The LEGO Group Annual Report 2019

CVR no: 54 56 25 19

Contents

Management's Review

Consolidated Financial Statements

Parent Company Financial Statements

Additional information

Management's Review

Our ambition is to bring the power of LEGO® play to even more children around the world.

Letter from the CEO (p. 4) →

Letter from the CEO

We are very pleased with the progress we made in 2019. We achieved top-line growth and leveraged our financial strength to make significant, bold investments in initiatives to drive long-term growth.

We outpaced the toy industry and took steps to stay ahead of key trends such as e-commerce, digitalisation and global socio-economic shifts which are reshaping the sector.

But perhaps most importantly we brought LEGO® play to children in new markets and continued our mission to inspire and develop the builders of tomorrow. When you pick up a LEGO brick, it is identical to the one first created more than 60 years ago, but its continued success hinges on the ingenuity, dedication, and passion of my 18,800 colleagues. It is an honour – and a lot of fun – to work alongside the talented, motivated people who design our amazing portfolio, mould our elements with precision, develop brilliant content, and create immersive brand experiences in our retail stores. We are truly grateful for their contribution.

Investing in innovating play
Digitalisation is not just changing how people shop, it is also influencing how people play. Make no mistake, the brick will always be the heart of our business. It offers endless possibilities for today's children and future generations. But integrating digital and physical play offers exciting, new possibilities. It is something we call fluid play. In 2019, we launched LEGO® Hidden Side a theme that seamlessly blends building and augmented reality. We will continue to invest in exploring innovative ways to build and play.

Investing in retail experiences
Each year, more and more toy purchases are influenced by digital marketing and roughly a third of all toys are bought online. At the same time shoppers continue to seek immersive brand experiences in stores. Against this backdrop we invested in developing and expanding our retail ecosystem. We partnered with our established retail customers to create unique brand moments online and in-store. We upgraded our own e-commerce platform and we opened almost 150 branded stores around the world ending the year with 570 stores.

Investing in new geographies
Our ambition is to bring the power of LEGO play to even more children around the world. In 2019, China continued to be a growth priority. We invested in building our brand presence and geographic reach and ended the year with 140 stores in 35 cities. We strengthened our partnership with local partners to broaden our reach on e-commerce and digital platforms. We achieved strong double digit growth and are optimistic about the long-term growth potential in the region.

The power of learning through play
At the LEGO Group children are our role models. Their curiosity and willingness to try, fail, and try again is inspiring. As we look to a future being shaped by innovation, technology and constant change we are excited and optimistic. Excited by the possibilities to bring learning through play to more children and optimistic that today's children will have the skills and determination to create a bright future.

Niels B. Christiansen
CEO, the LEGO Group

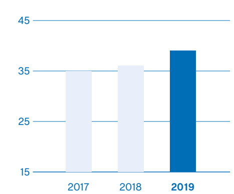
2019 Performance Snapshot

The LEGO Group made good progress against its ambition to deliver sustainable growth. Revenue, consumer sales and profit all grew. All Market Groups delivered year-on-year revenue growth, with established markets growing single digits and China delivering strong double digit growth. The Group used its strong financial foundations to invest in initiatives that will deliver long-term growth.

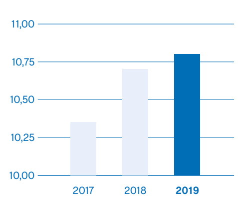
Top-selling Themes

LEGO® City
LEGO® *Star Wars*™
LEGO® Technic
LEGO® Friends
LEGO® Creator

Revenue DKK
38.5 bn



Operating Profit DKK
10.8 bn



6%
Revenue growth

9.6 bn
Cash Flow from Operations DKK

69%
Return on Invested Capital

Our Contribution to Society & the Planet

We have a "Planet Promise" – our promise to children that we will help build a sustainable future by having a positive impact on society and the environment.

We take our responsibility seriously and track our performance against this Promise as closely as our financial results. We appreciate that consumers recognise our commitment. Their feedback placed us #1 on Reputation Institute's RepTrak survey rankings for CSR in 2019.

Learning through Play

25%

25% of profit goes to the LEGO Foundation. LEGO Foundation brings learning through play to children in need, including refugees and those in underprivileged communities

1.8 million

children reached across 26 countries through local community engagement programmes, partnerships and Build to Give, a holiday giving campaign

Environment

100%

renewable energy milestone maintained

The LEGO® Ideas Tree House

185 sustainable, botanical elements were used in the LEGO® Ideas Tree House, as we expand the use of elements produced from sustainable materials

LEGO® Replay launched in the United States. This is a step towards creating a circular business model for LEGO bricks. The trial programme encourages people to donate unused LEGO bricks for distribution to children in need

Investing in Strategic Growth Initiatives

Driven by our Mission

We are driven by our ambition to bring LEGO® play to more children wordwide. We believe that play has the power to shape lives. When children play, they learn. They learn life-long skills like problem solving, communication, and collaboration, which are more critical than ever. A study by the World Economic Forum estimates that given the pace of change 65% of kindergarten children will hold jobs that have not yet been invented. The only way we can prepare children is to give them skills that can be applied universally.

Play is an effective way to develop these skills from a young age, and LEGO play is especially powerful as it offers children endless possibilities. Just six two-by-four LEGO bricks can make 915 million different combinations. And they are made with such precision that they stick together like glue, but come apart easily so they can be built, unbuilt and rebuilt into whatever a child can imagine.

Our strategic priorities are designed to deliver long-term, sustainable growth and importantly bring the power of LEGO play to even more children around the world so we can continue to inspire and develop builders of tomorrow for generations to come.

Sustainable Growth

Innovating play
Like LEGO builders everywhere, our talented designers are driven by creativity and innovation. Each year, approximately 60% of our portfolio is new. During 2019, this included new sets for top-selling core themes such as LEGO® City, LEGO® Technic, LEGO® Friends and LEGO® Creator. We also created entirely new ways to play, such as LEGO® Hidden Side. This new theme blends augmented reality with building. We also integrated LEGO play into a wide range of digital experiences including digital games, apps, and voice-based intelligent home assistants.

Investing in fluid play – the intersection between digital and physical play – will continue to be a priority.

Innovating retail
The toy retail market is being rapidly reshaped by digitalisation and the accelerated growth of e-commerce. Shoppers are seeking different experiences from different channels – immersive brand experiences in physical stores and convenience and value online.

To achieve this we are making significant investments in our retail ecosystem. In 2019, we significantly upgraded our LEGO.com e-commerce platform which drove a 27% increase in the number of visitors. We opened almost 150 branded stores including flagship stores in Amsterdam and Beijing, which offer shoppers one-of-a-kind experiences including personalised minifigures and self-portraits made from LEGO bricks.

We are stepping up investment in all our retail channels and working closely with our partners to connect with people wherever and however they want to shop.

Expanding into new markets
By 2032, 90% of the world's two billion children will live outside Europe and North America, with more than three quarters of these living in Eastern Asia.

As a result, we are stepping up investment in the growth markets of tomorrow.

We achieved strong double digit growth in China as we expanded our brand and retail presence. This will continue in 2020 as we plan to have more than 220 stores in around 40 cities by the end of the year. We will also continue to build our e-commerce presence on popular platforms such as Tmall and JD and extend our partnership with Tencent to provide unique digital content and games. We were also pleased with the success of our new sets designed to celebrate Chinese New Year, showing there is strong consumer demand for culturally-relevant products.

Continue reading

We achieved strong double digit growth in China as we expanded our brand and retail presence

In 2019, we opened an office in Dubai to support expansion in the Middle East and Africa and announced plans to open an office in India in 2020.

Strengthening our brand
Beyond our strategic priorities, we invested in our most valuable asset, our brand. In September, we launched “Rebuild the World,” our first global brand advertising campaign in more than 30 years. It has inspired parents, children and people of all ages to build their version of a better world as well as nurture the skills of the next generation of builders.

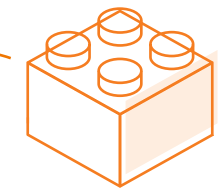
We also took a significant step to deepen our relationship with our fantastic adult fans. In December, we acquired BrickLink the world’s largest online community of adult fans. The digital platform boasts 1.1 million members and features a marketplace, software and a Forum where fans can celebrate and share their creativity.

Appreciating our colleagues
We are fortunate to have 18,800 highly motivated colleagues around the world. They find real meaning in our mission to inspire and develop the builders of tomorrow. We also invest in creating a work environment which encourages fun, creativity and caring. Our annual Play Day connects all employees to the importance of learning through play. We closely track colleague sentiment, and in 2019 motivation and satisfaction levels were best in class. It is because of these wonderful colleagues we can continue towards our ambition to reach more children around the world. ✕

The LEGO Group at a Glance

Family-owned

130+
countries LEGO® products distributed



5 manufacturing sites
Billund (Denmark)
Jiaxing (China)
Kladno (Czech Republic)
Monterrey (Mexico)
Nyíregyháza (Hungary)

37 sales offices

18,800
colleagues

4 regional hubs
Enfield, Connecticut (US)
London (United Kingdom)
Shanghai (China)
Singapore (Republic of Singapore)

570
LEGO® branded stores worldwide

HQ in Billund

Billund, Denmark – the LEGO Group’s headquarters and home town. It was here that Ole Kirk Kristiansen founded the company in 1932

2019 Financial Review

Summary

Overall, 2019 was a very satisfactory year for the LEGO Group. The company achieved revenue, consumer sales and profit growth which was especially satisfactory given the challenging industry environment. The LEGO Group continued to make significant investments in initiatives to drive future growth.

The LEGO Group's main activity is the development, production, marketing and sale of play materials. It operates in the traditional toy market, which declined 3% in 2019 partly due to shifts in the retail environment, driven by the continued growth of e-commerce and decline of specialist toy retailers.

Revenue

Revenue for the full year increased by 6% to DKK 38.5 billion compared with DKK 36.4 billion in 2018. Excluding the impact of foreign currency exchange, revenues for the full year increased by 4% compared with 2018, in line with expectations. ✓

The LEGO Group's revenue was driven by single digit growth in all major markets and strong double digit growth in China where the brand continues to expand.

Expenses, Tax & Profit

Operating profit was DKK 10.8 billion in 2019 similar to DKK 10.8 billion in 2018. The operating margin was 28.1% in 2019, slightly lower than 29.6% in 2018. Net financials created an expense of DKK 85 million compared with DKK 264 million in 2018. This resulted in a pre-tax profit of DKK 10.8 billion against DKK 10.5 billion the prior year.

Corporate income tax amounted to DKK 2.4 billion compared with DKK 2.4 billion in the prior year and the effective tax rate was 22.7% against 23.2% in 2018. Net profit was DKK 8.3 billion in 2019 against DKK 8.1 billion in 2018.

In 2019, the LEGO Group made significant investments in initiatives designed to deliver growth in the longer term. This included portfolio innovation, expanding the number of LEGO® branded stores globally, upgrading LEGO.com e-commerce platform and building presence in newer markets such as China and the Middle East.

Cash flow and equity

The LEGO Group's assets increased to DKK 34.9 billion in 2019 compared with DKK 31.5 billion in 2018. Cash flow from operating activities was DKK 9.6 billion, against DKK 9.8 billion in 2018.

After recognition of the profit and distribution of dividend, the LEGO Group's equity was DKK 22.2 billion up from DKK 21.8 billion in 2018. Return on equity for the LEGO Group was 37.8% in 2019 against 38.0% in 2018.

Investments

During 2019, the LEGO Group invested DKK 1.8 billion in property, plant and equipment, compared with DKK 1.4 billion in 2018. This included increasing warehousing and processing capacity in its factory in Nyíregyháza, Hungary and opening a new warehouse in Monterrey, Mexico.

60%

Innovation is critical to the success of the LEGO Group and each year new products make approximately 60% of the portfolio

Research and development (R&D)

Innovation is critical to the success of the LEGO Group and each year new products make up approximately 60% of the portfolio. The LEGO Group invests in innovating core play themes as well as exploring new play patterns. Digitalisation is influencing how children play and the LEGO Group has stepped up investment to understand the intersection between digital and physical play and create new products to meet these changing needs. R&D activities include developing new technologies to enable learning through play; trend spotting; anthropological studies; and collaborating with educational institutions to deepen our understanding of children's development.

Intellectual capital resources

The number of employees at the end of 2019 was 18,800 compared with 17,385 at the end of 2018.

Employees participate in the LEGO Group's Performance Management Programme (PMP). The programme is designed to ensure all employees work towards achieving the LEGO Group's short and long-term growth ambitions. Employees have targets which are aligned to Group-wide targets and awarded a bonus based on performance versus target.

Responsible business conduct

The LEGO Group works to have a positive impact on its stakeholders and its local communities. In 2003, the LEGO Group signed the United Nations Global Compact to demonstrate its support of human rights, labour standards, anti-corruption and the environment. The LEGO Group's Sustainability Progress 2019 report (COP report) describes how it is working to adhere to the Compact.

Pursuant to section 99a and 99b of the Danish Financial Statements Act, the Sustainability

Continue reading

Progress 2019 report constitutes the statutory statement of corporate social responsibility. This also includes the required quantitative targets for the under-represented gender on the Board of Directors. The Sustainability Progress 2019 report is available at: www.LEGO.com/AboutUs/Responsibility.

