Annual Report 08

LEGO Group

www.LEGO.com

Read

The Brick

Learn more about the LEGO Group in the new annual magazine The Brick.
See www.LEGO.com/aboutus from 31 March 2009.

Financial Highlights
LEGO Group

(mDKK)

	2008	2007	2006	2005	2004
Income Statement:					
Revenue	9,526	8,027	7,798	7,027	6,295
Expenses	(7,522)	(6,556)	(6,393)	(6,605)	(6,394)
Operating profit before special items	2,004	1,471	1,405	423	(99)
Impairment of non-current assets	(20)	24	270	86	(677)
Restructuring expenses and other special items	116	(46)	(350)	(129)	(136)
Financial income and expenses	(248)	(35)	(44)	(51)	(75)
Profit before income tax	1,852	1,414	1,281	329	(987)
Profit, continuing activities	1,352	1,028	1,290	214	(1,284)
Profit, discontinuing activities	-	-	-	-	(516)
Net profit for the year	1,352	1,028	1,290	214	(1,800)
Balance Sheet:					
Assets relating to continuing activities	6,496	6,009	6,907	7,058	5,160
Assets relating to discontinuing activities	-	-	-	-	1,638
Total assets	6,496	6,009	6,907	7,058	6,798
Equity	2,066	1,679	1,191	563	404
Liabilities relating to continuing activities	4,430	4,330	5,716	6,495	6,123
Liabilities relating to discontinuing activities	-	-	-	-	271
Cash Flow Statement:					
Cash flows from operating activities	1,954	1,033	1,157	587	720
Investment in property, plant and equipment	368	399	316	237	285
Cash flows from financing activities	(1,682)	(467)	597	(656)	(70)
Total cash flows	128	592	1,925	1,570	443
Employees:					
Average number (full-time), continuing activities	5,388	4,199	4,908	5,302	5,603
Average number (full-time), discontinuing activities	-	-	-	1,322	1,029
Financial ratios (in %):					
Gross margin	66.8	65.0	64.9	58.0	57.9
Operating margin (ROS)	22.0	18.1	17.0	5.4	(14.5)
Net profit margin	14.2	12.8	16.5	3.0	(28.6)
Return on equity (ROE)	72.2	71.6	147.1	44.2	(131.0)
Return on invested capital (ROIC I)	101.8	69.7	63.6	16.2	(2.0)
Return on invested capital (ROIC II)	113.8	77.1	67.4	15.2	(18.9)
Equity ratio	31.8	27.9	17.2	8.0	5.9
Equity ratio (incl. subordinate loan)	39.5	46.2	33.2	8.0	5.9

Financial ratios have been calculated in accordance with the "Guidelines and Financial Ratios 2005", issued by the Danish Society of Financial Analysts. For definitions, please see the section on accounting policies.

Parentheses denote negative figures.

Annual Report 08

Annual Report 2008
is published for the LEGO Group
by Corporate Communications.

Design and print: GRC Graphic House

CONTENTS

LEGO A/S
Aastvej 1
DK-7190 Billund, Denmark

Tel:	+45 79 50 60 70
Fax:	+45 75 33 83 77
CVR-no:	54 56 25 19
Incorporated:	December 19th 1975
Residence:	Billund
Financial Year:	January 1st – December 31st
Internet:	www.LEGO.com

Company Information
LEGO GROUP

Management Board

Jørgen Vig Knudstorp
President and CEO

Sten Daugaard
CFO

Corporate Management

Christian Iversen
Executive Vice President
Corporate Center

Mads Nipper
Executive Vice President
Markets & Products

Iqbal Padda
Executive Vice President
Global Supply Chain

Lisbeth Valther Pallesen
Executive Vice President
Community, Education
& Direct

Board of Directors
LEGO A/S

Niels Jacobsen
Chairman of the Board since 2008.

CEO & President of William Demant Holding A/S.
Deputy Chairman of the Board of KIRKBI A/S.
Member of the Board of A.P. Møller-Mærsk A/S.
Member of the Central Board of the Confederation of Danish Industries

Kjeld Kirk Kristiansen
First Deputy Chairman of the Board since 1996.
Member of the Board since 1975.

Chairman of the Board of KIRKBI A/S, the LEGO Foundation, Ole Kirks Foundation, and Edith and Godtfred Kirk Christiansen's Foundation. President and CEO for the LEGO Group 1979-2004.
Majority shareholder of KIRKBI A/S.

Jens Nordahl
Second Deputy Chairman of the Board since 2008.

President & CEO of KIRKBI A/S.
Until September 2008 CEO of the Habitat Group, an IKANO (IKEA) company.

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.

Caroline Søeborg Ahlefeldt-Laurvig-Bille
Member of the Board since 2008.

CEO of CSO Holding A/S.
Chairman of the Board of Resultmaker A/S and 2BM A/S and deputy chairman of Odense Theatre. She is also a director of a number of other companies, including NOIR.Illuminati II A/S, DYRBERG/KERN and COOP A/S.

Torben Ballegaard Sørensen
Member of the Board since 2005.

Chairman of the Board of Pandora Holding A/S and CAT Science A/S.
Deputy Chairman of Monberg & Thorsen A/S and Systematic A/S.
Member of the Board of the Egmont Foundation and AB Electrolux.

Management's Statement on the Annual Report

LEGO A/S

The Management Board and the Board of Directors have today considered and adopted the Annual Report of LEGO A/S for 2008.

The Annual Report for the Group has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports. The Annual Report for the Parent Company has been prepared in accordance with the Danish Financial Statements Act. We consider the accounting policies applied appropriate and the accounting estimates made reasonable. Therefore, in our opinion, the Annual Report gives a true and fair view of the financial position of the Group and the Parent Company and of the results of the Group and Parent Company operations and the cash flows of the Group.

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

Billund, 6 February 2009

Management Board

Jørgen Vig Knudstorp
President and CEO

Sten Daugaard
CFO

Board of Directors

Niels Jacobsen
Chairman

Kjeld Kirk Kristiansen
First Deputy Chairman

Jens Nordahl
Second Deputy Chairman

Thomas Kirk Kristiansen

Kåre Schultz

Caroline Søeborg Ahlefeldt-Laurvig-Bille

Torben Ballegaard Sørensen

Independent Auditor's Report
LEGO A/S

To the Shareholders of LEGO A/S

We have audited the Annual Report of LEGO A/S for the financial year 1 January - 31 December 2008, pages 1-59, which comprises Management's Statement, Management's Review, significant accounting policies, income statement, balance sheet, statement of changes in equity, cash flow statement and notes for the Group as well as for the Parent Company. The Annual Report for the Group is prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports, and the Annual Report for the Parent Company is prepared in accordance with the Danish Financial Statements Act.

Management's Responsibility for the Annual Report

Management is responsible for the preparation and fair presentation of the Annual Report in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of an Annual Report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the Annual Report based on our audit. We conducted our audit in accordance with Danish Auditing Standards. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Annual Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Annual Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the Annual Report 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 Entity'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 Annual Report.

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

Our audit has not resulted in any qualification.

Opinion

In our opinion, the Annual Report gives a true and fair view of the financial position at 31 December 2008 of the Group and the Parent Company and of the results of the Group and Parent Company operations and cash flows of the Group for the financial year 1 January - 31 December 2008 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports for the Group, and in accordance with the Danish Financial Statements Act for the Parent.

Billund, 6 February 2009

PricewaterhouseCoopers
Statsautoriseret Revisionsaktieselskab

Lars Holtug
State Authorised Public Accountant

Henrik Kragh
State Authorised Public Accountant

Management's Review

The year 2008 was a successful year for LEGO products all over the world. This was reflected by considerably higher sales and much better earnings compared with the previous year and with expectations.
The LEGO Group's profit for the year before tax amounted to DKK 1,852 million in 2008 against DKK 1,414 million in 2007. The results are considered highly satisfactory.

Increasing sales

The LEGO Group saw an 18.7% increase in revenue from DKK 8,027 million in 2007 to DKK 9,526 million in 2008.
All the LEGO Group's markets saw significant sales increases in 2008. This despite the fact that, overall, the global market for traditional toys saw a moderate decrease in 2008.
The highest growth was achieved on the English-speaking and the Eastern European markets.
Also in 2008, the classic product lines like LEGO City, LEGO Creator, LEGO Technic and LEGO *Star Wars* accounted for most of the increased sales. Moreover, the licensed product line LEGO Indiana Jones achieved considerably higher sales than expected at the beginning of the year.

