per the IFRS Fair Value Hierarchy listed below:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for assets or liabilities that are not based on observable market data (that is, unobservable inputs) (level 3).

Note 27. Derivative financial instruments

Total hedging activities

The LEGO Group uses a number of forward contracts and options to hedge currency exposure. The hedging activities are categorised into hedging of forecast transactions (cash flow hedges), and hedging of assets and liabilities (fair value hedges).

The changes in fair value of the financial instruments qualifying for hedge accounting are recognised directly under 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 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.

Note 27 (continued)

The table below shows the fair value of hedging activities specified by hedging instruments and the major currencies

2018 (mDKK)	Contract amount	Positive fair value	Negative fair value	Period covered
Hedging of forecast transactions qualifying for hedge accounting				
USD (sale of currency)	2,674	7	64	12 months
JPY (sale of currency)	282	–	6	12 months
GBP (sale of currency)	488	4	–	12 months
Other (sale of currency)	1,041	21	4	12 months
Total forward contracts	4,485	32	74	
USD (sale of currency)	261	–	–	12 months
Total currency options	261	–	–	
Hedging of balance items qualifying for hedge accounting				
USD (sale of currency)	685	1	40	2 months
JPY (sale of currency)	96	–	2	2 months
GBP (sale of currency)	150	2	–	2 months
CZK (purchase of currency)	29	–	–	2 months
Other (purchase of currency)	27	–	1	2 months
Other (sale of currency)	323	4	1	2 months
Total forward contracts	1,310	7	44	
Total for which hedge accounting applies	**6,056**	**39**	**118**	
Other forecast transaction hedges for which hedge accounting is not applied				
Options (time value)	–	4	4	12 months
Total currency options	–	4	4	
Total for which hedge accounting is not applied	**–**	**4**	**4**	
Total of forecast transactions	**6,056**	**43**	**122**	

Note 27 (continued)

2017 (mDKK)	Contract amount	Positive fair value	Negative fair value	Period covered
Hedging of forecast transactions qualifying for hedge accounting				
USD (sale of currency)	497	29	–	8 months
GBP (sale of currency)	147	1	1	10 months
Other (sale of currency)	213	4	–	9 months
Total forward contracts	857	34	1	
USD (sale of currency)	124	9	–	3 months
GBP (sale of currency)	42	1	–	4 months
Total currency options	166	10	–	
Hedging of balance items qualifying for hedge accounting				
USD (sale of currency)	173	16	1	2 months
JPY (sale of currency)	55	11	–	2 months
GBP (sale of currency)	101	2	–	2 months
CZK (purchase of currency)	61	2	–	2 months
Other (purchase of currency)	378	1	–	2 months
Other (sale of currency)	203	7	1	2 months
Total forward contracts	971	39	2	
USD (sale of currency)	155	13	–	2 months
Total currency options	155	13	–	
Total for which hedge accounting applies	**2,149**	**96**	**3**	
Other forecast transaction hedges for which hedge accounting is not applied				
Options (time value)	–	1	–	3 months
Total currency options	–	1	–	
Total for which hedge accounting is not applied	**–**	**1**	**–**	
Total of forecast transactions	**2,149**	**97**	**3**	

Note 28. Cash generated from operations

(mDKK)	Note	2018	2017
Profit before income tax		**10,510**	**10,201**
Adjustments for			
Depreciation and amortisation of non-current assets	7,13	1,329	1,390
Impairment of non-current assets	7,13	–	100
Net loss on sale of non-current assets		54	29
Net movement in provisions		(162)	155
Remeasurements of defined benefit plans		28	(3)
Net movement in pension obligations		(27)	(2)
Financial income and expenses	9,10	264	158
Hedge accounting		(85)	146
Changes in working capital			
Trade receivables		(486)	593
Inventory		(187)	600
Other receivables		(59)	149
Prepayments		(104)	(10)
Trade payables		403	(3)
Deferred revenue		43	(44)
Other debt		830	(724)
Cash generated from operations		**12,351**	**12,735**