Risks and governance

The LEGO Group has no significant trade receivables risk concentrated in specific countries, but has some single significant trade debtors. The LEGO Group has fixed procedures for determining the granting of credit. The LEGO Group's risk relating to trade receivables is considered to be moderate. For more information, see note 3.4.

The majority of the LEGO Group's sales are in foreign currency, and the risks relating to currency are described in note 4.6.

In 2019, the Board of Directors established an Audit Committee mainly to oversee financial reporting, accounting policies and estimates, internal controls, risk management, and external audit and to recommend to the Board of Directors the approval of financial statements and the appointment of external auditor.

The LEGO Group is committed to complying with all applicable laws and regulations in the countries in which it operates. The LEGO Group's global Tax Strategy is defined by the Board of Directors and reviewed on an annual basis to ensure it remains compliant and up-to-date with global developments. It can be found on www.LEGO.com/AboutUs.

Events after the reporting date

No events have occurred after the balance sheet date that would influence the evaluation of the Annual Report.

Outlook

The LEGO Group expects single-digit growth in 2020, ahead of the global toy market. This is expected to be achievable due to continued focus on product innovation, growth in established and strategic markets, such as China. The LEGO Group also plans to continue investing in initiatives to address evolving trends, including sustainability, and drive long-term sustainable growth. ✕

Financial Highlights of the LEGO Group

The Financial Highlights for 2019 are affected by the implementation of IFRS 16 Leases as from 1 January 2019. Comparison figures for 2018, 2017, 2016 and 2015 have not been restated due to the use of the modified retrospective approach. The implementation of IFRS 16 Leases in 2019 has a negative impact on ROIC (approximately 8 percentage points) and on Equity ratio (approximately 6 percentage points) compared to 2018. Implementation of IFRS 16 Leases is described in note 1.2 and 4.4.

Financial ratios are calculated in accordance with the guidelines from the Danish Society of Financial Analysts. For definitions, please refer to note 1.1.

Parentheses denote negative figures.

(mDKK)	2019	2018	2017	2016	2015
Income Statement					
Revenue	38,544	36,391	34,995	37,934	35,780
Expenses	(27,707)	(25,617)	(24,636)	(25,486)	(23,536)
Operating profit	10,837	10,774	10,359	12,448	12,244
Financial income and expenses	(85)	(264)	(158)	(57)	(96)
Profit before income tax	10,752	10,510	10,201	12,391	12,148
Net profit for the year	8,306	8,076	7,806	9,436	9,174
Balance Sheet					
Total assets	34,946	31,485	29,911	29,937	27,877
Equity	22,183	21,753	20,714	20,039	17,751
Liabilities	12,763	9,732	9,197	9,898	10,126
Statement of Cash Flow					
Cash flows from operating activities	9,645	9,847	10,691	9,084	10,559
Purchase of intangible assets	(346)	(54)	(35)	(92)	(126)
Purchase of property, plant and equipment	(1,827)	(1,448)	(1,494)	(2,908)	(2,822)
Cash flows from financing activities	(7,671)	(7,781)	(9,378)	(6,575)	(6,816)
Total cash flows	(188)	574	(210)	(483)	808
Employees					
Average number (full-time)	16,112	15,050	16,480	16,836	13,974
Headcount end of year	18,800	17,385	17,534	19,061	17,294
Other financials (in %)					
Revenue growth in constant currency	4	7	(7)	6	19
Financial ratios (in %)					
Gross margin	72.0	71.4	70.7	72.2	72.6
Operating margin	28.1	29.6	29.6	32.8	34.2
Net profit margin	21.5	22.2	22.3	24.9	25.6
Return on equity (ROE)	37.8	38.0	38.3	49.9	60.0
Return on invested capital (ROIC)	69.0	78.9	72.3	92.0	107.3
Equity ratio	63.5	69.1	69.3	66.9	63.7

Board of Directors and Management

Thomas Kirk Kristiansen

- Chairman of LEGO A/S since February 2020, Deputy Chairman from May 2016 to February 2020 (member since 2007).
- Deputy Chairman of LEGO Brand Group.
- Representing the fourth generation of the owner family.
- Member of the Board of KIRKBI A/S and 3 fully owned subsidiaries.
- Chairman of the Board of LEGO Foundation.
- Executive Management member of Kirk & Kirk Holding ApS and management roles in 4 subsidiaries.

Søren Thorup Sørensen

- Deputy Chairman of LEGO A/S since February 2020 (member since 2010) and Chairman of the Audit Committee.
- Chief Executive Officer of KIRKBI A/S.
- Member of the Board of Falck A/S, Merlin Entertainments Limited, Landis + Gyr AG, Ole Kirk's Fond, Koldingvej 2, Billund A/S, Boston Holding A/S and 6 fully owned subsidiaries of KIRKBI A/S.

Eva Berneke

- Member of the Board of LEGO A/S since 2011 and member of the Audit Committee.
- Chief Executive Officer of KMD A/S.
- Member of the Board of DTU.
- Member of the Board of Nationalbanken.
- Member of the Conseil d'administration of École Polytechnique Université Paris-Saclay.
- Member of the Board of Vestas.

Jan Thorsgaard Nielsen

- Member of the Board of LEGO A/S since 2013 and member of the Audit Committee.
- Chief Investment Officer (CIO) of A.P. Møller Holding A/S.
- Deputy Chairman of the Board of Danske Bank A/S.
- Member of the Board of APMH Invest A/S.
- Member of the Board of A.P. Møller Capital P/S.
- Chairman of the Board of KK Wind Solutions A/S.

Jørgen Vig Knudstorp

- Member of the Board of LEGO A/S since 2017, Chairman from May 2017 to February 2020.
- Executive Chairman of LEGO Brand Group.
- Member of the Board of Starbucks.
- President and Chief Executive Officer of the LEGO Group from 2004–2016.
- Member of the Board of Merlin Entertainments Limited.

Kåre Schultz

- Member of the Board of LEGO A/S since 2007.
- Chief Executive Officer of Teva Pharmaceutical Industries Ltd.

Executive Leadership Team

Niels B. Christiansen
President and Chief Executive Officer

Marjorie Lao
Chief Financial Officer

Julia Goldin
Chief Marketing Officer

Carsten Rasmussen
Chief Operations Officer

Loren I. Shuster
Chief People Officer &
Head of Corporate Affairs

Claus Flyger Pejstrup
Executive Vice President,
LEGO Retail

Victor Saeijs
Executive Vice President,
Market Group EMEA

Skip Kodak
Executive Vice President,
Market Group Americas

Eric Maugein
Executive Vice President,
Market Group APAC

Consolidated Financial Statements

Income Statement

1 January – 31 December

(mDKK)	Note	2019	2018
Revenue	2.1	38,544	36,391
Production costs	2.2	(10,791)	(10,417)
Gross profit		27,753	25,974
Sales and distribution expenses	2.2	(11,893)	(10,971)
Administrative and IT expenses	2.2	(2,848)	(2,246)
Other operating expenses	2.2	(2,175)	(1,983)
Operating profit		10,837	10,774
Financial income	4.1	29	9
Financial expenses	4.1	(114)	(273)
Profit before income tax		10,752	10,510
Tax on profit for the year	2.6	(2,446)	(2,434)
Net profit for the year		**8,306**	**8,076**

Statement of Comprehensive Income

1 January – 31 December

(mDKK)	2019	2018
Profit for the year	8,306	8,076
Items that will be reclassified to the income statement, when specific conditions are met:		
Change in market value of cash flow hedges	(297)	(99)
Reclassification of cash flow hedges from equity to be recognised as part of:		
Revenue in the income statement	293	14
Tax on cash flow hedges	1	19
Currency translation differences	154	10
Items that will not be reclassified to the income statement:		
Remeasurements of defined benefit plans	(35)	28
Tax on remeasurements of defined benefit plans	8	(9)
Total comprehensive income for the year	**8,430**	**8,039**

Balance Sheet

at 31 December

(mDKK)	Note	2019	2018
Intangible assets	3.1	488	253
Property, plant and equipment	3.2	12,356	11,721
Right-of-use assets	4.4	3,123	–
Deferred tax assets	2.6	738	638
Prepayments		–	142
Total non-current assets		16,705	12,754
Inventories	3.3	2,672	2,579
Trade receivables	3.4, 4.5	7,201	6,766
Other receivables		974	931
Prepayments		376	250
Current tax receivables		284	249
Loans to related parties	4.5, 5.6	5,876	6,858
Cash at banks	4.5	858	1,098
Total current assets		18,241	18,731
Total assets		**34,946**	**31,485**

(mDKK)	Note	2019	2018
Share capital	4.2	20	20
Reserve for hedge accounting		(35)	(32)
Reserve for currency translation		(417)	(571)
Retained earnings		22,615	22,336
Total equity		**22,183**	**21,753**
Borrowings	4.3	147	157
Lease liabilities	4.4	2,523	–
Deferred tax liabilities	2.6	168	134
Employee benefit obligations	3.5	209	161
Provisions	3.6	78	60
Deferred revenue	3.7	14	12
Other debt	3.8	176	139
Total non-current liabilities		3,315	663
Borrowings	4.3	10	10
Lease liabilities	4.4	573	–
Trade payables	4.5	3,422	3,207
Current tax liabilities		347	257
Provisions	3.6	9	54
Deferred revenue	3.7	248	249
Other debt	3.8	4,839	5,292
Total current liabilities		9,448	9,069
Total liabilities		**12,763**	**9,732**
Total equity and liabilities		**34,946**	**31,485**

Statement of Changes in Equity

1 January – 31 December

2019 (mDKK)	Share capital	Reserve for hedge accounting	Reserve for currency translation	Retained earnings	**Total equity**
Balance at 1 January	20	(32)	(571)	22,336	**21,753**
Profit for the year	–	–	–	8,306	**8,306**
Comprehensive income/(expenses) for the year	–	(3)	154	(27)	**124**
Dividend paid relating to prior year	–	–	–	(8,000)	**(8,000)**
Balance at 31 December	**20**	**(35)**	**(417)**	**22,615**	**22,183**

2018 (mDKK)	Share capital	Reserve for hedge accounting	Reserve for currency translation	Retained earnings	**Total equity**
Balance at 1 January	20	34	(581)	21,241	**20,714**
Profit for the year	–	–	–	8,076	**8,076**
Comprehensive income/(expenses) for the year	–	(66)	10	19	**(37)**
Dividend paid relating to prior year	–	–	–	(7,000)	**(7,000)**
Balance at 31 December	**20**	**(32)**	**(571)**	**22,336**	**21,753**

§ Accounting policies

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

Reserve for currency translation
The reserve for currency translation 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 currency translation of that foreign subsidiary is recognised in the income statement. Reduction of a net investment in a foreign operation which does not result in loss of control is not treated as a disposal.

Statement of Cash Flows

1 January – 31 December

(mDKK)	Note	2019	2018
Profit before income tax		10,752	10,510
Adjustments for non-cash items	5.5	2,046	1,401
Change in working capital	5.5	(696)	440
Interest received	4.1	8	9
Interest paid	4.1	(26)	(37)
Income tax paid		(2,439)	(2,476)
Cash flow from operating activities		**9,645**	**9,847**
Purchases of intangible assets	3.1	(346)	(54)
Purchases of property, plant and equipment	3.2	(1,827)	(1,448)
Proceeds from sale of property, plant and equipment		11	10
Cash flow used for investing activities		**(2,162)**	**(1,492)**
Repayments of borrowings		(10)	(11)
Payment of lease liabilities		(643)	–
Repayments from related parties	5.6	11,845	12,069
Payments to related parties	5.6	(10,863)	(12,839)
Dividends paid to shareholders	4.2	(8,000)	(7,000)
Cash flow from financing activities		**(7,671)**	**(7,781)**
Total cash flows		**(188)**	**574**
Cash at banks at 1 January		1,098	762
Effect of exchange losses		(52)	(238)
Cash at banks at 31 December		**858**	**1,098**

§ Accounting policies

Cash flows in currencies other than the functional currency are translated at the average exchange rate for the month in question.

The cash flow statement is prepared by the indirect method based on consolidated profit before income tax, and shows cash flows from operating, investing and financing activities as well as the LEGO Group's cash at banks at opening and closing.

Cash flow from operating activities is specified as the profit before income tax for the year adjusted for non-cash operating items, changes in the working capital, and corporation tax paid.

Cash flow from investing activities includes the purchase and sale of intangible and tangible fixed assets.

Cash flow from financing activities includes the raising and repaying of long-term liabilities, short-term bank loans and the payment of dividends.

Cash at banks comprise cash that can readily be converted into cash.

Notes

Basis of preparation

Results for the year

Operating assets and liabilities

Capital structure and financing

Other disclosures

Note 1.1

Basis for preparation of the Consolidated Financial Statements

This section introduces the LEGO Group's accounting policies and significant accounting estimates and judgements. A more detailed description of accounting policies and significant estimates and judgements related to specific reported amounts is presented in the respective notes.

The Consolidated Financial Statements of the LEGO Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and further requirements of the Danish Financial Statements Act.

The Consolidated Financial Statements are presented in Danish kroner (DKK), which is the functional and presentation currency of the Parent Company.

The Consolidated Financial Statements have been prepared in accordance with the historical cost convention, with the exception of financial assets and financial liabilities, which are measured at fair value.

