



The LEGO Group

Annual Report 2016

CVR: 54 56 25 19

Company name: LEGO A/S

Address: Aastvej 1, Billund

As approved at the Annual General Meeting on May 1, 2017

A blue ink signature of Claus Andersen, written in a cursive style.

Claus Andersen
Chairman of the Meeting

LEGO A/S

Aastvej 1 DK-7190 Billund Denmark Tel: +45 79 50 60 70

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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Management Report

Company Information

MANAGEMENT BOARD

Bali Padda

President and Chief Executive Officer (CEO)

John Goodwin

Chief Financial Officer (CFO)

Julia Goldin

Chief Marketing Officer (CMO)

Loren I. Shuster

Chief Commercial Officer (CCO)

BOARD OF DIRECTORS

Niels Jacobsen

Chairman of the Board and member since 2008.

President and CEO of William Demant Holding A/S.

Deputy Chairman of the Board of KIRKBI A/S.

Deputy Chairman of the Board of A.P. Møller-Mærsk A/S.

Deputy Chairman of the Board of Jeudan A/S.

Chairman of the Board of Össur hf.

Member of the Board of Boston Holding A/S.

Thomas Kirk Kristiansen

Deputy Chairman of the Board since May 2, 2016 (member since 2007).

Representing the fourth generation of the owner family.

Member of the Board of KIRKBI A/S

and board member in 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 since 1975

(Deputy Chairman from 1996 to May 2, 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 since 2007.

CEO of H. Lundbeck A/S.

Chairman of the Board of Royal Unibrew A/S.

Søren Thorup Sørensen

Member of the Board 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 INTERLEGO AG.

Chairman of Topdanmark A/S and Topdanmark Forsikring A/S

Member of the Board of LEGO Juris A/S, KIRKBI Invest A/S, Falck A/S,

Koldingvej 2, Billund A/S, Ole Kirk's Fond

and Merlin Entertainments PLC.

Eva Berneke

Member of the Board 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 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 6 countries.

Member of the Board of Ixom Ltd.

Member of the Board of Simone Acc. Collection.

AUDITORS

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab



Management's Review

2016 was another year of record sales for the LEGO Group, but with slower growth than the extraordinary high levels seen in the past. Revenues increased by 6.0% in 2016 to DKK 37.9 billion against DKK 35.8 billion the year before.

Revenue growth excluding foreign exchange impacts was 5.5% year over year (on a local currency basis).

Sales were driven by strong growth in Europe and Asia, while Americas markets experienced mixed performance.

The LEGO Group's profit before tax amounted to DKK 12.4 billion in 2016 against DKK 12.1 billion the year before, an increase of 2.0%. The lower profit growth than in recent years is a result of a planned high level of investments in physical capacity and organisational capability building to equip the company for future growth.

The result is considered satisfactory, in line with the Group's long-term expectations.

Operating profit

The LEGO Group's operating profit amounted to DKK 12.4 billion in 2016 against DKK 12.2 billion in 2015.

The operating margin was 32.8% in 2016 against 34.2% in 2015.

Financial income and expenses

Net financials created a total expense of DKK 57 million in 2016 against an expense of DKK 96 million in 2015.

Corporate income tax

Corporate income tax amounts to DKK 3.0 billion against DKK 3.0 billion the year before. The effective tax rate for the year is 23.8% against 24.5% in 2015.

Profit for the year

The LEGO Group's profit for the year amounted to DKK 9.4 billion in 2016 against DKK 9.2 billion in 2015, which is satisfactory.

The lower growth in profits in 2016 is driven by the LEGO Group's considerable planned investments in land, buildings and machinery as well as organisational capability building. These investments are made with a view to preparing the company for future growth.

Cash flows and equity

The LEGO Group's assets increased by DKK 2.0 billion in 2016 and amount to DKK 29.9 billion against DKK 27.9 billion at the end of 2015.

Cash flows from operating activities amounted to DKK 9.1 billion against DKK 10.6 billion in 2015.

After recognition of the profit for the year and distribution of dividend, the LEGO Group's equity has increased by DKK 2.3 billion to DKK 20.0 billion in 2016.

At the end of 2016, the equity ratio of the LEGO Group was 66.9% against 63.7% in 2015.

Return on equity for the LEGO Group was 49.9% in 2016 against 60.0% in 2015.

Capacity investments

In 2016, the LEGO Group continued and further intensified its extensive investments in production capacity, building on its overall strategy to locate production close to core markets. Investments in property, plant and equipment amounted to DKK 2.9 billion in 2016 against DKK 2.8 billion in 2015.

In October 2015, the LEGO Group announced plans for expansions of the LEGO factories in Nyíregyháza, Hungary, and Monterrey, Mexico, in order to meet future demand for LEGO products.

At the Mexican plant, the first phase of construction started late 2015. Additional construction phases will be added depending on LEGO sales development. When all phases are completed, the factory could in terms of size be expanded by up to 190,000 m². Over time, the expansion will include moulding, packing, processing and warehousing.

At the Hungarian plant, the first phase of construction started in 2016. The next phases will be initiated dependent on LEGO sales development. When completed, the factory would be expanded from its present size of 120,000 m² up to a total of 290,000 m². The expansion will include moulding, packing, processing, and warehousing.

In November 2016, the new LEGO factory in Jiaxing, China, was officially inaugurated. The 165,000m² factory is expected to produce 70-80% of all LEGO products sold in Asia and thus plays an important role in the Group's ambition to provide safe, high-quality creative play experiences to millions of children across Asia.

In July 2016, the LEGO Group announced plans to build a 52,000 m² office building at its headquarters in Billund, Denmark. In addition to office space for up to 2,000 employees, a significant part of the new building will be reserved for what will be called LEGO People House. Here, LEGO employees from all over the world can gather, be creative, and physically active together, both during and outside working hours. Preparations for the construction started late 2016, and the first part of the building is expected to be finished 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 considerable development activities that enable such an extensive degree of innovation comprise a wide range of activities from trend spotting and anthropological studies to the actual development of specific products and campaigns.

In June 2015, the LEGO Group announced its decision to invest DKK 1 billion to identify and implement even more sustainable raw materials and packaging solutions by 2030. As part of this initiative, the company is setting up a Sustainable Materials Centre. Most of the centre's expected staff of approximately 100 have joined during 2016, the majority of whom will be located at the company's headquarters in Denmark.

