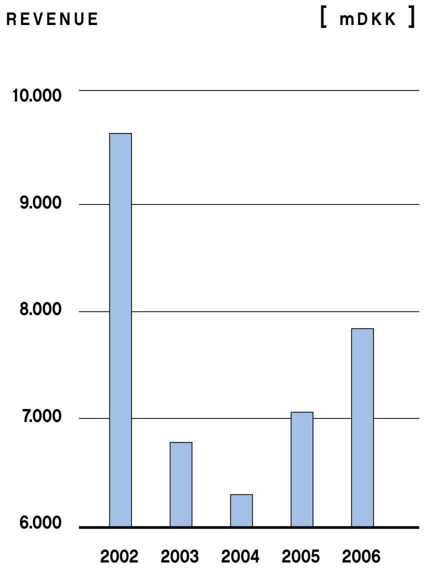
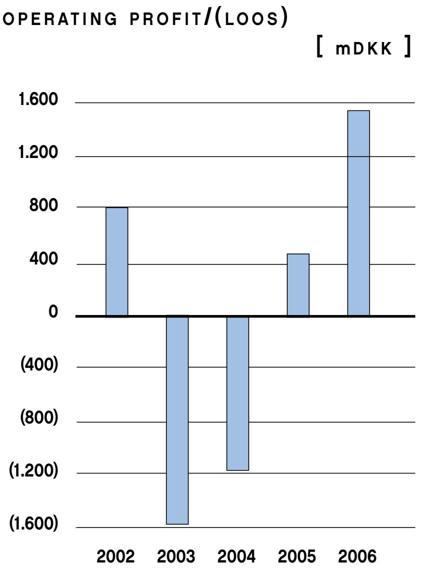
Annual Report 2006
LEGO Group

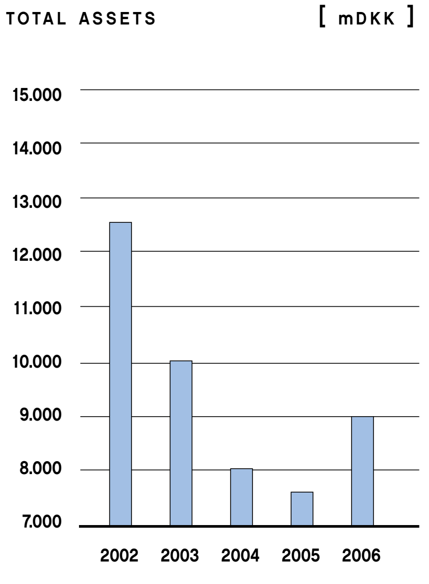
Financial Highlights – LEGO Group

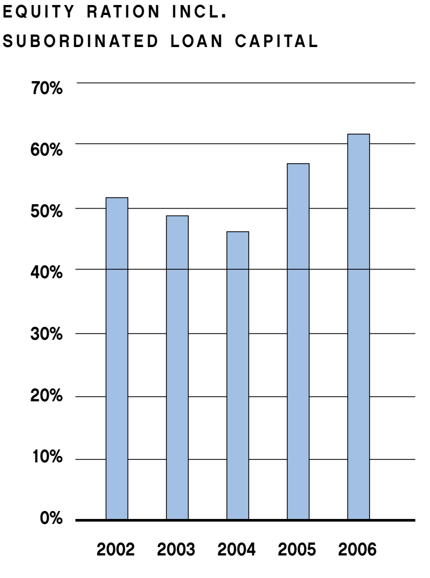
[mDKK]	2006	2005	2004	2003	2002
Income Statement:					
Revenue	7,823	7,050	6,315	6,792	9,601
Expenses	(6,475)	(6,582)	(6,252)	(7,902)	(8,795)
Profit/(loss) before special items, financial income and expenses and tax	1,348	468	63	(1,110)	806
Impairment of fixed assets	292	95	(723)	(172)	–
Restructuring expenses	(112)	(104)	(502)	(283)	–
Operating profit/(loss)	1,528	459	(1,162)	(1,565)	806
Financial income and expenses	34	(3)	(75)	67	(189)
Profit/(loss) before tax	1,562	456	(1,237)	(1,498)	617
Profit/(loss) on continuing activities	1,430	331	(1,473)	(953)	348
Profit/(loss) on discontinuing activities	–	174	(458)	18	(22)
Net profit/(loss) for the year	1,430	505	(1,931)	(935)	326
Balance Sheet:					
Assets relating to continuing activities	9,022	7,689	5,657	10,049	12,560
Assets relating to discontinuing activities	–	–	2,432	–	–
Total assets	9,022	7,689	8,089	10,049	12,560
Equity (incl. minority interest)	4,727	3,589	2,948	4,892	6,478
Provisions and debt relating to continuing activities	4,295	4,100	4,731	5,157	6,082
Provisions and debt relating to discontinuing activities	–	–	410	–	–
Cash Flow Statement:					
Cash flows from operating activities	996	1,057	774	944	1,853
Investment in property, plant and equipment	316	265	457	709	1,264
Cash flows from financing activities	(925)	(1,070)	(29)	(560)	(1,003)
Total cash flows	45	2,549	538	(215)	(290)
Financial ratios (in %):					
Gross margin	64.6	58.0	57.7	61.3	70.0
Operating margin (ROS)	19.5	6.5	(18.4)	(23.0)	8.4
Net profit margin	18.3	7.2	(30.6)	(13.8)	3.4
Return on equity	34.4	18.1	(46.3)	(16.7)	4.6
ROIC I	65.4	19.1	1.2	(12.8)	8.2
ROIC II	93.2	23.2	(23.6)	(18.3)	8.2
Equity ratio	52.4	46.7	36.4	48.7	51.6
Equity ratio (incl. Subordinated loan capital)	61.3	57.1	46.3	48.7	51.6
Employees:					
Average number of employees (full time), continuing activities	4,922	5,321	5,620	6,542	6,659
Average number of employees (full time), discontinuing activities	–	1,322	1,725	1,756	1,657

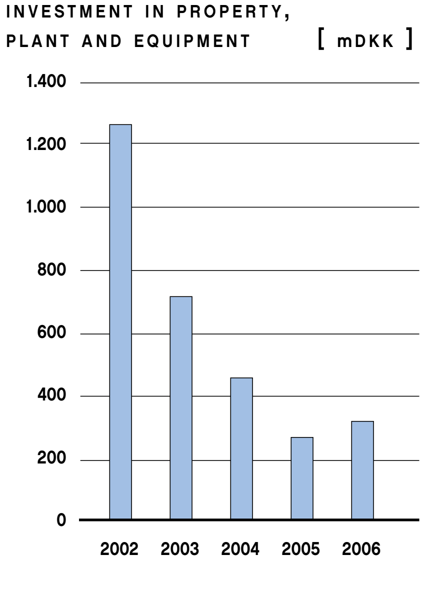
Financial ratios are defined in Accounting Policies

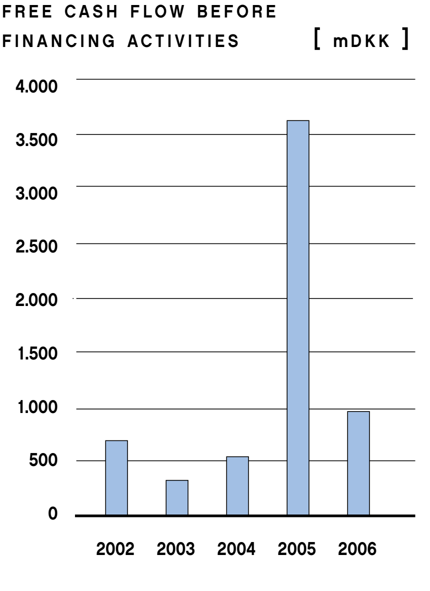

REVENUE
[mDKK]
10.000
9.000
8.000
7.000
6.000
2002
2003
2004
2005
2006


OPERATING PROFIT/(LOOS)
[mDKK]
1.600
1.200
800
400
0
(400)
(800)
(1.200)
(1.600)
2002
2003
2004
2005
2006


TOTAL ASSETS
[mDKK]
15.000
14.000
13.000
12.000
11.000
10.000
9.000
8.000
7.000
2002
2003
2004
2005
2006


EQUITY RATION INCL.
SUBORDINATED LOAN CAPITAL
70%
60%
50%
40%
30%
20%
10%
0%
2002
2003
2004
2005
2006


INVESTMENT IN PROPERTY,
PLANT AND EQUIPMENT
[mDKK]
1.400
1.200
1.000
800
600
400
200
0
2002
2003
2004
2005
2006


FREE CASH FLOW BEFORE
FINANCING ACTIVITIES
[mDKK]
4.000
3.500
3.000
2.500
2.000
1.500
1.000
500
0
2002
2003
2004
2005
2006

CONTENTS

A good year for the LEGO Group

LEGO products give children unlimited possibilities of fun and creative play and at the same time stimulate children's physical motor skills, social intelligence and systematic thinking. This learning through play and the high quality of the LEGO products make the products timeless and relevant for both children and adults.

The relevance of the products is clearly reflected in the financial results for 2006, which were considerably better than expected. As 2006 was a year without any film launchings supporting licensed products, sales were expected to show a small decrease, and earnings were expected to remain unchanged compared with 2005. However, sales increased and earnings more than doubled. As the primary focus for the year has been to improve profitability, we consider the results achieved in 2006 highly satisfactory.

The reconstruction of the LEGO Group until now has been efficient, and the first phase of the long-term strategy has been successfully implemented. In 2006 the first steps of the second phase of the strategy were taken, which involved adjustment of the management structure. Furthermore, measures were initiated to carry through a future-oriented adjustment of the company structure to reflect the needs of the LEGO Group and the owner family including to ensure continued family ownership.

The good results for the year have been achieved through a great and dedicated effort from the LEGO Group employees. The radical changes which the company is undergoing these years can only be implemented through impressive and goal-oriented efforts from the employees. Both the owners and the Board are extremely grateful for this achievement.

This effort is particularly commendable in view of the large challenges which the employees have been facing in 2006. Particularly, the decision concerning outsourcing of most of the company's production has been extremely hard for large groups of employees. However, it is crucial to the long-term success of the LEGO Group that it is able to adapt to and benefit from globalisation.

The coming years will focus on a sustainable development which goes beyond financial results. The LEGO Group aims at creating value for all its stakeholders. This is a big but essential ambition for a company that intends to maintain its unique values and assets.

The Board is convinced that the strategy which will continue in the coming years is the right way to create such sustainable business. The strategy utilises the differentiation of the LEGO brand: a truly creative product, high quality and exceptionally close contacts to the users.

The journey towards sustainability and the creation of value for all stakeholders is not easy, and many major challenges and obstacles must be overcome before the goal is reached. However, the good results for 2006 are an important step in the right direction.

Billund, February 2007

Mads Øvlisen

Mads Øvlisen
Chairman


LEGO

Results for the year

The LEGO Group's profit for the year before tax amounted to DKK 1,562 million in 2006 against DKK 456 million in 2005.
The results are considerably better than expected at the beginning of the year and after the first six months of the year, and are considered highly satisfactory.
The Group's equity incl. minority interests increased from DKK 3,589 million to DKK 4,727 million, and consequently the equity ratio at the end of the year is 52.4% against 46.7% at the end of 2005.

Increase in sales and better margin
The highly satisfactory results are attributable to increased sales as well as improved gross margin and operating economy.
The LEGO Group saw an 11% increase in revenue, from DKK 7,050 million in 2005 to DKK 7,823 million in 2006. The increase in revenue is evenly distributed on all the Group's markets, including direct sales to consumers.
The expectations for the year were a small decrease in revenue. One of the most important reasons for the increase in revenue is that inventories held by retailers at the beginning of 2006 were extraordinarily low. These were increased to a healthier level during the year. Moreover, the sale of LEGO *Star Wars* products did not nearly see as large a fall as expected in a year without any film launchings.
Finally, sales of the re-launched, classic product lines such as LEGO City, LEGO DUPLO, LEGO MINDSTORMS and LEGO TECHNIC developed more positively than expected.
The increased demand meant that the company was not able to meet the demand from retailers in a completely satisfactory way during the year.

The improved gross margin is attributable partly to an improved product mix, partly to a more efficient price and discount policy, including the cancellation of less profitable product lines.

Moreover, there was nearly 100 per cent utilisation of the capacity in production and in sales and marketing during most of the year.