DKK

The Consolidated Financial Statements are presented in Danish kroner (DKK), which is the functional and presentation currency of the Parent Company.

Apart from the changes due to implementation of new standards as described in note 1.2, accounting policies are unchanged from last year.

Changes in classification in the income statement
Comparative figures in the income statement have been restated to match this year's presentation. The adjustment of the comparative figures have no effect on operating profit.

Consolidation practice
The Consolidated Financial Statements comprise LEGO A/S (Parent Company) and the entities in which LEGO A/S directly or indirectly holds more than 50% of the votes or has the control over the investee (subsidiaries). LEGO A/S and these entities are referred to as the LEGO Group.

Subsidiaries are fully consolidated from the date where control is transferred to the LEGO Group. They are deconsolidated from the date where control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Subsidiaries' accounting policies have been changed, where necessary, to ensure consistency with the policies adopted by the LEGO Group.

Foreign currency translation
Functional 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.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as reserve for exchange rate adjustments.

Group entities
The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each subsidiary are translated into DKK at the closing rate at the balance sheet date.
- Income and expenses for each subsidiary are translated at average exchange rates.
- Differences deriving from translation of the foreign subsidiaries' opening equity to the exchange rates prevailing at the balance sheet date, and differences owing to the translation of the income statements of the foreign subsidiaries from average exchange rates to balance sheet date exchange rates are recognised in comprehensive income and classified as a separate reserve for exchange adjustments under equity.

Financial highlights
Revenue growth in constant currency is calculated as revenue growth adjusted for exchange rate translation effects.

Financial ratios have been calculated in accordance with the guidelines from the Danish Society of Financial Analysts.

GROSS MARGIN

$$\frac{\text{Gross profit x 100}}{\text{Revenue}}$$

OPERATING MARGIN

$$\frac{\text{Operating profit (EBIT) x 100}}{\text{Revenue}}$$

NET PROFIT MARGIN

$$\frac{\text{Net profit for the year x 100}}{\text{Revenue}}$$

RETURN ON EQUITY (ROE)

$$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$$

RETURN ON INVESTED CAPITAL (ROIC)

$$\frac{\text{Operating profit (EBIT) x 100}}{\text{Average invested capital (excluding goodwill)}}$$

EQUITY RATIO

$$\frac{\text{Equity x 100}}{\text{Total liabilities and equity}}$$

Note 1.2

Effects of new and amended accounting standards

All amended standards and interpretations issued by IASB and endorsed by the EU effective as of 1 January 2019 have been adopted by the LEGO Group.

From 1 January 2019, the LEGO Group has adopted the following new standards:
- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments

IFRS 16 Leases

Description

IFRS 16 has been implemented as of 1 January 2019. The standard supersedes existing leases guidance in IAS 17 Leases and related interpretations.

Implementation of IFRS 16 has had a material effect on the LEGO Group's balance sheet. Previously, lease contracts for a lessee were classified as either operating or finance leases. IFRS 16 requires the majority of operating leases to be recognised as lease assets with related lease liability, similar to the previous accounting of finance leases.

The lease payments, previously accounted for as operating expenses, have been split into an interest expense and a repayment of the lease liability. The right-of-use assets are depreciated over the term of the lease contract. Reported operating profit has increased, as previous operating lease expenses included under cost have been replaced by depreciations and financial expenses. The impact on profit is neutral over time, but a minor timing effect does occur due to frontloading of interest expenses.

Reported cash flow from operating activities has increased but is offset by an increased cash outflow from financing activities. Accordingly, total cash flow for the year is unchanged.

Implementation

The LEGO Group adopted IFRS 16 using the modified retrospective approach according to which comparative figures are not restated but presented in accordance with the previous IFRS standard on leases (IAS 17) as disclosed in the Annual Report 2018. Right-of-use assets have been presented as a separate line-item in the balance sheet and specified further in note 4.4 Leases.

For existing leases classified as operating leases under IAS 17, lease liabilities have been measured at the present value of the remaining lease payments discounted using an appropriate incremental borrowing rate at 1 January 2019.

For existing leases classified as finance leases under IAS 17, the carrying amount of lease liabilities and right-of-use assets at 1 January 2019 equals the carrying amount of lease liabilities and lease assets at 31 December 2018.

The following practical expedients have been applied in implementing the standard:

- Contracts not previously determined to contain a lease in accordance with IAS 17 and IFRIC 4 have not been reassessed at the commencement date.
- Right-of-use assets and related lease liabilities for existing leases ending within 12 months of 1 January 2019 or leases considered to be low value are not recognised.
- A single discount rate has been applied to appropriate groups of leases with similar characteristics.
- Existing assessments of whether leases are onerous have been applied.
- The use of hindsights, such as in determining the lease term if the contracts contain options to extend or terminate the lease.

No other practical expedients beyond above have been applied.

There are no lease assets that meet the definition of investment property.

Impact

The operating lease commitments at 31 December 2018 disclosed in the Annual Report and lease liabilities recognised in the opening balance at 1 January 2019 in accordance with IFRS 16 can be specified as follows:

(mDKK)	
Operating lease commitments (not discounted) disclosed in the notes at 31 December 2018	2,600
+ Commitments not part of the notes 31 December 2018	103
Other adjustments	(4)
Undiscounted lease liability	**2,709**
Discounting effect	(311)
+ Finance lease liabilities recognised in the balance sheet at 31 December 2018	10
Lease liability recognised at 1 January 2019	**2,398**

The weighted average incremental borrowing rate applied to the lease liabilities at 1 January 2019 was 3.6%.

The right-of-use assets established at 1 January 2019 in the balance sheet were DKK 2.4 billion. The right-of-use assets are adjusted for lease incentives received (straight-line amount in the balance per 31 December 2018).

IFRIC 23 Uncertainty over Income Tax Treatments

The implementation of the guidelines in IFRIC 23 for accounting for uncertain income tax positions has not resulted in any change to the net amount of tax positions.

Note 1.3

Significant accounting estimates and judgements

When preparing the Consolidated Financial Statements it is necessary that Management makes a number of accounting estimates and judgements that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses.

Estimates and judgements used in the determination of reported results are continuously evaluated.

The key accounting estimates identified are those that have a significant risk of resulting in a material adjustment. The estimates are expectations of the future or other sources of estimation uncertainty based on assumptions. These assumptions are to the extent possible supported by historical trends or reasonable expectations.

Management believes that the estimates are the most likely outcome of future events. Management bases the estimates 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.

Accounting judgements are made when applying accounting policies. Key accounting judgements are the judgements made, that can have significant impact on the amounts recognised in the Financial Statements.

Further information can be obtained for the areas that involve a high degree of estimation and judgement and are material to the financial statements in the respective notes.

Note		**Key accounting estimate and judgements**
3.2	Property, plant and equitment	Estimate of residual value and useful life of assets
3.3	Inventories	Estimate and judgements in calculation of indirect production cost
3.4	Trade receivables	Estimate level of expected losses

Note 2.1

Revenue

(mDKK)	2019	2018
Sale of goods	38,093	35,882
Licence income	451	509
Total revenue	**38,544**	**36,391**
Sales of goods per region		
Americas	14,328	13,769
Europe, Middle East & Africa	17,089	16,644
Asia & Pacific	6,676	5,469
	38,093	**35,882**

§ Accounting policies

Revenue recognition
Revenue is recognised when the LEGO Group fulfils its contractual performance obligations towards the buyer, and the transaction is related to the main activities.

Revenue from the sale of goods
Revenue from sale of goods is recognised when control over the goods has been transferred to the buyer. This condition is usually met by the time the products are delivered to the customer and legal title transfers.

Revenue is measured at the transaction price to which the LEGO Group expects to be entitled. Transaction price includes variable amounts (rebates, sales incentives and provisions for returned products etc.), thus the variable amount is recognised as revenue only when it is highly probable that a significant reversal will not occur.

Provisions and accruals for rebates, sales incentives and return of products 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.

Sale of goods that results in award credits under the LEGO Group's consumer loyalty programme, is accounted for by allocating the transaction price between the goods supplied and the award credits granted based on a relative stand-alone selling price. The loyalty programme is a separate performance obligation, as the loyalty programme points are considered a material right derived from the contract entered at the time of purchase. Revenue from the award credits is recognised when they are redeemed or when they expire.

Revenue from royalty and licence agreements
Licence fees are recognised as revenue when the performance obligations in the relevant agreements have been satisfied.

Revenue is measured at the transaction price to which the LEGO Group expects to be entitled.

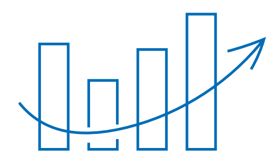
Revenue from licence agreements comprises both agreements where performance obligations are satisfied over time such as sales-based agreements which most of the LEGO Group licence revenue is related to, and agreements where performance obligations are satisfied at a point in time, which would normally be upon delivery.

Licence revenue is recognised based on a classification of either a "right to use" or "right to access" as described below.

Right to access
Revenue derived from the LEGO® trademark is generally considered a "right to access" and performance obligations related to licence income of this nature are satisfied over time. Licences with a "right to access" comprise income from console games, movies, mobile and tablet platforms, and outbound licensing business generating sales based royalty fees for intellectual properties related to content like stories, style guides and prints.

Revenue based on a right to access is recognised based on the licensee's actual sales or forecasts, which in all material aspects corresponds with the value-add to the licence partner. The process is therefore assessed to give a faithful depiction of the transfer of licence income.

Right to use
All other licence revenues are per definition performance obligations satisfied at a point in time ("right to use"). Revenue is recognised at a point in time, where the customer directly uses and obtains substantially all the benefits from the licence, at the point when control is transferred to the licensee. Revenue recognised at a point in time will primarily be related to media content produced by the LEGO Group. Media content has significant standalone functionality and the LEGO Group does not affect the intellectual properties after the right to use occurs. Revenue is recognised when the control of the content has been transferred to the customer.



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Total revenue for the LEGO Group

Note 2.2

Expenses by nature

(mDKK)	Note	2019	2018
Raw materials and consumables used		5,603	5,401
Employee costs	2.3	7,047	6,482
Depreciation and amortisation	2.4	1,963	1,329
Licence and royalty expenses		2,777	2,689
Other external expenses		10,317	9,716
Total expenses		**27,707**	**25,617**
Included in the income statement under the following headings:			
Production costs		10,791	10,417
Sales and distribution expenses		11,893	10,971
Administrative and IT expenses		2,848	2,246
Other operating expenses		2,175	1,983
		27,707	**25,617**

§ **Accounting policies**

Expenses by nature discloses information about expenses arising from the main inputs that are consumed in order to accomplish the LEGO Group's activities, such as expenses related to materials and consumables, employees, depreciation and amortisation, licence and royalty. Information about how costs are allocated to functions within the LEGO Group's business is disclosed in the income statement.

Expenses by function allocates and combines expenses according to the activity from which the cost arises, as follows:

Production costs
Production costs include direct and indirect costs related to production including movements in volumes on inventory and related inventory re-evaluation. Direct costs comprise raw materials, consumables and direct labour costs. Indirect costs comprise other costs related to production of goods including depreciation, amortisation and impairment on production related material and other supply chain related costs.

Sales and distribution expenses
Sales and distribution expenses comprise expenses related to sales and distribution staff, advertising and marketing expenses, write-down of receivables as well as depreciation, amortisation and impairment.

Administrative and IT expenses
Administrative and IT expenses comprise expenses for IT, Facility, Human Resources, Finance, Legal and Management, including depreciation and impairment.

Other operating expenses
Other operating expenses include research and development expenses, trademark royalty and other operating costs.

For more information see note Research and development expenses note 2.5.

Note 2.3

Employee costs

(mDKK)	Note	2019	2018
Wages and salaries		6,336	5,855
Pension costs	3.5	238	215
Social security and other costs		510	445
Employee costs before transfers to assets		7,084	6,515
Transfers to assets		(37)	(33)
Total employee costs		**7,047**	**6,482**
Included in the income statement under the following headings:			
Production costs		2,116	1,898
Sales and distribution expenses		2,948	2,708
Administrative and IT expenses		1,540	1,459
Other operating expenses		443	417
		7,047	**6,482**
Average number of full-time employees		16,112	15,050
Headcount end of year		18,800	17,385

§ **Accounting policies**

Wages and salaries, social security costs, leave and sick leave, bonuses and non-monetary employee benefits are recognised in the financial year in which the services are rendered. Whenever the LEGO Group provides long-term employee benefits, the costs are accrued to match the rendering of the services by the employees.

Benefit costs and obligations towards employees are specified in note 3.5.

Note 2.4

Depreciation, amortisation and impairment

(mDKK)	Note	2019	2018
Intangible assets, amortisation	3.1	112	87
Property, plant and equipment, depreciations	3.2	1,282	1,242
Right-of-use assets, depreciations	4.4	569	–
Total depreciations, amortisation and impairment		**1,963**	**1,329**
Included in the income statement under the following headings:			
Production costs		1,206	1,096
Sales and distribution expenses		507	137
Administrative and IT expenses		250	96
		1,963	**1,329**

§ **Accounting policies**

Depreciation and amortisation
Depreciations and amortisations are recognised in the income statement within production costs, sales and distribution and administrative and IT expenses.

Impairment
Any impairment losses are expensed in the income statement together with depreciation and amortisation.

For more information see Intangible assets note 3.1, Property, plant and equipment note 3.2 and Leases note 4.4.

