Annual Report 2007
LEGO Group

Financial Highlights – LEGO Group

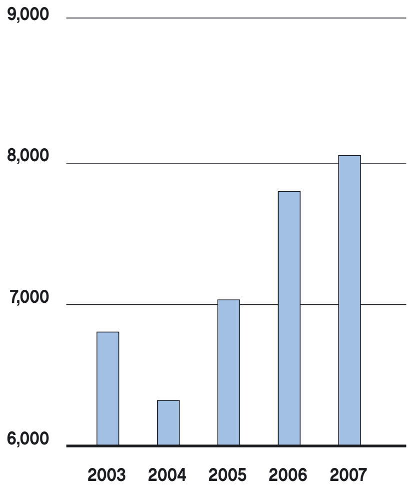
[mDKK]	2007	2006	2005	2004	2003
Income Statement:					
Revenue	8,027	7,798	7,027	6,295	6,770
Expenses	(6,556)	(6,393)	(6,605)	(6,394)	(7,919)
Operating profit before special items	1,471	1,405	423	(99)	(1,148)
Impairment of fixed assets	24	270	86	(677)	(172)
Restructuring costs and other special items	(46)	(350)	(129)	(136)	(283)
Financial income and expenses	(35)	(44)	(51)	(75)	88
Profit before tax	1,414	1,281	329	(987)	(1,515)
Profit, continuing activities	1,028	1,290	214	(1,284)	(965)
Profit, discontinuing activities	–	–	–	(516)	77
Net profit for the year	1,028	1,290	214	(1,800)	(888)
Balance sheet:					
Assets relating to continuing activities	6,009	6,907	7,058	5,160	8,785
Assets relating to discontinuing activities	–	–	–	1,638	–
Total assets	6,009	6,907	7,058	6,798	8,785
Equity	1,679	1,191	563	404	2,344
Liabilities relating to continuing activities	4,330	5,716	6,495	5,160	6,441
Liabilities relating to discontinuing activities	–	–	–	271	–
Cash flow statement:					
Cash flows from operating activities	1,033	1,157	587	720	989
Investment in property, plant and equipment	399	316	237	285	653
Cash flows from financing activities	(467)	597	(656)	(70)	(205)
Total cash flows	592	1,925	1,570	443	(541)
Employees:					
Average number (full time), continuing activities	4,199	4,908	5,302	5,603	6,535
Average number (full time), discontinuing activities	–	–	1,322	1,029	1,160
Financial ratios (in %):					
Gross margin	65.0	64.9	58.0	57.9	54.3
Operating margin (ROS)	18.1	17.0	5.4	(14.5)	(23.7)
Net profit margin	12.8	16.5	3.0	(28.6)	(13.1)
Return on equity (ROE)	71.6	147.1	44.2	(131.0)	(28.1)
Return on invested capital (ROIC I)	69.7	63.6	16.2	(2.0)	(13.5)
Return on invested capital (ROIC II)	77.1	67.4	15.2	(18.9)	(19.1)
Equity ratio	27.9	17.2	8.0	5.9	26.7
Equity ratio (incl. subordinate loan)	46.2	33.2	8.0	5.9	26.7

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

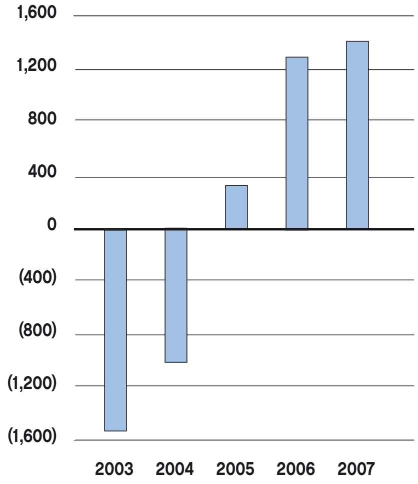
Financial highlights have been adjusted to reflect the LEGO A/S Group structure and are prepared in accordance with IFRS.

Parentheses denote negative figures.

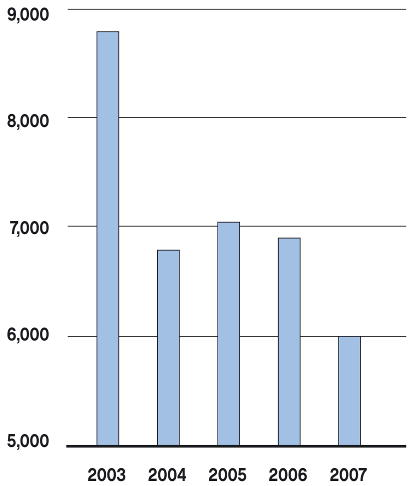
REVENUE [mDKK]



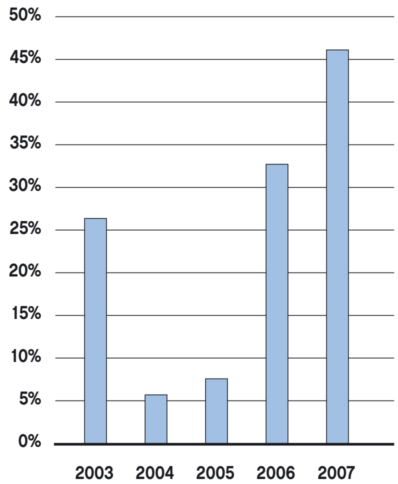
OPERATING PROFIT/(LOSS) [mDKK]



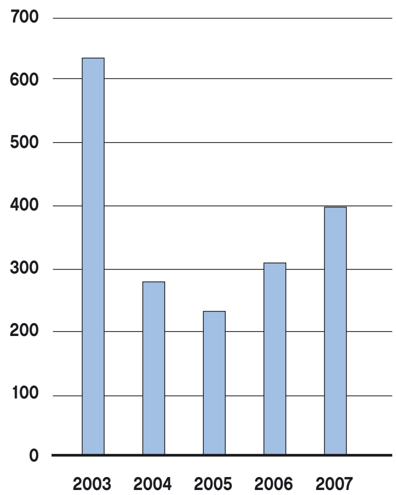
TOTAL ASSETS [mDKK]



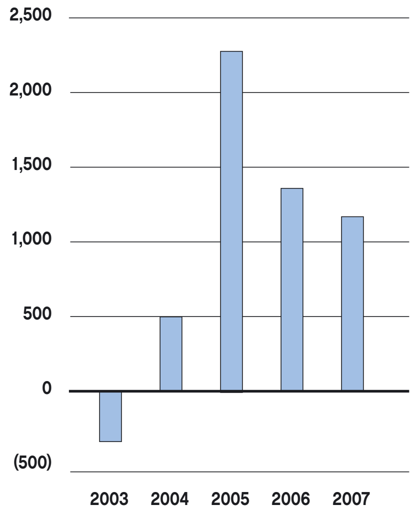
EQUITY RATIO INCL. SUBORDINATED LOAN CAPITAL



INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT [mDKK]



FREE CASH FLOW BEFORE FINANCING ACTIVITIES [mDKK]



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75 years young

In August 2007, 75 years had passed since the LEGO Group was founded. From then on – driven by the founder's philosophy and the Group's motto "Only the best is good enough" – the Group has developed into one of the world's most renowned and respected companies.

Children all over the world are fascinated by the LEGO brick in fun and creative play. Parents appreciate the developmental qualities of the LEGO system and the high quality of the LEGO brick. Teachers are inspired by the system's capability of creating learning through play.

This position was confirmed by the great demand for LEGO products in 2007, a good background for the celebration of the Group's 75th anniversary. Following goal-oriented efforts over a number of years on the part of Management and employees, the LEGO Group now stands renewed and revitalised. Growth and profitability have been restored. Improved ability to supply and better service have increased customer satisfaction and the LEGO Group's market shares. New competencies have strengthened the Group's competitiveness. After a number of difficult years for the business, the LEGO Group could thus celebrate the 75th anniversary in a spirit of confidence and optimism. The 2007 results, rapidly growing demand and very satisfactory earnings, confirmed that the strategy followed by the Group since 2004 is the right one.

Also in 2007, LEGO employees met serious challenges. The relocation of major parts of the production is a very difficult and resource consuming process, which requires great efforts from most Group functions. It is very impressive that the Group nevertheless succeeded in satisfying the greater part of the heavy demand for LEGO products. The Board of Directors and the owners of the LEGO Group are very grateful to all employees for this excellent achievement.

The pursuit of a balanced value creation, considering the interests of all stakeholder groups, continued in 2007. The close cooperation with consumers and customers as well as other business partners was successfully extended during the year. This work will continue in the coming years.

An element of this strategy is also to improve corporate governance, and in 2007 this included a change to financial reporting under International Financial Reporting Standards (IFRS), which is reflected in this Annual Report. The adjustment of the company structure was completed during the year, and the final adjustment of the ownership structure is expected to take place in 2008.

Although the LEGO Group has come a long way in its efforts to renew the company and restore its sustainable competitiveness, a number of challenges are still outstanding.

In order to maintain its position as a premium brand in an extremely competitive toy market, the LEGO Group must also in the coming years work determinedly on product innovation, including user-driven innovation, on extensive cost awareness and on targeted planning, as well as on top-class customer service. The LEGO Group is, however, facing the challenges of the future with the strengths vested in the LEGO brick and the Group's history, and the positive development seen in 2007 is expected to continue in 2008, resulting in sales growth of about 3-5%.

The challenges are many, but the will and the ability to overcome the challenges are there. We – and numerous children all over the world – are therefore looking forward to the next 75 years.

Billund, February 2008

Mads Øvlisen

Mads Øvlisen
Chairman

Results for the year

The LEGO Group's profit for the year before tax amounted to DKK 1,414 million in 2007 against DKK 1,281 million in 2006.
The results are considerably better than expected at the beginning of the year and are considered highly satisfactory.

The LEGO Group changed its accounting principles in 2007 through the adoption of International Financial Reporting Standards (IFRS). This implies a change in the recognition of certain accounting items.
Also the LEGO Group's changed company structure and the group relationship with LEGO Holding, as described in the Annual Report for 2006, affect the comparative figures for 2003-2006 which have been restated to reflect the new structure and accounting policies.
The changes resulting from the new accounting principles are described in note 36.

Increasing sales
The highly satisfactory results are primarily attributable to considerably higher sales than expected. Moreover, the Group received non-recurring income from the sale of buildings.
The LEGO Group saw a 2.9% increase in revenue from DKK 7,798 million in 2006 to DKK 8,027 million in 2007.
At the beginning of the year, decreasing sales were expected. Particularly the extensive outsourcing activities were expected to put heavy pressure on the Group. However, the Group succeeded in producing at a level which matched the great demand in the market during the year. All the LEGO Group's markets thus saw sales increases in local currency.

The sales increases are still driven by the classic product lines LEGO City, LEGO Technic and LEGO Creator as well as LEGO *Star Wars*, which is well on its way to become another classic line. BIONICLE is still one of the LEGO Group's best selling product lines, although the line did not show any growth in 2007.

Licence and royalty expenses decreased in 2007 to DKK 484 million against last year's DKK 517 million. The item primarily includes royalty to KIRKBI for the use of trademarks, including the LEGO brand, but also licence agreements with inventors, designers and other licensees for the use of intellectual rights.

Profit before special items, financial income and expenses and tax
The LEGO Group's profit before special items, financial income and expenses and tax amounted to DKK 1,471 million in 2007 against DKK 1,405 million in 2006.

In 2007 the operating margin (ROS) was 18.1% against 17.0% in 2006.

The highly satisfactory results are mainly attributable to increased sales, whereas increased investment activities, a negative development in key currencies and considerably higher expenses, including the heavy increases in oil prices, have influenced the results negatively.

The sale of buildings affected the results positively by DKK 224 million against DKK 141 million in 2006.

Special items
In 2007 special items mainly comprise restructuring costs of DKK 46 million.

Jørgen Vig Knudstorp,
President and CEO

Compared to the comparative figures for 2006, special items are affected by the implementation of IFRS. The reason for this is that a number of restructuring provisions made in 2004 do not meet the recognition requirements under IFRS until in 2006. Special items amount to an expense of DKK 80 million in 2006 against an income of DKK 280 million under previous accounting principles.

Financial income and expenses

Overall, financial income and expenses were largely unchanged compared with the previous year, ie a net expense of DKK 35 million in 2007 against a net expense of DKK 44 million in 2006.

Corporation tax

Corporation tax amounts to DKK 386 million against an income of DKK 9 million the year before.
The effective tax rate for the year is 27% against a negative 1% last year as the LEGO Group utilised tax losses in 2006 that had not previously been capitalised.

Profit for the year

The profit for the year amounted to DKK 1,028 million against DKK 1,290 million in 2006.

Equity and cash flows

Assets have decreased, among other things due to the sale of buildings, and amount to DKK 6,009 million in 2007 against DKK 6,907 million at the end of 2006.
Return on invested capital (ROIC I) was 69.7% in 2007 against 63.6% in 2006.
After the profit for the year and distribution of dividend, equity has increased by DKK 488 million to DKK 1,679 million in 2007. The equity ratio at the end of the year 2007 reached 27.9%. Return on equity (ROE) was 71.6% in 2007 against 147.1% in 2006.

In 2007 the Group's cash flows from operating activities are positively affected by the increasing profit; however, due to increased tax payments, cash flows from operating activities decreased from DKK 1,157 million in 2006 to DKK 1,033 million in 2007. Cash flows from investment activities decreased as a consequence of increasing investments and reduced sales of assets, and cash flows from financing activities decreased as a consequence of the raising of a subordinated loan of DKK 1,100 million in 2006, as well as repayment of mortgage credit loan in 2007. The Group's total cash flows thus decreased from DKK 1,925 million in 2006 to DKK 592 million in 2007.

Payment of dividend for 2007 of DKK 1 billion is expected in 2008. The dividend payment reflects the strategy behind the new company structure, in which the LEGO Group is an operating company only, whereas all excess liquidity is distributed to the Parent Company LEGO Holding A/S.

Market and sales development

The global market

The global market for traditional toys was largely unchanged in 2007.

At the beginning of the year there were signs of growth in the USA, but during the last six months the market was under pressure due to the uncertain economy and several recalls of toys. Moreover, no particular toys turned out to be "the craze of the year". Overall, the US market therefore remained unchanged in 2007.
By contrast, the European market for traditional toys saw an overall weak growth. Most countries experienced growth rates of a couple of percentage points, but some of the East European markets saw two-digit growth rates in 2007.
The largest Asian market, Japan, decreased by nearly 5% during the year, whereas other Asian markets saw heavy growth, headed particularly by China.

In South America especially Brazil and Mexico created market growth in 2007.

LEGO sales

In 2007 retail sales of LEGO products achieved two-digit growth rates on several North European markets, including an increase of 15% in the United Kingdom.
At the same time, the LEGO Group's strong position in the East European countries was further strengthened in 2007 with considerable sales increases in, for example, Russia, the Czech Republic and Hungary.
The growth on the North and East European markets was particularly driven by the classic product lines such as LEGO City, LEGO Creator, LEGO DUPLO and LEGO *Star Wars*, but also new launches showed good results on these markets.

In Central and Southern Europe, LEGO sales growth accelerated in the second half of the year. This area saw total growth of approximately 6%, but both Italy and Spain achieved two-digit growth rates in 2007. The classic product lines are also the best selling products in Central and Southern Europe.

Despite the stagnating trend on the US market, LEGO sales increased by 4% in local currency in the USA, strongly driven by LEGO *Star Wars* as well as the product lines LEGO Creator and LEGO City. Due to the weak dollar rate, the growth is, however, considerably lower when translated into Danish kroner.

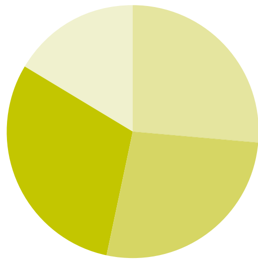
In China the first LEGO shop opened in Beijing in cooperation with the chain store Kidsland under a concept used in Japan. China is still a small market for the LEGO Group, but good growth opportunities are predicted in the coming years.

Also a number of other, minor markets, such as Australia, New Zealand and Mexico, achieved two-digit growth rates.

Direct contact with consumers also showed good results for the LEGO Group in 2007.
LEGO Education, which supplies educational materials for children and young people from preschool age to university level, is developing extremely positively and, with two-digit growth rates, gains increasing ground all over the world.
Direct sales to consumers also saw healthy growth rates in 2007. Direct sales take place through online sales, mail order sales and own brand stores. The increase in sales is attributable both to the consumers' increasing interest in online purchasing and to a number of initiatives taken to improve consumer experience in both the brand stores and as regards online sales.

