The LEGO Group

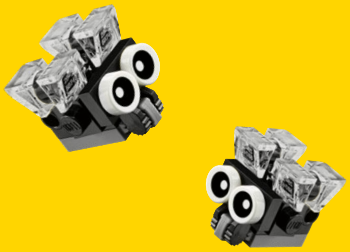
Annual Report 2017

CVR no: 54 56 25 19

Company name: LEGO A/S
Adress: Aastvej 1, Billund

As approved at the Annual General Meeting on 25 April 2018.

Claus Andersen
Chairman of the meeting



LEGO A/S
Aastvej 1
DK-7190 Billund
Tel: +45 7950 6070

CVR no: 54 56 25 19
Incorporated: 19 December, 1975
Residence: Billund
Financial Year: 1 January – 31 December
Internet: www.LEGO.com

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Contents

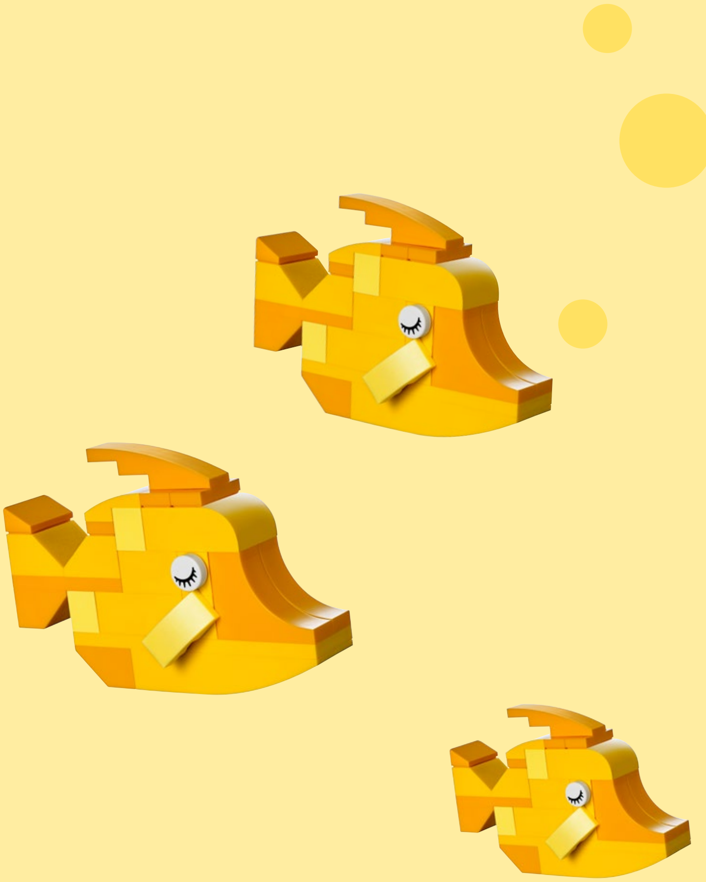
Management Report

Consolidated Financial Statements

Parent Company Financial Statements

Management's Statement and Auditor's Report

Management Report



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 Office
Carsten Rasmussen, Chief Operations Officer
Ulrik Gernow, Chief Business Transformation Officer

Claus Flyger Pejstrup, Senior Vice President
Eric Maugein, Senior Vice President
Jacob Kragh, Senior Vice President
Marko Ilincic, Senior Vice President
Skip Kodak, Senior Vice President
Victor Saeijs, Senior Vice President

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 since 2017.
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 CEO of the LEGO Group 1979–2004.

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

Søren Thorup Sørensen
Member of the Board of LEGO A/S since 2010.
CEO of KIRKBI A/S, KIRKBI Invest A/S and Koldingvej 2, Billund A/S.
Chairman of the Board of K&C Holding A/S and Boston Holding A/S.
Deputy Chairman of KIRKBI AG and KIRKBI Real Estate AG.
Member of the Board of Falck A/S, Koldingvej 2, Billund A/S, Ole Kirk's Fond, Merlin Entertainments PLC and 2 fully owned subsidiaries of KIRKBI A/S.

Eva Berneke
Member of the Board of LEGO A/S since 2011.
CEO of KMD A/S.
Member of the Board of DTU.
Member of the Foreign Economic Forum.
Member of the Board of Directors of Nationalbanken.

Jan Nielsen
Member of the Board of LEGO A/S since 2013.
Senior Managing Director in Blackstone Private Equity and COO of Blackstone Asia Pacific.
Chairman of the Board of Antares Restaurants Group.
Member of the Board of Blackstone in 8 countries.
Member of the Board of Ixom Ltd.
Member of the Board of Simone Acc. Collection.

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Management's Review

2017 was a challenging year for the LEGO Group. Revenue for the full year declined 8% to DKK 35.0 billion compared with DKK 37.9 billion in 2016. Excluding the impact of foreign currency exchange, revenues for the full year declined 7% compared with 2016.

Significant revenue growth was achieved in China. However, revenues in most established markets in North America and Europe declined, primarily due to actions the company took to reduce inventories across its value chain. Global consumer sales were flat in 2017 and trended upwards in the final months of the year.

The LEGO Group's profit before tax amounted to DKK 10.2 billion in 2017 against DKK 12.4 billion the year before, a decrease of 18%.

Overall, Management is not satisfied with the financial results. However, the LEGO Group ended the year well, and is entering 2018 with a better foundation.

Operating profit

The LEGO Group's operating profit amounted to DKK 10.4 billion in 2017 against DKK 12.4 billion in 2016.

The operating margin was 29.6% in 2017 against 32.8% in 2016.

Financial income and expenses

Net financials created a total expense of DKK 158 million in 2017 against an expense of DKK 57 million in 2016.

Corporate income tax

Corporate income tax amounted to DKK 2.4 billion compared with DKK 3.0 billion the prior year. The effective tax rate for the year is 23.5% against 23.8% in 2016.

Profit for the year

The LEGO Group's profit for the year amounted to DKK 7.8 billion in 2017 against DKK 9.4 billion in 2016.

The lower level of profit in 2017 is driven by the LEGO Group's lower revenues during the year.

Cash flows and equity

The LEGO Group's assets remained unchanged in 2017 and amounted to DKK 29.9 billion. Cash flows from operating activities amounted to DKK 10.7 billion, against DKK 9.1 billion in 2016.

After recognition of the profit for the year and distribution of dividend, the LEGO Group's equity has increased by DKK 0.7 billion to DKK 20.7 billion in 2017.

At the end of 2017, the equity ratio of the LEGO Group was 69.3% against 66.9% in 2016.

Return on equity for the LEGO Group was 38.3% in 2017 against 49.9% in 2016.