Note 2.5

Research and development expenses

(mDKK)	2019	2018
Research and development expenses	768	689
Total research and development expenses	**768**	**689**

§ **Accounting policies**

Research and development expenses are expenses that do not meet the criteria for asset recognition. These are expensed as incurred and include costs like wages, salaries and consumables.

For more information see Intangible assets note 3.1.

Note 2.6

Tax

(mDKK)	2019	2018
Current income tax charge for the year	2,393	2,381
Other tax for the year	59	53
Deferred tax change for the year	(31)	30
Deferred tax impact of change in tax rates	–	3
Adjustment of current tax for prior years	42	50
Adjustment of deferred tax for prior years	(17)	(83)
Total income tax expense	**2,446**	**2,434**
Reconciliation of tax		
Profit before tax	10,752	10,510
Corporate tax rate in Denmark, 22%	2,365	2,312
Higher/lower tax rate in subsidiaries	(138)	15
Non-taxable income	(5)	(4)
Non-deductible expenses	11	30
Deferred tax not recognised on losses arising in the year	15	27
Deferred tax impact of change in tax rates	–	3
Adjustment to tax for prior years	25	(33)
Corporate withholding taxes	34	34
Other corporate taxes	25	19
Other	114	31
	2,446	**2,434**
Effective tax rate	**22.7%**	**23.2%**

(mDKK)	2019	2018
Deferred tax		
Deferred tax, net at 1 January	504	433
Change in tax rates recognised in income statement	–	(3)
Exchange rate adjustment	9	11
Income statement charge	48	53
Charged to comprehensive income	9	10
Deferred tax, net at 31 December	**570**	**504**
Deferred tax is recognised in the balance sheet as follows:		
Deferred tax assets	738	638
Deferred tax liabilities	(168)	(134)
	570	**504**

Continue reading

Note 2.6 (continued)

2019 (mDKK)	Deferred tax assets	Deferred tax liabilities	**Deferred tax net**
Non-current assets	70	(205)	**(135)**
Inventories	322	(105)	**217**
Receivables	89	(1)	**88**
Provisions	233	(1)	**232**
Other liabilities	184	(16)	**168**
Offset	(160)	160	**–**
Total deferred tax	**738**	**(168)**	**570**

2018 (mDKK)	Deferred tax assets	Deferred tax liabilities	**Deferred tax net**
Non-current assets	104	(158)	**(54)**
Inventories	248	(127)	**121**
Receivables	88	(1)	**87**
Provisions	199	(1)	**198**
Other liabilities	171	(26)	**145**
Offset	(179)	179	**–**
Tax loss carry-forwards	7	–	**7**
Total deferred tax	**638**	**(134)**	**504**

Tax assets arising from tax loss carry-forwards are capitalised based on an assessment of whether they can be utilised in the future. There are no tax loss carry-forwards end of December 2019.

§ Accounting policies

Tax for the year
The tax expenses for the year comprise current and deferred tax for the year, including changes as a result of a change in the tax rate. Companies belonging to the LEGO Group are liable to pay tax in the country they are located in. Current tax includes both Danish and foreign income tax.

The current and deferred taxes are recognised in the income statement, except to the extent that they relate to items recognised in comprehensive income. In this case, the tax is recognised in comprehensive income.

All Danish subsidiaries are taxed jointly. The current Danish corporation tax is distributed among the jointly taxed companies in relation to their taxable income (full distribution with refunds regarding tax-related deficits).

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

Deferred tax
Deferred tax liabilities and deferred tax assets are measured according to balance sheet liabilities method, which means that all temporary differences between the carrying amount and the tax base of assets and liabilities are recognised in the balance sheet as deferred tax liabilities and deferred tax assets.

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.

Deferred tax is measured according to current tax rules and the tax rates expected to be in force on elimination of temporary differences. The change in deferred tax as a result of changes in tax rates is recognised in the income statement. Changes to deferred tax on items in comprehensive income are recognised in comprehensive income.

22.7%

Effective tax rate 2019

Note 3.1

Intangible assets

2019 (mDKK)	Development projects in progress	Software	Licences, patents and other rights	Goodwill	**Total**
Cost at 1 January	93	478	235	–	**806**
Additions	13	45	4	284	**346**
Disposals	–	(1)	–	–	**(1)**
Transfers	(93)	93	–	–	**–**
Exchange rate adjustments	–	1	4	–	**5**
Cost at 31 December	**13**	**616**	**243**	**284**	**1,156**
Amortisation and impairment losses at 1 January	–	331	222	–	**553**
Amortisation for the year	–	100	12	–	**112**
Disposals	–	(1)	–	–	**(1)**
Exchange rate adjustments	–	1	3	–	**4**
Amortisation and impairment losses at 31 December	**–**	**431**	**237**	**–**	**668**
Carrying amount at 31 December	**13**	**185**	**6**	**284**	**488**

2018 (mDKK)	Development projects in progress	Software	Licences, patents and other rights	**Total**
Cost at 1 January	71	516	225	**812**
Additions	54	–	–	**54**
Disposals	–	(70)	–	**(70)**
Transfers	(32)	32	–	**–**
Exchange rate adjustments	–	–	10	**10**
Cost at 31 December	**93**	**478**	**235**	**806**
Amortisation and impairment losses at 1 January	–	324	201	**525**
Amortisation for the year	–	76	11	**87**
Disposals	–	(70)	–	**(70)**
Exchange rate adjustments	–	1	10	**11**
Amortisation and impairment losses at 31 December	**–**	**331**	**222**	**553**
Carrying amount at 31 December	**93**	**147**	**13**	**253**

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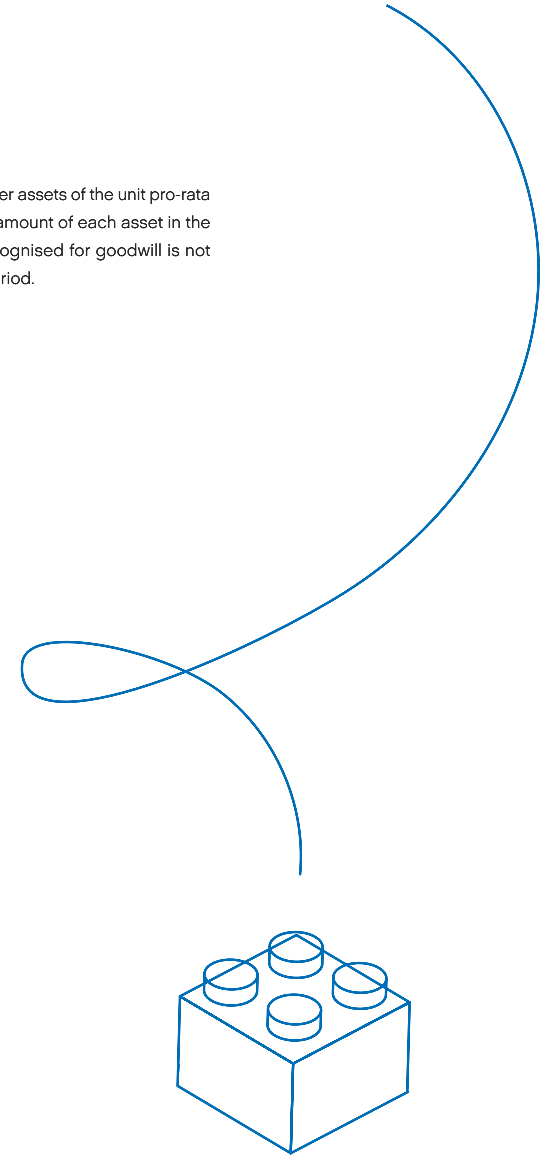
Note 3.1 (continued)



§ Accounting policies

Development projects in progress
Development projects in progress are currently running projects, primarily within software development. Development projects in progress cover non-finalised projects at the balance sheet date.

Development projects in progress that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or utilisation opportunity within the company is demonstrated, and where the company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings or the net selling price can cover cost of sales, selling and distribution costs and administrative expenses and development costs. Other development costs are recognised in the income statement as incurred.

Recognised development costs are measured at cost less impairment. Cost includes direct and indirect expenses directly attributable to the asset until the asset is ready for use as intended.

Development projects in progress are annually tested for impairment. Development projects in progress are written down to the lower of recoverable amount and carrying amount.

Software
Software comprises mainly internally developed software for the purpose of supporting business operations. Software is capitalised based on the costs incurred.

Software is amortised on a straight-line basis over the expected useful life, which is estimated at 3-5 years. Residual value is set at DKK 0. Useful lives are reviewed and adjusted at each balance sheet date, if appropriate.

Software is tested for impairment in case of indications hereof and written down to the lower of recoverable amount and carrying amount.

Licences, patents and other rights
Licences, patents and other rights are capitalised based on the costs incurred.

Licenses, patents and other rights are amortised over the shorter of their estimated useful lives and the contractual duration, which is usually 5-10 years. Residual values is set at DKK 0. Useful lives are reviewed and adjusted at each balance sheet date, if appropriate.

Goodwill
Goodwill acquired in business combinations is recognised and measured as the difference between the total of the fair value of the consideration transferred and the fair value of the identifiable net assets of the date of acquisition. Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the lowest possible cash-generating unit expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Note 3.2

Property, plant and equipment

2019 (mDKK)	Land, buildings and instal-lations	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under con-struction	**Total**
Cost at 1 January	6,632	8,736	2,576	2,140	**20,084**
Additions	75	586	234	932	**1,827**
Disposals	(12)	(404)	(192)	–	**(608)**
Transfers	1,021	237	530	(1,788)	**–**
Exchange rate adjustments	62	1	35	68	**166**
Reclassification of financial leases	(44)	–	–	–	**(44)**
Cost at 31 December	**7,734**	**9,156**	**3,183**	**1,352**	**21,425**
Depreciation and impairment losses at 1 January	1,379	5,600	1,384	–	**8,363**
Depreciation for the year	199	854	229	–	**1,282**
Disposals	(4)	(399)	(175)	–	**(578)**
Exchange rate adjustments	16	3	21	–	**40**
Reclassification of financial leases	(38)	–	–	–	**(38)**
Depreciation and impairment losses at 31 December	**1,552**	**6,058**	**1,459**	**–**	**9,069**
Carrying amount at 31 December	**6,182**	**3,098**	**1,724**	**1,352**	**12,356**

2018 (mDKK)	Land, buildings and instal-lations	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under con-struction	**Total**
Cost at 1 January	6,500	8,468	2,510	1,386	**18,864**
Additions	73	353	72	950	**1,448**
Disposals	(51)	(177)	(66)	–	**(294)**
Transfers	110	127	30	(267)	**–**
Exchange rate adjustments	–	(35)	30	71	**66**
Cost at 31 December	**6,632**	**8,736**	**2,576**	**2,140**	**20,084**
Depreciation and impairment losses at 1 January	1,200	4,932	1,206	–	**7,338**
Depreciation for the year	180	849	213	–	**1,242**
Disposals	(8)	(166)	(59)	–	**(233)**
Exchange rate adjustments	7	(15)	24	–	**16**
Depreciation and impairment losses at 31 December	**1,379**	**5,600**	**1,384**	**–**	**8,363**
Carrying amount at 31 December	**5,253**	**3,136**	**1,192**	**2,140**	**11,721**
Including assets under finance leases	6	–	–	–	6

Continue reading

Note 3.2 (continued)

An obligation regarding the purchase of property, plant and equipment of DKK 524 million exists at 31 December 2019 (DKK 850 million at 31 December 2018).
The obligation has a maturity of maximum 3 years.

Significant accounting estimates and judgements

Assessment of residual value and useful life of property, plant and equipment requires estimates. When performing estimates for residual value and useful life Management uses historical experience and other relevant factors, such as expectation of future use of the tangible assets. It is Management's assessment that the estimates are reasonable.

§ Accounting policies

Land and buildings comprise mainly factories, warehouses and offices. Plant and machinery are mainly moulds, moulding machines, processing and packing equipment. Whilst other fixtures, fittings, tools and equipment mainly comprise high bay warehouse equipment, lease hold improvements, measuring and testing equipment, furniture and IT hardware.

Property, plant and equipment are measured at cost, less subsequent depreciation and impairment, except for land, which is measured at cost less impairment.

Cost
Cost comprises acquisition price and expenses directly related to the acquisition until the time when the asset is ready for use as intended.

The cost of self-constructed assets comprises direct expenses such as wage consumption, materials and indirect expenses to the extent, that it directly supports the asset construction.

Subsequent expenditure for improvements and maintenance is allocated to the asset cost price if future economic benefits are likely. General repair and maintenance is expensed in the income statement as incurred.

Depreciation and impairment
Depreciation is calculated on a straight-line basis to allocate the cost of each asset to its residual value. Depreciations are calculated based on the following estimated useful lives:

Buildings	40 years
High bay warehouses	40 years
Installations	5-20 years
Plant and machinery	5-15 years
Moulds	2 years
Furniture, fittings and equipment	3-10 years

Land is not depreciated.

Depreciation commences when the asset is acquired or when the asset is ready for use as intended.

Useful lives of the assets and residual values are reviewed and adjusted at each balance sheet date, if appropriate.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Note 3.3

Inventories

(mDKK)	2019	2018
Raw materials	199	163
Work in progress	1,202	1,139
Finished goods	1,271	1,277
Total inventories	**2,672**	**2,579**

Inventories recognised as an expense during the year ending 31 December 2019 amounted to DKK 7,787 million (DKK 7,441 million in 2018). These were included in production cost in the income statement.