Licence and royalty expenses

Licence and royalty expenses increased in 2008 to DKK 639 million from DKK 484 million in 2007.
The item primarily includes royalty to the KIRKBI group for the use of trademarks, including the LEGO brand, but also licence agreements with inventors, designers and other licensees for the use of intellectual rights.
Licence income received from other enterprises for the use of LEGO Group brands also increased in 2008.

Profit before special items, financial income and expenses and tax

The LEGO Group's profit before special items, financial income and expenses and tax amounted to DKK 2,004 million in 2008 against DKK 1,471 million in 2007.
In 2008 the operating margin (ROS) was 22.0% against 18.1% in 2007.
The highly satisfactory results are mainly attributable to significantly increased sales.

Special items

A number of restructuring and compensation provisions previously made were recognised as income at a total of DKK 116 million in 2008, based on the decision not to outsource further production activities from Denmark in the coming years.

Financial income and expenses

Net financials amounted to an expense of DKK 248 million against DKK 35 million in 2007.

Corporation tax

Corporation tax amounts to DKK 500 million against DKK 386 million the year before. The effective tax rate for the year, 27%, remains unchanged from 2007.

Profit for the year

The group profit for the year amounted to DKK 1,352 million against DKK 1,028 million in 2007.

Equity and cash flows

Group assets have increased by DKK 487 million and amount to DKK 6,496 million against DKK 6,009 million at the end of 2007.
Return on invested capital (ROIC) for the Group was 101.8% in 2008 against 69.7% in 2007.
After recognition of the profit for the year and distribution of dividend, group equity has increased by DKK 387 million to DKK 2,066 million in 2008.
At the end of 2008, the equity ratio for the Group was 31.8%.
Return on equity for the Group reached 72.2% in 2008 against 71.6% in 2007.
In 2008 the Group's cash flows from operating activities were positively affected by the increasing profit and amounted to DKK 1,954 million against DKK 1,033 million in 2007.
Cash flows from investing and financing activities decreased by DKK 1,385 million compared with 2007, which is attributable to an increase in the payment of dividend in accordance with the LEGO Group's capital structure.
The Group's total cash flows thus amounted to DKK 128 million against DKK 592 million in 2007.

Insourcing of production

During 2008 it was decided to focus on own production to an increasing extent in order to obtain higher flexibility and efficiency. Therefore, the LEGO Group began phasing out the existing production agreement with Flextronics. The phasing out will be completed during 2009.
The change to a higher degree of own production meant that in 2008 the LEGO Group took over the production activities in Kladno, the Czech Republic, and in Nyíregyháza, Hungary. Moreover, the establishment of production in Monterrey in Mexico was initiated.

Intellectual capital resources

One of the LEGO Group's decisive competitive parameters is the high competence level of its employees.

Therefore, considerable resources are continually spent on competence development. In 2008 the Group put much effort into strengthening the individual development plans of the Group's employees. The purpose of this is to ensure that the employees continue to develop their skills and that the LEGO Group has a constant, high level of intellectual capital and competence. This focus on individual development plans will continue in the coming years.

Due to the decision to insource production activities, the number of full-time employees (FTE) in the LEGO Group increased by 1,189 to 5,388 in 2008. The increase will continue in the coming year and involves great focus on welcoming and introduction activities for the many new employees.

Sustainability

In 2003, as the first company in the toy industry, the LEGO Group signed the UN Global Compact. This was a confirmation of the many years' support of human rights, labour standards and the environment. Global Compact has later been extended to include anti-corruption. The LEGO Group confirms its support to Global Compact and accordingly issues Progress Report 2008, describing how the LEGO Group is working within the areas human rights, labour standards, the environment and anti-corruption.

Market development

The LEGO Group's main activity is the development, production, marketing and sale of play materials. Consequently, the Group is a player on a market which has in recent years been under pressure from new product lines such as computer games, mobile phones and mp3 players.

Overall, the global market for traditional toys saw a moderate decrease in 2008. The American toy market saw a moderate decrease, and the world's second largest toy market, Japan, decreased heavily. The remaining Asian markets as well as the Eastern European markets increased, while overall Western Europe experienced stagnation in 2008.

At the end of the year, the fear of an actual worldwide recession increased. This put considerable pressure on the toy market, and among others the USA, the UK and Japan saw heavy decreases during the last months of 2008.

LEGO sales

Despite the general development of the toy market, retail sales of LEGO products reached two-digit growth rates on nearly all markets in 2008.

Especially the Anglo-American markets saw extraordinarily high sales growth, which resulted in a considerable increase in the LEGO Group's market share of these markets. On the Central European markets toy sales were under heavy pressure; nevertheless the LEGO products increased their market leadership through continued growth. On the Northern and Eastern European markets, the strong position of the LEGO products was further strengthened during 2008.

Classic play themes such as LEGO City are still the strongest product lines on the European markets. LEGO *Star Wars* is gaining a really strong foothold on the Eastern European markets while reinforcing its strong position in the rest of Europe.

In the USA, the strong growth was driven partly by LEGO *Star Wars* and the new, strong licensed product LEGO Indiana Jones, and partly – to an increasing extent – by other classic LEGO lines such as LEGO City, LEGO Agents and LEGO Castle.

Also direct sales to consumers and sales of educational materials saw healthy growth rates in 2008.

The LEGO Group increased its overall global market share, which is now approximately 3.6%.

Expectations for 2009

Great uncertainty looms over the global toy market in 2009. Already under pressure, the toy market is expected to be increasingly affected in 2009 by the worldwide recession.

Nevertheless, the LEGO Group expects a moderate increase in sales in 2009, both on the existing main markets in North America and Western Europe, and on the rapidly growing new markets.

In order to support the growth, the LEGO Group plans continued investments in sales, marketing and production capacity.

Based on this, satisfactory results are expected for 2009.

Income Statement 1 January – 31 December
LEGO GROUP

(mDKK)

	Note	2008	2007
Revenue	3	9,526	8,027
Production costs	4,6,7	(3,165)	(2,812)
Gross profit		**6,361**	**5,215**
Other operating income		-	224
Sales and distribution expenses	4,6,7	(2,969)	(2,794)
Administrative expenses	4,5,6,7	(645)	(575)
Other operating expenses	4,6,7,9	(743)	(599)
Operating profit before special items		**2,004**	**1,471**
Impairment of non-current assets	7	(20)	24
Restructuring expenses and other special items	4,8	116	(46)
Operating profit		**2,100**	**1,449**
Profit/(loss) from associates after tax	16	-	(1)
Financial income	10	41	123
Financial expenses	11	(289)	(157)
Profit before income tax		**1,852**	**1,414**
Tax on profit for the year	12	(500)	(386)
Net profit for the year		**1,352**	**1,028**
Distributed as follows:			
Parent Company shareholders		1,343	1,023
Minority interests		9	5
		1,352	**1,028**

Balance Sheet at 31 December

LEGO GROUP

(mDKK)

	Note	2008	2007
ASSETS			
Non-current assets			
Development projects and prepayments for intangible assets		90	30
Internally developed software		13	-
Patents		2	4
Intangible assets	14	**105**	**34**
Land, buildings and installations		549	543
Plant and machinery		500	431
Other fixtures and fittings, tools and equipment		139	126
Assets under construction and prepayments for property, plant and equipment		78	54
Property, plant and equipment	15	**1,266**	**1,154**
Deferred tax assets	21	132	281
Investments in associates	16	3	3
Other non-current assets		**135**	**284**
Total non-current assets		**1,506**	**1,472**
Current assets			
Inventories	17	870	946
Trade receivables	18	1,822	1,796
Other receivables		439	681
Current tax receivables		130	71
Receivables from related parties		600	-
Cash at bank and in hand	30	1,129	1,001
		4,990	**4,495**
Non-current assets classified as held for sale	13	-	42
Total current assets		**4,990**	**4,537**
TOTAL ASSETS		**6,496**	**6,009**

Balance Sheet at 31 December
LEGO GROUP

(mDKK)