Moreover, the LEGO Group cooperates with a number of educational institutions concerning various research projects within, among other things, children's play and new technologies.

Intellectual capital resources

The continued success of the company is only possible because of the skills, dedication and commitment of LEGO employees.

The average number of full-time employees was 16,836 in 2016 compared to 13,974 in 2015.

Due to the significant intake of new employees, it is of the utmost importance to the company that new employees are carefully on-boarded with a focus on the Group's cultural foundation, governance approach and strategic outlook. A global induction programme is at the heart of this effort, but just as importantly all employees are encouraged to support the onboarding of new colleagues to the LEGO culture.

Not least due to the considerable growth and ongoing globalisation, it is key to the company and its performance to ensure a clear link between the overall targets and objectives of the company and the individual employees' targets. Therefore, all employees in the LEGO Group participate in the Performance Management Programme (PMP). This Programme ensures that the targets set for the performance of the employees relate directly to the overall objectives of the Group. On a current basis during the year, the manager and the employee follow up on progress on the targets that can be either individual or shared with other colleagues in order to foster collaboration. A year-end evaluation of the employee's and the company's performance compared with the defined targets decides the amount of bonus for each individual employee.

In December 2016, a new structure for active family ownership of the LEGO® brand was announced. The Kirk Kristiansen family, owners of the LEGO brand, is establishing the LEGO Brand Group that will facilitate the owner governance of all LEGO brand related activities such as how the brand is being expressed by entities like the LEGO Group, LEGO Education and the LEGO Foundation as well as in LEGOLAND® attractions (by Merlin Entertainments Group).

It was further announced that the CEO of the LEGO Group Jørgen Vig Knudstorp will chair the new entity in close partnership with deputy chair, Thomas Kirk Kristiansen, and that Jørgen Vig Knudstorp will further be nominated to become Chairman of the Board of LEGO A/S in May 2017.

As a consequence, Jørgen Vig Knudstorp stepped down from the post as CEO of LEGO A/S as of December 31, 2016.

The new CEO as of January 1, 2017 is former COO Bali Padda. Bali Padda has subsequently appointed the members of a new Executive Leadership Team that will replace the Management Board of the company as of April 1, 2017. The members of the Executive Leadership Team are:

- Bali Padda, Chief Executive Officer (CEO)
- Ulrik Gernow, Chief Business Transformation Officer (CBTO)
- Julia Goldin, Chief Marketing Officer (CMO)
- Marjorie Lao, Chief Financial Officer (CFO)
- Carsten Rasmussen, Chief Operations Officer (COO)
- Loren I. Shuster, Chief Commercial Officer (CCO)
- Padma Thiruvengadam, Chief People Officer (CPO)

Responsible business conduct

The LEGO Group wants to have a positive impact on its stakeholders and its surroundings.

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 LEGO Group confirms its support to United Nations Global Compact and has issued its Responsibility Report 2016 (COP report) describing how the Group is working within the areas of human rights, labour standards, the environment and anti-corruption.

Pursuant to section 99 a and 99 b of the Danish Financial Statements Act, the Responsibility Report 2016 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 Report furthermore describes the LEGO Group's efforts to achieve its non-financial goals.

The Responsibility Report 2016 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 market for traditional toys, in which the Group operates, saw healthy growth during 2016.

North American and most European toy markets experienced mid-single digit growth during the year. Most of the Asian and Pacific toy markets also posted solid growth except for South Korea and Australia that saw a declining toy market in 2016.

LEGO® sales

Most major LEGO markets experienced growth in 2016. However, the growth was very unevenly distributed. The Group's sales in North America were slightly down in 2016 as were sales in Japan. All European markets saw healthy high single or double digit growth rates, and the Chinese market continued its strong double digit growth.

Among the top selling lines in 2016 were core themes like LEGO® City, LEGO® Star Wars™, LEGO® NINJAGO®, LEGO Friends, LEGO Creator and LEGO® DUPLO®. The new theme LEGO® NEXO KNIGHTS™, that combines physical and digital play through building sets, digital gaming and inspirational storytelling, was also a contributor to growth.

During the coming years, the LEGO Group expects to grow moderately ahead of the global toy market that is expected to grow low to mid-single digit. This is expected to be achievable due to the Group's continued focus on innovation and its commitment to global expansion, such as deepening its presence in China.

As a consequence of the LEGO Group's global growth, the company experiences an increase in the risk related to trade receivables. This is reflected in an increase in provisions for bad debts, ref. note 16.

The majority of the LEGO Group's sales are in foreign currency, 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 2017

The LEGO Group expects continued sales growth in 2017, in line with the long-term expectations mentioned above. The LEGO Group expects satisfactory results for 2017.

Financial Highlights of the LEGO Group

(mDKK)	2016	2015	2014	2013	2012
Income Statement:					
Revenue	37,934	35,780	28,578	25,294	23,095
Expenses	(25,486)	(23,536)	(18,881)	(16,958)	(15,489)
Operating profit	12,448	12,244	9,697	8,336	7,606
Financial income and expenses	(57)	(96)	(206)	(97)	(84)
Profit before income tax	12,391	12,148	9,491	8,239	7,522
Net profit for the year	9,436	9,174	7,025	6,119	5,613
Balance Sheet:					
Total assets	29,937	27,877	21,419	17,952	16,352
Equity	20,039	17,751	12,832	11,075	9,864
Liabilities	9,898	10,126	8,587	6,877	6,488
Cash Flow Statement:					
Cash flows from operating activities	9,084	10,559	7,945	6,744	6,220
Investment in intangible assets	92	126	59	103	61
Investment in property, plant and equipment	2,908	2,822	3,115	2,644	1,729
Cash flows from financing activities	(6,575)	(6,816)	(5,302)	(3,466)	(4,535)
Total cash flows	(483)	808	(521)	574	(88)
Employees:					
Average number (full-time)	16,836	13,974	12,582	11,755	10,400
Key performance indicator:					
Economic value added (EVA)	11,273	11,406	8,761	7,250	6,758
Financial ratios (in %):					
Gross margin	72.0	72.6	71.8	70.7	70.6
Operating margin	32.8	34.2	33.9	33.0	32.9
Net profit margin	24.9	25.6	24.6	24.2	24.3
Return on equity (ROE)	49.9	60.0	58.8	58.4	66.7
Return on invested capital (ROIC)	90.5	104.7	99.3	106.9	126.8
Equity ratio	66.9	63.7	59.9	61.7	60.3

The Financial Highlights are adjusted as a consequence of a change in classification in the Income Statement. The Financial Highlights for 2012 have not been changed.