Write-downs of inventories are recognised in production costs as a cost of DKK 25 million (DKK 5 million as an income in 2018).

Significant accounting estimates

Calculation of indirect production costs requires estimates of various assumptions such as estimation of normal production capacity and cost base. 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.

§ Accounting policies

Inventories are valued at the lower of cost and net realisable value. Cost is accounted for on a first-in, first-out basis (FIFO). Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure (indirect production costs), the latter being allocated on the basis of normal production capacity. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Note 3.4

Trade receivables

(mDKK)	2019	2018
Trade receivables (gross)	**8,041**	**7,599**
Provision for bad debts		
Balance at 1 January	(833)	(586)
Change in provision for the year	5	(247)
Realised losses for the year	9	9
Exchange rate adjustments	(21)	(9)
Balance at 31 December	**(840)**	**(833)**
Trade receivables (net)	**7,201**	**6,766**

All trade receivables fall due within one year. Due to the short-term nature of the trade receivables, their carrying amount is considered to be approximately the same as their fair value.

The LEGO Group has no significant trade receivables concentrated in specific countries, but has some single significant trade debtors. The LEGO Group has fixed procedures for determining the LEGO Group's granting of credit. The LEGO Group's risk relating to trade receivables is considered to be moderate. For more information, see note 4.6

Significant accounting estimates

Management makes allowance for doubtful trade receivables in anticipation of estimated losses resulting from the subsequent inability of customers to make required payments. Management analyses trade receivables and examines historical bad debt, customer concentrations, customer creditworthiness, payment history, changes in customer payment terms and expectations for the future. It is Management's assessment that the estimates are reasonable.

The age distribution of trade receivables is as follows:

2019 (mDKK)	Gross carrying amount	Provision for bad debts	**Net carrying amount**
Not overdue	7,145	(343)	**6,802**
0-60 days overdue	358	(24)	**334**
61-120 days overdue	11	(3)	**8**
121-180 days overdue	14	(4)	**10**
More than 180 days overdue	513	(466)	**47**
	8,041	**(840)**	**7,201**

2018 (mDKK)	Gross carrying amount	Provision for bad debts	**Net carrying amount**
Not overdue	6,624	(368)	**6,256**
0-60 days overdue	580	(120)	**460**
61-120 days overdue	34	(10)	**24**
121-180 days overdue	8	(2)	**6**
More than 180 days overdue	353	(333)	**20**
	7,599	**(833)**	**6,766**

§ Accounting policies

Trade receivables are initially recognised at fair value equal to the transaction price, and subsequently measured at amortised cost less allowance for lifetime expected credit losses.

Trade receivables are written off when all possible options have been exhausted and there are no reasonable expectations of recovery.

The LEGO Group applies the IFRS 9 simplified approach to measure expected credit loss and a lifetime expected loss allowance for all trade receivables.

Exposure to credit risk on trade receivables is guided by the LEGO Group's policies. Credit limits are set based on the customer's financial position and current market conditions.

Note 3.5

Employee benefit obligations

Defined contribution plans
The LEGO Group operates a number of defined contribution plans throughout the world. Defined contribution plans are fixed contributions paid to external pension funds after which the LEGO Group has no further legal nor constructive obligation towards current or past employees. DKK 224 million (DKK 201 million in 2018) have been recognised in the income statement as pension costs relating to defined contribution plans.

Defined benefit plans
In a few countries, the LEGO Group operates defined benefit plans. The majority of the defined benefit plans in the LEGO Group includes employees in Germany, Mexico and in the US. Defined benefit plans are obligations to pay a specific benefit upon retirement or in health related situations etc. The LEGO Group bears the risk and uncertainty as regards sufficient funds being available in the future. The LEGO Group does not enter into new defined benefit pension plans. In the LEGO Group a net obligation of DKK 209 million (DKK 161 million in 2018) 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. DKK 19 million (DKK 20 million in 2018) have been recognised in the income statement as costs and DKK 35 million (DKK 28 million as an income in 2018) have been recognised in comprehensive income as a cost.

Continue reading

(mDKK)	2019	2018
The amounts recognised in the balance sheet are calculated as follows:		
Present value of funded obligations	(169)	(140)
Fair value of plan assets	165	139
	(4)	(1)
Present value of unfunded obligations	(205)	(160)
Net liability recognised in the balance sheet	**(209)**	**(161)**
Of which included as part of the liabilities	(209)	(161)
The change in present value of defined benefit obligations for the year is as follows:		
Present value at 1 January	(300)	(325)
Exchange rate adjustments	(7)	(4)
Benefit costs relating to current year	(13)	(13)
Benefit costs relating to prior year	(1)	(1)
Interest expenses	(9)	(9)
Remeasurement (losses)/gains	(57)	35
Benefits paid	13	17
Present value at 31 December	**(374)**	**(300)**
The change in fair value of plan assets for the year is as follows:		
Plan assets at 1 January	139	141
Exchange rate adjustments	5	–
Interest income	4	3
Remeasurement gains/(losses)	22	(7)
Employer contributions	3	14
Benefits paid	(8)	(12)
Plan assets at 31 December	**165**	**139**
Movements in the net liability recognised in the balance sheet are as follows:		
Net liability at 1 January	(161)	(184)
Exchange rate adjustments	(2)	(4)
Total expenses charged to the income statement	(19)	(20)
Total (expenses)/income charged to comprehensive income	(35)	28
Contributions paid	8	19
Net liability at 31 December	**(209)**	**(161)**
The actual return on plan assets amounts to	26	(4)

Note 3.5 (continued)

The actuarial assumptions applied in the calculations vary from country to country due to local economic and social conditions. The ranges of assumptions applied are specified as follows:

	2019	2018
Discount rate	1% - 8%	2% - 10%
Future salary increases	1% - 5%	1% - 5%
Future pension increases	0% - 3%	0% - 3%

§ **Accounting policies**

Defined contribution plans
Contributions/costs are recognised in the income statement in the year in which the related employee services are rendered.

Defined benefit plans
Net obligations in respect of defined benefit 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 net present value. 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 employee benefit obligations. The calculations are performed annually 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 service period. To the extent that the benefits are vested, the expense is recognised in the income statement immediately.

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

Past service costs are recognised immediately in the income statement.

Net plan 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.

Note 3.6

Provisions

2019 (mDKK)	Restructuring	Other	**Total**
Provisions at 1 January	1	113	**114**
Exchange rate adjustments	–	2	**2**
Additions	–	25	**25**
Used	–	(3)	**(3)**
Reversed	(1)	(50)	**(51)**
Provisions at 31 December	**–**	**87**	**87**
Provisions are recognised in the balance sheet as follows:			
Non-current			78
Current			9
			87

Other provisions consist of various types of provisions, primarily provisions for asset retirement regarding leased premises. Rental of premises normally have a lease period of 3-10 years.

§ **Accounting policies**

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.

Provisions for restructuring expenses are only recognised when the decision is made, and a detailed plan created raising a valid expectation for those affected which has been 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.

Note 3.7

Deferred revenue

(mDKK)	2019	2018
Consumer loyalty programme	168	136
Other	94	125
Total deferred revenue	**262**	**261**
Deferred revenue is recognised in the balance sheet as follows:		
Non-current	14	12
Current	248	249
	262	**261**

Other deferred revenue consists of gift cards and pre-paid license fee.

Revenue recognised included in deferred revenue at the beginning of 2019 amounts to DKK 208 million (DKK 152 million in 2018).

§ **Accounting policies**

Revenue attributable to gift cards, license fee and loyalty programme granted is deferred and recognised as revenue when the gift cards, license fee and loyalty programme are redeemed and the LEGO Group's performance obligations towards the buyer have been fulfilled.

For further information regarding the timing of revenue recognition, see Revenue note 2.1.

Note 3.8

Other debt

(mDKK)	2019	2018
Wage-related payables and other charges	1,663	1,768
Finance lease obligations	–	10
VAT and other indirect taxes	381	371
Amortised debt	34	65
Sales incentives	1,154	1,266
Other liabilities to related parties	570	504
Other current liabilities	1,213	1,447
Total other debt	**5,015**	**5,431**
Other debt is recognised in the balance sheet as follows:		
Non-current	176	139
Current	4,839	5,292
	5,015	**5,431**

§ **Accounting policies**

Other debt is measured at amortised cost.

Note 4.1

Financial income and expenses

(mDKK)	2019	2018
Interest income from credit institutions measured at amortised cost	5	8
Exchange gain, net	21	–
Other interest income	3	1
Financial income	**29**	**9**

(mDKK)	2019	2018
Interest expenses related to lease liabilities	88	–
Interest expenses on mortgage loans	–	1
Interest expenses to related parties	14	25
Interest expenses to credit institutions	1	1
Total interest expenses measured at amortised cost	103	27
Exchange losses, net	–	236
Other interest expenses	11	10
Financial expenses	**114**	**273**

§ **Accounting policies**

Financial income and expenses are recognised in the income statement with the amounts related to the financial year.

Financial income and expenses comprise interest income and expenses, realised and unrealised gains and losses on payables/receivables and transactions in foreign currencies.

For all financial instruments measured at amortised cost, interest income or expenses are recognised using the effective interest rate. The rate is used to discount the estimated future cash payments or receipts to the net carrying amount of the financial asset or liability over the expected life of the financial instrument or a shorter period, where appropriate.

Note 4.2

Share capital

(mDKK)	2019	2018
A-shares	1	1
B-shares	9	9
C-shares	10	10
Total share capital	**20**	**20**

The share capital is divided into shares of DKK 1,000 or multiples herof. The share capital is fully paid.

A-shares carry 10 votes per DKK 1,000 share. B-shares carry 1 vote per DKK 1,000 share. C-shares carry 1 vote per DKK 1,000 share.

Dividend of DKK 8,000 million was paid in April 2019, corresponding to DKK 0.4 million per DKK 1,000 of share capital.

Proposed dividend for 2019 is DKK 8,000 million, corresponding to DKK 0.4 million per DKK 1,000 of share capital.

Shareholders holding more than 5% of the share capital or 5% of the votes:
KIRKBI A/S, Billund, Denmark
Koldingvej 2, Billund A/S, Billund, Denmark

§ **Accounting policies**

Dividends are recognised as a liability in the period in which they are adopted at the Annual General Meeting (declaration date).

Note 4.3

Borrowings

(mDKK)	2019	2018
Debt to credit institutions	157	167
Total borrowings	**157**	**167**
Borrowings are recognised in the balance sheet as follows:		
Non-current liabilities	147	157
Current liabilities	10	10
	157	**167**

Debt to credit institutions consists of fixed rate mortgage loans with a remaining maturity of 14-18 years.

§ Accounting policies

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

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

Note 4.4

Leases

Right-of-use assets

2019 (mDKK)	Rental of premises	Other assets	Total
Cost at 1 January	–	–	–
Change in accounting policy	2,186	212	**2,398**
Reclassifications of other debt (lease incentives)	(103)	–	**(103)**
Reclassifications of financial leases	44	–	**44**
Reclassifications of prepayments	145	–	**145**
Additions and remeasurements	1,098	119	**1,217**
Disposals	(48)	(31)	**(79)**
Exchange rate adjustments	55	–	**55**
Cost at 31 December	**3,377**	**300**	**3,677**
Depreciations at 1 January	–	–	**–**
Reclassifications of financial leases	38	–	**38**
Depreciation for the year	467	102	**569**
Disposals	(42)	(14)	**(56)**
Exchange rate adjustments	1	2	**3**
Depreciations at 31 December	**464**	**90**	**554**
Carrying amount at 31 December	**2,913**	**210**	**3,123**

Lease liabilities

(mDKK)	**2019**
Lease liabilities are recognised in the balance sheet as follows:	
Non-current liabilities	2,523
Current liabilities	573
Total lease liabilities	**3,096**

Amounts recognised in the income statement

(mDKK)	**2019**
Expense relating to short-term leases	142
Expense relating to leases of low-value assets that are not short-term leases	13
Expense relating to variable lease payments not included in lease liability	89
	244

Continue reading

Note 4.4 (continued)

The LEGO Group leases various assets such as office buildings, store buildings, warehouses, company cars, forklifts etc. The leases have varying terms, clauses and rights under normal industry practice. In determining the lease term, all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise termination option, are considered. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or terminated).

The incremental borrowing rate is determined per country and per class of underlying assets.

The total cash outflow for leases in the period was DKK 887 million.

The LEGO Group does not have significant sub-leasing contracts.

See note 4.5 for a maturity analysis of the lease liabilities.

The portfolio of lease commitments for short-term leases at the end of the year, is similar to the portfolio of short-term leases that have been expensed during the year.

The LEGO Group has entered a lease, not yet commenced, to which the LEGO Group is committed (DKK 1,178 million).

Please refer to note 1.2 for disclosure of the impact of adoption of IFRS 16 on the consolidated financial statements. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

§ Accounting policies

The right-of-use asset and corresponding lease liability will be recognised at the commencement date, i.e. the date the underlying asset is available for use. The lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

Right-of-use assets are measured at cost corresponding to the lease liability recognised, adjusted for any lease incentives received, initial direct costs and estimated restoration costs. Depreciations are done following the straight-line method over the lease term or the useful life of the right-of-use assets, whichever is shortest.