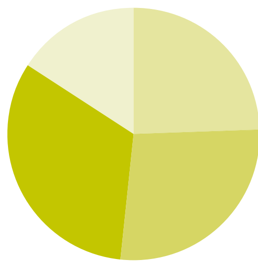
Overall, the LEGO Group achieved a small increase of its global market share in 2007.

REVENUE SPLIT 2007



- **Central and Southern Europe - 27.1%**
- **North America, Australia, New Zealand, United Kingdom - 30.1%**
- **Community, Education, Direct - 16.3%**
- **Scandinavia, Benelux, Eastern Europe, Asia - 26.5%**

REVENUE SPLIT 2006



- **Central and Southern Europe - 27.2%**
- **North America, Australia, New Zealand, United Kingdom - 32.4%**
- **Community, Education, Direct - 15.8%**
- **Scandinavia, Benelux, Eastern Europe, Asia - 24.6%**


LEGO

Strategic direction maintained

The LEGO Group has now accomplished the first four years of its seven-year strategy, the purpose of which is to radically change the business and develop the LEGO brand further as a synonym for creative building and role playing that provide learning through play. During the years 2004-10, all aspects of the LEGO Group will undergo fundamental changes – its processes, procedures, structure and, not least, its relations to stakeholders.

Strategy phases

The strategy plan is divided into phases, each focusing on special priorities. The first phase, accomplished in 2004-05, pulled the Group out of the financial crisis resulting from several years of poor financial results as a consequence of unprofitable growth.

The second phase of the strategy was initiated in 2006.

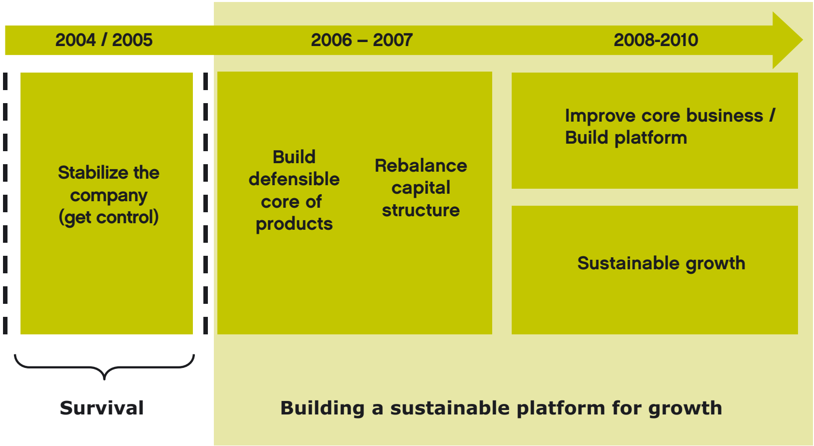
This phase has three main themes:

- Transition of the supply chain
- Improving product portfolio profitability
- Preparing for growth

The objective of this phase is to create a sustainable core platform which ensures long-term profitability. In order to implement this phase, the LEGO Group introduced a new organisational structure in 2006. The new production structure, investment in new IT platforms, development of employee skills and implementation of well-defined, robust key processes are forming the basis of the LEGO Group's long-term development. The phase was considered a preparation for the sales growth which, at the introduction of the strategy plan, was anticipated to be realised from 2009.

Results for 2006 and 2007

With the focus of the second phase being on revitalising a competitive company with long-term sustainable profitability, it was expected that sales would remain unchanged or even decrease slightly, as refocusing on the core business involved the exiting of several



product lines. However, due to the successful repositioning of the LEGO products and the positive development in the market, the LEGO Group achieved sales increases of 11% and 3%, respectively, in 2006 and 2007. In line with the strong focus on profitability, the sales increases added increased value to both the LEGO Group and its customers.

Transition of the supply chain

At the end of 2007, nearly all distribution activities were outsourced to external partners. Distribution in North America is being handled by two distribution centres in Texas (retail sales) and Tennessee (direct sales to consumers), respectively. All distribution to retailers in the rest of the world takes place from a distribution centre in the Czech Republic, while all other direct distribution to consumers is being handled in Denmark.

Moreover, approximately 70% of the LEGO Group's packing activities and approximately 20% of the moulding activities have been transferred to external partners in Eastern Europe and Mexico. Consequently, extensive activities and considerable amounts of production equipment were transferred in 2007. For example, 90% of the packing equipment was in transit at some point during the year.

The outsourcing took place in a period with sales increases – despite expected declines in sales. It is therefore very satisfactory that the Group succeeded in meeting most of the higher demand for LEGO products.

In the course of 2006 and 2007, the outsourcing turned out to be more cost-consuming and more complicated than anticipated at the adoption of the plan. This is seen in, for example, a higher need for IT integration between the parties than expected.

Based on these challenges and the increased capacity demand derived from higher sales than expected, it was in 2007 decided to postpone further outsourcing of moulding activities for a 12-15-month period, which means that the outsourcing is expected completed in 2010.

The major part of the production will still take place in Eastern Europe and Mexico, respectively, whereas a part of the production will take place in Billund, Denmark.

Improving product portfolio profitability

The results for both 2006 and 2007 show that the LEGO Group has come a long way in its efforts to improve profitability. The long-term goal of an operating margin (ROS) of 13.5% was reached in both 2006 and 2007.

An operating margin of 13.5% after trademark licence payments means that the Group and the trademark together produce a yield matching the best in the business. This is completely in line with the perception of the LEGO brand as a premium brand.

The good results are attributable to intensive efforts during the last four years to constantly improve and develop the core product portfolio of the LEGO Group through targeted improvement of product design and further development of the iconic LEGO product lines.

Cooperation with retailers is constantly improved. Through, for example, optimisation of production planning and distribution, as well as strengthened key account management, systematic efforts are made to improve margins for both retailers and the LEGO Group. These activities are supported by a goal-oriented effort to increase the effect of campaigns and promotions, and at the same time the scope of price campaigns has been considerably reduced.

The product mix has been considerably improved during recent years. The most profitable lines have been given special attention, and a number of less profitable products and product lines have been removed from the product range. Finally, strategic pricing efforts have been initiated, which have also created results.

The efforts to ensure profitability have so far been rewarding. The operating margin goals

were reached before planned, and growth was obtained through value increases rather than volume increases.
However, the efforts regarding profitability will continue with undiminished force through continued improvement of productivity, especially as a number of external factors are expected to have a negative impact on the LEGO Group's profitability in the coming years. Increasing expenses in respect of raw materials, transportation and wages and salaries, as well as declining exchange rates – particularly the dollar rate – put increased pressure on profitability.

Preparation for growth
In addition to continuous product development of core products within both existing and new iconic product lines, the LEGO Group is these years working on a few major innovation projects. The purpose of this is to ensure that the LEGO Group will also in future be able to provide innovative products which meet consumer wishes in respect of new thinking combined with the ever-young LEGO system. An example of this is LEGO Universe – an online project which will give a very large number of users the opportunity of building and playing together in a safe, entertaining, educational and iconic LEGO universe. The game is expected to be launched in 2009.

The work of preparing for future growth therefore shows good progress despite the large challenges facing the business.

Strategic direction in 2008

During recent years, considerable results have been achieved within the most significant strategic themes of the period.
The LEGO Group's future supply chain structure has been established, and outsourcing of most of the production has been accomplished. This process is expected to continue until 2010 with continued focus on improving the cost structure to counter increasing external expenses.

Balanced, sustainable sales growth of 3-7% annually is planned for the coming years. This is considered realistic as the growth is based on the LEGO Group's core product lines, which have been revitalised all over the world. The development of new customer relations and new markets is also expected to contribute to growth.

The continued construction and improvement of the business platform will therefore go hand in hand with controlled growth during the years 2008-10.

Business platform under construction
In 2008 the continued building of the business platform will primarily focus on achieving the planned cost savings in connection with the transition of the supply chain. This is decisive for the Group's long-term profitability.

In 2007 the LEGO Group's own innovation model was implemented. Just as the LEGO products are systematically supporting creativity, the Group's new innovation model is based upon a systematic approach to innovation. The model is used not only for product development, but also for the improvement or new development of, for example, business processes and marketing materials.

In the IT area, an updating of the Group's SAP platform and CRM system is taking place in 2007/08, and the IT platform in the Group's brand stores will be replaced. Through better support of Group processes, the large investments will ensure increased transparency in the Group and consequently increase Group Management's manoeuvrability.
Moreover, key tools and key processes, including key account management, sales and operational planning as well as financial planning, are being updated and modernised.

LEGO CITY LINE INCREASED BY 101%
LEGO City has become the Group's absolutely most important product line, accounting for 17% of total sales in 2007.
Since 2005 the design of the line has been improved to achieve a more realistic expression. Now a street sweeper actually looks like the machine sweeping the streets.
Total growth of the LEGO City line in the period 2005 to 2007 reached 101%.

The Group's new People & Culture strategy is an important brick in the building of the future business platform. The strategy includes the implementation of a number of management tools for, for example, recruitment, staff development and staff evaluations, the creation of a stronger, joint culture and of new, important competencies, such as the establishment of strategic partnerships.

Securing continued demand
The strong momentum in the market combined with high growth expectations on the part of the Group's customers, the retailers, supports the LEGO Group's objectives for the coming years concerning continued sales growth.
Through strong focus on the development of product lines based on the core – the LEGO brick and the LEGO system – as well as continued strengthening of planning, marketing and sales efforts, the objective for the coming years is to maintain a profitable growth in sales to retailers of 3-7%.
The effort will also comprise the LEGO Group's direct sales to consumers through brand stores as well as mail order business and online sales. The plans comprise further development of the sales channels, improvement of the knowledge of and cooperation with LEGO enthusiasts all over the world as well as development and growth in the Group's virtual platforms.

A premium brand on the global market
At the end of 2010, the LEGO Group is expected to have implemented a fundamental change of its business model and thus ensured a long-term, sustainable business platform.

The basis will be a premium brand. Being true to its motto "Only the best is good enough", the Group will continue to deliver very high quality. The product range will be true to history, it will be authentic and at the same time original and modern in its expression. The two fundamental forms of play: creating and role playing, are supported by the LEGO products. Furthermore, the products provide learning through play, as LEGO play develops systematics, logic and creativity. This is the basis for the LEGO Group's unique position and differentiation in the market.

The LEGO product range will continue to constitute a relatively small niche in the global toy market with a market share of a few per cent. Therefore, the Group is focusing on differentiation and extensive cooperation with partners within all links of the Group's global value chain. The Group's activities will therefore be increasingly based on networks. Moreover, cooperation with the Group's core users and the many LEGO "communities" will still be supported and extended.

This business model includes balanced relations with the Group's six stakeholder groups. The LEGO Group formulated objectives for all its stakeholder groups already in 2006. These objectives have been further developed in 2007, and a continued balanced approach to all stakeholder groups will form an important basis for the Group's future work.

NEW ELECTRIC BUILDING SYSTEM

In the autumn of 2007, the LEGO Group launched its new electric building system. The so-called Power Functions can be connected with any LEGO product and add new functions to the play. The system has been developed in close cooperation with selected AFOLs (Adult fans of LEGO), who have for a number of years asked for new technology in the products.
The first Power Functions elements are used for LEGO Technic, LEGO Creator and LEGO *Star Wars* products.

Stakeholder relations

- sustainable cooperation

Based on the motto "Only the best is good enough", the LEGO Group is constantly aiming at being the world's best toy company. For the LEGO Group, interaction with stakeholders is a natural element of this mission. In order to ensure a systematic approach to this dialogue, Management has defined five primary stakeholder groups, all of which interact with the sixth stakeholder group, the surrounding society.

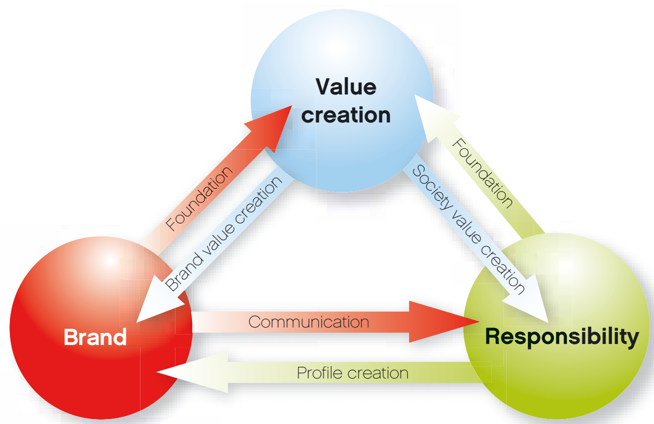
It is important that the interaction with the stakeholder groups creates value to all parties involved. This is one of the reasons why the LEGO Group was the first toy manufacturer to join the UN Global Compact in 2003. The 10 principles of the UN Global Compact provide a good framework for corporate responsibility.

The LEGO Group is thus working with a balanced sustainability framework integrating the three areas that are considered most important for the stakeholders, ie stakeholders' expectations to value creation, their brand expectations and finally their expectations as to how the Group is dealing with responsibility. These three areas are closely connected and therefore cannot be separated. The individual stakeholder's requirements and expectations within the three areas do, however, differ, and therefore an overall mapping of these has been made as a basis for the work to obtain long-term, balanced value creation.

The work of defining the stakeholders' expectations is based on the stakeholders naturally involved in the value chain, ie consumers, customers, employees and business partners, while the owners set the overall direction as well as frameworks and requirements. Results and responsibility towards society are derived from the expectations of the other stakeholders in the value chain. In this way, it is ensured that target areas in relation to society are based on the Group's values and mission and are in accordance with the strategic direction – and, consequently, that the target areas contribute to long-term value creation and the maintenance of competitiveness, which are the conditions for long-term sustainable development.

The LEGO Group's stakeholders and its interaction with these are described in the following. The Sustainability Report, which will be is-

BALANCED SUSTAINABILITY FRAMEWORK



sued in the spring of 2008, will provide a more detailed description of the 2007 results in relation to the Group's stakeholders.

Consumers

Joy of Building. Pride of Creation.

The LEGO Group is constantly working to deliver products that will give the consumers the developing play experiences which have characterised the Group for generations and for which the Group is still well-known. The brand values – creativity, quality and fun – are decisive for the Group's relation with consumers.

During recent years, the Group has been working actively to involve consumers in product development. LEGO enthusiasts are thus taking direct part in the development of specific products, and furthermore there is a close, current dialogue with the consumers concerning both existing and future products. This gives the Group valuable insight into consumer wishes and behaviour, and the consumers have direct influence on the range of LEGO products.
One example of this is a hobby train launched in 2007. The train set was developed in cooperation with ten LEGO enthusiasts, who were asked to develop different train models based on a set of LEGO elements. The train set makes it possible to build no less than 30 different train models, which have all been developed by the LEGO enthusiasts. The train set is sold through the LEGO Group's own brand stores and through online sales.

Only the best is good enough
Quality is a key word for the LEGO Group, and it is decisive of being the best that quality is characterising all contact with consumers.

An important element of quality is product safety, and a focused effort is made to ensure the safety of all LEGO products. This involves constantly ensuring that all products live up to, or surpass, the strictest legal requirements.
Product safety is therefore an integrated part of the development of new LEGO products. This involves continuous testing and monitoring of the individual elements and of the raw materials used. All these requirements are clearly described in the LEGO Group's comprehensive product safety manual.

In the course of 2007, the toy industry saw an extensive number of recalls of products which did not live up to toy safety standards. This resulted in much attention with the media as well as among customers and consumers. On the basis of this, the LEGO Group performed an extra review of the systems which are to ensure toy safety, and moreover additional tests were performed by independent test laboratories. As expected, no problems were identified in relation to the LEGO products.
However, the extensive focus on toy safety meant that the LEGO Group commenced comprehensive updating and development of the systems used to make sure that it can be continuously documented that the LEGO products meet all current safety requirements.

The objective of the LEGO Group is to manufacture toys that are so safe that it will never be necessary to make any recalls. No LEGO products were recalled in 2007, and thus the LEGO Group has achieved the target set for 2007. This target will also apply to 2008.

To make sure that any decisions to recall a product is based on consumer safety and is in accordance with Group guidelines for product safety, such decisions are made by a cross organisational forum in the Group.

Best European consumer service
Quality involves other aspects than product safety. General high quality must ensure that the consumers have the right LEGO experience every time they buy a LEGO product or

are in other ways in contact with the LEGO Group.

The LEGO Group's two call centres are situated in the USA and the UK, respectively. Together, these centres are annually contacted by about 1.4 million consumers, who wish to receive technical support, buy LEGO products or file product complaints.
In the autumn of 2007, the European call centre in Slough outside London was awarded two prizes at the European Call Centre Awards 2007. LEGO consumer service was thus awarded the prize for "Best Centre for Customer Service" in Europe.

