Annual Report 2011

The LEGO Group

Financial Highlights

The LEGO Group

(mDKK)

	2011	2010	2009	2008	2007
Income Statement:					
Revenue	18,731	16,014	11,661	9,526	8,027
Expenses	(13,065)	(10,899)	(8,659)	(7,522)	(6,556)
Operating profit	5,666	4,973	2,902	2,100	1,449
Financial income and expenses	(124)	(84)	(15)	(248)	(35)
Profit before income tax	5,542	4,889	2,887	1,852	1,414
Net profit for the year	4,160	3,718	2,204	1,352	1,028
Balance Sheet:					
Total assets	12,904	10,972	7,788	6,496	6,009
Equity	6,975	5,473	3,291	2,066	1,679
Liabilities	5,929	5,499	4,497	4,430	4,330
Cash Flow Statement:					
Cash flows from operating activities	3,828	3,744	2,712	1,954	1,033
Investment in property, plant and equipment	1,451	1,077	1,042	368	399
Investment in intangible assets	129	123	216	75	34
Cash flows from financing activities	(2,519)	(3,477)	(906)	(1,682)	(467)
Total cash flows	(233)	(871)	558	128	592
Employees:					
Average number (full-time)	9,374	8,365	7,286	5,388	4,199
Financial ratios (in %):					
Gross margin	70.5	72.4	70.3	66.8	65.0
Operating margin (ROS)	30.2	31.1	24.9	22.0	18.1
Net profit margin	22.2	23.2	18.9	14.2	12.8
Return on equity (ROE)	66.8	84.8	82.3	72.2	71.6
Return on invested capital (ROIC I)	133.4	161.2	139.5	101.8	69.7
Return on invested capital (ROIC II)	134.2	157.9	138.0	113.8	77.1
Equity ratio	54.1	49.9	42.3	31.8	27.9

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.

Annual Report 2011

Annual Report 2011
is published for the LEGO Group
by Corporate Finance, Group Finance
and Corporate Communications.

Design and print: GRC Graphic House

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NORDIC ECOLABEL
541 546
Printed matter

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

CONTENTS

Company Information

Management Board

Jørgen Vig Knudstorp
Chief Executive Officer and President

Board of Directors

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

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 CoCC.

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.

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 Estates Limited, Koldingvej 2 Billund A/S, LEGO Juris A/S, TopDanmark A/S, TopDanmark Forsikring A/S, TDC A/S, Falck A/S and Merlin Entertainments Group.
Chairman of the Board of K&C Holding A/S.
Deputy Chairman of KIRKBI AG og INTERLEGO AG.

Eva Berneke
Member of the Board since May 2011.

Senior Executive Vice President of TDC A/S.
Managing Director, TDC Wholesale.
Member of the Board of Copenhagen Business School.
Member of the Board of Schibsted.

Torben Ballegaard Sørensen
Member of the Board since 2005.

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

Auditors

PricewaterhouseCoopers,
Statsautoriseret Revisionspartnerselskab

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 2011.

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 2011 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 2011.

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, 21 February 2012

Management Board

Jørgen Vig Knudstorp
President and CEO

Board of Directors

Niels Jacobsen
Chairman

Kjeld Kirk Kristiansen
Deputy Chairman

Thomas Kirk Kristiansen

Søren Thorup Sørensen

Eva Berneke

Torben Ballegaard Sørensen

Kåre Schultz

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 2011, 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 judgment, 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 2011 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2011 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.

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 2011 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2011 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, 21 February 2012

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerskab

Mogens Nørgaard Mogensen
State Authorised Public Accountant

Henrik Kragh
State Authorised Public Accountant

Management's Review

2011 was a year of continued strong growth for the LEGO Group. The sale of LEGO® products grew considerably all over the world, and the Group's earnings increased.

The LEGO Group's profit before tax amounted to DKK 5,542 million in 2011 against DKK 4,889 million the year before. The result is considered highly satisfactory.

Sales
The LEGO Group's revenue increased by 17.0% in 2011 to DKK 18,731 million against DKK 16,014 million the year before.

Recent years' growth on the North American market continued at the same pace in 2011. Also most European and Asian markets achieved two-digit sales increases. However, due to the financial crisis in certain European markets, the rate of increase on several Western European markets declined during the last months of the year.

Sales of several licence-based product lines were considerably above expectations in 2011. This applies to LEGO products based on *Star Wars™*, Harry Potter™ and Pirates of the Caribbean™. Also LEGO City and LEGO Technic continued to show considerable growth, while LEGO® DUPLO® continues its moderate growth rate. As a theme, LEGO Ninjago, which is a combination of traditional building sets and so-called spinners launched at the beginning of 2011, exceeded expectations and was the biggest product launch in company history.

The online game LEGO Universe, which was launched at the end of 2010, did not meet expectations, and in November 2011 it was decided to discontinue the development of the game.

Licence and royalty expenses
Licence and royalty expenses increased in 2011 to DKK 1,249 million from DKK 988 million in 2010.
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 2011 by DKK 79 million to DKK 224 million.

Operating profit
The LEGO Group's operating profit amounted to DKK 5,666 million in 2011 against DKK 4,973 million in 2010.
The operating margin (ROS) was 30.2% in 2011 against 31.1% in 2010.

Financial income and expenses
Net financials amounted to an expense of DKK 124 million in 2011 against an expense of DKK 84 million in 2010.

Corporation tax
Corporation tax amounts to DKK 1,382 million against DKK 1,171 million the year before. The effective tax rate for the year is 25%, against 24% in 2010.

Profit for the year
The LEGO Group's profit for the year amounted to DKK 4,160 million in 2011 against DKK 3,718 million in 2010, which is a higher increase than expected at the beginning of the year.

Equity and cash flows
The LEGO Group's assets increased by DKK 1,932 million in 2011 and amount to DKK 12,904 million against DKK 10,972 million at the end of 2010.
Return on invested capital (ROIC) was 133.4% in 2011 against 161.2% in 2010.

After recognition of the profit for the year and distribution of dividend, the LEGO Group's equity has increased by DKK 1,502 million to DKK 6,975 million in 2011.
At the end of 2011, the equity ratio of the LEGO Group was 54.1%.

Return on equity for the LEGO Group reached 66.8% in 2011 against 84.8% in 2010.
Cash flows from operating activities amounted to DKK 3,828 million against DKK 3,744 million in 2010, impacted by higher tax payments.
Cash flows from investing and financing activities amounted to DKK -4,061 million against DKK -4,615 million in 2010.

Capacity investments
In 2011, the LEGO Group continued recent years' extensive investments in production capacity. In the autumn of 2011, new moulding halls were opened at the LEGO factory in Monterrey, Mexico. A new high-bay warehouse in the same factory is expected to be put into use in 2012.