The lease liabilities are measured at the present value of lease payments to be made over the lease term. The lease payments are discounted using the incremental borrowing rate. The lease payments include fixed payments and variable lease payments that depend on an index or a rate, less any lease incentives receivable. If the contract holds an option to purchase, extend or terminate a lease and it is reasonably certain to be exercised by the LEGO Group, the lease payments will include those. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

The LEGO Group applies the short-term lease recognition exemption for lease contracts that, at the commencement date, have a lease term of 12 months or less for all classes of underlying assets, and the exemption for lease contracts for which the underlying asset is of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

For all classes of assets, non-lease components, i.e. service elements, will be separated from the lease components and thereby not form part of the right-of-use asset and financial lease liability recognised in the balance sheet.

Right-of-use assets classified as rental of premises and other assets have the following lease terms:

Rental of premises	3-50 years
Other assets	2-7 years

§ Accounting policies before 1 January 2019

In 2018 finance leases were recognised and measured in accordance with IAS 17.

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 other debt and measured at fair value. The fair value is estimated to equal the present value at expected future cash flows at a marked interest rate for similar leases.

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

Note 4.5

Financial assets and liabilities

The maturity profile of financial liabilities is disclosed according to category and class distributed on period to maturity. All interest payments on and repayments of financial assets and liabilities are based on contracts. None of the cash flows are discounted.

At 31 December 2019 forward contracts and options have been applied for hedging of cash flows covering future financial periods. The hedging mainly relates to the LEGO Group's sale of goods and services in USD, EUR, GBP, JPY, AUD and CAD as well as purchases of goods in CZK, MXN and HUF. All contracts are expected to expire – and thus affect result – in the financial year 2020.

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

Continue reading

2019 (mDKK)	Carrying amount	Fair value	0–1 year	1–5 years	> 5 years	**Total cash flows**
Measured at amortised cost (liabilities)						
Borrowings	157	157	10	41	108	**159**
Lease liabilities	3,096	3,096	676	1,549	1,388	**3,613**
Trade payables	3,422	3,422	3,422	–	–	**3,422**
Other debt	2,856	2,856	2,856	–	–	**2,856**
	9,531	9,531	6,964	1,590	1,496	**10,050**
Derivative financial instruments						
Measured at fair value through the income statement (fair value hedging)	49	49	49	–	–	**49**
Measured at fair value through comprehensive income (cash flow hedging)	65	65	65	–	–	**65**
	114	114	114	–	–	**114**
Total financial liabilities	**9,645**	**9,645**	**7,078**	**1,590**	**1,496**	**10,164**
Measured at amortised cost						
Trade receivables	7,201	7,201	7,201	–	–	**7,201**
Other receivables	300	300	300	–	–	**300**
Loans to related parties	5,876	5,876	5,876	–	–	**5,876**
Cash at banks	858	858	858	–	–	**858**
	14,235	14,235	14,235	–	–	**14,235**
Derivative financial instruments						
Measured at fair value through the income statement (fair value hedging)	2	2	2	–	–	**2**
Measured at fair value through comprehensive income (cash flow hedging)	20	20	20	–	–	**20**
	22	22	22	–	–	**22**
Total financial assets	**14,257**	**14,257**	**14,257**	–	–	**14,257**

Note 4.5 (continued)

Non-contractual items such as taxes, duties payable and wage related payables are excluded from other receivables and other debt balance as this analysis is only required for financial instruments.

Due to the short term nature of trade receivables, trade payables, other receivables and other debt their carrying amount is considered to be approximately the same as their fair value

Financial assets and liabilities measured at fair value comprise derivative financial instruments. The calculation of fair value of the LEGO Group's derivative financial instruments is based on observable inputs like interest rates etc. (level 2) as per the IFRS Fair Value Hierarchy listed below:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for assets or liabilities that are not based on observable market data (that is, unobservable inputs) (level 3).

2018 (mDKK)	Carrying amount	Fair value	0–1 year	1–5 years	> 5 years	**Total cash flows**
Measured at amortised cost (liabilities)						
Borrowings	167	167	10	43	120	**173**
Trade payables	3,207	3,207	3,207	–	–	**3,207**
Other debt	3,168	3,168	3,165	4	–	**3,169**
	6,542	6,542	6,382	47	120	**6,549**
Derivative financial instruments						
Measured at fair value through the income statement (fair value hedging)	48	48	48	–	–	**48**
Measured at fair value through comprehensive income (cash flow hedging)	74	74	74	–	–	**74**
	122	122	122	–	–	**122**
Total financial liabilities	**6,664**	**6,664**	**6,504**	**47**	**120**	**6,671**
Measured at amortised cost						
Trade receivables	6,766	6,766	6,766	–	–	**6,766**
Other receivables	502	502	502	–	–	**502**
Receivables from related parties	6,858	6,858	6,858	–	–	**6,858**
Cash at banks	1,098	1,098	1,098	–	–	**1,098**
	15,224	15,224	15,224	–	–	**15,224**
Derivative financial instruments						
Measured at fair value through the income statement (fair value hedging)	11	11	11	–	–	**11**
Measured at fair value through comprehensive income (cash flow hedging)	32	32	32	–	–	**32**
	43	43	43	–	–	**43**
Total financial assets	**15,267**	**15,267**	**15,267**	**–**	**–**	**15,267**

Note 4.6

Financial risks

The LEGO Group has centralised the management of financial risks. The overall objectives and policies for the LEGO Group's financial risk management are outlined in a Treasury Policy and a Credit Risk Policy.

The LEGO Group only hedges commercial exposures and consequently does not enter into derivative transactions for trading or speculative purpose. A fully integrated Treasury Management System is used to manage all financial positions.

Credit risk

Financial instruments are entered into with counterparties with investment grade level ratings.

Similarly, the LEGO Group only uses insurance companies with investment grade level ratings.

For trade receivables the exposures are managed globally through fixed procedures, and credit limits are set as deemed appropriate for the customer, taking into account current local market conditions. The LEGO Group has no significant trade receivables risk concentrated in specific countries, but has some single significant trade debtors. Credit risk relating to trade receivables is disclosed in note 3.4.

For banks and financial institutions, only independently rated parties with investment grade level ratings are accepted as main banks. The LEGO Group uses the related company KIRKBI Invest A/S for deposits. No independent rating exists but no significant risks are recognised. The maximum credit risk, that corresponds to the carrying amount of receivables and loans granted, is disclosed in note 4.5.

The overall credit risk of the LEGO Group is considered to be low.

Foreign exchange risk

The LEGO Group's presentation currency is DKK, but the majority of the LEGO Group's activities and investments is denominated in other currencies. Consequently, there is a substantial risk of exchange rate fluctuations having an impact on the LEGO Group's reported cash flow, profit(loss) and/or financial position in DKK.

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

The isolated effects of the financial instruments on profit and equity after tax of a currency strengthening of 10% against DKK at 31 December 2019 are specified below for the most important currencies in the LEGO Group. The sensitivities are based only on the impact of the financial instruments that are outstanding at the balance sheet date, and are thus not an expression of the LEGO Group's total currency risk. The financial instruments included in the sensitivity analysis are the LEGO Group's: Cash, Account receivables, Account payables, Borrowings, foreign exchange forwards and foreign exchange options.

Continue reading

Sensitivity analysis based only on outstanding financial instruments per 31 December:

(mDKK)	%-change	2019	2018
EUR			
Equity	10%	(45)	(48)
Net profit for the year	10%	(45)	(48)
USD			
Equity	10%	(109)	(170)
Net profit for the year	10%	95	(2)
GBP			
Equity	10%	36	19
Net profit for the year	10%	(19)	(19)
CZK			
Equity	10%	41	37
Net profit for the year	10%	41	37
MXN			
Equity	10%	160	137
Net profit for the year	10%	160	137
HUF			
Equity	10%	88	114
Net profit for the year	10%	88	114
CNY			
Equity	10%	102	140
Net profit for the year	10%	102	140
SGD			
Equity	10%	(68)	(36)
Net profit for the year	10%	(68)	(36)
CAD			
Equity	10%	(43)	(40)
Net profit for the year	10%	(1)	2

Note 4.6 (continued)

Interest rate risk
The LEGO Group's interest rate risk relates to interest-bearing debt and interest-bearing assets. The LEGO Group's interest-bearing assets consist mainly of bank deposits and deposit with KIRKBI Invest A/S. An increase in the interest level of 1 percentage point for 2019 would have had a positive impact on the LEGO Group's profit for the year of approx. DKK 28.5 million in 2019 (DKK 37.2 million in 2018). The LEGO Group's interest rate risk is considered immaterial and is not expected to have a significant impact on the LEGO Group's results.

Liquidity risk
Liquidity is managed centrally and is continually assessed. It is ensured that, at any given time, sufficient financial resources are available. Based on the financial reserves with banks and credit facilities available in credit institutions and from related parties, there are no significant liquidity risks. Furthermore, excess liquidity is placed at KIRKBI Invest A/S, which is why the counterparty risk is assessed to be low.

Capital structure and risk management
The LEGO Group's Dividend and Capital Structure Committee monitors the capital structure of all legal entities within the LEGO Group and takes adequate measures to ensure the LEGO Group is capitalised in the best interest of the LEGO Group and the shareholders. The overall objective is to ensure a continued development and strengthening of the LEGO Group's capital structure that supports long-term profitable growth.

The LEGO Group is not reliant on external financing and the Dividend and Capital Structure Committee seeks to maintain that the strong financials of the LEGO Group are applied to fund investments in subsidiaries via equity and intercompany loan funding.

Dividend
Dividend of DKK 8,000 million has been paid in April 2019 (DKK 7,000 million in 2018).

It is expected that the dividend for 2019, to be paid in 2020, will amount to DKK 8,000 million.

The dividend payment reflects the strategy behind the capital structure where the LEGO Group is the operational company and any surplus liquidity is distributed to the owners.

In 2019, we launched LEGO Hidden Side™ a theme that seamlessly blends building and augmented reality.

Note 4.7

Derivative financial instruments

Total hedging activities
The LEGO Group uses a number of forward contracts and options to hedge currency exposure. The hedging activities are categorised into hedging of forecast transactions (cash flow hedges), and hedging of assets and liabilities (fair value hedges).

The changes in fair value of the financial instruments qualifying for hedge accounting are recognised directly under comprehensive income until the hedged items affect the income statement. The changes in fair value of the financial instruments not qualifying for hedge accounting are recognised directly in the income statement. This includes time value of options.

All changes in fair value of hedging of assets and liabilities (fair value hedging) are recognised directly in the income statement.

Continue reading

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

2019 (mDKK)	Contract amount	Positive fair value	Negative fair value	Period covered
Hedging of forecast transactions qualifying for hedge accounting:				
USD (sale of currency)	2,695	14	28	12 months
JPY (sale of currency)	263	2	2	12 months
GBP (sale of currency)	674	3	13	14 months
AUD (sale of currency)	498	–	9	12 months
CAD (sale of currency)	546	1	11	12 months
Other (sale of currency)	117	–	2	12 months
Total forward contracts	4,793	20	65	
Hedging of balance sheet items qualifying for hedge accounting:				
USD (sale of currency)	908	1	30	2 months
JPY (sale of currency)	162	–	2	2 months
GBP (sale of currency)	185	1	8	2 months
AUD (sale of currency)	134	–	2	2 months
CAD (sale of currency)	106	–	6	2 months
CZK (purchase of currency)	43	–	–	2 months
Other (purchase of currency)	3	–	–	2 months
Other (sale of currency)	74	–	1	2 months
Total forward contacts	1,615	2	49	
USD (sale of currency)	103	–	–	1 month
Total currency options	103	–	–	
Total for which hedge accounting applies	**6,511**	**22**	**114**	
Total for which hedge accounting is not applied	**–**	**–**	**–**	
Total of forecast transactions	**6,511**	**22**	**114**	

Note 4.7 (continued)

§ **Accounting policies**
Derivative financial instruments are initially recognised at cost and are subsequently remeasured at their fair value at the balance sheet date. Positive and negative fair values of derivative financial instruments are disclosed in the same line as the hedged item.

The changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognised in comprehensive income within a separate reserve under equity. The cumulative gains or losses relating to these hedge transactions are reclassified from equity when the hedged item affects the income statement, or if the hedged transaction is no longer to take place. The amount is recognised in the same reporting line as the hedged item.

For derivative financial instruments that do not meet the criteria to be classified as a hedging instruments, the changes in fair value are recognised immediately in the income statement.

When option contracts are used to hedge forecast transactions, the LEGO Group designates only the intrinsic value of the option contract as the hedging instrument.

