Annual Report 2012

The LEGO Group

CVR-no: 54 56 25 19

Financial Highlights

The LEGO Group

(mDKK)	2012	2011	2010	2009	2008
Consolidated Income Statement:					
Revenue	23,405	18,731	16,014	11,661	9,526
Expenses	(15,453)	(13,065)	(10,899)	(8,659)	(7,522)
Operating profit	7,952	5,666	4,973	2,902	2,100
Financial income and expenses	(430)	(124)	(84)	(15)	(248)
Profit before income tax	7,522	5,542	4,889	2,887	1,852
Net profit for the year	5,613	4,160	3,718	2,204	1,352
Consolidated Balance Sheet:					
Total assets	16,352	12,904	10,972	7,788	6,496
Equity	9,864	6,975	5,473	3,291	2,066
Liabilities	6,488	5,929	5,499	4,497	4,430
Consolidated Cash Flow Statement:					
Cash flows from operating activities	6,220	3,828	3,744	2,712	1,954
Investment in property, plant and equipment	1,729	1,451	1,077	1,042	368
Investment in intangible assets	61	129	123	216	75
Cash flows from financing activities	(4,535)	(2,519)	(3,477)	(906)	(1,682)
Total cash flows	(88)	(233)	(871)	558	128
Employees:					
Average number (full-time)	10,400	9,374	8,365	7,286	5,388
Financial ratios (in %):					
Gross margin	71.1	70.5	72.4	70.3	66.8
Operating margin	34.0	30.2	31.1	24.9	22.0
Net profit margin	24.0	22.2	23.2	18.9	14.2
Return on equity (ROE)	66.7	66.8	84.8	82.3	72.2
Return on invested capital	140.2	133.4	161.2	139.5	101.8
Equity ratio	60.3	54.1	49.9	42.3	31.8

Financial ratios have been calculated in accordance with the “Recommendations and Financial Ratios 2010”, issued by the Danish Society of Financial Analysts. For definitions, please see the section on accounting policies.

Parentheses denote negative figures.

Contents

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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Company Information

Management Board

Jørgen Vig Knudstorp
President and
Chief Executive Officer

John Goodwin
Executive Vice President and
Chief Financial Officer

Mads Nipper
Executive Vice President and
Chief Marketing Officer

Bali Padda
Executive Vice President and
Chief Operating Officer

Board of Directors

Niels Jacobsen
Chairman of the Board 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. Chairman of the Board of Össur hf.

Eva Berneke
Member of the Board since 2011.

Senior Executive Vice President of TDC A/S.
Managing Director, TDC Business.
Deputy Chairman of the Board of Copenhagen
Business School.
Member of the Board of Schibsted.
Member of The Productivity Board of the Confederation of
Danish Industry.
Member of the Digital Council.

Søren Thorup Sørensen
Member of the Board since 2010.

CEO of KIRKBI A/S and KIRKBI Invest A/S.
Member of the Board of KIRKBI Invest A/S,
KIRKBI Real Estate Investment A/S, Boston Holding A/S,
Koldingvej 2 Billund A/S, LEGO Juris A/S, TopDanmark A/S,
TopDanmark Forsikring A/S, TDC A/S, Falck A/S, Falck Danmark A/S,
Falck Holding A/S and Merlin Entertainments Group.
Chairman of the Board of K&C Holding A/S and KIRKBI Anlæg A/S.
Deputy Chairman of KIRKBI AG og INTERLEGO AG.

Kjeld Kirk Kristiansen
Deputy Chairman of the Board since 1996.

Member of the Board since 1975. Chairman of the Board of
KIRKBI A/S, the LEGO Foundation and Ole Kirk's Foundation.
President and CEO for the LEGO Group 1979-2004.
Majority shareholder of KIRKBI A/S.
Member of the Board of Capital of Children.
Member of the Board of KGH Holding, Grindsted A/S.
Member of the Board of the K G Foundation.

Thomas Kirk Kristiansen
Member of the Board since 2007.

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

Kåre Schultz
Member of the Board since 2007.

Executive Vice President and COO of Novo Nordisk A/S,
Denmark. Chairman of the Board of Royal Unibrew A/S.

Torben Ballegaard Sørensen
Member of the Board since 2005.

Chairman of the Board of CAT Forskerpark A/S, Tajco A/S
and AS3-Companies A/S.
Deputy Chairman of Systematic Software Engineering A/S.
Member of the Board of Pandora Holding A/S, the Egmont
Foundation, Egmont International A/S and AB Electrolux.

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Management's Review

In 2012, the LEGO Group continued its strong growth of recent years. LEGO® products increased their market share all over the world, and the Group's Sales increased by DKK 4.7 billion to DKK 23.4 billion. The LEGO Group's profit before tax amounted to DKK 7.5 billion in 2012 against DKK 5.5 billion the year before. The result is considered highly satisfactory.

Sales
The LEGO Group's revenue increased by 25.0% in 2012 to DKK 23,405 million against DKK 18,731 million the year before.
With double-digit growth rates, North America, Asia and Central & Eastern Europe delivered impressive results in LEGO sales in 2012, while the growth rates in some Southern Europe markets were more moderate but still in healthy single digits despite very challenging market dynamics.

LEGO *Star Wars™* and LEGO City continue to be the best selling product lines, with LEGO Ninjago, launched in 2011, following closely. The new product line LEGO Friends that was launched at the beginning of 2012 has performed considerably above expectations.

Licence and royalty expenses
Licence and royalty expenses increased in 2012 to DKK 1,506 million from DKK 1,249 million in 2011. The item includes royalty to the KIRKBI Group for the use of the LEGO trademark, as well as licence agreements with inventors, designers and other licensees for the use of intellectual rights.
Licence income from other companies' use of the LEGO Group's trademarks increased in 2012 by DKK 26 million to DKK 250 million.

Operating profit
The LEGO Group's operating profit amounted to DKK 7,952 million in 2012 against DKK 5,666 million in 2011.
The operating margin was 34.0% in 2012 against 30.2% in 2011.

Financial income and expenses
Net financials increased to an expense of DKK 430 million in 2012 against an expense of DKK 124 million in 2011, mainly related to currency hedging.

Corporation tax
Corporation tax amounts to DKK 1,909 million against DKK 1,382 million the year before. The effective tax rate for the year is 25.4% against 24.9% in 2011.

Profit for the year
The LEGO Group's profit for the year amounted to DKK 5,613 million in 2012 against DKK 4,160 million in 2011, which is a higher increase than expected at the beginning of the year.

The very positive results are first and foremost related to the continued successful innovation of the product portfolio. As new products make up approximately 60% of the total sales each year, a highly innovative and consumer oriented development process is key to continued success. Furthermore, the company's operating model, and the strategy of manufacturing close to the markets, ensures a constant focus on optimisation and improvement, while securing end to end collaboration to deliver against customer demands.

Equity and cash flows
The LEGO Group's assets increased by DKK 3,448 million in 2012 and amount to DKK 16,352 million against DKK 12,904 million at the end of 2011.

Return on invested capital was 140.2% in 2012 against 133.4% in 2011. The increase is driven by increase in operating margin.

After recognition of the profit for the year and distribution of dividend, the LEGO Group's equity has increased by DKK 2,889 million to DKK 9,864 million in 2012.

At the end of 2012, the equity ratio of the LEGO Group was 60.3%.

Return on equity for the LEGO Group was 66.7% in 2012 against 66.8% in 2011.
Cash flows from operating activities amounted to DKK 6,220 million against DKK 3,828 million in 2011.

Management's Review – continued

Capacity investments
Due to the strong growth, the LEGO Group continues recent years' extensive investments in production capacity. Cash flow investments in property, plant and equipment amounted to DKK 1.7 billion in 2012.

In September 2012, the LEGO Group inaugurated a comprehensive expansion of the factory in Kladno, the Czech Republic, and at the same time announced that the plant will be further expanded over the years 2013-2014.

At the LEGO factory in Monterrey, Mexico, a new high-bay warehouse was put into use in the fourth quarter of 2012. In 2011, it was decided to build a new factory in Nyíregyháza, Hungary, which is to replace the existing leased factory in the same town. Construction of the new plant began in October 2012, and the new factory is expected to open in 2014.

Finally in Billund, Denmark, investments are planned in moulding and engineering capabilities.

Intellectual capital resources
As a consequence of the company's considerable sales growth, a large number of new employees joined the LEGO Group in 2012. The average number of full-time employees was 10,400 in 2012 against 9,374 in 2011.

Welcoming a high number of new employees places high demands on the company's capabilities within recruiting and onboarding. In 2012, the strengthening of a global onboarding initiative continued in order to meet this important challenge.