In March 2011, a comprehensive expansion of the LEGO factory in Kladno, the Czech Republic, was initiated, which is expected opened in the spring of 2012.
It has moreover been decided to build a new factory in Nyíregyháza, Hungary, which is to replace the existing leased factory in the same town.

Intellectual capital resources

The average number of full-time employees was 9,374 in 2011 against 8,365 in 2010. The increase is attributable to the large increase in activities in connection with the considerable sales growth.

The continued growth in the number of employees places high demands on the Group in respect of recruiting, welcoming and introducing new employees. Therefore, high priority was given to these activities also in 2011.

An important condition for the continued success of the LEGO Group is the continuous development of the skills of LEGO employees. Therefore, both talent development and general competence development are very important elements of the Group's People & Culture strategy.

All employees in the LEGO Group are comprised by 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. A differentiated bonus scheme is attached to the Program. A total evaluation of the employee's performance compared with the defined goals, which is carried out at year end, decides the amount of bonus for each individual employee.

Since 2007 the LEGO Group has doubled in size and insourced the majority of its manufacturing. As a result, the size and complexity of the organisation has grown. To remain resilient, the LEGO Group has in 2011 simplified its organisational set up and created new coherence in its operations. The aim is to create stronger collaboration in the core marketing and operations processes.

As a consequence, the Group expects to be more scalable and adaptable to the challenges facing the business, such as growth in emerging markets, and the digitalisation of the business.

To facilitate this simplification and collaboration, the higher levels of management have been restructured and one layer has been removed. A few individuals have left management as a result of these changes, and a new broader group of 22 persons now make up the Corporate Management team.

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 140 designers from about 20 different countries make up the creative core of product development.

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, 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. The LEGO Group issues Progress Report 2011 describing how the LEGO Group is working within the areas of human rights, labour standards, the environment and anti-corruption.

The Progress Report 2011 thus constitutes the statutory statement of social responsibility pursuant to section 99 a of the Danish Financial Statements Act.

The Progress Report 2011 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, has been slightly decreasing in the USA in 2011. In Southern Europe, markets decreased considerably, whereas the rest of Europe and Asia showed good growth rates. One exception is, however, Japan, where the after-effects of the natural disaster in March mean that, for the year as a whole, the market has decreased slightly.

LEGO® sales

As a theme, the new product line LEGO Ninjago sold considerably better than expected and became one of the best selling product lines in 2011.

However, LEGO City and LEGO *Star Wars* are still topping the list of best selling lines.

Also LEGO Technic and the LEGO minifigures as collector's items have achieved considerable increases, while sales of LEGO DUPLO and the board games, LEGO Games, have been in line with the year before.

At the end of 2010, the LEGO Group entered the market for online pay games for the first time through the launching of LEGO Universe, a so-called MMOG (massively multiplayer online game). Despite a very positive feedback and many players in the zone of the game where it was free to play, it turned out not to be possible to obtain a satisfactory number of paying subscribers. The game was therefore closed down at the end of January 2012.

The LEGO Group achieved double-digit sales growth rates on nearly all markets in 2011. One exception is Japan, which was hit hard by the natural disaster at the beginning of the year, but nevertheless showed growth.

In the rest of Asia, which is still a relatively small market for the LEGO Group, sales growth in 2011 by far exceeded expectations.

The English-speaking countries are, however, still the most significant growth drivers and have all exceeded the expectations for the year.

Direct sales to consumers, accounting for some 10% of the LEGO Group's total sales, also saw considerable growth in 2011.

Finally, increased management focus meant that the LEGO Group's sale of products to the educational sector nearly doubled in 2011; however, from a relatively small base.

Thanks to the growth generated during the year, the LEGO Group's global market share at the end of 2011 amounts to approximately 7.1%.

Expectations for 2012

On the basis of the financial development during the last months of 2011, stagnation is expected on the European markets, while minor increases in the market for traditional toys are expected in the rest of the world.

Based on the Group's good results for 2011, continued sales growth is expected in 2012. However, the financial challenges in many European economies are expected to result in lower growth rates for the year.

The LEGO Group expects satisfactory results for 2012.

Income Statement and consolidated statement of other comprehensive income 1 January – 31 December

The LEGO Group

(mDKK)

	Note	2011	2010
Revenue	3	18,731	16,014
Production costs	4,6,7	(5,519)	(4,413)
Gross profit		**13,212**	**11,601**
Sales and distribution expenses	4,6,7	(5,257)	(4,627)
Administrative expenses	4,5,6,7	(1,104)	(931)
Other operating expenses	4,6,7,9	(1,185)	(928)
Special items	4,7,8	-	(142)
Operating profit		**5,666**	**4,973**
Financial income	10	34	21
Financial expenses	11	(158)	(105)
Profit before income tax		**5,542**	**4,889**
Tax on profit for the year	12	(1,382)	(1,171)
Net profit for the year		**4,160**	**3,718**
Allocated as follows:			
Parent Company shareholders		4,137	3,696
Non-controlling interests		23	22
		4,160	**3,718**

Consolidated statement of other comprehensive income

Profit for the year	4,160	3,718
Cash flow hedges	(184)	(201)
Tax on cash flow hedges	46	38
Currency translation differences	(2)	143
Total other comprehensive income for the year	**4,020**	**3,698**
Allocated as follows:		
Parent Company shareholders	3,997	3,676
Non-controlling interests	23	22
	4,020	**3,698**

Balance Sheet at 31 December

The LEGO Group

(mDKK)

	Note	2011	2010
ASSETS			
Non-current assets			
Development projects		12	78
Software		102	26
Licences, patents and other rights		76	81
Intangible assets	13	**190**	**185**
Land, buildings and installations		1,140	863
Plant and machinery		1,239	983
Other fixtures and fittings, tools and equipment		502	384
Fixed assets under construction		514	338
Property, plant and equipment	14	**3,395**	**2,568**
Deferred tax assets	20	114	180
Investments in associates	15	3	3
Other non-current assets		**117**	**183**
Total non-current assets		**3,702**	**2,936**
Current assets			
Inventories	16	1,541	1,327
Trade receivables	17	3,845	3,321
Other receivables		603	584
Prepayments		462	34
Current tax receivables		244	12
Receivables from related parties	31	1,950	1,956
Cash and cash equivalents	30	557	802
Total current assets		**9,202**	**8,036**
TOTAL ASSETS		**12,904**	**10,972**

Balance Sheet at 31 December

The LEGO Group

(mDKK)