In order to constantly measure and improve the LEGO quality, the Group is also following the consumers' inclination to recommend LEGO products to others. This is done through consumer surveys in connection with selected consumer contacts, and the results are recorded in the Net Promoter Score Index. It is satisfactory that the goal for 2007, an index of 115 in relation to 2005, has been reached. The goal for 2008 is an index of 117.

Unfortunately, the consumer complaint call rate rose in 2007 compared with 2006 and thus did not quite meet the goal set for the year. This is not satisfactory, although an increase was expected as a result of the Group's active effort to make call centre contact data more visible to consumers all over the world. It is, however, important to note that the number of consumer complaints is very low compared with the very large number of LEGO boxes sold.

In order to reduce the consumer complaint call rate, there is close cooperation between the quality department, product development, production and consumer service, which has direct contact with the consumers. Systematic efforts are made to trace the reasons for the increased consumer complaint call rate and make the necessary adjustments.
Part of the explanation may be found in the increasing complexity of the products, which typically contain more and more elements. One example is Millennium Falcon – the largest box, which contains more than 5,000 elements.
Current efforts are made to ensure that all elements live up to the right LEGO quality, and to make the building process even better, avoiding possibilities of building mistakes as a consequence of the use of the wrong elements.

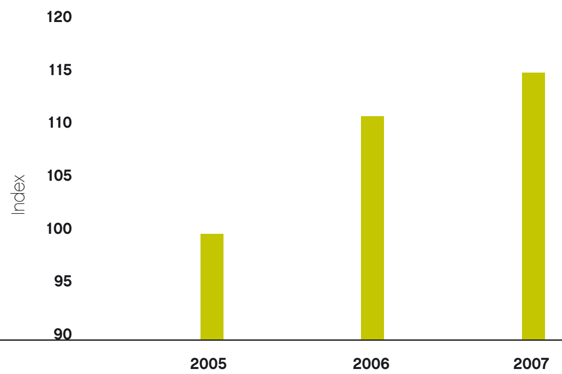
Customers

Become the preferred supplier in the industry by delivering differentiation, in store traffic, high velocity and good margin.

The LEGO Group's primary customers are the retailers who sell the LEGO products. Therefore, the Group attaches great importance to the value creating cooperation with this important stakeholder group.

The year 2007 was characterised by relocation of the production, which increased the challenges of being able to meet the objectives of high delivery service. By investing in additional production capacity and building up larger inventories than normal, better delivery service was obtained in 2007 than in the previous year, despite the relocation.

NET PROMOTER SCORE INDEX



LARGEST LEGO MODEL EVER

Millennium Falcon from the *Star Wars* universe is the biggest LEGO model to date. The starship was launched as an Ultimate Collector's item in October 2007 and is constructed completely to scale in every detail. The model consists of 5,195 pieces, is 84 cm long and weighs 6 kg. It is delivered with a certification of authenticity and a show card with specifications for the modified Corellian Engineering Corporation YT-1300 freighter. The LEGO Group has produced LEGO *Star Wars* since 1999.

Also other aspects of the LEGO Group's customer relations were improved in the course of 2007. Through close dialogue with selected customers during the development period of both products and marketing materials, valuable input is obtained for the process, which increases the quality of product development and related marketing materials. At the same time, the general dialogue with the customers has increased in order to establish close commercial cooperation to the advantage of both parties. Moreover, consumer demand has been high during the year, and therefore the customers' profit on LEGO products increased in 2007.

The improved customer relations have among other things resulted in several acknowledgments from some of the Group's largest customers, such as the Supplier Excellence Award from the US Wal-Mart chain.

Business partners

Among the best in industry in our dealings with business partners that are characterized by joint value creation, openness and trust.

An element of the changed business model which the LEGO Group has been working on during recent years is to establish network-based cooperation with an increasing number of strategic partners.

In relation to the Group's business partners, the objective is to create mutual growth by granting these partners access to the brand.
In the course of 2007, the LEGO Group and Lucasfilm Inc. once again enjoyed the good results of the successful cooperation about *Star Wars*, as the LEGO *Star Wars* products were among the best selling product lines during the year. In the course of the year, this cooperation was extended with a new product line, LEGO Indiana Jones, and the first products from this line will be launched in 2008.
Another large cooperation partner is TT Games, which develops video games for PCs and game consoles based on LEGO products. Both the third LEGO *Star Wars* game and the new BIONICLE game were launched successfully in 2007, and LEGO *Star Wars* 1 and 2 are still among the most popular products of the business.

In the online area, new cooperative relations have been established with the game developer NetDevil in respect of the development of an innovative online game, LEGO Universe, which supports the brand values and the LEGO Group's special contact with LEGO enthusiasts.

Close outsourcing cooperation
The suppliers constitute another important group of business partners. The outsourcing of the production is a demanding process, and experience from the very comprehensive outsourcing process in 2007 has shown that focus on ensuring knowledge sharing is still required. Consequently, the Group has initiated training of a number of employees, who are to contribute to making sure that Group knowledge is shared with the relevant cooperation partners, and at the same time ensure a high level of documentation. In 2007 approximately 100 employees participated in the training programme.
An important element of the experience from the outsourcing implemented so far is therefore that cooperation with product suppliers must be considerably more integrated than what is usually seen in a customer/supplier relationship. One reason for this is that the LEGO Group is both the customer of and the supplier to several of its sub-suppliers, and therefore the production is rather closely integrated with these sub-suppliers.

In connection with the outsourcing, the LEGO Group has moreover benefitted from the cooperation with a completely different type of partners. Close cooperation has been established with local enterprises, institutes of education and trade organisations in the areas where the activities are closing down in connection with the outsourcing. These initiatives have, both in Billund, Denmark and in Enfield, USA, created job and development opportunities for the employees affected by the outsourcing.

Code of Conduct sets the framework

The outsourcing of the production of LEGO products to external suppliers means that the Group is responsible for ensuring that the production with the suppliers takes place in a responsible way relating to employees and the environment. In its Code of Conduct, the LEGO Group points out the requirements in respect of responsible and ethical business management which the suppliers are expected to meet. The LEGO Group's Code of Conduct is decisive for its selection of suppliers, and it is an integrated part of the contracts with the suppliers. The LEGO Group is very much aware of its ethical responsibility in the Code of Conduct area, and therefore the Group intends, among other things, to intensify its cooperation with selected organisations in 2008 with the purpose of continuously improving the Group's Code of Conduct and audit programme.

Unfortunately, basic human rights are not always being observed in a number of countries around the world. It is therefore necessary to monitor the suppliers in some countries. The LEGO Group's monitoring of suppliers is based on country risk analyses performed by an independent third party. This means that suppliers are included in an audit programme if they are located in countries in which the risk of non-observance of human rights and labour standards is assessed to be high.

For the same reason, there is special focus on suppliers from Asia, particularly China, despite the fact that only 3 per cent of the LEGO Group's production value is derived from China. Since 2006, pre-assessments have been made of all potential suppliers in Asia prior to the signing of the contract in order to ensure that the suppliers are both able and willing to cooperate about meeting the requirements of the LEGO Group Code of Conduct.

In 2007 19 pre-assessments of potential suppliers were performed, of which 2 suppliers were approved, 10 suppliers were approved on the condition of further measures and 7 suppliers were not approved.

Besides the pre-assessments, through own and independent audits, the LEGO Group also monitors on a current basis that the suppliers in Asia comply with their commitments. In case an audit shows non-compliance with the LEGO Group Code of Conduct, a Corrective Action Plan is agreed with the supplier. The LEGO Group auditors also help the factories with Code of Conduct training, when necessary. The focus on these audits increased in 2007 and will be further intensified in 2008.

Several of the LEGO Group's suppliers in Asia are certified under the joint ICTI-CARE initiative of the toy industry aimed at ensuring that working conditions etc at suppliers meet a number of minimum standards. ICTI CARE certified suppliers follow the ICTI CARE audit programme and have not been audited by the LEGO Group in 2007.

The ICTI CARE process is new and is rapidly growing. This puts the ICTI CARE organisation under pressure, and at present the workload is very heavy. During a transitional period until the organisation of ICTI CARE is in place, the LEGO Group will therefore, as a further precaution, intensify the cooperation with the ICTI CARE certified suppliers. At the same time, the LEGO Group will work actively on improving ICTI CARE.

In 2007 audits were moreover performed at suppliers in Eastern Europe and Mexico, where the LEGO Group's strategically most important

INDIANA JONES AS MINIFIGURE

In 2007 the LEGO Group entered into an agreement to produce new licensed products based on the adventures of Indiana Jones. Lucasfilm Inc., who holds the rights to *Star Wars*, also holds the rights to Indiana Jones.
The first four LEGO Indiana Jones sets were launched on 1 January 2008.

suppliers are located. The findings of these audits have been very positive, and it can be ascertained that these important cooperation partners make a great effort in the Code of Conduct area.

Employees

A workplace that rewards you for your performance, develops you for the challenges of tomorrow and excites you for the company mission.

The LEGO Group aims to be an exciting and challenging workplace that creates good conditions for its employees.
During the last four years, the Group has undergone a drastic development, which has affected both the pressure of work and employee satisfaction.
In 2006 the LEGO Group published its plans to outsource most of its production over the coming years. In 2007 the outsourcing meant that the packing and distribution activities in Enfield, USA, have been transferred to external suppliers, and consequently 256 LEGO employees lost their jobs.
A number of initiatives were initiated to support the employees in this difficult process. Besides financial severance agreements, these initiatives also comprised skill identification as well as support relating to further training and job search.

Because of the increased activity level and the postponement of part of the outsourcing, there have not yet been any dismissals in the Danish part of the production. However, in 2007 the "Future House" was established in order to prepare and support the employees during the outsourcing process. In 2007 there was special focus on the skill identification process in cooperation with a number of external cooperation partners, including local schools, authorities, the Employment Service, unions and enterprises that are interested in employing the LEGO Group's valuable employees.

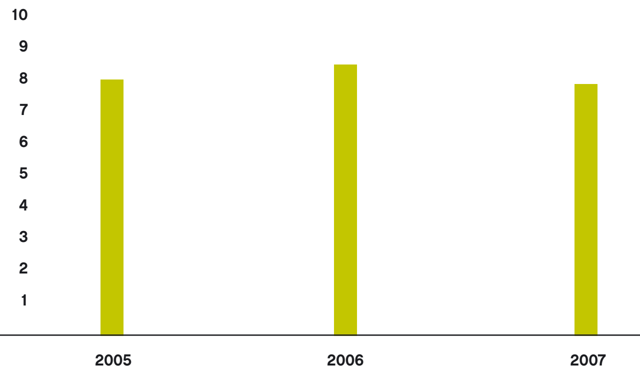
Competencies in focus

A significant element of establishing a new business model for the LEGO Group is to build up and secure the right employee competencies. Therefore, the implementation of a new competence model was initiated in 2007. The model defines the eight most important competencies for LEGO employees, and forms the future basis for the selection, assessment and development of the Group's employees.
Moreover, a number of programmes have been implemented for continuous competence development of employees, and individual development plans have been introduced for all employees.
These initiatives, together with a number of other initiatives, are based on the new People & Culture strategy adopted during the year. This strategy defines the most important staff-related focus areas and the disciplines that are particularly important to develop in order to support the implementation of the Group strategy.
It is the LEGO Group's objective to ensure that, in the long term, the Group's most important competitive parameter will be based on the high competence level of the employees. Therefore, high priority is given to this new strategy, and it is being implemented in all parts of the Group.

Accident frequency goal not obtained

The LEGO Group is working to ensure a good and safe working environment for all employees and has set clear goals for reducing oc-

ACCIDENT FREQUENCY



cupational injuries resulting in absences and minimising the damage caused by any accidents, expressed as the absence rate due to accidents. At the same time, the LEGO Group has set an ambitious goal in respect of a low rate of absence due to sickness.

The LEGO Group's goal of obtaining an accident frequency of maximum six per million working hours was not reached in 2007. The frequency in 2007 was 8.0 corresponding to 52 accidents. Although the Group has held courses and provided training, primarily at the Billund factories, there has apparently not been sufficient focus on the area to achieve successful results.
It is, however, positive that on an average the accidents were not very serious, as the absence rate has decreased from 0.54 in 2006 to 0.37 in 2007. The goal of a maximum absence rate of 0.3 was not however reached for 2007. Only one accident resulted in more than 30 days of absence. It is therefore necessary to increase the attention in respect of near accidents and the "small" occurrences that may be avoided through sound working process standards and well-planned procedures.

The ambitious goal of a maximum absence rate due to sickness of 2.9% was not reached in 2007, when absence due to sickness was registered at 3.2%. High absence levels due to sickness reduce productivity and may be an indication of deterioration in the working environment. Furthermore, increased absence also involves heavy financial expenses, as a one per cent increase in the absence rate corresponds to about 45 employees being sick for one whole year.

Moreover, the LEGO Group actively supports employees' healthcare efforts, such as initiatives to exercise, lose weight or stop smoking.

Certification in Europe
In 2007 further work has been done in respect of the OHSAS 18001 certification of the model building activities in Kladno, the Czech Republic, as well as the offices in Enfield, USA; Munich, Germany and Slough, UK. The goal for 2007 was that all these locations should obtain OHSAS 18001 certification in line with the activities at Billund, Denmark. Apart from Enfield, USA, the Group succeeded in obtaining certification of the activities and offices mentioned according to the OHSAS 18001 standard. This is seen as an important step in the further global work to ensure a good working environment. The office in Enfield, USA was not certified by the external certification agency in connection with its visit to the office in the autumn of 2007, and further activities have been initiated to obtain certification in the spring of 2008.

Society and the environment

Taking a clear, industry leading responsibility towards the environment and society.

Through its interaction with the surrounding society, the LEGO Group's influence can be summarised under the following headings:

- Children's opportunities of playing and learning
- Development of opportunities for children in developing countries and support to disadvantaged children
- Environmental impact

Learning through play
The issue of children's opportunities of learning through play is high on the LEGO Group's agenda, and the Group has been working with this area for 75 years. All LEGO products have an element of learning, and teachers all over the world acknowledge the products' ability to strengthen problem solving skills, creative thinking and cooperation.
On the basis of this learning element which is found in all LEGO products, during the last 25 years the Group has also been working with

BEHIND THE DESIGN ONLINE PRESENTATION

Designing LEGO models is a childhood dream for many consumers. Now, the Bulldozer from LEGO Technic is being promoted online in a film showing how the model was created. The designer visits building sites to study the big machines and be inspired. Afterwards, he builds prototypes, which are then tested by children and colleagues. Finally, the model is ready for production and launching.

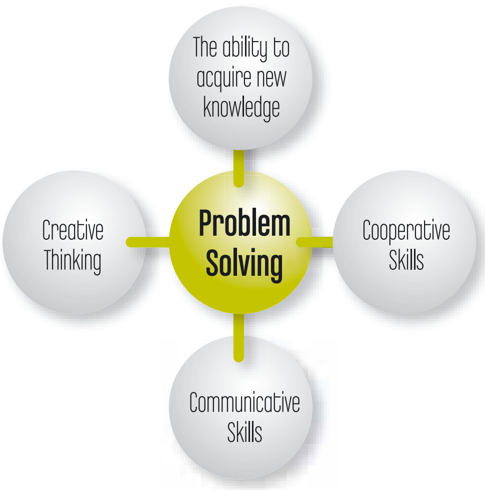
The film may be watched at: http://technic.lego.com/en-us/Movies/Behind_design_1of2.aspx

the development of entire concepts for the use of LEGO bricks for educational purposes relating to children aged from 1½ to 16+ years. The work relating to teaching through play is united in LEGO Education. For the youngest children, the concepts are based on the use of LEGO DUPLO products for the purpose of learning simple mechanical processes etc. The teaching of older children comprises LEGO bricks and LEGO Technic bricks as a basis for subjects such as green energy, mechanics and machines. The oldest students benefit from working with robots based on the LEGO MINDSTORMS products.
Such educational initiatives are based on LEGO bricks that may also be bought in retail shops, but are incorporated into special learning concepts which the teachers may use directly for the relevant educational purposes.
LEGO Education has seen an increasing interest in its products, which are tailored to create learning through play, and in Scandinavia almost 150 schools have now dedicated a class room to the use of LEGO products.

In the USA, Robotics is becoming a new discipline, as the construction of robots forms a good basis for developing teamwork skills and working with subjects such as nature and technology, areas where it may generally be difficult to arouse children's interest.

PROBLEM SOLVING

Educational solutions from LEGO Education presents students with problems and then provides them with opportunities to work together to find the answer. This allows them to think creatively in a cooperative and communicative atmosphere whilst gaining greater knowledge.