The considerable growth, which is expected to continue in the coming years, is only possible because of the skills, dedication and commitment of LEGO employees. It is therefore of the utmost importance for the company to secure continuous development of the skills of its employees. Consequently, both talent development and general competence development are very important elements of the Group's People & Culture strategy.

All employees in the LEGO Group participate in a Performance Management Program (PMP). This Program ensures that the goals 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 whether the goals are achieved.
For white collars a differentiated bonus scheme is attached to the Program, whereas blue collars are rewarded on a team based scheme.
A total evaluation of the employee's and the company's performance compared with the defined goals, which is carried out at year end, decides the amount of bonus for each individual employee.

Research and development activities
Each year, new launchings account for approximately 60% of the LEGO Group's sales to consumers. Therefore, the Group has considerable development activities, comprising anything from trend spotting and anthropological studies to the actual development of specific products and campaigns. Approximately 160 designers from about 20 different countries make up the creative core of product development that is mainly based at company headquarters in Billund, 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.

Sustainability
In 2003 the LEGO Group was the first company in the toy industry to sign the UN Global Compact. This was a confirmation of the company's many years' of support of human rights, labour standards and the environment. The UN Global Compact has later been extended to include anti-corruption.

The LEGO Group confirms its support to Global Compact. The LEGO Group has issued its Progress Report 2012 describing how the LEGO Group is working within the areas of human rights, labour standards, the environment and anti-corruption.

Management's Review – continued

The Progress Report 2012 thus constitutes the statutory statement of social responsibility pursuant to section 99 a of the Danish Financial Statements Act.

The Progress Report 2012 also describes the LEGO Group's efforts to achieve its non-financial goals.

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, experienced a decline in global value in 2012. North America saw a slight decrease in 2012, and in Europe growth was only seen in the central and Eastern parts of the area. Southern European markets decreased considerably, whereas the toy market in the Northern parts of Europe stagnated or experienced low decline rates. In contrast, the toy market in Asia experienced high growth rates during 2012, except the large Japanese toy market that saw a decrease during the year.

LEGO® sales

It has been a challenge to attract more girls to the LEGO play experience. In an attempt to solve this challenge, the new product line LEGO Friends was launched at the beginning of 2012. During its first year on the market, the product line has proved a huge success, and in spite of a considerable increase of production capacity on this particular line during the year, the very strong demand could not fully be met. LEGO Ninjago which was launched in 2011 continued its popularity in 2012 as the third largest product line in the portfolio, while LEGO City and LEGO *Star Wars™* topped the list of best selling lines again in 2012.

Double-digit sales growth rates were achieved in most markets in 2012. The strong growth of recent years in the company's largest market, North America, continued, and in Asia, which is still a relatively small market for the LEGO Group, the sales growth was very strong. This is particularly encouraging since the Asian markets are focus areas for the company in the coming years.

In Europe, the LEGO Group achieved sales growth in all markets, despite challenging market conditions.

Through own online channels and brand retail stores, direct sales to consumers, accounting for some 10% of the LEGO Group's total sales, also saw considerable growth in 2012.

Finally, the LEGO Group's sale of products to the educational sector continued its strong growth from the previous year; however, from a relatively small base.

Thanks to the growth generated during the year, the LEGO Group's global market share of the toy industry at the end of 2012 amounts to approximately 8.6% up from 7.1% in 2011.

Expectations for 2013

Global economic developments are expected to continue to impact the market for traditional toys. Economic forecasts project a continued difficult economic environment in both Western and Southern Europe and in North America, while Asia and parts of Eastern Europe are expected to continue robust growth.

Based on the LEGO Group's good momentum at the end of 2012, continued sales growth is expected in 2013. However, the economic challenges in many European and North American markets are expected to result in lower growth rates for the company than achieved in recent years.

The LEGO Group expects satisfactory results for 2013.

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 – 31 December 2012.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the Financial Statements are prepared in accordance with the Danish Financial Statements Act. Moreover, the Consolidated Financial Statements and the Financial Statements are prepared in accordance with additional Danish disclosure requirements for Financial Statements. Management's Review is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Financial Statements give a true and fair view of the financial position at 31 December 2012 of the Group and the Company and of the results of the Group and Company operations and consolidated cash flows for the financial year 1 January - 31 December 2012.

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

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

Billund, 8 February 2013

Management

Jørgen Vig Knudstorp
President and
Chief Executive Officer

John Goodwin
Executive Vice President and
Chief Financial Officer

Board of Directors

Niels Jacobsen
Chairman

Kjeld Kirk Kristiansen
Deputy Chairman

Thomas Kirk
Kristiansen

Kåre Schultz

Søren Thorup
Sørensen

Eva Berneke

Torben Ballegaard
Sørensen

Independent Auditor's Report

To the shareholders of LEGO A/S

Report on Consolidated Financial Statements and Parent Company Financial Statements
We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of LEGO A/S for the financial year 1 January to 31 December 2012, which comprise income statement, balance sheet, statement of changes in equity and notes including summary of significant accounting policies for both the Group and the Parent Company, as well as statement of comprehensive income and cash flow statement for the Group. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and any further disclosure requirements of the Danish Financial Statements Act, and the Parent Company Financial Statements are prepared in accordance with the Danish Financial Statements Act.

Management's Responsibility for the Consolidated Financial Statements and the Parent Company 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 Danish disclosure requirements in accordance with the Danish Financial Statements Act and for preparing Parent Company Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act. Further Management is responsible for such internal control as Management determines is necessary to enable the preparation of Consolidated Financial Statements and Parent Company Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on the Consolidated Financial Statements and the Parent Company Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Consolidated Financial Statements and the Parent Company Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements and the Parent Company Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Consolidated Financial Statements and the Parent Company Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Consolidated Financial Statements and the Parent Company Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The audit has not resulted in any qualification.

Opinion
In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2012 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2012 in accordance with International Financial Reporting Standards as adopted by the EU and further Danish disclosure requirements in accordance with the Danish Financial Statements Act.

Independent Auditor's Report – continued

To the shareholders of LEGO A/S

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 2012 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2012 in accordance with the Danish Financial Statements Act.

Statement on Management's Review

We have read Management's Review in accordance with the Danish Financial Statements Act. We have not performed any procedures additional to the audit of the Consolidated Financial Statements and the Parent Company Financial Statements. On this basis, in our opinion, the information provided in Management's Review is consistent with the Consolidated Financial Statements and the Parent Company Financial Statements.

Billund, 8 February 2013
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Mogens Nørgaard Mogensen
State Authorised Public Accountant

Henrik Trangeled Kristensen
State Authorised Public Accountant

The LEGO Group

Consolidated income statement and consolidated statement of other comprehensive income

1 January – 31 December

(mDKK)	Note	2012	2011
Revenue	3	23,405	18,731
Production costs	4,6,7	(6,758)	(5,519)
Gross profit		**16,647**	**13,212**
Sales and distribution expenses	4,6,7	(6,150)	(5,455)
Administrative expenses	4,5,6,7	(1,326)	(1,104)
Other operating expenses	4,6,7,8	(1,219)	(987)
Operating profit		**7,952**	**5,666**
Financial income	9	19	34
Financial expenses	10	(449)	(158)
Profit before income tax		**7,522**	**5,542**
Tax on profit for the year	11	(1,909)	(1,382)
Net profit for the year		**5,613**	**4,160**
Allocated as follows:			
Parent Company shareholders		5,583	4,137
Non-controlling interests		30	23
		5,613	**4,160**
Consolidated statement of other comprehensive income:			
Profit for the year		5,613	4,160
Change in market value of cash flow hedges		42	(228)
Reclassification of cash flow hedges from Equity to be recognised in the income statement as part of financial income/expenses		346	44
Tax on cash flow hedges		(97)	46
Currency translation differences		23	(2)
Total other comprehensive income for the year		**5,927**	**4,020**
Allocated as follows:			
Parent Company shareholders		5,897	3,997
Non-controlling interests		30	23
		5,927	**4,020**

Consolidated Balance Sheet

at 31 December

(mDKK)	Note	2012	2011
ASSETS			
Non-current assets:			
Development projects		37	12
Software		104	102
Licences, patents and other rights		68	76
Intangible assets	12	**209**	**190**
Land, buildings and installations		1,688	1,140
Plant and machinery		1,615	1,239
Other fixtures and fittings, tools and equipment		746	502
Fixed assets under construction		517	514
Property, plant and equipment	13	**4,566**	**3,395**
Deferred tax assets	19	131	114
Investments in associates	14	3	3
Other non-current assets		**134**	**117**
Total non-current assets		**4,909**	**3,702**
Current assets:			
Inventories	15	1,705	1,541
Trade receivables	16	4,950	3,845
Other receivables		630	603
Prepayments		226	462
Current tax receivables		22	244
Receivables from related parties	29	3,442	1,950
Cash at banks	28	468	557
Total current assets		**11,443**	**9,202**
TOTAL ASSETS		**16,352**	**12,904**