	Note	2011	2010
EQUITY AND LIABILITIES			
EQUITY			
Share capital	18	20	20
Reserve for hedge accounting		(252)	(114)
Reserve for currency translation		(140)	(138)
Retained earnings	19	7,321	5,684
LEGO A/S' share of equity		6,949	5,452
Non-controlling interests		26	21
Total equity		**6,975**	**5,473**
LIABILITIES			
Non-current liabilities			
Borrowings	26	818	826
Deferred tax liabilities	20	50	21
Pension obligations	21	55	52
Provisions	23	72	75
Other long-term debt	22	63	92
Total non-current liabilities		**1,058**	**1,066**
Current liabilities			
Borrowings	26	7	6
Trade payables		1,611	1,518
Current tax liabilities		97	297
Provisions	23	34	3
Other short-term debt	22	3,122	2,609
Total current liabilities		**4,871**	**4,433**
Total liabilities		**5,929**	**5,499**
TOTAL EQUITY AND LIABILITIES		**12,904**	**10,972**

Statement of changes in Equity

The LEGO Group

(mDKK)

	Share capital	Reserve hedge accounting	Reserve for exchange adjustment	Retained earnings	LEGO Group's share of equity	Non-controlling interests	Total equity
Balance at 1 January 2011	**20**	**(114)**	**(138)**	**5,684**	**5,452**	**21**	**5,473**
Other comprehensive income/ (expenses) for the year	-	(138)	(2)	4,137	**3,997**	23	**4,020**
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**
Balance at 1 January 2010	**20**	**49**	**(281)**	**3,488**	**3,276**	**15**	**3,291**
Other comprehensive income/ (expenses) for the year	-	(163)	143	3,696	**3,676**	22	**3,698**
Dividend relating to prior year	-	-	-	(1,500)	**(1,500)**	(16)	**(1,516)**
Balance at 31 December 2010	**20**	**(114)**	**(138)**	**5,684**	**5,452**	**21**	**5,473**

Cash Flow Statement 1 January – 31 December

The LEGO Group

(mDKK)	Note	2011	2010
Cash flows from operating activities:			
Profit before income tax		5,542	4,889
Interest paid etc		(158)	(105)
Interest received etc		34	21
Income tax (paid)/received		(1,672)	(939)
Other reversals with no effect on cash flows	28	690	445
Changes in working capital	29	(608)	(567)
Net cash generated from operating activities		3,828	3,744
Cash flows from investing activities:			
Purchases of property, plant and equipment	14	(1,451)	(1,077)
Purchases of intangible assets	13	(129)	(123)
Proceeds from sale of property, plant and equipment		38	62
Net cash generated from investing activities		(1,542)	(1,138)
Cash flows from financing activities:			
Dividend paid to shareholders		(2,500)	(1,500)
Dividend paid to non-controlling interests		(18)	(16)
Paid to related parties		(8,003)	(1,956)
Repayment from related parties		8,009	-
Repayments of borrowings		(7)	(5)
Net cash (used in)/generated from financing activities		(2,519)	(3,477)
Total cash flows		**(233)**	**(871)**
Cash and cash equivalents at 1 January		802	1,630
Exchange gains/(losses) on cash and cash equivalents		(12)	43
Cash and cash equivalents at 31 December	30	**557**	**802**

Notes

The 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 financial assets and financial liabilities (including financial instruments) at fair value.

Effects of new accounting standards

All new and amended standards and interpretations effective as of 1 January 2011 have been adopted. Standards relevant to the LEGO Group are:

- Annual improvements consisting of a number of minor amendments to existing standards

The amendment is in accordance with current accounting policies and therefore, the implementation of the amendment has no impact on recognition and measurement.

The following standards that are not adopted by the EU at the balance sheet date which are relevant to the LEGO Group are:

- IFRS 13 on fair value measurement. General standard on the statement of fair value. The basic principle is that an asset is measured at fair value whereas a liability is measured at 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.

Management is currently assessing the potential impact. It is the Management's immediate assessment that the above mentioned changes in Reporting Standards and interpretations will not have any significant impact on recognition and measuring.

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 year. 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.

Notes
The LEGO Group

Note 1. Significant accounting policies, continued

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.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost 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.

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 transferred from equity when the hedged item affects the income statement. The amount is recognised in financial income or expenses.

Currency options are initially recognised at cost, which equals fair values of considerations paid, and subsequently remeasured at fair value at the end of the reporting period. Fair value changes on options designated as cash flow hedging instruments comprise changes attributable to changes in the spot rate. Fair value changes attributable to the time value are recognised in financial income or expenses in the income statement.

In case of settlement of a derivative designated as a cash flow hedge, the accumulated fair value adjustment remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to take place, any accumulated fair value adjustments are 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 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.

Other operating expenses
Other operating expenses include royalty and research and development costs.

Special items
Special items include significant amounts that can not be attributed to normal operations such as specific impairment of intangible assets and fixed assets. Special items also include provisions for restructuring costs etc. and reversals of provisions for restructuring.

Notes
The LEGO Group

Note 1. Significant accounting policies, continued

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.

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. Assets under development are tested for impairment at each reporting date.

Notes
The LEGO Group

Note 1. Significant accounting policies, continued

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset less expenses to sell and value in use. For the 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.

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 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.

Liabilities

Borrowings
Borrowings are initially recognised at fair value, net of transaction expenses incurred. Borrowings are subsequently measured at amortised cost. Any differences between the proceeds and the redemption value are recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the LEGO Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Employee benefits
Wages, salaries, social security contributions, paid annual leave and sick leave, bonuses and non-monetary employee benefits are accrued in the 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.

Notes

The LEGO Group

Note 1. Significant accounting policies, continued

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 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
The LEGO Group

Note 1. Significant accounting policies, continued

Financial ratios

Financial ratios have been calculated in accordance with the "Guidelines and Financial Ratios 2010", 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: $\dfrac{\text{Net profit for the period x 100}}{\text{Revenue}}$

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

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: $\dfrac{\text{Equity (incl. Non-controlling interests) x 100}}{\text{Total liabilities and equity}}$

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

The LEGO Group

(mDKK)

Note 2. Significant accounting estimates and judgements

When preparing the Annual Report 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 for the Annual Report:

Property, Plant & Equipment
Assessment of estimated residual value and useful life of Property, Plant & Equipment requires judgements. It is Management's assessment that the estimates are reasonable (note 14).

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 16).

Note 3. Revenue

Revenue contains sale of goods and licence income. Sale of goods amounts to DKK 18,507 million (DKK 15,869 million in 2010), and licence income amounts to DKK 224 million (DKK 145 million in 2010).