Investments

During 2017, investments in property, plant and equipment amounted to DKK 1.5 billion in 2017, compared with DKK 2.9 billion in 2016. 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 commenced in 2017 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 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 cooperates 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 full-time employees at the end of 2017 was 17,534 compared with 19,061 at the end of 2016.

In the years leading up to 2017, the LEGO Group recruited a large number of employees to support global double-digit growth. In September 2017, the LEGO Group announced plans to adjust the organisation to support current business levels. As a result, it was decided to reduce the total global workforce by around 8%, impacting approximately 1,400 positions globally. The LEGO Group provided the affected employees with redundancy packages which reflected their service and with support transitioning to new positions or new opportunities either within or outside the Group.

The resulting lay-offs were completed in 2017 and a new organisation structure is now in place. It will have greater focus on its commercial activity in markets and with partners around the world.

On October 1, 2017, Niels B. Christiansen assumed the position as CEO.

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 2017 (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 2017 constitutes the statutory statement of corporate social responsibility. This also includes the required quantitative targets for the underrepresented gender on the Board of Directors.

The Responsibility Data 2017 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 low single digit growth during 2017.

LEGO® revenue

Revenue in established LEGO markets declined in 2017, as a result of a clean-up of inventories. Despite the revenue decline, overall consumer sales remained flat.

Revenue grew strong double-digits in China, where the Group continues to expand its presence through retail channels, e-commerce and digital platforms.

Core product lines continue to do well, and among the top selling lines in 2017 were themes like LEGO® City, LEGO® NINJAGO®, LEGO Creator and LEGO® DUPLO®. LEGO® Star Wars™ performed in line with expectations.

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 2018

The LEGO Group expects to stabilise the business in 2018 and invest in activity to create further demand.

Longer-term, the Group expects to grow low single digits in line with the global toy market. This is expected to be achievable due to the Group's continued focus on innovation, growth in established markets and its commitment to global expansion, such as expanding its presence in China.

Finally, Management would like to thank all the dedicated LEGO Group employees for their contribution and commitment during the past year and looks forward to continuing to work together in 2018 and beyond.

Financial Highlights of the LEGO Group

(mDKK)	2017	2016	2015	2014	2013
Income Statement					
Revenue	34,995	37,934	35,780	28,578	25,294
Expenses	(24,636)	(25,486)	(23,536)	(18,881)	(16,958)
Operating profit	10,359	12,448	12,244	9,697	8,336
Financial income and expenses	(158)	(57)	(96)	(206)	(97)
Profit before income tax	10,201	12,391	12,148	9,491	8,239
Net profit for the year	7,806	9,436	9,174	7,025	6,119
Balance Sheet					
Total assets	29,911	29,937	27,877	21,419	17,952
Equity	20,714	20,039	17,751	12,832	11,075
Liabilities	9,197	9,898	10,126	8,587	6,877
Cash Flow Statement					
Cash flows from operating activities	10,691	9,084	10,559	7,945	6,744
Investment in intangible assets	35	92	126	59	103
Investment in property, plant and equipment	1,494	2,908	2,822	3,115	2,644
Cash flows from financing activities	(9,378)	(6,575)	(6,816)	(5,302)	(3,466)
Total cash flows	(210)	(483)	808	(521)	574
Employees					
Average number (full-time)	16,480	16,836	13,974	12,582	11,755
Headcount end of year	17,534	19,061	17,294	14,762	13,869
Key performance indicator					
Economic value added (EVA)	9,368	11,273	11,406	8,761	7,250
Financial ratios (in %)					
Gross margin	70.7	72.2	72.6	71.8	70.7
Operating margin	29.6	32.8	34.2	33.9	33.0
Net profit margin	22.3	24.9	25.6	24.6	24.2
Return on equity (ROE)	38.3	49.9	60.0	58.8	58.4
Return on invested capital (ROIC)	71.9	90.5	104.7	99.3	106.9
Equity ratio	69.3	66.9	63.7	59.9	61.7

The Financial Highlights for 2016 have been adjusted as a consequence of a change in classification in the Income Statement. The Financial Highlights for 2015, 2014 and 2013 have not been changed. The change in classification in the Income Statement is described in note 1.

The key performance indicator is calculated in accordance with the definitions in note 1.

Financial ratios, except invested capital, are calculated in accordance with the “Recommendations and Financial Ratios 2015”, issued by the Danish Society of Financial Analysts. For definitions, please refer to note 1.

Parentheses denote negative figures.

Headcount end of year

17,534

Revenue

35.0

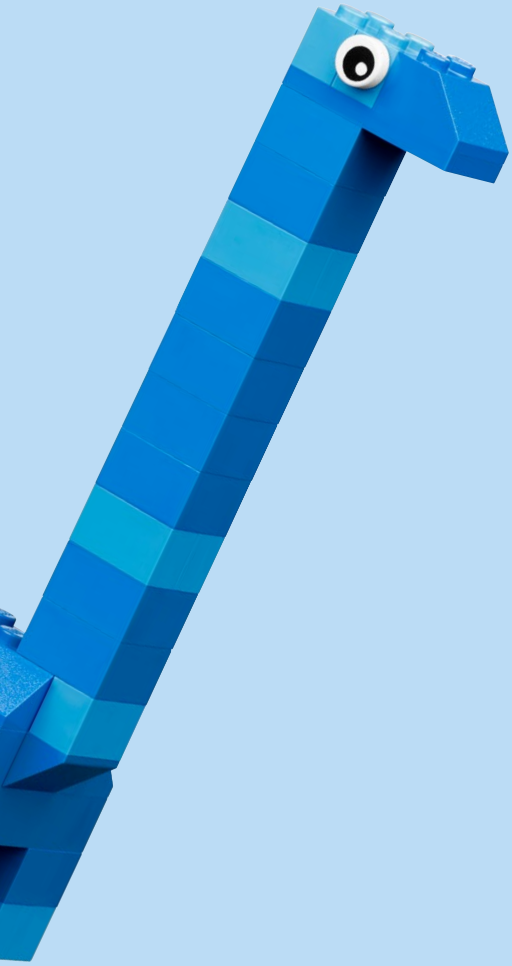
billion (DKK)

Net profit

7.8

billion (DKK)

Consolidated Financial Statements



Income Statement and Statement of Comprehensive Income

1 January – 31 December

(mDKK)	Note	2017	2016
Income Statement			
Revenue	3	34,995	37,934
Production costs	4,6,7	(10,239)	(10,531)
Gross profit		24,756	27,403
Sales and distribution expenses	4,6,7	(10,208)	(10,487)
Administrative expenses	4,5,6,7	(2,352)	(2,527)
Other operating expenses	4,6,8	(1,837)	(1,941)
Operating profit		10,359	12,448
Financial income	9	13	15
Financial expenses	10	(171)	(72)
Profit before income tax		10,201	12,391
Tax on profit for the year	11	(2,395)	(2,955)
Net profit for the year		**7,806**	**9,436**