Finally, the LEGO Group is now seeing the full effect of the initiatives concerning cost reduction and increased efficiency that were taken in 2004 and 2005, for example improved effect of campaigns, improved efficiency of purchases and reduction of the complexity of the product portfolio.

Licence and royalty expenses amounted to DKK 517 million in 2006 against DKK 380 million the year before. 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 1,348 million in 2006 against DKK 468 million in 2005.

In 2006 the operating margin (ROS) was 19.5% against 6.5% in 2005.

In the coming years, a decrease in earnings and operating margin is expected due to investments in the future business model. Consequently, increased expenses will be seen in connection with the outsourcing and restructuring of the production. Moreover, investments in long-term customer relations in the form of better customer service will be increased, and also IT investments will increase in order to strengthen the operational platform.

The group's long-term goal is still an operating margin (ROS) of 13.5%.

Special items

A number of previous restructuring provisions and asset impairments were recognised as income in 2006. This recognition as income is a consequence of a changed assessment of the profitability, as the Group has again become value creating.

The reason for this is a changed assessment of the Group's own chain of brand stores, which means that more stores are being maintained than expected. This involves recognition of income at a value of DKK 144 million in respect of previous provisions and impairments of assets.

Moreover, previous provisions and impairments of assets relating to the production are recognised as income at a value of DKK 215 million.

Restructuring expenses and other special items totalling DKK 79 million have been expensed during the year.

Furthermore, the LEGO Group donated an amount of DKK 100 million to the LEGO Foundation in 2006.

The total net effect of special items is a positive DKK 180 million.

Financial income and expenses

Financial income and expenses improved by DKK 37 million compared with the year before, due to improved liquidity.

Corporation tax

Corporation tax amounted to DKK 132 million against DKK 125 million the year before. Consequently, the corporation tax rate is 9%.

The considerably improved performance of the LEGO Group has made it possible to utilise the tax losses not previously capitalised. This results in an increase of the Group's net tax asset and means that the effective tax rate for the year is significantly lower than the 28% Danish corporation tax rate.

Profit for the year

The profit for the year amounted to DKK 1,430 million against DKK 505 million in 2005.

Return on equity (ROE) was 34.4% in 2006 against 18,1% in 2005.

Balance sheet and cash flows

In 2006 total assets increased by DKK 1,333 million to DKK 9,022 million, which is primarily attributable to improved cash flows and consequently increased cash funds.

Based on the improved operating profit, the return on invested capital (ROIC) increased to 65.4% in 2006 against 19% in 2005.

The considerably improved results for the year meant that equity incl. minority interests increased by approximately DKK 1,1 billion to DKK 4,727 million, and consequently the equity ratio at the end of the year was 52.4% against 46.7% at the end of 2005.

Subordinate loan capital amounted to DKK 800 million at the end of 2006. The amount comprises a loan from KIRKBI A/S which has been repaid at the beginning of 2007.

In 2006 the Group's financial resources were affected positively by the cash flow from operating activities and, to a minor extent, by the sale of fixed assets. At the same time, the financial resources were reduced due to increased investments in production equipment, increase in short-term debt and payment of dividend.

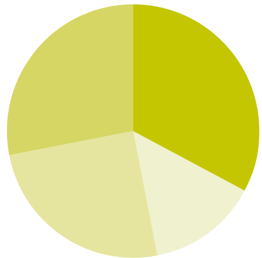
Market and sales development

From an overall point of view, the global market for traditional toys saw a slight decline in 2006. However, there were some regional differences, as particularly the US and the German markets, which are the LEGO Group's largest markets, saw a small decrease, whereas the other European markets and the Asian markets saw a 1-5% increase.

The market is still characterised by keen competition at retail level. This involves a heavy pressure on manufacturers' services to the retailers in the form of margins, delivery service and reliability of delivery. Moreover, the trend seen in recent years of children replacing traditional toys by other products at a still younger age is continuing.

At the beginning of the year, it was expected that retailers' sales of LEGO products to consumers would decrease in 2006. The reason for this expectation was first and foremost the company's focus on an improvement of earnings rather than sales increases. However, consumer sales for the year as a whole were higher than last year. Consequently, the LEGO Group achieved an increase of its global market share in 2006. Particularly Scandinavia, Benelux, Asia and Australia saw considerable market share increases, whereas the USA and Germany saw minor increases.

REVENUE SPLIT 2005



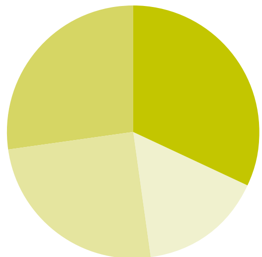
Central and Southern Europe - 28%

North America, Australia, New Zealand, United Kingdom - 33%

Community, Education, Direct - 14%

Scandinavia, Benelux, Eastern Europe, Asia - 25%

REVENUE SPLIT 2006



Central and Southern Europe - 27%

North America, Australia, New Zealand, United Kingdom - 32%

Community, Education, Direct - 16%

Scandinavia, Benelux, Eastern Europe, Asia - 25%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Revitalisation

- of the Group and the Lego Brand

The LEGO Group is in the process of implementing the seven-year strategy plan commenced in 2004. A strategy with the purpose of revitalising the LEGO brand as a synonym for creative building experiences and role playing, which makes learning fun, as children learn through play.
The strategy is based on a fundamental change of the business model relating to the entire company – its processes, procedures, structure and, not least, its approach to its stakeholders. When this journey has been completed, the LEGO brand will have been revitalised and become more viable than ever, and at the same time be true to its history and therefore authentic and original.

Three phases

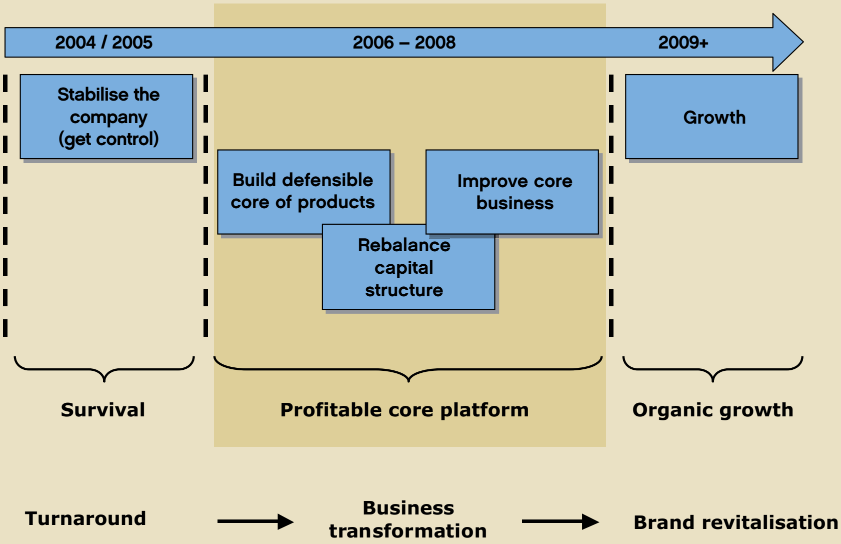
The Group's strategy up until 2010 is divided into three phases: *Survival* (2004-05), *Profitable core platform* (2006-08) and *Organic growth* (2009+).
For each phase, three group priorities have been established which apply to all business areas and which are considered to be the three areas that are most important to carry through in order for the phase to succeed.

The first phase, *Survival,* was initiated in 2004 when the LEGO Group commenced an action plan to get the company out of the financial crisis resulting from several years of poor financial results as a consequence of unprofitable growth. The action plan, which was carried through in 2004 and 2005, focused on cash flows, adjustment of cost base and assets and stability of operations, so as to restore the company as a value creating business and ensure its survival as an independent, family-owned company.

As mentioned in the Annual Reports for 2004 and 2005, the group priorities in the first phase included the following:

1. Set a clear direction for the LEGO Group and fundamentally change the way we do business.
2. Restore competitiveness by focusing on customers, in particular their profitability.
3. Reduce the level of risk by rightsizing our activities, cost base and assets to a lower revenue base.

At the end of 2005, this first, two-year phase of the new strategy had been successfully implemented. The com-



pany was largely out of its debts, had stabilised sales and had improved earnings considerably, though not to a sufficiently competitive level.

In 2006 the LEGO Group started the second phase in which – over a three-year period – the company will focus on creating a profitable, sustainable core platform. While creating the basis for growth from 2009, this second phase does not focus on achieving growth in the years 2006-08. As the Group is adjusting its business with a view to increasing earnings, unchanged sales are expected and a minor decrease in sales cannot be excluded. Moreover, in the second phase, the company will change its business model considerably, which might make it very risky to pursue growth.

The basis is a premium brand

The Group's long-term goal is an operating margin (ROS) of 13.5%, which – together with trademark licence payments – means that the Group and the trademark will together produce a yield matching the best in the business. This is completely in line with the conception of the LEGO brand as a premium brand.

This ambition reflects the company's strategy of taking up a differentiated position based on the unique LEGO system and the playing possibilities provided by it.

Being true to its motto *"Only the best is good enough"*, the LEGO Group has for nearly 75 years provided very high quality, which has meant that consumers have gone back to the LEGO products over and over again. Moreover, the unique LEGO system means that many thousand building elements may easily be combined in numerous ways, and may just as easily be separated again. The more LEGO bricks one has, the more one can create.

The two fundamental forms of play: creating and role playing, are supported by the three platforms of the LEGO system: DUPLO, LEGO and TECHNIC.

The special combination of systematics, logic and unlimited creativity provides learning through play in the very special LEGO way, which – in a time with ever increasing requirements to children's learning skills and ability to solve complex problems – is ideal for the children of the future. This is why the LEGO system is often quoted as a very unique, creative toy by a number of leading organisations and individuals, and is used as a creative learning material by institutions and schools all over the world.

The LEGO system and the play offered by it have so many special characteristics that they form the basis of the Group's differentiation. The strategy is to create a range of products that is true to the history of the brand, is authentic and at the same time original and modern in its expression. The results of recent years show that this direction has been well received by the users of the product.

Three themes in the second phase of the strategy

The three Group priorities in the phase *"Profitable core platform"*, covering the period 2006-08, are:

Mads Nipper
Executive Vice President
Markets & Products

Iqbal Padda
Executive Vice President
Global Supply Chain

1. Transition of the supply chain
2. Improving product portfolio profitability
3. Preparing for growth

Transition of the supply chain

During all the years of its existence, the LEGO Group has had a tradition of producing in countries in immediate proximity to the Group's largest markets, i.e. in Western Europe and North America. In the course of the last decade, competition on the toy market has, however, intensified considerably, and the need for cost reductions has increased in order to ensure future profitability. Moreover, the quality level in a number of low-cost countries has improved considerably, and transport, communication and transaction expenses involved in operating in these countries have decreased considerably.

The LEGO Group has therefore chosen to transfer most of its production from the present locations by means of outsourcing to a number of partners. The new production locations in Eastern Europe and Mexico have been chosen with a view to being close to the Group's main markets in Europe and the USA.

At the same time, the company has chosen to differentiate its supply chain based on the nature and volume of the products and the sales channels.

The outsourcing and restructuring process commenced in 2006 will be fully implemented in 2010.

The most specialised and competence demanding LEGO products will still be manufactured at the Group's Danish factory at Billund. The purpose of this is to retain a number of important competencies within moulding, processing and packing inside the company itself. This is furthermore supported by the establishment of a production engineering development function, a so-called concept factory, in connection with the remaining production at Billund.

Loss of jobs

The outsourcing of up to 80 per cent of the LEGO Group production means that a considerable number of jobs in the company itself will be lost in the course of the coming three years.

Packing and distribution in Enfield, USA, will be closed in the spring of 2007, which means that up to 300 employees will lose their jobs.

At Billund, the outsourcing of most of the production means that up to 900 jobs will be lost over the next three years, starting in 2007.

Moreover, outsourcing meant that the activities at the LEGO Group's factory in Kladno, the Czech Republic, with approximately 600 employees, was taken over by the electronics and manufacturing services company Flextronics.

A new model-building factory for marketing materials, also situated at Kladno, which was put into service in 2006, will still be part of the LEGO Group.

The LEGO Group considers it important to give the employees exact information concerning the planned outsourcing as early as possible, which meant that all employees were briefed in June 2006. A number of activities have been initiated to support the employees. Furthermore, the company is working actively on letting out or selling buildings not in use in order to contribute to maintaining jobs at the affected locations.