	Note	2008	2007
EQUITY AND LIABILITIES			
EQUITY			
Share capital	19	20	20
Reserve for hedge accounting		49	22
Reserve for exchange adjustments		(302)	(319)
Retained earnings	20	2,291	1,948
LEGO A/S' share of equity		2,058	1,671
Minority interests		8	8
Total equity		**2,066**	**1,679**
LIABILITIES			
Non-current liabilities			
Subordinate loan capital	27	500	1,100
Borrowings	27	839	237
Deferred tax liabilities	21	98	128
Pension obligations	22	50	63
Provisions	24	63	93
Other long-term debt	23	72	79
Total non-current liabilities		**1,622**	**1,700**
Current liabilities			
Borrowings	27	4	77
Trade payables		1,036	778
Current tax liabilities		83	121
Provisions	24	138	174
Other short-term debt	23	1,547	1,480
Total current liabilities		**2,808**	**2,630**
Total liabilities		**4,430**	**4,330**
TOTAL EQUITY AND LIABILITIES		**6,496**	**6,009**

Statement of Changes in Equity

LEGO GROUP

(mDKK)	Share capital	Reserve hedge accounting	Reserve for exchange adjust.	Retained earnings	LEGO Group's share of equity	Minority interests	Total equity
Balance at 1 January 2007	**20**	**23**	**(184)**	**1,325**	**1,184**	**7**	**1,191**
Fair value adjustment of hedging instruments	-	(2)	-	-	(2)	-	**(2)**
Deferred tax effect on equity	-	1	-	-	1	-	**1**
Exchange adjustments	-	-	(135)	-	(135)	-	**(135)**
Net income/(expenses) recognised directly in equity	-	(1)	(135)	-	(136)	-	**(136)**
Net profit/(loss) for the year	-	-	-	1,023	1,023	5	**1,028**
Comprehensive income/ (expenses) for 2007	**-**	**(1)**	**(135)**	**1,023**	**887**	**5**	**892**
Dividend relating to prior year	-	-	-	(400)	(400)	(4)	**(404)**
Balance at 31 December 2007	**20**	**22**	**(319)**	**1,948**	**1,671**	**8**	**1,679**
Balance at 1 January 2008	**20**	**22**	**(319)**	**1,948**	**1,671**	**8**	**1,679**
Fair value adjustment of hedging instruments	-	37	-	-	37	-	**37**
Deferred tax effect on equity	-	(10)	-	-	(10)	-	**(10)**
Exchange adjustments	-	-	17	-	17	-	**17**
Net income/(expenses) recognised directly in equity	-	27	17	-	44	-	**44**
Net profit/(loss) for the year	-	-	-	1,343	1,343	9	**1,352**
Comprehensive income/ (expenses) for the period	**-**	**27**	**17**	**1,343**	**1,387**	**9**	**1,396**
Dividend relating to prior year	-	-	-	(1,000)	(1,000)	(9)	**(1,009)**
Balance at 31 December 2008	**20**	**49**	**(302)**	**2,291**	**2,058**	**8**	**2,066**

Cash Flow Statement 1 January – 31 December

LEGO GROUP

(mDKK)

	Note	2008	2007
Cash flows from operating activities:			
Profit before income tax		1,852	1,414
Income tax (paid)/received		(487)	(264)
Other reversals with no effect on cash flows	28	232	(199)
Changes in working capital	29	357	82
Net cash generated from operating activities		1,954	1,033
Cash flows from investing activities:			
Acquisition of associates		-	(4)
Purchases of property, plant and equipment		(368)	(399)
Purchases of intangible assets		(75)	(34)
Proceeds from sale of marketable securities		-	75
Proceeds from sale of property, plant and equipment		299	388
Net cash generated from investing activities		(144)	26
Cash flows from financing activities:			
Dividend paid to shareholders		(1,009)	(400)
Loans granted to group companies		(600)	-
Proceeds from borrowings		600	253
Repayments of borrowings		(673)	(320)
Net cash (used in)/generated from financing activities		(1,682)	(467)
Total cash flows		**128**	**592**
Settlement of debt regarding group restructuring		-	(1,288)
Cash and cash equivalents at 1 January		1,001	1,697
Cash and cash equivalents at 31 December	30	**1,129**	**1,001**

Notes
LEGO GROUP

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

Effects of new accounting standards

At the time of the announcement of this Annual Report, a number of new or amended standards and interpretations which are not yet effective have been issued. The following are applicable to the Group and may have impact on the financial statements:

Implemented
- None

The following standards and changes to existing standards and interpretations issued with effect as from the financial year 2009 may be relevant for the Group, but have not been implemented by the Group:

- Changes to IAS 1 concerning the presentation of the annual report, including requirement for the presentation of a statement of comprehensive income.
- Changes to IAS 23 concerning capitalisation of borrowing costs, according to which borrowing costs must be recognised in the cost of self constructed assets with long production lead time.
- IFRIC 13 concerning the accounting treatment of customer loyalty programmes.
- IFRIC 14 concerning the limits according to IAS 19 in respect of recognition of net assets on defined benefit plans.

Management is currently assessing the potential impact. It is Management's immediate assessment that the above-mentioned changes to standards and interpretations will not have any significant impact on recognition and measurement.

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 Group.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.
Associates are all entities over which the 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 Group.

Minority 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 minority interests forms part of the profit or loss for the year. Minority 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 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 qualifying cash flow hedges or qualifying net investment hedges.

Notes
LEGO GROUP

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 reserve for exchange adjustments under equity.

Derivative financial instruments
Derivative financial instruments are initially recognised in the balance sheet at fair value and are subsequently measured at fair value. Derivative financial instruments are recognised in other receivables and other short-term debt.

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.

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

In case of premature redemption of a hedging instrument, the accumulated price adjustment is recognised in equity until the hedged transaction occurs. In case a future cash flow is no longer considered likely, any accumulated price adjustment is transferred from equity to the income statement under 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:
- 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 LEGO Group; and
- 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.

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 in the Consolidated Financial Statements, 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 sheets 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

Intangible assets

Development projects and prepayments for intangible assets
Research expenses are charged to the income statement as incurred. Development projects that are clearly defined and identifiable and

Notes
LEGO GROUP

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 intangible assets is performed.

Borrowing expenses related to financing development costs are recognised in the income statement.

Patents
Acquired patent 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	5-10 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. 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 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. Interest related to financing self constructed assets is recognised in the income statement.

Leases
Leases of assets where the 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.

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).

Non-current assets held for sale
Non-current assets held for sale are measured at carrying amount at the time of classification as held for sale or at a lower net realisable value.

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 provisions for losses. Provisions for losses are made on the basis of an individual assessment of the risk relating to each receivable.

Notes
LEGO GROUP

Equity

Reserve for hedge accounting
The reserve for hedge accounting consists of gains and losses from the hedging of cash flows and financial assets.

Reserve for exchange adjustments
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.

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

Compound financial instruments
The proceeds from the issuance of convertible debt instruments which contain an equity component are allocated between equity and a liability component. The liability component is determined on the basis of the fair value of a loan provided on similar terms that does not have the equity component. The residual amount is allocated to the equity component.

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 Group. Where the Group provides long-term employee benefits, the costs are accumulated to match the rendering of the services by the employees concerned.

Retirement benefit obligation
The LEGO Group has a number of both defined contribution and defined benefit plans.

Costs regarding defined contribution plans are recognised in the income statement in the periods in which the related employee services are delivered. Actuarial gains and losses are recognised in the income statement in the period in which they occur.

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 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. To the extent that the benefits are vested, the expense is recognised in the income statement.

Net pension assets are recognised to the extent that the 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 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.

Notes
LEGO GROUP

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 the profit for the year 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 and bank overdrafts etc that can readily be converted into cash reduced by short-term bank debt.

Notes
LEGO GROUP

Financial ratios

Financial ratios have been calculated in accordance with the "Guidelines and Financial Ratios 2005", issued by the Danish Society of Financial Analysts.

Gross margin: $\dfrac{\text{Gross profit x 100}}{\text{Revenue}}$

Operating margin (ROS): $\dfrac{\text{Operating profit (EBIT) x 100}}{\text{Revenue}}$

Net profit margin: $\dfrac{\text{Net profit for the year x 100}}{\text{Revenue}}$

Return on equity (ROE): $\dfrac{\text{Net profit for the year x 100}}{\text{Average equity}}$

ROIC I: $\dfrac{\text{EBITA before special items x 100}}{\text{Average invested capital}}$

ROIC II: $\dfrac{\text{EBITA after special items x 100}}{\text{Average invested capital}}$

Equity ratio: $\dfrac{\text{Equity (incl. minority interests) x 100}}{\text{Total liabilities and equity}}$

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. At the statement of ROIC II, provisions relating to restructuring are moreover deducted.