(mDKK)	2017	2016
Statement of Comprehensive Income		
Profit for the year	7,806	9,436
Items that will be reclassified to the income statement, when specific conditions are met:		
Change in market value of cash flow hedges	277	(55)
Reclassification of cash flow hedges from equity to be recognised as part of:		
Revenue in the income statement	(122)	(60)
Production costs in the income statement	(9)	4
Tax on cash flow hedges	(32)	25
Currency translation differences	(243)	(55)
Items that will not be reclassified to the income statement:		
Remeasurements of defined benefit plans	(3)	(9)
Tax on remeasurements of defined benefit plans	1	2
Total comprehensive income for the year	**7,675**	**9,288**

Balance Sheet

at 31 December

(mDKK)	Note	2017	2016
ASSETS			
Non-current assets			
Development projects		71	39
Software		192	270
Licences, patents and other rights		24	42
Intangible assets	12	287	351
Land, buildings and installations		5,300	5,352
Plant and machinery		3,536	3,710
Other fixtures and fittings, tools and equipment		1,304	1,193
Fixed assets under construction		1,386	1,457
Property, plant and equipment	13	11,526	11,712
Deferred tax assets	19	591	611
Investments in associates	14	3	3
Prepayments		146	159
Other non-current assets		740	773
Total non-current assets		12,553	12,836
Current assets			
Inventories	15	2,383	2,991
Trade receivables	16,26	6,333	7,174
Other receivables	26	868	1,036
Prepayments		146	134
Current tax receivables		178	510
Receivables from related parties	26,30	6,688	4,350
Cash at banks	26,29	762	906
Total current assets		17,358	17,101
Total assets		**29,911**	**29,937**

Balance Sheet

at 31 December

(mDKK)	Note	2017	2016
EQUITY			
Share capital	17	20	20
Reserve for hedge accounting		34	(80)
Reserve for currency translation		(581)	(338)
Retained earnings	18	21,241	20,437
Total equity		**20,714**	**20,039**
LIABILITIES			
Non-current liabilities			
Borrowings	26	167	178
Deferred tax liabilities	19	158	40
Pension obligations	20	184	198
Provisions	22	56	54
Deferred revenue	23	36	36
Debt to related parties	26,30	–	600
Other debt	21,26	80	197
Total non-current liabilities		681	1,303
Current liabilities			
Borrowings	26	11	41
Trade payables	26	2,811	2,837
Current tax liabilities		200	223
Provisions	22	219	72
Deferred revenue	23	178	237
Debt to related parties	26,30	600	–
Other debt	21,26	4,497	5,185
Total current liabilities		8,516	8,595
Total liabilities		**9,197**	**9,898**
Total equity and liabilities		**29,911**	**29,937**

Statement of Changes in Equity

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**

2016 (mDKK)	Share capital	Reserve for hedge accounting	Reserve for currency translation	Retained earnings	**Total equity**
Balance at 1 January	20	6	(283)	18,008	**17,751**
Profit for the year	–	–	–	9,436	**9,436**
Comprehensive income/(expenses) for the year	–	(86)	(55)	(7)	**(148)**
Dividend paid relating to prior year	–	–	–	(7,000)	**(7,000)**
Balance at 31 December	**20**	**(80)**	**(338)**	**20,437**	**20,039**

Cash Flow Statement

at 31 December

(mDKK)	Note	2017	2016
Cash flows from operating activities			
Cash generated from operations	28	12,735	12,468
Interest received etc.	9	13	15
Interest paid etc.	10	(32)	(36)
Income tax paid		(2,025)	(3,363)
Net cash generated from operating activities		10,691	9,084
Cash flows from investing activities			
Purchases of intangible assets	12	(35)	(92)
Purchases of property, plant and equipment	13	(1,494)	(2,908)
Proceeds from sale of property, plant and equipment		6	8
Net cash used in investing activities		(1,523)	(2,992)
Cash flows from financing activities			
Proceeds from borrowings		–	–
Repayments of borrowings		(40)	(157)
Repayments from related parties	30	10,134	14,297
Payments to related parties	30	(12,472)	(13,715)
Dividend paid to shareholders	18	(7,000)	(7,000)
Net cash used in financing activities		(9,378)	(6,575)
Total cash flows		**(210)**	**(483)**
Cash and cash equivalents at 1 January		906	1,211
Exchange gains on cash at banks		66	178
Cash at banks at 31 December	29	**762**	**906**


POLICE
POLICE

Notes

Basis for preparation

Note

Income Statement

Note

Balance Sheet and other disclosures

Note

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, except for the following:

- Financial assets and financial liabilities (including financial instruments) measured at fair value.

Changes in classification in the income statement

To ensure alignment of the income statement with the organisational structure, the LEGO Group has made some reclassifications in the income statement for the comparative figures for 2016.

The reclassifications in 2016 impact the production costs with DKK 109 million (income), sales and distribution expenses with DKK 97 million (income) and administration costs with DKK 206 million (expense).

The reclassifications have not had any effect on the operating profit for 2016.

Effects of new and amended accounting standards

All amended standards and interpretations issued by IASB and endorsed by the EU effective as of 1 January 2017 have been adopted by the LEGO Group.

IFRIC 22 Foreign Currency Transactions and Advance Consideration and IFRIC 23 Uncertainty over Income Tax Treatments have been issued by IASB but not yet endorsed by the EU. The LEGO Group does not anticipate any significant impact on future periods from the adoption of IFRIC 22 nor IFRIC 23.

The LEGO Group has not yet applied the following standards:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases

IFRS 9 and IFRS 15 are effective from 1 January 2018 and IFRS 16 is effective from 1 January 2019. All three standards are endorsed by the EU.

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

IFRS 9 Financial Instruments

IFRS 9 is the new standard for classification and measurement of financial instruments. Among other amendments, it introduces a new hedge accounting model that is designed to be more closely aligned with risk management activities. It includes amendments to the treatment of option premiums and the possibility to hedge net positions. Furthermore, IFRS 9 requires for loss allowances to be recognized and measured in accordance with the “expected credit loss” model.

The implementation of IFRS 9 will not affect the current classification and measurement of the financial instruments in the LEGO Group, and the new standard does not fundamentally change the hedging relationships. The effect of the change from the ‘incurred loss’ model in IAS 39 to the ‘expected credit loss’ model in IFRS 9 has an immaterial impact on the Financial Statements in the LEGO Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 deals with revenue recognition and establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue.

The LEGO Group’s current practice for recognising revenue has proved to comply in all material aspects with the concepts and principles encompassed by the new standard.