Experience

In the course of 2006, the LEGO Group gained some experience in the area of outsourcing. The production of DUPLO bricks was transferred to Flextronics' factory in Hungary, and moreover, the major part of the European distribu-

tion is being transferred to the logistics company DHL Solutions, which has established a new distribution centre in Jirny in the Czech Republic. Finally, a number of packaging processes have been transferred to the US packaging and packing supplier Sonoco's factory in Poland.

Overall, the outsourcing performed so far is considered to have proceeded as planned and with the expected level of running-in problems.
For example, outsourcing requires extensive documentation of processes and specifications, and the fact that the LEGO production has so far taken place in-house is to some extent reflected in many implicit or unwritten rules and processes. In order to secure future product quality, such rules and processes are now being formulated and incorporated through certification and increased participation by the LEGO Group in the sub-suppliers' production.

Both the LEGO Group and the suppliers have learned valuable lessons in connection with the outsourcing of the first areas and have obtained important experience for the continued, very comprehensive outsourcing process.

Improving product portfolio profitability
Basically, the Group is focusing on LEGO products which are differentiated and unique. This means that less profitable products and product lines will be phased out. Consequently, three product lines – LEGO BABY, LEGO QUATRO and LEGO CLIKITS – were cancelled in 2006.
Cooperation with retailers is constantly improved, and the company is working systematically with margin improvement for both retailers and the LEGO Group. This is done through targeted improve-

ment of product design, optimisation of production planning and distribution as well as strengthening of Key Account Management.

Moreover, a goal-oriented effort is made to increase the effect of campaigns and promotions and to reduce the scope of price campaigns.

These initiatives have seen the first good results in 2006. During the coming years, the LEGO Group will continue to work intensively on profitability improvement based on increased insight into, for example, strategic pricing and prioritisation of products and markets.

Preparing for growth

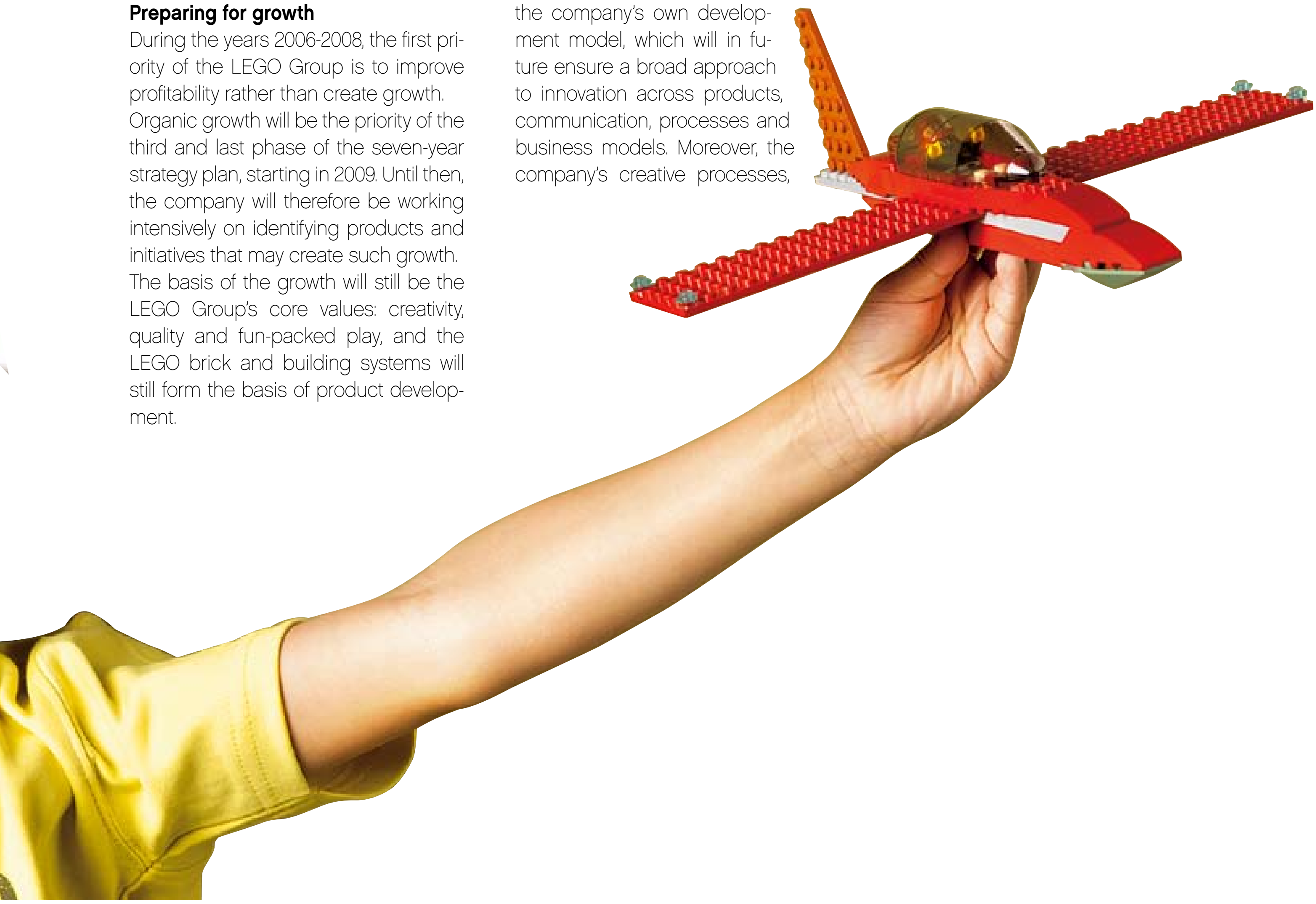
During the years 2006-2008, the first priority of the LEGO Group is to improve profitability rather than create growth.

Organic growth will be the priority of the third and last phase of the seven-year strategy plan, starting in 2009. Until then, the company will therefore be working intensively on identifying products and initiatives that may create such growth.

The basis of the growth will still be the LEGO Group's core values: creativity, quality and fun-packed play, and the LEGO brick and building systems will still form the basis of product development.

Children and adults will also in future enjoy the fun and creative play. Playing constantly takes on new forms, and the company's product development is therefore working systematically on developing the well-known existing play themes and product lines further on the basis of thorough research among children and parents concerning, among other things, playing habits, family patterns and housing conditions.

As a basis for the development work, the methods for idea and concept development were radically changed in 2006. Among other things, this resulted in the introduction of the company's own development model, which will in future ensure a broad approach to innovation across products, communication, processes and business models. Moreover, the company's creative processes,



Lisbeth Valther Pallesen
Executive Vice President
Community, Education &
Direct

methods and tools have been linked to the new innovation model in order to ensure efficiency and consistency of the work. Last but not least, both consumers and external agencies and inventors are involved in the development process to make sure to 'hit the bull's eye' when new playing experiences are developed.

Close contacts to the users

In order to further substantiate its differentiation, the LEGO Group has increased its efforts in respect of direct dialogue with its loyal users through a number of channels, including direct sales to consumers, which has led to the establishment of the business area Community, Education & Direct (CED).

Besides direct sales to consumers through catalogue and internet sales and brand stores, CED is also in charge of the development and sale of products for teaching purposes (kindergartens, schools, etc) and direct contact with the consumers through customer service and a number of events and forums. Moreover, CED is the seedbed for the development of new ways of selling LEGO products. An example of this is www.LEGOFactory.com where LEGO models can be built with virtual bricks, and subsequently the exact bricks used for the model can be ordered.

Both sales of educational materials and direct sales to consumers are seeing a positive development. This is attributable to the increasing recognition of the special value of the LEGO product and the fact that many consumers buy LEGO toys online and also seek the "branded" purchase experience in the LEGO stores.

The LEGO Group sees its direct contact to the consumers as something very unique and as an extremely significant asset for the development of both existing and new business. LEGO fans are involved in the product development in several areas and stages of the development process. An example of this is the new generation of LEGO robots, MINDSTORMS NXT. Some of the most dedicated enthusiasts round the previous MINDSTORMS robot have been directly involved in the development of the new product, which created great attention both among LEGO enthusiasts and in the media worldwide. The most important effect of this cooperation is, however, that the product has been considerably improved through the exchange of ideas and the dialogue between the company and the users.
The LEGO Group considers such very direct involvement of the users an important innovative driver in relation to the coming years' preparations for growth. By means of close contacts with the users, the company obtains unique knowledge of the wishes and needs of the users, and this will be applied in the development and marketing of the LEGO products.

The Group also obtains inspiration from the many independent homepages and clubs for LEGO enthusiasts all over the world. Several of the established LEGO fan clubs are holding large exhibitions and building events where thousands of visitors get an insight into the fantastic creativity demonstrated by the LEGO enthusiasts. An example of such an event is 1000 Steine Land in Germany, which was during a weekend in August visited by more than 3,500 people who wanted to see the fabulous LEGO models built by the members of the club 1000 Steine.
Most of these events are organised by the LEGO enthusiasts themselves; however, LEGO employees obtain much

inspiration from visiting the events and speaking with the participants. Also the owner of the Group, Kjeld Kirk Kristiansen, is a frequent and enthusiastic guest at such events.

In the coming years, the new business area, CED, will aim at integrating the insight and inspiration which the LEGO Group obtains from its users, and will create possibilities of attaching core consumers closer to the company.
Furthermore, the business area will work at identifying further business initiatives that may form the basis of future growth.

A niche position on the global market

Future growth will be based partly on the classic LEGO products being sold by the main business through retailers, and partly on the new, unique possibilities provided by the close contacts to the users, for example through online media. Irrespective of the form of the product, quality and creativity will be the key words for LEGO products, thus creating the basis of a premium LEGO brand.
Consequently, the LEGO product range will continue to constitute a niche on the global toy market, which is to an increasing extent characterised by cut-price products of a poorer quality than the LEGO products.

The LEGO Group's niche on the global toy market is relatively small with a market share of a few per cent. Therefore, the company needs to gain access to the advantages of large-scale operations, differentiation and strategic capabilities by, to a wide extent, working with partners within all links of the company's global value chain, including the production and distribution of LEGO products.

Fundamental change of the business model
For the LEGO Group, such comprehensive cooperation with external partners will fundamentally change the way the Group does business. The LEGO Group will therefore become a completely different company, based on a network of partnerships centred round the revitalised brand.

In order to support this change and the group priorities in the second phase of the strategy, a number of additional measures were implemented in 2006:

- The Group's strategic capabilities, including management competencies, are being developed on a current basis. In 2006 an external assessment of the quality of management among 45 senior executives was carried out. The investigation resulted in a new proficiency model focusing on the improvement of both functional and general management competencies. The model has been adjusted to the long-term strategy and moreover forms the basis of the Group's future strategic recruitment.
- The organisational structure was adjusted as described on page 24 in order to be in a better position for supporting this second phase of the strategy.
- In connection with the streamlining of the Group structure, the Group's capital utilisation is made more efficient, as described on page 22. The capital invested in the LEGO Group has been reduced from DKK 9.4 billion in 2002 to DKK 2.0 billion at the end of 2006.

The combination of an expedient, low level of invested capital, lower capital expenditure and increased operating margin (ROS) is the financial foundation for the significant improvement of the Group's financial value generation.

Development of stakeholder relations

In order to implement a strategy of being the best, it is decisive to consider the requirements and values of the stakeholders. This is the basis for creating a sustainable business.
The LEGO Group has therefore drawn up a number of objectives for its partnership with its six most important stakeholder groups. The LEGO Group intends to:

- Convey to users the joy of a creative and, at the same time, systematic building experience
- Be an exciting, challenging and rewarding workplace for the employees
- Deliver differentiation, high velocity and good margins to retail customers
- Give business partners access to the brand in a mutually value creating way
- Act responsibly and reliably towards society and the environment, including complying with and constantly making improvements in relation to the principles of the UN Global Compact
- Be the best in the toy industry to create sustainable value for the owners

These objectives have had a material influence on a number of decisions, for example the choice of innovative direction, the choice of partners for outsourced production, the principles for the implementation of the outsourcing and the decision to actively support the efforts to create new employment possibilities in the communities where LEGO production is moving away.

There will still be special focus on relations with retailers. In the course of 2006, retailers' profitability on the LEGO products increased considerably. As the year saw an unexpected sales increase, it has however not been possible to fulfil all retailers' wishes regarding flexibility of delivery, as the company has given higher priority to reliability of

delivery and mutual profitability. Therefore, increased flexibility will be a focus area in the coming years.