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.



16,836
Average employees 2016

37.9 billion
(DKK)
Revenue 2016

9.4 billion
(DKK)
Net profit 2016

Consolidated Financial Statements

Income Statement and Statement of Comprehensive Income

1 January – 31 December

(mDKK)	Note	2016	2015
Income Statement:			
Revenue	3	37,934	35,780
Production costs	4,6,7	(10,640)	(9,814)
Gross profit		27,294	25,966
Sales and distribution expenses	4,6,7	(10,584)	(9,765)
Administrative expenses	4,5,6,7	(2,321)	(2,239)
Other operating expenses	4,6,8	(1,941)	(1,718)
Operating profit		12,448	12,244
Financial income	9	15	12
Financial expenses	10	(72)	(108)
Profit before income tax		12,391	12,148
Tax on profit for the year	11	(2,955)	(2,974)
Net profit for the year		9,436	9,174
Statement of Comprehensive Income:			
Profit for the year		9,436	9,174
<i>Items that will be reclassified subsequently to the income statement, when specific conditions are met:</i>			
Change in market value of cash flow hedges		(55)	(537)
<i>Reclassification of cash flow hedges from equity to be recognised as part of:</i>			
Revenue in the income statement		(60)	734
Production costs in the income statement		4	20
Tax on cash flow hedges		25	(53)
Currency translation differences		(55)	79
<i>Items that will not be reclassified subsequently to the income statement:</i>			
Remeasurements of defined benefit plans		(9)	2
Tax on remeasurements of defined benefit plans		2	-
Total comprehensive income for the year		9,288	9,419

Balance Sheet

at 31 December

(mDKK)	Note	2016	2015
ASSETS			
Non-current assets:			
Development projects		39	139
Software		270	138
Licences, patents and other rights		42	55
Intangible assets	12	351	332
Land, buildings and installations		5,352	5,016
Plant and machinery		3,710	3,033
Other fixtures and fittings, tools and equipment		1,193	1,176
Fixed assets under construction		1,457	1,076
Property, plant and equipment	13	11,712	10,301
Deferred tax assets	19	611	419
Investments in associates	14	3	3
Prepayments		159	169
Other non-current assets		773	591
Total non-current assets		12,836	11,224
Current assets:			
Inventories	15	2,991	2,747
Trade receivables	16,26	7,174	6,410
Other receivables	26	1,036	920
Prepayments		134	179
Current tax receivables		510	254
Receivables from related parties	26,30	4,350	4,932
Cash at banks	26,29	906	1,211
Total current assets		17,101	16,653
TOTAL ASSETS		29,937	27,877

Balance Sheet

at 31 December

(mDKK)	Note	2016	2015
EQUITY AND LIABILITIES			
EQUITY			
Share capital	17	20	20
Reserve for hedge accounting		(80)	6
Reserve for currency translation		(338)	(283)
Retained earnings	18	20,437	18,008
Total equity		20,039	17,751
LIABILITIES			
Non-current liabilities:			
Borrowings	26	178	187
Deferred tax liabilities	19	40	29
Pension obligations	20	198	95
Provisions	22	54	64
Deferred revenue	23	36	47
Debt to related parties	26,30	600	600
Other long-term debt	21,26	197	166
Total non-current liabilities		1,303	1,188
Current liabilities:			
Borrowings	26	41	189
Trade payables	26	2,837	3,080
Current tax liabilities		223	230
Provisions	22	72	54
Deferred revenue	23	237	203
Other short-term debt	21,26	5,185	5,182
Total current liabilities		8,595	8,938
Total liabilities		9,898	10,126
TOTAL EQUITY AND LIABILITIES		29,937	27,877

Statement of Changes in Equity

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

2015 (mDKK)	Share capital	Reserve for hedge-accounting	Reserve for currency translation	Retained earnings	Total equity
Balance at 1 January	20	(158)	(362)	13,332	12,832
Profit for the year	-	-	-	9,174	9,174
Comprehensive income/(expenses) for the year	-	164	79	2	245
Dividend paid relating to prior year	-	-	-	(4,500)	(4,500)
Balance at 31 December	20	6	(283)	18,008	17,751

Cash Flow Statement

1 January – 31 December

(mDKK)	Note	2016	2015
Cash flows from operating activities:			
Cash generated from operations	28	12,468	13,850
Interest paid etc.		(36)	(40)
Interest received etc.		15	12
Income tax paid		(3,363)	(3,263)
Net cash generated from operating activities		9,084	10,559
Cash flows from investing activities:			
Purchases of intangible assets	12	(92)	(126)
Purchases of property, plant and equipment	13	(2,908)	(2,822)
Proceeds from sale of property, plant and equipment		8	13
Net cash used in investing activities		(2,992)	(2,935)
Cash flows from financing activities:			
Dividend paid to shareholders		(7,000)	(4,500)
Payment to related parties	30	(13,715)	(12,144)
Repayment from related parties	30	14,297	9,810
Payments to borrowings		(157)	-
Repayments of borrowings		-	18
Net cash used in financing activities		(6,575)	(6,816)
Total cash flows		(483)	808
Cash and cash equivalents at 1 January		1,211	482
Exchange gains/(losses) on cash at banks		178	(79)
Cash at banks at 31 December	29	906	1,211



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Note 1. Significant accounting policies

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

The Consolidated Financial Statements have been prepared in accordance with the historical cost conversion, as modified by the revaluation of financial assets and financial liabilities (including financial instruments) at fair value.

Change in classification in the balance sheet

Comparative figures in the balance sheet have been restated to match this year's presentation. The adjustment of the comparative figures have no effect on total assets or equity.

Effects of new and amended accounting standards

All new and amended standards and interpretations issued by IASB and endorsed by the EU effective as of 1 January 2016 have been adopted by the LEGO Group. The application of the new IFRS's has not had a material impact on the Consolidated Financial Statements in 2016 and we do not anticipate any significant impact on future periods from the adoption of these new IFRS's.