Consolidated Balance Sheet – continued

at 31 December

(mDKK)	Note	2012	2011
EQUITY AND LIABILITIES			
EQUITY			
Share capital	17	20	20
Reserve for hedge accounting		39	(252)
Reserve for currency translation		(117)	(140)
Retained earnings	18	9,888	7,321
LEGO A/S' share of equity		**9,830**	**6,949**
Non-controlling interests		34	26
Total equity		**9,864**	**6,975**
LIABILITIES			
Non-current liabilities:			
Borrowings	25	210	818
Deferred tax liabilities	19	21	50
Pension obligations	20	54	55
Provisions	22	71	72
Other long-term debt	21	72	63
Total non-current liabilities		**428**	**1,058**
Current liabilities:			
Borrowings	25	608	7
Trade payables		2,112	1,611
Current tax liabilities		96	97
Provisions	22	64	103
Other short-term debt	21	3,180	3,053
Total current liabilities		**6,060**	**4,871**
Total liabilities		**6,488**	**5,929**
TOTAL EQUITY AND LIABILITIES		**16,352**	**12,904**

Consolidated statement of changes in Equity

(mDKK)	Share capital	Reserve for hedge-accounting	Reserve for currency translation	Retained earnings	**LEGO A/S' share of equity**	Non-controlling interests	**Total equity**
Balance at 1 January 2012	**20**	**(252)**	**(140)**	**7,321**	**6,949**	**26**	**6,975**
Profit for the year	–	–	–	5,583	**5,583**	30	**5,613**
Acquisition of non-controlling interest in subsidiaries	–	–	–	(16)	**(16)**	–	**(16)**
Other comprehensive income/ (expenses) for the year	–	291	23	–	**314**	–	**314**
Dividend relating to prior year	–	–	–	(3,000)	**(3,000)**	(22)	**(3,022)**
Balance at 31 December 2012	**20**	**39**	**(117)**	**9,888**	**9,830**	**34**	**9,864**

(mDKK)	Share capital	Reserve for hedge-accounting	Reserve for currency translation	Retained earnings	**LEGO A/S' share of equity**	Non-controlling interests	**Total equity**
Balance at 1 January 2011	**20**	**(114)**	**(138)**	**5,684**	**5,452**	**21**	**5,473**
Profit for the year	–	–	–	4,137	**4,137**	23	**4,160**
Other comprehensive income/ (expenses) for the year	–	(138)	(2)	–	**(140)**	–	**(140)**
Dividend relating to prior year	–	–	–	(2,500)	**(2,500)**	(18)	**(2,518)**
Balance at 31 December 2011	**20**	**(252)**	**(140)**	**7,321**	**6,949**	**26**	**6,975**

Consolidated Cash Flow Statement

1 January – 31 December

(mDKK)	Note	2012	2011
Cash flows from operating activities:			
Operating profit		7,952	5,666
Interest paid etc		(449)	(158)
Interest received etc		19	34
Income tax paid		(1,836)	(1,672)
Other reversals with no effect on cash flows	27	957	566
Change in inventories		(164)	(214)
Change in trade and receivables		(896)	(971)
Change in trade and other payables		637	577
Net cash generated from operating activities		**6,220**	**3,828**
Cash flows from investing activities:			
Purchases of property, plant and equipment	13	(1,729)	(1,451)
Purchases of intangible assets	12	(61)	(129)
Proceeds from sale of property, plant and equipment		17	38
Net cash generated from investing activities		**(1,773)**	**(1,542)**
Cash flows from financing activities:			
Dividend paid to shareholders		(3,000)	(2,500)
Dividend paid to non-controlling interests		(22)	(18)
Acquisition of non-controlling interest		(16)	–
Payment to related parties	29	(32,564)	(8,004)
Repayment from related parties	29	31,074	8,010
Repayments of borrowings		(7)	(7)
Net cash used in financing activities		**(4,535)**	**(2,519)**
Total cash flows		**(88)**	**(233)**
Cash and cash equivalents at 1 January		557	802
Exchange losses on cash at banks		(1)	(12)
Cash at banks at 31 December	28	**468**	**557**

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.

Effects of new accounting standards

All new and amended standards and interpretations issued by IASB and endorsed by the EU effective as of 1 January 2012 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 2012 and we do not anticipate any significant impact on future periods from the adoption of these new IFRS's.

The following standards which have been endorsed by the EU but are not yet effective are relevant for the LEGO Group:

- IFRS 10 on consolidation. The standard clarifies the notion of control. Control over another entity exists if the reporting entity has power over the investee, exposure or right to variable return from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's return. Effective date 1 January 2013, however according to the EU endorsement 1 January 2014.
- IFRS 13 on fair value measurement. A general standard on determination of fair value. The basic principle is that fair value of an asset is its sales value whereas fair value of a liability is the amount which a third party would charge as payment for undertaking the liability. Effective date 1 January 2013.
- Amendment of IAS 19 on employee benefits. All actuarial gains and losses are recognised in other comprehensive income. The interest element is calculated based on the net liability. Effective date 1 January 2013.

It is the Management's assessment that the above mentioned changes in accounting standards and interpretations will not have any significant impact on the Consolidated Financial Statements upon adoption of these standards.

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.

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

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

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 other comprehensive income and classified as a separate reserve for exchange adjustments under equity.

Note 1. Significant accounting policies – continued

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost, which equals fair value of considerations paid, and are subsequently measured at fair value. Derivative financial instruments are recognised in other receivables and other short-term debt.

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

Cash Flow Hedge
The effective portion of changes to the fair value of derivative financial instruments which meet the criteria for hedging future cash flows are recognised in other comprehensive income 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 financial income or expenses. Fair value changes attributable to the time value of options are recognised in financial income or expenses in the income statement.

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

Income Statement

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

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

Revenues from the sale of goods are recognised when all the following specific conditions have been met and the control over the goods has been transferred to the buyer.
- Significant risks and rewards of ownership of the goods have been transferred to the buyer.
- The revenues can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the LEGO Group.
- Costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

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

Production cost
Production cost comprises costs incurred to achieve revenue for the year. Cost comprises 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 other comprehensive income. In this case, the tax is also recognised in other comprehensive income.

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

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

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

Balance Sheet

Software and development projects
Research expenses are charged to the income statement as incurred. Software and development projects that are clearly defined and identifiable and which are expected to generate future economic profit are recognised as intangible non-current assets at historical cost less accumulated amortisation and any impairment loss. Amortisation is provided on a straight-line basis over the expected useful life which is normally 3-6 years. Other development costs are recognised in the income statement. An annual impairment test of the intangible fixed assets under construction is performed.

Note 1. Significant accounting policies – continued

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 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 purposes 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.

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.

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.

Note 1. Significant accounting policies – continued

Employee benefits
Wages, salaries, social security contributions, paid annual leave and sick leave, bonuses and non-monetary employee benefits are accrued in the year in which the associated services are rendered by the employees of the 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 are recognised in the income statement in the period in which they occur.

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

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

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

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

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

Cash Flow Statement

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

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

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

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

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

Financial ratios
Financial ratios have been calculated in accordance with the "Guidelines and Financial Ratios 2010", issued by the Danish Society of Financial Analysts.

Average invested capital is calculated as property, plant and equipment, inventories and receivables excluding tax receivables less provisions, excluding provisions relating to restructuring and deferred tax, and less short-term debt, excluding mortgage loans and tax.

Gross margin	$\frac{\text{GROSS PROFIT X 100}}{\text{REVENUE}}$
Operating margin	$\frac{\text{OPERATING PROFIT (EBIT) X 100}}{\text{REVENUE}}$
Net profit margin	$\frac{\text{NET PROFIT FOR THE PERIOD X 100}}{\text{REVENUE}}$
Return on equity (ROE)	$\frac{\text{NET PROFIT FOR THE PERIOD X 100}}{\text{AVERAGE EQUITY}}$
ROIC	$\frac{\text{EBITA BEFORE RESTRUCTURING X 100}}{\text{AVERAGE INVESTED CAPITAL}}$
Equity ratio	$\frac{\text{EQUITY (INCL. NON-CONTROLLING INTERESTS) X 100}}{\text{TOTAL LIABILITIES AND EQUITY}}$

Note 2. Significant accounting estimates and judgements

When preparing the Consolidated Financial Statement 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 judgements. 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).

