Annual Report 2005
LEGO Group

Selected Product Awards 2005

DUPLO Dora & Diego's Animal Adventure:
Dr. Toy: "Smart Play Smart Toy": Product of Excellence

DUPLO Thomas Load & Carry Set:
National Parenting Center's: Seal of Approval Winner Fall '05

LEGOVILLE Fire Station:
Parents' Choice: Approved Seal Fall 2005: Toys

PIRATES Captain Redbeard's Pirate Ship:
iParenting Media: Best Products of 2005 Award - Toys & Games

CREATOR Tub:
Dr. Toy: "Smart Play Smart Toy": Product of Excellence

CREATOR Wild Hunter:
Creative Child Magazine: Preferred Choice Award (Kids' Builder Construction Category)

National Parenting Center's: Seal of Approval Winner Fall '05

Dr. Toy: Top 10 Best Active Products for 2005

Parents' Choice: Recommended Seal Fall 2005

CREATOR Prehistoric Creatures, Designer Set:
Canadian Toy Testing Council: Children's Choice Award 2005

CITY Fire Station:
Dr. Toy: Best Vacation Toy for 2005

iParenting Media: Best Products of 2005 Award - Toys & Games

National Parenting Center's: Seal of Approval Winner Spring '05

Parents' Choice: Approved Seal Spring 2005: Doing & Learning/Toy

Creative Child Magazine: Seal of Excellence (Kid's Builder Construction Category)

CITY Speed Boat:
iParenting Media: 2005 Excellent Products Call - Toys & Games

CITY XXL Mobile Crane:
Dr. Toy: "Smart Play Smart Toys": Product of Excellence

CITY Police Station:
National Parenting Center's: Seal of Approval Winner Fall '05

iParenting Media: 2005 Greatest Products Call

Grandparents Magazine: Best Building Toy 8 and under

Parents' Choice: Approved Seal Fall 2005: Toys

DINO T-1 Typhoon vs. T-Rex:
iParenting Media: 2005 Greatest Products Call

VIKINGS Viking Fortress:
Toys R Us: On the annual list of the Hottest New Toys for the 2005 holiday season

KNIGHTS KINGDOM:
Toy Industry Association: Boy Toy of the Year

KNIGHTS KINGDOM, Castle of Morcia:
Canadian Toy Testing Council: Children's Choice Award 2005

STAR WARS:
Learning Express Toy Stores: Best Products Award - Best Construction Toy

TECHNIC Excavator:
National Parenting Center's: Seal of Approval Winner Spring 2005

Parents' Choice: Recommended Seal Spring 2005: Toys

TECHNIC Street Bike:
iParenting Media: 2005 Greatest Products Call

National Parenting Center's: Seal of Approval Winner Fall 2005

Parents' Choice: Recommended Seal Fall 2005

CLIKITS Pretty in Pink Beauty Set:
Creative Child Magazine: Seal of Excellence (Creative Play Category)

iParenting Media: Best Products of 2005 Award - Toys & Games

CLIKITS Flashin' Fashion Frame:
National Parenting Center's: Seal of Approval Winner Fall '05

CLIKITS Cool Carry All:
Dr. Toy: Best Vacation Products for 2005

CLIKITS Striped Sunny Jewels:
Dr. Toy: "Smart Play Smart Toy": Best Products of Excellence

RACERS Tiny Turbos:
Dr. Toy: Best Vacation Products for 2005

National Parenting Center's: Seal of Approval Winner Spring '05

Parents' Choice: Recommended Seal Spring 2005: Toys

RACERS Dirt Crusher:
Stiftung Warentest: Test winner in the RC vehicle category

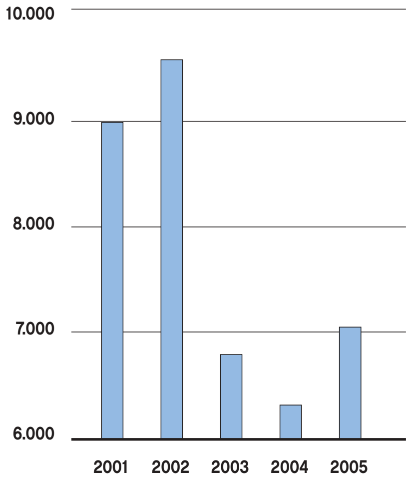
Financial Highlights – LEGO Group

[mDKK]	2005	2004	2003	2002	2001
Income Statement:					
Revenue	7,050	6,315	6,792	9,601	9,000
Expenses	(6,582)	(6,252)	(7,902)	(8,795)	(8,142)
Profit/(loss) before special items, financial income and expenses and tax	468	63	(1,110)	806	858
Impairment of fixed assets	95	(723)	(172)	–	–
Restructuring expenses	(104)	(502)	(283)	–	(122)
Operating profit/(loss)	459	(1,162)	(1,565)	806	736
Financial income and expenses	(3)	(75)	67	(189)	(215)
Profit/(loss) before tax	456	(1,237)	(1,498)	617	521
Profit/(loss) on continuing activities	331	(1,473)	(953)	348	420
Profit/(loss) on discontinuing activities	174	(458)	18	(22)	(54)
Net profit/(loss) for the year	505	(1,931)	(935)	326	366
Balance Sheet:					
Assets relating to continuing activities	7,689	5,657	10,049	12,560	14,093
Assets relating to discontinuing activities	–	2,432	–	–	–
Total assets	7,689	8,089	10,049	12,560	14,093
Equity (incl. minority interest)	3,589	2,948	4,892	6,478	6,225
Provisions and debt relating to continuing activities	4,100	4,731	5,157	6,082	7,868
Provisions and debt relating to discontinuing activities	–	410	–	–	–
Cash Flow Statement:					
Cash flows from operating activities	1,057	774	944	1,853	1,227
Investment in property, plant and equipment	265	457	709	1,264	1,478
Cash flows from financing activities	(1,070)	(29)	(560)	(1,003)	870
Total cash flows	2,549	538	(215)	(290)	771
Financial ratios (in %):					
Gross margin	58.0	57.7	61.3	70.0	65.4
Operating margin (ROS)	6.5	(18.4)	(23.0)	8.4	8.2
Net profit margin	7.2	(30.6)	(13.8)	3.4	4.1
Return on equity	18.1	(46.3)	(16.7)	4.6	6.8
ROIC I	19.1	1.2	(12.8)	8.2	9.1
ROIC II	23.2	(23.6)	(18.3)	8.2	7.8
Equity ratio	46.7	36.4	48.7	51.6	44.2
Equity ratio (incl. subordinated loan capital)	57.1	46.3	48.7	51.6	44.2
Employees:					
Average number of employees (full time), continuing activities	5,321	5,620	6,542	6,659	6,474
Average number of employees (full time), discontinuing activities	1,322	1,725	1,756	1,657	1,184

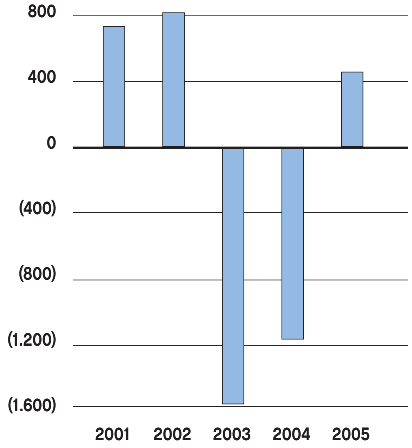
Financial ratios are defined in Accounting Policies.

Comparative figures have been adjusted to reflect the changed classification of expenses relating to "Contribution to Trade".

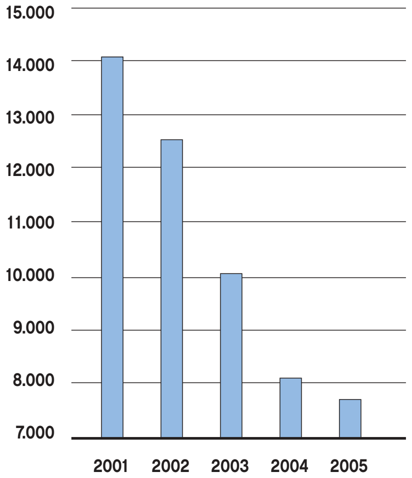
REVENUE [mDKK]



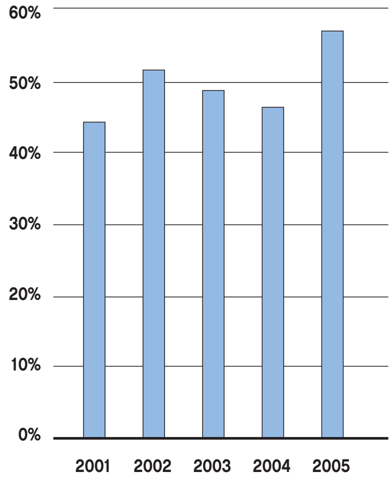
OPERATING PROFIT/(LOSS) [mDKK]



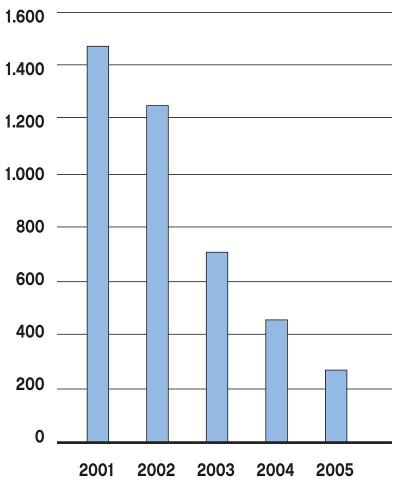
TOTAL ASSETS [mDKK]



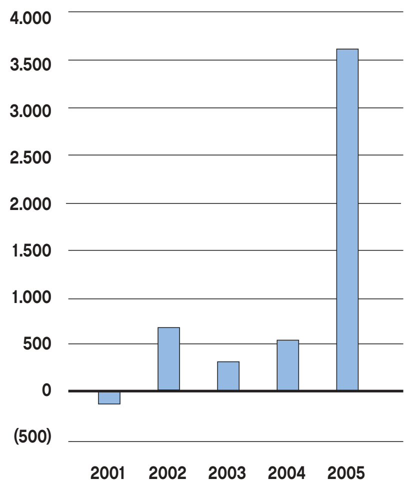
EQUITY RATIO INCL. SUBORDINATED LOAN CAPITAL