IFRS 16 Leases

The change in lease accounting requires capitalisation of operational lease contracts, which will have an impact on total assets and a corresponding impact on 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.

Note 1 (continued)

Management has performed an initial investigation of the impact on the Consolidated Financial Statements upon adoption of IFRS 16. Based on the contractual obligations at 31 December 2017, an increase in total assets and total liabilities of approximately DKK 2 billion is expected. The adoption of IFRS 16 is not expected to have a material impact on 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 de-consolidated 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 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 to the fair value of derivative financial instruments which meet the criteria for hedging future cash flows 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. Fair value changes attributable to the time value of options are recognised in financial income or expenses in the income statement.

Note 1 (continued)

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge

The gain or loss relating to the ineffective portion is recognised immediately in the income statement within financial items. Amounts accumulated in comprehensive income are reclassified to the income statement in the period when the hedged item affects the income statement.

Other derivatives

Changes to the fair value of other derivatives are recognised in the financial income or expenses.

Income statement

Recognition of sales and revenues

Sales represent the fair value of the sale of goods excluding value added tax and after deduction of provisions for returned products, rebates and trade discounts relating to the sale.

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

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

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

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

Licence fees are recognised on an accrual basis in accordance with the relevant agreements. Revenues are measured at the fair value of the consideration received or receivable.

Sale of goods that results in award credits under the LEGO Group's consumer loyalty programme, is accounted for as a multiple element revenue transaction and allocated between the goods supplied and the award credits granted.

Deferred Revenue

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

Prepaid licence fee is recognised as deferred revenue until the criteria and conditions for revenue recognition in relevant agreements are met.

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

Note 1 (continued)

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 3–6 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 and whose commencement date is on or after 1 January 2009 are included in the cost price.

Licences, patents and other rights

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

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.

Note 1 (continued)

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 based on an objective indication if an individual receivable or a portfolio of receivables is 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

Note 1 (continued)

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 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

Economic value added (EVA) is calculated as adjusted profit before income tax less (average invested capital x WACC). Adjusted profit before income tax is calculated as profit before income tax adjusted for income and expenses of a non-recurring nature and interest expenses.

Financial ratios, except average invested capital, have been calculated in accordance with the "Guidelines and Financial Ratios 2015", issued by the Danish Society of Financial Analysts. Average invested capital is calculated as intangible assets, property, plant and equipment and net working capital excluding current tax, deferred tax and special items.

Note 1 (continued)

Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$	Return on equity (ROE)	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$
Operating margin	$\frac{\text{Operating profit (EBIT)} \times 100}{\text{Revenue}}$	Return on invested capital (ROIC)	$\frac{\text{Operating profit (EBIT)} \times 100}{\text{Average invested capital}}$
Net profit margin	$\frac{\text{Net profit for the year} \times 100}{\text{Revenue}}$	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)	2017	2016
Sale of goods	34,383	37,379
Licence income	612	555
	34,995	**37,934**

Note 4. Expenses by nature

(mDKK)	Note	2017	2016
Raw materials and consumables used		5,283	5,587
Employee expenses	6	6,676	6,788
Depreciation and amortisation	7	1,490	1,295
Licence and royalty expenses		2,583	2,893
Other external expenses		8,604	8,923
		24,636	**25,486**

Note 5. Auditors' fees

(mDKK)	2017	2016
Fee to PwC		
Statutory audit of the Financial Statements	10	11
Other assurance engagements	1	3
Tax assistance	13	11
Other services	13	21
	37	**46**

Note 6. Employee expenses

(mDKK)	Note	2017	2016
Wages and salaries		5,800	5,848
Termination benefit and restructuring		232	33
Pension costs	20	211	338
Other expenses and social security expenses		470	617
Total employee costs for the year		6,713	6,836
Employee costs included in:			
Intangible assets		(2)	(13)
Property, plant and equipment		(35)	(35)
Total employee costs expensed in the income statement		**6,676**	**6,788**
Classified as:			
Production costs		1,956	1,962
Sales and distribution expenses		2,825	2,899
Administrative expenses		1,547	1,546
Other operating expenses		348	381
		6,676	**6,788**
Including Key Management Personnel (Executive Leadership Team) [1]			
Salaries		86	51
Pension		3	2
Short-term incentive plans		9	16
Long-term incentive plans		(3)	15
		95	**84**
Severance payments and other one-offs		31	–
Fee to Board of Directors		5	4

[1] The Executive Leadership Team has 12 members at the end of 2017 (5 in 2016). Average number of members during the year is 8 (5 in 2016).

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.

	2017	2016
Average number of employees (full-time)	16,480	16,836
Number of employees end of year (headcount)	17,534	19,061

Note 7. Depreciation, amortisation and impairment

(mDKK)	2017	2016
Software	82	60
Licences, patents and other rights	13	13
Buildings and installations	284	192
Plant and machinery	891	805
Other fixtures and fittings, tools and equipment	220	225
	1,490	**1,295**
Classified as:		
Production costs	1,236	1,034
Sales and distribution expenses	151	134
Administrative expenses	103	127
	1,490	**1,295**

Note 8. Research and development expenses

(mDKK)	2017	2016
Research and development expenses	550	567
	550	**567**

Note 9. Financial income

(mDKK)	2017	2016
Interest income from credit institutions measured at amortised cost	12	11
Other interest income	1	4
	13	**15**

Note 10. Financial expenses

(mDKK)	2017	2016
Interest expenses on mortgage loans measured at amortised cost	1	1
Interest expenses to related parties	23	19
Interest expenses to credit institutions measured at amortised cost	1	5
Other interest expenses	7	11
Exchange losses, net	139	36
	171	**72**

Note 11. Tax on profit for the year

(mDKK)	2017	2016
Current tax on profit for the year	2,301	3,067
Deferred tax on profit for the year	(32)	(161)
Other tax for the year	30	5
Deferred tax, effect of change in tax rate	82	1
Adjustment of tax relating to previous years, current tax	(7)	23
Adjustment of tax relating to previous years, deferred tax	21	20
	2,395	**2,955**
Income tax expenses are specified as follows:		
Calculated 22.0% tax on profit for the year before income tax	2,244	2,726
Tax effect of:		
Higher/lower tax rate in subsidiaries	22	115
Non-taxable income	(1)	(5)
Non-deductible expenses	50	72
Deferred tax, not recognised on losses arising in the year	29	16
Deferred tax, effect of change in tax rate	82	1
Adjustment of tax relating to previous years	14	43
Other	(45)	(13)
	2,395	**2,955**
Effective tax rate	23.5%	23.8%

Note 12. Intangible assets

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**

2016 (mDKK)	Development projects	Software	Licences, patents and other rights	**Total**
Cost at 1 January	139	325	231	**695**
Exchange rate adjustment to year-end rate	–	–	20	**20**
Additions	74	18	–	**92**
Transfers	(174)	174	–	**–**
Cost at 31 December	**39**	**517**	**251**	**807**
Amortisation and impairment losses at 1 January	–	187	176	**363**
Exchange rate adjustment to year-end rate	–	–	20	**20**
Amortisation for the year	–	60	13	**73**
Amortisation and impairment losses at 31 December	**–**	**247**	**209**	**456**
Carrying amount at 31 December	**39**	**270**	**42**	**351**

Note 13. Property, plant and equipment

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

An obligation regarding the purchase of property, plant and equipment of DKK 980 million exists at 31 December 2017 (DKK 1,062 million at 31 December 2016).