Note 4. Expenses by nature

	2011	2010
Raw materials and consumables used	3,098	2,800
Employee expenses (note 6)	3,418	2,878
Depreciation and amortisation (note 7)	637	606
Licence and royalty expenses	1,249	988
Other external expenses	4,663	3,769
Total operating expenses and restructuring expenses	**13,065**	**11,041**

Note 5. Auditors' fees

	2011	2010
Fee to PwC:		
Statutory audit of the Financial Statements	9	9
Other assurance engagements	1	1
Tax assistance	5	5
Other services	6	2
	21	**17**

Notes
The LEGO Group

(mDKK)

Note 6. Employee expenses

	2011	2010
Wages and salaries	3,048	2,638
Termination benefit and restructuring	33	-
Pension costs, defined benefit plans (note 21)	6	6
Pension costs, defined contribution plans	191	131
Other expenses and social security expenses	140	142
	3,418	**2,917**
Classified as:		
Production costs	1,096	937
Sales and distribution expenses	1,367	1,196
Administrative expenses	673	535
Other operating expenses	242	210
Intangible assets	12	6
Property, plant & equipment	28	33
	3,418	**2,917**
Including Key Management Personnel:		
Salaries	29	25
Termination benefit	3	-
Short-term incentive plans	10	11
Long-term incentive plans	7	10
	49	**46**
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	**9,374**	**8,365**

Notes

The LEGO Group

(mDKK)

Note 7. Depreciation and amortisation

	2011	2010
Licences, patents and other rights	17	9
Software	109	166
Buildings and installations	29	24
Plant and machinery	379	342
Other fixtures and fittings, tools and equipment	103	65
	637	**606**
Classified as:		
Production costs	441	347
Sales and distribution expenses	125	59
Administrative expenses	70	49
Other operating expenses	1	1
Special items	-	150
	637	**606**

The LEGO Group has impaired intangible fixed assets amounting to DKK 99 million and property, plant and equipment amounting to DKK 8 million. The total impairment is expensed with DKK 49 million as production costs and DKK 58 million as sales and distribution expenses.

Note 8. Special items

	2011	2010
Impairment	-	150
Employee related expenses	-	2
Reversal of provisions for restructuring	-	(4)
Other	-	(6)
	-	**142**

Note 9. Research and development costs

	2011	2010
Research and development costs charged during the year	335	306
	335	**306**

Notes

The LEGO Group

(mDKK)

Note 10. Financial income

	2011	2010
Interest income from related parties	21	3
Interest income from credit institutions measured at amortised cost	5	3
Other interest income	8	3
Exchange gain, net	-	12
	34	**21**

Note 11. Financial expenses

	2011	2010
Interest expenses on mortgage loans measured at amortised cost	4	4
Interest expenses to related parties	4	6
Interest expenses to credit institutions measured at amortised cost	15	9
Other interest expenses	6	-
Loss from derivative financial instruments	116	86
Exchange loss, net	13	-
	158	**105**

Note 12. Tax on profit for the year

	2011	2010
Current tax on profit for the year	1,306	1,316
Deferred tax on profit for the year	94	(45)
Other	4	1
Value adjustment on deferred tax	(27)	(13)
Adjustment of tax relating to previous years, current tax	14	(62)
Adjustment of tax relating to previous years, deferred tax	(9)	(26)
	1,382	**1,171**

Income tax expenses are specified as follows:		
Calculated 25% tax on profit for the year before income tax	1,386	1,222
Tax effect of:		
Higher/lower tax rate in subsidiaries	(9)	16
Non-taxable income	(32)	(4)
Non-deductible expenses	30	38
Deferred tax, effect of change in tax rate	-	(3)
Adjustment of tax relating to previous years	6	(88)
Changed valuation of deferred tax asset and liability	(27)	(13)
Other	28	3
	1,382	**1,171**
Effective tax rate	25%	24%

Notes

The LEGO Group

(mDKK)

Note 13. Intangible assets

	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
Disposals	-	-	-	-
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**

The LEGO Group has impaired intangible fixed assets amounting to DKK 249 million. The impairment losses in 2011 amount to DKK 99 million (DKK 150 million in 2010). The impairment losses are due to a challenging market situation and 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.

	Development projects	Software	Licences, patents and other rights	Total
Cost at 1 January 2010	116	38	171	325
Exchange rate adjustment to year-end rate	-	(2)	7	5
Additions	123	-	-	123
Disposals	-	-	-	-
Transfer	(161)	161	-	-
Cost at 31 December 2010	78	197	178	453
Amortisation and impairment losses at 1 January 2010	-	5	88	93
Amortisation for the year	-	16	9	25
Impairment losses for the year	-	150	-	150
Amortisation and impairment losses at 31 December 2010	-	171	97	268
Carrying amount at 31 December 2010	**78**	**26**	**81**	**185**

Notes

The LEGO Group

(mDKK)

Note 14. Property, plant and equipment

	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**

Property, plant and equipment in general

An obligation regarding the purchase of property, plant and equipment of DKK 334 million exists at 31 December 2011 (DKK 58 million at December 2010).

Assets under finance leases

Assets under finance leases consist of buildings.

Notes

The LEGO Group

(mDKK)

Note 14. Property, plant and equipment, continued

	Land, buildings & installations	Plant & machinery	Other fixtures & fittings, tools and equipment	Fixed assets under construction	Total
Cost at 1 January 2010	1,255	3,195	725	219	5,394
Exchange adjustment to year-end rate	43	1	35	7	86
Additions	86	529	190	272	1,077
Disposals	(64)	(178)	(52)	-	(294)
Transfers	109	42	9	(160)	-
Cost at 31 December 2010	1,429	3,589	907	338	6,263
Depreciation and impairment losses at 1 January 2010	556	2,429	479	-	3,464
Exchange adjustment to year-end rate	6	3	18	-	27
Depreciation for the year	24	342	65	-	431
Disposals	(20)	(168)	(39)	-	(227)
Depreciation and impairment losses at 31 December 2010	566	2,606	523	-	3,695
Carrying amount at 31 December 2010	**863**	**983**	**384**	**338**	**2,568**
Including assets under finance leases	**61**	**-**	**-**	**-**	**61**

Notes
The LEGO Group

(mDKK)

Note 15. Investments in associates

	2011	2010
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**

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

						LEGO Group's share of	
	Revenue	Results for the year	Total assets	Total liabilities	Total equity	Equity	Profit for the year
KABOOKI A/S, Denmark (19.8%)	130	(4)	47	31	16	3	-

The financial information regarding KABOOKI A/S is based on estimates.

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 associate.

Note 16. Inventories

	2011	2010
Raw materials and components	124	121
Work in progress	521	428
Finished goods	896	778
	1,541	**1,327**
Cost of sales recognised in production costs	3,806	3,113
Including:		
Write-down of inventories to net realisable value	26	11

Notes

The LEGO Group

(mDKK)

Note 17. Trade receivables

	2011	2010
Trade receivables (gross)	3,984	3,466
Provisions for bad debts:		
Balance at the beginning of the year	(145)	(140)
Exchange adjustment to year-end rate	4	(7)
Change in provisions for the year	17	(19)
Realised losses for the year	(15)	21
Balance at the end of the year	(139)	(145)
Trade receivables (net)	**3,845**	**3,321**

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:

	2011	2010
Not overdue	3,346	2,984
0 - 60 days overdue	492	366
61 - 120 days overdue	19	1
121 - 180 days overdue	6	5
More than 180 days overdue	121	110
	3,984	**3,466**

77% of total trade receivables are covered by insurance (79% in 2010) and therefore this part of the credit risk is reduced to the risk relating to the insurance companies concerned. DKK 921 million (DKK 721 million in 2010) corresponding to 23% of trade receivables (21% in 2010) 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 25.