Note 29. Cash at banks

(mDKK)	2018	2017
Cash at banks	1,098	762
	1,098	**762**

Note 30. Related party transactions

The Parent of the LEGO Group is LEGO A/S, a company incorporated in Denmark, whose shares are owned by KIRKBI A/S (75%) and Koldingvej 2, Billund A/S (25%). The shares in KIRKBI A/S are wholly owned by the Kirk Kristiansen family (Billund, Denmark). Related parties are considered to be Key Management, KIRKBI A/S, subsidiaries of KIRKBI Invest A/S and Merlin Entertainments Group, in which the above-mentioned family has significant interest. From the beginning of 2018 KABOOKI A/S is no longer a related party. None of the related party transactions are secured.

The following transactions were carried through with related parties

(mDKK)	**2018**	**2017**
Transactions with KIRKBI A/S		
Rent charged	(36)	(41)
Other transactions received	37	31
Other transactions charged	(23)	(41)
	(22)	**(51)**
Transactions with Koldingvej 2, Billund A/S		
Sale of products	2	–
Rent charged	(11)	(3)
Other transactions received	77	188
Other transactions charged	(14)	(3)
	54	**182**
Transactions with associates		
Purchase of products	–	(5)
Trademark fee received	–	7
	–	**2**
Transactions with KIRKBI Invest A/S Group		
Trademark fee charged	(1,314)	(1,258)
Rent charged	(18)	(17)
Interest charged	(25)	(23)
Other transactions received	69	59
Other transactions charged	(4)	(5)
	(1,292)	**(1,244)**
Transactions with Merlin Entertainments Group		
Sale of products	542	525
Trademark fee received	29	28
Other transactions received	2	8
Other transactions charged	(8)	(7)
	565	**554**

Note 30 (continued)

(mDKK)	2018	2017
Transactions with other related parties		
Sale of products	1	3
Donations received	48	31
Other transactions received	7	2
	56	**36**

Remuneration to Key Management Personnel is disclosed in note 6. Transactions with related parties were carried out on an arm's length basis.

Year-end balances arising from transactions with related parties

(mDKK)	2018	2017
Balances with KIRKBI A/S		
Receivables	7	8
Payables	(5)	(28)
	2	**(20)**
Balances with Koldingvej 2, Billund A/S		
Receivables	6	68
Payables	(19)	(5)
	(13)	**63**
Balances with associates		
Receivables	–	5
Payables	–	(1)
	–	**4**
Balances with KIRKBI Invest A/S Group		
Receivables	43	24
Payables	(464)	(449)
	(421)	**(425)**

Note 30 (continued)

(mDKK)	2018	2017
Balances with Merlin Entertainments Group		
Receivables	67	62
Payables	(1)	(1)
	66	**61**
Balances with other related parties		
Receivables	6	2
Payables	(24)	–
	(18)	**2**

Year-end balances regarding loan investments and borrowings

(mDKK)	2018	2017
Balances with KIRKBI Invest A/S		
Loan investments		
Balance at 1 January	6,688	4,350
Loans advanced during the year	12,239	12,472
Repayments	(12,054)	(10,130)
Interest received	(15)	(4)
Balance at 31 December	**6,858**	**6,688**
Specified as follows:		
Non-current	–	–
Current	6,858	6,688
	6,858	**6,688**
Loan borrowings		
Balance at 1 January	(600)	(600)
Repayments	600	–
Balance at 31 December	**–**	**(600)**
Specified as follows:		
Non-current	–	–
Current	–	(600)
	–	**(600)**

Parent Company Financial Statements

Income Statement

1 January – 31 December

(mDKK)	Note	2018	2017
Income statement			
Revenue		126	119
Gross profit		126	119
Other operating expenses	2	(140)	(121)
Operating profit		(14)	(2)
Net profit for the year from subsidiaries	8	8,105	7,762
Financial income	3	86	103
Financial expenses	4	(99)	(112)
Profit before income tax		8,078	7,751
Tax on profit for the year	5	(28)	24
Net profit for the year		**8,050**	**7,775**