Note 3. Revenue

Revenue contains sale of goods and licence income. Sale of goods amounts to DKK 23,155 million (DKK 18,507 million in 2011), and licence income amounts to DKK 250 million (DKK 224 million in 2011).

Note 4. Expenses by nature

(mDKK)	Note	2012	2011
Raw materials and consumables used		4,380	3,098
Employee expenses	6	3,845	3,378
Depreciation and amortisation	7	654	637
Licence and royalty expenses		1,506	1,249
Other external expenses		5,068	4,703
Total operating expenses		**15,453**	**13,065**

Note 5. Auditors' fees

(mDKK)	2012	2011
Fee to PwC:		
Statutory audit of the Financial Statements	9	9
Other assurance engagements	1	1
Tax assistance	6	5
Other services	4	6
	20	**21**

Note 6. Employee expenses

(mDKK)	Note	2012	2011
Wages and salaries		3,467	3,048
Termination benefit and restructuring		5	33
Pension costs, defined benefit plans	20	2	6
Pension costs, defined contribution plans		214	191
Other expenses and social security expenses		193	140
Total employee costs for the year		**3,881**	**3,418**
Employee costs included in:			
Intangible assets		(10)	(12)
Property, plant and equipment		(26)	(28)
Total employee costs expensed in the income statement		**3,845**	**3,378**
Classified as:			
Production costs		1,300	1,096
Sales and distribution expenses		1,535	1,367
Administrative expenses		816	673
Other operating expenses		194	242
		3,845	**3,378**
Including Key Management Personnel:[1]			
Salaries		18	29
Termination benefit		–	3
Short-term incentive plans		8	10
Long-term incentive plans		9	7
		35	**49**
Including fee to Board of Directors:		**3**	**3**

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		**10,400**	**9,374**

[1] Key Management includes Executive Vice Presidents and the CEO.

Note 7. Depreciation and amortisation

(mDKK)	2012	2011
Licences, patents and other rights	12	17
Software	31	109
Buildings and installations	87	29
Plant and machinery	408	379
Other fixtures and fittings, tools and equipment	116	103
	654	**637**
Classified as:		
Production costs	529	441
Sales and distribution expenses	111	125
Administrative expenses	13	70
Other operating expenses	1	1
	654	**637**

In 2012 the LEGO Group has not had any impairment write down on intangible fixed assets (2011 DKK 99 million). The LEGO Group has had an impairment write down on property, plant and equipment amounting to DKK 29 million (2011 DKK 8 million). The total impairment is expensed with DKK 29 million (2011 DKK 49 million) as production costs and DKK 0 million (2011 DKK 58 million) as sales and distribution expenses.

Note 8. Research and development costs

(mDKK)	2012	2011
Research and development costs charged during the year	352	335
	352	**335**

Note 9. Financial income

(mDKK)	2012	2011
Interest income from related parties	8	21
Interest income from credit institutions measured at amortised cost	7	5
Other interest income	4	8
	19	**34**

Note 10. Financial expenses

(mDKK)	2012	2011
Interest expenses on mortgage loans measured at amortised cost	3	4
Interest expenses to related parties	3	4
Interest expenses to credit institutions measured at amortised cost	7	15
Other interest expenses	7	6
Loss from derivative financial instruments	382	116
Exchange loss, net	47	13
	449	**158**

Note 11. Tax on profit for the year

(mDKK)	2012	2011
Current tax on profit for the year	1,980	1,306
Deferred tax on profit for the year	(43)	94
Other	(4)	4
Value adjustment on deferred tax	1	(27)
Adjustment of tax relating to previous years, current tax	(8)	14
Adjustment of tax relating to previous years, deferred tax	(17)	(9)
	1,909	**1,382**
Income tax expenses are specified as follows:		
Calculated 25% tax on profit for the year before income tax	1,881	1,386
Tax effect of:		
Higher/lower tax rate in subsidiaries	(13)	(9)
Non-taxable income	(25)	(32)
Non-deductible expenses	33	30
Adjustment of tax relating to previous years	(29)	6
Changed valuation of deferred tax asset and liability	1	(27)
Other	61	28
	1,909	**1,382**
Effective tax rate	25.4%	24.9%

Note 12. Intangible assets

(mDKK)	Development projects	Software	Licences, patents and other rights	**Total**
Cost at 1 January 2012	12	382	190	**584**
Exchange rate adjustment to year-end rate	–	2	(1)	**1**
Additions	38	18	5	**61**
Disposals	–	(2)	–	**(2)**
Transfer	(13)	13	–	**–**
Cost at 31 December 2012	**37**	**413**	**194**	**644**
Amortisation and impairment losses at 1 January 2012	–	280	114	**394**
Amortisation for the year	–	31	12	**43**
Disposals	–	(2)	–	**(2)**
Amortisation and impairment losses at 31 December 2012	–	**309**	**126**	**435**
Carrying amount at 31 December 2012	**37**	**104**	**68**	**209**

(mDKK)	Development projects	Software	Licences, patents and other rights	**Total**
Cost at 1 January 2011	78	197	178	**453**
Exchange rate adjustment to year-end rate	–	–	2	**2**
Additions	76	43	10	**129**
Transfer	(142)	142	–	**–**
Cost at 31 December 2011	**12**	**382**	**190**	**584**
Amortisation and impairment losses at 1 January 2011	–	171	97	**268**
Amortisation for the year	–	20	7	**27**
Impairment losses for the year	–	89	10	**99**
Amortisation and impairment losses at 31 December 2011	–	**280**	**114**	**394**
Carrying amount at 31 December 2011	**12**	**102**	**76**	**190**

In 2011 the LEGO Group has impaired intangible fixed assets amounting to DKK 99 million. The impairment losses are due to closedown of IT projects. In assessing the value in use the LEGO Group has used a pre-tax discount rate of 13.54%, reflecting the LEGO Group's overall WACC.

Note 13. Property, plant and equipment

(mDKK)	Land, buildings & installations	Plant & machinery	Other fixtures & fittings, tools and equipment	Fixed assets under construction	**Total**
Cost at 1 January 2012	1,679	4,028	1,061	514	**7,282**
Exchange adjustment to year-end rate	48	19	10	15	**92**
Additions	104	609	169	847	**1,729**
Disposals	(15)	(262)	(112)	–	**(389)**
Transfers	492	175	192	(859)	**–**
Cost at 31 December 2012	**2,308**	**4,569**	**1,320**	**517**	**8,714**
Depreciation and impairment losses at 1 January 2012	539	2,789	559	–	**3,887**
Exchange adjustment to year-end rate	3	7	4	–	**14**
Depreciation for the year	58	408	116	–	**582**
Impairment losses for the year	29	–	–	–	**29**
Disposals	(9)	(250)	(105)	–	**(364)**
Depreciation and impairment losses at 31 December 2012	**620**	**2,954**	**574**	**–**	**4,148**
Carrying amount at 31 December 2012	**1,688**	**1,615**	**746**	**517**	**4,566**
Including assets under finance leases	**27**	**–**	**–**	**–**	**27**

Property, plant and equipment in general
An obligation regarding the purchase of property, plant and equipment of DKK 388 million exists at 31 December 2012 (DKK 334 million at 31 December 2011).

Assets under finance leases
Assets under finance leases consist of buildings.

Note 13. Property, plant and equipment – continued

(mDKK)	Land, buildings & installations	Plant & machinery	Other fixtures & fittings, tools and equipment	Fixed assets under construction	**Total**
Cost at 1 January 2011	1,429	3,589	907	338	**6,263**
Exchange adjustment to year-end rate	(29)	(26)	(5)	(13)	**(73)**
Additions	67	578	217	589	**1,451**
Disposals	(81)	(192)	(86)	–	**(359)**
Transfers	293	79	28	(400)	**–**
Cost at 31 December 2011	**1,679**	**4,028**	**1,061**	**514**	**7,282**
Depreciation and impairment losses at 1 January 2011	566	2,606	523	–	**3,695**
Exchange adjustment to year-end rate	(2)	(9)	2	–	**(9)**
Depreciation for the year	29	379	95	–	**503**
Impairment losses for the year	–	–	8	–	**8**
Disposals	(54)	(187)	(69)	–	**(310)**
Depreciation and impairment losses at 31 December 2011	**539**	**2,789**	**559**	**–**	**3,887**
Carrying amount at 31 December 2011	**1,140**	**1,239**	**502**	**514**	**3,395**
Including assets under finance leases	**31**	**–**	**–**	**–**	**31**