Notes
LEGO GROUP

(mDKK)

NOTE 2. Significant accounting estimates and judgments

When preparing the Annual Report it is necessary that Management makes a number of accounting estimates and judgments that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses.

Estimates and judgments used in the determination of reported results are continuously evaluated. Management bases the judgments 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 judgments are those that Management assesses to be material for the Annual Report:

Inventories
Calculation of indirect production costs requires estimates and judgments 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.

Trade receivables
As a consequence of the global crisis, there is increased risk in respect of the Group's trade receivables. Based on available information, Management has assessed the impact of the crisis on the Group's trade receivables. In Management's opinion, the assumptions and estimates made are reasonable.

Provisions and contingent liabilities
Provisions and contingent liabilities are by nature uncertain. The classification as provisions or contingent liabilities and the measurement of provisions in the Financial Statements are based on the expected outcome. It is the assessment of Management that the estimates and assumptions are reasonable.

NOTE 3. Revenue

Revenue contains sale of goods and licence income. Sale of goods amounts to DKK 9,381 million (DKK 7,945 million in 2007), and license income amounts to DKK 145 million (DKK 82 million in 2007).

NOTE 4. Expenses by nature

	2008	2007
Raw materials and consumables used	1,887	1,561
Employee expenses (notes 6 and 9)	2,063	1,851
Depreciation and amortisation (note 7)	290	277
Licence and royalty expenses	639	484
Other external expenses	2,528	2,653
Total operating expenses and restructuring expenses	**7,407**	**6,826**

Notes
LEGO GROUP

(mDKK)

NOTE 5. Auditors' fees

	2008	2007
Fee to PricewaterhouseCoopers:		
Audit	8	8
Non-audit services	15	13
	23	**21**

NOTE 6. Employee expenses

	2008	2007
Wages and salaries	1,834	1,651
Pension costs, defined benefit plans (note 22)	1	9
Pension costs, defined contribution plans	100	86
Other expenses and social security expenses	86	73
	2,021	**1,819**
Classified as:		
Production costs	606	502
Sales and distribution expenses	834	849
Administrative expenses	404	316
Other operating expenses	177	152
	2,021	**1,819**
Including Management Board and Corporate Management:		
Salaries	17	16
Short-term incentive plans	9	7
Long-term incentive plans	8	8
	34	**31**
Including fee to Board of Directors:	**1**	**1**

Incentive plans comprise of 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	**5,388**	**4,199**

Notes
LEGO GROUP

(mDKK)

NOTE 7. Depreciation, amortisation and impairment losses

	2008	2007
Patents	2	-
Intangible assets	2	-
Buildings and installations	43	26
Plant and machinery	203	220
Other fixtures and fittings, tools and equipment	40	31
	290	**277**
Classified as:		
Production costs	201	213
Sales and distribution expenses	25	26
Administrative expenses	41	37
Impairment losses on non-current assets	20	-
Other operating expenses	3	1
	290	**277**

NOTE 8. Restructuring expenses and other special items

Employee related expenses	42	32
Close-down of production and office facilities	-	25
Reversal of provisions for restructuring	(81)	(37)
Other	(77)	26
	(116)	**46**

NOTE 9. Research and development costs

Research and development costs charged during the year	247	252
	247	**252**

NOTE 10. Financial income

Interest income from bonds	-	6
Conversion gain on mortgage loans	-	20
Change in present value of provisions (note 24)	4	3
Interest income from related parties	19	-
Interest income from credit institutions	18	43
Gains from financial instruments	-	51
	41	**123**

Notes
LEGO GROUP

(mDKK)

NOTE 11. Financial expenses

	2008	2007
Interest expenses on mortgage loans	14	19
Interest expenses to related parties	58	94
Losses and expenses on financial instruments	41	-
Exchange loss, net	153	38
Other interest expenses	23	6
	289	**157**

NOTE 12. Tax on profit for the year

Current tax on profit for the year	(313)	(270)
Deferred tax on profit for the year	(190)	(130)
Other	1	(11)
Adjustment of tax relating to previous years, current tax	(62)	3
Adjustment of tax relating to previous years, deferred tax	64	22
	(500)	**(386)**

Income tax expenses are specified as follows:		
Calculated 25% tax on profit for the year before income tax	(463)	(354)
Tax effect of:		
Higher/lower tax rate in subsidiaries	(13)	(19)
Non-taxable income	4	7
Non-deductible expenses	(26)	(20)
Deferred tax, effect of change in tax rate	-	(17)
Adjustment of tax relating to previous years	2	11
Effect of non-capitalised deferred tax	(1)	17
Other	(3)	(11)
	(500)	**(386)**

Effective tax rate	27%	27%

Notes
LEGO GROUP

(mDKK)

NOTE 13. Non-current assets held for sale

	2008	2007
Cost at 1 January	130	900
Exchange adjustment to year-end rate	-	(24)
Additions	-	2
Disposals	-	(1,148)
Transfer from/to property, plant and equipment	(130)	400
Cost at 31 December	-	130
Depreciation and Impairment losses at 1 January	88	597
Exchange adjustment to year-end rate	-	(16)
Impairment losses/reversals for the year	-	-
Disposals	-	(698)
Transfer from/to property, plant and equipment	(88)	205
Depreciation and impairment losses at 31 December	-	88
Carrying amount at 31 December	**-**	**42**

Notes
LEGO GROUP

(DKK MIO.)

NOTE 14. Intangible assets

	Patents	Internally developed software	Development costs and prepayments	Total
Cost at 1 January 2007	**-**	**-**	**-**	**-**
Exchange rate adjustment to year-end rate	-	-	-	-
Additions	4	-	30	34
Disposals	-	-	-	-
Cost at 31 December 2007	4	-	30	34
Amortisation and impairment losses at 1 January 2007	-	-	-	-
Amortisation for the year	-	-	-	-
Impairment losses for the year	-	-	-	-
Amortisation and impairment losses at 31 December 2007	-	-	-	-
Carrying amount at 31 December 2007	**4**	**-**	**30**	**34**
Cost at 1 January 2008	4	-	30	34
Exchange rate adjustment to year-end rate	-	-	-	-
Additions	-	11	64	75
Disposals	-	-	-	-
Transfer	-	4	(4)	-
Cost at 31 December 2008	4	15	90	109
Amortisation and impairment losses at 1 January 2008	-	-	-	-
Amortisation for the year	2	2	-	4
Impairment losses for the year	-	-	-	-
Amortisation and impairment losses at 31 December 2008	2	2	-	4
Carrying amount at 31 December 2008	**2**	**13**	**90**	**105**

Notes
LEGO GROUP

(mDKK)

NOTE 15. Property, plant and equipment

	Land, buildings & installations	Plant & machinery	Other fixtures & fittings, tools and equipment	Fixed assets under construction and prepayments	Total
Cost at 1 January 2007	1,314	2,682	726	38	4,760
Exchange adjustment to year-end rate	(3)	(15)	(28)	-	(46)
Additions	49	251	66	48	414
Disposals	(2)	(144)	(123)	-	(269)
Transfer to non-current assets held for sale	(400)	-	-	-	(400)
Other transfers	-	32	-	(32)	-
Cost at 31 December 2007	958	2,806	641	54	4,459
Depreciation and impairment losses at 1 January 2007	609	2,324	629	-	3,562
Exchange adjustment to year-end rate	(3)	(14)	(21)	-	(38)
Depreciation for the year	26	220	31	-	277
Reversal of impairment losses in previous years	(10)	(16)	(4)	-	(30)
Disposals	(2)	(139)	(120)	-	(261)
Transfer to non-current assets held for sale	(205)	-	-	-	(205)
Other transfers	-	-	-	-	-
Depreciation and impairment losses at 31 December 2007	415	2,375	515	-	3,305
Carrying amount at 31 December 2007	**543**	**431**	**126**	**54**	**1,154**
Including assets under finance leases	**75**	**-**	**17**	**-**	**92**

Notes
LEGO GROUP

(mDKK)

NOTE 15. Property, plant and equipment, continued

	Land, buildings & installations	Plant & machinery	Other fixtures & fittings, tools and equipment	Fixed assets under construction and pre-payments	Total
Cost at 1 January 2008	958	2,806	641	54	4,459
Exchange adjustment to year-end rate	(5)	10	3	1	9
Additions	8	231	54	75	368
Disposals	(1)	(331)	(23)	(5)	(360)
Transfers	130	46	1	(47)	130
Cost at 31 December 2008	1,090	2,762	676	78	4,606
Depreciation and impairment losses at 1 January 2008	415	2,375	515	-	3,305
Exchange adjustment to year-end rate	(4)	5	2	-	3
Depreciation for the year	43	203	40	-	286
Disposals	(1)	(321)	(20)	-	(342)
Transfers	88	-	-	-	88
Depreciation and impairment losses at 31 December 2008	541	2,262	537	-	3,340
Carrying amount at 31 December 2008	**549**	**500**	**139**	**78**	**1,266**
Including assets under finance leases	**71**	**-**	**14**	**-**	**85**

Property, plant and equipment in general

An obligation regarding the purchase of property, plant and equipment of DKK 10 million exists at 31 December 2008 (DKK 11 million at 31 December 2007).