Balance Sheet

31 December

(mDKK)	Note	2018	2017
ASSETS			
Non-current assets			
Patents		1	3
Intangible assets	6	1	3
Land, buildings and installations		6	6
Property, plant and equipment	7	6	6
Deferred tax assets	10	67	8
Investments in subsidiaries	8	20,974	19,748
Investments in associates	8	–	3
Current tax receivables		–	34
Receivables from subsidiaries		1,329	1,696
Other non-current assets		22,370	21,489
Total non-current assets		22,377	21,498
Current assets			
Other receivables		6	5
Total current assets		6	5
Total assets		**22,383**	**21,503**

Balance Sheet

31 December

(mDKK)	Note	2018	2017
EQUITY			
Share capital	9	20	20
Reserve from the use of the equity method		5,237	5,305
Retained earnings		8,496	8,415
Proposed dividend		8,000	7,000
Total equity		**21,753**	**20,740**
LIABILITIES			
Current liabilities			
Trade payables		6	7
Current tax liabilities		2	–
Debt to subsidiaries		517	–
Debt to related parties	12	–	600
Other debt		105	156
Total current liabilities		630	763
Total liabilities		**630**	**763**
Total equity and liabilities		**22,383**	**21,503**

Statement of Changes in Equity

1 January – 31 December

2018 (mDKK)	Share capital	Reserve from the use of the equity method	Retained earnings	Proposed dividend	**Total equity**
Balance at 1 January	20	5,305	8,415	7,000	**20,740**
Dividend paid relating to prior year	–	–	–	(7,000)	**(7,000)**
Profit for the year	–	(31)	81	8,000	**8,050**
Currency translation adjustments	–	10	–	–	**10**
Entries recognised directly on equity in subsidiaries	–	(47)	–	–	**(47)**
Balance at 31 December	**20**	**5,237**	**8,496**	**8,000**	**21,753**

2017 (mDKK)	Share capital	Reserve from the use of the equity method	Retained earnings	Proposed dividend	**Total equity**
Balance at 1 January	20	4,680	8,404	7,000	**20,104**
Dividend paid relating to prior year	–	–	–	(7,000)	**(7,000)**
Profit for the year	–	764	11	7,000	**7,775**
Currency translation adjustments	–	(253)	–	–	**(253)**
Entries recognised directly on equity in subsidiaries	–	114	–	–	**114**
Balance at 31 December	**20**	**5,305**	**8,415**	**7,000**	**20,740**

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Note 1. Significant accounting policies

The Financial Statements of the Parent Company have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class C (large-sized).

The accounting policies are the same as for the Consolidated Financial Statements with the following additions.

The accounting policies are unchanged from the latest financial year.

Supplementary accounting policies for the Parent Company

Taxes

Current income tax, based on taxable income for the year, is expensed together with changes in deferred tax for the year.

Deferred income tax on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts is provided in full using the liability method.

The provision of deferred tax reflects the effect of any tax losses carried forward etc. to the extent it is considered likely that such items can be utilised against future taxable income. 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.

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

Investments in subsidiaries and associates

Subsidiaries and associates of the Parent Company are recognised under the equity method, which is at the respective share of the net asset values in subsidiaries and associates.

Any costs in excess of net assets in the acquired company are capitalised in the Parent Company under investments in subsidiaries as part of the investments ("Goodwill"). Amortisation of the goodwill is provided under the straight-line method over a period not exceeding 5 years based on estimated useful life.

To the extent it exceeds declared dividend from subsidiaries, net revaluation of investments in subsidiaries and associates is transferred to net revaluation reserve according to the equity method under equity.

Profits in subsidiaries and associates are disclosed as profit after tax in the income statement of the Parent Company.

Equity

Dividend distribution

Dividend distribution proposed by Management for the financial year is disclosed as a separate item under equity.