Note 14. Investments in associates

(mDKK)	2012	2011
Cost at 1 January	4	4
Cost at 31 December	**4**	**4**
Value adjustment at 1 January	(1)	(1)
Share of profit/(loss)	–	–
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)	2012	2011
Raw materials and components	136	124
Work in progress	600	521
Finished goods	969	896
	1,705	**1,541**
Cost of sales recognised in production costs	4,222	3,806
Including:		
Write-down of inventories to net realisable value (profit)/losses	(27)	26

Note 16. Trade receivables

(mDKK)	2012	2011
Trade receivables (gross)	5,002	3,984
Provisions for bad debts:		
Balance at the beginning of the year	(139)	(145)
Exchange adjustment to year-end rate	–	4
Change in provisions for the year	69	(13)
Realised losses for the year	18	15
Balance at the end of the year	**(52)**	**(139)**
Trade receivables (net)	**4,950**	**3,845**

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

The age distribution of gross trade receivables is as follows:

(mDKK)	2012	2011
Not overdue	4,353	3,346
0 - 60 days overdue	601	492
61 - 120 days overdue	7	19
121 - 180 days overdue	9	6
More than 180 days overdue	32	121
	5,002	**3,984**

76% of total trade receivables are covered by insurance (77% in 2011) and therefore this part of the credit risk is reduced to the risk relating to the insurance companies concerned. DKK 1,180 million (DKK 921 million in 2011) corresponding to 24% of trade receivables (23% in 2011) are not covered by insurance.

The LEGO Group has no single significant trade debtor, nor are the trade receivables concentrated in specific countries. The LEGO Group has fixed procedures for determining of 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 24.

Note 17. Share capital

	2012	2011
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 2012	**205**	**205**

The total number of shares is 205 (205 in 2011). 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 3,000 million was paid in May 2012, corresponding to DKK 14.6 million in average per share (DKK 2,500 million in 2011, DKK 12.2 million in average per share).

Proposed dividend for 2012 is DKK 3,000 million, corresponding to DKK 14.6 million in average per share.

Note 19. Deferred tax

(mDKK)	2012	2011
Deferred tax, net at 1 January	64	159
Adjustment of deferred tax relating to previous years	84	–
Exchange adjustment to year-end rate	–	1
Income statement charge	59	(58)
Charged to other comprehensive income	(97)	(38)
	110	**64**
Classified as:		
Deferred tax assets	131	114
Deferred tax liabilities	(21)	(50)
	110	**64**

Note 19. Deferred tax – continued

2012

(mDKK)	Deferred tax asset	Provision for deferred tax	**Deferred tax net**
Non-current assets	96	(13)	**83**
Receivables	7	–	**7**
Inventories	164	(141)	**23**
Provisions	74	(2)	**72**
Other liabilities	79	(53)	**26**
Other	11	(114)	**(103)**
Offset	(302)	302	**–**
Tax loss carry-forwards	2	–	**2**
	131	**(21)**	**110**

2011

(mDKK)	Deferred tax asset	Provision for deferred tax	**Deferred tax net**
Non-current assets	98	(20)	**78**
Receivables	5	–	**5**
Inventories	131	(125)	**6**
Provisions	72	(4)	**68**
Other liabilities	74	(46)	**28**
Other	25	(147)	**(122)**
Offset	(292)	292	**–**
Tax loss carry-forwards	1	–	**1**
	114	**(50)**	**64**

Tax loss carry-forwards
Tax assets relating to tax loss carry-forwards are capitalised based on an assessment of whether they can be utilised in the future. DKK 0 million of the LEGO Group's capitalised tax losses expires after 1 year, and DKK 2 million expires after 5 years (DKK 1 million in 2011 does not expire before 5 years).

Note 20. Pension obligations

Defined contribution plans
In defined contribution plans, the LEGO Group recognises in the income statement the premium payments (eg 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 company and some of the foreign companies are all defined contribution plans. In the LEGO Group, DKK 214 million (DKK 191 million in 2011) 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 Group include employees in Germany and in the UK. In the LEGO Group, a net obligation of DKK 48 million (DKK 30 million in 2011) 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 2 million (DKK 6 million in 2011) have been recognised in the income statement.

No new employees will be included in the defined benefit plans.

(mDKK)	2012	2011
The amounts recognised in the balance sheet are calculated as follows:		
Present value of funded obligations	(124)	(109)
Fair value of plan assets	118	121
	(6)	**12**
Present value of unfunded obligations	(42)	(42)
Net liability recognised in the balance sheet	**(48)**	**(30)**
Of which included as part of the liabilities	(54)	(55)
Of which included as part of the assets	6	25
The change in present value of defined benefit obligations over the period is as follows:		
Present value at 1 January	(151)	(145)
Exchange adjustment to year-end rate	(2)	(1)
Pension costs relating to current financial year	(2)	(1)
Interest expenses	(7)	(7)
Actuarial gains	(10)	(7)
Benefits paid	6	5
Disposals in connection with cancellation of pension scheme	–	5
Present value at 31 December	**(166)**	**(151)**

Note 20. Pension obligations – continued

(mDKK)	2012	2011
The change for the period in fair value of plan assets is as follows:		
Plan assets at 1 January	121	119
Exchange adjustment to year-end rate	1	1
Expected return on plan assets	4	5
Actuarial gains	13	4
Employer contributions	1	1
Benefits paid	(3)	(3)
Disposals in connection with cancellation of pension scheme	(19)	(6)
Plan assets at 31 December	**118**	**121**

(mDKK)	2012	%	2011	%
Plan assets are specified as follows:				
Shares	–	0%	4	3%
Debt instruments	78	66%	94	78%
Other	40	34%	23	19%
	118	**100%**	**121**	**100%**

Note 20. Pension obligations – continued

(mDKK)	2012	2011
The amount recognised in the income statement is specified as follows:		
Pension costs relating to current financial year	2	1
Interest expenses	7	7
Expected return on plan assets	(4)	(5)
Actuarial losses, net	(3)	3
	2	**6**
Classified as:		
Administrative expenses	2	6
	2	**6**
Movements in the net liability recognised in the balance sheet are as follows:		
Net liability at 1 January	30	26
Exchange adjustment to year-end rate	–	1
Total expenses charged to the income statement	2	6
Contributions paid	(3)	(3)
Disposals in connection with cancellation of pension scheme	19	–
Net liability at 31 December	**48**	**30**
The actual return on plan assets amounts to	**17**	**9**

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:

(mDKK)	2012	2011
Discount rate	2% - 5%	2% - 5%
Expected return on plan assets	3% - 5%	3% - 5%
Future salary increases	2% - 4%	2% - 4%
Future pension increases	2% - 3%	2% - 3%

(mDKK)	2012	2011	2010	2009	2008
Present value of defined benefit obligation	(166)	(151)	(145)	(145)	(123)
Fair value of plan assets	118	121	119	114	96
	(48)	**(30)**	**(26)**	**(31)**	**(27)**

Note 21. Other debt

(mDKK)	2012	2011
Wage-related payables and other charges	1,074	915
Debt to related parties	317	242
Finance lease obligations	32	36
VAT and other indirect taxes	262	188
Amortised debt	168	180
Discounts	621	515
Other current liabilities	778	1,040
	3,252	**3,116**
Specified as follows:		
Non-current	72	63
Current	3,180	3,053
	3,252	**3,116**

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)	2012	2011
Obligations regarding finance leases are as follows:		
0-1 year	7	7
1-5 years	26	26
> 5 years	16	24
	49	**57**
Reconciliation of carrying amount and gross liability:		
Carrying amount of the liability	32	36
Interest expenses not yet accrued	17	21
Gross liability	**49**	**57**

No contingent leases have been recognised in expenses in 2012 or 2011.
None of the assets under finance leases have been subleased.

Note 22. Provisions

2012

(mDKK)	Restructuring	Other	**Total**
Provisions at 1 January	37	138	**175**
Exchange adjustment to year-end rate	–	–	**–**
Additions	9	96	**105**
Used	(32)	(63)	**(95)**
Reversed	(7)	(43)	**(50)**
Provisions at 31 December	**7**	**128**	**135**
Specified as follows:			
Non-current			71
Current			64
			135

2011

(mDKK)	Restructuring	Other	**Total**
Provisions at 1 January	13	65	**78**
Exchange adjustment to year-end rate	(1)	–	**(1)**
Additions	33	75	**108**
Used	(1)	–	**(1)**
Reversed	(7)	(2)	**(9)**
Provisions at 31 December	**37**	**138**	**175**
Specified as follows:			
Non-current			72
Current			103
			175

Provisions for restructuring obligations relate primarily to close-down and reduction of production facilities, close-down of activities, loyalty programmes and redundancy programmes. The majority of these obligations is expected to result in cash outflows in the period 2013-2015.