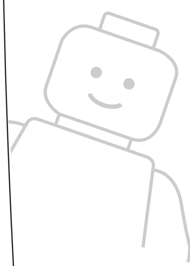
INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT [mDKK]

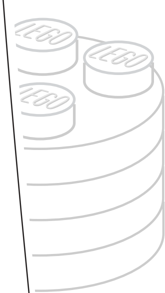


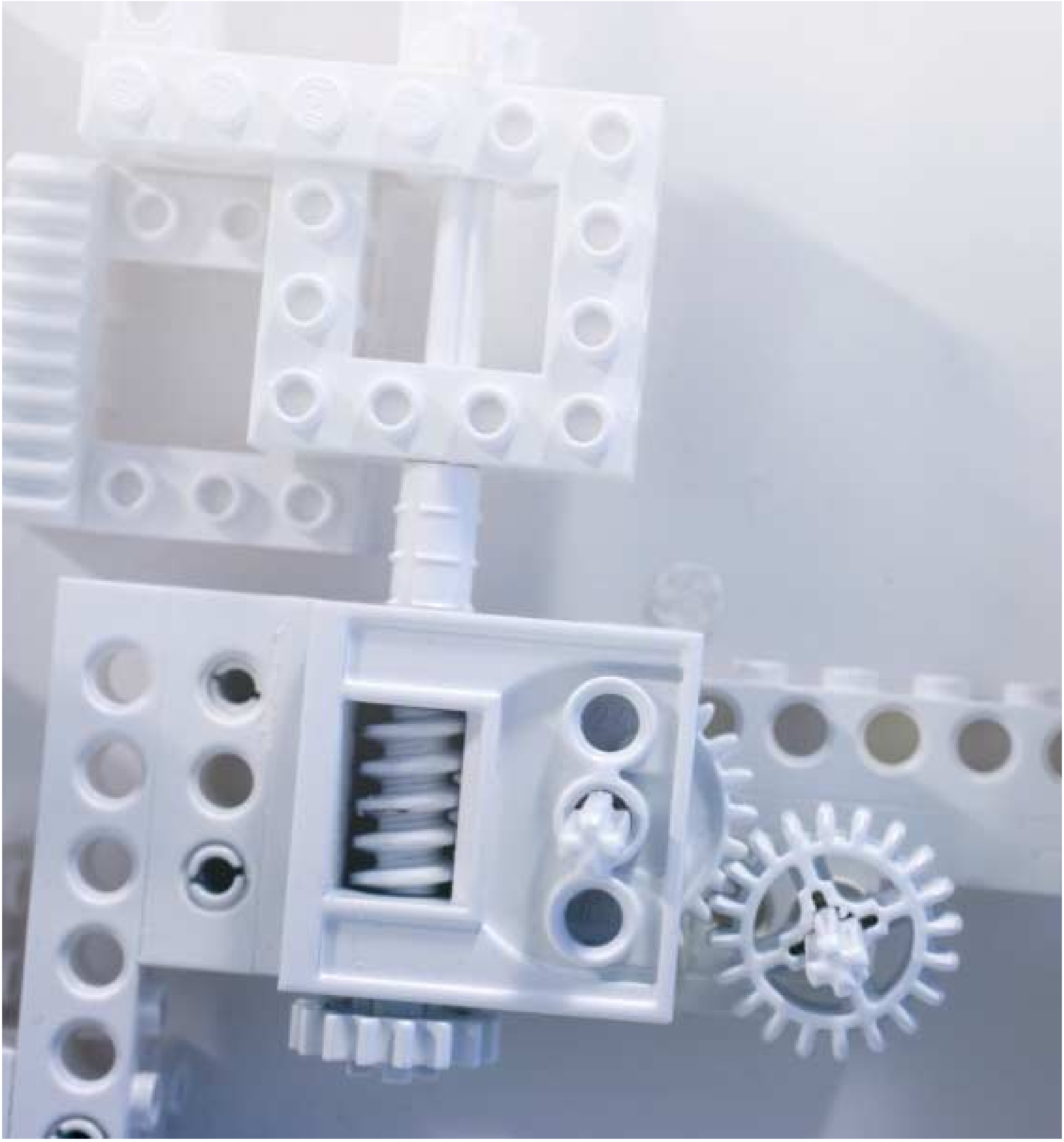
FREE CASH FLOW BEFORE FINANCING ACTIVITIES [mDKK]



CONTENTS







LEGO Group on the right track

Two years ago, the LEGO Group changed its strategy in order to concentrate on its core business: the LEGO brick and the unique building system created around it. All over the world, LEGO® has for generations given children and their families a very special playing experience. The LEGO brick stirs children's imagination and challenges their creativity through fun and creative play. The children "program" their play themselves, and their parents feel secure - not least due to the superior quality of the LEGO products.

The development on our markets in the past year has justified our belief in the uniquely lasting nature of these values. This confirms the foundation for the Group's survival as an independent, family-owned enterprise.

The results of the LEGO Group for 2005 – a profit before special items and financial income and expenses and tax of DKK 468 million, and a total profit before tax of DKK 702 million – were better than expected and confirm that we are on the right track. We therefore consider the results satisfactory and appreciate the great efforts made by the LEGO employees everywhere despite the uncertainty and the changing conditions they are going through.

The results reflect encouraging sales increases in respect of the innovated, classic LEGO products and larger cost-savings than anticipated, whereas the improvement of the Group's financial position is attributable to the sale of assets and increased cash flows. The sale of assets in both the continuing and the discontinuing parts of the business accounts for nearly half of the profit for the year before tax.
Despite general low growth or an actual decline on the global toy markets, the LEGO Group enjoyed increased sales and obtained increased market shares on all significant markets. This was the case on the largest toy market, the USA, and also the German core market saw considerable increases. Total Group sales increased by approximately 12 per cent in 2005.

The LEGO Group's total operating expenses were reduced by DKK 314 million, or 8 per cent, which is however set off by increasing expenses for royalties, bonus to employees and currency effects. Impairment losses and restructuring expenses amounted to DKK 9 million in 2005.

The liquidity position has improved considerably as the sale of activities and assets, combined with improved earnings, meant that the Group had financial

Kjeld Kirk Kristiansen
Vice-chairman

Mads Øvlisen
Chairman

Jørgen Vig Knudstorp
President and CEO

resources of DKK 2,604 million at the end of the year. The Group's equity incl. minority interests amounted to DKK 3,589 million and the equity ratio was 47 per cent against 36 per cent in 2004.

Consequently, the Group's financial base has improved considerably although the earnings from continuing activities have not yet reached a satisfactory level.

The market for traditional toys is materially affected by discount products, and in order to be competitive, we must be able to manufacture high-quality toys at low cost. Therefore, labour intensive productions have for some years taken place partly in our factory in Kladno, the Czech Republic, and partly at sub-suppliers, for example in China. This necessary sourcing process has further accelerated and in 2005 meant that our factories in Korea and - partly - in Denmark and Switzerland, were closed down and the production was transferred to Kladno and to suppliers in Eastern Europe. The sourcing process is expected to continue in the coming years. Corporate Management considers it very important to have an open dialogue with the employees concerning the challenges and their possible solutions. Corporate Management has thus promised to provide timely information on the effects of the globalisation.

As part of our financial strategy, we sold the majority shareholding in the LEGOLAND Parks to Merlin Entertainments Group. A decision we were sad to make, but which was necessary in order to release financial and management resources for the survival of the Group. The LEGO Group and KIRKBI are minority shareholders in the new enterprise, which also comprises Merlin's Sea Life, Dungeons and Earth Explorer family attractions. This was a good solution. The parks are run by a professional operator, who is able to create focus and synergy through the operation of several parks. Moreover, the parks still offer the special LEGO experience, respecting the values and quality level of the LEGO brand.

During the first two years following the change of strategy, primary focus has been directed at establishing operational and financial control as well as stability. These objectives have now been reached; however, the new direction continues. We have not yet reached a safe port of sustainable, value creating operations. We reached the goals set for this year, but we aim at increasing our value creation year by year. This is the shared objective of the owners, the Board of Directors and Corporate Management.

Therefore, the challenge during the next three years continues to be to increase the Group's earnings. Earnings clearly have priority over top line growth. Not until the platform now created generates satisfactory earnings the Group will turn towards growth. In order to pilot the Group in this direction, the Board has decided to extend Corporate Management and change and simplify the division of responsibilities within Corporate Management in order to increase focus on both operational and strategic challenges in the coming three years. As from February 2006, Corporate Management will consist of Jørgen Vig Knudstorp, President and CEO, Jesper Ovesen, Executive Vice President and Henrik Poulsen, Executive Vice President.

Considerable challenges are still facing the LEGO Group and our employees, who have - in this difficult, and for many also personally insecure, situation - loyally supported the Group. The owners, the Board and Corporate Management are very grateful for the great effort made by the LEGO employees during the year. We are aware that these loyal employees are among the Group's most essential assets, particularly in view of the challenging future facing the Group.

Billund, February 2006

Mads Øvlisen,
Chairman

Jørgen Vig Knudstorp,
President and CEO

Report 2005

Jørgen Vig Knudstorp, President and CEO

Market and Results 2005

The market

Most toy suppliers witnessed a difficult year. A year characterised by the lack of growth, increased supplies and keen competition at the retail level where, for example, the supermarket chains' private label products - often manufactured in China - got more and more shelf space. This trend is most obvious in the USA, the United Kingdom and Scandinavia, but is also gaining an impact on the continental European market. The increasing competition at the retail level is felt through increased pressure on prices and consequently increased pressure on toy manufacturers' profit margin.

The consumers are still to an increasing extent choosing the electronic products instead of traditional toys. Moreover, children are today at a younger age losing interest in traditional toys, which are being replaced by other products, such as mobile phones. This highly affects the requirements relating to the product range of traditional toy-makers. Furthermore, quickly changing fashion trends among the children are still shortening the market life cycle of traditional toys. These development trends mean that toy manufacturers are required to reduce the product development time and increase flexibility in order to maintain their position on the market.

Although 2005 was a difficult year for the entire toy industry, the LEGO Group managed to increase its market shares on a global basis. However, the trends in the market still indicate considerable challenges.