The LEGO Group is very much aware that, apart from the good financial results in 2006, the Group only partly meets each of the above objectives. In the coming years, the Group will therefore increase its focus on meeting the objectives for all stakeholder groups.

Company and capital structure

As mentioned above, an important element in the second phase of the seven-year strategy is simplification of the company and capital structure of the Group.

The objective has been to unite all LEGO related activities in the LEGO A/S group, a subsidiary of LEGO Holding A/S. Consequently, a large number of subsidiaries have been transferred from Swiss to Danish ownership under LEGO A/S. The last changes will take place in the first quarter of 2007. A very simple group structure has therefore been obtained under LEGO A/S with larger transparency in respect of the Group's activities in accordance with good governance. In future, the designation 'LEGO Group' will therefore refer to the LEGO A/S group.
The objective of the LEGO A/S group will be to run all LEGO activities on the toy market. The Board of Directors and the Management of LEGO A/S will have full strategic and operational decision-making power in the area.

The LEGO A/S group will still be 75% owned by LEGO Holding A/S and 25% by LEGO Invest A/S, which is again owned by the LEGO Foundation. This brings the ownership of the LEGO Group in line with the wishes and long-term interests of the owner family.

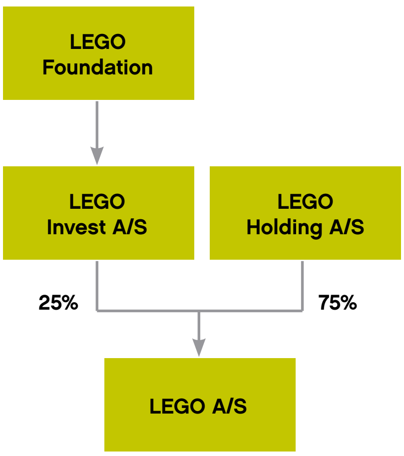
The changes in company structure mean that the previous Board of Directors of LEGO Holding A/S will in future be the Board of Directors of LEGO A/S.

At the same time, a new Board of Directors will be appointed for LEGO Holding A/S. These changes are expected to take effect at the General Meetings in the spring of 2007.

In future, LEGO Holding A/S' primary objective will be to provide financial support to the LEGO A/S group. In this connection, agreements will be established between the Boards of Directors of LEGO Holding A/S and LEGO A/S, including, among other things, information, dividend policy and capital structure.
Moreover, the LEGO Holding A/S group will perform other investing and financing activities. Therefore, an investment and administration agreement will be concluded with KIRKBI A/S, and the CEO of this company will be the CEO of LEGO Holding A/S.

Due to the transfer of the subsidiaries to LEGO A/S, the equity ratio of the LEGO A/S group was reduced to a low level in 2006. Therefore, in 2006 LEGO A/S obtained a subordinate, convertible loan of DKK 1.1 billion from LEGO Holding A/S. At the same time, the considerable liquidity generated in connection with the restructuring, which exceeds the future, planned liquidity requirements of the LEGO A/S group, has been placed in the LEGO Holding A/S group and consequently outside the future toy group. This ensures an optimal capital structure in the LEGO A/S group.

FUTURE GROUP STRUCTURE



Corporate governance

It is the Group's ambition to comply with the governance requirements applying to listed companies. In recent years, efforts have therefore been made to meet this ambition.

Shareholders

For 2006, the designation 'LEGO Group' refers to the activities organised in LEGO Holding A/S and its subsidiaries (for Group Structure, see the cover). LEGO Holding A/S is wholly owned by Kjeld Kirk Kristiansen and his three children. Kjeld Kirk Kristiansen is Vice Chairman of the Board of Directors of LEGO Holding A/S, the Chairmanship thus comprising Kjeld Kirk Kristiansen and the Chairman of the Board. Kjeld Kirk Kristiansen is a member of the Brand & Innovation Board (see the section 'Cross-functional boards' below), and furthermore the owner family participates actively in relation to charity work.
As mentioned on page 22, the designation 'LEGO Group' will in future refer to the LEGO A/S Group.

Board of Directors

The Board of Directors consists of six members, two of whom are considered dependent on the company due to ownership or family relationship with the owner. The Chairman and three other members of the Board are assessed to be independent. Moreover, the principal shareholder's son, Thomas Kirk Kristiansen, attends the board meetings as an observer.

Six ordinary board meetings are held each year, of which one 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, among other things 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, the Board performed self-assessment procedures in 2006. The results of these self-assessment procedures were discussed at the annual seminar, and the measures decided at the seminar were followed up at subsequent board meetings. A concrete result of this is the preparation in 2006 of a proficiency profile for the Board of Directors.

In order to ensure a clear framework and clear directions between the owner, the Board of Directors and Corporate Management, the distribution of responsibilities has been 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 2006 Corporate Management consisted of Jørgen Vig Knudstorp, Chief Executive Officer (CEO), Jesper Ovesen, Executive Vice President and Henrik Poulsen, Executive Vice President.

The previous Executive Vice President of Markets & Products, Henrik Poulsen, resigned in September 2006 in order to take up a position outside the LEGO Group.

At 1 January 2007, Jesper Ovesen, Executive Vice President took up the position as CEO of the KIRKBI Group, the investment company of the families Kirk Kristiansen and Kirk Johansen.

Group Management

In accordance with the strategy plan, the LEGO Group introduced a new organisational structure in 2006, consisting of four business areas: "Markets & Products", "Community, Education & Direct", "Global Supply Chain" and "Corporate Center", each headed by an Executive Vice President.
The Chief Executive Officer, Jørgen Vig Knudstorp, and the four Executive Vice Presidents together make up the Group Management of the LEGO A/S group.
The new organisation reflects the intention of the LEGO A/S group of being even more customer-oriented, which is ensured by integrating all markets in one business area together with product development. At the same time, the new business area Community, Education & Direct will ensure that the company moves even closer to the consumers.

Markets & Products

Markets & Products is globally responsible for product development, marketing, sales and distribution to retailers. The head of the area is Mads Nipper, Executive Vice President, who has many years of experience within product development, sales and marketing in the LEGO Group.

Community, Education & Direct

Community, Education & Direct is responsible for the direct contact to the 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 many fans of the LEGO brand 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 teaching materials.
The head of the business area is Lisbeth Valther Pallesen, Executive Vice President, who has previously worked especially with product development in the LEGO Group.

Global Supply Chain

Global Supply Chain is responsible for the company's supply chain from purchases over production to shipping to the distribution centres. The head of the business area is Iqbal Padda, Executive Vice President, who was also previously responsible for the company's supply chain.

Corporate Center

Corporate Center comprises the areas Corporate Finance, Global IT, Global HR, Corporate Communications, Corporate Governance and Corporate Legal Affairs, and is headed by Christian Iversen, Executive Vice President, who has many years of experience from both staff, marketing and product development functions in the LEGO Group.

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 units, 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, whose Chairman is Jørgen Vig Knudstorp, 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, and the Chairman is Iqbal Padda, Executive Vice President.

The *IT Board* ensures the allocation of resources in relation to and prioritisation of 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, whose Chairman is Christian Iversen, Executive Vice President.

The *Corporate Compliance Board* ensures the preparation of and follow-up on the company's policies and overall guidelines in relation to all stakeholder groups of the company and monitors that the LEGO Group complies with national and international legislation as well as the company's own rules and regulations. The Chairman of the Corporate Compliance Board is Christian Iversen, Executive Vice President, and besides Jørgen Vig Knudstorp, CEO, the committee also comprises members of, among others, the Legal and the Governance departments.

Risk management

Group Management is responsible for current risk management, including the mapping and assessment of risks as well as risk-reducing measures.

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

In 2006 the Group worked with strategic and operating risks as part of its business plans, in which connection the risks relating to each business area were identified and assessed, and measures to reduce the risks were initiated.

The most material risks at Group level have been reported to the Board of Directors and comprise the following areas:

- Market development
- Brand development
- Outsourcing
- Innovation

Financial risks have also been reported to the Board of Directors, and hedging of these takes place in accordance with a strategy adopted by the Board.

As regards insurable, operating and force majeure risks, the policy relating to insurance has been reconsidered and rectified in 2006.

Other operating risks are assessed by Group Management and its four cross-functional boards through the monitoring of key indicators and the trend patterns of these – for example consumer sales – and the relevant measures are initiated.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AIRPORT

Stakeholders

- results achieved in 2006 and the way forward

As a sustainable company, the LEGO Group has a long tradition of caring about its stakeholders, no matter whether this attitude has been formulated in policies or has been part of established but unwritten procedures. However, the effort of producing documentation of sustainability has not previously been sufficient. This has been improved in 2006 and will also be improved in future.

The LEGO Group's first sustainability strategy was adopted in 2006. This strategy means that in the coming years, an active and systematic effort will be made regarding the aspects of social responsibility on which the company has always been based.

The attitudes of the LEGO Group in relation to its stakeholders have now been written down in a number of policies, which have been adopted by the company's Corporate Compliance Board (see page 25). The policies cover all areas of social responsibility, and it has been ensured that all 10 principles of the UN Global Compact, which the LEGO Group joined in 2003, have been integrated into the policies.

Moreover, in 2006 a number of goals were set up in the different areas of the sustainability strategy, and measuring and follow-up procedures were implemented.

Finally, whistleblowing procedures have been introduced in order to ensure that the employees have a possibility of reporting anonymously if they become aware of instances of non-compliance with policies. Moreover, procedures have been established to ensure clear access to receiving advice and guidance in case of doubt.

In April 2007, the LEGO Group will publish its first sustainability report. The report will include detailed information concerning goals, procedures and progress within each element of sustainability seen in relation to the company's stakeholders. Below, are examples of the most material areas that will be addressed in the sustainability report, including a description of the results achieved in 2006.

Product quality and safety

In 2005 closer cooperation was established between consumer service and product development. In 2006 this cooperation meant that feedback from the consumers is now in a structured way being incorporated into the Group's product development on a current basis. This makes it possible to take quick remedial action, if necessary. Moreover, a continuous learning process is achieved, which contributes to further improvements in the future product quality.

A challenge in connection with the outsourcing of the major part of the production is maintaining the high quality of the LEGO products. In order to ensure this, a large number of the suppliers' employees have been trained in quality assurance in connection with the production of LEGO products. Furthermore, all specifications and the LEGO Group product safety manual are being reviewed so that this material is also suited for outsourced production.
In 2006 the LEGO Group had to voluntarily recall a product. This has only happened once before in the history of the LEGO Group. The product, LEGO EXPLORE Super Truck (3509), included a large truck made of plastics which was sold together with a

box of DUPLO bricks. The truck was manufactured in 2002 and 2003 and was sold in North America only. There is a risk that the wheels may separate from the truck's metal axles and cause a potential puncture hazard to children. Based on this experience, the specification for major vehicles will be changed in future.

The adoption of a quality strategy prepares the way for a forward-looking effort which makes sure that the LEGO brand continues to lead on quality.

Code of Conduct

2006 saw the development of a new tool for the assessment of suppliers. The purpose is to ensure that suppliers are assessed based on a number of parameters before contracts are signed. The requirements of the LEGO Group Code of Conduct are included as one of these parameters.

Already in 2006 did the LEGO Group require pre-assessment of suppliers from China before the closing of contracts in order to ensure that the suppliers were prepared to cooperate in respect of – and live up to – the Code of Conduct. In 2006 a total of 19 pre-assessments were performed, and in this connection three enterprises were not approved as contractual partners of the LEGO Group.

During the year, the LEGO Group had 19 audits and 9 follow-up visits performed with a view to checking compliance with the guidelines. A special effort in respect of training of the suppliers was made in China, where 20 training sessions were held. The effect of this was positive and resulted in progress in a number of areas. It was possible to measure this effect at the follow-up visits.

Besides this, the LEGO Group's licence partners are still responsible for performing audits with their suppliers. Moreover, a number of the LEGO Group's toy suppliers from China have been certified under ICTI-CARE and are therefore not comprised by the LEGO Group's own auditing procedure.