Education is also high on the political agenda in countries such as Brazil, Russia, China and Malaysia, and in November 2007 the LEGO Group started testing a new product which is to contribute to providing the best technology platform for bringing 21st century skills to students in developing countries, inspired by the "One Laptop Per Child" initiative, the purpose of which is to develop low-cost PCs targeted at developing countries.

LEGO Charity

During its entire 75-year history, it has been the LEGO Group's vision to improve children's opportunities of creative, developing and fun play all over the world. The LEGO Group considers play a decisive element of children's development. Children learn through play, and play stimulates their creativity, motor function and ability to solve problems.
Unfortunately, some children have limited possibilities of play, and LEGO Charity has been established driven by the wish to help these children through charity. By means of donations of LEGO DUPLO and LEGO bricks, it is the Group's wish to provide these children with play material which, besides fun play, also supports their development.

LEGO Charity supports a large number of initiatives all over the world through product donations. Most donations consist of LEGO Charity boxes with mixed contents of LEGO elements. In 2007 more than 5,500 LEGO Charity boxes were donated, each containing 12 kg LEGO elements. Moreover, more than 50,000 ordinary LEGO sets were distributed to children and families all over the world. The total value of the donations is assessed to exceed DKK 20 million in wholesale prices.

LEGO Charity cooperates with LEGO departments all over the world in order to make sure that the donations reach the children and families who have the greatest need. Moreover, participation and ownership on the part of local LEGO employees are ensured. So far, Austria, Brazil, Canada, France, Germany, Italy, Poland, Portugal, Russia, India, South Africa, the United Kingdom, the USA, Singapore, Spain and Switzerland have established national charity programmes using LEGO Charity products.

In North America, 2007 was a record year for charity from the LEGO Group. More than 1,000 LEGO Charity boxes and more than 4,000 ordinary LEGO boxes were distributed to charity organisations in the USA and Canada.
The organisations receiving help comprised both programmes for helping disadvantaged children and programmes for developing creativity.
The donations also included several hundred LEGO Charity boxes for the many families who lost their homes in the terrible fires in California in October.

Another example of the charity activities is the cooperation with the Danish representation in Ramallah, Palestine, concerning the distribution of 3,000 special LEGO boxes as well as 120 LEGO Charity boxes for pre-schools in the Gaza Strip and on the West Bank. Many of these pre-schools have only few toys – or none at all.

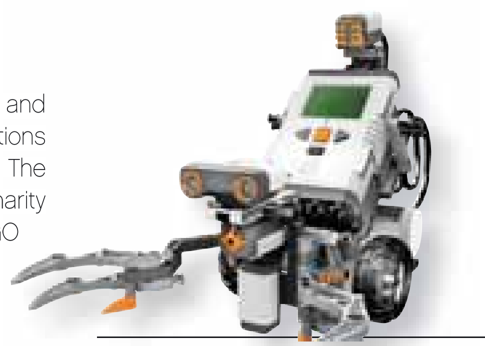
In Denmark, the LEGO Group has among other things supported the national anti-mobbing campaign launched by Save the Children and Crown Princess Mary. The objective is to increase children's social skills and tolerance, and in this connection, the LEGO products are used as an important tool.

Also a number of international charity organisations are supported by LEGO Charity, including SOS Children's Villages, Save the Children and Red Cross. These organisations receive LEGO sets, which are used to give disadvantaged children in developing countries new opportunities of play and development.
Foundations related to the owner family – Ole Kirk's Foundation and Edith & Godtfred Kirk Christiansen's Foundation – have also in 2007 supported a number of humanitarian and social projects. Support from the foundations totaled more than DKK 22 million in 2007. The owner family is actively involved in the charity work of the foundations as well as of LEGO Charity.

In 2007 LEGO Holding A/S decided to support The Mary Foundation as co-founder with a donation of DKK 10 million. The object of the Foundation is to improve the lives of children, adults and families who as a result of their environment, heredity, illness or other circumstances find themselves socially isolated or excluded. Kjeld Kirk Kristiansen is a member of the Foundation's Executive Council.

Holistic approach to environmental impact
It is important for the LEGO Group to contribute to a good external environment, and one of the substantial contributions from the LEGO Group is to educate children – the builders of tomorrow – about renewable energy. The LEGO Group's school products comprise building sets with solar panels, windmills, etc under the heading e-lab.

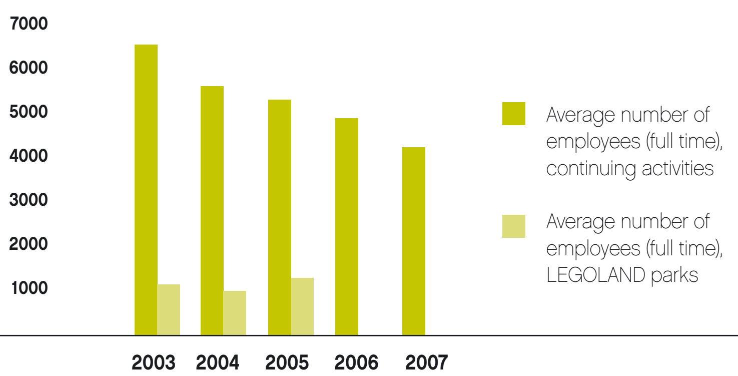
Renewable energy was also the theme of this year's FIRST LEGO LEAGUE competition, in which more than 100,000 children are competing worldwide based on LEGO products.



MINDSTORMS NXT INVADES THE CLASS ROOMS

Robotics is becoming an important discipline in schools – and this is reflected in the sale of LEGO MINDSTORMS NXT. More than 150,000 sets were sold in 2007 alone. MINDSTORMS is used for educational purposes, for example in projects dealing with water or the measurement of energy.

NUMBER OF EMPLOYEES



With respect to the LEGO Group's own approach to environmental work, 2007 focused intensively on obtaining ISO 14001 certification of the activities at Billund, Denmark, and of the model building activities in Kladno, the Czech Republic, in order to ensure continued focus on and improvement of environmental efforts. The factories at Billund were certified at the end of 2007, while certification in Kladno, the Czech Republic, is anticipated in the spring of 2008.

The LEGO Group is also focusing on the Group's energy consumption for the manufacture of its products. However, as parts of the production are being transferred to external suppliers, the LEGO Group's direct share of energy consumption and other environmental impact on society will be reduced compared with previously.

It is therefore necessary to introduce a more holistic mapping of the environmental impact of the LEGO Group. This mapping is important in order to ensure the right priorities in the Group's environmental work in connection with the change from being primarily self-producing to having material parts of the production outsourced to cooperation partners.

In connection with the latest UN Global Compact Leaders Summit the LEGO Group signed the Caring for the Climate initiative to emphasise the Group's support of efforts in the climate area.

Shareholders

Best in toy industry in delivering sustainable value creation.

In order to achieve long-term sustainability, it is important for the shareholders that the Group is endeavouring to increase value creation for all stakeholders. In this way, targeted efforts are made to ensure future sustainability, in which the right balance between financial value creation, brand consideration and responsibility is ensured at any time.

As regards financial value creation, it is satisfactory that the good earnings create a continued basis for family ownership.

As a family-owned company, the LEGO Group wants to live up to the relevant requirements relating to listed companies. The same applies to corporate governance, as described below.

Ownership structure

As from 2007, the designation LEGO Group refers to the activities organised in LEGO A/S and its subsidiaries (for Group Structure, see the cover). LEGO A/S is owned 75% by LEGO Holding A/S, which is wholly owned by Kjeld Kirk Kristiansen and his three children. The remaining 25% is owned by LEGO Invest A/S, which is owned by the LEGO Foundation.

Kjeld Kirk Kristiansen is the Vice Chairman of the Board of Directors of LEGO A/S, and thus constitutes the Chairmanship together with the Chairman of the Board.

Representing the fourth generation of the owners of the LEGO Group, Thomas Kirk Kristiansen is also a member of the Board of Directors of LEGO A/S. Like his father, Kjeld Kirk Kristiansen, he is a member of the Brand & Innovation Board (see the section "Cross-functional boards" below). Moreover, the owner family participates actively in the Group's charity work.

KIRKBI A/S

At the General Meeting in 2007, it was decided by the owner families of KIRKBI A/S, the Kirk Kristiansen family and the Kirk Johansen family, to demerge KIRKBI into two companies.
KIRKBI A/S has so far been owned by the two families, Kirk Kristiansen, comprising Kjeld Kirk Kristiansen and his children, and Kirk Johansen, comprising Gunhild Kirk Johansen

and her children. The demerger means that the company's assets have been transferred to two new companies, which are owned by one of the families.

Kjeld Kirk Kristiansen and his children will carry on their share in KIRKBI Invest A/S, in which the LEGO trademarks and the activities otherwise relating to the LEGO Group have been placed. In the course of 2008, the KIRKBI Invest A/S shares will be replaced by LEGO Holding A/S shares, so that this company will in future be the Parent Company of the total activities of the Kirk Kristiansen family, including the LEGO Group and the ownership share of Merlin Entertainments Group (the owner of the LEGOLAND Parks). In this connection, LEGO Holding A/S will change its name to KIRKBI A/S.

Board of Directors

The Board of Directors consists of six members. Two of these are considered dependent on the company due to ownership. The Chairman and three other members of the Board are considered to be independent.

Six ordinary Board meetings are held each year, one of which is a two-day strategy seminar. Each year, a plan of the objective and contents of each Board meeting is prepared based on the role and responsibilities of the Board of Directors.

The Chairmanship, consisting of the Chairman and the Vice Chairman of the Board, is in current contact with Corporate Management and holds meetings with Corporate Management on a monthly basis. The Chairmanship also meets with the auditors appointed at the General Meeting, for example in connection with the Annual Report.

The rules of procedure of the Board of Directors are being reconsidered on an annual basis. In order to ensure the continued development of the Board's work, self-assessment procedures were performed in 2007 as well. The results of the self-assessment were discussed by the Board of Directors, and specific proposals for improvements were adopted to be followed up at subsequent Board meetings.

In order to ensure a clear framework and clear directions between the owners, the Board of Directors and Corporate Management, the distribution of responsibilities is described in an instruction. The primary contact between the Chairmanship and Corporate Management takes place via the Chairman. No committees have been established under the Board of Directors.

Corporate Management and Group Management

Corporate Management

In 2007 Corporate Management consisted of Jørgen Vig Knudstorp, President and CEO.

Group Management

The LEGO Group comprises four business areas: "Markets & Products", "Community, Education & Direct", "Global Supply Chain" and "Corporate Center", each being headed by an Executive Vice President.

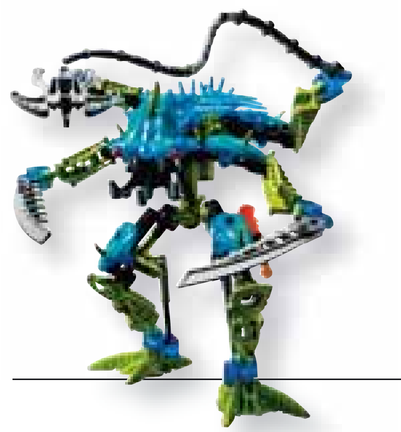
The four Executive Vice Presidents and the President and CEO, Jørgen Vig Knudstorp, together make up the LEGO Group Management.

Markets & Products

Markets & Products is globally responsible for product development, marketing, sales and distribution to retailers. The area is headed by Mads Nipper, Executive Vice President.

Community, Education & Direct

Community, Education & Direct is responsible for the direct contact with consumers in the LEGO Group's own brand stores, through online sales and through mail order sales. Moreover, the business area is in charge of the communication with the Group's many fans



BIONICLE GOES ON THE SCREEN AGAIN

In 2009 the BIONICLE universe will return on the screen. A contract with the American animation company Tinseltown Toons was signed in the autumn of 2007 and will result in three films during the years 2009 to 2011. So far, three films about the BIONICLE figures have been produced.

as well as the development of new business concepts directly catering for the consumers. Finally, the area is responsible for the LEGO Group's development, marketing and sale of educational materials.
The area is headed by Lisbeth Valther Pallesen, Executive Vice President.

Global Supply Chain
Global Supply Chain is responsible for the Group's supply chain from purchases over production to shipping to the distribution centres. The area is headed by Iqbal Padda, Executive Vice President.

Corporate Center
Corporate Center comprises the areas Corporate Finance, Corporate IT, Corporate HR, Corporate Communications, Corporate Governance and Sustainability as well as Shared Services, and is headed by Christian Iversen, Executive Vice President.

Cross-functional boards
In order to ensure coordination and quick decision-making close to the markets, four cross-functional boards under Group Management, consisting of groups of heads of business areas, have been empowered as follows:
The Brand & Innovation Board sets the overall strategic direction of the LEGO brand and the development of new business ideas. Both the business areas Markets & Products and Community, Education & Direct are represented in this forum. In order to ensure the right overall direction of innovative efforts and of the brand, members of both Group Management and the owner family, represented by Kjeld Kirk Kristiansen and Thomas Kirk Kristiansen, are also represented on the Brand & Innovation Board. The Chairman of the Brand & Innovation Board is Jørgen Vig Knudstorp, President and CEO.
The Operations Board ensures the connection in the LEGO Group's operating processes, including sales, marketing and production planning. All four business areas are represented on the Operations Board, the Chairman of which is Iqbal Padda, Executive Vice President.
The IT Board ensures the allocation and prioritisation of strategic IT projects in the Group. The objective is to ensure close integration between business requirements and IT resources. All four business areas are represented on the IT Board, and the Chairman is Christian Iversen, Executive Vice President.
The Corporate Compliance Board ensures the preparation and follow-up of the Group's policies and overall guidelines in relation to all stakeholder groups, and monitors that the LEGO Group complies with national and international legislation as well as its own ethical rules. The Chairman of the Corporate Compliance Board is Christian Iversen, Executive Vice President, and besides Jørgen Vig Knudstorp, President and CEO, the board also includes members of, among others, the legal department and Corporate Governance department.

A Global Works Council has also been established, in which management and employee representatives from all over the world meet annually to discuss the challenges facing the company.

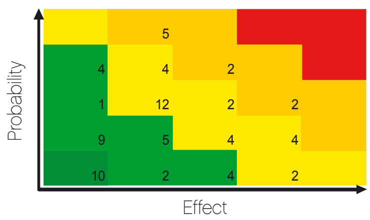
Risk management
Risk management is being conducted within four areas: strategic, financial, operating and hazard risks.

Being responsible for current risk management, Group Management increased the efforts particularly with respect to strategic risks in 2007 by ensuring explicit and systematic control of these risks.

The work with operating, financial and hazard risks still follows the policies and strategies for the areas as laid down by the Board of Directors, as there are no material reasons for changing these.
For these areas, systematic identification, assessment and hedging are made according to the strategies.
The work relating to the optimal handling of

strategic risks was strengthened in 2007 with the establishment of a control function as well as a policy and a strategy for the area based on international standards.
All material risks faced by the Group have thus been identified in a consolidated risk matrix, in which the effect and probability of an incident are mapped and prioritised.

The risk matrix before control measures is as follows:



The most material risks reported to the Board of Directors relate to the outsourcing of the supply chain and, in this connection, the securing of the ability to supply and the fulfilment of the objectives set for the outsourcing.

Other risks that have been prioritised in 2007, and in respect of which explicit control measures have been initiated, comprise innovation and changes in competitive conditions on the market.

The Group thus established explicit strategies for optimal handling of all material risks in 2007 – several of which have actually been initiated already, especially in connection with the outsourcing projects. They have now been incorporated into a defined and monitored control portfolio.

The Group moreover ensured that the monitoring of risks and current adjustment of risk exposure take place in accordance with the policy and strategy approved by the Board of Directors – and are kept within the limits of the approved risk appetite.

Other risks are assessed by Group Management and its cross-functional boards through systematic monitoring of key indicators, such as sales from the shops. Current decisions relating to the handling of these risks are an explicit and integrated part of the daily management of the Group.

FIRE STATION
THE HIT OF THE YEAR

The top-selling LEGO product in 2007 was the Fire Station from the LEGO City line, which sold no less than 538,458 sets all over the world.

Expectations for 2008

The global toy market is subject to great uncertainty in 2008. It is very likely that the trends of stagnation and recession seen in the USA during the last six months of 2007 will continue, or perhaps even intensify, in 2008. The US market constitutes a very extensive part of the global toy market, and therefore the impact of this can only partly be compensated for by the more positive development expected on the European and Asian toy markets.

About one third of the LEGO Group's sales take place in North America, and a recession on this market therefore constitutes a considerable risk element for the Group.

However, the LEGO Group wants to utilise the momentum which the Group experienced all over the world in 2007, and which has so far continued into 2008. Based on this, the LEGO Group therefore expects to achieve a sales growth in 2008 of 3-5% in local currency.