Revenue and profit

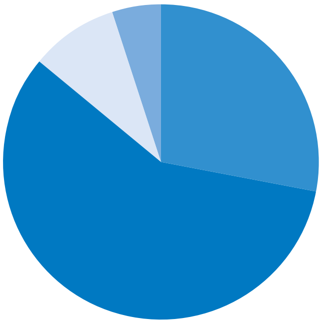
The LEGO Group's profit/loss before tax was considerably improved in 2005 from a loss of DKK 1,688 million in 2004 to a profit of DKK 702 million in 2005. The improvement of DKK 2,390 million is, among other things, attributable to the large impairments of fixed assets and the restructuring expenses incurred by the LEGO Group in 2004.

The profit/loss before special items, financial income and expenses and tax improved from DKK 63 million in 2004 to DKK 468 million in 2005. The improvement is attributable to an increase in revenue of 12 per cent, corresponding to DKK 735 million, and at the same time the expenses, excluding royalties and bonus, were reduced by 8 per cent. In view of the fact that the year was affected by extensive changes in the Group, and considering the negative development in the market for traditional toys, the results are considered satisfactory.

The development in sales of LEGO products from retailers to the consumers has also been positive, with an average increase of 9 per cent compared with 2004. Retailers have reduced their inventories of LEGO products considerably in 2005, and the mix of inventories held by retailers at the end of the year has become healthier.

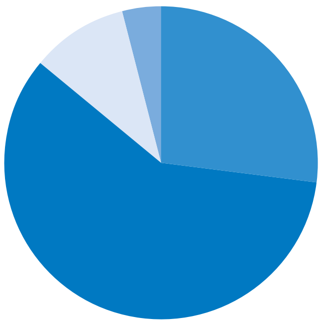
The increasing sales are also attributable to a better and closer dialogue with retail-

REVENUE SPLIT 2004



- Americas and Pacific - 28%
- Europe, Asia and Emerging - 58%
- Direct to consumer - 9%
- Other - 5%

REVENUE SPLIT 2005



- Americas and Pacific - 27%
- Europe, Asia and Emerging - 59%
- Direct to consumer - 10%
- Other - 4%

ers than in previous years, and consequently a better possibility of meeting the wishes and needs of the retailers.

Products
The increased focus on the LEGO Group's core products has had a positive effect on the results for 2005. The list of the year's biggest-selling products includes classical themes such as LEGO City, LEGO Vikings and Mobile Crane from LEGO Technic as well as Ferrari models from LEGO Racers. An important element in the focus on core products has been the 'pre-school' area with the reintroduction of the DUPLO line. Classic products such as DUPLO Airport, DUPLO Zoo, DUPLO Princess Castle and DUPLO Knights have contributed to the extensive growth of the DUPLO line.

The BIONICLE line is still the LEGO Group's biggest-selling theme. However, sales did not live up to expectations in 2005. Two new market-tuned themes, Vikings and Dino, both surpassed expectations in 2005, whereas one of the Group's girls' products, CLIKITS, saw a decline in sales compared with 2004 despite several years' intense efforts in connection with the launching of the product. Consequently, the Group will not launch any new CLIKITS products after 2006.

As in previous years, the LEGO Group has acquired the rights to manufacture construction toys tying in with cinema films. In 2005 especially *Star Wars™* was a great success, and - second only to the Bionicle line - the various *Star Wars* products were the LEGO Group's biggest-selling product line in 2005. Another success was the launching of a new *Star Wars* computer game, which – in accordance with the LEGO Group's strategy of focusing on core products - took place in cooperation with an external partner. The *Star Wars* computer game sold more than 3 million copies and entered the top 10 of computer games sold in the USA.

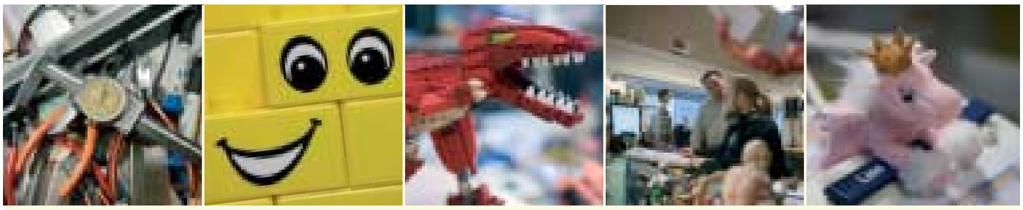
Result of the Action Plan from March 2004

At the beginning of 2004, the LEGO Group faced large challenges which jeopardised the Group's survival as an independent, family-owned enterprise. The Action Plan for the last two years has resulted in stability and a considerable reduction of financial risks.

In the Action Plan, the LEGO Group Board and LEGO Group Leadership Team emphasised three main themes:

1. Set 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.

Fundamental change of processes
The year 2005 primarily focused on fundamentally improving the Group's operation and processes. The first part of the extensive restructuring of the value chain was carried through, as the LEGO Group Leadership Team decided to move the production activities from Switzerland to Eastern Europe and to centralise the European distribution centres in the Czech Republic. This is expected to lead to increased efficiency, improved servicing of the European market and cost savings. At the same time, the number of components for the various LEGO models was reduced, which made the value



chain more flexible and resulted in cost reductions.

A number of new management processes were established, including processes to improve profitability calculations relating to both customers and products. The effort to improve the Group's processes also resulted in a more precise production planning process which better ensures the possibility of adjusting the production capacity to customer demand. Furthermore, the product development process has undergone fundamental changes so that the product development time from the birth of an idea to the finished product has been reduced and, for several products, even halved.

Restoration of competitiveness

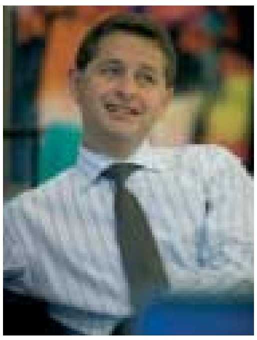
The relations to key customers all over the world were strengthened, and a closer dialogue as well as an extensive customer satisfaction analysis increased the LEGO organisation's knowledge of the customers' priorities and their attitude towards possible improvements relating to the LEGO Group. Based on this knowledge, a number of measures have been initiated, including efforts to increase the individual customer's profitability. Moreover, the Group's sales force has been strengthened through competence development and improved processes (the KAM improvement project). The increased focus on core products and the introduction of new product lines have furthermore resulted in a better balance in the product portfolio between the classic lines and more 'fad-driven' products.

The strengthening of competitiveness is reflected by the favourable development in the LEGO Group's market shares and earnings. Similarly, a number of the Group's customers have enjoyed better earnings driven by increased sales of LEGO products, a better profit margin and an increased rate of inventory turnover.

Rightsizing of activities, cost base and assets

The reduction of risks through the rightsizing of activities, cost base and assets continued in 2005. It was decided to outsource the production of selected product lines, such as Bionicle boxes and the entire DUPLO range, and the Group's own tool factory in Switzerland was sold. Moreover, considerable cost-savings in all the functions of the Group have had full impact in 2005 as a consequence of measures initiated in 2004. Due to these measures, the Group's underlying costs were reduced by a further DKK 314 million in 2005 compared with 2004. Since 2003 the cost level has been reduced by more than DKK 1,600 million. The Group's total assets were reduced by nearly DKK 5 billion in the same period.

As planned, the LEGO Group sold a number of assets in 2005, including land, sales and production facilities in the USA, Australia and Korea as well as company aircraft. Towards the end of the year, all the Group's production facilities in Swit-



Søren Torp Laursen
Senior Vice President
Americas, Australia
& New Zealand

zerland were put up for sale and are expected sold in 2006. Moreover, the Group sold off two business activities in 2005, KOMPAN A/S and the LEGOLAND Parks.

The sale of the LEGOLAND Parks was decided in the autumn of 2004, as the parks constituted a business area which did not directly tie in with the core business of the LEGO Group. The sale was carried through in July 2005 and was finally approved by the competition authorities on 24 August 2005. The buyers were Blackstone Capital Partners in cooperation with Merlin Entertainments Group, which owns and runs Sea Life, Dungeons and Earth Explorer. These attractions are based on the same fundamental values as LEGOLAND and have proved very successful within the entertainment industry.

The transaction was carried through by merging the LEGOLAND Parks into a new company together with Merlin Entertainments Group. Together with KIRKBI, the LEGO Group holds 30 per cent of the share capital in the new company. The sales price for the Parks amounted to nearly DKK 2.8 billion. Net proceeds for accounting purposes amounted to DKK 200 million.

The sale contributed to the financial position of the Group being improved from a net interest-bearing debt of more than DKK 3,000 million in 2002 to positive net liquidity of DKK 1,292 million at the end of 2005. By implementing the Action Plan, the Group has thus succeeded in establishing a considerably improved financial base.

The financial position stabilised in the course of 2005. However, the LEGO Group is still facing considerable strategic challenges, including increasing competition at the retail level, competition from electronic products and the trend that children are losing interest in toys at a younger age. Challenges which should all be addressed in the prospective strategy in order to ensure long-term survival, growth and lasting value creation for the Group.

The future strategy

The overall objective of the Action Plan was to return the LEGO Group to profitability and financial stability and at the same time keep the Group in the private ownership of the Kirk Kristiansen family. As a natural continuation of the plan for the period 2004-2005, LEGO Group Leadership Team in 2005 developed a strategy addressing future challenges.

The strategy is based on a number of "assets" and values which differentiate the LEGO Group from other players on the toy market. The inheritance and history of the LEGO Group play a decisive role, and the three classic LEGO values - "Creativity", "Fun" and "Quality" - will form the future basis of the Group, together with its unique "assets": the brick, the modular construction system, the LEGO brand, LEGO's loyal consumers and "communities". Moreover, the Group's direct

access to consumers in the form of own direct sales to consumers and a strong position as a key partner to retailers is considered a very important asset.

The Group's objective in the coming three years will therefore be to deliver creative quality toys to core consumers and retailers at a satisfactory profit by refocusing on the Group's lasting values and unique assets. This means that, in the period 2006-2008, the LEGO Group will focus on improving value creation by still focusing on the Group's special "assets". In that period, earnings and return on assets are given higher priority than sales growth.

1) **Direct dialogue between the LEGO Group and LEGO consumers to drive innovation**
   A closer relationship should be established between LEGO and the consumers. For example, loyal LEGO fans should be serviced through a number of measures, such as LEGO Factory. It is the ambition that product development and process improvements should take place in close dialogue with LEGO fans, who should through different channels have the possibility of presenting ideas to the Group's designers.