Assets under finance leases

Assets under finance leases consist of buildings and hardware (in 2007 assets under finance leases consisted of buildings and hardware).

Notes
LEGO GROUP

(mDKK)

NOTE 16. Investments in associates

	2008	2007
Cost at 1 January	4	-
Additions	-	4
Cost at 31 December	4	4
Value adjustment at 1 January	(1)	-
Share of profit/(loss)	-	(1)
Value adjustment at 31 December	(1)	(1)
Carrying amount at 31 December	**3**	3

The LEGO Group's share of net profit for the year and total assets (including goodwill and liabilities) of associates, of which none are publicy listed, amounts to:

	Revenue	Net profit for the year	Total assets	Total liabilities	Total equity	LEGO Group's share of: Equity	LEGO Group's share of: Net profit for the year
KABOOKI A/S, Denmark (19.8%)	**137**	**-**	**44**	**24**	**20**	**4**	**-**

The accounting figures for KABOOKI A/S are based on estimates.

The LEGO Group 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 associate.

NOTE 17. Inventories

	2008	2007
Raw materials and components	84	96
Work in progress	291	235
Finished goods	495	615
	870	**946**
Cost of sales recognised in production costs	**2,454**	**2,444**

Notes
LEGO GROUP

(DKK MIO.)

NOTE 18. Trade receivables

	2008	2007
Trade receivables (gross)	2,016	1,933
Provisions for bad debts:		
Balance at the beginning of the year	(137)	(151)
Exchange adjustment to year-end rate	(4)	11
Change in provisions for the year	(73)	(6)
Realised losses for the year	20	9
Change for the year recognised in the income statement	(53)	3
Balance at the end of the year	(194)	(137)
Trade receivables (net)	**1,822**	**1,796**

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 trade receivables is as follows:

	2008	2007
Not overdue	1,682	1,561
0 - 60 days overdue	208	235
61 - 120 days overdue	3	9
121 - 180 days overdue	-	2
More than 180 days overdue	123	126
	2,016	**1,933**

73% of total trade receivables are covered by insurance (77% in 2007) and therefore this part of the credit risk is reduced to the risk relating to the insurance companies concerned. DKK 544 million (DKK 442 million in 2007) corresponding to 27% of trade receivables (23% in 2007) 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 the determination of the Group's granting of credit. The Group's risk relating to trade receivables is considered to be moderate. For more information, see note 27.

Notes
LEGO GROUP

(mDKK.)

NOTE 19. Share capital

The share capital consists of:

1	A-shares of DKK 1,000 or multiples hereof (2007: 1)
9	B-shares of DKK 1,000 or multiples hereof (2007: 9)
10	C-shares of DKK 1,000 or multiples hereof (2007: 10)
20	**Total shares at 31 December 2008 (2007: 20)**

The total number of shares is 205 (205 in 2007). 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 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
LEGO Invest A/S, Koldingvej 2, 7190 Billund, Denmark

NOTE 20. Dividend per share

The dividends paid in 2008 amounted to DKK 1,000 million, corresponding to DKK 4.9 million in average per share (DKK 400 million in 2007, DKK 2 million in average per share). Dividends of DKK 1,000 million are expected to be declared in 2009, corresponding to DKK 4.9 million in average per share.

Notes
LEGO GROUP

(mDKK)

Note 21. Deferred tax

	2008	2007
Deferred tax, net at 1 January	153	261
Exchange adjustment to year-end rate	3	(15)
Income statement charge	(126)	(94)
Charged to equity	4	1
	34	**153**

2007	**Deferred tax assets**	**Provision for deferred tax**	**Deferred tax net**
Non-current assets	130	(176)	(46)
Receivables	54	-	54
Inventories	43	-	43
Provisions	65	-	65
Other liabilities	21	-	21
Other	8	(2)	6
Offset	(50)	50	-
Tax loss carry-forwards	10	-	10
	281	**(128)**	**153**

2008	**Deferred tax assets**	**Provision for deferred tax**	**Deferred tax net**
Non-current assets	84	(1)	83
Receivables	57	-	57
Inventories	1	(38)	(37)
Provisions	53	(1)	52
Other liabilities	19	-	19
Other	11	(163)	(152)
Offset	(105)	105	-
Tax loss carry-forwards	12	-	12
	132	**(98)**	**34**
Change in deferred tax for the year			-
Deferred tax, net at 31 December 2008	**132**	**(98)**	**34**

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 7 million of the Group's capitalised tax losses expires after 3 years, DKK 5 million expires after more than 5 years (DKK 10 million in 2007 does not expire before 5 years).

Notes
LEGO GROUP

(mDKK)

Note 22. 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 Group, DKK 100 million (DKK 86 million in 2007) has 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, the USA and the UK. In the Group, a net obligation of DKK 27 million (DKK 48 million in 2007) has been recognised relating to the Group's obligations towards current or past employees concerning defined benefit plans. The obligation is calculated after deduction of the plan assets. In the Group, DKK 1 million (DKK 9 million in 2007) has been recognised in the income statement.

	2008	2007
The amounts recognised in the balance sheet are calculated as follows:		
Present value of funded obligations	(88)	(114)
Fair value of plan assets	96	112
	8	(2)
Present value of unfunded obligations	(35)	(46)
Net liability recognised in the balance sheet	**(27)**	**(48)**
Of which included as part of the liabilities	(50)	(63)
Of which included as part of the assets	23	15
The change in present value of defined benefit obligations over the year is as follows:		
Present value at 1 January	(160)	(168)
Exchange adjustment to year-end rate	14	7
Pension costs relating to current financial year	(2)	(2)
Interest expenses	(7)	(7)
Actuarial losses/(gains)	7	2
Benefits paid	16	8
Disposals in connection with cancellation of pension scheme	8	-
Curtailments in connection with resignations	1	-
Present value at 31 December	**(123)**	**(160)**

Notes
LEGO GROUP

(mDKK)

Note 22. Pension obligations, continued

	2008	2007
The change for the year in fair value of plan assets is as follows:		
Plan assets at 1 January	112	120
Exchange adjustment to year-end rate	(12)	(7)
Expected return on plan assets	4	5
Actuarial (losses)/gains	(4)	(3)
Employer contributions	-	1
Employee contributions	6	-
Benefits paid	(10)	(4)
Plan assets at 31 December	96	112

Plan assets are specified as follows:

	2008		2007	
Shares	4	4%	60	54%
Debt instruments	64	67%	20	18%
Other	28	29%	32	29%
	96	**100%**	**112**	**100%**

The amount recognised in the income statement is specified as follows:

	2008	2007
Pension costs relating to current financial year	2	2
Interest expenses	7	7
Expected return on plan assets	(6)	(4)
Actuarial losses, net	(2)	4
	1	**9**

	2008	2007
Classified as:		
Administrative expenses	1	9
	1	**9**

Movements in the net liability recognised in the balance sheet are as follows:

	2008	2007
Net liability at 1 January	48	48
Total expenses charged to the income statement	1	9
Contributions paid	(22)	(9)
Net liability at 31 December	**27**	**48**

	2008	2007
The actual return on plan asset amounts to	**(2)**	**3**

Notes
LEGO GROUP

(mDKK)

Note 22. Pension obligations, continued

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:

	2008	2007
Discount rate	3%	4%
Expected return on plan assets	2%	2%
Future salary increases	1%	2%
Future pension increases	1%	1%

Note 23. Other debt

Wage-related payables and public charges	649	566
Debt to related parties	127	123
Finance lease obligations	86	93
Other current liabilities	757	777
	1,619	**1,559**
Specified as follows:		
Non-current	72	79
Current	1,547	1,480
	1,619	**1,559**

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.