The following standards which are not yet effective are relevant for the LEGO Group:

- IFRS 9, Financial instruments. IFRS 9 is the new standard on 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. The standard is effective for annual periods beginning on or after 1 January 2018.
- 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 standard is effective for annual periods beginning on or after 1 January 2018.
- 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 the 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. The standard is effective for annual periods beginning on or after 1 January 2019.

It is Management's assessment that IFRS 9 and IFRS 15 will not have any significant impact on the Consolidated Financial Statements upon adoption of these standards.

Management has not yet finalised the investigation of the impact of the Consolidated Financial Statements upon adoption of IFRS 16.

Note 1 (continued)

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.

Note 1 (continued)

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.

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 effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in comprehensive income. 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.

Note 1 (continued)

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 multiple element revenue transaction and allocated between the goods supplied and the award credits granted.

Deferred Revenue

The gift cards and awarded credits granted are not recognised as revenue at the time of the initial sales transaction, but 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

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

Other operating expenses

Other operating expenses include royalty and research and development costs.

Taxes

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

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

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

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

Note 1 (continued)

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
Installations	10-20 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 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

Note 1 (continued)

depreciated over the estimated useful lives of the assets, according to the periods listed under the section property, plant and equipment. The corresponding finance lease liabilities are recognised in liabilities.

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

Impairment of assets

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

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

Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of raw materials, consumables and purchased goods comprises the invoice price plus delivery expenses. The cost of finished goods and work in progress comprises the purchase price of materials and direct labour costs plus indirect production costs. Indirect production costs include indirect materials and wages, maintenance and depreciation of plant and machinery, factory buildings and other equipment as well as expenses for factory administration and management.

Other receivables and prepayments

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

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 on basis of an objective indication if an individual receivable or a portfolio of receivables are impaired.

Equity**Reserve for hedge accounting**

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

Reserve for currency translation

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

Note 1 (continued)

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.

Retirement benefit obligation

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

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

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

Past service costs are recognised immediately in the income statement.

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

Provisions

Provisions are recognised when the LEGO Group identifies legal or constructive obligations

Note 1 (continued)

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

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

Note 1 (continued)

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 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 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)		2016	2015
Sale of goods		37,379	35,359
Licence income		555	421
Total revenue		37,934	35,780

Note 4. Expenses by nature

(mDKK)	Note	2016	2015
Raw materials and consumables used		5,587	5,366
Employee expenses	6	6,788	5,956
Depreciation and amortisation	7	1,295	1,081
Licence and royalty expenses		2,893	2,523
Other external expenses		8,923	8,610
Total operating expenses		25,486	23,536

Note 5. Auditors' fees

(mDKK)	Note	2016	2015
Fee to PwC:			
Statutory audit of the Financial Statements		11	10
Other assurance engagements		3	1
Tax assistance		11	20
Other services		21	34
		46	65

Note 6. Employee expenses

(mDKK)	Note	2016	2015
Wages and salaries		5,848	5,266
Termination benefit and restructuring		33	25
Pension costs	20	338	235
Other expenses and social security expenses		617	475
Total employee costs for the year		6,836	6,001
Employee costs included in:			
Intangible assets		(13)	(12)
Property, plant and equipment		(35)	(33)
Total employee costs expensed in the income statement		6,788	5,956
Classified as:			
Production costs		1,962	1,833
Sales and distribution expenses		2,899	2,579
Administrative expenses		1,546	1,300
Other operating expenses		381	244
		6,788	5,956
Including Key Management Personnel (Management Board)			
Salaries		51	43
Pension		2	2
Short-term incentive plans		16	12
Long-term incentive plans		15	23
		84	80
Including fee to Board of Directors:			
		4	4
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.			
Average number of full-time employees		16,836	13,974
Number of employees (headcount)		19,061	17,294

Note 7. Depreciation and amortisation

(mDKK)	2016	2015
Software	60	51
Licences, patents and other rights	13	13
Buildings and installations	192	145
Plant and machinery	805	662
Other fixtures and fittings, tools and equipment	225	210
	1,295	1,081
Classified as:		
Production costs	1,034	854
Sales and distribution expenses	134	131
Administrative expenses	127	96
	1,295	1,081

Note 8. Research and development expenses

(mDKK)	2016	2015
Research and development expenses	567	533
	567	533

Note 9. Financial income

(mDKK)	2016	2015
Interest income from credit institutions measured at amortised cost	11	7
Other interest income	4	5
	15	12

Note 10. Financial expenses

(mDKK)	2016	2015
Interest expenses on mortgage loans measured at amortised cost	1	1
Interest expenses to related parties	19	19
Interest expenses to credit institutions measured at amortised cost	5	10
Other interest expenses	11	10
Exchange losses, net	36	68
	72	108

Note 11. Tax on profit for the year

(mDKK)	2016	2015
Current tax on profit for the year	3,067	3,182
Deferred tax on profit for the year	(161)	(115)
Other	5	2
Revaluation of deferred tax assets and liabilities	-	(8)
Deferred tax, effect of change in tax rate	1	8
Adjustment of tax relating to previous years, current tax	23	(48)
Adjustment of tax relating to previous years, deferred tax	20	(47)
	2,955	2,974
Income tax expenses are specified as follows:		
Calculated 22.0% (23.5% in 2015) tax on profit for the year before income tax	2,726	2,855
Tax effect of:		
Higher/lower tax rate in subsidiaries	115	106
Non-taxable income	(5)	(69)
Non-deductible expenses	88	74
Deferred tax, effect of change in tax rate	1	8
Adjustment of tax relating to previous years	43	(95)
Revaluation of deferred tax assets and liabilities	-	(8)
Other	(13)	103
	2,955	2,974
Effective tax rate	23.8%	24.5%

Note 12. Intangible assets

2016 (mDKK)	Develop- ment 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

2015 (mDKK)	Develop- ment projects	Software	Licences, patents and other rights	Total
Cost at 1 January	85	461	222	768
Exchange rate adjustment to year-end rate	-	-	6	6
Additions	117	6	3	126
Disposals	-	(205)	-	(205)
Transfers	(63)	63	-	-
Cost at 31 December	139	325	231	695
Amortisation and impairment losses at 1 January	-	335	162	497
Exchange rate adjustment to year-end rate	-	6	1	7
Amortisation for the year	-	51	13	64
Disposals	-	(205)	-	(205)
Amortisation and impairment losses at 31 December	-	187	176	363
Carrying amount at 31 December	139	138	55	332

Note 13. Property, plant and equipment

2016 (mDKK)	Land, buildings and installations	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construc- tion	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

Property, plant and equipment in general:

An obligation regarding the purchase of property, plant and equipment of DKK 713 million exists at 31 December 2016 (DKK 2,014 million at 31 December 2015).