   The many adult LEGO enthusiasts all over the world, comprising an increasingly active group of fans, should also be involved. The Ambassador Programme is an official programme which invites adult LEGO fans to share their enthusiasm for the LEGO idea and LEGO products and encourages interaction in the global LEGO communities. Moreover, the LEGO Certified Professionals programme caters for adult fans who, wholly or partly, live by their LEGO hobby and therefore wish to enter into cooperation with the LEGO Group.

2) **Strengthened approach to sales and distribution channels to drive earnings and sales**
   The effort of creating extraordinary value for retail customers should concentrate on more efficiently meeting the wishes and requirements of the retailers. The Group will continue to focus on ensuring that the product portfolio will, on a future basis, consist of innovative products and new categories, supplemented with marketing measures in order to support retail sales.

3) **Continued streamlining and optimisation of Group operations to improve earnings and service level**
   The new strategy will focus on continuing the modernisation, rightsizing and optimisation of operating processes. The objective is, among other things through outsourcing, to ensure material improvement of the LEGO Group's supply performance at a lower cost. This effort will strengthen the two other focus areas of the strategy, as retail customers will enjoy increased flexibility, and the consumers will see that their demand can be met more efficiently.

In the long term, i.e. from 2009 and onward, there will be focus on creating moderate growth through the intensified innovative efforts initiated.

Organisational Structure and Leadership

Group structure

In the continued efforts to simplify the structure and adjust the business development of the LEGO Group, a number of subsidiaries were sold within the Group in

Mads Nipper
Senior Vice President
Product- &
Marketing Development


BATTERING RAM

2005 and the ownership was transferred from Swiss to Danish ownership.

Moreover, as planned the Group's direct ownership and operation of the LEGOLAND Parks were sold and replaced by a considerably smaller financial investment in the form of an ownership share of 15 per cent. (The Group structure is shown on the cover of the Annual Report.)

Management team and organisational structure

In order to secure the successful implementation of the LEGO Group's strategy, a new organisational structure was introduced in February 2006 with the establishment of three main divisions. The integrated market and product development organisation, the "Markets & Products" division, is to focus on creating value for the customers (the retailers) and at the same time ensure a higher degree of innovation in product development driven by consumer demand and a close dialogue with the dealers.

The division "Community, Education and Direct" is to develop the Group's existing and new direct-to-consumer sales channels and ensure that the unique LEGO communities are catered for through direct dialogue. At the same time, this division is to ensure that future innovation is based on the Group's thorough knowledge of consumer needs and, where possible, actual cooperation should be entered into with the consumers.

In order to ensure optimal operation and efficiency, all supplies of products via the value chain as well as supplies of services via support functions, i.e. Supply Chain and Central Functions, will now be united in the division "Operations".

Besides the establishment of the three main divisions, Corporate Management, comprising Jørgen Vig Knudstorp, President and Chief Executive Officer (CEO), and Jesper Ovesen, Executive Vice President and Chief Operating Officer (COO) (responsible for Supply Chain and Central Functions), has been strengthened through the appointment of Henrik Poulsen as Executive Vice President responsible for Sales, Product Development and Marketing.

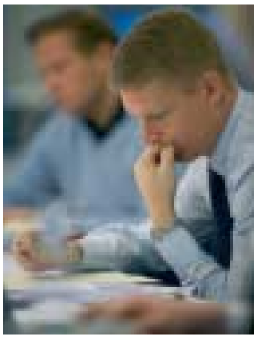
At the same time, the existing LEGO Group Leadership Team was dissolved. The changes in the organisation are intended to ensure that Corporate Management will be able to focus on the strategic direction of the Group, while the three Division Management Teams have been authorised to be in charge of day-to-day operations.

New Board members

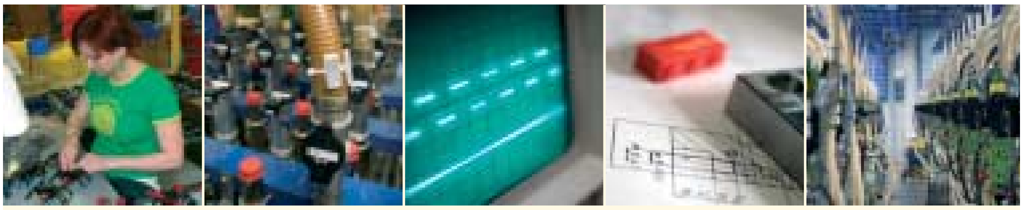
At the General Meeting of LEGO Holding A/S on 2 May 2005, two new Board members were appointed.
The new members are Armin F. Broger, COO of Tommy Hilfiger in Europe, and Torben Ballegaard Sørensen, CEO of Bang & Olufsen, replacing Anders Moberg and Lars Kann-Rasmussen, who wished to retire from the Board.

Employees and Corporate Culture

In order to support the successful implementation of the strategy, 2006 will focus on strengthening personal leadership throughout the organisation and on further developing competences within supply chain, key account management and innovation. Moreover, efforts were made in 2005 to establish a flatter organisation with a simpler management structure in order to ensure a more streamlined, responsive



Henrik Poulsen
Executive Vice President
Markets, Product development & Marketing



and profitable group. This work will continue in 2006. Furthermore, the Group's incentive-based remuneration scheme will be further strengthened in order to continue the efforts towards a more result-oriented culture within the Group.

A more result-oriented LEGO culture

Also in 2005, the Group worked on directing the LEGO Group towards a more result-oriented culture. In order to do so, it was necessary to modernise and change communication between management and employees, promote business understanding among the employees and focus on motivation, development and performance-based remuneration to the employees.

The Group is in a process of considerable change, which places heavy demands on the entire organisation. It is difficult having to face a future where all employees have to constantly live with large - internal as well as external - challenges and changes, without enjoying the job certainty previously characterising the LEGO Group.

Corporate Management is therefore working on ensuring open, honest and timely communication in all situations. Together with the introduction of many new dialogue possibilities between Corporate Management and the employees, this forms the basis of increased understanding of the challenges facing the Group.

Focused Performance Management Program

For the first time in three years, the LEGO Group is able to pay Performance Management Programme (PMP) bonuses to the employees. The Performance Management Programme in 2006 has been simplified and targeted to support the Group's strategy for the coming years and provide the individual employee with further incentives and possibilities for recognition of their efforts. The Performance Management Programme is also intended to promote the understanding of how the individual employee may contribute to the Group's results and to improve individual targets.

Developing talent

During 2005 the LEGO Group still focused on developing leadership talent. The objective of this effort is to motivate and retain high-potential employees and thus ensure continuity and consistency in the future leadership of the Group.

Corporate responsibility of the LEGO Group

Social responsibility towards consumers, employees and the environment plays a central role in the LEGO Group's inheritance and history. Corporate Management feels strongly about ensuring that the Group will also in future maintain this commitment and that the Group's activities and processes are carried out on a sustainable basis. Therefore, in 2005 the LEGO Group initiated the preparation of its first coherent sustainability strategy, which is expected approved and implemented in the course of 2006. This will

Jesper Ovesen
Executive Vice President
Supply Chain &
Central Functions

involve increased information and training of employees and leaders.

Global Compact

The LEGO Group joined the UN Global Compact in 2003 as the first - and so far only - enterprise in the toy industry. As a participant in Global Compact, the LEGO Group is obliged to continue its work within the four areas: human rights, labour standards, environment and the fight against corruption. In 2005 the LEGO Group integrated the principles from Global Compact into a number of group policies, so that these reflect the principles and ideals expressed in Global Compact and a number of international declarations, for example the UN Declaration of Human Rights. Particularly as regards the fight against corruption, Corporate Management decided in the autumn of 2005 to initiate a project with the objective of developing and specifying internal guidelines for business integrity. The project will be carried through in 2006.

Revision of LEGO Group Code of Conduct

The LEGO Group Code of Conduct is a set of guidelines on the behaviour expected of the Group and its suppliers in relation to a number of ethical standards in decisive areas.

The comprehensive optimising and cost reduction in the LEGO Group value chain will result in the relocation, in whole or in part, of production in the coming years. Ethical risk analyses were therefore prepared in respect of the countries of the potential suppliers. This was done in order to determine whether the Group's Code of Conduct sufficiently covered any new issues that may arise in connection with the transfer of workplaces to these countries. This resulted in a revision of the Code of Conduct in 2005 and a change of procedures so that new, potential key suppliers will be subjected to examination before an actual agreement is signed.

The LEGO Group moreover participates in the work within the toy industry of ensuring that working conditions etc. with the suppliers fulfil a number of minimum requirements. This work is carried out under the ICTI-CARE programme. However, so far this only applies to China, Hong Kong and Macau.

In 2005 the number of audits was reduced from 92 audits in 2004 to 27 audit visits and 12 follow-up visits. The reduction is attributable partly to the transfer of the responsibility for the audits to the licence partners of the LEGO Group, and partly to the introduction of ICTI-CARE approval of toy suppliers in China. This has resulted in considerable cost-savings and the possibility of using more resources on follow-up and direct contact with suppliers.

Product quality

The LEGO Group wants to ensure continued high product quality and has therefore revised its policy for the choice of materials in 2005. In this connection, the restrictions in respect of the use of PVC and phthalates have been specified.

Consequently, the decorative paint used on play materials has been improved so that, like the LEGO bricks, it contains no phthalates. Moreover, closer cooperation has been introduced between the customer service call centres and Product Development so that consumer comments and wishes are to an even higher degree taken into consideration in the product development process.

Environmental obligations and action

It remains LEGO Group policy that environmental considerations must be taken into account in all relevant processes, and that continuous efforts should be made to minimise any environmental impact caused by the Group's activities.

In 2005 the LEGO Group drew up a new environmental policy which meets environmental requirements, both globally and locally. The policy will be approved and implemented in 2006. The LEGO Group continues to work towards global implementation of the environmental management system ISO 14001. In 2005 global procedures and requirements were developed, and a new environmental management intranet was established to improve and simplify the Group's communication concerning environmental requirements, both locally and globally.

In Billund a system for the registration of waste was developed and implemented in 2005. A system for registering additives has also been implemented. All substances have been mapped, and a new system for directions for use has been implemented.

Moreover, in 2005 the Group obtained environmental approval of the plastic moulding factory at Kornmarken, Billund. The approval was granted by the Municipality of Billund.