The Group's focus products will still be the classic product lines such as LEGO City, LEGO DUPLO, LEGO Creator and LEGO Technic, but also the LEGO *Star Wars* product line, which is to an increasing extent considered a classic LEGO product, is expected to continue the success of previous years. Moreover, good results are expected from the new play themes LEGO Indiana Jones and LEGO Agents. The increase in sales is primarily expected to derive from Europe, where especially the East European markets are rapidly growing at present.

The LEGO Group is still facing significant challenges in its work to build up its future business model. In 2008 the Group will therefore work intensively on optimising the relocated production in order to achieve the planned cost savings. In this respect, it was decided in February 2008 that the LEGO Group will take over operations of the processing and packing activities in Kladno, Czech Republic, as well as global procurement of raw materials for the production of LEGO products in own as well as suppliers' production. Moreover, the Group will continue improving the efficiency of the basic planning processes, and will continue investing in IT and innovation.

In 2008 profitability will be challenged by a number of external factors. Increasing oil prices affect profitability through increasing expenses in respect of raw materials, energy and transportation. Furthermore, a continued decline in the dollar rate will considerably reduce profitability on sales on the large US market. Finally, a number of other external expenses, including payroll expenses, are expected to affect profitability.

Despite the external factors challenging profitability, the LEGO Group expects – through focus on costs and increased sales – to achieve a profit before special items, financial income and expenses and tax in line with the profit for 2007, when disregarding major exchange rate movements in key currencies and nonrecurring items, if any.


LEGO

Management's Statement on the Annual Report

The Executive and Supervisory Boards have today considered and adopted the Annual Report of LEGO A/S for 2007.

The Annual Report for the Group is prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports.

The Annual Report for the Parent Company is prepared in accordance with the Danish Financial Statement Act. We consider the accounting policies applied appropriate and the accounting estimates made reasonable. Therefore, in our opinion, the Annual Report gives a true and fair view of the financial position of the Group and the Parent Company and of the results of the Group and Parent Company operations and the cash flows of the Group.

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

Billund, 8 February 2008

Executive Board

Jørgen Vig Knudstorp
President and CEO

Supervisory Board

Mads Øvlisen
Chairman

Kjeld Kirk Kristiansen
Vice-chairman

Lars Gunnar Bertelson Brock

Thomas Kirk Kristiansen

Kåre Schultz

Torben Ballegaard Sørensen

Independent Auditor's Report

To the Shareholders of LEGO A/S

We have audited the Annual Report of LEGO A/S for the financial year 1 January - 31 December 2007, pages 1-89, which comprises Management's Statement, Management's Report, significant accounting policies, income statement, balance sheet, statement of changes in equity, cash flow statement and notes for the Group as well as for the Parent Company. The Annual Report for the Group is prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports, and in accordance with the Danish Financial Statements Act for the Parent.

Management's Responsibility for the Annual Report

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Annual Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the Annual Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Annual Report.

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

Our audit has not resulted in any qualification.

Opinion

In our opinion, the Annual Report gives a true and fair view of the financial position at 31 December 2007 of the Group and the Parent Company and of the results of the Group and Parent Company operations and the cash flows of the Group for the financial year 1 January - 31 December 2007 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports for the Group, and in accordance with the Danish Financial Statements Act for the Parent.

Billund, 8 February 2008

PricewaterhouseCoopers
Statsautoriseret Revisionsaktieselskab

Lars Holtug
State Authorised Public Accountant

Henrik Kragh
State Authorised Public Accountant

LEGO Group Income Statement 1 January - 31 December

[mDKK]

	Note	2007	2006
Revenue	3	8,027	7,798
Production costs	4,6,7	(2,812)	(2,739)
Gross profit		**5,215**	**5,059**
Other operating income		224	141
Sales and distribution expenses	4,6,7	(2,794)	(2,655)
Administrative expenses	4,5,6,7	(575)	(496)
Other operating expenses	4,6,7,10	(599)	(644)
Operating profit before special items		**1,471**	**1,405**
Reversal of impairment of fixed assets	8	24	270
Restructuring costs and other special items	4,9	(46)	(350)
Operating profit		**1,449**	**1,325**
Profit/(loss) from associates after tax	17	(1)	–
Financial income	11	123	135
Financial expenses	12	(157)	(179)
Profit before income tax		**1,414**	**1,281**
Tax on profit for the year	13	(386)	9
Net profit for the year		**1,028**	**1,290**
Attributable to:			
Equity holders of the Company		1,023	1,286
Minority interests		5	4
		1,028	**1,290**

LEGO Group Balance Sheet at 31 December

[mDKK]

	Note	2007	2006
ASSETS			
Non-current assets			
Development projects and prepayments for intangible assets		30	–
Patents		4	–
Intangible assets	15	**34**	**–**
Land, buildings and installations		543	705
Plant and machinery		431	358
Other fixtures and fittings, tools and equipment		126	97
Fixed assets under construction and prepayments for property, plant and equipment		54	38
Property, plant and equipment	16	**1,154**	**1,198**
Deferred tax assets	25	281	388
Investments in associates	17	3	–
Marketable securities	20	–	75
Other non-current assets		**284**	**463**
Total non-current assets		**1,472**	**1,661**
Current assets			
Inventories	18	946	930
Trade receivables	19	1,796	1,824
Other receivables		681	421
Current tax receivables		71	71
Cash at bank and in hand		1,001	1,697
		4,495	4,943
Non-current assets classified as held for sale	14	42	303
Total current assets		**4,537**	**5,246**
TOTAL ASSETS		**6,009**	**6,907**

LEGO Group Balance Sheet at 31 December

[mDKK]

	Note	2007	2006
EQUITY			
Share capital	21	20	20
Fair value reserve		22	23
Cumulative translation adjustments		(319)	(184)
Retained earnings	22	1,948	1,325
LEGO A/S' share of equity		1,671	1,184
Minority interests		8	7
Total equity		**1,679**	**1,191**
LIABILITIES			
Non-current liabilities			
Subordinate loan capital	23	1,100	1,100
Borrowings	23	237	376
Deferred tax liabilities	25	128	127
Provisions for pension	26	63	62
Provisions	28	93	215
Other long-term debt	27	79	78
Total non-current liabilities		**1,700**	**1,958**
Current liabilities			
Debt regarding group restructuring	24	–	1,288
Borrowings	23	77	4
Trade payables		778	749
Current tax liabilities		121	108
Provisions	28	174	176
Other short-term debt	27	1,480	1,433
Total current liabilities		**2,630**	**3,758**
Total liabilities		**4,330**	**5,716**
TOTAL EQUITY AND LIABILITIES		**6,009**	**6,907**

LEGO Group Statement of Changes in Equity

[mDKK]

	Share capital	Fair value reserve	Cumulative translation adjustments	Retained earnings	The LEGO Group's share of equity	Minority interests	Total equity
Balance at 1 January 2006	**20**	**–**	**–**	**512**	**532**	**4**	**536**
Difference between carrying amount and aquistion price, pooling of interests	–	–	–	27	27	–	27
Balance at 1 January 2006	**20**	**–**	**–**	**539**	**559**	**4**	**563**
Hedges	–	31	–	–	31	–	31
Deferred tax effect on equity	–	(8)	–	–	(8)	–	(8)
Currency translation adjustments	–	–	(184)	–	(184)	–	(184)
Net income/(expenses) recognised directly in equity	–	23	(184)	–	(161)	–	(161)
Net profit/(loss) for the year	–	–	–	1,286	1,286	4	1,290
Comprehensive income/(expenses) for 2006	**–**	**23**	**(184)**	**1,286**	**1,125**	**4**	**1,129**
Dividend paid relating to prior year	–	–	–	(500)	(500)	(1)	(501)
Balance at 31 December 2006	**20**	**23**	**(184)**	**1,325**	**1,184**	**7**	**1,191**
Balance at 1 January 2007	**20**	**23**	**(184)**	**1,325**	**1,184**	**7**	**1,191**
Hedges	–	(2)	–	–	(2)	–	(2)
Deferred tax effect on equity	–	1	–	–	1	–	1
Currency translation adjustments	–	–	(135)	–	(135)	–	(135)
Net income/(expenses) recognised directly in equity	–	(1)	(135)	–	(136)	–	(136)
Net profit/(loss) for the year	–	–	–	1,023	1,023	5	1,028
Comprehensive income/(expenses) for 2007	**–**	**(1)**	**(135)**	**1,023**	**887**	**5**	**892**
Dividend paid relating to prior year	–	–	–	(400)	(400)	(4)	(404)
Balance at 31 December 2007	**20**	**22**	**(319)**	**1,948**	**1,671**	**8**	**1,679**

LEGO Group Cash Flow Statement 1 January – 31 December

[mDKK]

	Note	2007	2006
Cash flows from operating activities:			
Profit before income tax		1,414	1,281
Interest paid etc		(137)	(179)
Interest received etc		121	135
Income tax (paid)/received		(264)	(37)
Other reversals with no effect on cash flows	32	(183)	(300)
Changes in working capital	33	82	257
Net cash generated from operating activities		1,033	1,157
Cash flows from investing activities:			
Acquisition of associates		(4)	–
Purchases of property, plant and equipment		(399)	(316)
Purchases of intangible assets		(34)	–
Proceeds from sale of marketable securities		75	–
Proceeds from sale of property, plant and equipment		388	487
Net cash generated from investing activities		26	171
Cash flows from financing activities:			
Dividend paid to shareholders		(400)	(500)
Proceeds from borrowings		253	1,100
Repayments of borrowings		(320)	(3)
Net cash (used in)/generated from financing activities		(467)	597
Total cash flows		**592**	**1,925**
Settlement of debt regarding group restructuring	24	(1,288)	(349)
Cash and cash equivalents at 1 January	34	1,697	121
Cash and cash equivalents at 31 December	34	**1,001**	**1,697**

NOTE 1.

Significant accounting policies

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

The Annual Report is the first Annual Report that is presented in accordance with IFRS. IFRS 1 "First-time Adoption of International Financial Reporting Standards" has been applied for the transition. The date of transition to IFRS is 1 January 2006. In accordance with IFRS 1, all Standards and Interpretations that had entered into force at the reporting date, 31 December 2007, have been applied retrospectively with the exception of some items where IFRS 1 exempts from retrospective application. The applied exemption from IFRS 1 is the exemption to apply for cumulative translation adjustments arising from translating the accounts of the foreign entities from the date of transition. The comparative figures in the Annual Report have been restated to reflect the changed accounting principles applied.

The disclosures required by IFRS 1, First-time Adoption of International Financial Reporting Standards, concerning the transition from Danish GAAP to IFRS are provided in note 36.

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

Effects of new accounting pronouncements

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

Endorsed
- None

Not yet endorsed
- Changes to IAS 1 Presentation of financial statements
- Changes to IAS 23, Borrowing costs
- IFRIC 13, Customer loyalty programmes
- IFRIC 14, IAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Management will assess the potential impact once the standards and interpretations have been endorsed.

Consolidation practice

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

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

During 2006 certain subsidiaries and activities were transferred from the LEGO Holding A/S Group. These transfers have been accounted for using the pooling of interests method, and therefore the comparative figures have been restated also including the period before the transfer. Furthermore, any differences between cost and net asset value have been reported under shareholders' equity.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

Foreign currency translation

Functional and presentation currency
Items included in the financial state-

ments of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. The Consolidated Financial Statements are presented in Danish kroner (DKK), which is the functional and presentation currency of the Parent Company.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Group companies

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

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

Derivative financial instruments

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

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

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time is transferred to the income statement within financial income or expeses.

Income Statement

Recognition of sales and revenues

Sales represent the fair value of the sale of goods excluding value added tax and after deduction of provisions for returned products, rebates, trade discounts and allowances.

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

Revenues from the sale of goods are recognised when all the following specific conditions have been met:

- Significant risks and rewards of ownership of the goods have been transferred to the buyer;
- The revenues can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the LEGO Group, and
- Costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Licence fees are recognised on an accrual basis in accordance with the terms and substance of the relevant agreement.

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

Taxes

Current income tax, based on taxable income for the year, is expensed together with changes in deferred tax for the year.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements.
The provision of deferred tax reflects the effect of any tax losses carried forward, etc to the extent it is considered likely that such items can be utilised against future taxable income. To the extent cal-

culated deferred tax is positive, this is recognised in the balance sheets as a deferred tax asset at the expected realisable value.

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

Balance Sheet

Intangible assets
The useful life of all intangible assets is finite.

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

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

Patents
Acquired patent rights are capitalised on the basis of the costs incurred. These costs are amortised over the shorter of their estimated useful lives and the contractual duration.

Property, plant and equipment
Land and buildings comprise mainly factories, warehouses and offices. All property, plant and equipment (PPE) are measured at cost, less subsequent depreciation and impairment, except for land, which is measured at cost less impairment.

Depreciation is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life as follows:

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

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

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

Cost price comprises the acquisition price and costs directly related to the acquisition until the time when the asset is ready for use. The cost of self constructed assets comprises direct costs for wage consumption and materials. Interest related to financing self constructed assets is recognised in the income statement.

Leases
Leases of assets where the Group has substantially all risks and rewards of ownership are capitalised as finance leases under property, plant and equipment and depreciated over the estimated useful lives of the assets, according to the periods listed under the section Property, plant and equipment. The corresponding finance lease liabilities are included in liabilities.

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

Impairment of assets
Assets that have an indefinite useful life are not subject to depreciation and amortisation but are tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that are subject to depreciation and amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

Inventories
Inventories are measured at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

The cost of raw materials, consumables and purchased goods comprises the invoice price plus delivery expenses. The cost of finished goods and work in progress comprises the purchase price of materials and direct labour costs plus indirect production costs. Indirect production costs include indirect materials and wages, maintenance and depreciation on plant and machinery, factory buildings and other equipment as well as expenses for factory administration and management.

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

Cumulative translations reserve
The translation reserve for exchange rate differences consists of exchange rate differences that occur when translating the foreign subsidiaries' financial statements from their functional currency into the LEGO Group's presentation currency. On disposal of the net investment, the reserve for exchange differences of that foreign subsidiary is recognised in the income statement.
The reserve for exchange rate differences has been reset to zero at January 1 2006 in accordance with IFRS 1.

Fair value reserve
The fair value reserve consist of gains and losses from cash flow hedges.

Dividend distribution
Dividends are recognised as a liability in the period in which they are declared at the Annual General Meeting.

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

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

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

Employee benefits
Wages, salaries, social security contributions, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. Where the Group provides long-term employee benefits, the costs are accrued to match the rendering of the services by the employees concerned.

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

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

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

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

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

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

Other liabilities
Other liabilities are measured at amor-

tised cost unless specifically stated otherwise.

Cash Flow Statement

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

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

Cash flows from investing activities comprise payments relating to acquisitions and disposals of activities, intangible assets, property, plant and equipment as well as fixed asset investments.

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

Cash and cash equivalents comprise cash and bank overdrafts, etc that can readily be converted into cash reduced by short-term debt to banks.

Financial ratios

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

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

OPERATING MARGIN (ROS): $\dfrac{\text{Profit before financials and tax (EBIT) x 100}}{\text{Revenue}}$

NET PROFIT MARGIN: $\dfrac{\text{Net profit for the year x 100}}{\text{Revenue}}$

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

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

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

EQUITY RATIO: $\dfrac{\text{Equity (including minority interests) x 100}}{\text{Total liabilities and equity}}$

Average invested capital is calculated as property, plant and equipment, inventories and receivables excluding tax receivables less provisions, excluding provisions relating to restructuring and deferred tax, and less short-term debt, excluding mortgage loans and tax. At the statement of ROIC II, provisions relating to restructuring are moreover deducted.

Notes

[mDKK]

NOTE 2. Significant accounting estimates and judgments

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

Estimates and judgments used in the determination of reported results are continuously evaluated. Management bases the judgments on historical experience and other assumptions that Management assesses are reasonable under the given circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The following accounting estimates and judgments are those that Management assesses to be material for the Annual Report:

Inventories
Calculation of indirect production costs requires estimates and judgments regarding various assumptions. The sensitivity of the estimated measurement to these assumptions can be significant. It is the assessment of Management that the assumptions and estimates used are reasonable.

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

NOTE 3. Revenue

Revenue contains sale of goods and license income. Sale of goods amounts to DKK 7,945 million (DKK 7,710 million in 2006), and license income amounts to DKK 82 million (DKK 88 million in 2006).