Note 2. Employee expenses

(mDKK)	2018	2017
Key Management Personnel (Executive Leadership Team) [1]		
Salaries	62	86
Pension	2	3
Short-term incentive plans	26	9
Long-term incentive plans	16	(3)
	106	**95**
Severance payments and other one-offs	13	31
Chief Executive Officer and Board of Directors [2]		
Salaries and other remuneration	40	77

[1] Employee expenses to Executive Leadership Team are the total amount expensed in all entities within the LEGO Group. The Executive Leadership Team has 12 members at the end of 2018 (12 members in 2017). Average number of members during the year is 12 (8 average members in 2017).
[2] Since Executive Management consists of only one member, the remuneration of the Chief Executive Officer (Executive Management) and the Board of Directors is disclosed collectively with reference to § 98b (3) of the Danish Financial Statement Act.

Note 3. Financial income

(mDKK)	2018	2017
Interest income from subsidiaries	86	98
Exchange gains, net	–	5
	86	**103**

Note 4. Financial expenses

(mDKK)	2018	2017
Interest expenses to subsidiaries	84	93
Interest expenses to related parties	10	19
Exchange loss, net	5	–
	99	**112**

Note 5. Tax on profit for the year

(mDKK)	2018	2017
Current tax on profit for the year	5	(26)
Deferred tax on profit for the year	(11)	22
Revaluation of deferred tax assets and liabilities	–	(20)
Other tax for the year	34	5
Adjustment of tax relating to previous years, current tax	–	(5)
	28	**(24)**

Note 6. Intangible assets

2018 (mDKK)	Patents
Cost at 1 January	10
Cost at 31 December	**10**
Amortisation and impairment losses at 1 January	7
Amortisation for the year	2
Amortisation and impairment losses at 31 December	**9**
Carrying amount at 31 December	**1**

2017 (mDKK)	Patents
Cost at 1 January	10
Cost at 31 December	**10**
Amortisation and impairment losses at 1 January	6
Amortisation for the year	1
Amortisation and impairment losses at 31 December	**7**
Carrying amount at 31 December	**3**

Note 7. Property, plant and equipment

2018 (mDKK)	Land, buildings and installations	Other fixtures and fittings, tools and equipment	**Total**
Cost at 1 January	6	1	**7**
Cost at 31 December	**6**	**1**	**7**
Depreciation and impairment losses at 1 January	–	1	**1**
Depreciation and impairment losses at 31 December	–	**1**	**1**
Carrying amount at 31 December	**6**	**–**	**6**

2017 (mDKK)	Land, buildings and installations	Other fixtures and fittings, tools and equipment	**Total**
Cost at 1 January	6	1	**7**
Cost at 31 December	**6**	**1**	**7**
Depreciation and impairment losses at 1 January	–	1	**1**
Depreciation and impairment losses at 31 December	**–**	**1**	**1**
Carrying amount at 31 December	**6**	**–**	**6**

Note 8. Investments in subsidiaries and associates

2018 (mDKK)	Investments in subsidiaries	Investments in associates
Cost at 1 January	7,943	4
Additions	843	–
Disposals	(49)	(4)
Cost at 31 December	**8,737**	**–**
Value adjustment at 1 January	11,805	(1)
Currency translation adjustments	10	–
Share of net profit for the year	8,105	–
Dividend	(7,660)	–
Disposals	24	1
Entries recognised directly on equity in subsidiaries	(47)	–
Value adjustment at 31 December	**12,237**	**–**
Carrying amount at 31 December	**20,974**	**–**

2017 (mDKK)	Investments in subsidiaries	Investments in associates
Cost at 1 January	7,943	4
Cost at 31 December	**7,943**	**4**
Value adjustment at 1 January	12,680	(1)
Currency translation adjustments	(253)	–
Share of net profit for the year	7,762	–
Dividend	(8,498)	–
Entries recognised directly on equity in subsidiaries	114	–
Value adjustment at 31 December	**11,805**	**(1)**
Carrying amount at 31 December	**19,748**	**3**

Note 9. Share capital

(mDKK)	2018	2017
The share capital consists of:		
A-shares of DKK 1,000 or multiples hereof	1	1
B-shares of DKK 1,000 or multiples hereof	9	9
C-shares of DKK 1,000 or multiples hereof	10	10
Total shares at 31 December	**20**	**20**

There have been no changes in the share capital during the last 5 years.