Note 18. Share capital

The share capital consists of (mDKK):

1	A-share of DKK 1,000 or multiples hereof (2010: 1)
9	B-shares of DKK 1,000 or multiples hereof (2010: 9)
10	C-shares of DKK 1,000 or multiples hereof (2010: 10)
20	**Total shares at 31 December 2011 (2010: 20)**

The total number of shares is 205 (205 in 2010). 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

Notes
The LEGO Group

(mDKK)

Note 19. Dividend per share

Dividend of DKK 2,500 million was paid in May 2011, corresponding to DKK 12.2 million in average per share (DKK 1,500 million in 2010, DKK 7.3 million in average per share).

Proposed dividend for 2011 is DKK 3,000 million, corresponding to DKK 14.6 million in average per share.

Note 20. Deferred tax

	2011	2010
Deferred tax, net at 1 January	159	12
Exchange adjustment to year-end rate	1	8
Income statement charge	(58)	84
Charged to other comprehensive income	(38)	55
	64	**159**
Classified as:		
Deferred tax assets	114	180
Deferred tax liabilities	(50)	(21)
	64	**159**

2011	Deferred tax assets	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**

2010	Deferred tax assets	Provision for deferred tax	Deferred tax net
Non-current assets	73	(19)	54
Receivables	6	(9)	(3)
Inventories	101	(114)	(13)
Provisions	97	(2)	95
Other liabilities	42	(4)	38
Other	42	(62)	(20)
Offset	(189)	189	-
Tax loss carry-forwards	8	-	8
	180	**(21)**	**159**

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 capitalized tax losses expires after 1 year, and DKK 1 million expires after 5 years (DKK 5 million in 2010 does not expire before 5 years).

Notes

The LEGO Group

(mDKK)

Note 21. 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 191 million (DKK 131 million in 2010) 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, in US and in UK. In the LEGO Group, a net obligation of DKK 30 million (DKK 26 million in 2010) 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 6 million (DKK 6 million in 2010) have been recognised in the income statement.

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

	2011	2010
The amounts recognised in the balance sheet are calculated as follows:		
Present value of funded obligations	(109)	(109)
Fair value of plan assets	121	119
	12	10
Present value of unfunded obligations	(42)	(36)
Net liability recognised in the balance sheet	**(30)**	**(26)**
Of which included as part of the liabilities	(55)	(52)
Of which included as part of the assets (other receivables)	25	26
The change in present value of defined benefit obligations over the period is as follows:		
Present value at 1 January	(145)	(145)
Exchange adjustment to year-end rate	(1)	(3)
Transfer to plan assets	-	8
Pension costs relating to current financial year	(1)	(2)
Interest expenses	(7)	(7)
Actuarial losses/(gains)	(7)	(8)
Benefits paid	5	12
Disposals in connection with cancellation of pension scheme	5	-
Present value at 31 December	**(151)**	**(145)**

Notes

The LEGO Group

(mDKK)

Note 21. Pension obligations, continued

	2011	2010
The change for the year in fair value of plan assets is as follows:		
Plan assets at 1 January	119	114
Exchange adjustment to year-end rate	1	4
Transfer from defined benefit obligations	-	(8)
Expected return on plan assets	5	5
Actuarial (losses)/gains	4	6
Employer contributions	1	2
Benefits paid	(3)	(4)
Disposals in connection with cancellation of pension scheme	(6)	-
Plan assets at 31 December	**121**	**119**

	2011		2010	
Plan assets are specified as follows:				
Shares	4	3%	6	5%
Debt instruments	94	78%	87	73%
Other	23	19%	26	22%
	121	**100%**	**119**	**100%**

	2011	2010
The amount recognised in the income statement is specified as follows:		
Pension costs relating to current financial year	1	2
Interest expenses	7	7
Expected return on plan assets	(5)	(5)
Actuarial losses, net	3	2
	6	**6**
Classified as:		
Administrative expenses	6	6
	6	**6**
Movements in the net liability recognised in the balance sheet are as follows:		
Net liability at 1 January	26	31
Exchange adjustment to year-end rate	1	(2)
Total expenses charged to the income statement	6	6
Contributions paid	(3)	(9)
Net liability at 31 December	**30**	**26**
The actual return on plan assets amounts to	**9**	**11**

Notes

The LEGO Group

(mDKK)

Note 21. 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:

	2011	2010
Discount rate	2% - 5%	3% - 6%
Expected return on plan assets	3% - 5%	4% - 6%
Future salary increases	2% - 4%	2% - 4%
Future pension increases	2% - 3%	2% - 4%

	2011	2010	2009	2008	2007
Present value of defined benefit obligation	(151)	(145)	(145)	(123)	(160)
Fair value of plan assets	121	119	114	96	112
	(30)	**(26)**	**(31)**	**(27)**	**(48)**

Note 22. Other debt

	2011	2010
Wage-related payables and other charges	915	780
Debt to related parties	242	209
Finance lease obligations	36	62
Other current liabilities	1,992	1,650
	3,185	**2,701**
Specified as follows:		
Non-current	63	92
Current	3,122	2,609
	3,185	**2,701**

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.

	2011	2010
Obligations regarding finance leases are as follows:		
0-1 year	7	7
1-5 years	26	53
> 5 years	24	27
	57	**87**

Notes
The LEGO Group

(mDKK)

Note 22. Other debt, continued

	2011	2010
Finance lease obligations, continued		
Reconciliation of carrying amount and gross liability:		
Carrying amount of the liability	36	62
Interest expenses not yet accrued	21	25
Gross liability	**57**	**87**

No contingent leases have been recognised in expenses in 2011 or 2010. None of the assets under finance leases have been subleased.

Note 23. Provisions

2011	Restructuring	Other	Total
Provisions at 1 January	13	65	78
Exchange adjustment to year-end rate	(1)	-	(1)
Additions	33	6	39
Used	(1)	-	(1)
Reversed	(7)	(2)	(9)
Provisions at 31 December	**37**	**69**	**106**
Specified as follows:			
Non-current			72
Current			34
			106

2010	Restructuring	Other	Total
Provisions at 1 January	33	87	120
Exchange adjustment to year-end rate	1	1	2
Additions	4	18	22
Used	(9)	(4)	(13)
Reversed	(16)	(37)	(53)
Provisions at 31 December	**13**	**65**	**78**
Specified as follows:			
Non-current			75
Current			3
			78

Provisions for restructuring obligations relate primarily to close-down and reduction of production facilities, close-down of activities and redundancy programmes. The majority of these obligations is expected to result in cash outflows in the period 2012-2015.