Other provisions consist of various types of provisions, including provisions for legal disputes. The majority of other provisions is expected to be used within the next 2 years.

Note 23. Contingent assets, contingent liabilities and other obligations

(mDKK)	2012	2011
Guarantees	66	97
Operating lease obligations	2,004	1,324
Other obligations	450	639
	2,520	**2,060**

The LEGO Group leases various offices, LEGO 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)	2012	2011
Lease expenses for the year charged to the income statement amount to:	392	283

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

(mDKK)	2012	2011
Related parties:		
0-1 year	42	25
1-5 years	68	–
> 5 years	187	–
	297	**25**
Other:		
0-1 year	330	285
1-5 years	870	642
> 5 years	507	372
	1,707	**1,299**

Security has been given in land, buildings and installations with a net carrying amount of DKK 178 million (DKK 178 million in 2011) for the LEGO Group's mortgage loans.

The 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 116 million, of which DKK 0 million has been recognised as provision for deferred tax. The amount of DKK 116 million is not expected to be recaptured.

The Group is part in certain legal disputes. It is Management's assessment, that the settlement of these legal disputes will not impact the financial position of the Group.

Note 24. Financial risks

The LEGO Group has centralised the management of the Group's financial risks. The overall objectives and policies for the 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 a credit rating of A- or higher from Standard & Poor's.

Similarly, the LEGO Group only uses insurance companies with a credit rating of A- or higher from Standard & Poor's. The LEGO Group does not use credit ratings when hedging electricity consumption.

Credit risk regarding trade receivables is disclosed in note 16.

For banks and financial institutions, only independently rated parties with a minimum rating of A- are accepted as main banks. The LEGO Group uses the related company KIRKBI Invest A/S for loans and deposits. No independently rating exists but no significant risks are recognised. The maximum credit risk corresponds to the carrying amount of loans granted and receivables, cf note 25. No significant risks are recognised.

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 and MXN account for the most significant exposure on the outflow side.

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

Isolated effects on profit and equity after tax of currency increase against DKK at 31 December 2012 which Management considers probable are specified as follows:

(mDKK)	%-change	2012	2011
EUR:			
Equity	10%	(47)	(89)
Net profit for the year	10%	(6)	(22)
USD:			
Equity	10%	(158)	(277)
Net profit for the year	10%	(8)	33
GBP:			
Equity	10%	(30)	(32)
Net profit for the year	10%	8	7
CZK:			
Equity	10%	60	64
Net profit for the year	10%	22	15
MXN:			
Equity	10%	42	68
Net profit for the year	10%	10	49
HUF:			
Equity	10%	9	6
Net profit for the year	10%	5	(13)

The financial instruments included in the foreign exchange sensitivity analysis are the Group's; Cash, Accounts Receivable, Accounts Payable, Current and Non-Current Loans and Foreign Exchange Forwards and Foreign Exchange Options.

Note 24. Financial risks – 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 liquid funds. Liquid funds yield interest on the short-term money market. An increase in the interest level of 1.0% for 2012 would have had a positive impact on the LEGO Group's profit before tax of approx. DKK 11.9 million (DKK 6.4 million in 2011). The LEGO Group's interest rate risk is considered insignificant and is not expected to have a significant impact on the LEGO Group's results

Other market risk

Electricity derivatives
The LEGO Group has entered into electricity derivatives in order to hedge part of the LEGO Group's electricity consumption for 2012 to 2014. The LEGO Group does not use hedge accounting on electricity derivatives. As a consequence the profit before tax has been affected negatively with DKK 2.3 million (negatively DKK 3.7 million in 2011). An increase/decrease in the electricity price of DKK 0.05 per kWh would have increased/reduced the net income with DKK 1.5 million (DKK 3.1 million in 2011) based on the net present value of the derivatives.

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 why the counterparty risk is assessed to be low.

Capital risk management
Dividend of DKK 3,000 million has been paid in 2012 (DKK 2,500 million in 2011). It is expected that the dividend for 2012, to be paid in 2013 will amount to DKK 3,000 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 Parent Company KIRKBI A/S.

Note 25. 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. Interest payments on floating-rate instruments are fixed by means of a zero coupon interest structure. None of the cash flows are discounted.

At 31 December 2012 forward contracts 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, 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 2013 to 2014.

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

31 December 2012

(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	818	818	613	39	195	**847**
Trade payables	2,112	2,112	2,112	–	–	**2,112**
Other debt[1]	1,929	1,929	1,904	26	16	**1,946**
	4,859	**4,859**	**4,629**	**65**	**211**	**4,905**
Derivative financial instruments:						
Measured at fair value through the income statement	17	17	17	–	–	**17**
Measured at fair value through other comprehensive income (Cash Flow Hedging)	24	24	24	–	–	**24**
	41	**41**	**41**	–	**–**	**41**
Total financial liabilities	**4,900**	**4,900**	**4,670**	**65**	**211**	**4,946**
Measured at amortised cost (Assets):						
Trade receivables	4,950	4,950	4,950	–	–	**4,950**
Other receivables[1]	283	283	283	–	–	**283**
Receivables from related parties	3,442	3,442	3,442	–	–	**3,442**
Cash at bank and in hand	468	468	468	–	–	**468**
	9,143	**9,143**	**9,143**	**–**	**–**	**9,143**
Derivative financial instruments:						
Measured at fair value through the income statement	23	23	23	–	–	**23**
Measured at fair value through other comprehensive income (Cash Flow Hedging)	76	76	66	10	–	**76**
	99	**99**	**89**	**10**	**–**	**99**
Total financial assets	**9,242**	**9,242**	**9,232**	**10**	**–**	**9,242**

[1] Prepayments are excluded from the other receivables balance and taxes and duties payable and wage related payables are excluded from other debt balance as this analysis is only required for financial instruments.

Note 25. Financial assets and liabilities – continued

31 December 2011

(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	825	825	24	649	222	**895**
Trade payables	1,611	1,611	1,611	–	–	**1,611**
Other debt[1]	1,633	1,633	1,604	26	24	**1,654**
	4,069	**4,069**	**3,239**	**675**	**246**	**4,160**
Derivative financial instruments:						
Measured at fair value through the income statement	103	103	103	–	–	**103**
Measured at fair value through other comprehensive income (Cash Flow Hedging)	339	339	303	36	–	**339**
	442	**442**	**406**	**36**	**–**	**442**
Total financial liabilities	**4,511**	**4,511**	**3,645**	**711**	**246**	**4,602**
Measured at amortised cost (Assets):						
Trade receivables	3,845	3,845	3,845	–	–	**3,845**
Other receivables[1]	396	396	396	–	–	**396**
Receivables from related parties	1,950	1,950	1,950	–	–	**1,950**
Cash at bank and in hand	557	557	557	–	–	**557**
	6,748	**6,748**	**6,748**	**–**	**–**	**6,748**
Derivative financial instruments:						
Measured at fair value through the income statement	8	8	8	–	–	**8**
Measured at fair value through other comprehensive income (Cash Flow Hedging)	4	4	4	–	–	**4**
	12	**12**	**12**	**–**	**–**	**12**
Total financial assets	**6,760**	**6,760**	**6,760**	**–**	**–**	**6,760**

[1] Prepayments are excluded from the other receivables balance and taxes and duties payable and wage related payables are excluded from other debt balance as this analysis is only required for financial instruments.

Note 25. Financial assets and liabilities – continued

The following table presents the LEGO Group assets and liabilities measured at fair value at 31 December 2012

- 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)

31 December 2012

(mDKK)	Level 1	Level 2	Level 3	**Total**
ASSETS				
Financial assets at fair value through income statement:				
Derivative financial instruments	–	23	–	**23**
Financial assets at fair value through other comprehensive income:				
Derivative financial instruments (Cash Flow Hedging)	–	76	–	**76**
Total assets	**–**	**99**	**–**	**99**
LIABILITIES				
Financial liabilities at fair value through income statement:				
Derivative financial instruments	–	17	–	**17**
Financial liabilities at fair value through other comprehensive income:				
Derivative financial instruments (Cash Flow Hedging)	–	24	–	**24**
Total liabilities	**–**	**41**	**–**	**41**

Note 25. Financial assets and liabilities – continued

31 December 2011

(mDKK)	Level 1	Level 2	Level 3	**Total**
ASSETS				
Financial assets at fair value through income statement:				
Derivative financial instruments	–	8	–	**8**
Financial assets at fair value through other comprehensive income:				
Derivative financial instruments (Cash Flow Hedging)	–	4	–	**4**
Total assets	**–**	**12**	**–**	**12**
LIABILITIES				
Financial liabilities at fair value through income statement:				
Derivative financial instruments	–	103	–	**103**
Financial liabilities at fair value through other comprehensive income:				
Derivative financial instruments (Cash Flow Hedging)	–	339	–	**339**
Total liabilities	**–**	**442**	**–**	**442**

Note 26. Derivative financial instruments

Total hedging activities
The LEGO Group uses a number of derivatives to hedge currency exposure. The hedging activities are categorised into hedging of forecast transactions (cash flow hedges), and 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 other comprehensive income until the hedged items affect the income statement.