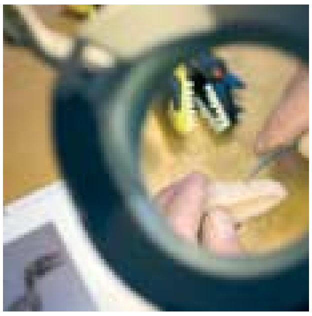
Efforts to reduce workplace accidents and introduction of a global occupational health and safety policy

The health and safety of the employees have always been of special concern for the LEGO Group. Therefore, efforts are constantly being made to secure healthy and safe working conditions at all the Group's locations. This is done in recognition of the human right to an acceptable working environment as well as the realisation that healthy and satisfied employees are more productive.

In 2005 a new occupational health and safety policy was drawn up and approved, covering all the Group's activities worldwide. The implementation of the policy will take place in 2006. A new health and safety website has been established for the employees in order to simplify global communication relating to working environment.

The LEGO Group continues to work towards global implementation of the occupational health and safety management system OHSAS 18001. The Group's activities in Denmark were certified in 2003. The implementation in the Czech Republic and the USA will be completed at the end of 2006, and at the same time, Billund must be recertified.

In 2005 working environment at the sites in Denmark was improved by means of work place assessments. The number of registered health and safety problems was nearly halved in 2005. A new system for registering and handling working environment problems is ready for implementation in the spring of 2006. Unfortunately, the number of registered accidents resulting in absence has doubled from 27 accidents in 2004 to 50 accidents in 2005. Such a heavy increase in the number of accidents is not acceptable to the Group,



and in 2006 the Group will focus on identifying the reasons for the accidents and improving the efforts to reduce the number of accidents.

In 2006 the organisation will continue to focus on the general work environment as well as staff well-being. In this connection, there will be focus on a number of factors affecting the well-being of the employees. The programme was introduced in the autumn of 2005 with a health campaign offering the employees at Billund health examinations. In 2006 the employees will be offered to participate in stop-smoking courses and controlled weight reduction programmes.

The registration of environmental and working environment data will be extended and standardised at all locations as the management systems are implemented. This will provide the LEGO Group with an overall picture of the Group's environmental impact and health and safety issues, which will enable the Group to make an improved, goal-oriented effort.

Charity work
The Group's policy for charity work and product donations also in 2005 aimed at helping children in need by providing support for creative play and development. In December Danish employees had the possibility of participating as volunteers in connection with the charity organisation Save the Children's distribution of LEGO Christmas presents to sick children in Danish hospitals. Moreover, the employees in the USA carried out fund raising for the victims of the hurricane Katrina.

The Kirk family foundations also in 2005 supported a number of LEGO projects and humanitarian and social programmes, including donations from Edith & Godtfred Kirk Christiansen's Fund, via Save the Children, for relief work in connection with the tsunami disaster in Asia and donations from Ole Kirk's Fund for relief work in Pakistan in 2005.

In 2006 the LEGO Group's policy for charity work will be directed towards a number of global initiatives for supporting children's possibilities relating to creative play and development. These initiatives will to the widest possible extent give the employees the opportunity of active involvement.

Expectations for 2006

2006 will be another difficult year for the LEGO Group. The size of the global toy market is still expected to contract, and the suppliers of traditional toys will therefore still be facing strategic challenges.

With the continued focus on the reestablishment of a strong core business with classic construction toys, the Group expects to maintain its market position in 2006 based on a smaller, but financially stronger and more competitive Group.

No films supporting existing or new products will be launched in 2006, and Group revenues are expected to decrease slightly compared with 2005. The focus on earnings will continue, both through product and customer profitability and through streamlining, which will involve transferring production - in whole or in part - to low-cost countries.

On this basis, a profit before tax in the region of DKK 500 million is expected in 2006 compared with DKK 456 million in 2005, which reflects the need for a further increase in earnings in the coming years.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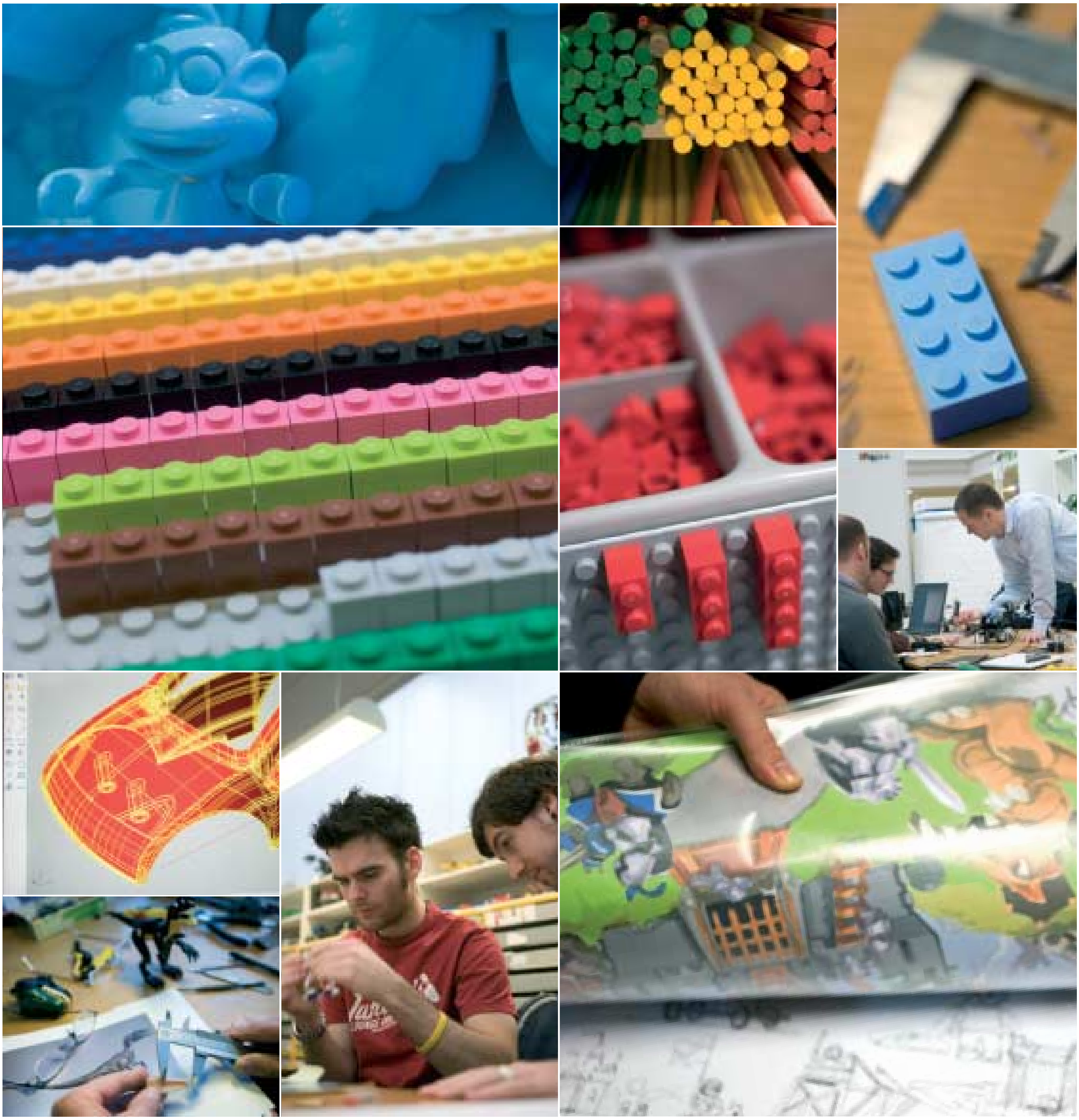


ACCOUNTS

FINANCIAL REPORT

Jesper Ovesen
Executive Vice President
& COO - Supply Chain &
Central Functions

The financial report is based on the continuing activities, the toy business, unless otherwise stated. The discontinuing activities relating to LEGOLAND Parks and KOMPAN A/S are commented on separately at the end of the financial report.

Highlights

- In 2005 revenue increased by 12 per cent which is attributable to sales increases in all business areas.
- The gross margin of 58 per cent is on the same level as in 2004.
- In 2005 total profit/loss before tax amounted to DKK 702 million against DKK -1,688 million in 2004. The profit of DKK 702 million comprises profit from continuing activities before tax of DKK 456 million and profit from discontinuing activities before tax of DKK 246 million.
- The profit/loss before special items, financial income and expenses and tax amounts to DKK 468 million against DKK 63 million in 2004.
- Total assets have been reduced by DKK 400 million to DKK 7,689 million. The return on invested capital was 19 per cent (ROIC).
- The Group's financial resources have been improved from DKK -82 million at the end of 2004 to DKK 2,604 million at the end of 2005.
- Equity totals DKK 3,589 million including minority interests, corresponding to an equity ratio of 47 per cent (57 per cent including subordinate loan capital). Return on equity after tax was 18 per cent.
- Free cash flows of DKK 2,549 million have been realised for the year, of which the majority relates to the discontinuing activities.

Group structure

As part of the simplification of the Group structure, LEGO A/S in 2005 acquired a number of subsidiaries in INTERLEGO AG. As LEGO Holding A/S owns both LEGO A/S and INTERLEGO AG, the structural changes have no effect on this Annual Report, cf also "LEGO Holding A/S Group - Group structure".

Net profit/loss for the year

The net profit/loss for the year including discontinuing activities was a profit of DKK 505 million against a loss of DKK 1,931 million in 2004, corresponding to an increase in results of DKK 2,436 million.

The Group's core business - toys - has seen considerable operating progress in 2005, and the profit/loss before special items and financial income and expenses has increased from DKK 63 million in 2004 to DKK 468 million. The increase is due to a combination of increasing revenue and cost savings.

Expenses of a nonrecurring nature paid in connection with restructuring and impairment of fixed assets in 2005 amount to DKK 9 million, whereas last year these amounted to DKK 1,225 million.

Financial net expenses for the year decreased to DKK 20 million, corresponding to an improvement of DKK 55 million compared to 2004, and are attributable to the Group's changed capital structure as well as exchange gains.

Of the net profit for the year of DKK 505 million, DKK 331 million is attributable to profit from continuing activities, whereas the profit from discontinuing activities amounts to DKK 174 million.