The LEGO Group has impaired tangible assets amounting to DKK 100 million in 2017. The impairment losses are due to changes in the timing of expansion of production facilities.

Assets under finance leases

Assets under finance leases consist of buildings.

Note 13 (continued)

2016 (mDKK)	Land, buildings and installations	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construction	**Total**
Cost at 1 January	5,842	6,964	2,130	1,076	**16,012**
Exchange adjustment to year-end rate	(176)	(1)	(24)	(72)	**(273)**
Additions	112	903	214	1,679	**2,908**
Disposals	(4)	(250)	(84)	–	**(338)**
Transfers	579	591	56	(1,226)	**–**
Cost at 31 December	**6,353**	**8,207**	**2,292**	**1,457**	**18,309**
Depreciation and impairment losses at 1 January	826	3,931	954	–	**5,711**
Exchange adjustment to year-end rate	(16)	2	1	–	**(13)**
Depreciation for the year	192	805	225	–	**1,222**
Disposals	(1)	(241)	(81)	–	**(323)**
Depreciation and impairment losses at 31 December	**1,001**	**4,497**	**1,099**	**–**	**6,597**
Carrying amount at 31 December	**5,352**	**3,710**	**1,193**	**1,457**	**11,712**
Including assets under finance leases	15	–	–	–	**15**

Note 14. Investments in associates

(mDKK)	**2017**	**2016**
Cost at 1 January	4	4
Cost at 31 December	**4**	**4**
Value adjustment at 1 January	(1)	(1)
Value adjustment at 31 December	**(1)**	**(1)**
Carrying amount at 31 December	**3**	**3**

Investments in associates comprise of KABOOKI A/S, Denmark. The LEGO Group owns 19.8% of the share capital, and is considered to have significant influence in KABOOKI A/S as the LEGO Group is represented on the Board of Directors of KABOOKI A/S. The company is therefore classified as investment in associates.

Note 15. Inventories

(mDKK)	**2017**	**2016**
Raw materials	90	138
Work in progress	1,063	1,405
Finished goods	1,230	1,448
	2,383	**2,991**
Indirect production costs included in inventories	909	1,123
Share of total inventories	38.2%	37.5%
The cost of inventory recognised as an expense during the year	7,099	7,569
Including:		
Write-down of inventories to net realisable value (expense)/income	(11)	(69)

Note 16. Trade receivables

(mDKK)	**2017**	**2016**
Trade receivables (gross)	**6,919**	**7,547**
Provision for bad debts		
Balance at 1 January	(373)	(360)
Exchange adjustment to year-end rate	26	(4)
Change in provision for the year	(249)	(28)
Realised losses for the year	10	19
Balance at 31 December	**(586)**	**(373)**
Trade receivables (net)	**6,333**	**7,174**

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.

Note 16 (continued)

The age distribution of gross trade receivables is as follows:

(mDKK)	2017	2016
Not overdue	6,467	7,152
0–60 days overdue	151	296
61–120 days overdue	233	22
121–180 days overdue	–	7
More than 180 days overdue	68	70
	6,919	**7,547**

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

	2017	2016
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 2016). 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 May 2017, corresponding to DKK 34.1 million in average per share (DKK 7,000 million in 2016, DKK 34.1 million in average per share).

Proposed dividend for 2017 is DKK 7,000 million, corresponding to DKK 34.1 million in average per share.

Note 19. Deferred tax

(mDKK)	**2017**	**2016**
Deferred tax, net at 1 January	571	390
Change in tax rates recognised in income statement	(82)	(1)
Exchange rate adjustments	(36)	14
Income statement charge	11	141
Charged to comprehensive income	(31)	27
Deferred tax, net at 31 December	**433**	**571**
Classified as:		
Deferred tax assets	591	611
Deferred tax liabilities	(158)	(40)
	433	**571**

Note 19 (continued)

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**

2016 (mDKK)	Deferred tax assets	Deferred tax liabilities	**Deferred tax net**
Non-current assets	132	(167)	**(35)**
Inventories	271	(138)	**133**
Receivables	77	(1)	**76**
Provisions	164	–	**164**
Other liabilities	156	(41)	**115**
Other	121	(22)	**99**
Offset	(329)	329	**–**
Tax loss carry-forwards	19	–	**19**
	611	**(40)**	**571**

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 18 million of the LEGO Group's capitalised tax losses expire after 5 years (DKK 19 million in 2016 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 216 million (DKK 239 million in 2016) 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 184 million (DKK 198 million in 2016) 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 1 million (DKK 105 million in 2016) has been recognised in the income statement as costs and DKK 3 million (DKK 9 million in 2016) has been expensed in comprehensive income.

(mDKK)	**2017**	**2016**
The amounts recognised in the balance sheet are calculated as follows:		
Present value of funded obligations	(154)	(164)
Fair value of plan assets	141	142
	(13)	(22)
Present value of unfunded obligations	(171)	(176)
Net liability recognised in the balance sheet	**(184)**	**(198)**
Of which included as part of the liabilities	(184)	(198)
The change in present value of defined benefit obligations for the year is as follows:		
Present value at 1 January	(340)	(248)
Exchange adjustment to year-end rate	16	17
Pension costs relating to current year	(12)	(99)
Pension costs relating to prior year	17	–
Interest expenses	(9)	(11)
Remeasurement gains/(losses)	(6)	(12)
Benefits paid	9	13
Present value at 31 December	**(325)**	**(340)**

Note 20 (continued)

(mDKK)	2017	2016
The change in fair value of plan assets for the year is as follows:		
Plan assets at 1 January	142	153
Exchange adjustment to year-end rate	(3)	(15)
Interest income	3	5
Remeasurement gains/(losses)	3	3
Benefits paid	(4)	(4)
Plan assets at 31 December	**141**	**142**
Movements in the net liability recognised in the balance sheet are as follows:		
Net liability at 1 January	(198)	(95)
Exchange adjustment to year-end rate	13	2
Total expenses charged to the income statement	(1)	(105)
Total expenses charged to comprehensive income	(3)	(9)
Contributions paid	5	9
Net liability at 31 December	**(184)**	**(198)**
The actual return on plan assets amounts to	6	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:

	2017	2016
Discount rate	1%–8%	1%–8%
Future salary increases	1%–6%	1%–6%
Future pension increases	2%–3%	1%–3%

Note 21. Other debt

(mDKK)	2017	2016
Wage-related payables and other charges	1,411	1,618
Finance lease obligations	16	23
VAT and other indirect taxes	405	403
Amortised debt	88	127
Discounts	1,029	1,061
Other liabilities to related parties	443	442
Other current liabilities	1,185	1,708
	4,577	**5,382**
Specified as follows:		
Non-current	80	197
Current	4,497	5,185
	4,577	**5,382**

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

No contingent leases have been recognised in expenses in 2017 or 2016. None of the assets under finance leases have been subleased.