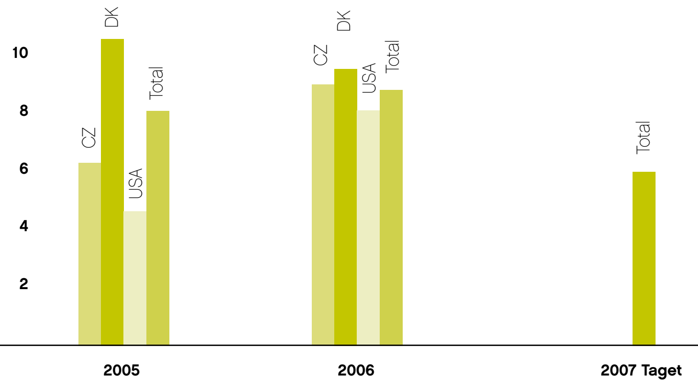
ICTI-CARE is the initiative of the international toy industry for ensuring that working conditions etc at the suppliers live up to a number of minimum standards. The suppliers may apply for a Seal of Compliance, which will be awarded if, based on an audit performed by an independent third party, it is proved that the applicant meets the requirements. At present, the programme only comprises China, Hong Kong and Macau, which are the focus countries in this relation. The initiative has been widely acknowledged, and a large number of toy manufacturers in these countries have obtained approval.

Important, strategic suppliers, such as Flextronics, have also signed the LEGO Group Code of Conduct.

Working environment

The year 2006 was characterised by the decision of outsourcing most of the Group's own production. Therefore, during the last six months of the year, the company focused on helping its employees and managers through this process of change. All managers and employees in Global Supply Chain have participated in seminars at which the effects which such an extensive change process has on employees were discussed. There has been very positive cooperation between shop stewards and Management in this connection.

ACCIDENT FREQUENCY



In 2006 the process relating to place of work assessments (APV) was improved, and a new system for the registration and handling of working environment problems was implemented. The internal safety organisation was trained in the working environment policy, the new APV process and the system for the registration of assessments under APV.

In 2005 the LEGO Group faced an increase in the number of working accidents.
Therefore, a targeted effort was made in 2006 to reduce the number of accidents through increased instruction of new employees, including temporary assistants, improved information concerning, and follow-up on, accidents as well as the implementation of a campaign for the registration of near-accidents. These activities have increased the attention in the area, but cannot be seen in the statistics yet. Moreover, the health and safety audit programme has been intensified.

On a global level, the number of working accidents has decreased from 70 to 65. In the Czech Republic, the number of working accidents decreased from 9 to 8, and in the USA the number of accidents increased from 11 to 15.
In Denmark, the number of accidents resulting in absence decreased from 50 in 2005 to 42 in 2006.
In Denmark, 69 near-accidents were registered.

In 2006 it was three years ago since the Group's activities at Billund had been certified under the health and safety standard OHSAS 18001, and therefore the certificate had to be renewed. The recertification took place in the spring of 2006.

Due to the extensive organisational changes, the process of introducing health and safety management at the Group's locations outside Denmark has been deferred until 2007.

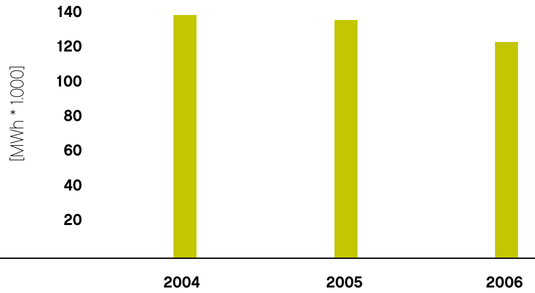
Environment

In 2006 a new environmental policy was adopted and the implementation was initiated.

As a consequence of the changed future structure of the production, the plans for implementing environmental management were revised in the autumn of 2006. Certified environmental management will be implemented in those parts of the Group which are considered to have a significant impact on the environment.
Environmental management according to ISO 14001 will be implemented at Billund together with the establishment of the future production platform. This ensures that environmental aspects are being integrated as a natural part from the outset.
In the Czech Republic the certification will comprise the Group's model production.

Efforts are being made on a current basis to reduce environmental impacts from the Group's activities, both in daily operations through routines such as efficient waste separation and the recycling of plastics from faulty productions, and through thorough assessments of new raw materials and chemical intermediary products before they are put into use.
Moreover, environmental considerations are a natural factor when machinery and equipment are being replaced or acquired.

TOTAL ENERGY CONSUMPTION



Christian Iversen
Executive Vice President
Corporate Center

As a replacement for cooling with the harmful CFC gasses, the first, preliminary attempts with groundwater cooling were initiated in 2006. Based on the preliminary results, it will be assessed whether, from both an environmental and a financial point of view, it will be profitable in the long term to continue with groundwater cooling. If groundwater cooling can be used optimally in the production, there will be a possibility of savings on electricity costs of up to 60 per cent compared with freon-based cooling.

The registration of global environmental data will be extended on a current basis, which will give the LEGO Group an overall picture of its environmental impact and enable the Group to make improved, goal-oriented efforts in this area.

Business integrity

During the year, a business integrity policy has been developed, addressing issues of bribery, facilitation payments, etc. The intention is to establish a clear framework for LEGO Group employees in this respect.

Charity

The LEGO Group has a clear wish to be socially committed and grant humanitarian support. The main objective of the Group's charity policy and product donations is to improve children's rights, living conditions and possibilities of creative play and learning.

In 2006 the LEGO Group supported a large number of charity programmes all over the world with product donations. The largest single donation was the distribution of more than 5,000 sets via SOS Children's Villages to poor children and orphans in, for example, Armenia, Cambodia, Nicaragua and Uzbekistan.
A total of more than 45,000 sets have been distributed to children and families in need all over the world.

In the USA, a special initiative was taken to support schools and pupils in New Orleans after the hurricane Katrina. The rebuilding project after the disaster is one of the largest rebuilding projects in world history. Out of 115 public schools in New Orleans, only 12 had been reopened six months after the disaster. Many schools are still closed, and those that have opened are working with minimum resources.

In an effort to provide the children in the area with creative resources, the LEGO Group asked families all over the USA to donate at least one LEGO brick to the schools and pupils in New Orleans.
More than 800,000 LEGO bricks were collected from children, families, teachers, class rooms, scouts, churches and local communities. The LEGO Group promised to match the donated bricks one-to-one. This resulted in a donation of more than 1.6 million LEGO bricks to schools and pupils in New Orleans.

The LEGO Group has also supported the Global Compact Foundation. This foundation was established with a view to supporting activities initiated by UN Global Compact, such as conferences and publications that may serve as a tool for companies' work within social responsibility.

In 2007 the charity policy of the LEGO Group will be directed towards further development of the many existing activities and the promotion of further global initiatives supporting children's possibilities of creative play and development.

The Kirk family foundations also in 2006 supported a number of humanitarian and social projects.

The owner family of the LEGO Group is to a considerable extent involved in the charity work.

Employees

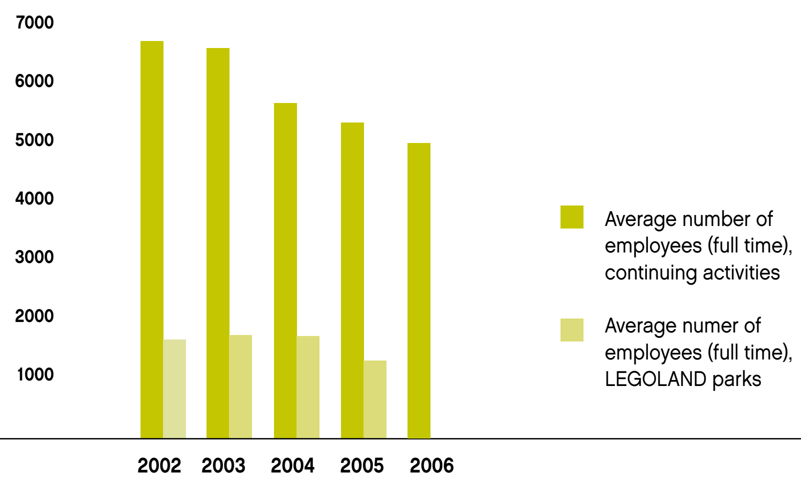
The LEGO Group's employees are in these years experiencing some of the largest changes in the history of the company and consequently considerable uncertainty in their job situation. It is therefore natural to be especially aware of this in connection with the employee satisfaction surveys performed each year. The two factors which particularly support employee commitment are the perception of the daily work and the company's image. Both factors have been under heavy pressure during recent years when the company has been in a process of survival, which has resulted in both extensive dismissals and heavy pressure on the remaining employees. Therefore, it is not surprising that the surveys these years show employee satisfaction below the desired level.

In order to improve employee satisfaction, and in accordance with the company's basic values, the LEGO Group endeavours to ensure continuous, open and honest communication concerning the company's results, decisions and strategy. Consequently, in June 2006, the LEGO Group briefed the employees regarding the overall plan of outsourcing most of the production over the coming three years. The reason for such early communication in this respect was Management's wish to give the employees as long notice of the changes as possible.
Current dialogue between the employees and Management is a natural part of the communication in the company and is realised through dialogue meetings, seminars, current intranet polls and online dialogue.

The LEGO Group has entered a new phase which is no longer just a matter of survival. This requires changes on the part of both employees and managers in respect of continuous proficiency development.

- With a view to creating and ensuring the visibility of career paths in the company, individual development plans will be introduced for all employees from the beginning of 2007.
- As regards management development, specialised training programmes have been introduced for both general executives and selected special-talent groups. Moreover, a targeted training programme has been initiated for specialists, as it is of great importance to further develop this group of key employees in order to support the future business model.
- In the course of 2006, a new global reward strategy was developed, i.e. wages and salaries, bonuses as well as staff benefits. The strategy will be

NUMBER OF EMPLOYEES



implemented at the beginning of 2007.

- In the course of the year, eight management competencies were established, which LEGO managers must possess. The managers will in future be assessed in terms of these competencies, both via employee satisfaction surveys and via targeted annual investigations of management proficiencies.

Change management

Based on the decision of outsourcing most of the company's production, which the LEGO Group communicated in June 2006, intensive efforts have been made to support the employees.

This work has been based on the LEGO Group's basic attitude of acting in a socially responsible way and being open and honest concerning the company's actions.

This has resulted in a number of initiatives directed towards both employees and managers.

For the employees, measures such as staff training, competence clarification and competence building have been initiated. Job search assistance will later be offered as the need arises.

For the managers, a management training model – a so-called transition communication tool – has been developed, which will prepare the LEGO managers for the tasks they will be facing in connection with the outsourcing.

Moreover, financial compensation has been introduced for the affected employees.

Expectations for 2007

On the whole, the global toy market is expected to remain unchanged, while the largest markets of the LEGO Group are expected to remain under pressure in 2007.

As mentioned above, in 2007 and 2008, the Group will mainly focus on profitability. Not until 2009 will the Group focus on growth.

The classic LEGO themes, for example LEGO City, will still have high priority, and in 2007 a new, classic play theme, Aqua Raiders, will be launched.
Sales of licensed products are expected to decrease further in the coming year, as no film-supported product launches will take place in 2007 either.

The most significant challenge for the Group in 2007 will be the change in business model, and particularly the outsourcing of the major part of the production. It will demand great efforts from all business areas to implement the outsourcing. It is decisive that neither product quality nor delivery service be negatively affected by the outsourcing, and these areas will therefore have special focus in the coming years.

On this basis, both the LEGO Holding A/S group and the LEGO A/S group expect revenue in 2007 to be below 2006 revenue.

Expenses will be negatively affected by investments in increased production capacity, which will ensure increased production flexibility in the long term. This will result in normalised capacity utilisation in 2007 of about 80 per cent, against actual capacity utilisation in 2006 of close to 100 per cent. Moreover, further investments will be made in the future business model; particularly expenses relating to better customer service will increase in order to ensure long-term customer relations, and also innovation and IT will see increases in expenses.

Based on this, the Groups' profit before special items, financial income and expenses and tax is expected to show a decrease from DKK 1,348 million in 2006 to a level in the region of DKK 750 million in 2007.

In 2007 special items will comprise expenses relating to the outsourcing and restructuring of the production in the region of DKK 60 million, against recognition of income of DKK 180 million in 2006.

The LEGO Holding A/S group, which owns 75% of the LEGO A/S group, expects a profit before tax in the region of DKK 750 million.
The profit before tax of the LEGO A/S group, which will from 2007 comprise all LEGO activities on the toy market, is expected to be in the region of DKK 550 million.

Accounting Policies

The Annual Report of LEGO Holding A/S has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies applied are unchanged compared to previous years.