Shareholders that own more than 5% of the share capital:
KIRKBI A/S, Koldingvej 2, 7190 Billund, Denmark
Koldingvej 2, Billund A/S, Koldingvej 2, 7190 Billund, Denmark

Note 10. Deferred tax

(mDKK)	2018	2017
Deferred tax, net at 1 January	8	10
Change in deferred tax	59	(2)
Deferred tax, net at 31 December	**67**	**8**
Classified as:		
Deferred tax assets	67	8
Deferred tax liabilities	–	–
	67	**8**

Note 11. Contingent assets, contingent liabilities and other obligations

(mDKK)	2018	2017
Guarantees	1,808	1,798
	1,808	**1,798**

Guarantees relate to commitments in subsidiaries.

LEGO A/S is jointly and severally liable for corporate income tax according to the joint taxation in the LEGO Group, KIRKBI A/S and in the companies controlled by KIRKBI A/S. The total amount of current tax liabilities, as well as related current tax credit counterparts are shown in the Annual Report of KIRKBI A/S, which is the administration company of the joint taxation. LEGO A/S is furthermore jointly and severally liable for Danish taxes at source withheld on behalf of non-resident companies for dividend, royalty and interest.

The LEGO 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 90 million (DKK 90 million in 2017), of which DKK 0 million has been recognised as a provision for deferred tax. The amount of DKK 90 million (DKK 90 in 2017) is not expected to be recaptured.

Note 12. Related party transactions

The following transactions were carried through with related parties

(mDKK)	2018	2017
Transactions with KIRKBI A/S		
Other transactions charged	(23)	(41)
	(23)	**(41)**
Transactions with KIRKBI Invest A/S		
Interest charged	(10)	(19)
	(10)	**(19)**
Transactions with Merlin Entertainments Group		
Trademark fee received	29	28
	29	**28**

Remuneration to Key Management Personnel is disclosed in note 2.

Transactions with related parties were carried out on an arm's length basis.

Note 12 (continued)

Year-end balances arising from transactions with related parties

(mDKK)	2018	2017
Balances with KIRKBI A/S		
Payables	(5)	(26)
	(5)	**(26)**
Balances with KIRKBI Invest A/S		
Payable	–	(10)
Loan	–	(600)
	–	**(610)**
Balances with Merlin Entertainments Group		
Receivables	6	5
	6	**5**

Note 13. Proposed distribution of profit

(mDKK)	2018	2017
Dividend	8,000	7,000
Reserve from the use of the equity method	(31)	764
Retained earnings	81	11
	8,050	**7,775**

Management's Statement and Auditor's Report

Management's Statement

The Executive Management and the Board of Directors have today considered and adopted the Annual Report of LEGO A/S for the financial year 1 January to 31 December 2018. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act and the Parent Company Financial Statements are prepared in accordance with the Danish Financial Statements Act. Management's Review is prepared in accordance with 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 financial position at 31 December 2018 of the LEGO Group and the Parent Company and of the results of

the LEGO Group and the Parent Company operations and consolidated cash flows for the financial year 1 January to 31 December 2018.

In our opinion, Management's Review includes a true and fair account of the development in the operations and financial circumstances of the LEGO Group and the Parent Company, of the results for the year and of the financial position of the LEGO Group and the Parent Company as well as a description of the most significant risks and elements of uncertainty facing the LEGO Group and the Parent Company.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Billund, 21 February 2019

Executive Management

Niels B. Christiansen
President and Chief
Executive Officer

Board of Directors

Jørgen Vig Knudstorp
Chairman

Thomas Kirk Kristiansen
Deputy Chairman

Kjeld Kirk Kristiansen

Kåre Schultz

Søren Thorup Sørensen

Eva Berneke

Jan Thorsgaard Nielsen

Independent Auditor's Report

To the shareholders of LEGO A/S

Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2018 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2018 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of LEGO A/S for the financial year 1 January – 31 December 2018, which comprise Income Statement, Balance Sheet, Statement of Changes in Equity and Notes to the financial statements, including summary of significant accounting policies, for both the Group and the Parent Company, as well as statement of comprehensive income and cash flow statement for the Group ("financial statements").