NOTE 4. Expenses by nature

	2007	2006
Raw materials and consumables used	1,561	1,525
Employee expenses (note 6 and 9)	1,851	2,192
Depreciation and amortisation expenses (note 7)	277	208
License and royalty expenses	484	517
Other external charges	2,653	2,442
Total operating expenses and restructuring expenses	**6,826**	**6,884**

Notes

[mDKK]

NOTE 5. Auditors' fees

	2007	2006
The following remuneration was paid to PricewaterhouseCoopers:		
Audit services	8	8
Other services	13	12
	21	**20**

NOTE 6. Employee expenses

	2007	2006
Salaries and other remuneration	1,651	1,757
Pension costs, defined benefit plans (note 26)	9	11
Pension costs, defined contribution plans	86	51
Other and social security expenses	73	87
	1,819	**1,906**
Classified as:		
Production costs	502	652
Sales and distribution expenses	849	805
Administrative expenses	316	285
Other operating expenses	152	164
	1,819	**1,906**
Including Key Management Personnel:		
Salaries	16	15
Short-term incentive plans	7	7
Long-term incentive plans	8	8
	31	**30**

Incentive plans comprise of a short-term incentive plan based on yearly performance, and a long-term incentive plan related to long-term goals regarding value creation.

Average number of full-time employees	**4,199**	**4,908**

Notes

[mDKK]

NOTE 7. Depreciation and amortisation

	2007	2006
Buildings and installations	26	8
Plant and machinery	220	143
Other fixtures and fittings, tools and equipment	31	57
	277	**208**
Classified as:		
Production costs	213	107
Sales and distribution expenses	26	42
Administrative expenses	37	58
Other operating expenses	1	1
	277	**208**

NOTE 8. Reversal of impairment of fixed assets

According to the accounting policies, impairment tests are performed where there is internal or external indication of impairment of individual assets or groups of assets. In 2006 a number of impairment tests of the carrying amounts of the Group's fixed assets were carried out. The carrying amounts of fixed assets have been compared with the recoverable amount, determined as the higher of the net selling price and the value in use of the asset. Where the recoverable amount is lower than the carrying amount of the asset, an impairment loss has been recognised. A discount rate before tax in the interval of 10-18% has been used in the calculations.

The calculations have been made considering the cash flows and the business of the LEGO Group comprising assets related to the following cash generating groups: Play Materials, Brand Retail and Shop@Home. Play Materials is the Group's production and selling of toys. Brand Retail is the store chain where the LEGO Group sells directly to the consumers, whereas Shop@Home is the internet and mail-order outlet.

In connection with the tests made in 2006 and 2007, no need for further impairment of fixed assets was identified; on the contrary, reversals were made of impairments made in previous years of DKK 24 million (DKK 270 million in 2006) in connection with reassessment of fixed assets. This reversal is a consequence of a changed assessment of profitability, as the Group has again become value creating as described in "Results for the year".

	2007	2006
Brand Retail	14	144
Play Materials	10	126
	24	**270**

Notes

[mDKK]

NOTE 9. Restructuring costs and other special items

	2007	2006
Employee related expenses	32	286
Close-down of production and office facilities	25	72
Reversal of provisions for restructuring	(37)	(67)
Other	26	59
	46	**350**

NOTE 10. Research and development costs

	2007	2006
Research and development costs charged during the period	222	202
	222	**202**

NOTE 11. Financial income

	2007	2006
Interest income from bonds	6	35
Conversion gain on mortgage loans	20	12
Change in present value of provisions (note 28)	3	3
Interest income from credit institutions	43	52
Gains from financial contracts	51	33
	123	**135**

NOTE 12. Financial expenses

	2007	2006
Interest expenses on mortgage loans	19	15
Interest expenses to related parties	94	136
Currency exchange losses, net	38	15
Other interest expenses	6	13
	157	**179**

Notes

[mDKK]

NOTE 13. Tax on profit for the year

	2007	2006
Current tax on the profit	(270)	(41)
Deferred tax on the profit	(130)	102
Other	(11)	–
Adjustment of tax relating to previous years, current tax	3	(52)
Adjustment of tax relating to previous years, deferred tax	22	–
	(386)	**9**
Income tax expenses can be specified as follows:		
Calculated 25% (28% in 2006) tax on profit before income tax	(354)	(359)
Tax effect of:		
Higher/lower tax rate in subsidiaries	(19)	4
Non-taxable income	7	1
Non-deductible expenses	(20)	(6)
Deferred tax, effect of change in Danish tax rates in 2007	(17)	–
Adjustment of tax relating to previous years	11	(52)
Changed valuation of deferred tax asset	17	421
Other	(11)	–
	(386)	**9**
Effective tax rate	27%	(1)%

Notes

[mDKK]

NOTE 14. Non-current assets held for sale

	2007	2006
Cost at 1 January	900	1,064
Exchange rate adjustment to year-end rate	(24)	(35)
Additions	2	–
Disposals	(1,148)	(259)
Transfer from fixed assets	400	130
Cost at 31 December	130	900
Depreciation and impairment losses at 1 January	597	846
Exchange rate adjustment to year-end rate	(16)	(24)
Impairment losses/reversals for the year	–	(85)
Disposals	(698)	(228)
Transfer from fixed assets	205	88
Depreciation and impairment losses at 31 December	88	597
Carrying amount at 31 December	**42**	**303**

Assets held for sale in 2007 comprise land and buildings in Germany, whereas assets held for sale in 2006 comprise land and buildings in Germany and Switzerland. The land and buildings were classified as held for sale due to relocation of activities.

Land and buildings in Denmark with a carrying amount of DKK 195 million have been transferred to assets held for sale in 2007. Land and buildings in Switzerland and Denmark have been sold in 2007 with a gain of DKK 224 million included in other operating income (land and buildings were sold with a gain of DKK 102 million in 2006). Land and buildings in Germany are expected to be sold in 2008.

NOTE 15. Intangible assets

	Patents	Development projects and prepayments	Total
Cost at 1 January 2007	–	–	–
Exchange rate adjustment to year-end rate	–	–	–
Additions	4	30	34
Disposals	–	–	–
Cost at 31 December 2007	4	30	34
Amortisation and impairment losses at 1 January 2007	–	–	–
Amortisation for the year	–	–	–
Impairment losses for the year	–	–	–
Amortisation and impairment losses at 31 December 2007	–	–	–
Carrying amount at 31 December 2007	**4**	**30**	**34**

Notes

[mDKK]

NOTE 16. Property, plant and equipment

	Land, buildings & installations	Plant & machinery	Other fixtures & fittings, tools and equipment	Fixed assets under construction and prepayments	Total
Cost at 1 January 2006	1,726	2,909	1,037	30	5,702
Exchange rate adjustment to year-end rate	(41)	(17)	(53)	–	(111)
Additions	13	203	35	65	316
Disposals	(285)	(433)	(293)	(6)	(1,017)
Transfers to non-current assets held for sale	(130)	–	–	–	(130)
Other transfers	31	20	–	(51)	–
Cost at 31 December 2006	1,314	2,682	726	38	4,760
Depreciation and impairment losses at 1 January 2006	869	2,722	957	–	4,548
Exchange rate adjustment to year-end rate	(20)	(16)	(40)	–	(76)
Depreciation for the year	8	143	57	–	208
Reversal of impairment losses made in previous years	(25)	(98)	(77)	–	(200)
Disposals	(135)	(427)	(268)	–	(830)
Transfers to non-current assets held for sale	(88)	–	–	–	(88)
Other transfers	–	–	–	–	–
Depreciation and impairment losses at 31 December 2006	609	2,324	629	–	3,562
Carrying amount at 31 December 2006	**705**	**358**	**97**	**38**	**1,198**
Including assets under finance leases	**87**	**–**	**–**	**–**	**87**

Notes

[mDKK]

NOTE 16. Property, plant and equipment, continued

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

Property, plant and equipment in general

Obligations regarding purchase of property, plant and equipment DKK 11 million exist at 31 December 2007 (DKK 46 million at 31 December 2006).

Assets under finance leases

The assets under finance leases consist of buildings and hardware (in 2006 finance leases consisted of buildings).

Notes

[mDKK]

NOTE 17. Investments in associates

	2007	2006
Cost at 1 January	–	–
Additions	4	–
Cost at 31 December	4	–
Value adjustment at 1 January	–	–
Share of profit/(loss)	(1)	–
Value adjustment at 31 December	(1)	–
Carrying amount at 31 December	**3**	**–**

The group's share of the results of its principal associates, all of which are unlisted, and its share of the assets (including goodwill and liabilities) are as follows:

						The LEGO Group's share of	
Name	Revenue	Results for the year	Total assets	Total liabilities	Total equity	Equity	Profit for the year
Kabooki A/S, Denmark (19.8%)	139	(4)	60	43	17	3	(1)

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

The LEGO Group is considered to have significant influence in Kabooki A/S because the LEGO Group has representation on the Board of Directors of Kabooki A/S. The company is therefore classified as an investment in an associate.

NOTE 18. Inventories

	2007	2006
Raw materials and components	96	123
Work in progress	235	234
Finished goods	615	573
	946	**930**
Cost of inventories recognised in expenses and included in "production costs"	2,572	2,390

Notes

[mDKK]

NOTE 19. Trade receivables

	2007	2006
Trade receivables (gross)	1,933	1,975
Provisions for bad debts:		
Balance at the beginning of the year	(151)	(154)
Exchange rate adjustment to year-end rate	11	11
Change in provision during the year	(6)	(16)
Losses realised during the year	9	8
Balance at the end of the year	(137)	(151)
Trade receivables (net)	**1,796**	**1,824**

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

77% of total trade receivables is covered by insurance, and the credit risk is therefore DKK 442 million corresponding to 23% of trade receivables. The Group's credit risk in relation to trade receivables is considered to be low.

NOTE 20. Marketable securities

	2007	2006
Bonds	–	75
	–	**75**
Original acquisition cost	–	76

Notes
[mDKK]

NOTE 21. Share capital

The share capital consists of:

1	A-shares of DKK 1,000 or multiples hereof (2006: 1)
9	B-shares of DKK 1,000 or multiples hereof (2006: 9)
10	C-shares of DKK 1,000 or multiples hereof (2006: 10)
20	**Total shares at 31 December 2007 (2006: 20)**

The total number of shares is 205 (205 in 2006). All issued shares are fully paid up.

Each ordinary A-share of DKK 1,000 gives 10 votes, while each ordinary B-share of DKK 1,000 gives 1 vote, and each ordinary C-share of DKK 1,000 gives 1 vote. C-shares can receive an annual maximum dividend of 8%.

Shareholders that own more than 5% of the share capital:
LEGO Holding A/S, Koldingvej 2, 7190 Billund, Denmark
LEGO Invest A/S, Koldingvej 2, 7190 Billund, Denmark

NOTE 22. DIVIDENDS PER SHARE

The dividends paid in 2007 were DKK 400 million corresponding to DKK 2 million in average per share (DKK 500 million in 2006, DKK 2.4 million in average per share). Dividends of DKK 1,000 million will be declared in 2008, corresponding to DKK 4.9 million in average per share.

NOTE 23. Borrowings

Maturity of the financial liabilities is disclosed in accordance to category and period of maturity. All interest payments on and repayments of financial assets and liabilities are based on contracts agreements. Interest payments on variable floating-rate instruments are fixed by a zero coupon interest structure. None of the cash flow are discounted.

Subordinate loan capital is a convertible loan from LEGO Holding A/S that is irredeemable from the lender and is due in December 2016. The loan has been granted on special terms and can be repaid before maturity by the borrower provided that the equity ratio for the Group is at least 40% after repayment. The lender is at any time entitled to convert the debt or part of the debt into share capital of LEGO A/S. All proceeds from the loan is classified as loan.
Moreover, the loan is subordinated in favour of all other creditors.

Notes

[mDKK]

NOTE 23. Borrowings, continued

	2007	2006
Non-current:		
Credit institutions	237	376
Subordinate loan capital	1,100	1,100
	1,337	1,476
Current:		
Credit institutions	77	4
	77	4
Total borrowings, carrying amount	1,414	1,480

The maturity of non-current borrowings including non-discounted interest cash flows is as follows:

	2007	2006
Between 1 and 2 years	97	100
Between 2 and 5 years	384	408
Over 5 years	1,927	2,234
	2,408	2,742

Specification of individual loans including non-discounted interest cash flows:

At 31 December 2006:

	Maturity	Interest rate	Carrying amount	Total future undiscounted payments	Fair value
Credit institutions	2035	4-6%	380	847	386
Subordinate loan capital	2016	6-8%	1,100	1,899	1,100
			1,480	2,746	1,486

31 December 2007:

	Maturity	Interest rate	Carrying amount	Total future undiscounted payments	Fair value
Credit institutions	2035	4-6%	127	273	127
Credit institutions	2037	4-6%	187	393	187
Subordinate loan capital	2016	6-8%	1,100	1,819	1,100
			1,414	2,485	1,414

Notes

[mDKK]

NOTE 24. Debt regarding group restructuring

A number of companies have been transferred from INTERLEGO AG to LEGO A/S in 2006 and 2007. The companies are recognised in LEGO A/S using the pooling of interests method, and are included in comparative figures and financial highlights. In the period until the companies are actually transferred to LEGO A/S, an amount corresponding to the purchase price is recognised as debt regarding group restructuring.

NOTE 25. Deferred tax

	2007	2006
Deferred tax, net at 1 January	261	247
Exchange rate adjustment to year-end rate	(15)	–
Income statement charge	(94)	1
Charged to equity	1	13
	153	261

2006	Deferred tax asset	Provision for deferred tax	Deferred tax net
Non-current assets	272	(181)	91
Receivables	55	–	55
Inventories	18	(14)	4
Provisions	8	–	8
Other liabilities	83	–	83
Other	17	(39)	(22)
Off set	(107)	107	–
Tax loss carry-forwards	42	–	42
	388	(127)	261

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

Tax loss carry-forwards

Tax losses relating to tax losses carried forward have been capitalised based on an assessment of whether they can be utilised in the future. None of the Group's capitalised tax losses of DKK 10 million expires before 5 years (DKK 42 million in 2006 does not expire before 5 years).

Notes

[mDKK.]

NOTE 26. Provisions for pension

Defined contribution plans:

In defined contribution plans, the LEGO Group recognises in the income statement the premium payments (eg a fixed amount or a fixed percentage of the salary) to independent insurance companies, which are responsible for the pension obligations. Once the pension contributions for defined contribution plans have been paid, the LEGO Group has no further pension obligations towards current or past employees. The pension plans in the Danish company and some of the foreign companies are all defined contribution plans. In the Group, DKK 86 million (DKK 51 million in 2006) has been recognised in the income statement as costs related to defined contribution plans.

Defined benefit plans:

In defined benefit plans, the LEGO Group is obliged to pay a certain pension benefit. The major defined benefit plans in the Group include employees in Germany, US and UK. In the Group, a net obligation of DKK 48 million (DKK 48 million in 2006) has been recognised relating to the Group's obligations towards current or past employees concerning defined benefit plans. The obligation is calculated after deduction of the plan assets. In the Group, DKK 9 million (DKK 11 million in 2006) has been recognised in the income statement.

	2007	2006
The amounts recognised in the balance sheet are determined as follows:		
Present value of funded obligations	(114)	(129)
Fair value of plan assets	112	120
	(2)	(9)
Present value of unfunded obligations	(46)	(39)
Net liability recognised in the balance sheet	(48)	(48)
Of which included as part of the liabilities	(63)	(62)
Of which included as part of the assets	15	14
The change in present value of defined benefit obligation over the year is as follows:		
Present value at 1 January	(168)	(176)
Exchange rate adjustment to year-end rate	7	3
Current service expenses	(2)	(3)
Interest expenses	(7)	(7)
Actuarial losses/(gains)	2	(1)
Benefits paid	8	15
Curtailments	–	1
Present value at 31 December	(160)	(168)

Notes

[mDKK]

NOTE 26. Provisions for pension, continued

	2007	2006
The change in fair value of plan assets of the year is as follows:		
Plan assets at 1 January	120	126
Exchange rate adjustment to year-end rate	(7)	(3)
Expected return on plan assets	5	4
Actuarial (losses)/gains	(3)	(5)
Employer contributions	1	6
Benefits paid	(4)	(8)
Plan assets at 31 December	112	120

Plan assets are specified as follows:

	2007		2006	
Equity	60	53%	65	54%
Debt	20	18%	20	17%
Other	32	29%	35	29%
	112	**100%**	**120**	**100%**

	2007	2006
The amounts recognised in the income statement are as follows:		
Current service expenses	2	3
Interest expenses	7	8
Expected return on plan assets	(4)	(4)
Curtailments	–	(1)
Net actuarial losses	4	5
	9	11
Classified as:		
Administrative expenses	9	11
	9	**11**
The movement in the net liability recognised in the balance sheet is as follows:		
Net liability at 1 January	48	50
Total expenses charged to the income statement	9	11
Contributions paid	(9)	(13)
Net liability at 31 December	48	48
The actual return on plan asset amounted to	3	(4)

Notes

[mDKK]

NOTE 26. Provisions for pension, continued

Actuarial assumptions used in computations vary from country to country due to local economic and social conditions. The average assumptions used are as follows:

	2007	2006
Discount rate	4%	4%
Expected return on plan assets	2%	2%
Future salary increases	2%	2%
Future pension increases	1%	2%

NOTE 27. Other debt

	2007	2006
Social security and other taxes	566	518
Debt to related parties	123	222
Finance lease obligations	93	87
Other current debt	777	684
	1,559	1,511
Specified as follows:		
Non-current	79	78
Current	1,480	1,433
	1,559	1,511

Finance lease obligations

The fair value of obligations regarding assets under finance leases corresponds to the carrying amount. The fair value is estimated to be the present value of the expected future cash flows at a market interest rate for similar leases.