Obligations regarding finance leases are as follows::

0-1 year	14	14
1-5 years	44	46
> 5 years	28	33
	86	**93**

Reconciliation of carrying amount and gross liability:

Carrying amount of the liability	86	93
Interest expenses not yet accrued	5	7
Gross liability	**91**	**100**

No contingent leases have been recognised in expenses in 2008 or 2007.
None of the assets under finance leases have been subleased.

Notes
LEGO GROUP

(DKK MIO.)

Note 24. Provisions

2007	Restructuring	Other	Total
Provisions at 1 January	281	110	391
Exchange adjustment to year-end rate	(2)	1	(1)
Additions	37	31	68
Change for the year in calculation of present value	(3)	-	(3)
Used	(96)	(41)	(137)
Reversed	(37)	(14)	(51)
Provisions at 31 December	**180**	**87**	**267**
Specified as follows:			
Non-current			93
Current			174
			267

2008	Restructuring	Other	Total
Provisions at 1 January	180	87	267
Exchange adjustment to year-end rate	(8)	3	(5)
Additions	20	82	102
Change for the year in calculation of present value	4	-	4
Used	(41)	(17)	(58)
Reversed	(89)	(20)	(109)
Provisions at 31 December	**66**	**135**	**201**
Specified as follows:			
Non-current			63
Current			138
			20

Provisions for restructuring obligations relate primarily to close-down and reduction of production facilities and redundancy programmes. The majority of these obligations is expected to result in cash outflows in the period 2009-2010.

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.

Notes
LEGO GROUP

(mDKK)

Note 25. Contingent assets, contingent liabilities and other obligations

Contingent assets
In 2007 the Group sold land and buildings with a possibility of receiving a gain if the buyer is able to sell the land and buildings before July 2009 at a profit.

Contingent liabilities and other obligations

	2008	2007
Guarantees	84	91
Operating lease obligations	719	356
Other obligations	46	74
	849	521

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

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

Lease expenses for the year charged to the income statement amount to:	**142**	126

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

0-1 year	172	131
1-5 years	288	204
> 5 years	259	21
	719	356

Security has been given in land, buildings and installations with a net carrying amount of
DKK 223 million (DKK 270 million in 2007) for the Group's mortgage loans.

Notes
LEGO GROUP

(mDKK)

Note 26. Financial risks

Credit risk
Financial instruments are entered into with counterparties classified as investment grades with a credit rating of A1/Aaa or higher from Standard & Poor's or Moody's Investor Service.

Similarly, the Group only uses insurance companies with a credit rating of A1/Aaa or higher from Standard & Poor's og Moody's Investor Service. The Group does not use credit ratings when hedging electricity consumption.

Credit risk regarding trade receivables is disclosed in note 18.

The maximum credit risk corresponds to the carrying amount of loans granted and receivables, cf note 27.
The credit risks of the LEGO Group are considered to be moderate.

Foreign exchange risk
The LEGO Group has net inflows in EUR, USD and JPY. EUR and CZK account for the most significant exposure on the outflow side.

The 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 mainly classified as hedging and meet the accounting requirements for hedging of future cash flows.

Isolated effects of currency increases against DKK at 31 December 2008 which Management considers probable are specified as follows::

	%-increase	2008	2007
EUR:			
Equity	2%	-	-
Net profit for the year	2%	5	4
USD:			
Equity	10%	(83)	(38)
Net profit for the year	10%	(17)	(23)
JPY:			
Equity	10%	(20)	(6)
Net profit for the year	10%	3	3
CZK:			
Equity	10%	-	-
Net profit for the year	10%	(6)	3
GBP:			
Equity	10%	-	-
Net profit for the year	10%	4	5

Notes
LEGO GROUP

(mDKK)

Note 26. Financial risks, continued

Interest rate risk
The Group's interest rate risk relates to interest-bearing debt and interest-bearing assets. The Group's interest-bearing assets consist mainly of liquid funds. Liquid funds yield interest on the short-term money market. A change in the interest level of 1.0% for 2008 would have had an impact on the Group's profit before tax of approx. DKK 8.4 million (DKK 3.2 million in 2007). The Group's interest rate risk is considered insignificant and is not expected to have a significant impact on the Group's results.

Liquidity risk
Liquidity is managed centrally and is continually assessed. It is ensured that, at any given time, sufficient financial resources are available. Based on the financial reserves with banks and credit facilities available in credit institutions and from related parties, there are no liquidity problems. The liquidity risk is therefore not significant.

Capital risk management
Dividend of DKK 1 billion has been paid in 2008. It is expected that the dividend for 2008, to be paid in 2009, will amount to DKK 1 billion. The dividend payment reflects the strategy behind the new capital structure where the LEGO Group is the operational company and any surplus liquidity is distributed to the Parent Company KIRKBI A/S.

Market risk

Electricity derivatives
The Group has entered into electricity derivatives in 2008 in order to hedge part of the Group's electricity consumption for 2009. As a consequence of using hedge accounting, a change in the electricity price will not affect the Group's net income. An increase/decrease in the electricity price of DKK 0.05 per Kwh would have increased/reduced equity by DKK 6.9 million.

Notes
LEGO GROUP

(DKK MIO.)

Note 27. Financial instruments recognised

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 stucture. None of the cash flows are discounted.

At 31 December 2008 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 and JPY as well as purchases of goods in CZK. Moreover, part of the Group's purchases of electricity is hedged. Besides forward contracts, the LEGO Group has at 31 December 2008 dedicated four put options for the hedging of sales in USD for the financial year 2009. All contracts are expected to expire - and thus affect results - in the financial year 2009.

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

			2007			
	Carrying amount	Fair value	0-1 year	1-5 year	Over 5 years	Total cash flows
Measured at amortised cost						
Debt to credit institutions	314	314	77	81	508	666
Subordinate loan capital	1,100	1,100	80	320	1,419	1,819
Trade payables	778	778	778	-	-	778
Other debt	1,411	1,411	1,411	-	-	1,411
	3,603	**3,603**	**2,346**	**401**	**1,927**	**4,674**
Derivative financial instruments used for hedging purposes						
Cash flow hedges	1	1	1	-	-	1
Fair value hedges	54	54	54	-	-	54
	55	55	55	-	-	55
Total financial liabilities	**3,658**	**3,658**	**2,401**	**401**	**1,927**	**4,729**
Measured at amortised cost (loans and receivables)						
Trade receivables	1,796	1,796	1,796	-	-	1,796
Other receivables	646	646	646	-	-	646
Cash at bank and in hand	1,001	1,001	1,001	-	-	1,001
	3,443	**3,443**	**3,443**	**-**	**-**	**3,443**
Derivative financial instruments used for hedging purposes						
Cash flow hedges	5	5	5	-	-	5
Fair value hedges	30	30	30	-	-	30
	35	35	35	-	-	35
Total financial assets	**3,478**	**3,478**	**3,478**	**-**	**-**	**3,478**

Notes
LEGO GROUP

Note 27. Financial instruments recognised, continued

	2008					
	Carrying amount	Fair value	0-1 year	1-5 year	Over 5 years	Total cash flows
Measured at amortised cost						
Debt to credit institutions	843	843	48	776	385	1,209
Subordinate loan capital	500	500	36	143	607	786
Trade payables	1,036	1,036	1,036	-	-	1,036
Other debt	1,463	1,463	1,463	-	-	1,463
	3,842	**3,842**	**2,583**	**919**	**992**	**4,494**
Derivative financial instruments used for hedging purposes						
Cash flow hedges	27	27	27	-	-	27
Fair value hedges	43	43	43	-	-	43
	70	70	70	-	-	70
Total financial liabilities	**3,912**	**3,912**	**2,653**	**919**	**992**	**4,564**
Measured at amortised cost (loans and receivables)						
Trade receivables	1,822	1,822	1,822	-	-	1,822
Receivables from group companies	600	600	600	-	-	600
Other receivables	320	320	320	-	-	320
Cash at bank and in hand	1,129	1,129	1,129	-	-	1,129
	3,871	**3,871**	**3,871**	**-**	**-**	**3,871**
Derivative financial instruments used for hedging purposes						
Cash flow hedges	93	93	93	-	-	93
Fair value hedges	26	26	26	-	-	26
	119	**119**	**119**	**-**	**-**	**119**
Total financial assets	**3,990**	**3,990**	**3,990**	**-**	**-**	**3,990**

Subordinate loan capital is a convertible loan from KIRKBI A/S that is irredeemable on the part of the lender and falls due in December 2016. The loan has been granted on special terms and may be repaid before maturity by the borrower provided that the equity ratio of the Group is at least 40% after repayment. The borrower is at any time entitled to convert the debt or part of the debt into share capital of LEGO A/S. All interest is recognised as loan.