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

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

Note 26. Derivative financial instruments – continued

31 December 2012

(mDKK)	Contract amount	Positive fair value	Negative fair value	Period covered
Hedging of forecast transactions qualifying for hedge accounting:				
USD (Sale of currency)	2,002	36	12	18 months
JPY (Sale of currency)	136	14	–	11 months
GBP (Sale of currency)	503	–	8	11 months
CZK (Purchase of currency)	504	1	–	11 months
Other (Purchase of currency)	477	12	–	18 months
Other (Sale of currency)	779	13	4	12 months
Total forward contracts	**4,401**	**76**	**24**	
USD (Sale of currency)	506	–	–	3 months
Total currency options	**506**	**–**	**–**	
Hedging of balance items qualifying for hedge accounting:				
USD (Sale of currency)	763	10	5	2 months
JPY (Sale of currency)	53	5	–	2 months
GBP (Sale of currency)	229	–	6	2 months
CZK (Purchase of currency)	148	–	–	2 months
Other (Purchase of currency)	51	–	1	2 months
Other (Sale of currency)	310	3	3	2 months
Total Forward contacts	**1,554**	**18**	**15**	
Total for which hedge accounting applies	**6,461**	**94**	**39**	
Other forecast transaction hedges for which hedge accounting is not applied:				
Electricity	10	–	2	24 months
Energy contracts	**10**	**–**	**2**	
USD (Time value)		5		3 months
Total currency options	**–**	**5**	**–**	
Total for which hedge accounting is not applied	**10**	**5**	**2**	
Total of forecast transactions	**6,471**	**99**	**41**	

Note 26. Derivative financial instruments – continued

31 December 2011

(mDKK)	Contract amount	Positive fair value	Negative fair value	Period covered
Hedging of forecast transactions qualifying for hedge accounting:				
USD (Sale of currency)	4,021	–	170	22 months
JPY (Sale of currency)	434	–	38	21 months
GBP (Sale of currency)	498	–	19	12 months
CZK (Purchase of currency)	692	–	39	10 months
Other (Purchase of currency)	633	–	41	22 months
Other (Sale of currency)	1,288	4	32	22 months
Total forward contracts	**7,566**	**4**	**339**	
USD (Sale of currency)	431	–	–	15 months
Total currency options	**431**	**–**	**–**	
Total for which hedge accounting applies	**7,997**	**4**	**339**	
Other forecast transaction hedges for which hedge accounting is not applied:				
Other (Sale of currency)	–	4	6	1 month
Total forward contracts	**–**	**4**	**6**	
Electricity	28	–	4	36 months
Energy contracts	**28**	**–**	**4**	
USD (Sale of currency)	–	4	3	15 months
Total currency options	**–**	**4**	**3**	
Total for which hedge accounting is not applied	**28**	**8**	**13**	
Total of forecast transactions	**8,025**	**12**	**352**	
Hedging of assets and liabilities:				
Other	491	–	90	1 month
Total forward contracts	**491**	**–**	**90**	
Total hedging activities	**8,516**	**12**	**442**	

Note 27. Other reversals with no effect on cash flows

(mDKK)	2012	2011
Depreciation, amortisation and impairment	654	637
Loss on sale of property, plant and equipment	8	11
Net movements in provisions	(40)	28
Other adjustments	335	(110)
	957	**566**

Note 28. Cash at banks

(mDKK)	2012	2011
Cash at banks	468	557
	468	**557**

Note 29. 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, KIRKBI AG Group 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)	2012	2011
Transactions with KIRKBI A/S:		
Sale of assets to	2	–
Interest charged	(3)	(3)
Rent charged	(28)	(26)
Service fee charged	–	(2)
Total transactions with KIRKBI A/S	**(29)**	**(31)**
Transactions with Koldingvej 2, Billund A/S:		
Interest received	1	–
Total transactions with Koldingvej 2, Billund A/S	**1**	–
Transactions with associates:		
Purchase of products	(6)	(7)
Trademark fee received	7	8
Total transactions with associates	**1**	**1**

Note 29. Related party transactions – continued

(mDKK)	2012	2011
Transactions with other related parties:		
Sale of products	331	257
Interest received	7	21
Donations received	6	10
Trademark fee received	13	9
	357	**297**
Rent charged	(2)	(1)
Interest charged	–	(1)
Service fee charged	(45)	(26)
Trademark fee charged	(853)	(680)
	(900)	**(708)**
Total transactions with other related parties	**(543)**	**(411)**

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)	2012	2011
Balances with KIRKBI A/S:		
Payables	(2)	(2)
	(2)	**(2)**
Balances with associates:		
Receivables	–	1
Payables	(1)	(1)
	(1)	**–**
Balances with other related parties:		
Receivables	32	26
Payables	(319)	(231)
	(287)	**(205)**

Note 29. Related party transactions – continued

(mDKK)	Koldingvej 2, Billund A/S	KIRKBI Invest A/S
Balance at 1 January 2012 - Loan investment	–	1,950
Loans advanced during the year[1]	2,802	26,601
Repayments - loan investment[1]	(2,802)	(25,111)
Interest received	–	2
Balance at 31 December 2012	**–**	**3,442**
Specified as follows:		
Current	–	3,442
Non-current	–	–
	–	**3,442**
Balance at 1 January 2012 - Loan borrowing	–	–
Loans raised during the year[1]	–	(3,161)
Repayments - loan borrowing[1]	–	3,161
Balance at 31 December 2012	**–**	**–**

(mDKK)	Koldingvej 2, Billund A/S	KIRKBI Invest A/S
Balance at 1 January 2011 - Loan investment	–	1,956
Loans advanced during the year[2]	–	7,656
Repayments - loan investment[2]	–	(7,680)
Interest received[2]	–	18
Balance at 31 December 2011	**–**	**1,950**
Specified as follows:		
Current	–	1,950
Non-current	–	–
	–	**1,950**
Balance at 1 January 2011 - Loan borrowing	–	–
Loans raised during the year[2]	–	(330)
Repayments - loan borrowing[2]	–	330
Balance at 31 December 2011	**–**	**–**

[1] Payments to related parties amounting to (32,564) and payments from related parties amounting to 31,074
[2] Payments to related parties amounting to (8,004) and payments from related parties amounting to 8,010

Parent Company

Income Statement

1 January – 31 December

(mDKK)	Note	2012	2011
Revenue		77	60
Gross profit		**77**	**60**
Other operation expenses		(61)	(103)
Operating profit		**16**	**(43)**
Dividend from subsidiaries		3,049	2,537
Financial income	2	1	–
Financial expenses	3	(28)	(50)
Profit before income tax		**3,038**	**2,444**
Tax on profit for the year	4	1	36
Net profit for the year		**3,039**	**2,480**
Proposed distribution of profit:			
Dividend		3,000	3,000
Retained earnings		39	(520)
		3,039	**2,480**

Balance Sheet

at 31 December

(mDKK)	Note	2012	2011
ASSETS			
Non-current assets:			
Patents		–	–
Intangible assets	5	**–**	–
Land, buildings and installations		6	6
Property, plant and equipment	6	**6**	**6**
Investments in subsidiaries		6,341	5,853
Investments in associates		3	3
Other non-current assets	7	**6,344**	**5,856**
Total non-current assets		**6,350**	**5,862**
Current assets			
Receivables from subsidiaries		10	–
Tax receivables		1	21
Other receivables		2	35
Total current assets		**13**	**56**
TOTAL ASSETS		**6,363**	**5,918**

Balance Sheet – continued

at 31 December

(mDKK)	Note	2012	2011
EQUITY AND LIABILITIES			
EQUITY			
Share capital	8	20	20
Retained earnings		55	16
Proposed dividend		3,000	3,000
Total equity		**3,075**	**3,036**
LIABILITIES			
Non-current liabilities			
Borrowings	9	–	600
Deferred tax liabilities	10	6	7
Total non-current liabilities		**6**	**607**
Current liabilities			
Borrowings	9	600	–
Debt to subsidiaries		2,614	2,204
Trade payables		2	5
Current tax liabilities		1	–
Other short-term debt		65	66
Total current liabilities		**3,282**	**2,275**
Total liabilities		**3,288**	**2,882**
TOTAL EQUITY AND LIABILITIES		**6,363**	**5,918**
Contingent liabilities and other obligations	**11**		

Statement of changes in Equity

(mDKK)	Share capital	Retained earnings	Proposed dividend	**Total**
Balance at 1 January 2012	**20**	**16**	**3,000**	**3,036**
Dividend relating to prior year	–	–	(3,000)	**(3,000)**
Net profit for the year	–	3,039	–	**3,039**
Proposed dividend	–	(3,000)	3,000	**–**
Equity at 31 December 2012	**20**	**55**	**3,000**	**3,075**

(mDKK)	Share capital	Retained earnings	Proposed dividend	**Total**
Balance at 1 January 2011	**20**	**536**	**2,500**	**3,056**
Dividend relating to prior year	–	–	(2,500)	**(2,500)**
Net profit for the year	–	2,480	–	**2,480**
Proposed dividend	–	(3,000)	3,000	**–**
Equity at 31 December 2011	**20**	**16**	**3,000**	**3,036**

NOTE 1. Significant accounting policies

The Financial statement of the Parent Company has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B.