	2007	2006
Obligations regarding finance leases are as follows:		
0-1 year	14	9
1-5 years	46	35
> 5 years	33	43
	93	87
Reconciliation of carrying amount and gross liability:		
Carrying amount of the liability	93	87
Interest expenses not yet accrued	7	6
Gross liability	100	93

No contingent leases have been recognised in expenses in 2007 or 2006. None of the assets under finance leases have been subleased.

Notes
[mDKK]

NOTE 28. Provisions

2006	Restruc-turing	Other	Total
Provisions at 1 January	207	145	352
Exchange rate adjustment to year-end rate	(2)	(1)	(3)
Additions	344	32	376
Change due to time and discount rate	(3)	–	(3)
Used	(198)	(50)	(248)
Reversed	(67)	(16)	(83)
Provisions at 31 December	281	110	391

Specified as follows:	
Non-current	215
Current	176
	391

2007	Restruct-uring	Other	Total
Provisions at 1 January	281	110	391
Exchange rate adjustment to year-end rate	(2)	1	(1)
Additions	37	31	68
Change due to time and discount rate	(3)	–	(3)
Used	(96)	(41)	(137)
Reversed	(37)	(14)	(51)
Provisions at 31 December	180	87	267

Specified as follows:	
Non-current	93
Current	174
	267

Provisions for restructuring obligations relate primarily to close-down and reduction of production facilities and redundancy programmes. The majority of these obligations are expected to result in cash outflow in the period 2008-2010.

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

Notes
[mDKK]

NOTE 29. Contingent assets, contingent liabilities and commitments

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

Contingent liabilities and commitments

	2007	2006
Guarantees	91	35
Operating lease obligations	356	367
Other obligations	74	59
	521	461

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

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

	2007	2006
The lease expenditure charged to the income statement during the year amounts to:	126	126
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
0-1 year	131	143
1-5 years	204	192
> 5 years	21	32
	356	367

Security has been given in land, buildings and installations with a net carrying amount of DKK 270 million (DKK 335 million in 2006) for the Group's mortgage loans.

Notes

[mDKK]

NOTE 30. Financial risks

Credit risks

Financial instruments are entered with counterparties classified as investment grade with a credit rating of A/A1 or higher from Standard & Poor's or Moody's Investor Service. The credit risks of the LEGO Group are therefore considered to be minimal.

Credit risk regarding trade receivables is disclosed in note 19.

Foreign exchange risks

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

The Group's foreign exchange risks are managed centrally based on a foreign exchange policy approved by the Board of Directors. Forward contracts are used to cover net positions. These forward contracts are classified as hedging and fulfil the accounting requirements for hedging future cash flows.

Fluctuations of 5% in the exchange rates against DKK in the LEGO Group's currencies would have a maximum impact on assets and liabilities as per 31 December 2007 of DKK 25 million (DKK 22 million in 2006) which would change the result before tax by 1.8% (1.7% in 2006). The calculations does not include EUR as the company does not expect a significant fluctuation in the exchange rate against DKK due to the danish fixed-rate policy against EUR.

Interest rate risks

The Group's interest rate risks relate to interest bearing debt and the interest-bearing assets. The Group's interest-bearing assets consist mainly of liquid funds. Liquid funds yield interest on the short-term money market. Change in the interest rate level of 1.0% for 2007 would have impacted on the Group's results before tax by approx. DKK 3.2 million (DKK 2.5 million in 2006). The Group's interest rate risks are considered insignificant and are not expected to impact significantly on the Group's results.

Liquidity risks

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

Capital risk management

Dividend of DKK 400 million was paid in 2007. It is expected that the dividend for 2007, to be paid in 2008, will amount to DKK 1 billion. The dividend payment reflects the strategy behind the new capital structure, where the LEGO Group is the operating company and any surplus liquidity is distributed to the Parent Company LEGO Holding A/S.

Notes

[mDKK]

NOTE 31. Derivative financial instruments

As per 31 December 2007 forward contracts have been dedicated for hedge of cash flows covering future accounting periods. As per 31 December 2006, the LEGO Group had except of forward contracts dedicated four USD put options for hedge on USD cash flows covering 2007 accounting period.

	2007	2006
Assets:		
Forward exchange contracts – cash flow hedges	30	34
Forward exchange contracts – fair value hedges	5	9
	35	43
Liabilities:		
Forward exchange contracts – cash flow hedges	1	–
Forward exchange contracts – fair value hedges	54	8
	55	8

Notes
[mDKK]

NOTE 31. Derivative financial instruments, continued

Fair value hedges

2006	Contract amount year end	Positive fair values year end	Negative fair values year end	Recognised in the income statement	Recognised in equity
JPY	83	9	–	9	–
AUD	9	–	–	–	–
RUB	30	–	–	–	–
CZK	115	–	(8)	(8)	–
HKD	3	–	–	–	–
SEK	25	–	–	–	–
NOK	36	–	–	–	–
	301	9	(8)	1	–

2007	Contract amount year end	Positive fair values year end	Negative fair values year end	Recognised in the income statement	Recognised in equity
USD	588	–	(49)	(49)	–
JPY	36	4	–	4	–
RUB	30	1	–	1	–
CZK	162	–	(4)	(4)	–
HKD	10	–	(1)	(1)	–
SEK	15	–	–	–	–
CAD	10	–	–	–	–
MXN	11	–	–	–	–
	862	5	(54)	(49)	–

As regards all of the above contracts, maturity is in 2008 for fair value hedges at 31 December 2007, and 2007 for fair value hedges at 31 December 2006.

Notes

[mDKK]

NOTE 31. Derivative financial instruments, continued

Cash flow hedges, present year

2006	Contract amount year end	Positive fair values year end	Negative fair values year end	Recognised in the income statement	Recognised in equity
USD	155	3	–	–	–
PLN	6	–	–	–	–
RUB	23	–	–	–	–
SEK	11	–	–	–	–
	195	3	–	–	–

Cash flow hedges, future accounting periods

2006	Contract amount year end	Positive fair values year end	Negative fair values year end	Recognised in the income statement	Recognised in equity
USD	575	18	–	–	18
JPY	103	6	–	–	6
AUD	44	–	–	–	–
SEK	29	–	–	–	–
CAD	128	7	–	–	7
	879	31	–	–	31

All of the above contracts are designated to the financial year 2006. The remaining maturity of these transactions will be in 2007.

The fair value adjustments on contracts recognised in equity per 31 December 2007 will be recognised in the income statement in 2008.

Notes

[mDKK]

NOTE 31. Derivative financial instruments, continued

Cash flow hedges, present year

2007	Contract amount year end	Positive fair values year end	Negative fair values year end	Recognised in the income statement	Recognised in equity
JPY	5	–	–	–	–
CAD	21	–	–	–	–
	26	–	–	–	–

Cash flow hedges, future accounting periods

2007	Contract amount year end	Positive fair values year end	Negative fair values year end	Recognised in the income statement	Recognised in equity
USD	406	25	–	–	25
JPY	71	2	–	–	2
CAD	103	–	–	–	–
AUD	70	3	–	–	3
PLN	61	–	(1)	–	(1)
NOK	47	–	–	–	–
	758	30	(1)	–	29

All of the above contracts are designated to the financial year 2007. The remaining maturity of these transactions will be in 2008.

	2007	2006
Development in fair value adjustment recognised in equity		
Fair value adjustment at 1 January	31	2
Change in market value	(1)	–
Hedges made in the period	30	25
Delivered and recognised in the income statement	(23)	4
Ineffectiveness on hedges	(8)	–
Fair value adjustment at 31 December	29	31
Recognised in the income statement:		
Financial income	(31)	4
	(31)	4

Notes

[mDKK]

NOTE 32. Other reversals with no effect on cash flows

	2007	2006
Depreciation and amortisation	277	207
Impairment losses reversed	(30)	(270)
Profit on sale of property, plant and equipment	(218)	(141)
Net movements in provisions	(114)	44
Profit/(loss) from associates	1	–
Financial income	(123)	(135)
Financial expenses	157	179
Other	(133)	(184)
	(183)	(300)

NOTE 33. Changes in working capital

	2007	2006
Inventories	(16)	(186)
Trade and other receivables	85	(120)
Trade and other payables	13	563
	82	257

NOTE 34. Cash and cash equivalents

	2007	2006
Cash at bank and in hand	1,001	1,697
	1,001	1,697

Notes
[mDKK]

NOTE 35. Related party transactions

The Parent of the Group is LEGO A/S, a company incorporated in Denmark, whose shares are owned by LEGO Holding A/S (75%) and LEGO Invest A/S (25%). The shares in LEGO Holding A/S are wholly owned by the Kjeld Kirk Kristiansen family (Billund, Denmark). Related parties are considered to be Kabooki A/S, LEGO Holding A/S, subsidiaries of LEGO Holding A/S, Merlin Entertainments Group, KIRKBI A/S Group and KIRKBI AG Group, in which the above-mentioned family has significant interests. None of the balances with related parties are secured.

The following transactions were carried out with related parties:

	2007	2006
Transactions with LEGO Holding A/S		
Interest received	1	–
Trademark fee received	–	2
	1	2
Interest charged	(80)	(123)
Rent paid	(20)	(21)
Service fee paid	–	(68)
	(100)	(212)
	(99)	(210)
Transactions with associates		
Trademark fee received	9	–
	9	–
Transactions with other related parties		
Sale of products	85	119
Service fee received	2	–
Sale of assets	260	138
Trademark fee received	6	–
	353	257
Rent cost paid	(1)	–
Interest paid	(14)	(13)
Service fee paid	(22)	(50)
Acquisition of company	(1.288)	(369)
Trademark fee paid	(299)	(358)
	(1.624)	(790)
	(1.271)	(533)

Notes
[mDKK]

NOTE 35. Related party transactions, continued

Renumeration to Key Management Personnel is listed in note 6.
Transactions with related parties were carried out on an arm's length basis.

Year-end balances arising from sales/purchases of goods/services:

	2007	2006
Balances with LEGO Holding A/S		
Payables	(20)	(64)
	(20)	(64)
Balances with associates		
Payables	(1)	–
	(1)	–
Balances with other related parties		
Receivables	7	105
Payables	(103)	(158)
	(96)	(53)

Loans from:

	LEGO Holding A/S	Other related parties
Balance at 1 January 2006	–	–
Loans raised during year	1,100	–
Repayments	–	–
Interest charged	4	–
Interest paid	–	–
Balance at 31 December 2006	1,104	–
Specified as follows:		
Non-current	1,100	–
Current	4	–
	1,104	–

Notes

[mDKK]

NOTE 35. Related party transactions, continued

	LEGO Holding A/S	Others
Balance at 1 January 2007	1,104	–
Loans raised during year	–	–
Repayments	–	–
Interest charged	80	–
Interest paid	(64)	–
Balance at 31 December 2007	1,120	–
Specified as follows:		
Non-current	1,100	–
Current	20	–
	1,120	–

The Group has no loans from associates.

Notes

[mDKK]

NOTE 36. Change in accounting principles

Basic principles

The Annual Report of the LEGO Group has been prepared in accordance with International Financial Reporting Standards (IFRS) and further Danish disclosure requirements for the presentation of financial statements as imposed in the Danish Executive Order on Adoption of IFRSs issued in accordance with the Danish Financial Statements Act. The Annual Report is the first Annual Report that is presented in accordance with the International Financial Reporting Standards. The date of transition to IFRS is 1 January 2006. In accordance with IFRS 1, all Standards and Interpretations that had entered into force at the reporting date, 31 December 2007, have been applied retrospectively in the Annual Report with the exception of some items where IFRS 1 exempts from retrospective application. The exemption applied from IFRS 1 is the exemption that the special reserve under equity for cumulative exchange rate differences from translating the accounts of the foreign entities is reset to zero at the date of transition. The comparative figures in the Annual Report have been restated to reflect the changed accounting principles applied.

Changes in accounting policies

The adoption of International Financial Reporting Standards has changed the accounting policies applied in the following areas:

a. Exchange rate differences from translating the accounts of foreign entities
Exchange rate differences from translating foreign subsidiaries are recognised in a separate reserve in equity. Previously the amounts were recognised in retained earnings. As of 1 January 2006 exchange rate differences recognised before this date is reset, and only exchange rate differences after 1 January 2006 are included in the separate reserve.

b. Deferred tax
The effect on deferred tax of the changes in accounting policies applied is recognised.

Deferred tax assets are classified as non-current assets. Previously, deferred tax assets were classified as current assets.

c. Discounts
Discounts given to customers related to distribution have been classified as a deduction of revenues. Previously, such expenses were included in sales and distribution expenses.

d. Inventories
Capitalisation of indirect production costs on inventories has been restated and is recognised in accordance with IAS 2.

e. Component approach
Adjustments regarding the component approach are applied as of 1 January 2006 in accordance with IAS 16. Comparative figures 2003 – 2005 are calculated in accordance with the former accounting policies applied.

f. Assets held for sale
Assets classified as held for sale are not depreciated. Previously, assets held for sale were depreciated.

g. Provisions
Provisions for restructuring are only recognised when the decision is made and announced before the balance sheet date. Previously, provision for restructuring was recognised if the decision to restructure was taken before year-end.

h. Employee benefit
According to IAS 19, provisions for certain employee benefits are recognised when they are earned. Previously certain benefits were recognised in the income statement at the time of payment.

i. Financial highlights
Financial highlights for the financial years 2003 – 2007 have been adjusted to reflect the change in accounting policies.