The Group has raised a loan of DKK 843 million, which includes covenants regarding the Group's debt/equity ratio and solvency ratio, which means that redemption of the loan can be required in case the covenants are not fulfilled.

Notes
LEGO GROUP

(mDKK)

Note 27. Financial instruments recognised, continued

	2008	2007
Development in fair value adjustment recognised in equity		
Fair value adjustment at 1 January	29	31
Change in market value	-	(1)
Hedges made in the year	66	30
Delivered and recognised in the income statement	(29)	(23)
Ineffective hedging instruments	-	(8)
Fair value adjustment at 31 December	**66**	**29**
Recognised in the income statement:		
Financial income	(29)	(31)
	(29)	**(31)**

Note 28. Other reversals with no effect on cash flows

Depreciation and amortisation	290	277
Impairment losses reversed	-	(30)
Profit on sale of property, plant and equipment	3	(218)
Net movements in provisions	(66)	(114)
Profit/(loss) from associates	-	1
Other adjustments	5	(115)
	232	**(199)**

Note 29. Changes in working capital

Inventories	76	(16)
Trade and other receivables	(83)	85
Trade and other payables	364	13
	357	**82**

Note 30. Cash and cash equivalents

Cash at bank and in hand	1,129	1,001
	1,129	**1,001**

Notes
LEGO GROUP

(mDKK)

Note 31. Related party transactions

The Parent of the Group is LEGO A/S, a company incorporated in Denmark, whose shares are owned by KIRKBI A/S (75%) and LEGO Invest A/S (25%). The shares in KIRKBI A/S are wholly owned by the Kjeld Kirk Kristiansen family (Billund, Denmark). Related parties are considered to be KABOOKI A/S, KIRKBI A/S, subsidiaries of KIRKBI A/S, Merlin Entertainments Group and KIRKBI AG 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:

	2008	2007
Transactions with KIRKBI A/S		
Interest received	-	1
Service fee received	2	-
	2	1
Interest charged	(59)	(80)
Rent paid	(22)	(20)
	(81)	(100)
	(79)	(99)
Transactions with associates		
Purchase of products	(4)	-
Trademark fee received	9	9
	5	9
Transactions with other related parties		
Sale of products	118	97
Interest received	14	-
Service fee received	9	6
Sale of assets	-	260
Trademark fee received	7	6
	148	369
Rent expenses paid	(2)	(1)
Interest paid	(1)	(14)
Service fee paid	(25)	(22)
Acquisition of enterprises	-	(1,288)
Trademark fee paid	(347)	(299)
	(375)	(1,624)
	(227)	(1,255)

Notes
LEGO GROUP

(mDKK)

Note 31. Related party transactions, continued

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::

	2008	2007
Balances with KIRKBI A/S		
Payables	(3)	(20)
	(3)	**(20)**
Balances with associates		
Payables	(1)	(1)
	(1)	**(1)**
Balances with other related parties		
Receivables	15	7
Payables	(140)	(119)
	(125)	**(112)**

Loans:	**KIRKBI A/S**	**KIRKBI Invest A/S**
Balance at 1 January 2007	(1,104)	-
Interest charged	(80)	-
Interest paid	64	-
Balance at 31 December 2007	**(1,120)**	**-**
Specified as follows:		
Non-current	(1,100)	-
Current	(20)	-
	(1,120)	**-**

Notes
LEGO GROUP

(mDKK)

Note 31. Related party transactions, continued

Loans:	KIRKBI A/S	KIRKBI Invest A/S
Balance at 1 January 2008	(1,120)	-
Loans granted during the year	-	600
Repayments of loans	(600)	-
Interest received	-	14
Interest paid	(59)	-
Interest paid/received	70	(7)
Balance at 31 December 2008	**(1,709)**	**607**
Specified as follows:		
Non-current liabilities	(500)	-
Current	(9)	-
	(509)	**-**
Non-current liabilities	-	-
Current	-	607
	-	**607**

There are no special conditions on the loan granted to KIRKBI Invest A/S.

The Group has no loans from associates.

Income Statement 1 January - 31 December
PARENT COMPANY

(mDKK)

	Note	2008	2007
Revenue		46	44
Gross profit		**46**	**44**
Other operation income		2	141
Other operation expenses	2	(88)	(63)
Operating profit before special items		**(40)**	**122**
Profit/(loss) from associates after tax	9	-	(1)
Dividend from subsidiaries	9	563	557
Fiancial income	3	-	2
Financial expenses	4	(193)	(150)
Profit before income tax		**330**	**530**
Tax on profit for the year	5	32	12
Net profit for the year		**362**	**542**

Proposed distribution of profit

Dividend		1,000	1,000
Retained earnings		(638)	(458)
		362	**542**

Balance Sheet at 31 December

PARENT COMPANY

(mDKK)

	Note	2008	2007
ASSETS			
Non-current assets			
Patents		3	4
Intangible assets	7	**3**	**4**
Land, buildings and installations		6	6
Property, plant and equipment	6	**6**	**6**
Investments in subsidiaries	9	5,303	5,303
Investments in associates	9	3	3
Other non-current assets		**5,306**	**5,306**
Total non-current assets		**5,315**	**5,316**
Current assets			
Receivables from subsidiaries		65	92
Tax receivables		48	-
Other receivables		4	146
Total current assets		**117**	**238**
TOTAL ASSETS		**5,432**	**5,554**

Balance Sheet at 31. December
PARENT COMPANY

(DKK MIO.)

	Note	2008	2007
EQUITY AND LIABILITIES			
EQUITY			
Share capital	10	20	20
Retained earnings		1,135	1,773
Proposed dividend		1,000	1,000
Total equity		**2,155**	**2,793**
LIABILITIES			
Non-current liabilities			
Subordinate loan capital	13	500	1,100
Borrowings	12	600	-
Deffered tax liabilities	8	59	39
Provisions	11	-	4
Total non-current liabilities		**1,159**	**1,143**
Current liabilities			
Debt to subsidiaries		2,057	1,482
Current tax liabilities		-	2
Borrowings	12	-	72
Other short-term debt		61	62
Total current liabilities		**2,118**	**1,618**
Total liabilities		**3,277**	**2,761**
TOTAL EQUITY AND LIABILITIES		**5,432**	**5,554**

Statement of Changes in Equity

PARENT COMPANY

(mDKK)

	Share capital	Retained earnings	Proposed dividend	Total
Equity at 1 January 2007	**20**	**685**	**400**	**1,105**
Subsidiaries at cost	-	1,546	-	1,546
Equity at 1 January 2007 after changes to accounting policies	20	2,231	400	2,651
Dividend relating to prior year	-	-	(400)	(400)
Net profit for the year	-	542	-	542
Proposed dividend	-	(1,000)	1,000	-
Equity at 31 December 2007	**20**	**1,773**	**1,000**	**2,793**
Equity at 1 January 2008	**20**	**1,773**	**1,000**	**2,793**
Dividend relating to prior year	-	-	(1,000)	(1,000)
Net profit for the year	-	362	-	362
Proposed dividend	-	(1,000)	1,000	-
Equity at 31 December 2008	**20**	**1,135**	**1,000**	**2,155**

Notes to the Financial Statements
PARENT COMPANY

NOTE 1.

Significant accounting policies

The Annual Report of LEGO A/S 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 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 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 in the Consolidated Financial Statements, 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 sheets 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 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 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 the Group 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

Trade 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.