Note 22. Provisions

2017 (mDKK)	Restructuring	Other	**Total**
Provisions at 1 January	55	71	**126**
Exchange adjustment to year-end rate	(2)	(3)	**(5)**
Additions	262	32	**294**
Used	(106)	(9)	**(115)**
Reversed	(15)	(10)	**(25)**
Provisions at 31 December	**194**	**81**	**275**
Specified as follows:			
Non-current			56
Current			219
			275

2016 (mDKK)	Restructuring	Other	**Total**
Provisions at 1 January	41	77	**118**
Exchange adjustment to year-end rate	(1)	1	**–**
Additions	40	25	**65**
Used	(19)	(8)	**(27)**
Reversed	(6)	(24)	**(30)**
Provisions at 31 December	**55**	**71**	**126**
Specified as follows:			
Non-current			54
Current			72
			126

Provisions for restructuring obligations relate primarily to redundancy programmes. The majority of these obligations are expected to result in cash outflows in 2018.

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

Note 23. Deferred revenue

(mDKK)	2017	2016
Consumer loyalty programme	112	128
Other	102	145
	214	**273**
Specified as follows:		
Non-current	36	36
Current	178	237
	214	**273**

Note 24. Contingent assets, contingent liabilities and other obligations

(mDKK)	2017	2016
Guarantees	647	681
Operating lease obligations	2,438	2,873
Other obligations	259	266
	3,344	**3,820**

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

Note 24 (continued)

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

(mDKK)	2017	2016
Related parties		
0–1 year	58	51
1–5 years	166	118
> 5 years	175	181
	399	**350**
Other		
0–1 year	517	569
1–5 years	1,111	1,388
> 5 years	411	566
	2,039	**2,523**

Security has been given in land, buildings and installations with a net carrying amount of DKK 462 million (DKK 429 million in 2016) 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 2016), of which DKK 0 million has been recognised as a provision for deferred tax. The amount of DKK 90 million (DKK 90 million in 2016) 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 the financial risks. The overall objectives and policies for the LEGO Group's financial risk management are outlined in an internal 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.

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 loans and 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.

Foreign exchange risk

The LEGO Group's presentation currency is DKK, but the majority of The LEGO Groups activities and investments are denominated in other currencies. Consequently, there are 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 2017 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. The financial instruments included in the analysis are the LEGO Group's: Cash, Account receivables, Account payable, Borrowings, foreign exchange forwards and foreign exchange options.

(mDKK)	%-change	**2017**	**2016**
EUR			
Equity	10%	(38)	85
Net profit for the year	10%	(38)	85
USD			
Equity	10%	12	(246)
Net profit for the year	10%	53	47
GBP			
Equity	10%	12	53
Net profit for the year	10%	–	(7)
CZK			
Equity	10%	94	119
Net profit for the year	10%	94	119
MXN			
Equity	10%	103	96
Net profit for the year	10%	103	78
HUF			
Equity	10%	109	118
Net profit for the year	10%	109	118
CNY			
Equity	10%	152	139
Net profit for the year	10%	152	139

Note 25 (continued)

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 1.0% for 2017 would have had a positive impact on the LEGO Group's profit before tax of approx. DKK 34.4 million in 2017 (DKK 21.6 million in 2016). 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.

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 May 2017 (DKK 7,000 million in 2016).

It is expected that the dividend for 2017, to be paid in 2018, will amount to DKK 7,000 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 2017 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 2018.

Note 26 (continued)

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

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)

2016 (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	219	219	43	43	142	**228**
Debt to related parties	600	600	19	619	–	**638**
Trade payables	2,837	2,837	2,837	–	–	**2,837**
Other debt [1]	3,112	3,112	3,095	21	–	**3,116**
	6,768	6,768	5,994	683	142	**6,819**
Derivative financial instruments						
Measured at fair value through the income statement	55	55	55	–	–	**55**
Measured at fair value through comprehensive income (cash flow hedging)	157	157	157	–	–	**157**
	212	212	212	–	–	**212**
Total financial liabilities	**6,980**	**6,980**	**6,206**	**683**	**142**	**7,031**
Measured at amortised cost (loans and receivables)						
Trade receivables	7,174	7,174	7,174	–	–	**7,174**
Other receivables[1]	642	642	642	–	–	**642**
Receivables from related parties	4,350	4,350	4,350	–	–	**4,350**
Cash at banks	906	906	906	–	–	**906**
	13,072	13,072	13,072	–	–	**13,072**
Derivative financial instruments						
Measured at fair value through the income statement	8	8	8	–	–	**8**
Measured at fair value through comprehensive income (cash flow hedging)	55	55	55	–	–	**55**
	63	**63**	**63**	**–**	**–**	**63**
Total financial assets	**13,135**	**13,135**	**13,135**	**–**	**–**	**13,135**

[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

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 27 (continued)

2016 (mDKK)	Contract amount	Positive fair value	Negative fair value	Period covered
Hedging of forecast transactions qualifying for hedge accounting				
USD (sale of currency)	3,184	2	111	12 months
JPY (sale of currency)	421	40	–	14 months
GBP (sale of currency)	799	4	13	12 months
Other (purchase of currency)	248	–	6	11 months
Other (sale of currency)	1,221	9	15	12 months
Total forward contracts	5,873	55	145	
USD (sale of currency)	568	–	12	9 months
Total currency options	568	–	12	
Hedging of balance items qualifying for hedge accounting				
USD (sale of currency)	604	–	25	2 months
JPY (sale of currency)	148	2	4	2 months
GBP (sale of currency)	87	–	1	2 months
CZK (purchase of currency)	94	–	–	2 months
Other (purchase of currency)	212	–	2	2 months
Other (sale of currency)	337	2	5	2 months
Total forward contracts	1,482	4	37	
USD (sale of currency)	167	–	–	2 months
Total currency options	167	–	–	
Total for which hedge accounting applies	**8,090**	**59**	**194**	
Other forecast transaction hedges for which hedge accounting is not applied:				
Other	24	–	–	2 months
Total forward contracts	24	–	–	
Options (time value)	–	4	18	9 months
Total currency options	–	4	18	
Total for which hedge accounting is not applied	**24**	**4**	**18**	
Total of forecast transactions	**8,114**	**63**	**212**	