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.

Notes
The LEGO Group

(mDKK)

Note 24. Contingent assets, contingent liabilities and other obligations

Contingent liabilities and other obligations

	2011	2010
Guarantees	97	73
Operating lease obligations	1,324	1,110
Other obligations	639	7
	2,060	**1,190**

The LEGO Group leases various offices, 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.

Lease expenses for the year charged to the income statement amount to:	283	233

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

Related parties		
0-1 year	25	32
1-5 years	-	-
> 5 years	-	-
	25	**32**

Other		
0-1 year	285	248
1-5 years	642	544
> 5 years	372	286
	1,299	**1,078**

Security has been given in land, buildings and installations with a net carrying amount of DKK 178 million (DKK 177 million in 2010) 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 1 million has been recognised as provision for deferred tax. The remaining amount of DKK 115 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.

Notes
The LEGO Group

(mDKK)

Note 25. Financial risks

Credit risk
Financial instruments are entered into with counterparties with a credit rating of A+/A1 or higher from Standard & Poor's or Moody's Investor Service.

Similarly, the LEGO Group only uses insurance companies with a credit rating of A-/A3 or higher from Standard & Poor's or Moody's Investor Service. The LEGO Group does not use credit ratings when hedging electricity consumption.

Credit risk regarding trade receivables is disclosed in note 17.

For Banks and financial institutions, only independently rated parties with a minimum rating of A are accepted. 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 26. 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 mainly classified as hedging and meet the accounting requirements for hedging of future cash flows.

Isolated effects on profit before tax and equity after tax of currency increase against DKK at 31 December 2011 which Management considers probable are specified as follows:

	%-change	2011	2010
EUR:			
Equity	2%	(18)	(8)
Net profit for the year	2%	(4)	(2)
USD:			
Equity	10%	(277)	(192)
Net profit for the year	10%	33	15
GBP:			
Equity	10%	(32)	(2)
Net profit for the year	10%	7	(5)
CZK:			
Equity	10%	64	38
Net profit for the year	10%	15	(16)
MXN:			
Equity	10%	68	35
Net profit for the year	10%	49	2
HUF:			
Equity	10%	6	13
Net profit for the year	10%	(13)	(17)

Notes

The LEGO Group

(mDKK)

Note 25. 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 2011 would have had a positive impact on the LEGO Group's profit before tax of approx. DKK 6.4 million (negative DKK 7.8 million in 2010). 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 2012-2013. The LEGO Group does not use hedge accounting on electricity derivatives. As a consequence the profit before tax has been affected negatively with DKK 3.7 million (positively DKK 4.0 million in 2010). An increase/decrease in the electricity price of DKK 0.05 per kWh would have increased/reduced the net income with DKK 3.1 million (DKK 4.0 million in 2010) 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 2,500 million has been paid in 2011 (DKK 1,500 million in 2010). It is expected that the dividend for 2011, to be paid in 2012, 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.

Notes

The LEGO Group

(mDKK)

Note 26. Financial assets and liabilities

The maturity profile of financial liabilities is disclosed according to category and class distributed on period to maturity. All interest payments on and repayments of financial assets and liabilities are based on contracts. 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 2011 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. Besides forward contracts, the LEGO Group has at 31 December 2011 dedicated options for the hedging of sales in USD for the financial year 2012. All contracts are expected to expire - and thus affect results - in the financial years 2012 and 2013.

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

			31 December 2011			
	Carrying amount	Fair value	0-1 year	1-5 years	Over 5 years	Total cash flows
Measured at amortised cost						
Debt to credit institutions	825	825	24	649	222	895
Trade payables	1,611	1,611	1,611	-	-	1,611
Other debt	2,743	2,743	2,693	26	24	2,743
	5,179	5,179	4,328	675	246	5,249
Derivative financial instruments						
Measured at fair value through the income statement	103	103	103	-	-	103
Measured at fair value through other comprehensive income	339	339	303	36	-	339
	442	442	406	36	-	442
Total financial liabilities	**5,621**	**5,621**	**4,734**	**711**	**246**	**5,691**
Measured at amortised cost (loans and receivables)						
Trade receivables	3,845	3,845	3,845	-	-	3,845
Other receivables	591	591	591	-	-	591
Receivables from related parties	1,950	1,950	1,950	-	-	1,950
Cash at bank and in hand	557	557	557	-	-	557
	6,943	6,943	6,943	-	-	6,943
Derivative financial instruments						
Measured at fair value through the income statement	8	8	8	-	-	8
Measured at fair value through other comprehensive income	4	4	4	-	-	4
	12	12	12	-	-	12
Total financial assets	**6,955**	**6,955**	**6,955**	**-**	**-**	**6,955**

Notes

The LEGO Group

(mDKK)

Note 26. Financial assets and liabilities, continued

	31 December 2010					
	Carrying amount	Fair value	0-1 year	1-5 years	Over 5 years	Total cash flows
Measured at amortised cost						
Debt to credit institutions	832	832	21	659	237	917
Trade payables	1,518	1,518	1,518	-	-	1,518
Other debt	2,429	2,429	2,337	72	20	2,429
	4,779	4,779	3,876	731	257	4,864
Derivative financial instruments						
Measured at fair value through the income statement	114	114	114	-	-	114
Measured at fair value through other comprehensive income	158	158	158	-	-	158
	272	272	272	-	-	272
Total financial liabilities	**5,051**	**5,051**	**4,148**	**731**	**257**	**5,136**
Measured at amortised cost (loans and receivables)						
Trade receivables	3,321	3,321	3,321	-	-	3,321
Other receivables	511	511	511	-	-	511
Receivables from related parties	1,956	1,956	1,956	-	-	1,956
Cash at bank and in hand	802	802	802	-	-	802
	6,590	6,590	6,590	-	-	6,590
Derivative financial instruments						
Measured at fair value through the income statement	41	41	38	3	-	41
Measured at fair value through other comprehensive income	66	66	66	-	-	66
	107	107	104	3	-	107
Total financial assets	**6,697**	**6,697**	**6,694**	**3**	**-**	**6,697**

Notes

The LEGO Group

(mDKK)

Note 26. Financial assets and liabilities, continued

The following table presents the LEGO Group assets and liabilities measured at fair value at 31 December 2011

- 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 liablity, 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 2011			
	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	-	4	-	4
Total assets	**-**	**12**	**-**	**12**
Liabilities				
Financial liabilities at fair value through income statement:				
- Derivative financial instruments	-	103	-	103
Financial assets at fair value through other comprehensive income:				
- Derivative financial instruments	-	339	-	339
Total liabilities	**-**	**442**	**-**	**442**

	31 December 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through income statement:				
- Derivative financial instruments	-	41	-	41
Financial assets at fair value through other comprehensive income:				
- Derivative financial instruments	-	66	-	66
Total assets	**-**	**107**	**-**	**107**
Liabilities				
Financial liabilities at fair value through income statement:				
- Derivative financial instruments	-	114	-	114
Financial assets at fair value through other comprehensive income:				
- Derivative financial instruments	-	158	-	158
Total liabilities	**-**	**272**	**-**	**272**

Notes

The LEGO Group

(mDKK)

Note 27. 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.