True and fair view
The LEGO Group has chosen to depart from the requirements of the Danish Financial Statements Act as to the format of the income statement and the balance sheet in order to give a true and fair view of continuing and discontinuing activities, which are presented as separate items. The departure does not affect the profit, total assets and liabilities or equity.

Discontinuing activities
A discontinuing activity is defined as a business area for which a decision concerning discontinuation has been made and published.

Net profit/loss on discontinuing activities, profit and loss on disposal of assets and settlement of liabilities related to this as well as the related tax effect are presented as separate items. Assets and liabilities of discontinuing activities are recognised as separate items in the balance sheet.

Consolidation
The Consolidated Financial Statements of LEGO Holding A/S comprise the Parent Company and the companies in which LEGO Holding A/S directly or indirectly holds more than 50% of the votes or otherwise exercises control. These companies are listed in the Group Structure on the cover.

The Consolidated Financial Statements were prepared on the basis of the financial statements of the companies comprised, as a combination of items of a uniform nature and according to the same accounting policies.
Elimination has been made of intercompany sales and purchases, interest, dividends, shareholdings, receivables and payables as well as of intercompany profits and losses.

Minority interests
At the calculation of group results and group equity, the shares of the results and equity of the subsidiaries attributable to minority interests are recognised as separate items in the income statement and the balance sheet. Minority interests are recognised on the basis of remeasurement of acquired assets and liabilities to fair value at the time of acquisition of the subsidiaries.

On subsequent changes to minority interests, the changed share is included in results as of the date of the change.

Recognition and measurement
Revenues are recognised in the income statement as earned, including recognition of value adjustments of financial assets and liabilities. Furthermore, all expenses are recognised in the income statement, including amortisation, depreciation and impairment losses.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the LEGO Group, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the LEGO Group, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Translation policies
The balance sheets of foreign subsidiaries are translated into Danish kroner at the exchange rates at the balance sheet date, whereas the income statements are translated at calculated average exchange rates. Exchange adjustments arising on consolidation are recognised directly in equity.

Where intercompany loans are long-term, these are considered an addition to the net assets of the subsidiary, and exchange adjustments are recognised directly in equity. Exchange adjustment of external loans contracted for the hedging of such intercompany loans are also recognised directly in equity.

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.

Derivative financial instruments
Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at their fair values. Positive and negative fair values of derivative financial instruments are included as prepayments and deferred income, respectively.

Changes in the fair values of derivative financial instruments that are designated and qualify as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement as are any changes in the fair value of the hedged asset or the hedged liability.

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future cash flows are recognised in equity. If the future transaction results in the recognition of assets or liabilities, amounts previously recognised in equity are transferred from equity and recognised in the cost of the asset or the liability, respectively. If the future transaction results in income or expenses, amounts recognised in equity are transferred to the income statement in the period in which the hedged item affects the income statement.

Income Statement

Revenue
Revenue comprises the value of goods and services delivered in the period. Revenue is recognised exclusive of VAT and net of discounts relating to sales.

Amortisation and depreciation
Intangible assets are amortised, and property, plant and equipment are depreciated over the expected useful lives of the assets:

Straight-line amortisation/depreciation:	
Intangible assets	5 years
Buildings	25 years
Plant and machinery	2-20 years
Other fixtures and fittings, tools and equipment	3-10 years

Minor acquisitions are expensed in the year of acquisition.

Leases
Leases in respect of property, plant and equipment where the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases and are recognised in the income statement on a straight-line basis over the term of the contract.

Incentives (such as rent-free periods, reduced periods, reimbursement of expenses, etc) relating to operating leases are recognised on a straight-line basis over the term of the contract.

Special items
Special items comprise material amounts of a nonrecurring nature that do not relate to ordinary operating activities, including, for example, impairment of intangible assets and property, plant and equipment to recoverable amount, restructuring expenses and reversals, if any.

Profit on investments in subsidiaries and associates
The proportionate share of the profit for the year after tax is recognised in the income statement of the Parent Company.
The same principle is applied for associates in the Consolidated Financial Statements.

Financial income and expenses
Financial income and expenses comprise interest, financial expenses in respect of finance leases, realised and unrealised exchange adjustments, price adjustment of securities, amortisation of mortgage loans as well as extra payments and repayment under the on-account taxation scheme.

Corporation tax and deferred tax
Current tax for the year, based on calculated taxable income for the year, is expensed together with the change for the year in deferred tax calculated under the liability method.

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

Provision has been made for calculated tax payable and for deferred tax on temporary differences between the carrying amount and the tax base of assets and liabilities calculated at the balance sheet date.

The provision for deferred tax reflects the effect of any tax loss carry-forwards etc to the extent it is considered likely that these can be utilised against future taxable income. To the extent calculated deferred tax is positive, this is recognised in the balance sheet as a deferred tax asset at the expected realisable value.

Balance Sheet

Research and development costs
Research costs are recognised in the income statement as incurred. Development costs including overhead costs are recognised in the balance sheet as intangible assets if the costs are assessed to generate future economic benefits for the Group. Other development costs are expensed in the period in which they incur. Development costs are amortised from the commencement of the commercial use of the product over its expected useful life.

It is assessed that currently no costs qualify for capitalisation according to these conditions, as most of the costs relating to novelty projects are marketing expenses which relate to the development and maintenance of the LEGO brand.

Property, plant and equipment
Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses. Land is not depreciated.

Cost comprises costs of materials, components, sub-supplier services, direct labour and indirect production costs. Financial expenses are not included.

Leases in respect of property, plant and equipment in terms of which the individual companies assume substantially all the risks and rewards of ownership are classified as finance leases. At the inception of the lease, finance leases are measured in the balance sheet at the lower of the fair value of the leased asset and the net present value of future lease payments. When computing the net present value, the interest rate implicit in the lease is applied as the discount rate or an approximated value. Assets acquired under finance leases are subsequently treated like the other property, plant and equipment of the Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is recognised in the income statement over the term of the lease.

Impairment of fixed assets
The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by normal amortisation and depreciation.

The recoverable amount of the asset is calculated as the higher of net selling price and value in use.

Where a recoverable amount cannot be determined for the individual asset, the smallest group of assets for which the recoverable amount can be determined is reviewed for impairment.

Properties and other assets for which a recoverable amount cannot be determined as the asset does not on an individual basis generate future cash flows are reviewed for impairment together with the group of assets to which they are attributable.

Impairment of intangible assets and property, plant and equipment as well as any reversals of these are recognised in special items.

Investments in subsidiaries and associates
Investments in subsidiaries are recognised in the balance sheet of the Parent Company under the equity method as the proportionate ownership shares of the net asset value of the enterprises.

Investments in associates are included in the balance sheet of the Group and the Parent Company under the equity method.

Subsidiaries and associates with a negative net asset value are recognised at zero. Receivables from such enterprises are set off against the negative net asset value. Should the negative net asset value exceed the receivable, the amount is recognised in provisions.

Current asset investments and other investments
Current asset investments recognised in fixed asset investments comprise listed bonds held to maturity. The investments are measured at amortised cost.

Inventories
Inventories are measured at cost based on the FIFO principle. Where the cost is higher than the net realisable value, write-down is made to this lower value.

Work in progress and finished goods are measured at direct costs with addition of indirect production costs. Financial expenses are not included.

Receivables
Receivables are measured at amortised cost, which usually corresponds to nominal value.

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

Prepayments and deferred income
Prepayments include expenses incurred in respect of subsequent financial years, as well as fair value adjustments of derivative financial instruments.

Deferred income includes payments received in respect of income relating to subsequent financial years, as well as negative fair value adjustments of derivative financial instruments.

Securities
Securities available for sale are measured at fair value at the balance sheet date and are recognised in cash at bank and in hand.

Dividend
Dividend distribution for the year proposed by Management is disclosed as a separate equity item.

Other provisions
Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Group has a legal or constructive obligation, and it is probable that economic benefits must be given up to settle the obligation.

Financial debts
Financial debts are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost.

Other debts are measured at amortised cost, usually corresponding to nominal value.

Cash Flow Statement

The cash flow statement shows cash flows for the year broken down by operating, investing and financing activities, changes for the year in financial resources as well as financial resources at the beginning and end of the year.

Cash flows from operating activities
Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for non-cash operating items, changes in working capital and corporation tax paid.

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

Cash flows from financing activities
Cash flows from financing activities comprise changes in the size or composition of the share capital and expenses relating to this, as well as the raising of loans, repayment of interest-bearing debt and payment of dividend to shareholders.

Financial resources
Financial resources comprise cash at bank and in hand etc that can readily be turned into cash, and with only an insignificant risk of value changes, reduced by short-term debt to credit institutions.

Short-term receivables from and short-term debt to KIRKBI companies are included in financial resources.

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:	$\frac{\text{Gross profit x 100}}{\text{Revenue}}$
OPERATING MARGIN (ROS):	$\frac{\text{Profit before financials and tax x 100}}{\text{Revenue}}$
NET PROFIT MARGIN:	$\frac{\text{Net profit for the year x 100}}{\text{Revenue}}$
RETURN ON EQUITY:	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$
ROIC I:	$\frac{\text{EBITA before special items x 100}}{\text{Average invested capital}}$
ROIC II:	$\frac{\text{EBITA after special items x 100}}{\text{Average invested capital}}$

Moreover, the following is shown:

EQUITY RATIO:	$\frac{\text{Equity (including minority interests) x 100}}{\text{Total liabilities and equity, end of year}}$

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

Management's Statement on the Annual Report

The Board and Corporate Management have today presented and adopted the Annual Report of LEGO Holding A/S for 2006.

The Annual Report was prepared in accordance with the Danish Financial Statements Act. We consider the accounting policies applied appropriate and the estimates made reasonable. Furthermore, we consider the overall Annual Report presentation true and fair. 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 cash flows.

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

Billund, 7 February 2007

Corporate Management

Jørgen Vig Knudstorp
President and CEO

Jesper Ovesen
Executive Vice President

Group Management

Mads Øvlisen
Chairman

Kjeld Kirk Kristiansen
Vice-chairman

Lars Gunnar Bertelson Brock

Armin Broger

Mogens Johansen

Torben Ballegaard Sørensen

Independent Auditor's Report

To the Shareholders of LEGO Holding A/S

We have audited the Annual Report of LEGO Holding A/S for the financial year 2006 for the Group as well as for the Parent Company. The Annual Report is prepared in accordance with the Danish Financial Statements Act.

Management's Responsibility for the Annual Report

Management is responsible for the preparation and fair presentation of the Annual Report in accordance with the Danish Financial Statements Act. 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 International and 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 2006 of the Group and the Parent Company and of the results of the Group and Parent Company operations and consolidated cash flows for the financial year 2006 in accordance with the Danish Financial Statements Act.