2018 (mDKK)	Contract amount	Positive fair value	Negative fair value	Period covered
Hedging of forecast transactions qualifying for hedge accounting:				
USD (sale of currency)	2,674	7	64	12 months
JPY (sale of currency)	282	–	6	12 months
GBP (sale of currency)	488	4	–	12 months
Other (sale of currency)	1,041	21	4	12 months
Total forward contracts	4,485	32	74	
USD (sale of currency)	261	–	–	12 months
Total currency options	261	–	–	
Hedging of balance sheet items qualifying for hedge accounting:				
USD (sale of currency)	685	1	40	2 months
JPY (sale of currency)	96	–	2	2 months
GBP (sale of currency)	150	2	–	2 months
CZK (purchase of currency)	29	–	–	2 months
Other (purchase of currency)	27	–	1	2 months
Other (sale of currency)	323	4	1	2 months
Total forward contracts	1,310	7	44	
Total for which hedge accounting applies	**6,056**	**39**	**118**	
Other forecast transaction hedges for which hedge accounting is not applied:				
Options (time value)	–	4	4	12 months
Total currency options	–	4	4	
Total for which hedge accounting is not applied	**–**	**4**	**4**	
Total of forecast transactions	**6,056**	**43**	**122**	

Note 5.1

Fees to independent auditor

(mDKK)	2019	2018
Fee for statutory audit	12	10
Other assurance engagements	1	1
Total audit related services	**13**	**11**
Tax consultancy	9	14
Other services	14	14
Total non-audit services	**23**	**28**
Total fees to independent auditor	**36**	**39**

Note 5.2

Remuneration of Group Management

Remuneration to the Executive Management and the Board of Directors

(mDKK)	2019	2018
Salaries and other remuneration	31	40

The Executive Management only consists of one member, therefore the remuneration of the Chief Executive Officer (Executive Management) and the Board of Directors is disclosed collectively with reference to §98b (3) of the Danish Financial Statement Act.

Remuneration to Key Management Personnel (Executive Leadership Team)

(mDKK)	2019	2018
Salaries	58	62
Pensions	3	2
Short-term incentive plans	18	26
Long-term incentive plans	17	16
	96	106
Severance payments and other one-offs	28	13
Total remuneration	**124**	**119**
Average number of Executive Leadership Team	10	12
Headcount of Executive Leadership Team end of year	9	12

Short-term incentive plans are based on yearly performance and long-term incentive plans are based on long-term goals regarding value creation.

Note 5.3

Acquisition of businesses

Acquisition of subsidiaries in 2019
On 16 December 2019 the LEGO Group acquired all assets and liabilities of BrickLink Corporation and 100% of shares of BrickLink Limited and Sohobricks LLC in a cash purchase. No other acquisitions were made in 2019.

Description of BrickLink
BrickLink is the world's largest online community of adult LEGO fans. The BrickLink platform has more than one million members and comprises an online marketplace of more than 10,000 stores from 70 countries; a digital building software where builders can design and showcase their creations; and a vibrant online community where fans share ideas and builds.

The acquisition also included Sohobricks which makes small batches of building elements.

Strategic rationale and synergies
The acquisition of the BrickLink digital platform gives the LEGO Group a unique opportunity to connect with adult fans through new channels and existing experiences and deepen our collaboration. The LEGO group plans to continue to support BrickLink's active marketplace and evolve BrickLink's digital studio which allows talented fans to take their creativity to the next level while retaining and nurturing the independent spirit of the digital platform.

Financial impact
The financial impact of the acquisition is immaterial for the LEGO Group.

§ **Accounting policies**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the LEGO Group, liabilities assumed by the LEGO Group and the equity interest issued by the LEGO Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill.

Note 5.4

Contingent assets, contingent liabilities and other obligations

(mDKK)	2019	2018
Guarantees	483	636
Operating lease obligations	–	2,600
Other obligations	1,138	1,337
Total contingencies and other obligations	**1,621**	**4,573**

Guarantees relate to bank guarantees for commitments.

Lease contracts previously classified as off-balance leases under IAS 17 have now been capitalised, recognising right-of-use assets and lease liabilities similar to previous practices for financial lease. For further information see Leases note 4.4.

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

2018 (mDKK)	0-1 year	1-5 years	> 5 years	Total
Related parties	54	148	150	**352**
Other	559	1,122	567	**2,248**
	613	**1,270**	**717**	**2,600**

Continue reading

Note 5.4 (continued)

Other obligations consist of service and licence agreements.

The LEGO Group has entered various contracts with vendors on usual terms and conditions of sales.

Security has been given for land, buildings and installations with a net carrying amount of DKK 489 million (DKK 443 million in 2018) for the LEGO Group's mortgage loans totaling DKK 157 million (DKK 167 million in 2018).

The LEGO Group has utilised tax losses in non-Danish jurisdictions in the Danish joint taxation until 31 December 2004. The deferred tax of this amounts to DKK 80 million (DKK 90 million in 2018), of which DKK 0 million has been recognised as a provision for deferred tax. The amount of DKK 80 million (DKK 90 million in 2018) is not expected to be recaptured.

The Danish companies in the LEGO Group are jointly and severally liable for corporate income tax according to the joint taxation in the LEGO Group, KIRKBI A/S and in the companies controlled by KIRKBI A/S. The total amount of current tax liabilities, as well as related current tax credit counterparts are shown in the Annual Report of KIRKBI A/S, which is the administration company of the joint taxation. The Danish companies in the LEGO Group are furthermore jointly and severally liable for Danish taxes at source withheld on behalf of non-resident companies for dividend, royalty and interest.

Note 5.5

Cash flow specifications

(mDKK)	Note	2019	2018
Depreciation and amortisation of non-current assets	2.4	1,963	1,329
Net loss on sale of non-current assets		19	54
Net movement in provisions		(28)	(162)
Remeasurements of defined benefit plans		(35)	28
Net movement in pension obligation		46	(27)
Financial income and expenses	4.1	85	264
Hedge accounting		(4)	(85)
Adjustments for non-cash items		**2,046**	**1,401**
Trade receivables		(290)	(486)
Inventories		(76)	(187)
Other receivables		(42)	(59)
Prepayments		(128)	(104)
Trade payables		198	403
Deferred revenue		(3)	43
Other debt		(355)	830
Change in working capital		**(696)**	**440**

Note 5.6

Related parties

Identity of related parties

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 of KIRKBI A/S are fully owned by the Kirk Kristiansen family (Billund, Denmark). Koldingvej 2, Billund A/S is fully owned by the LEGO Foundation. Being an associated company of KIRKBI A/S, Merlin Entertainments Group is considered a related party. Due to shared controlling shareholder, the KIRKBI Invest A/S Group is also considered a related party. Key Management Personnel is considered related parties.

Transactions, balances and loans with related parties

The LEGO Group has had the following material transactions and balances with related parties:

(mDKK)	2019	2018
KIRKBI A/S		
Other transactions	(28)	(22)
Dividend	(6,000)	(5,250)
Balance end of year	22	2
Lease liability end of year	(909)	–
Koldingvej 2, Billund A/S		
Other transactions	(22)	(14)
Dividend	(2,000)	(1,750)
Balance end of year	(17)	(13)
Merlin Entertainments Group		
Sales of goods	549	542
Royalty	30	29
Other transactions	(7)	(6)
Balance end of year	78	66
KIRKBI Invest A/S Group		
Trademark royalty	(1,405)	(1,314)
Other transactions	82	22
Balance end of year	(456)	(421)
Lease liability end of year	(25)	–
Transactions with other related parties		
Other transactions	15	8
Donations	82	48
Balance end of year	38	(18)

25%

of Profit goes to the LEGO Foundation

Continue reading

Note 5.6 (continued)

The LEGO Group has the following loan to KIRKBI Invest A/S (deposit agreement):

(mDKK)	2019	2018
Balance at 1 January	6,858	6,688
Loans advanced during the year	10,863	12,239
Repayments	(11,831)	(12,054)
Interest charged	(14)	(15)
Total Balance at 31 December	**5,876**	**6,858**

At the beginning of 2018 the LEGO Group had a loan from KIRKBI Invest A/S of DKK 600 million. This loan was repaid during the first half of 2018.

No loss allowance was recognised in relation to balances or loans with related parties during the period. All balances and loans fall due within one year. Due to the short-term nature of the balances and loans from related parties, the carrying amount is considered to be the same as their fair value.

Lease expenses paid to related parties are included in other transactions. The portfolio of lease commitments with related parties for short-term leases at the end of the year is similar to the portfolio of short-term leases that have been expensed during the year. The LEGO Group has entered a lease with related parties, not yet commenced, to which the LEGO Group is committed, cf. information in note 4.4.

Transactions with Key Management Personnel
There have been no transactions with the Board of Directors or Executive Leadership Team besides remuneration. For information about the salaries of the Board of Directors and Executive Leadership Team, please refer to Remuneration of Group Management note 5.2.

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates. Outstanding balances and loans are unsecured and are repayable in cash.

§ Accounting policies

Deposit between the LEGO Group and KIRKBI Invest A/S is considered to be a financial asset and treated according to IFRS 9 and is measured at amortised cost.

Note 5.7

Events occuring after the reporting period

Apart from the events recognised or disclosed in the consolidated financial statements, no events have occurred after the reporting period of importance to the consolidated financial statements.

Note 5.8

Group Structure

LEGO A/S

Australia	LEGO Australia Pty. Ltd.	**Malaysia**	LEGO Trading (Malaysia) Sdn. Bhd.
Austria	LEGO Handelsgesellschaft mbH	**Mexico**	LEGO Mexico S.A. de C.V
Belgium	LEGO Belgium n.v.	**Mexico**	Administratión de Servicios LEGO, S. de R.L. de C.V.
Brazil	LEGO do Brasil Comércio e Distribuicão de Brinquedos Ltda	**Mexico**	LEGO Operaciones de Mexico S.A. de C.V.
		Mexico	LEGO Real Estate, S.A. de C.V.
Canada	LEGO Canada Inc.	**New Zealand**	LEGO New Zealand Ltd.
China	LEGO Education Technology (Shanghai) Co., Ltd	**Norway**	LEGO Norge AS
China	LEGO Trading (Beijing) Co., Ltd.	**Poland**	LEGO Polska Sp. zo.o.
China	LEGO Toy Manufacturing (Jiaxing) Co., Ltd.	**Portugal**	LEGO Lda.
China	LEGO Toy (Shanghai) Co., Ltd.	**Romania**	LEGO Romania S.R.L.
China	LEGO Commerce (Shenzhen) Co. Ltd.	**Russian Fed.**	LEGO Ltd.
Czech Republic	LEGO Production s.r.o.	**Singapore**	LEGO Singapore Pte. Ltd.
Czech Republic	LEGO Trading s.r.o.	**South Africa**	LEGO South Africa (Pty.) Ltd.
Denmark	LEGO System A/S	**South Korea**	LEGO Korea Co. Ltd.
Denmark	LEGO Security Billund ApS	**South Korea**	Sohobricks LLC
Finland	Oy Suomen LEGO Ab	**Spain**	LEGO S.A.
France	LEGO SAS	**Sweden**	LEGO Sverige AB
France	LEGO Brand Retail S.A.S	**Switzerland**	LEGO Schweiz AG
Germany	LEGO GmbH	**Taiwan**	LEGO Trading (Taiwan) Co., Ltd.
Germany	LLD Share Verwaltungs GmbH	**The Netherlands**	LEGO Nederland B.V.
Hong Kong	LEGO Hong Kong Limited	**Turkey**	LEGO Turkey Oyuncak Ticearet Anonim Sirketi
Hong Kong	LEGO Company Ltd.	**Ukraine**	LEGO Ukraine LLC
Hong Kong	BrickLink Limited	**United Kingdom**	LEGO Company Limited
Hungary	LEGO Hungária Kft.	**United Kingdom**	LEGO Park Holding UK Ltd.
Hungary	LEGO Manufacturing Kft.	**United Kingdom**	LEGO Lifestyle International Ltd.
India	LEGO India Private Limited	**USA**	LEGO Systems, Inc.
India	LEG GODT India Private Limited	**USA**	LEGO Brand Retail Inc.
Italy	LEGO S.p.A.	**USA**	LEGO Bricklink Inc.
Japan	LEGO Japan Ltd.	**Utd.Arab Emir.**	LEGO Middle East FZ-LLC

LEGO A/S directly or indirectly owns the entire share capital in all group subsidiaries.

LEGO A/S is 75% owned by KIRKBI A/S and is included in the Consolidated Annual Report of KIRKBI A/S.

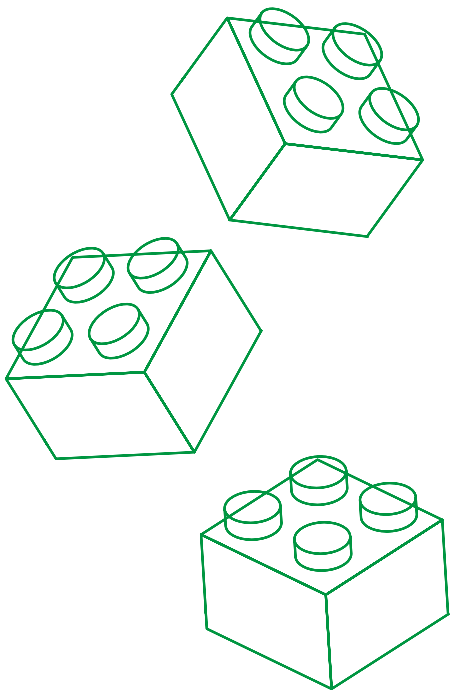
KIRKBI A/S is the ultimate Parent Company.