Note 28. Cash generated from operations

(mDKK)	Note	2017	2016
Profit before income tax		**10,201**	**12,391**
Adjustments for			
Depreciation and amortisation of non-current assets	7,13	1,390	1,295
Impairment of non-current assets	7,13	100	–
Net loss on sale of non-current assets		29	7
Net movement in provisions		155	8
Remeasurements of defined benefit plans		(3)	(9)
Net movement in pension obligations		(2)	103
Financial income and expenses	9,10	158	57
Hedge accounting		146	(111)
Changes in working capital			
Trade receivables		593	(800)
Inventory		600	(252)
Other receivables		149	(114)
Prepayments		(10)	48
Trade payables		(3)	(231)
Deferred revenue		(44)	23
Other debt		(724)	53
Cash generated from operations		**12,735**	**12,468**

Note 29. Cash at banks

(mDKK)	2017	2016
Cash at banks	762	906
	762	**906**

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, KABOOKI A/S, KIRKBI A/S, subsidiaries of KIRKBI Invest A/S and Merlin Entertainments Group, in which the above-mentioned family has significant interest. None of the related party transactions are secured.

The following transactions were carried through with related parties

(mDKK)	**2017**	**2016**
Transactions with KIRKBI A/S		
Sale of assets	–	4
Acquisitions of assets	–	(29)
Rent charged	(41)	(39)
Other transactions received	31	24
Other transactions charged	(41)	(2)
	(51)	**(42)**
Transactions with Koldingvej 2, Billund A/S		
Rent charged	(3)	–
Other transactions received	188	99
Other transactions charged	(3)	–
	182	**99**
Transactions with associates		
Purchase of products	(5)	(5)
Trademark fee received	7	12
	2	**7**
Transactions with KIRKBI Invest A/S Group		
Trademark fee charged	(1,258)	(1,363)
Rent charged	(17)	(24)
Interest charged	(23)	(19)
Other transactions received	59	40
Other transactions charged	(5)	–
	(1,244)	**(1,366)**
Transactions with Merlin Entertainments Group		
Sale of products	525	511
Trademark fee received	28	24
Other transactions received	8	3
Other transactions charged	(7)	(9)
	554	**529**

Note 30 (continued)

(mDKK)	2017	2016
Transactions with other related parties		
Sale of products	3	1
Donations received	31	23
Rent charged	–	(1)
Other transactions received	2	2
	36	**25**

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)	2017	2016
Balances with KIRKBI A/S		
Receivables	8	8
Payables	(28)	–
	(20)	**8**
Balances with Koldingvej 2, Billund A/S		
Receivables	68	85
Payables	(5)	–
	63	**85**
Balances with associates		
Receivables	5	6
Payables	(1)	(1)
	4	**5**
Balances with KIRKBI Invest A/S Group		
Receivables	24	21
Payables	(449)	(456)
	(425)	**(435)**

Note 30 (continued)

(mDKK)	2017	2016
Balances with Merlin Entertainments Group		
Receivables	62	71
Payables	(1)	(1)
	61	**70**
Balances with other related parties		
Receivables	2	1
	2	**1**

Year-end balances regarding loan investments and borrowings

(mDKK)	2017	2016
Balances with KIRKBI Invest A/S		
Loan investments		
Balance at 1 January	4,350	4,932
Loans advanced during the year	12,472	13,715
Repayments	(10,130)	(14,297)
Interest received	(4)	–
Balance at 31 December	**6,688**	**4,350**
Specified as follows:		
Non-current	–	–
Current	6,688	4,350
	6,688	**4,350**
Loan borrowings		
Balance at 1 January	(600)	(600)
Balance at 31 December	**(600)**	**(600)**
Specified as follows:		
Non-current	–	(600)
Current	(600)	–
	(600)	(600)

Parent Company

Financial Statements

Income Statement

1 January – 31 December

(mDKK)	Note	2017	2016
Income statement			
Revenue		119	126
Gross profit		119	126
Other operating expenses	2	(121)	(85)
Operating profit		(2)	41
Net profit for the year from subsidiaries	8	7,762	9,402
Financial income	3	103	95
Financial expenses	4	(112)	(109)
Profit before income tax		7,751	9,429
Tax on profit for the year	5	24	(24)
Net profit for the year		**7,775**	**9,405**

Balance Sheet

31 December

(mDKK)	Note	2017	2016
ASSETS			
Non-current assets			
Patents		3	4
Intangible assets	6	3	4
Land, buildings and installations		6	6
Property, plant and equipment	7	6	6
Deferred tax assets	10	8	10
Investments in subsidiaries	8	19,748	20,623
Investments in associates	8	3	3
Current tax receivables		34	–
Receivables from subsidiaries		1,696	1,678
Other non-current assets		21,489	22,314
Total non-current assets		21,498	22,324
Current assets			
Other receivables		5	5
Total current assets		5	5
Total assets		**21,503**	**22,329**

Balance Sheet

31 December

(mDKK)	Note	2017	2016
EQUITY			
Share capital	9	20	20
Reserve from the use of the equity method		5,305	4,680
Retained earnings		8,415	8,404
Proposed dividend		7,000	7,000
Total equity		**20,740**	**20,104**
LIABILITIES			
Non-current liabilities			
Debt to related parties	12	–	600
Total non-current liabilities		–	600
Current liabilities			
Trade payables		7	8
Current tax liabilities		–	8
Debt to subsidiaries		–	1,458
Debt to related parties	12	600	–
Other debt		156	151
Total current liabilities		763	1,625
Total liabilities		**763**	**2,225**
Total equity and liabilities		**21,503**	**22,329**

Statement of Changes in Equity

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**

2016 (mDKK)	Share capital	Reserve from the use of the equity method	Retained earnings	Proposed dividend	**Total equity**
Balance at 1 January	20	5,877	4,949	7,000	**17,846**
Dividend paid relating to prior year	–	–	–	(7,000)	**(7,000)**
Profit for the year	–	(1,050)	3,455	7,000	**9,405**
Currency translation adjustments	–	(54)	–	–	**(54)**
Entries recognised directly on equity in subsidiaries	–	(93)	–	–	**(93)**
Balance at 31 December	**20**	**4,680**	**8,404**	**7,000**	**20,104**

Notes

Basis for preparation

Note

Income Statement

Note

Balance Sheet and other disclosures

Note

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)	2017	2016
Executive Leadership Team [1]		
Salaries	86	51
Pension	3	2
Short-term incentive plans	9	16
Long-term incentive plans	(3)	15
	95	**84**
Severance payments and other one-offs	31	–
Including fee to Board of Directors	5	4
Number of employees (headcount)	12	5

[1] Employee expenses to Executive Leadership Team are the total amount expensed in all entities within the LEGO Group.