Assets under finance leases:

Assets under finance leases consist of buildings.

Note 13 (continued)

2015 (mDKK)	Land, buildings and installations	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construc- tion	Total
Cost at 1 January	3,981	6,023	1,862	1,591	13,457
Exchange adjustment to year-end rate	(45)	16	58	78	107
Additions	252	882	182	1,506	2,822
Disposals	-	(279)	(95)	-	(374)
Transfers	1,654	322	123	(2,099)	-
Cost at 31 December	5,842	6,964	2,130	1,076	16,012
Depreciation and impairment losses at 1 January	682	3,529	790	-	5,001
Exchange adjustment to year-end rate	(1)	6	27	-	32
Depreciation for the year	145	662	210	-	1,017
Disposals	-	(266)	(73)	-	(339)
Depreciation and impairment losses at 31 December	826	3,931	954	-	5,711
Carrying amount at 31 December	5,016	3,033	1,176	1,076	10,301
Including assets under finance leases	19	-	-	-	19

Note 14. Investments in associates

(mDKK)	2016	2015
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)	2016	2015
Raw materials	138	177
Work in progress	1,405	1,073
Finished goods	1,448	1,497
	2,991	2,747
Indirect production costs included in inventories	1,139	1,007
Share of total inventories	38.1%	36.7%
The cost of inventory recognised as an expense during the year	7,569	7,201
Including:		
Write-down of inventories to net realisable value (expense)/income	(69)	(37)

Note 16. Trade receivables

(mDKK)	2016	2015
Trade receivables (gross)	7,547	6,770
Provision for bad debts:		
Balance at 1 January	(360)	(79)
Exchange adjustment to year-end rate	(4)	(2)
Change in provision for the year	(28)	(291)
Realised losses for the year	19	12
Balance at 31 December	(373)	(360)
Trade receivables (net)	7,174	6,410

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

Note 16 (continued)

The age distribution of gross trade receivables is as follows:

(mDKK)	2016	2015
Not overdue	7,152	6,234
0 - 60 days overdue	296	449
61 - 120 days overdue	22	13
121 - 180 days overdue	7	21
More than 180 days overdue	70	53
	7,547	6,770

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

	2016	2015
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 2015). 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 2016, corresponding to DKK 34.1 million in average per share (DKK 4,500 million in 2015, DKK 22.0 million in average per share).

Proposed dividend for 2016 is DKK 7,000 million, corresponding to DKK 34.1 million in average per share.

Note 19. Deferred tax

(mDKK)	2016	2015
Deferred tax, net at 1 January	390	285
Change in tax rates recognised in income statement	(1)	(8)
Exchange rate adjustments	14	(4)
Income statement charge	141	170
Charged to comprehensive income	27	(53)
Deferred tax, net at 31 December	571	390
Classified as:		
Deferred tax assets	611	419
Deferred tax liabilities	(40)	(29)
	571	390

Note 19 (continued)

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

2015 (mDKK)	Deferred tax assets	Deferred tax liabilities	Deferred tax net
Non-current assets	115	(109)	6
Receivables	49	(5)	44
Inventories	245	(183)	62
Provisions	147	-	147
Other liabilities	132	(47)	85
Other	70	(27)	43
Offset	(342)	342	-
Tax loss carry-forwards	3	-	3
	419	(29)	390

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 19 million of the LEGO Group's capitalised tax losses expire after 5 years (DKK 3 million in 2015 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 all defined contribution plans. In the LEGO Group, DKK 233 million (DKK 223 million in 2015) 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 198 million (DKK 95 million in 2015) 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 105 million (DKK 12 million in 2015) have been recognised in the income statement as costs and DKK -9 million (DKK 2 million in 2015) have been recognised in comprehensive income.

(mDKK)	2016	2015
The amounts recognised in the balance sheet are calculated as follows:		
Present value of funded obligations	(164)	(193)
Fair value of plan assets	142	153
	(22)	(40)
Present value of unfunded obligations	(176)	(55)
Net liability recognised in the balance sheet	(198)	(95)
Of which included as part of the liabilities	(198)	(95)
The change in present value of defined benefit obligations for the year is as follows:		
Present value at 1 January	(248)	(226)
Exchange adjustment to year-end rate	17	(15)
Pension costs relating to current financial year	(99)	(9)
Interest expenses	(11)	(8)
Remeasurement gains/(losses)	(12)	3
Benefits paid	13	7
Present value at 31 December	(340)	(248)

Note 20 (continued)

(mDKK)	2016	2015
The change in fair value of plan assets for the year is as follows:		
Plan assets at 1 January	153	144
Exchange adjustment to year-end rate	(15)	6
Interest income	5	5
Remeasurement gains/(losses)	3	(1)
Benefits paid	(4)	(1)
Plan assets at 31 December	142	153
Movements in the net liability recognised in the balance sheet are as follows:		
Net liability at 1 January	(95)	(82)
Exchange adjustment to year-end rate	2	(9)
Total expenses charged to the income statement	(105)	(12)
Total income charged to comprehensive income gains/(losses)	(9)	2
Contributions paid	9	6
Net liability at 31 December	(198)	(95)
The actual return on plan assets amounts to	6	(1)

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:

	2016	2015
Discount rate	1% - 8%	2% - 4%
Future salary increases	1% - 6%	2% - 6%
Future pension increases	1% - 3%	1% - 3%

Note 21. Other debt

(mDKK)	2016	2015
Wage-related payables and other charges	1,618	1,844
Debt to related parties	442	521
Finance lease obligations	23	27
VAT and other indirect taxes	403	408
Amortised debt	127	147
Discounts	1,061	768
Other current liabilities	1,708	1,633
	5,382	5,348
Specified as follows:		
Non-current	197	166
Current	5,185	5,182
	5,382	5,348

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)	2016	2015
Obligations regarding finance leases are as follows:		
0-1 year	6	7
1-5 years	21	26
> 5 years	-	2
	27	35
Reconciliation of carrying amount and gross liability:		
Carrying amount of the liability	23	27
Interest expenses not yet accrued	4	8
Gross liability	27	35

No contingent leases have been recognised in expenses in 2016 or 2015. None of the assets under finance leases have been subleased.