	31 December 2011			
	Contract amount	**Positive fair value**	**Negative fair value**	**Period covered**
Hedging of forecast transactions qualifying for hedge accounting				
USD	4,021	-	170	22 months
JPY	434	-	38	21 months
GBP	498	-	19	12 months
CZK	692	-	39	10 months
Other	1,921	4	73	22 months
Total forward contracts	7,566	4	339	
USD	431	-	-	15 months
Total currency options	431	-	-	
Total cash flow hedges for which hedge accounting applies	**7,997**	**4**	**339**	
Other forecast transaction hedges for which hedge accounting is not applied				
Other	-	4	6	1 month
Total forward contracts	-	4	6	
Electricity	28	-	4	36 months
Energy contracts	28	-	4	
USD	-	4	3	15 months
Total currency options	-	4	3	
Total cash flow hedges for which hedge accounting is not applied	**28**	**8**	**13**	
Total contracts 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**	

Notes
The LEGO Group

(mDKK)

Note 27. Derivative financial instruments, continued

	31 December 2010			
	Contract amount	Positive fair value	Negative fair value	Period covered
Hedging of forecast transactions qualifying for hedge accounting				
USD	2,442	38	15	24 months
MXN	468	7	-	24 months
CZK	498	10	-	10 months
AUD	346	-	55	10 months
Other	1,030	11	88	15 months
Total forward contracts	4,784	66	158	
USD	558	-	-	12 months
GBP	500	-	-	12 months
Total currency options	1,058	-	-	
Total cash flow hedges for which hedge accounting applies	**5,842**	**66**	**158**	
Other forecast transaction hedges for which hedge accounting is not applied				
Electricity	18	4	-	24 months
Energy contracts	18	4	-	
USD	-	16	9	12 months
GBP	-	14	9	12 months
Total currency options		30	18	
Total cash flow hedges for which hedge accounting is not applied	**18**	**34**	**18**	
Total contracts of forecast transactions	**5,860**	**100**	**176**	
Hedging of assets and liabilities				
USD	635	3	9	1 month
Other	840	4	87	1 month
Total forward contracts	1,475	7	96	
Total hedging activities	**7,335**	**107**	**272**	

Notes

The LEGO Group

(mDKK)

Note 27. Derivative financial instruments

	2011	2010
Development in hedging reserves		
Fair value adjustment at 1 January	(114)	49
Change in market value	(228)	(199)
Delivered and recognised in the income statement	44	(19)
Change in deferred tax	46	55
Fair value adjustment at 31 December	**(252)**	**(114)**
Recognised in the income statement		
Financial income	(44)	19
	(44)	**19**

Note 28. Other reversals with no effect on cash flows

	2011	2010
Depreciation, amortisation and impairment	637	606
Loss on sale of property, plant and equipment	11	5
Net movements in provisions	28	(42)
Financial income	(34)	(21)
Financial expenses	158	105
Other adjustments	(110)	(208)
	690	**445**

Note 29. Changes in working capital

	2011	2010
Inventories	(214)	(271)
Trade and other receivables	(971)	(1.207)
Trade and other payables	577	911
	(608)	**(567)**

Note 30. Cash and cash equivalents

	2011	2010
Cash and cash equivalents	557	802
	557	**802**

Notes
The LEGO Group

(mDKK)

Note 31. 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:

	2011	2010
Transactions with KIRKBI A/S		
Interest charged	(3)	(3)
Rent charged	(26)	(24)
Service fee charged	(2)	(2)
	(31)	(29)
Total transactions with KIRKBI A/S	**(31)**	**(29)**
Transactions with associates		
Purchase of products	(7)	(4)
Trademark fee received	8	6
	1	2
Total transactions with associates	**1**	**2**
Transactions with other related parties		
Sale of products	257	133
Interest received	21	3
Service fee received	-	3
Donations received	10	6
Trademark fee received	9	9
	297	154
Rent charged	(1)	(3)
Interest charged	(1)	(4)
Service fee charged	(26)	(32)
Trademark fee charged	(680)	(568)
	(708)	(607)
Total transactions with other related parties	**(411)**	**(453)**

Notes
The 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:

	2011	2010
Balances with KIRKBI A/S		
Receivables	-	11
Payables	(2)	(2)
	(2)	**9**
Balances with associates		
Receivables	1	
Payables	(1)	-
	-	-
Balances with other related parties		
Receivables	26	20
Payables	(231)	(235)
	(205)	**(215)**

Loans:	**KIRKBI Invest A/S**
Balance at 1 January 2011 - Loan investment	1.956
Loans advanced during the year	7.656
Repayments - loan investment	(7.680)
Interest charged	-
Interest received	18
Balance at 31 December 2011	**1.950**
Specified as follows:	
Current	1.950
Non-current	-
	1.950

	KIRKBI Invest A/S
Balance at 1 January 2011 - Loan borrowing	-
Loans raised during the year	(330)
Repayments - loan borrowing	330
Interest charged	-
Interest paid	-
Balance at 31 December 2011	**-**

Notes

The LEGO Group

(mDKK)

Note 31. Related party transactions, continued

	KIRKBI Invest A/S
Balance at 1 January 2010 - Loan investment	-
Loans advanced during the year	3.580
Repayments - loan investment	(1.625)
Interest charged	3
Interest received	(2)
Balance at 31 December 2010	**1.956**
Specified as follows:	
Current	1.956
Non-current	-
	1.956

	KIRKBI Invest A/S
Balance at 1 January 2010 - Loan borrowing	-
Loans raised during the year	(500)
Repayments - loan borrowing	500
Interest charged	(3)
Interest paid	3
Balance at 31 December 2010	**-**

The LEGO Group has no loans from associates.