Note 3. Financial income

(mDKK)	2017	2016
Interest income from subsidiaries	98	92
Exchange gains, net	5	3
	103	**95**

Note 4. Financial expenses

(mDKK)	2017	2016
Interest expenses to subsidiaries	93	90
Interest expenses to related parties	19	19
	112	**109**

Note 5. Tax on profit for the year

(mDKK)	2017	2016
Current tax on profit for the year	(26)	26
Deferred tax on profit for the year	22	(3)
Revaluation of deferred tax assets and liabilities	(20)	–
Other tax for the year	5	–
Adjustment of tax relating to previous years, current tax	(5)	1
	(24)	**24**

Note 6. Intangible assets

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**

2016 (mDKK)	Patents
Cost at 1 January	10
Cost at 31 December	**10**
Amortisation and impairment losses at 1 January	5
Amortisation for the year	1
Amortisation and impairment losses at 31 December	**6**
Carrying amount at 31 December	**4**

Note 7. Property, plant and equipment

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**

2016 (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

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**

2016 (mDKK)	Investments in subsidiaries	Investments in associates
Cost at 1 January	7,976	4
Correction to cost at 1 January	(149)	–
Additions	192	–
Disposals	(76)	–
Cost at 31 December	**7,943**	**4**
Value adjustment at 1 January	11,377	(1)
Correction to value adjustment at 1 January	149	–
Currency translation adjustments	(54)	–
Share of net profit for the year	9,402	–
Dividend	(8,173)	–
Disposals	72	–
Entries recognised directly on equity in subsidiaries	(93)	–
Value adjustment at 31 December	**12,680**	**(1)**
Carrying amount at 31 December	**20,623**	**3**

Note 9. Share capital

(mDKK)	2017	2016
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)	2017	2016
Deferred tax, net at 1 January	10	7
Change in deferred tax	(2)	3
Deferred tax, net at 31 December	**8**	**10**
Classified as:		
Deferred tax assets	8	10
	8	**10**

Note 11. Contingent assets, contingent liabilities and other obligations

(mDKK)	2017	2016
Guarantees	1,798	1,693
	1,798	**1,693**

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.

LEGO A/S 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 2016), of which DKK 0 million has been recognised as provision for deferred tax. The amount of DKK 90 million is not expected to be recaptured.

Note 12. Related party transactions

The following transactions were carried through with related parties

(mDKK)	2017	2016
Transactions with KIRKBI A/S		
Sale of assets	–	4
Other transactions charged	(41)	(2)
	(41)	**2**
Transactions with KIRKBI Invest A/S		
Interest charged	(19)	(19)
Other transactions charged	–	(1)
	(19)	**(20)**
Transactions with Merlin Entertainments Group		
Trademark fee received	28	25
	28	**25**

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)	2017	2016
Balances with KIRKBI A/S		
Payables	(26)	–
	(26)	**–**
Balances with KIRKBI Invest A/S		
Payable	(10)	(10)
Loan	(600)	(600)
	(610)	**(610)**
Balances with Merlin Entertainments Group		
Receivables	5	5
	5	**5**

Note 13. Proposed distribution of profit

(mDKK)	2017	2016
Dividend	7,000	7,000
Reserve from the use of the equity method	764	(1,050)
Retained earnings	11	3,455
	7,775	**9,405**

Management's Statement and Auditor's Report

Management's Statement

The Executive Leadership Team 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 2017. 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 2017 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 2017.

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.

The Executive Leadership

Niels B. Christiansen
President and Chief Executive Officer

Marjorie Lao
Chief Financial Officer

Julia Goldin
Chief Marketing Officer

Loren I. Shuster
Chief People Office

Carsten Rasmussen
Chief Operations Officer

Ulrik Gernow
Chief Business Transformation Officer

Claus Flyger Pejstrup
Senior Vice President

Eric Maugein
Senior Vice President

Jacob Kragh
Senior Vice President

Marko Ilincic
Senior Vice President

Skip Kodak
Senior Vice President

Victor Saeijs
Senior Vice President

Board of Directors

Jørgen Vig Knudstorp
Chairman

Thomas Kirk Kristiansen
Deputy Chairman

Kjeld Kirk Kristiansen

Kåre Schultz

Søren Thorup Sørensen

Eva Berneke

Jan 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 2017 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2017 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 2017 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2017 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 2017, 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 judgment 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.

Hellerup, 26 February 2018

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no 3377 1231

Mogens Nørgaard Mogensen
State Authorised Public Accountant
mne21404

Henrik Trangeled Kristensen
State Authorised Public Accountant
mne23333

Group Structure

LEGO A/S

- LEGO System A/S
- LEGO Security Billund ApS
- LEGO Park Holding UK Ltd.
  - LEGO Lifestyle International Ltd. (UK)
- LEGO Company Limited (UK)
- LEGO Belgium n.v.
- LEGO Nederland B.V.
- LEGO Sverige AB
- LEGO Norge AS
- Oy Suomen LEGO Ab (Finland)
- LEGO GmbH (Germany)
- LEGO Handelsgesellschaft mbH (Austria)
- LEGO SAS (France)
- LEGO Brand Retail SAS (France)

- LEGO S.p.A. (Italy)
- LEGO S.A. (Spain)
- LEGO Lda. (Portugal)
- LEGO Production s.r.o. (Czech Republic)
- LEGO Trading s.r.o. (Czech Republic)
- LEGO Schweiz AG
- LEGO Hungária Kft.
- LEGO Manufacturing Kft. (Hungary)
- LEGO Polska Sp. zo.o.
- LEGO Romania S.R.L.
- LEGO Ukraine LLC
- LEGO Ltd. (Russia)
- LLD Share Verwaltungs GmbH (Germany)
  - LLD Share Gmbh & Co. KG (Germany)

- LEGO Turkey Oyuncak Tiearet Anonim Sirketi
- LEGO do Brasil Comércio e Distribuicão de Brinquedos Ltda
- LEGO Canada Inc.
- LEGO Mexico S.A. de C.V
- 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. (Mexico)
- LEGO Systems, Inc. (US)
  - LEGO Brand Retail Inc. (US)

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

Ownership is 100% unless stated otherwise.

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.

LEGO A/S owns 19.8% of KABOOKI A/S which is an associate.

In our Responsibility Reports you will find detailed information on the LEGO Group's non-financial results for 2017.

www.LEGO.com/responsibility

The LEGO Group
Aastvej
7190 Billund
Denmark
Tel.: +45 7950 6070
www.LEGO.com