Due to the positive development in results and balance sheet, the Group's financial ratios have improved considerably. The operating margin (ROS) is 7 per cent against -18 per cent in 2004. Moreover, the return on invested capital (ROIC) is 19 per cent in 2005 against 1 per cent in 2004.

Revenue

In accordance with generally accepted practice in the toy business, the accounting treatment of various contributions to the retail sector was changed in 2005. Gross sales were reduced by various contributions granted to the retail sector to achieve certain gross sales. Previously, such contributions were classified as sales expenses. Comparative figures for previous years have been restated.

In the financial year 2005, the Group achieved revenue of DKK 7,050 million against DKK 6,315 million in the previous year, corresponding to an increase of 12 per cent. In local currencies sales increased by 9 per cent, whereas the positive effect from increasing exchange rates amounts to 3 per cent.

The increasing revenue is driven by sales increases in all business areas, Europe, Asia and Emerging Markets, the Americas and the Pacific and Direct to Consumer.

As in previous years, the exchange rate effect on the Group's sales is attributable primarily to the development of the US dollar. This has increased in 2005 - especially in the autumn, which is the Group's peak season for sales.

Gross margin

The gross margin of 58 per cent is on the same level as in 2004. The increased revenue in 2005 is set off by increasing production costs due to the higher activity. These expenses are not affected by changes in exchange rates to the same extent as revenue.

Expenses

Other operating expenses amount to DKK 3,702 million in 2005 against DKK 3,713 million last year. Sales and distribution expenses and administrative expenses have increased in 2005 due, among other things, to increased activity and staff bonus. Other operating expenses have decreased in spite of increasing royalty payments based on increased sales.

Licence and royalty expenses

The LEGO Group has entered into a number of royalty and licence agreements with inventors, designers and other licensees with a view to using intellectual rights, including protected trademarks. In 2005, DKK 300 million was paid according to such agreements against DKK 224 million the year before. Expenses relating to licences and royalty are included in production costs and other operating expenses.

Impairment of fixed assets

According to the accounting policies applied, impairment tests have been performed where there is internal or external indication of impairment of individual assets or groups of assets. In 2005, no further need for impairment has been identified, but instead reversals have been made of impairments previously made of DKK 46 million and DKK 49 million, respectively, in connection with sale and reassessment of fixed assets.

Restructuring expenses

In continuation of the measures initiated in 2004, expenses for restructuring totalling DKK 104 million were paid and provided for in 2005. This comprises expenses for closing down and moving production as well as reduction in the number of the Group's retail shops. A small part relates to allowances to employees in connection with discontinuation of their employment.

Profit/loss in associates

The Group's investment in Merlin Entertainments Group Luxemburg S.á.r.l. yielded a profit after tax of DKK 17 million. The investment was made in August 2005.

Financial income and expenses

Net financial expenses amounted to DKK 20 million in 2005, which is an improvement of DKK 55 million compared with 2004. Raising of mortgage loans as well as release of liquidity at the sale of LEGOLAND Parks made it possible to change the Group's capital structure and in this connection settle loans from credit institutions existing at the beginning of 2005. Consequently, interest expenses were reduced in 2005.

The interest risk of the LEGO Group is attempted minimised by ensuring a match between liabilities and assets. Furthermore, risks from the use of interest swaps and options are hedged.

The Group's exchange risk relates to the lack of balance between income and expenses in the individual currencies as well as excess assets over liabilities in subsidiaries. The exchange risks relate primarily to US dollars, EUR, Swiss francs and Japanese yen and are as far as possible attempted hedged by matching payments received and made as well as deposits and loans in the same currency. In addition, forward contracts and currency options are applied.

Net financial expenses for the year are positively affected by exchange adjustments of DKK 81 million.

Tax

Current Tax for the year amounts to DKK 125 million against DKK 236 million in the previous year. Irrespective of the loss before tax, a tax expense was realised in 2004, which is due to the fact that deferred tax relating to impairments of fixed assets as well as provisions for restructuring was not capitalised. Sale of discontinuing activities, primarily LEGOLAND Parks, did not immediately result in tax payable. However, tax has become payable in connection with the Danish buildings which were comprised by the sales transaction, but which were not previously owned by LEGOLAND A/S.

The deferred tax assets for the year amount to DKK 430 million and provisions for deferred tax to DKK 196 million. The deferred tax assets are primarily attributable to activities in the LEGO Group's sales companies, in which it is expected that tax loss carry-forwards may be utilised for set-off against future earnings within a few years.

Balance sheet

In the continued efforts to reduce risks, further adjustment was made in 2005 of the Group's balance sheet to the future level of activity, and therefore total assets have been reduced by 5 per cent from DKK 8,089 million in 2004 to DKK 7,689 million. The mix is significantly improved towards more liquid assets in connection with the sale of the ownership shares in the LEGOLAND Parks, KOMPAN A/S and other fixed assets.

Property, plant and equipment

Property, plant and equipment amount to DKK 1,199 million, a decrease of DKK 395 million, which is primarily attributable to buildings and production equipment which were classified as being available for sale in connection with the decision to close down the production in Switzerland.

In accordance with group policy, the investment level was also low in 2005. Gross investments in property, plant and equipment amount to DKK 265 million in

2005, a reduction of 42 per cent (DKK 192 million) compared with the previous year. In 2005 a profit of DKK 79 million was realised from the sale of property, plant and equipment.

Fixed asset investments

Gross fixed asset investments amount to DKK 326 million and are primarily attributable to the investment in the associate Merlin Entertainments Group Luxemburg S.á.r.l., the jointly owned company which was founded in connection with the Group's sale of the LEGOLAND Parks. Profit after tax from the investment amounts to DKK 17 million in 2005.

Current assets

At the end of 2005 inventories were on the same level as in the previous year, whereas trade receivables are somewhat higher based on the higher realised sales in the 4th quarter.

The Group's credit risk relating to debtors' lack of ability to pay is attempted minimised by using a global credit insurance programme.

Fixed assets for sale are in all materiality on the same level as last year, but the mix of the assets has changed. The majority of fixed assets put up for sale at the beginning of 2005 have been sold, but the decision to close down the production facilities in Switzerland resulted in new assets being put up for sale at the end of 2005.

Equity

At the end of 2005, equity amounted to DKK 3,589 million (including minority interests) against DKK 2,948 million at the end of 2004, an increase of 22 per cent.

The net profit for the year has increased equity by DKK 535 million, whereas exchange adjustments of foreign subsidiaries as well as adjustment of financial instruments affected equity by DKK 141 million.

Equity including minority interests corresponds to an equity ratio of 47 per cent, and if the subordinate loan capital of DKK 800 million is included, the equity ratio amounts to 57 per cent.

Long-term debts

In 2005 the LEGO Group continued its efforts to change the Group's capital structure. Long-term debts to credit institutions have at the beginning of the year been paid; partly in connection with the sale of the LEGOLAND Parks, and partly by raising mortgage loans totalling DKK 551 million. Total long-term debts have been reduced by 44 per cent or DKK 1,039 million to DKK 1,312 million.

In connection with the current financing of investments and operations, the Group must ensure an adequate and flexible liquidity base, which is achieved through continued focus on cash flows as well as securing adequate drawing rights. The liquidity base comprises deposits in banks as well as guaranteed drawing rights.

It is attempted to limit credit risks in connection with financial partners by using partners with high creditworthiness.

Cash flows

Cash flows from operating activities of the LEGO Group amounted to DKK 1,057 million in 2005 against DKK 774 million in 2004. The positive cash flows in 2005 are primarily attributable to the net profit for the year. The working capital has moreover been reduced as a consequence of continued focus on this.

Total free cash flows, including discontinuing activities, amount to DKK 2,549 million against DKK 538 million in 2004. A positive effect of DKK 2,386 million is attributable to the discontinuing activities, whereas DKK -1,621 million relates to reduction of the external loan capital.

Based on the net profit for the year as well as cash flows from the sale of the LEGOLAND Parks, the Group's financial resources are significantly improved at the end of 2005 compared with the previous year.

Discontinuing activities

In 2004, it was decided to sell the Group's LEGOLAND Parks, and the transaction was carried through in July 2005 to Merlin Entertainments Group, which is owned by Blackstone Capital Partners, for EUR 375 million. In connection with the sale, a jointly owned company was established, in which Blackstone Capital Partners holds 70 per cent, the LEGO Group holds 15 per cent and KIRKBI holds the remaining 15 per cent. The investment in the associate Merlin Entertainments Group Luxemburg S.á.r.l. has been recognised as a fixed asset investment in the balance sheet.

The profit after tax of the discontinuing activities amounts to DKK 174 million for 2005 against DKK -458 million in 2004. The profit for the year includes operating profit for the period 1 January - 30 June 2005 as well as profit from the sale of the LEGOLAND Parks, a total of DKK 147 million. To this should be added a profit of DKK 99 million from sale of the remaining KOMPAN A/S shares.

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.

In order to meet industry standards for the recognition of expenses relating to "Contribution To Trade" (CTT), it has been decided to set off these against revenue. Previously, CTT was classified as sales and distribution expenses. The amount is DKK 472 million for 2005 (DKK 389 million for 2004).

In accordance with international accounting standards, the profit from investments in subsidiaries is recognised after tax. Tax concerning investments in subsidiaries was previously stated as a separate item under corporation tax. The amount is DKK 200 million for 2005 (DKK 210 million for 2004).
The comparative figures have been restated accordingly.

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 per cent of the votes or otherwise exercises control. These companies are listed in the section "LEGO Holding A/S Group - Group structure".

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.

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

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

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

RETURN ON EQUITY: $\dfrac{\text{Net profit for the year x 100}}{\text{Average Equity}}$

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

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

Moreover, the following is shown:

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

Average invested capital is calculated as property, plant and equipment, inventories and receivables excluding tax 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 2005.

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, 14 February 2006

Corporate Management

Jørgen Vig Knudstorp,
President and CEO

Jesper Ovesen
Executive Vice President

Henrik Poulsen
Executive Vice President

Board of Directors

Mads Øvlisen,
Chairman

Kjeld Kirk Kristiansen,
Vice-chairman

Armin Broger

Mogens Johansen

Torben Ballegaard Sørensen

Lars Gunnar Bertelson Brock

Auditors' Report

To the Shareholders of LEGO Holding A/S

We have audited the Annual Report of LEGO Holding A/S for the financial year 2005, prepared in accordance with the Danish Financial Statements Act.