Billund, 7 February 2007

PricewaterhouseCoopers
Statsautoriseret Revisionsaktieselskab

Lars Holtug
State Authorised Public Accountant

Harald Birkwald
State Authorised Public Accountant

Income Statement 1 January - 31 December

[mDKK]

Parent Company 2005	Parent Company 2006		Note	Group 2006	Group 2005
122	90	Revenue		7,823	7,050
(11)	(2)	Production costs	2	(2,772)	(2,959)
111	**88**	**Gross profit/(loss)**		**5,051**	**4,091**
–	–	Sales and distribution expenses	2	(2,612)	(2,584)
(83)	(43)	Administrative expenses	1, 2	(572)	(599)
–	5	Other operating income		105	79
(5)	–	Other operating expenses	2	(624)	(519)
23	**50**	**Profit/(loss) before special items, financial income and expenses and tax**		**1,348**	**468**
–	–	Reversal of impairment of fixed assets	3	292	95
–	(100)	Restructuring expenses and other special items	2,4	(112)	(104)
23	**(50)**	**Operating profit/(loss)**		**1,528**	**459**
363	1,416	Profit/(loss) from subsidiaries after tax		–	–
17	15	Profit/(loss) from associates after tax		15	17
13	112	Financial income	5	203	139
(47)	(87)	Financial expenses	5	(184)	(159)
369	**1,406**	**Profit/(loss) before tax**		**1,562**	**456**
41	(34)	Corporation tax	6	(132)	(125)
410	**1,372**	**Profit/(loss) from continuing activities**		**1,430**	**331**
125	–	Profit/(loss) from discontinuing activities	7	–	174
535	**1,372**	**Net profit/(loss) for the year**		**1,430**	**505**
–	–	Minority interests' share of net profit/(loss) for the year		58	(30)
535	**1,372**	**LEGO Holding A/S's share of net profit/(loss) for the year**		**1,372**	**535**

		Proposed distribution of profit for LEGO Holding A/S
–	–	Dividend
535	1,372	Retained earnings
535	**1,372**	**Distributed**

Balance Sheet at 31 December

[mDKK]

Parent Company 2005	Parent Company 2006		Note	Group 2006	Group 2005
		Assets			
22	21	Land and buildings		764	900
–	–	Plant and machinery		358	187
1	–	Other fixtures and fittings, tools and equipment		97	82
–	–	Fixed assets under construction and prepayments for property, plant and equipment		38	30
23	**21**	**Property, plant and equipment**	8, 9	**1,257**	**1,199**
–	1	Deferred tax assets	12	388	430
3,375	2,209	Investments in subsidiaries	11	–	–
197	402	Investments in associates	10 , 11	402	197
–	1,100	Receivables from subsidiaries	11	–	–
–	15	Current asset investments and other investments	10, 11	90	75
3,572	**3,727**	**Fixed asset investments**		**880**	**702**
3,595	**3,748**	**Total fixed assets**		**2,137**	**1,901**
–	**–**	**Inventories**	13	**881**	**709**
–	–	Trade receivables		1,824	1,856
655	111	Receivables from subsidiaries	14	–	–
–	–	Corporation tax receivable		34	68
2	28	Other receivables		253	136
–	–	Prepayments		136	109
657	**139**	**Receivables**		**2,247**	**2,169**
–	**–**	**Fixed assets for sale**		**303**	**301**
–	**1,445**	**Securities**		**1,445**	**641**
1	**188**	**Cash at bank and in hand**		**2,009**	**1,968**
658	**1,772**	**Total current assets**		**6,885**	**5,788**
4,253	**5,520**	**Total assets**		**9,022**	**7,689**

Balance Sheet at 31 December

[mDKK]

Parent Company 2005	Parent Company 2006		Note	Group 2006	Group 2005
		Liabilities and equity			
123	123	Share capital	15	123	123
3,158	4,363	Retained earnings		4,363	3,158
–	–	Proposed dividend for the year		–	–
3,281	**4,486**	**Equity**		**4,486**	**3,281**
–	**–**	**Minority interests**	16	**241**	**308**
–	–	Provision for pensions		72	67
21	–	Provision for deferred tax	12	124	196
–	–	Other provisions	17	417	702
21	**–**	**Provisions**		**613**	**965**
800	–	Subordinate loan capital	19	–	800
133	131	Debt to credit institutions		507	512
–	–	Other debt		78	–
933	**131**	**Long-term debt**	18	**585**	**1,312**
–	800	Subordinate loan capital	19	800	–
1	1	Debt to credit institutions		5	5
–	76	Debt to subsidiaries		–	–
–	–	Trade payables		744	630
–	20	Corporation tax		154	134
15	1	Other payables		974	650
2	5	Deferred income		420	404
18	**903**	**Short-term debt**		**3,097**	**1,823**
951	**1,034**	**Total debt**		**3,682**	**3,135**
4,253	**5,520**	**Total liabilities and equity**		**9,022**	**7,689**
		Security and contingent liabilities	20		
		Related parties	23		

Statement of Changes in Equity

[mDKK]

	Share capital	Retained earnings	Proposed dividend	Total
Equity at 1 January 2005	123	2,490	–	2,613
Exchange adjustments relating to foreign subsidiaries	–	165	–	165
Fair value adjustment of forward exchange contracts for hedging of future purchases and sales in foreign currencies	–	(44)	–	(44)
Adjustment of other financial instruments	–	20	–	20
Other adjustments	–	(8)	–	(8)
Retained earnings	–	535	–	535
Equity at 31 December 2005	**123**	**3,158**	**–**	**3,281**

	Share capital	Retained earnings	Proposed dividend	Total
Equity at 1 January 2006	123	3,158	–	3,281
Exchange adjustments relating to foreign subsidiaries	–	(188)	–	(188)
Fair value adjustment of forward exchange contracts for hedging of future purchases and sales in foreign currencies	–	31	–	31
Other adjustments	–	(10)	–	(10)
Retained earnings	–	1,372	–	1,372
Equity at 31 December 2006	**123**	**4,363**	**–**	**4,486**

Cash Flow Statement 1 January - 31 December

[mDKK]

Parent Company 2005	Parent Company 2006		Note	Group 2006	Group 2005
		Profit/(loss) before tax relating			
369	1,406	to continuing activities		1,562	456
163	–	Profit/(loss) before tax relating to discontinuing activities		–	246
8	1	Amortisation, depreciation and impairment losses		(16)	437
(533)	(1,406)	Other adjustments	21	(608)	(289)
7	**1**			**938**	**850**
		Change in working capital:			
–	–	Change in inventories		(172)	(19)
(457)	518	Change in receivables		(112)	(188)
3	64	Change in short-term debt		450	496
(454)	**582**			**166**	**289**
(27)	(36)	Corporation tax paid/received		(108)	(82)
(474)	**547**	**Cash flows from operating activities**		**996**	**1,057**
(1)	–	Purchase of property, plant and equipment		(316)	(265)
(250)	(205)	Fixed asset investments made		(205)	(326)
588	–	Sale of discontinuing activities		–	2,604
–	5	Sale of fixed assets		495	549
337	**(200)**	**Cash flows from investing activities**		**(26)**	**2,562**
–	2,385	Dividend paid/received		(125)	–
–	(1,100)	Long-term loan to subsidiaries		–	–
136	–	Raising of long-term debt		–	551
–	(800)	Change in short-term share of long-term debt		(800)	–
–	–	Repayment of long-term debt		–	(1,621)
136	**485**	**Cash flows from financing activities**		**(925)**	**(1,070)**
(1)	**832**	**Total cash flows**		**45**	**2,549**
1	–	Financial resources at 1 January		2,604	(82)
–	–	Financial resources relating to disposal of activities		–	137
0	**832**	**Financial resources at 31 December**	22	**2,649**	**2,604**

Items of the cash flow statement cannot be directly derived from changes in the balance sheet

Notes
[mDKK]

Note 1. Fee to auditors appointed by the general meeting

Parent Company 2005	Parent Company 2006		Group 2006	Group 2005
		Fee to PricewaterhouseCoopers:		
1	1	Audit	8	7
3	–	Non-audit services	12	9
4	**1**	**Total, continuing activities**	**20**	**16**

Note 2. Employees and remuneration

Parent Company 2005	Parent Company 2006		Group 2006	Group 2005
25	41	Wages and salaries	1,823	2,064
–	–	Pensions	62	114
–	–	Other social security expenses	87	96
25	**41**		**1,972**	**2,274**
–	**–**	**Including amount relating to discontinuing activities**	**–**	**171**
		Staff expenses relating to discontinuing activities comprise only 6 months in 2005.		
		Including salaries and remuneration to:		
19	28	Corporate Management	28	19
2	2	Board of Directors	2	2
21	**30**		**30**	**21**
		Employees		
		Average number of full-time employees:		
6	9	Continuing activities	4, 922	5,321
–	–	Discontinuing activities	–	1,322

Notes

[mDKK]

Note 3. 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.

The calculations have been made considering the cash flows and the business of the LEGO Group comprising assets related to the following groups: Play Materials, Brand Retail and Shop@Home,

In connection with the tests made in 2006, no need for further impairment of fixed assets was identified; on the contrary, reversals were made of impairments made in previous years of DKK 292 million in connection with reassessment of fixed assets.

Parent Company			Group	
2005	**2006**		**2006**	**2005**
–	–	Land and buildings	(25)	(83)
–	–	Plant and machinery	(98)	(2)
–	–	Other fixtures and fittings, tools and equipment	(77)	(10)
–		Fixed assets for sale – land and buildings	(92)	–
–	**–**		**(292)**	**(95)**

Note 4. Restructuring expenses and other special items

Parent Company			Group	
2005	**2006**		**2006**	**2005**
–	–	Staff and staff related expenses	19	57
–	–	Building and lease expenses	1	63
–	100	Donation to the LEGO Foundation	100	–
–	–	Reversal of provision for restructuring previously made	(67)	(29)
–	–	Other	59	13
–	**100**		**112**	**104**

Notes
[mDKK]

Note 5. Financial income and expenses

Parent Company 2005	Parent Company 2006		Group 2006	Group 2005
		Financial income:		
13	88	Interest income from subsidiaries	–	–
–	24	Other interest income	185	59
–	–	Exchange gain	18	81
13	**112**		**203**	**140**
–	–	Including amount relating to discontinuing activities	–	1
13	**112**	**Financial income relating to continuing activities**	**203**	**139**
		Financial expenses:		
46	77	Other interest expenses	184	120
–	–	Other financial expenses	–	45
1	10	Exchange losses	–	–
47	**87**		**184**	**165**
–	–	Including amount relating to discontinuing activities	–	6
47	**87**	**Financial expenses relating to continuing activities**	**184**	**159**

Notes

[mDKK]

Note 6. Corporation tax

Parent Company 2005	Parent Company 2006		Group 2006	Group 2005
(25)	(51)	Current tax for the year	(133)	(132)
11	22	Adjustment of deferred tax	30	(39)
–	–	Other taxes etc	(19)	–
17	(5)	Adjustment concerning previous years	(10)	(26)
3	**(34)**		**(132)**	**(197)**
(38)	–	Including amount relating to discontinuing activities	–	(72)
41	**(34)**		**(132)**	**(125)**

Tax on the profit/(loss) for the year is specified as follows:

Parent Company %	Parent Company mDKK		Group mDKK	Group %
(28)	3	Calculated 28% tax on profit/(loss) for the year before tax	(437)	(28)
		Tax effect of:		
–	–	Higher/lower tax rate in subsidiaries	25	1
320	(32)	Non-deductible expenses	(66)	(4)
–	–	Non-taxable income	12	1
48	(5)	Adjustment of tax relating to previous years	(10)	(1)
–	–	Effect of deferred tax not capitalised	388	25
–	–	Other	(44)	(3)
340	**(34)**		**(132)**	**(9)**

Notes
[mDKK]

Note 7. Discontinuing activities

In 2004 it was decided to sell the Group's LEGOLAND Parks and related activities, as these are not considered part of the core business. The sale was carried through in July 2005, and therefore the amounts for 2005 only comprise the period 1 January - 30 June.

KOMPAN A/S was also classified as a discontinuing activity in 2005 as a consequence of the LEGO Group's sale of the majority holding in 2004 and the sale of the remaining shares in 2005.

Parent Company			Group	
2005	2006		2006	2005
–	–	Revenue	–	493
(14)	–	Expenses	–	(541)
78	–	Gain from sale of LEGOLAND Parks	–	200
99	–	Share of profit and gain from sale, KOMPAN A/S	–	99
–	–	Financial income and expenses	–	(5)
163	**–**	**Profit/(loss) before tax from discontinuing activities**	**–**	**246**
(38)	–	Tax	–	(72)
125	**–**	**Profit/(loss) from discontinuing activities**	**–**	**174**
		Fee to PricewaterhouseCoopers:		
–	–	Audit	–	–
12	–	Non-audit services	–	32
12	**–**		**–**	**32**
		Cash flows from:		
		Operating activities	–	(73)
		Investing activities	–	2,533
		Financing activities	–	(74)
		Total cash flows	**–**	**2,386**

Notes

[mDKK]

Note 8. Property, plant and equipment
Group

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construction
Cost at 1 January	1,892	2,909	1,046	30
Exchange adjustment at 1 January	(40)	(17)	(53)	
Additions	13	203	35	65
Disposals	(286)	(433)	(303)	(6)
Transfer from fixed assets for sale	248	–	–	–
Transfers to fixed assets for sale	(130)	–	–	–
Transfers	31	20	0	(51)
Cost at 31 December	**1,728**	**2,682**	**725**	**38**
Depreciation and impairment losses at 1 January	992	2,722	964	–
Exchange adjustment at 1 January	(20)	(16)	(40)	–
Depreciation for the year	28	143	57	–
Reversal of impairment losses made in previous years	(25)	(98)	(77)	–
Depreciation, assets sold	(135)	(427)	(276)	–
Transfer from fixed assets for sale	212	–	–	–
Transfers to fixed assets for sale	(88)	–	–	–
Transfers	–	–	–	–
Depreciation and impairment losses at 31 December	**964**	**2,324**	**628**	**–**
Carrying amount at 31 December	**764**	**358**	**97**	**38**
Including assets under finance leases	**87**			

According to the official property assessment, the value of the Danish land and buildings amounts to DKK 437m. The corresponding carrying amount is DKK 628m at 31 December 2006.