Parent Company Financial Statements

Income Statement

1 January – 31 December

(mDKK)	Note	2019	2018
Revenue		134	126
Gross profit		134	126
Other operating expenses		(37)	(140)
Operating profit		97	(14)
Net profit for the year from subsidiaries	3.3	8,217	8,105
Financial income	2.2	120	86
Financial expenses	2.2	(74)	(99)
Profit before income tax		8,360	8,078
Tax on profit for the year	2.3	(60)	(28)
Net profit for the year		**8,300**	**8,050**



8.3 bn

Net Profit DKK

Balance Sheet

at 31 December

(mDKK)	Note	2019	2018
Intangible assets	3.1	287	1
Property, plant and equipment	3.2	6	6
Deferred tax assets	3.5	38	67
Investments in subsidiaries	3.3	22,006	20,974
Investments in associates	3.3	–	–
Receivables from subsidiaries		1,116	1,329
Total non-current assets		23,453	22,377
Other receivables		19	6
Total current assets		19	6
Total assets		**23,472**	**22,383**

(mDKK)	Note	2019	2018
Share capital	3.4	20	20
Reserve from the use of the equity method		4,944	5,237
Retained earnings		9,213	8,496
Proposed dividend		8,000	8,000
Total equity		**22,177**	**21,753**
Provisions		13	–
Other debt		8	–
Total non-current liabilities		21	–
Trade payables		7	6
Current tax liabilities		7	2
Debt to subsidiaries		1,097	517
Other debt		163	105
Total current liabilities		1,274	630
Total liabilities		**1,295**	**630**
Total equity and liabilities		**23,472**	**22,383**

Statement of Changes in Equity

1 January – 31 December

2019 (mDKK)	Share capital	Reserve from the use of the equity method	Retained earnings	Proposed dividend	**Total equity**
Balance at 1 January	20	5,237	8,496	8,000	**21,753**
Dividend paid relating to prior year	–	–	–	(8,000)	**(8,000)**
Profit for the year	–	(417)	717	8,000	**8,300**
Currency translation adjustments	–	154	–	–	**154**
Entries recognised directly on equity in subsidiaries	–	(30)	–	–	**(30)**
Balance at 31 December	**20**	**4,944**	**9,213**	**8,000**	**22,177**

2018 (mDKK)	Share capital	Reserve from the use of the equity method	Retained earnings	Proposed dividend	**Total equity**
Balance at 1 January	20	5,305	8,415	7,000	**20,740**
Dividend paid relating to prior year	–	–	–	(7,000)	**(7,000)**
Profit for the year	–	(31)	81	8,000	**8,050**
Currency translation adjustments	–	10	–	–	**10**
Entries recognised directly on equity in subsidiaries	–	(47)	–	–	**(47)**
Balance at 31 December	**20**	**5,237**	**8,496**	**8,000**	**21,753**

Notes

Basis of preparation

Income Statement

Balance sheet and other disclosures

Note 1.1

Basis for preparation

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

In pursuance of section 86(4) of the Danish Financial Statement Act, the company has not prepared a statement of cash flow. Referring to section 96(3) of the Danish Financial Statement Act, the company does not disclose the fee paid to the auditors appointed by the Annual General Meeting.

The accounting policies are the same as for the Consolidated Financial Statement except additions on tax, intangible assets and Investments in subsidiaries and associates. See the respective notes for the additions.

The accounting policies for the annual accounts remain unchanged from last year.

Note 2.1

Employee costs

Remuneration to Executive Management and Board of Directors

(mDKK)	2019	2018
Salaries and other remuneration	31	40

The Executive Management only consists of one member, therefore the remuneration of the Chief Executive Officer (Executive Management) and the Board of Directors is disclosed collectively with reference to § 98b (3) of the Danish Financial Statement Act.

The average number of full-time employees in LEGO A/S for the year is 3 (3 employees in 2018). The salaries for the three employees are included in the Remuneration of Group Management, please refer to note 5.2 in the Consolidated Financial Statements.

Note 2.2

Financial income and expenses

(mDKK)	2019	2018
Interest income from subsidiaries	105	86
Exchange gains, net	15	–
Financial income	**120**	**86**
Interest expenses to subsidiaries	74	84
Interest expenses to related parties	–	10
Exchange loss, net	–	5
Financial expenses	**74**	**99**

Note 2.3

Tax on profit for the year

(mDKK)	2019	2018
Current income tax charge for the year	7	5
Other tax for the year	21	34
Deferred tax change for the year	23	(11)
Adjustment of current tax for prior years	3	–
Adjustment of deferred tax for prior years	6	–
Total income tax expense	**60**	**28**

Note 3.1

Intangible assets

2019 (mDKK)	Goodwill	Patents, software and other rights	**Total**
Cost at 1 January	–	10	**10**
Additions	253	39	**292**
Cost at 31 December	**253**	**49**	**302**
Amortisation and impairment losses at 1 January	–	9	**9**
Amortisation for the year	4	2	**6**
Amortisation and impairment losses at 31 December	**4**	**11**	**15**
Carrying amount at 31 December	**249**	**38**	**287**

2018 (mDKK)	Patents, software and other rights	**Total**
Cost at 1 January	10	**10**
Cost at 31 December	**10**	**10**
Amortisation and impairment losses at 1 January	7	**7**
Amortisation for the year	2	**2**
Amortisation and impairment losses at 31 December	**9**	**9**
Carrying amount at 31 December	**1**	**1**

§ **Accounting policies**

Goodwill is amortised over the estimated useful life, which is estimated at 5 years. The amortisation period is determined by management based on their experience within the area of business conducted.

Note 3.2

Property, plant and equipment

2019 (mDKK)	Land, buildings and installations	Other fixtures and fittings, tools and equipment	**Total**
Cost at 1 January	6	1	**7**
Cost at 31 December	**6**	**1**	**7**
Depreciation and impairment losses at 1 January	–	1	**1**
Depreciation and impairment losses at 31 December	**–**	**1**	**1**
Carrying amount at 31 December	**6**	**–**	**6**

2018 (mDKK)	Land, buildings and installations	Other fixtures and fittings, tools and equipment	**Total**
Cost at 1 January	6	1	**7**
Cost at 31 December	**6**	**1**	**7**
Depreciation and impairment losses at 1 January	–	1	**1**
Depreciation and impairment losses at 31 December	–	**1**	**1**
Carrying amount at 31 December	**6**	**–**	**6**

Note 3.3

Investments in subsidiaries and associates

2019 (mDKK)	Investments in subsidiaries
Cost at 1 January	8,737
Correction to cost at 1 January	58
Additions	767
Cost at 31 December	**9,562**
Value adjustment at 1 January	12,237
Correction to value adjustment at 1 January	(49)
Currency translation adjustments	154
Share of net profit for the year	8,217
Dividend	(8,085)
Entries recognised directly on equity in subsidiaries	(30)
Value adjustment at 31 December 2019	**12,444**
Carrying amount at 31 December	**22,006**

2018 (mDKK)	Investments in subsidiaries	Investments in associates
Cost at 1 January	7,943	4
Additions	843	–
Disposals	(49)	(4)
Cost at 31 December	**8,737**	**–**
Value adjustment at 1 January	11,805	(1)
Currency translation adjustments	10	–
Share of net profit for the year	8,105	–
Dividend	(7,660)	–
Disposals	24	1
Entries recognised directly on equity in subsidiaries	(47)	–
Value adjustment at 31 December	**12,237**	**–**
Carrying amount at 31 December	**20,974**	**–**

Capitalised goodwill amounts to DKK 132 million in 2019.

§ Accounting policies

Subsidiaries and associates of the Parent Company are recognised under the equity method, which is at the respective share of the net asset values in subsidiaries and associates.

Any costs in excess of net assets in the acquired entites are capitalised in the Parent Company under investments in subsidiaries as part of the investments ("Goodwill"). Amortisation of the goodwill is provided under the straight-line method over a period not exceeding 5 years based on estimated useful life.

To the extent it exceeds declared dividend from subsidiaries, net revaluation of investments in subsidiaries and associates is transferred to net revaluation reserve according to the equity method under equity.

Profits in subsidiaries and associates are disclosed as profit after tax in the income statement of the Parent Company.

Note 3.4

Share capital

(mDKK)	2019	2018
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 share capital	**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 or 5% of the votes:
KIRKBI A/S, Billund, Denmark
Koldingvej 2, Billund A/S, Billund, Denmark

Note 3.5

Deferred tax

(mDKK)	2019	2018
Deferred tax		
Deferred tax, net at 1 January	67	8
Change in deferred tax	(29)	59
Deferred tax, net at 31 December	**38**	**67**
Deferred tax is recognised in the balance sheet as follows:		
Deferred tax assets	38	67
Deferred tax liabilities	–	–
	38	**67**

Note 3.6

Contingent assets, contingent liabilities and other obligations

(mDKK)	2019	2018
Guarantees	1,119	1,293
Other indemnities	570	515
	1,689	**1,808**

Guarantees relate to commitments in subsidiaries.

LEGO A/S is jointly and severally liable for corporate income tax according to the joint taxation in the LEGO Group, KIRKBI A/S and in the companies controlled by KIRKBI A/S. The total amount of current tax liabilities, as well as related current tax credit counterparts are shown in the Annual Report of KIRKBI A/S, which is the administration company of the joint taxation. LEGO A/S is furthermore jointly and severally liable for Danish taxes at source withheld on behalf of non-resident companies for dividend, royalty and interest.

The LEGO Group has utilised tax losses in non-Danish jurisdictions in the Danish joint taxation until 31 December 2004. The deferred tax of this amounts to DKK 80 million (DKK 90 million in 2018), of which DKK 0 million has been recognised as a provision for deferred tax. The amount of DKK 80 million (DKK 90 million in 2018) is not expected to be recaptured.

Note 3.7

Related parties

Transactions, balances and loans with related parties (excluding wholly owned subsidiaries):

LEGO A/S has had the following material transactions and balances with related parties:

(mDKK)	2019	2018
KIRKBI A/S		
Other transactions	(16)	(23)
Balance end of period	–	(5)
KIRKBI Invest A/S Group		
Interest charged	–	(10)
Other transactions	13	–
Balance end of period	13	–
Merlin Entertainments Group		
Trademark fee received	30	29
Balance end of period	6	6

Remuneration to Key Management Personnel is disclosed in note 2.1.

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

Note 3.8

Proposed distribution of profit

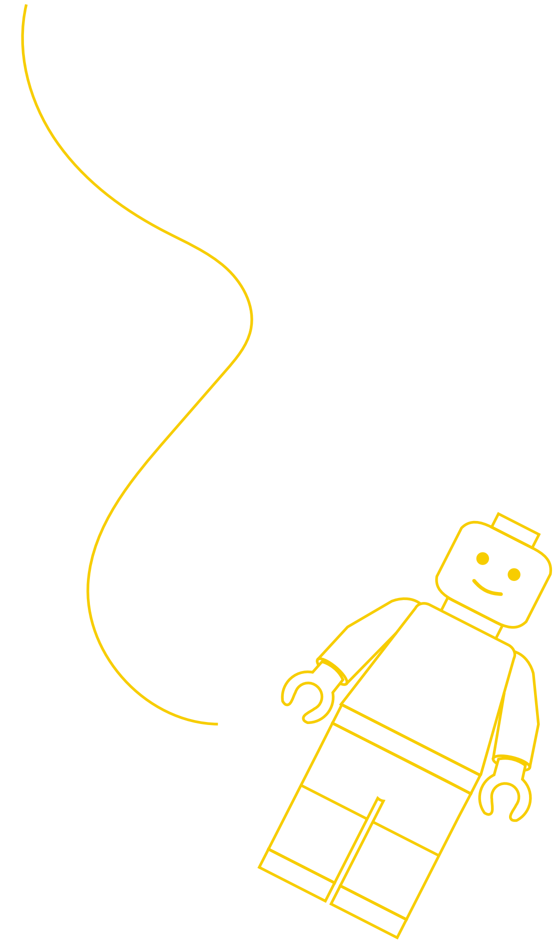
(mDKK)	**2019**	**2018**
Dividend	8,000	8,000
Reserve from the use of the equity method	(417)	(31)
Retained earnings	717	81
	8,300	**8,050**

§ **Accounting policies**

Dividend proposed by Management for the financial year is recognised as a separate item under equity.

Additional information

Management's Statement



The Executive Management and the Board of Directors have today considered and adopted the Annual Report of LEGO A/S for the financial year 1 January to 31 December 2019. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act and the Parent Company Financial Statements are prepared in accordance with the Danish Financial Statements Act. Management's Review is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position at 31 December 2019 of the LEGO Group and the Parent Company and of the results of the LEGO Group and the Parent Company operations and consolidated cash flows for the financial year 1 January to 31 December 2019.

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

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

Executive Management

Niels B. Christiansen
President and Chief Executive Officer

Board of Directors

Thomas Kirk Kristiansen
Chairman

Søren Thorup Sørensen
Deputy Chairman

Eva Berneke

Jan Thorsgaard Nielsen

Jørgen Vig Knudstorp

Kåre Schultz

Independent Auditor's Report

To the shareholders of LEGO A/S

Opinion
In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2019 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2019 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2019 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of LEGO A/S for the financial year 1 January – 31 December 2019, which comprise Income Statement, Balance Sheet, Statement of Changes in Equity and Notes to the financial statements, including summary of significant accounting policies, for both the Group and the Parent Company, as well as statement of comprehensive income and statement of cash flow for the Group ("financial statements").

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review
Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

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

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the

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economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Aarhus, 27 February 2020

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no 3377 1231

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Financial Year: 1 January – 31 December
Internet: www.LEGO.com

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