Note 22. Provisions

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

2015 (mDKK)	Restructuring	Other	Total
Provisions at 1 January	27	212	239
Exchange adjustment to year-end rate	–	1	1
Additions	40	42	82
Used	(20)	(5)	(25)
Reversed	(6)	(173)	(179)
Provisions at 31 December	41	77	118

Specified as follows:

Non-current	64
Current	54
	118

Provisions for restructuring obligations relate primarily to close-down and movement of activities and redundancy programmes. The majority of these obligations are expected to result in cash outflows in 2017.

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

Note 23. Deferred revenue

(mDKK)	2016	2015
Consumer loyalty programme	128	104
Other	145	146
	273	250
Specified as follows:		
Non-current	36	47
Current	237	203
	273	250

Note 24. Contingent assets, contingent liabilities and other obligations

(mDKK)	2016	2015
Guarantees	681	118
Operating lease obligations	2,873	2,702
Other obligations	266	271
	3,820	3,091

Guarantees relate to bank guarantees for commitments.

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)	2016	2015
Lease expenses for the year charged to the income statement amount to	820	747

Note 24 (continued)

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

(mDKK)	2016	2015
Related parties:		
0-1 year	51	53
1-5 years	118	117
> 5 years	181	189
	350	359
Other:		
0-1 year	569	500
1-5 years	1,388	1,425
> 5 years	566	418
	2,523	2,343

Security has been given in land, buildings and installations with a net carrying amount of DKK 429 million (DKK 344 million in 2015) 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 80 million (DKK 102 million in 2015), of which DKK 0 million has been recognised as a provision for deferred tax. The amount of DKK 80 million (DKK 102 million in 2015) 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 non-resident 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 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, cf. note 26.

The credit risks of the LEGO Group are considered to be low.

Foreign exchange risk

The LEGO Group has significant net inflows in EUR, USD and GBP, while CZK, HUF, MXN and CNY account for the most significant exposure on the outflow side.

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 of future cash flows.

Note 25 (continued)

The isolated effects of the financial instruments on profit and equity after tax of a currency strengthening of 10% against DKK at 31 December 2016 are specified as follows:

(mDKK)	%-change	2016	2015
EUR:			
Equity	10%	85	(46)
Net profit for the year	10%	85	(37)
USD:			
Equity	10%	(246)	(245)
Net profit for the year	10%	47	50
GBP:			
Equity	10%	53	(37)
Net profit for the year	10%	(7)	(22)
CZK:			
Equity	10%	119	93
Net profit for the year	10%	119	93
MXN:			
Equity	10%	96	41
Net profit for the year	10%	78	29
HUF:			
Equity	10%	118	106
Net profit for the year	10%	118	97
CNY:			
Equity	10%	139	78
Net profit for the year	10%	139	78

The financial instruments included in the foreign exchange sensitivity analysis are the LEGO Group's; Cash, Accounts receivable, Accounts payable, Current and Non-Current loans and foreign exchange forwards and foreign exchange options.

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 2016 would have had a positive impact on the LEGO Group's profit before tax of approx. DKK 21.6 million in 2016 (DKK 13.8 million in 2015). 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 liquidity problems. The liquidity risk is therefore not significant. 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 2016 (DKK 4,500 million in 2015). It is expected that the dividend for 2016, to be paid in 2017 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 2016 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 years 2017 and 2018.

Note 26 (continued)

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

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 bank and in hand	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)

2015 (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	376	376	189	42	149	380
Debt to related parties	600	600	19	638	-	657
Trade payables	3,080	3,080	3,080	-	-	3,080
Other debt ¹	2,993	2,993	2,973	26	2	3,001
	7,049	7,049	6,261	706	151	7,118
Derivative financial instruments:						
Measured at fair value through the income statement	56	56	56	-	-	56
Measured at fair value through comprehensive income (cash flow hedging)	32	32	32	-	-	32
	88	88	88	-	-	88
Total financial liabilities	7,137	7,137	6,349	706	151	7,206
Measured at amortised cost (loans and receivables):						
Trade receivables	6,410	6,410	6,410	-	-	6,410
Other receivables ¹	579	579	579	-	-	579
Receivables from related parties	4,932	4,932	4,932	-	-	4,932
Cash at bank and in hand	1,211	1,211	1,211	-	-	1,211
	13,132	13,132	13,132	-	-	13,132
Derivative financial instruments:						
Measured at fair value through the income statement	12	12	12	-	-	12
Measured at fair value through comprehensive income (cash flow hedging)	43	43	43	-	-	43
	55	55	55	-	-	55
Total financial assets	13,187	13,187	13,187	-	-	13,187

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 (what 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.

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 27 (continued)

2015 (mDKK)	Contract amount	Positive fair value	Negative fair value	Period covered
Hedging of forecast transactions qualifying for hedge accounting:				
USD (sale of currency)	3,382	19	15	12 months
JPY (sale of currency)	284	-	11	11 months
GBP (sale of currency)	203	7	-	5 months
Other (purchase of currency)	278	-	3	11 months
Other (sale of currency)	589	17	3	11 months
Total forward contracts	4,736	43	32	
USD (sale of currency)	666	-	-	4 months
Total currency options	666	-	-	
Hedging of balance items qualifying for hedge accounting:				
USD (sale of currency)	915	7	38	2 months
JPY (sale of currency)	57	-	4	2 months
GBP (sale of currency)	305	-	3	2 months
CZK (purchase of currency)	34	-	-	2 months
Other (purchase of currency)	162	2	-	2 months
Other (sale of currency)	59	1	3	2 months
Total forward contracts	1,532	10	48	
USD (sale of currency)	666	-	-	2 months
Total currency options	666	-	-	
Total for which hedge accounting applies	7,600	53	80	
Other forecast transaction hedges for which hedge accounting is not applied:				
Other	6	-	-	1 month
Total forward contracts	6	-	-	
Options (time value)	-	2	8	4 months
Total currency options	-	2	8	
Total for which hedge accounting is not applied	6	2	8	
Total of forecast transactions	7,606	55	88	