The Group has entered into finance leases relating to buildings. The leased assets have been placed as security for lease obligations.

Notes

[mDKK]

Note 9. Property, plant and equipment

Parent Company

	Land and buildings	Other fixtures and fittings, tools and equipment
Cost at 1 January	139	2
Disposals	(1)	(2)
Cost at 31 December	**138**	**–**
Depreciation and impairment losses at 1 January	117	1
Depreciation, assets sold	–	(1)
Depreciation and impairment losses at 31 December	**117**	**–**
Carrying amount at 31 December	**21**	**–**

According to the official property assessment, the value of the Danish land and buildings amounts to DKK 124m. The corresponding carrying amount is DKK 21m at 31 December 2006.

No fixed assets have been capitalised in connection with finance leases.

Notes

[mDKK]

Note 10. Fixed asset investments

Group

	Investments in associates	Current asset investments and other investments
Cost at 1 January	180	76
Additions	190	15
Cost at 31 December	**370**	**91**
Value adjustments at 1 January	17	(1)
Net profit/(loss) for the year	15	–
Value adjustments at 31 December	**32**	**(1)**
Carrying amount at 31 December	**402**	**90**

Note 11. Fixed asset investments

Parent Company

	Investments in subsidiaries	Investments in associates	Receivables from subsidiaries	Current asset investments and other investments
Cost at 1 January	5,381	180	–	–
Additions	–	190	1,100	15
Cost at 31 December	**5,381**	**370**	**1,100**	**15**
Value adjustments at 1 January	(2,006)	17	–	–
Exchange adjustments	(244)	–	–	–
Net profit/(loss) for the year	1,416	15	–	–
Dividend received	(2,385)	–	–	–
Other adjustments	47	–	–	–
Value adjustments at 31 December	**(3,172)**	**32**	**–**	**–**
Carrying amount at 31 December	**2,209**	**402**	**1,100**	**15**

Notes

[mDKK]

Note 12. Deferred tax

Parent Company 2005	Parent Company 2006		Group 2006	Group 2005
–	–	Deferred tax asset at 1 January	430	448
(50)	(21)	Provision for deferred tax at 1 January	(196)	(175)
(50)	**(21)**	**Deferred tax, net at 1 January**	**234**	**273**
29	22	Change in deferred tax	30	(39)
(21)	**1**	**Deferred tax, net at 31 December**	**264**	**234**
		Specified as follows:		
–	1	Deferred tax asset	388	430
(21)	–	Provision for deferred tax	(124)	(196)
(21)	**1**	**Deferred tax, net at 31 December**	**264**	**234**

Deferred tax – Group	**Deferred tax asset**	**Provision for deferred tax**	**Deferred tax net 2006**	**Deferred tax net 2005**
Fixed assets	272	(41)	231	(23)
Current assets	55	–	55	24
Inventories	18	–	18	116
Provisions	8	–	8	27
Debt	83	–	83	52
Tax loss carry-forwards	42	–	42	199
Other	17	(190)	(173)	(161)
Set off	(107)	107	–	–
	388	**(124)**	**264**	**234**

Tax loss carry-forwards – Group

	2006	**2005**
Tax assets relating to tax loss carry-forwards have been capitalised based on an assessment of whether they can be utilised within a few years.		
The Group's tax losses expire as follows:		
Within 1 year	–	–
Within 2 years	–	–
Within 3 years	–	5
Within 4 years	–	11
Within 5 years	–	2
After 5 years	42	181
	42	**199**

Notes

[mDKK]

Note 13. Inventories – Group

	2006	2005
Raw materials	123	126
Components and work in progress	234	182
Finished goods	524	401
Total inventories	**881**	**709**

Note 14. Receivables from subsidiaries

Parent Company			Group	
2005	**2006**		**2006**	**2005**
655	**–**	**Amount falling due after 1 year**	**–**	**–**

Note 15. Share capital

The Parent Company's share capital consists of:

104	A-shares of DKK 1,000 or multiples hereof
19	B-shares of DKK 1,000 or multiples hereof
123	**Total share capital at 31 December**

A capital increase of DKK 76m took place in 2004. Apart from this, there have been no changes in the share capital during the last 5 years.

The LEGO Group has no own shares.

Shareholders holding more than 5% of the share capital:
Kjeld Kirk Kristiansen, DK-7190 Billund
Sofie Kirk Kristiansen, DK-2930 Klampenborg
Thomas Kirk Kristiansen, DK-5390 Martofte
Agnete Kirk Kristiansen, DK-9000 Ålborg

Notes

[mDKK]

Note 16. Minority interests

Parent Company 2005	Parent Company 2006		Group 2006	Group 2005
–	–	Balance at 1 January	308	335
–	–	Dividend	(125)	–
–	–	Share of net profit/(loss) for the year	58	(30)
–	–	Exchange adjustments etc	–	3
–	**–**	**Balance at 31 December**	**241**	**308**

Note 17. Other provisions

Parent Company 2005	Parent Company 2006		Group 2006	Group 2005
–	–	Balance at 1 January	702	645
–	–	Exchange adjustment at 1 January	(3)	13
–	–	Additions	52	216
–	–	Used	(237)	(116)
–	–	Reversed	(97)	(56)
–	**–**	**Balance at 31 December**	**417**	**702**

Other provisions primarily comprise future restructuring expenses in respect of employees, buildings and leases.

Note 18. Long-term debt

	Total debt	Due within 1 year	Due after 5 years
Parent Company:			
Lease obligation	–	–	–
Banks and other credit institutions	132	1	120
	132	**1**	**120**
Group:			
Lease obligation	87	9	44
Banks and other credit institutions	512	5	466
	599	**14**	**510**

Notes

[mDKK]

Note 19. Subordinate loan capital

Loan from KIRKBI A/S, totalling DKK 800m, has been repaid in January 2007.

Note 20. Security and contingent liabilities

Parent Company			Group	
2005	2006		2006	2005
–	–	Guarantees	1	1
1	–	Lease obligations	346	373
–	–	Other obligations	59	109
1	**–**		**406**	**483**

Security:

The following assets have been placed as security for mortgage credit institutes with a carrying amount of::

22	**21**	**Land and buildings**	**356**	**383**

Group

The LEGO Group makes an effort to reduce its interest rate risk by ensuring match between debt and assets. Moreover, risks are hedged through the use of interest swaps and options.

The Group's foreign exchange risk relates to imbalance between income and expenses in the individual currencies as well as larger assets than liabilities in subsidiaries. The foreign exchange exposure primarily relates to US dollars, Euro, Swiss francs and Japanese yen. The Group makes an effort to reduce the risks by matching payments received and made as well as loans received and granted in the same currency. Furthermore, forward contracts and currency options are applied.

The Group has entered into forward exchange contracts totalling DKK 800m and currency options totalling DKK 575m. In accordance with the accounting policies, unrealised gains and losses at the balance sheet date have been recognised either in the income statement or directly in equity, depending on the transaction concerned. At 31 December 2006, unrealised gains totalling DKK 4m have been recognised in the income statement, and unrealised gains totalling DKK 31m have been recognised directly in equity.

The Group has entered into contracts with a number of lessors and suppliers. The contracts involve no obligations other than those occurring in the normal course of business.

Notes

[mDKK]

Note 21. Other adjustments (cash flow statement)

Parent Company 2005	Parent Company 2006		Group 2006	Group 2005
(177)	(4)	Gain/(loss) from sale of fixed assets	(105)	(378)
165	56	Exchange adjustments	(145)	55
(540)	(1,416)	Subsidiaries	–	–
(24)	31	Financial instruments	31	(33)
–	–	Change in provisions	(280)	32
(17)	(15)	Net profit/(loss) in associates	(15)	(17)
60	(58)	Other adjustments	(94)	52
(533)	**(1,406)**	**Total other adjustments**	**(608)**	**(289)**

Note 22. Financial resources (cash flow statement)

Parent Company 2005	Parent Company 2006		Group 2006	Group 2005
–	1,445	Securities	1,445	641
1	188	Cash at bank and in hand	2,009	1,968
		Short-term debt:		
(1)	(1)	Banks and other credit institutions	(5)	(5)
–	(800)	Subordinate loan capital	(800)	–
–	**832**	**Total financial resources**	**2,649**	**2,604**

Notes

[mDKK]

Note 23. Related parties

LEGO Holding A/S is controlled by Kjeld Kirk Kristiansen (Billund).

The following transactions were carried out with related parties in which Kjeld Kirk Kristiansen and his family have controlling or significant influence. All transactions were carried out on an arm's length basis.

	Sale of products to	Interest received from	Sale of assets to
Merlin Entertainments Group	119	–	–
KIRKBI AG Group	–	–	–
KIRKBI A/S Group	–	–	–
	119	**–**	**–**

	Rent paid to	Interest paid to	Service fee paid to
Merlin Entertainments Group	–	–	–
KIRKBI AG Group	–	1	–
KIRKBI A/S Group	–	49	22
	–	**50**	**22**

	Trademark fee paid to	Other operating income received from	Other operating expenses paid to
Merlin Entertainments Group	–	–	1
KIRKBI AG Group	174	–	–
KIRKBI A/S Group	178	–	2
	352	**–**	**3**

	Receivable from	Short-term debt to	Loan from
Merlin Entertainments Group	6	–	–
KIRKBI AG Group	–	62	–
KIRKBI A/S Group	–	881	–
	6	**943**	**–**

The Group has lease obligations of DKK 3m at 31 December towards the KIRKBI A/S Group.

Group Management

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

Iqbal Padda
Executive Vice President
Global Supply Chain

Lisbeth Valther Pallesen
Executive Vice President
Community, Education & Direct

Jørgen Vig Knudstorp
Chief Executive Officer
and President

Christian Iversen
Executive Vice President
Corporate Center

Mads Nipper
Executive Vice President
Markets & Products

Board of Directors of LEGO Holding A/S

Mogens Johansen, Gunnar Brock, Armin F. Broger, Mads Øvlisen, Kjeld Kirk Kristiansen, Torben Ballegaard Sørensen

Mogens Johansen

Member of the Board since 1978.

Representing the family. Brother in law to Kjeld Kirk Kristiansen.

Member of the Board of the LEGO Foundation, and Edith and Godtfred Kirk Christiansen's Foundation.

Gunnar Brock

Member of the Board since 1995.

President & CEO and member of the Board of Swedish Atlas Copco AB. Member of the Board of StoraEnso, Finland. Member of the Royal Swedish Academy of Engineering Sciences (IVA).

Armin Broger

Member of the Board since 2005.

CEO of 7 for all mankind BV, Holland. Member of the Board of 7 for all mankind LLC.

Mads Øvlisen

Chairman of the Board since 1996.

Member of the Board since 1991.

Chairman of the Board of the Danish Royal Theatre, and 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 KIRKBI 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.

Torben Ballegaard Sørensen

Member of the Board since 2005.

President & CEO of Bang & Olufsen A/S.

Member of the Board of SimCorp A/S and Egmont Group.

LEGO Group

As of 31 December 2006

LEGO Holding A/S

LEGO A/S, 75% (Denmark)

Denmark

- LEGO System A/S

Europe (others)

- LEGO Park Holding UK Ltd.
  - – LEGO Estates Australia Pty. 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 Hungaria Kft.
- LEGO Polska Sp. Z.o.o.
- OOO LEGO (Russia)

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 Chile Ltda.
  - – LEGO Direct Marketing Inc. (US)
  - – LEGO Brand Retail Inc. (US)

Asia/Africa

- 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.

INTERLEGO AG (Switzerland)

Europe

- LEGO Estates Limited, into liq. (UK)
- LEGO Schweiz AG
- LEGOLAND Estates AG, into liq. (Switzerland)
- KIRK AG (Switzerland)

Associates:

- Merlin Entertainments Group S.A.R.L., 15% (Luxemburg)

Ownership is 100% unless stated otherwise.

LEGO Holding A/S
Aastvej 1
DK-7190 Billund, Denmark
Tel: +45 79 50 60 70
Fax: +45 75 33 27 25
CVR-no: 18 59 12 35
Incorporated: April 1st 1995
Residence: Billund
Financial Year: January 1st – December 31st
Internet: www.LEGO.com

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

www.LEGO.com

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