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 Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for 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 Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

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

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

Management's Responsibility for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Company'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 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 Company'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 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 Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the 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, 21 February 2019

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no 3377 1231

Claus Lindholm Jacobsen
State Authorised Public Accountant
mne23328

Henrik Trangeled Kristensen
State Authorised Public Accountant
mne23333

Group Structure

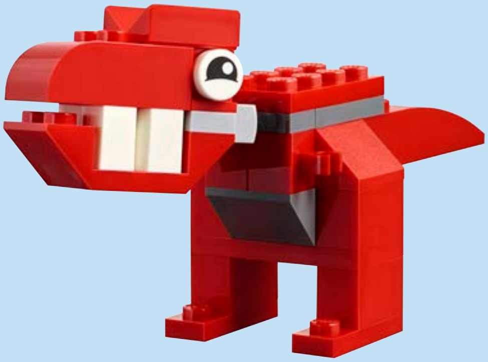
LEGO A/S

Australia	LEGO Australia Pty. Ltd.
Austria	LEGO Handelsgesellschaft mbH
Belgium	LEGO Belgium n.v.
Brazil	LEGO do Brasil Comércio e Distribuicão de Brinquedos Ltda
Canada	LEGO Canada Inc.
China	LEGO Trading (Beijing) Co., Ltd.
China	LEGO Toy Manufacturing (Jiaxing) Co., Ltd.
China	LEGO Toy (Shanghai) Co., Ltd.
China	LEGO Commerce (Shenzhen) Co. Ltd.
Czech Republic	LEGO Production s.r.o.
Czech Republic	LEGO Trading s.r.o.
Denmark	LEGO System A/S
Denmark	LEGO Security Billund ApS
Finland	Oy Suomen LEGO Ab
France	LEGO SAS
France	LEGO Brand Retail S.A.S
Germany	LEGO GmbH
Germany	LLD Share Verwaltungs GmbH
Hong Kong	LEGO Hong Kong Limited
Hong Kong	LEGO Company Ltd.
Hungary	LEGO Hungária Kft.
Hungary	LEGO Manufacturing Kft.
India	LEGO India Private Limited
Italy	LEGO S.p.A.
Japan	LEGO Japan Ltd.
Malaysia	LEGO Trading (Malaysia) Sdn. Bhd.
Mexico	LEGO Mexico S.A. de C.V
Mexico	Administratión 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.
New Zealand	LEGO New Zealand Ltd.
Norway	LEGO Norge AS
Poland	LEGO Polska Sp. zo.o.
Portugal	LEGO Lda.
Romania	LEGO Romania S.R.L.
Russian Fed.	LEGO Ltd.
Singapore	LEGO Singapore Pte. Ltd.
South Africa	LEGO South Africa (Pty.) Ltd.
South Korea	LEGO Korea Co. Ltd.
Spain	LEGO S.A.
Sweden	LEGO Sverige AB
Switzerland	LEGO Schweiz AG
Taiwan	LEGO Trading (Taiwan) Co., Ltd.
The Netherlands	LEGO Nederland B.V.
Turkey	LEGO Turkey Oyuncak Ticearet Anonim Sirketi
Ukraine	LEGO Ukraine LLC
United Kingdom	LEGO Company Limited
United Kingdom	LEGO Park Holding UK Ltd.
United Kingdom	LEGO Lifestyle International Ltd.
USA	LEGO Systems, Inc.
USA	LEGO Brand Retail Inc.
Utd.Arab Emir.	LEGO Middle East FZ-LLC

LEGO A/S directly or indirectly owns the entire share capital in all group subsidiaries.

LEGO A/S is 75% owned by KIRKBI A/S and is included in the Consolidated Annual Report of KIRKBI A/S.

KIRKBI A/S is the ultimate Parent Company.



In our
Responsibility Reports
you will find detailed
information on the LEGO
Group's non-financial
results for 2018.

www.LEGO.com/
responsibility

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