The Annual Report is the responsibility of Company's Management. Our responsibility is to express an opinion on the Annual Report based on our audit.

Basis of Opinion

We conducted our audit in accordance with International and Danish Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Annual Report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Annual Report. An audit also includes assessing the accounting policies applied and significant estimates made by Management, as well as evaluating the overall annual report presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the Annual Report gives a true and fair view of the Group's and the Parent Company's assets, liabilities, equity and financial position at 31 December 2005, and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 2005 in accordance with the Danish Financial Statements Act.

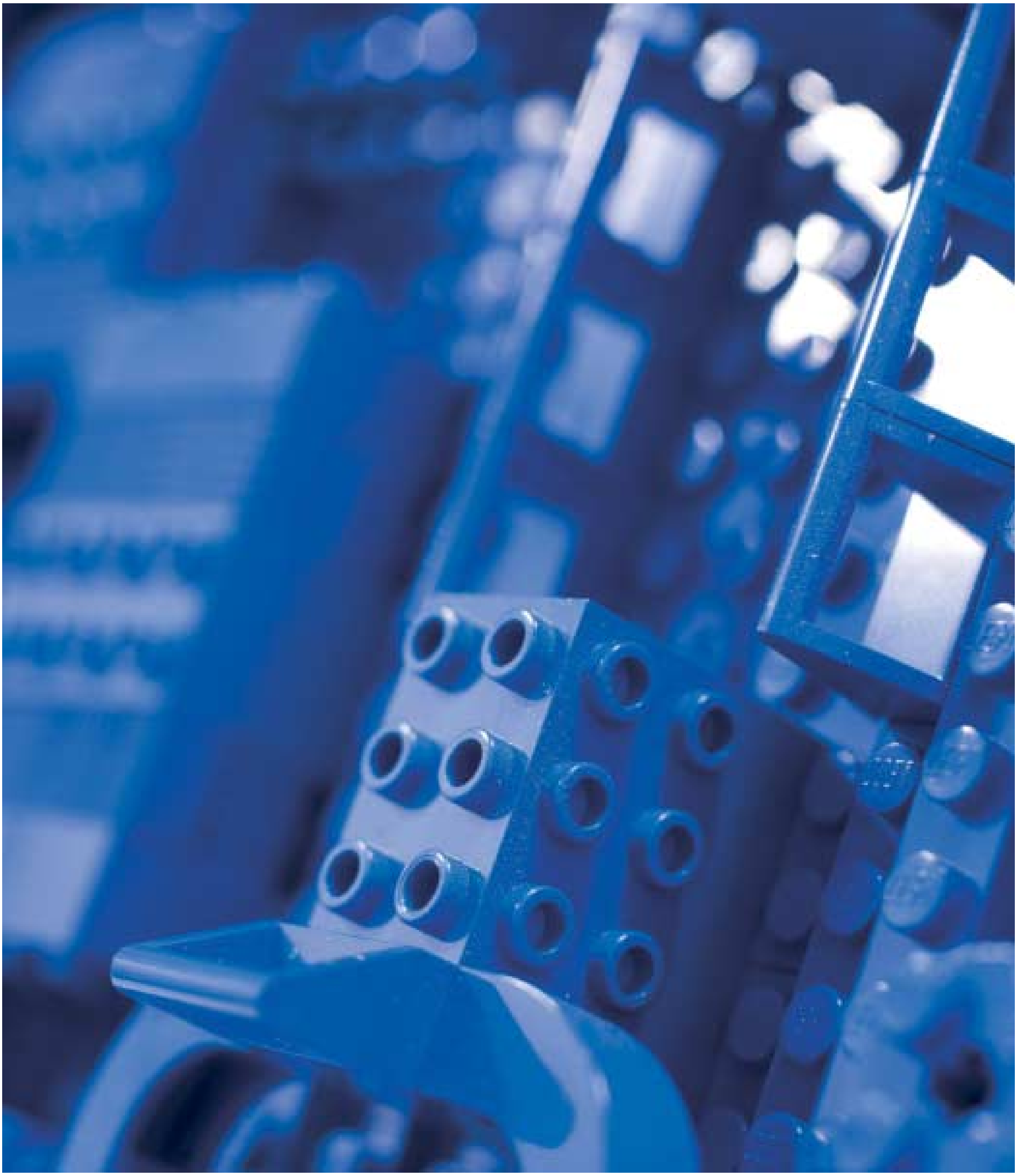
Billund, 14 February 2006

PricewaterhouseCoopers
Statsautoriseret Revisionsinteressentskab

Lars Holtug
State Authorised Public Accountant

Harald Birkwald
State Authorised Public Accountant

ACCOUNTS



Income Statement 1 January - 31 December

[mDKK]

Parent Company 2004	Parent Company 2005		Note	Group 2005	Group 2004
90	122	Revenue		7,050	6,315
(29)	(11)	Production costs	2	(2,959)	(2,672)
61	**111**	**Gross profit/(loss)**		**4,091**	**3,643**
–	–	Sales and distribution expenses	2	(2,584)	(2,523)
(25)	(83)	Administrative expenses	1, 2	(599)	(587)
115	–	Other operating income		79	133
(1)	(5)	Other operating expenses	2	(519)	(603)
150	**23**	**Profit/(loss) before special items, financial income and expenses and tax**		**468**	**63**
(46)	–	Impairment of fixed assets	3	95	(723)
–	–	Restructuring expenses	4	(104)	(502)
104	**23**	**Operating profit/(loss)**		**459**	**(1,162)**
(1,659)	363	Profit/(loss) from subsidiaries after tax		–	–
–	17	Profit/(loss) from associates after tax		17	–
2	13	Financial income	5	139	104
(42)	(47)	Financial expenses	5	(159)	(179)
(1,595)	**369**	**Profit/(loss) before tax**		**456**	**(1,237)**
(30)	41	Corporation tax	6	(125)	(236)
(1,625)	**410**	**Profit/(loss) from continuing activities**		**331**	**(1,473)**
50	125	Profit/(loss) from discontinuing activities	7	174	(458)
(1,575)	**535**	**Net profit/(loss) for the year**		**505**	**(1,931)**
–	–	Minority interests' share of net profit/(loss) for the year		(30)	(356)
(1,575)	**535**	**LEGO Holding A/S' share of net profit/(loss) for the year**		**535**	**(1,575)**
		Proposed distribution of profit for LEGO Holding A/S			
–	–	Dividend			
(1,575)	535	Retained earnings			
(1,575)	**535**	**Distributed**			

Balance Sheet at 31 December

[mDKK]

Parent Company 2004	Parent Company 2005		Note	Group 2005	Group 2004
		Assets			
29	22	Land and buildings		900	1,172
–	–	Plant and machinery		187	299
1	1	Other fixtures and fittings, tools and equipment		82	91
–	–	Fixed assets under construction and prepayments for property, plant and equipment		30	32
30	**23**	**Property, plant and equipment**	8, 9	**1,199**	**1,594**
–	–	Deferred tax assets	12	430	448
2,835	3,375	Investments in subsidiaries	11	–	–
–	197	Investments in associates	10, 11	197	–
–	–	Current asset investments and other investments	10, 11	75	–
2,835	**3,572**	**Fixed asset investments**		**702**	**448**
2,865	**3,595**	**Total fixed assets**		**1,901**	**2,042**
–	**–**	**Inventories**	13	**709**	**712**
–	–	Trade receivables		1,856	1,630
198	655	Receivables from subsidiaries	14	–	–
–	–	Corporation tax receivable		68	97
2	2	Other receivables		136	256
–	–	Prepayments		109	205
200	**657**	**Receivables**		**2,169**	**2,188**
172	**–**	**Fixed assets for sale**		**301**	**403**
–	**–**	**Securities**		**641**	**–**
1	**1**	**Cash at bank and in hand**		**1,968**	**312**
373	**658**	**Total current assets**		**5,788**	**3,615**
3,238	**4,253**	**Assets relating to continuing activities**		**7,689**	**5,657**
239	–	Assets relating to discontinuing activities	7	–	2,432
3,477	**4,253**	**Total assets**		**7,689**	**8,089**

Balance Sheet at 31 December

[mDKK]

Parent Company 2004	Parent Company 2005		Note	Group 2005	Group 2004
		Liabilities and equity			
123	123	Share capital	15	123	123
2,490	3,158	Retained earnings		3,158	2,490
–	–	Proposed dividend for the year		–	–
2,613	**3,281**	**Equity**		**3,281**	**2,613**
–	**–**	**Minority interests**	16	**308**	**335**
–	–	Provision for pensions		67	87
50	21	Provision for deferred tax	12	196	175
–	–	Other provisions	17	702	645
50	**21**	**Provisions**		**965**	**907**
800	800	Subordinate loan capital	19	800	800
–	133	Debt to credit institutions		512	1,551
800	**933**	**Long-term debt**	18	**1,312**	**2,351**
–	1	Debt to credit institutions		5	139
–	–	Trade payables		630	571
–	–	Corporation tax		134	78
14	15	Other payables		650	289
–	2	Deferred income		404	396
14	**18**	**Short-term debt**		**1,823**	**1,473**
814	**951**	**Total debt**		**3,135**	**3,824**
3,477	**4,253**	**Liabilities and equity relating to continuing activities**		**7,689**	**7,679**
–	–	Provisions and debt relating to discontinuing activities	7	–	410
3,477	**4,253**	**Total liabilities and equity**		**7,689**	**8,089**
		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**

Cash Flow Statement 1 January - 31 December

[mDKK]

Parent Company 2004	Parent Company 2005		Note	Group 2005	Group 2004
		Profit/(loss) before tax relating			
(1,385)	369	to continuing activities		456	(1,237)
50	163	Profit/(loss) before tax relating to discontinuing activities		246	(451)
79	8	Amortisation, depreciation and impairment losses		437	2,104
1,353	(533)	Other adjustments	21	(289)	109
97	**7**			**850**	**525**
		Change in working capital:			
–	–	Change in inventories		(19)	72
(154)	(457)	Change in receivables		(188)	134
(5)	3	Change in short-term debt		496	111
(159)	**(454)**			**289**	**317**
–	(27)	Corporation tax paid		(82)	(68)
(62)	**(474)**	**Cash flows from operating activities**		**1,057**	**774**
(138)	(1)	Purchase of property, plant and equipment		(265)	(457)
–	(250)	Fixed asset investments made		(326)	–
–	588	Sale of discontinuing activities		2,604	–
173	–	Sale of fixed assets		549	250
35	**337**	**Cash flows from investing activities**		**2,562**	**(207)**
–	–	Dividend paid		–	(19)
–	136	Raising of long-term debt		551	–
800	–	Subordinate loan capital		–	800
(621)	–	Repayment of long-term debt		(1,621)	(810)
179	**136**	**Cash flows from financing activities**		**(1,070)**	**(29)**
152	**(1)**	**Total cash flows**		**2,549**	**538**
(151)	1	Financial resources at 1 January		(82)	(620)
–	–	Financial ressources relating to disposal of activities		137	–
1	**–**	**Financial resources at 31 December**	22	**2,604**	**(82)**

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 2004	Parent Company 2005		Group 2005	Group 2004
		Fee to PricewaterhouseCoopers:		
1	1	Audit	7	8
–	3	Non-audit services	9	9
		Fee to Ernst & Young:		
–	–	Audit	–	–
–	–	Non-audit services	–	1
1	**4**	**Total, continuing activities**	**16**	**18**

The fee concerning discontinuing activities is disclosed in note 7.