Note 28. Cash generated from operations

(mDKK)	Note	2016	2015
Profit before income tax		12,391	12,148
Adjustments for:			
Depreciation	7	1,295	1,081
Loss on sale of property, plant and equipment		7	22
Net movements in provisions		8	(121)
Remeasurements of defined benefit plans		(9)	2
Net movements in pension		103	13
Financial income and expenses	9,10	57	96
Hedge accounting		(111)	217
Changes in working capital:			
Trade receivables		(800)	(424)
Inventory		(252)	(567)
Other receivables		(114)	(222)
Prepayments		48	(26)
Trade payables		(231)	579
Deferred revenue		23	79
Other debt		53	973
		12,468	13,850

Note 29. Cash at banks

(mDKK)	2016	2015
Cash at banks	906	1,211
	906	1,211

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 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)	2016	2015
Transactions with KIRKBI A/S:		
Acquisitions of assets	(29)	(2)
Sale of assets	4	-
Rent charged	(39)	(41)
Service fee received	22	21
Total transactions with KIRKBI A/S	(42)	(22)
Transactions with Koldingvej 2, Billund A/S:		
Service fee received	99	50
Total transactions with Koldingvej 2, Billund A/S	99	50
Transactions with associates:		
Trademark fee received	12	8
Purchase of products	(5)	(3)
Total transactions with associates	7	5
Transactions with KIRKBI Invest A/S Group:		
Rent charged	(24)	(19)
Interest charged	(19)	(19)
Service fee received	40	15
Trademark fee charged	(1,363)	(1,324)
Total transactions with KIRKBI Invest A/S Group	(1,366)	(1,347)
Transactions with Merlin Entertainments Group:		
Sale of products	511	481
Trademark fee received	24	23
Service fee charged	(6)	(11)
Total transactions with Merlin Entertainments Group	529	493

Note 30 (continued)

(mDKK)	2016	2015
Transactions with other related parties:		
Sale of products	1	-
Donations received	23	27
Rent charged	(1)	(1)
Service fee received	2	1
Total transactions with other related parties	25	27

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 sales/purchases of goods/services:

(mDKK)	2016	2015
Balances with KIRKBI A/S:		
Receivables	8	7
Payables	-	(3)
	8	4
Balances with Koldingvej 2, Billund A/S:		
Receivables	85	30
	85	30
Balances with associates:		
Receivables	6	4
Payables	(1)	(1)
	5	3
Balances with KIRKBI Invest A/S Group:		
Receivables	21	14
Payables	(456)	(524)
	(435)	(510)

Note 30 (continued)

(mDKK)	2016	2015
Balances with Merlin Entertainments Group:		
Receivables	71	50
Payables	(1)	(2)
	70	48
Balances with other related parties:		
Receivables	1	7
	1	7

Year-end balances regarding loan investments and borrowings:

(mDKK)	2016	2015
Balances with KIRKBI Invest A/S:		
Balance at 1 January – Loan investments	4,932	2,598
Loans advanced during the year	13,715	12,144
Repayments - loan investment	(14,297)	(9,810)
Balance at 31 December	4,350	4,932
Specified as follows:		
Non-current	-	-
Current	4,350	4,932
	4,350	4,932
Balance at 1 January – Loan borrowings	(600)	(600)
Balance at 31 December	(600)	(600)
Specified as follows:		
Non-current	(600)	(600)
Current	-	-
	(600)	(600)

Parent Company Financial Statements

Income Statement

1 January – 31 December

(mDKK)	Note	2016	2015
Revenue		126	119
Gross profit		126	119
Other operating expenses	2	(85)	(85)
Operating profit		41	34
Net profit for the year from subsidiaries		9,402	9,133
Financial income	3	95	38
Financial expenses	4	(109)	(60)
Profit before income tax		9,429	9,145
Tax on profit for the year	5	(24)	(2)
Net profit for the year		9,405	9,143
Proposed distribution of profit:			
Dividend		7,000	7,000
Reserve from the use of the equity method		(1,050)	2,620
Retained earnings		3,455	(477)
		9,405	9,143

Balance Sheet

at 31 December

(mDKK)	Note	2016	2015
ASSETS			
Non-current assets:			
Patents		4	5
Intangible assets	6	4	5
Land, buildings and installations		6	6
Property, plant and equipment	7	6	6
Deferred tax assets	10	10	7
Investments in subsidiaries	8	20,623	19,353
Investments in associates	8	3	3
Receivables from subsidiaries		1,678	1,810
Other non-current assets		22,314	21,173
Total non-current assets		22,324	21,184
Current assets:			
Other receivables		5	4
Total current assets		5	4
TOTAL ASSETS		22,329	21,188

Balance Sheet

at 31 December

(mDKK)	Note	2016	2015
EQUITY AND LIABILITIES			
EQUITY			
Share capital	9	20	20
Reserve from the use of the equity method		4,680	5,877
Retained earnings		8,404	4,949
Proposed dividend		7,000	7,000
Total equity		20,104	17,846
LIABILITIES			
Non-current liabilities:			
Debt to related parties	12	600	600
Total non-current liabilities		600	600
Current liabilities:			
Debt to subsidiaries		1,458	2,577
Trade payables		8	4
Current tax liabilities		8	14
Other short-term debt		151	147
Total current liabilities		1,625	2,742
Total liabilities		2,225	3,342
TOTAL EQUITY AND LIABILITIES		22,329	21,188

Statement of Changes in Equity

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

2015 (mDKK)	Share capital	Reserve from the use of the equity method	Retained earnings	Proposed dividend	Total equity
Balance at 1 January	20	2,999	5,426	4,500	12,945
Dividend paid relating to prior year	-	-	-	(4,500)	(4,500)
Profit for the year	-	2,620	(477)	7,000	9,143
Currency translation adjustments	-	92	-	-	92
Entries recognised directly on equity in subsidiaries	-	166	-	-	166
Balance at 31 December	20	5,877	4,949	7,000	17,846

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Note 1. Significant accounting policies

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

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

The accounting policies for the Financial Statements of the Parent Company are unchanged from the latest financial year.