Notes to the Financial Statements
PARENT COMPANY

Investments held for sale
Investments held for sale consist of fixed asset investments designated at fair value through profit or loss on initial recognition. Assets in this category are classified as current assets if they are expected to be realised within 12 months of the balance sheet date.
Realised and unrealised gains and losses arising from changes in the fair value are included in the income statement in the period in which they arise.

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 Group 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. Dividends is recognised as a liability in the period in which it is declared at the Annual General Meeting.

Provisions
Provisions are recognised when the 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, LEGO A/S 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.

Notes to the Financial Statements
PARENT COMPANY

(mDKK)

NOTE 2. Auditors' fees

	2008	2007
The following fee was paid to PricewaterhouseCoopers:		
Audit	2	2
Non-audit services	1	1
	3	**3**

NOTE 3. Financial income

Interest income from related parties	-	2
	-	**2**

NOTE 4. Financial expenses

Interest expenses on mortgage loans	1	-
Interest expenses to related parties	189	146
Exchange loss, net	3	4
	193	**150**

NOTE 5. Tax on profit for the year

Current tax on profit for the year	52	(2)
Deferred tax on profit for the year	(12)	5
Value adjustment	(26)	-
Adjustment of tax relating to previous years, current tax	-	9
Adjustment of tax relating to previous years, deferred tax	18	-
	32	**12**

Notes to the Financial Statement
PARENT COMPANY

(mDKK)

NOTE 6. Property, plant and equipment

	Land, buildings & installations	Other fixtures & fitting, tools and equipment	Total
Cost at 1 January 2007	134	8	142
Additions	2	-	2
Disposals	(130)	(1)	(131)
Cost at 31 December 2007	6	7	13
Depreciation and impairment losses at 1 January 2007	87	7	94
Depreciation for the year	5	-	5
Disposals	(92)	-	(92)
Depreciation and impairment losses at 31 December 2007	-	7	7
Carrying amount at 31 December 2007	**6**	**-**	**6**

	Land, buildings & installations	Other fixtures & fitting, tools and equipment	Total
Cost at 1 January 2008	6	7	13
Additions	-	-	-
Disposals	-	-	-
Cost at 31 December 2008	6	7	13
Depreciation and impairment losses at 1 January 2008	-	7	7
Depreciation for the year	-	-	-
Disposals	-	-	-
Depreciation and impairment losses at 31 December 2008	-	7	7
Carrying amount at 31 December 2008	**6**	**-**	**6**

Land and buildings

According to the official property assessment, the value of the Danish land and building amounts to DKK 1 million (DKK 1 million in 2007). The corresponding carrying amount is DKK 6 million at 31 December 2008 (DKK 6 million in 2007).

Assets under finance leases

No assets have been recognised under finance leases.

Notes to the Financial Statements
PARENT COMPANY

(mDKK)

NOTE 7. Intangible assets

	Patents
Cost at 1 January 2007	-
Additions	4
Cost at 31 December 2007	4
Depreciation and impairment losses at 1 January 2007	-
Depreciation for the year	-
Disposals	-
Depreciation and impairment losses at 31 December 2007	-
Carrying amount at 31 December 2007	**4**

	Patents
Cost at 1 January 2008	4
Additions	-
Cost at 31 December 2008	4
Depreciation and impairment losses at 1 January 2008	-
Depreciation for the year	1
Disposals	-
Depreciation and impairment losses at 31 December 2008	1
Carrying amount at 31 December 2008	**3**

Notes to the Financial Statements
PARENT COMPANY

(mDKK)

NOTE 8. Deferred tax

	2008	2007
Deferred tax, net at 1 January	(39)	(44)
Change in deferred tax	(20)	5
Provision for deferred tax, net at 31 December	**(59)**	**(39)**
Specified as follows:		
Deferred tax asset at 31 December	-	-
Provision for deferred tax at 31 December	(59)	(39)
	(59)	**(39)**

NOTE 9. Fixed asset investments

	Investments in associates	Investments in subsidiaries
Cost at 1 January 2007	-	4,013
Additions	4	1,290
Cost at 31 December 2007	4	5,303
Value adjustment at 1 January 2007	-	
Share of net profit/(loss) for the year	(1)	
Value adjustments at 31 December 2007	(1)	
Carrying amount at 31 December 2007	**3**	

	Investments in associates	Investments in subsidiaries
Cost at 1 January 2008	4	5,303
Additions	-	-
Cost at 31 December 2008	4	5,303
Value adjustment at 1 January 2008	(1)	
Share of net profit/(loss) for the year	-	
Value adjustments at 31 December 2008	(1)	
Carrying amount at 31 December 2008	**3**	

Notes to the Financial Statements

PARENT COMPANY

(mDKK)

NOTE 10. Share capital

The Company's share capital consists of:	
A-shares of DKK 1,000 or multiples hereof	1
B-shares of DKK 1,000 or multiples hereof	9
C-shares of DKK 1,000 or multiples hereof	10
Total shares at 31 December 2008	**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
LEGO Invest A/S, Koldingvej 2, 7190 Billund, Denmark

NOTE 11. Provisions

	2008	2007
Provisions at 1 January	4	9
Additions	-	-
Used	-	(2)
Reversed	(4)	(3)
Provisions at 31 December 2008	**-**	**4**

NOTE 12. Long-term debt

	Total debt	Due within 1 year	Due after 5 years
Subordinate loan capital	500	-	500
Banks and other credit institutions	600	-	-
	1,100	**-**	**500**

LEGO A/S has raised a loan of DKK 600 million, which includes a covenant regarding the Group's debt/equity ratio, which means that redemption of the loan can be required in case the covenant is not fulfilled.

Notes to the Financial Statements
PARENT COMPANY

(mDKK)

NOTE 13. Subordinate loan capital

Subordinate loan capital is a convertible loan from KIRKBI A/S that is irredeemable on the part of the lender and falls due in December 2016.

The loan has been granted on special terms and may be repaid before maturity by the borrower provided that the equity ratio for the Group is at least 40% after repayment. The borrower is at any time entitled to convert the debt or part of the debt into share capital of LEGO A/S.

Moreover, the loan is subordinated in favour of all other creditors.

NOTE 14. Contingent liabilities and other obligations

Security has been given in land, buildings and installations with a carrying amount of DKK 6 million (DKK 6 million in 2007) for the Company's mortgage loans.

The Company is jointly and severally liable for tax in companies included in the joint taxation scheme.
The Company guarantees certain obligations of some of the subsidiaries.
The Company has utilised tax losses in foreign subsidiaries in the Danish joint taxation until 31 December 2004. The deferred tax of this amounts to DKK 102 million, of which DKK 64 million has been recognised as provision for deferred tax. The remaining amount of DKK 38 million is not expected to be recaptured. The Company has not chosen international joint taxation under the new Danish rules on joint taxation as from 1 January 2005.

GROUP STRUCTURE

LEGO A/S - AS OF 31 DECEMBER 2008

LEGO A/S, Denmark

Denmark
- LEGO System A/S
- LEGO ZOOM International ApS, 51%

Europe (other)
- LEGO Park Holding UK Ltd.
- – LEGO Lifestyle International Ltd. (UK)
- LEGO Company Limited (UK)
- LEGO Belgium n.v.
- LEGO Netherland B.V.
- LEGO Sverige AB
- LEGO Norge A/S
- Oy Suomen LEGO Ab (Finland)
- LEGO GmbH (Germany)
- LEGO Handelsgesells. GmbH (Austria)
- LEGO S.A.S. (France)
- LEGO S.p.A. (Italy)
- LEGO 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.
- OOO LEGO (Russia)
- LLD Share verwaltungs GmbH (Germany)
  - – LLD Share Gmbh & Co. KG (Germany)

Americas
- LEGO do Brazil Ltda.
- LEGO Canada Inc.
- LEGO New York Inc. (US)
- LEGO Mexico S.A. de C.V
- Adm.de Serv. LEGO de C.V. (Mexico)
- LEGO Operaciones de Mexico S.A. de C.V.
- LEGO System Inc. (US)
  - – LEGO Data Inc. (US)
    - – Dacta and Pitsco LLC, 51% (US)
  - – LEGO Brand Retail Inc. (US)

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.

Associates:
- KABOOKI A/S 19.8% (Denmark)

Ownership is 100% unless stated otherwise.

LEGO Group – Denmark
Aastvej
DK-7190 Billund
Tel.: +45 79 50 60 70

www.LEGO.com

GRC Graphic House A/S