The effect on the Group's assets, liabilities, equity, net income and cash flows for the transition year is shown below, with notes referring to the above areas:

Notes

[mDKK]

The adoption of IFRS has the following effect on the Group's balance sheet at 1 January 2006

	Previous accounting principle	Ref.	Effect of transition to IFRS	IFRS
ASSETS				
Land, buildings and installations	857		–	857
Plant and machinery	187		–	187
Other fixtures and fittings, tools and equipment	81		–	81
Fixed assets under construction and prepayments for property, plant and equipment	30		–	30
Property, plant and equipment	1,155		–	1,155
Deferred tax assets	430		–	430
Marketable securities	75		–	75
Other non-current assets	505		–	505
Total non-current assets	**1,660**		**–**	**1,660**
Inventories	709	d	35	744
Trade receivables	1,856		–	1,856
Other receivables	292	h	(23)	269
Current tax receivables	67		–	67
Marketable securities	453		–	453
Cash at bank and in hand	1,791		–	1,791
Non-current assets classified as held for sale	218		–	218
Total current assets	**5,386**		**12**	**5,398**
TOTAL ASSETS	**7,046**		**12**	**7,058**

Notes

[mDKK]

The adoption of IFRS has the following effect on the Group's balance sheet at 1 January 2006, continued

	Previous accounting principle	Ref.	Effect of transition to IFRS	IFRS
EQUITY				
Share capital	20		–	20
Fair value reserve	–		–	–
Cumulative translation adjustments	–		–	–
Retained earnings	266	b,d,e,f,g,h	273	539
LEGO A/S share of equity	286		273	559
Minority interests	4		–	4
Total equity	**290**		**273**	**563**
LIABILITIES				
Borrowings	379		–	379
Deferred tax liabilities	76	b	107	183
Provisions for pension	67	h	(10)	57
Provisions	550	g	(342)	208
Total non-current liabilities	**1,072**		**(245)**	**827**
Debt regarding group restructuring	1,637		–	1,637
Borrowings	4		–	4
Trade payables	624		–	624
Current tax liabilities	134		–	134
Provisions	144		–	144
Other short-term debt	3,141	h	(16)	3.125
Total current liabilities	**5,684**		**(16)**	**5,668**
Total liabilities	**6,756**		**(261)**	**6,495**
TOTAL EQUITY AND LIABILITIES	**7,046**		**12**	**7,058**

Notes

[mDKK]

The adoption of IFRS has the following effect on the Group's income statement for 2006

	Previous accounting principle	Ref.	Effect of transition to IFRS	IFRS
Revenue	7,823	c	(25)	7,798
Production costs	(2,772)	d, e	33	(2,739)
Gross profit	**5,051**		**8**	**5,059**
Other operating income	141		–	141
Sales and distribution expenses	(2,680)	c	25	(2,655)
Administrative expenses	(519)	f	23	(496)
Other operating expenses	(644)		–	(644)
Operating profit before special items	**1,349**		**56**	**1,405**
Reversal of impairment of fixed assets	292	f	(22)	270
Restructuring costs and other special items	(12)	g	(338)	(350)
Operating profit	**1,629**		**(304)**	**1,325**
Financial income	132	g	3	135
Financial expenses	(179)		–	(179)
Profit before income tax	**1,582**		**(301)**	**1,281**
Tax on profit for the year	(76)	b	85	9
Net profit for the year	**1,506**		**(216)**	**1,290**

Notes

[mDKK]

The adoption of IFRS has the following effect on the Group's balance sheet at 31 December 2006

	Previous accounting principle	Ref.	Effect of transition to IFRS	IFRS
ASSETS				
Land, buildings and installations	686	e	19	705
Plant and machinery	358		–	358
Other fixtures and fittings, tools and equipment	97		–	97
Fixed assets under construction and prepayments for property, plant and equipment	38		–	38
Property, plant and equipment	**1,179**		**19**	**1,198**
Deferred tax assets	388		–	388
Marketable securities	75		–	75
Other non-current assets	**463**		**–**	**463**
Total non-current assets	**1,642**		**19**	**1,661**
Inventories	881	d	49	930
Trade receivables	1,824		–	1,824
Other receivables	444	h	(23)	421
Current tax receivables	71		–	71
Marketable securities	–		–	–
Cash at bank and in hand	1,697		–	1,697
Non-current assets classified as held for sale	303		–	303
Total current assets	**5,220**		**26**	**5,246**
TOTAL ASSETS	**6,862**		**45**	**6,907**

Notes

[mDKK]

The adoption of IFRS has the following effect on the Group's balance sheet at 31 December 2006, continued

	Previous accounting principle	Ref.	Effect of transition to IFRS	IFRS
EQUITY				
Share capital	20		–	20
Fair value reserve	23		–	23
Cumulative translation adjustments	(184)		–	(184)
Retained earnings	1,268	b,d,e,f,g,h	57	1,325
LEGO A/S' share of equity	1,127		57	1,184
Minority interests	7		–	7
Total equity	**1,134**		**57**	**1,191**
LIABILITIES				
Subordinate loan capital	1,100		–	1,100
Borrowings	376		–	376
Deferred tax liabilities	105	b	22	127
Provisions for pension	72	d	(10)	62
Provisions	222	g	(7)	215
Other long-term debt	78		–	78
Total non-current liabilities	**1,953**		**5**	**1,958**
Debt regarding group restructuring	1,288		–	1,288
Borrowings	4		–	4
Trade payables	749		–	749
Current tax liabilities	108		–	108
Provisions	176		–	176
Other short-term debt	1,450	h	(17)	1,433
Total current liabilities	**3,775**		**(17)**	**3,758**
Total liabilities	**5,728**		**(12)**	**5,716**
TOTAL EQUITY AND LIABILITIES	**6,862**		**45**	**6,907**

Notes
[mDKK]

The adoption of IFRS has the following effect on the Group's cash flow statement for 2006

	Previous accounting principle	Ref.	Effect of transition to IFRS	IFRS
Cash flows from operating activities:				
Profit before income tax	1,582	d, e, f, g, h	(301)	1,281
Interest paid etc	(179)		–	(179)
Interest received etc	135		–	135
Income tax paid	(37)		–	(37)
Other reversals with no effect on cash flows	(616)	e, f, g	316	(300)
Changes in working capital	272	d, h	(15)	257
Net cash generated from operating activities	1,157		–	1,157
Cash flows from investing activities:				
Purchases of property, plant and equipment	(316)		–	(316)
Proceeds from sale of property, plant and equipment	487		–	487
Net cash generated from investing activities	171		–	171
Cash flows from financing activities:				
Dividend paid to shareholders	(500)		–	(500)
Proceeds from borrowings	1,100		–	1,100
Repayments of borrowings	(3)		–	(3)
Net cash generated from financing activities	597		–	597
Total cash flows	**1,925**		**–**	**1,925**
Settlement of debt regarding group restructuring	(349)		–	(349)
Cash and cash equivalents at 1 January	(121)		–	(121)
Cash and cash equivalents at 31 December	**1,697**		**–**	**1,697**

Income Statement 1 January – 31 December, Parent

[mDKK]

	Note	2007	2006
Revenue		44	38
Gross profit		**44**	**38**
Other operation income		141	–
Other operating expenses	2	(63)	(23)
Operating profit		**122**	**15**
Profit/(loss) from associates after tax	9	(1)	–
Dividend from subsidiaries	9	557	–
Financial income	3	2	2
Financial expenses	4	(150)	(55)
Profit before income tax		**530**	**(38)**
Tax on profit for the year	5	12	–
Net profit for the year		**542**	**(38)**
Proposed distribution of profit			
Dividend		1,000	400
Retained earnings		(458)	(438)
		542	**(38)**

Balance Sheet at 31 December, Parent

[mDKK]

	Note	2007	2006
ASSETS			
Non-current assets			
Patents	7	4	–
Intangible assets		**4**	**–**
Land, buildings and installations		6	47
Other fixtures and fittings, tools and equipment		–	1
Property, plant and equipment	6	**6**	**48**
Investments in subsidiaries	9	5,303	4,013
Investments in associates	9	3	–
Other non-current assets		**5,306**	**4,013**
Total non-current assets		**5,316**	**4,061**
Current assets			
Receivables from subsidiaries		92	26
Other receivables		146	2
Current tax receivables		–	5
Cash at bank and in hand		–	–
Total current assets		**238**	**33**
TOTAL ASSETS		**5,554**	**4,094**

Balance Sheet at 31 December, Parent

[mDKK]

	Note	2007	2006
EQUITY			
Share capital	10	20	20
Retained earnings		1,773	2,231
Proposed dividend		1,000	400
Total equity		**2,793**	**2,651**
LIABILITIES			
Non-current liabilities			
Subordinate loan capital	13	1,100	1,100
Borrowings	12	–	47
Deferred tax liabilities	8	39	44
Provisions	11	4	9
Total non-current liabilities		**1,143**	**1,200**
Current liabilities			
Debt to subsidiaries		1,482	216
Current tax-liabilities		2	–
Borrowings	12	72	1
Other short-term debt		62	26
Total current liabilities		**1,618**	**243**
Total liabilities		**2,761**	**1,443**
TOTAL EQUITY AND LIABILITIES		**5,554**	**4,094**

Statement of Changes in Equity, Parent

[mDKK]

	Share capital	Retained earnings	Proposed dividend	Total
Equity at 1 january 2007	**20**	**685**	**400**	**1,105**
Subsidiaries at cost	–	1,546	–	1,546
Equity at 1 january after change in accounting principles	**20**	**2,231**	**400**	**2,651**
Dividend relating to prior year	–	–	(400)	(400)
Net profit for the year	–	542	–	542
Proposed dividend	–	(1,000)	1,000	–
Equity at 31 December 2007	**20**	**1,773**	**1,000**	**2,793**

Notes to the Financial Statements, Parent

[mDKK]

NOTE 1. Significant accounting policies

The Financial Statements of the Parent Company LEGO A/S have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B.

Change in accounting policies

Previously, LEGO A/S recognised investments in subsidiaries in the balance sheet using the equity method. This means that the proportionate ownership of the net asset value is recognised. The accounting policy has been changed and subsidiaries are now recognised at cost. Comparative figures in 2006 have been restated to reflect the change. Equity and investments in subsidiaries at 31 December 2006 are increased by DKK 1,546 million. Profit for the year 2006 is reduced by DKK 1,287 million. Equity and investments in subsidiaries at 31 December 2007 are increased by DKK 1,114 million. Profit for the year 2007 is reduced by DKK 486 million.

Other than the above, the accounting policies applied are unchanged.

Income Statement

Recognition of sales and revenues

Sales represent the fair value of the sale of goods excluding value added tax and after deduction of provisions for returned products, rebates, trade discounts and allowances.

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

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

Taxes

Current income tax, based on taxable income for the year, is expensed together with changes in deferred tax for the year.

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

The provision of deferred tax reflects the effect of any tax losses carried forward, etc to the extent it is considered likely that such items can be utilised against future taxable income. To the extent calculated deferred tax is positive, this is recognised in the balance sheets as a deferred tax asset at the expected realisable value.

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

Balance Sheet

Translation policies

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

Intangible assets

Patents

Acquired patent rights are capitalised on the basis of the costs incurred. These costs are amortised over the shorter of their estimated useful lives and the contractual duration.

Property, plant and equipment

All property, plant and equipment (PPE) are measured at cost, less subsequent depreciation and impairment, except for land, which is measured at cost less impairment.

Depreciation of other assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life as follows:

Buildings	40 years
Installations	10-20 years
Other fixtures and fittings, tools and equipment	3-10 years

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and recognised in the income statement. Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use.

Cost price comprises the acquisition price and costs directly related to the acquisition until the time when the asset is ready for use. The cost of self constructed assets comprises direct costs for wage consumption and materials. Interest related to financing self constructed assets is recognised in the income statement.

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

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

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

Investments held for sale
Investments held for sale consist of fixed asset investments designated at fair value through profit or loss on initial recognition. Assets in this category are classified as current assets if they are expected to be realised within 12 months of the balance sheet date.

Realised and unrealised gains and losses arising from changes in the fair value are included in the income statement in the period in which they arise.

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

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

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

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

Further provisions for restructuring costs are only recognised when the decision is made 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.

Liabilities
Liabilities are measured at amortised cost unless specifically stated otherwise.

Notes

[mDKK]

	2007	2006
NOTE 2. Auditors' fees		
The following remuneration was paid to PricewaterhouseCoopers:		
Audit services	2	–
Other services	1	–
	3	**–**
NOTE 3. Financial income		
Interest income from related parties	2	2
	2	**2**
NOTE 4. Financial expenses		
Interest expenses on mortgage loans	–	1
Interest expenses to related parties	146	53
Exchange rate losses, net	4	1
	150	**55**
NOTE 5. Tax on profit for the year		
Current tax on the profit	(2)	5
Deferred tax on the profit	5	5
Adjustment of tax relating to previous years, current tax	9	(5)
Adjustment of tax relating to previous years, deferred tax	–	(5)
	12	**–**

Notes

[mDKK]

NOTE 6. Property, plant and equipment

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

Land and buildings

According to the official property assessment, the value of the Danish land and building amounts to DKK 1 million (DKK 70 million in 2006). The corresponding carrying amount is DKK 6 million at 31 December 2007 (DKK 47 million in 2006).

Assets under finance leases

No assets have been recognised under finance leases.

Notes

[mDKK]

NOTE 7. Intangible assets

	Patent
Cost at 1 January 2007	–
Additions	4
Cost at 31 December 2007	4
Depreciation and impairment losses at 1 January 2007	–
Depreciation for the year	–
Depreciation and impairment losses at 31 December 2007	–
Carrying amount at 31 December 2007	**4**

Notes

[mDKK]

	2007	2006
NOTE 8. Deferred tax		
Deferred tax, net at 1 January	(44)	(49)
Change in deferred tax	5	5
Deferred tax, net at 31 December	**(39)**	**(44)**
Specified as follows:		
Deferred tax asset at 31 December	–	–
Provision for deferred tax at 31 December	(39)	(44)
	(39)	**(44)**

NOTE 9. Fixed asset investments

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

NOTE 10. Share capital

The Company's share capital consists of:	
A-shares of DKK 1,000 or multiples hereof	1
B-shares of DKK 1,000 or multiples hereof	9
C-shares of DKK 1,000 or multiples hereof	10
Total shares at 31 December 2007	**20**

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

Shareholders holding more than 5% of the share capital:
LEGO Holding A/S, Koldingvej 2, 7190 Billund, Denmark
LEGO Invest A/S, Koldingvej 2, 7190 Billund, Denmark

Notes

[mDKK]

	2007	2006
NOTE 11. Provisions		
Provisions at 1 January	9	12
Additions	–	3
Used	(2)	(3)
Reversed	(3)	(3)
Provisions at 31 December	**4**	**9**

NOTE 12. Long-term debt

	Total debt	Due within 1 year	Due after 5 years
Subordinate loan capital	1,100	–	1,100
Banks and other credit institutions	72	72	–
	1,172	**72**	**1,100**

NOTE 13. Subordinate loan capital

Subordinate loan capital is a convertible loan from LEGO Holding A/S that is irredeemable from the lender and is due in December 2016.

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

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

NOTE 14. Contingent liabilities and commitments

Security has been given in land, buildings and installations with a carrying amount of DKK 6 million (DKK 47 million in 2006) for the Company's mortgage loans.

The Company is jointly and severally liable for VAT in companies with joint registration.

The Company guarantees certain obligations of some subsidiaries.

The Company has used tax losses in foreign subsidiaries in the Danish joint taxation until 31 December 2004. The deferred tax of this amounts to DKK 102 million of which DKK 39 million is recognised as provision for deferred tax. The remaining amount of DKK 64 million is not expected to be recaptured. The Company has not chosen international joint taxation under the new joint tax regulation in Denmark from 1 January 2005.

Group Management

Iqbal Padda, Mads Nipper, Jørgen Vig Knudstorp, Christian Iversen, Lisbeth Valther Pallesen,

Iqbal Padda
Executive Vice President
Global Supply Chain

Mads Nipper
Executive Vice President
Markets & Products

Jørgen Vig Knudstorp
Chief Executive Officer
and President

Christian Iversen
Executive Vice President
Corporate Center

Lisbeth Valther Pallesen
Executive Vice President
Community, Education & Direct

Board of Directors of LEGO A/S

Mads Øvlisen

Chairman of the Board since 1996. Member of the Board since 1991. Chairman of the Danish Art Council. Member of the Board of UN's Global Compact and the Wanås Foundation. Adjunct professor of corporate social responsibility at the Copenhagen Business School.

Kjeld Kirk Kristiansen

Deputy Chairman of the Board since 1996. Member of the Board since 1975. Chairman of the Board of LEGO Holding A/S, the LEGO Foundation, Ole Kirk's Foundation, and Edith and Godtfred Kirk Christiansen's Foundation. President and CEO for the LEGO Group from 1979-2004. Majority shareholder of the LEGO Holding A/S Group.

Gunnar Brock

Member of the Board since 1995. President & CEO and member of the Board of Swedish Atlas Copco AB. Chairman of the Board of Mölnlycke Health Care Group. Member of the Board of Stora Enso Oyj, Finland. Member of the Royal Swedish Academy of Engineering Sciences (IVA).

Thomas Kirk Kristiansen

Member of the Board since 2007. Shareholder and representing the fourth generation of the owner family. Member of the Board of LEGO Holding A/S.

Kåre Schultz

Member of the Board since 2007. Executive Vice President & COO of Novo Nordisk A/S, Denmark.

Torben Ballegaard Sørensen

Member of the Board since 2005. Member of the Board of the Egmont Foundation and AB Electrolux.

LEGO A/S Group Structure

As of 31 December 2007

LEGO A/S, (Denmark)

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

Europe (others)
- LEGO Park Holding UK Ltd.
  – LEGO Lifestyle International Ltd. (UK)
- LEGO Company Limited (UK)
- LEGO Belgium n.v.
- LEGO Netherland B.V.
- LEGO Sverige AB
- LEGO Norge A/S
- Oy Suomen LEGO Ab (Finland)
- LEGO GmbH (Germany)
- LEGO Handelsgesells. GmbH (Austria)
- LEGO S.A.S. (France)
- LEGO S.p.A. (Italy)
- LEGO S.A. (Spain)
- LEGO Lda. (Portugal)
- LEGO Production s.r.o. (Czech Republic)
- LEGO Trading s.r.o. (Czech Republic)
- LEGO Schweiz AG
- LEGO Hungaria Kft.
- LEGO Polska Sp. Z.o.o.
- OOO LEGO (Russia)
- LLD Share Verwaltungs GmbH (Germany)
  – LLD Share GmbH & Co. KG (Germany)

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

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

Associates:
- Kabooki A/S 19,8% (Denmark)

Unless otherwise stated the ownership share is 100%.

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Residence: Billund
Financial Year: January 1st - December 31st
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