Change in classification in the balance sheet

Comparative figures in the balance sheet have been restated to match this year's presentation. The adjustment of the comparative figures have no effect on total assets or equity.

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)	2016	2015
Management Board¹:		
Salaries	51	43
Pension	2	2
Short-term incentive plans	16	12
Long-term incentive plans	15	23
	84	80
Including fee to Board of Directors:	4	4
Number of employees	5	5

¹ Employee expenses to Management Board are the total amount expensed in all entities within the LEGO Group.

Note 3. Financial income

(mDKK)	2016	2015
Interest income from subsidiaries	92	38
Exchange gains, net	3	-
	95	38

Note 4. Financial expenses

(mDKK)	2016	2015
Interest expenses to related parties	19	19
Interest expenses to subsidiaries	90	41
	109	60

Note 5. Tax on profit for the year

(mDKK)	2016	2015
Current tax on profit for the year	26	6
Deferred tax on profit for the year	(3)	(6)
Adjustment of tax relating to previous years, current tax	1	2
	24	2

Note 6. Intangible assets

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

2015 (mDKK)	Patents
Cost at 1 January	10
Cost at 31 December	10
Amortisation and impairment losses at 1 January	4
Amortisation for the year	1
Amortisation and impairment losses at 31 December	5
Carrying amount at 31 December	5

Note 7. Property, plant and equipment

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

2015 (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

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

2015 (mDKK)	Investments in subsidiaries	Investments in associates
Cost at 1 January	7,215	4
Additions	761	–
Cost at 31 December	7,976	4
Value adjustment at 1 January	8,499	(1)
Currency translation adjustments	92	–
Share of net profit for the year	9,133	–
Dividend	(6,513)	–
Entries recognised directly on equity in subsidiaries	166	–
Value adjustment at 31 December	11,377	(1)
Carrying amount at 31 December	19,353	3

Note 9. Share capital

(mDKK)	2016	2015
The Company's 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)	2016	2015
Deferred tax, net at 1 January	7	2
Change in deferred tax	3	5
Deferred tax, net at 31 December	10	7
Classified as:		
Deferred tax assets	10	7
Deferred tax liabilities	-	-
	10	7

Note 11. Contingent assets, contingent liabilities and other obligations

(mDKK)	2016	2015
Guarantees	1,693	1,810
	1,693	1,810

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 80 million (DKK 102 million in 2015), of which DKK 0 million has been recognised as provision for deferred tax. The amount of DKK 102 million is not expected to be recaptured.

Note 12. Related party transactions

The following transactions were carried through with related parties:

(mDKK)	2016	2015
Transactions with KIRKBI A/S:		
Service fee charged	(2)	-
Sale of assets	4	-
Total transactions with KIRKBI A/S	2	-
Transactions with KIRKBI Invest A/S:		
Service fee charged	(1)	-
Interest charged	(19)	(19)
Total transactions with KIRKBI Invest A/S	(20)	(19)
Transactions with Merlin Entertainments Group:		
Trademark fee received	25	23
Total transactions with Merlin Entertainments Group	25	23

Remuneration to Key Management Personnel is disclosed in note 2.

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

Year-end balances arising from transactions with related parties:

(mDKK)	2016	2015
Balances with KIRKBI Invest A/S:		
Payable	(10)	-
Loan	(600)	(600)
	(610)	(600)
Balances with Merlin Entertainments Group:		
Receivables	5	4
	5	4

Management's Statement and Auditor's Report

Management's Statement

The Management Board 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 2016. 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 2016 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 2016.

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.

MANAGEMENT BOARD

Bali Padda
President and Chief Executive Officer (CEO)

Julia Goldin
Chief Marketing Officer (CMO)

John Goodwin
Chief Financial Officer (CFO)

Loren I. Shuster
Chief Commercial Officer (CCO)

BOARD OF DIRECTORS

Niels Jacobsen
Chairman

Thomas Kirk Kristiansen
Deputy Chairman

Kjeld Kirk Kristiansen

Søren Thorup Sørensen

Eva Berneke

Jan Nielsen

Kåre Schultz

Independent Auditor's Report

To the shareholders of LEGO A/S

Our opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2016 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2016 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 2016 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2016 in accordance with the Danish Financial Statements Act.

What we have audited

LEGO A/S' Consolidated Financial Statements for the financial year 1 January to 31 December 2016 comprise Income Statement and Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and Notes to the financial statements, including summary of significant accounting policies.

LEGO A/S' Parent Company Financial Statements for the financial year 1 January to 31 December 2016 comprise Income Statement, Balance Sheet, Statement of Changes in Equity and Notes to the financial statements, including summary of significant accounting policies.

Collectively referred to as the "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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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 in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial 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 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 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 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 or the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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, 2 March 2017

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR no 3377 1231

Mogens Nørgaard Mogensen

State Authorised Public Accountant

Henrik Trangeled Kristensen

State Authorised Public Accountant

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 Netherland B.V.
- LEGO Sverige AB
- LEGO Norge A/S
- Oy Suomen LEGO Ab (Finland)
- LEGO GmbH (Germany)
- LEGO Handelsgesells. GmbH (Austria)
- LEGO S.A.S. (France)
- LEGO Brand Retail S.A.S. (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. z.o.o.
- LEGO Romania S.R.L.
- LEGO Ukraine LLC
- OOO LEGO (Russia)
- LLD Share verwaltings GmbH (Germany)
 - LLD Share GmbH & Co. KG (Germany)
- LEGO Turkey Oyuncak Tiearet Anonim Sirketi
- LEGO do Brasil Comércio e Distribuição de Brinquedos Ltda
- LEGO Canada Inc.
- LEGO Mexico S.A. de C.V
- Administración de Servicios LEGO, S. de R.L. de C.V. (Mexico)
- LEGO Operaciones de Mexico S.A. de C.V. (Mexico)
- LEGO Real Estate, S.A. de C.V. (Mexico)
- LEGO System Inc. (US)
 - LEGO Brand Retail Inc. (US)
- 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 Report you will find detailed information on the LEGO Group's non-financial results for 2016.

www.LEGO.com/responsibility

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