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 for 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 are recognised when realised or realisable and earned. Revenues are considered to have been earned when LEGO A/S has substantially accomplished what it must do to be entitled to the revenues.

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.

Balance Sheet

Translation policies
Other balance sheets in foreign currencies are translated into Danish kroner at the exchange rates at the balance sheet date. Realised and unrealised gains and losses are recognised in the income statement.

Intangible assets
Acquired patent rights are capitalised on the basis of the costs incurred. These costs are amortised over the shorter of their estimated useful lives or 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 of other assets 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
Other fixtures and fittings tools and equipment	3-10 years

The residual values and useful lives of the assets are reviewed and adjusted, if appropriate, at each balance sheet date. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is higher than its estimated recoverable amount.

Gains and losses on disposals are determined as the difference between selling price and carrying amount and are recognised in the income statement. Borrowing costs incurred at the construction of the qualifying asset are capitalised in the period in which the asset is made ready for use.

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. Interest related to financing self constructed assets is recognised in the income statement.

Investments in subsidiaries and associates
Subsidiaries of the Parent Company are recognised at cost less accumulated impairment losses. LEGO A/S recognises income from the investments only to the extent that LEGO A/S receives dividend from the subsidiaries.

Associates are all enterprises in which LEGO A/S exercises significant influence but not control, generally through a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by using the equity method of accounting and are initially recognised at cost.

Receivables
Other receivables are initially recognised at fair value and subsequently measured at amortised cost less provisions for losses. Provisions for losses are made on the basis of an individual assessment of the risk relating to each receivable.

NOTE 1. Significant accounting policies – continued

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

Dividend distribution
Dividend distribution for the year proposed by Management is disclosed as a separate equity item. Dividend is recognised as a liability in the period in which it is declared at the Annual General Meeting.

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

NOTE 2. Financial income

(mDKK)	2012	2011
Interest income from subsidiaries	1	–
	1	**–**

NOTE 3. Financial expenses

(mDKK)	2012	2011
Interest expenses on mortgage loans	5	10
Interest expenses to related parties	3	3
Interest expenses to subsidaries	20	37
	28	**50**

NOTE 4. Tax on profit for the year

(mDKK)	2012	2011
Current tax on profit for the year	(1)	(21)
Deferred tax on profit for the year	(1)	(2)
Adjustment of tax relating to previous years, current tax	1	1
Adjustment of tax relating to previous years, deferred tax	–	(14)
	(1)	**(36)**

NOTE 5. Intangible assets

(mDKK)	Patents
Cost at 1 January 2012	4
Cost at 31 December 2012	**4**
Depreciation and impairment losses at 1 January 2012	4
Depreciation for the year	–
Depreciation and impairment losses at 31 December 2012	**4**
Carrying amount at 31 December 2012	**0**

(mDKK)	Patents
Cost at 1 January 2011	4
Cost at 31 December 2011	**4**
Depreciation and impairment losses at 1 January 2011	3
Depreciation for the year	1
Depreciation and impairment losses at 31 December 2011	**4**
Carrying amount at 31 December 2011	**0**

NOTE 6. Property, plant and equipment

(mDKK)	Land, buildings & installations	Other fixtures & fitting, tools and equipment	**Total**
Cost at 1 January 2012	6	7	**13**
Disposals	–	(6)	**(6)**
Cost at 31 December 2012	**6**	**1**	**7**
Depreciation and impairment losses at 1 January 2012	–	7	**7**
Disposals	–	(6)	**(6)**
Depreciation and impairment losses at 31 December 2012	**–**	**1**	**1**
Carrying amount at 31 December 2012	**6**	**–**	**6**

(mDKK)	Land, buildings & installations	Other fixtures & fitting, tools and equipment	**Total**
Cost at 1 January 2011	6	7	**13**
Cost at 31 December 2011	**6**	**7**	**13**
Depreciation and impairment losses at 1 January 2011	**–**	7	**7**
Depreciation and impairment losses at 31 December 2011	**–**	**7**	**7**
Carrying amount at 31 December 2011	**6**	**–**	**6**

Assets under finance leases
No assets have been recognised under finance leases.

NOTE 7. Other non-current assets

(mDKK)	Investments in associates	Investments in subsidiaries
Cost at 1 January 2012	4	5,853
Additions	–	490
Disposals		(2)
Cost at 31 December 2012	**4**	**6,341**
Value adjustment at 1 January 2012	(1)	–
Value adjustment at 31 December 2012	**(1)**	**–**
Carrying amount at 31 December 2012	**3**	**6,341**

(mDKK)	Investments in associates	Investments in subsidiaries
Cost at 1 January 2011	4	5,846
Additions	–	7
Cost at 31 December 2011	**4**	**5,853**
Value adjustment at 1 January 2011	(1)	–
Value adjustment at 31 December 2011	(1)	**–**
Carrying amount at 31 December 2011	**3**	**5,853**

NOTE 8. Share capital

(mDKK)	2012	2011
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 2012	**20**	**20**

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

Shareholders holding 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 9. Borrowings

2012

(mDKK)	Total debt	Due within 1 year	Due between 2 and 5 years
Banks and other credit institutions	600	600	–
	600	**600**	**–**

2011

(mDKK)	Total debt	Due within 1 year	Due between 2 and 5 years
Banks and other credit institutions	600	–	600
	600	**–**	**600**

NOTE 10. Deferred tax

(mDKK)	2012	2011
Deferred tax, net at 1 January	(7)	(23)
Change in deferred tax	1	16
	(6)	**(7)**
Classified as:		
Deferred tax liabilities	(6)	(7)
	(6)	**(7)**

NOTE 11. Contingent liabilities and other obligations

The Company is jointly and severally liable for tax in companies included in the joint taxation scheme.

The Company 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 116 million, of which DKK 21 million has been recognised as provision for deferred tax. The remaining amount of DKK 95 million is not expected to be recaptured.

Group structure

LEGO A/S

Americas

- LEGO do Brazil Ltda.
- LEGO Canada Inc.
- LEGO Mexico S.A. de C.V
- Administratión de Servicios LEGO, S. de R.L. de C.V. (Mexico)
- LEGO Operaciones de Mexico S.A. de C.V. (Mexico)
- LEGO Real Estate, S.A. de C.V. (Mexico)
- LEGO System Inc. (US)
  - LEGO Dacta Inc. (US)
    - Dacta and Pitsco LLC, 51% (US)
- LEGO Brand Retail Inc. (US)

Denmark[1]

- LEGO System A/S

Europe (other)

- LEGO Park Holding UK Ltd.
  - LEGO Lifestyle International Ltd. (UK)
- LEGO Company Limited (UK)
- LEGO Education Europe Ltd. (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 verwaltungs GmbH (Germany)
  - LLD Share Gmbh & Co. KG (Germany)

Asia/Africa/ Australia

- LEGO Hong Kong Limited
- LEGO Australia Pty. Ltd.
- LEGO New Zealand Ltd.
- LEGO Korea Co. Ltd.
- LEGO South Africa (Pty.) Ltd.
- LEGO Japan Ltd.
- LEGO Company Ltd. (Hong Kong)
- LEGO Singapore Pte. Ltd.
- LEGO Trading (Beijing) 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.

[1] LEGO A/S owns 19.8% of KABOOKI A/S which is an associate

The LEGO Group
Aastvej
7190 Billund
Denmark
Tel.: +45 79 50 60 70
www.LEGO.com

Progress Report
In the Progress Report you will find detailed information on the LEGO Group's sustainability results for 2012.

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