Income Statement 1 January - 31 December

PARENT COMPANY

(mDKK)

	Note	2011	2010
Revenue		60	56
Gross profit		**60**	**56**
Other operation expenses		(103)	(73)
Operating profit		**(43)**	**(17)**
Dividend from subsidiaries		2,537	1,513
Financial income	2	-	28
Financial expenses	3	(50)	(44)
Profit before income tax		**2,444**	**1,480**
Tax on profit for the year	4	36	12
Net profit for the year		**2,480**	**1,492**
Proposed distribution of profit			
Dividend		3,000	2,500
Retained earnings		(520)	(1,008)
		2,480	**1,492**

Balance Sheet at 31 December

PARENT COMPANY

(mDKK)

	Note	2011	2010
ASSETS			
Non-current assets			
Patents		-	1
Intangible assets	5	**-**	**1**
Land, buildings and installations		6	6
Property, plant and equipment	6	**6**	**6**
Investments in subsidiaries		5,853	5,846
Investments in associates		3	3
Other non-current assets	7	**5,856**	**5,849**
Total non-current assets		**5,862**	**5,856**
Current assets			
Tax receivables		21	4
Other receivables		35	8
Total current assets		**56**	**12**
TOTAL ASSETS		**5,918**	**5,868**

Balance Sheet at 31 December

PARENT COMPANY

(mDKK)

	Note	2011	2010
EQUITY AND LIABILITIES			
EQUITY			
Share capital	8	20	20
Retained earnings		16	536
Proposed dividend		3,000	2,500
Total equity		**3,036**	**3,056**
LIABILITIES			
Non-current liabilities			
Borrowings	9	600	600
Deferred tax liabilities	10	7	23
Total non-current liabilities		**607**	**623**
Current liabilities			
Debt to subsidiaries		2,204	2,127
Trade payables		5	-
Other short-term debt		66	62
Total current liabilities		**2,275**	**2,189**
Total liabilities		**2,882**	**2,812**
TOTAL EQUITY AND LIABILITIES		**5,918**	**5,868**
Contingent liabilities and other obligations	11		

Statement of changes in Equity

PARENT COMPANY

(mDKK)

	Share capital	Retained earnings	Proposed dividend	Total
Equity 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**
Equity at 1 January 2010	**20**	**1,544**	**1,500**	**3,064**
Dividend relating to prior year	-	-	(1,500)	(1,500)
Net profit for the year	-	1,492	-	1,492
Proposed dividend	-	(2,500)	2,500	-
Equity at 31 December 2010	**20**	**536**	**2,500**	**3,056**

Notes

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 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 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.

Notes
PARENT COMPANY

NOTE 1. Significant accounting policies, continued

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 LEGO 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
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.

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.

Notes

PARENT COMPANY

(mDKK)

NOTE 2. Financial income

	2011	2010
Interest income from subsidiaries	-	1
Exchange gain, net	-	27
	-	**28**

NOTE 3. Financial expenses

	2011	2010
Interest expenses on mortgage loans	10	9
Interest expenses to related parties	3	3
Interest expenses to subsidaries	37	32
	50	**44**

NOTE 4. Tax on profit for the year

	2011	2010
Current tax on profit for the year	(21)	4
Deferred tax on profit for the year	(2)	11
Adjustment of tax relating to previous years, current tax	1	(3)
Adjustment of tax relating to previous years, deferred tax	(14)	-
	(36)	**12**

Notes

PARENT COMPANY

(mDKK)

NOTE 5. Intangible assets

	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**

	Patents
Cost at 1 January 2010	4
Cost at 31 December 2010	4
Depreciation and impairment losses at 1 January 2010	2
Depreciation for the year	1
Depreciation and impairment losses at 31 December 2010	3
Carrying amount at 31 December 2010	**1**

Notes

PARENT COMPANY

(mDKK)

NOTE 6. Property, plant and equipment

	Land, buildings & installations	Other fixures & fittings, 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**

	Land, buildings & installations	Other fixures & fittings, tools and equipment	Total
Cost at 1 January 2010	6	7	13
Cost at 31 December 2010	6	7	13
Depreciation and impairment losses at 1 January 2010	-	7	7
Depreciation and impairment losses at 31 December 2010	-	7	7
Carrying amount at 31 December 2010	**6**	**-**	**6**

Assets under finance leases

No assets have been recognised under finance leases.

Notes

PARENT COMPANY

(mDKK)

NOTE 7. Other non-current assets

	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**

	Investments in associates	Investments in subsidiaries
Cost at 1 January 2010	4	5,498
Additions	-	348
Cost at 31 December 2010	4	5,846
Value adjustment at 1 January 2010	(1)	-
Value adjustment at 31 December 2010	(1)	-
Carrying amount at 31 December 2010	**3**	**5,846**

NOTE 8. Share capital

	2011	2010
The Company's share capital consists of:		
A-shares of DKK 1,000 or multiples hereof	1	1
B-shares of DKK 1,000 or multiples hereof	9	9
C-shares of DKK 1,000 or multiples hereof	10	10
Total shares at 31 December	**20**	**20**

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

Shareholders 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

Notes
PARENT COMPANY

(mDKK)

NOTE 9. Long-term debt

	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

	2011	2010
Deferred tax, net at 1 January	(23)	(34)
Change in deferred tax	16	11
Provision for deferred tax, net at 31 December	**(7)**	**(23)**
Classified as:		
Deferred tax liabilities	(7)	(23)
	(7)	**(23)**

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 recognized as provision for deferred tax. The remaining amount of DKK 95 million is not expected to be recaptured.

GROUP STRUCTURE

LEGO A/S - AS OF 31 DECEMBER 2011

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 Education Europe Ltd., 51% (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.
- LEGO Romania S.R.L.
- LEGO Ukraine LLC
- OOO LEGO (Russia)
- LLD Share verwaltungs GmbH (Germany)
  - – LLD Share Gmbh & Co. KG (Germany)

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)

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 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.

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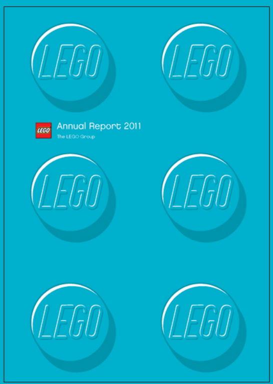
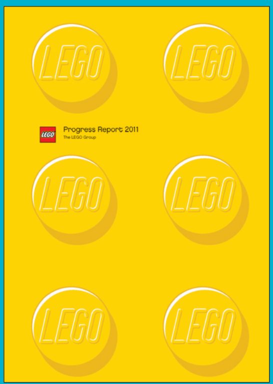


Annual Report

In the Annual Report you will find detailed information on the LEGO Group's financial results in 2011.

http://aboutus.lego.com/en-us/



Progress Report

In the Progress Report you will find detailed information on the progress of the LEGO Group's work within environmental, social and governance (ESG) areas in 2011. The Progress Report also serves as the annual communication on progress required by UN Global Compact.

http://aboutus.lego.com/en-us/