Note 2. Employees and remuneration

Parent Company 2004	Parent Company 2005		Group 2005	Group 2004
4	25	Wages and salaries	2,064	2,179
–	–	Pensions	114	119
–	–	Other and social security expenses	96	101
4	**25**		**2,274**	**2,399**
–	**–**	**Including amount relating to discontinuing activities**	**171**	**364**
		Staff expenses relating to discontinuing activities comprise only 6 months in 2005.		
		Including salaries and remuneration to:		
–	19	Corporate Management	19	9
–	2	Board of Directors	2	1
–	**21**		**21**	**10**
		Employees		
		Average number of full-time employees:		
6	6	Continuing activities	5,321	5,620
–	–	Discontinuing activities	1,322	1,725

Notes

[mDKK]

Note 3. 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 group of assets. In 2005 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 2005, no need for further impairment of fixed assets was identified; on the contrary, reversals were made of impairments made in previous years of DKK 46 million in connection with reassessment of fixed assets and DKK 49 million in connection with sales.

Parent Company			Group	
2004	2005		2005	2004
–	–	Land and buildings	(83)	335
–	–	Plant and machinery	(2)	188
46	–	Other fixtures and fittings, tools and equipment	(10)	200
46	**–**		**(95)**	**723**

Note 4. Restructuring expenses

Parent Company			Group	
2004	2005		2005	2004
–	–	Staff and staff related expenses	37	368
–	–	Building and lease expenses	54	84
–	–	Other	13	50
–	**–**		**104**	**502**

Notes

[mDKK]

Note 5. Financial income and expenses

Parent Company 2004	Parent Company 2005		Group 2005	Group 2004
		Financial income:		
1	13	Interest income from subsidiaries	–	–
1	–	Other interest income	59	46
–	–	Exchange gain	81	59
2	13		140	105
–	–	Including amount relating to discontinuing activities	1	1
2	**13**	**Financial income relating to continuing activities**	**139**	**104**
		Financial expenses:		
40	46	Other interest expenses	120	190
–	–	Other financial expenses	45	–
2	1	Exchange losses	–	–
42	**47**		**165**	**190**
–	–	Including amount relating to discontinuing activities	6	11
42	**47**	**Financial expenses relating to continuing activities**	**159**	**179**

Notes

[mDKK]

Note 6. Corporation tax

Parent Company 2004	Parent Company 2005		Group 2005	Group 2004
3	(25)	Current tax for the year	(132)	(63)
(36)	11	Adjustment of deferred tax	(39)	(207)
–	–	Other taxes etc	–	3
–	17	Adjustment concerning previous years	(26)	24
(33)	**3**		**(197)**	**(243)**
(3)	(38)	Including amount relating to discontinuing activities	(72)	(7)
(30)	**41**		**(125)**	**(236)**

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

Parent Company %	Parent Company mDKK		Group mDKK	Group %
(28)	(43)	Calculated 28% tax on profit/(loss) for the year before investment and tax	(197)	(28)
		Tax effect of:		
–	–	Higher/lower tax rate in subsidiaries	(4)	–
–	–	Non-deductible expenses	(48)	(7)
19	29	Non-taxable income	121	17
11	17	Adjustment of tax relating to previous years	(26)	(4)
–	–	Effect of deferred tax not capitalised	(8)	(1)
–	–	Other	(35)	(5)
2	**3**		**(197)**	**(28)**
	(38)	Including amount relating to discontinuing activities	(72)	
	41		**(125)**	

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, whereas the amounts for 2004 comprise the whole year. Therefore, the figures are not directly comparable.

KOMPAN A/S has also been classified as a discontinuing activity 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	
2004	2005		2005	2004
–	–	Revenue	493	1,230
–	(14)	Expenses	(541)	(1,196)
–	–	Impairment of fixed assets	–	(528)
–	78	Gain from sale of LEGOLAND Parks	200	–
53	99	Share of profit and gain from sale, KOMPAN A/S	99	53
–	–	Financial income and expenses	(5)	(10)
53	**163**	**Profit/(loss) before tax from discontinuing activities**	**246**	**(451)**
(3)	(38)	Tax	(72)	(7)
50	**125**	**Profit/(loss) from discontinuing activities**	**174**	**(458)**
		Fee to PricewaterhouseCoopers:		
–	–	Audit	–	1
–	12	Non-audit services	32	1
–	**12**	**Total**	**32**	**2**
196	–	Fixed assets, cf. note 8	–	2,301
43	–	Current assets	–	131
239	**–**	**Total assets**	**–**	**2,432**
–	–	Provisions	–	12
–	–	Debt	–	398
–	**–**	**Total liabilities**	**–**	**410**
		Cash flows from:		
		Operating activities	(73)	
		Investing activities	2,533	
		Financing activities	(74)	
		Total cash flow	**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 con-struction	Dis-continuing activities
Cost at 1 January	3,196	3,062	1,138	32	4,391
Exchange adjustment at 1 January	119	32	72	1	194
Additions	8	122	34	30	71
Disposals	(1,431)	(325)	(213)	–	(4,656)
Transfers	–	18	15	(33)	–
Cost at 31 December	**1,892**	**2,909**	**1,046**	**30**	**–**
Depreciation and impairment losses at 1 January	2,024	2,763	1,047	–	2,090
Exchange adjustment at 1 January	38	24	52	–	91
Depreciation for the year	91	243	88	–	110
Impairment losses for the year	45	–	–	–	–
Reversals of impairments made in previous years	(128)	(2)	(10)	–	–
Depreciation, assets sold	(1,038)	(306)	(213)	–	(2,331)
Transfers	(40)	–	–	–	40
Depreciation and impairment losses at 31 December	**992**	**2,722**	**964**	**–**	**–**
Carrying amount at 31 December	**900**	**187**	**82**	**30**	**–**

According to the official property assessment, the value of the Danish land and buildings amounts to DKK 629m. The corresponding carrying amount is DKK 466m at 31 December 2005.

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

Notes

[mDKK]

Note 9. Property, plant and equipment

Parent Company

	Land and buildings	Other fixtures and fittings, tools and equipment	Dis-continuing activities
Cost at 1 January	155	4	376
Additions	1	–	–
Disposals	(17)	(2)	(376)
Cost at 31 December	**139**	**2**	**–**
Depreciation and impairment losses at 1 January	126	3	180
Depreciation for the year	8	–	–
Depreciation, assets sold	(17)	(2)	(180)
Depreciation and impairment losses at 31 December	**117**	**1**	**–**
Carrying amount at 31 December	**22**	**1**	**–**

According to the official property assessment, the value of the Danish land and buildings amounts to DKK 124m. The corresponding carrying amount is DKK 22m at 31 December 2005.

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	–	42
Additions	250	76
Elimination of intercompany gains on purchases	(70)	–
Disposals	–	(42)
Cost at 31 December	**180**	**76**
Value adjustments at 1 January	–	(42)
Adjustment for the year	17	(1)
Disposal	–	42
Value adjustments at 31 December	**17**	**(1)**
Carrying amount at 31 December	**197**	**75**

Note 11. Fixed asset investments

Parent Company

	Investments in subsidiaries	Investments in associates	Current asset investments and other investments
Cost at 1 January	5,381	–	41
Additions	–	250	–
Elimination of intercompany gains on purchases	–	(70)	–
Disposals	–	–	(41)
Cost at 31 December	**5,381**	**180**	**–**
Value adjustments at 1 January	(2,546)	–	(41)
Exchange adjustments	184	–	–
Net profit/(loss) for the year	363	17	–
Other adjustments	(7)	–	–
Disposal	–	–	41
Value adjustments at 31 December	**(2,006)**	**(17)**	**–**
Carrying amount at 31 December	**3,375**	**197**	**–**

Notes
[mDKK]

Note 12. Deferred tax

Parent Company 2004	Parent Company 2005		Group 2005	Group 2004
–	–	Deferred tax asset at 1 January	448	588
(14)	(50)	Provision for deferred tax at 1 January	(175)	(115)
(14)	(50)	Deferred tax, net at 1 January	273	473
(36)	29	Change in deferred tax	(39)	(207)
(50)	**(21)**	**Deferred tax, net at 31 December**	**234**	**266**
–	–	Including amount relating to discontinuing activities	–	(7)
(50)	**(21)**		**234**	**273**
		Specified as follows:		
–	–	Deferred tax asset	430	448
(50)	(21)	Provision for deferred tax	(196)	(175)
(50)	**(21)**	**Deferred tax, net at 31 December**	**234**	**273**

Deferred tax - Group	Deferred tax asset	Provision for deferred tax	Deferred tax net 2005	Deferred tax net 2004
Fixed assets	17	(40)	(23)	(63)
Current assets	24	–	24	75
Inventories	116	–	116	96
Provisions	23	4	27	51
Debt	49	3	52	23
Tax loss carry-forwards	199	–	199	147
Other	2	(163)	(161)	(56)
	430	**(196)**	**234**	**273**

Tax loss carry-forwards - Group

	2005	2004
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 capitalised tax losses expires as follows:		
Within 1 year	–	4
Within 2 years	–	–
Within 3 years	5	–
Within 4 years	11	18
Within 5 years	2	–
After 5 years	181	125
	199	**147**

The Group's non-capitalised deferred tax assets amount to DKK 350 million.

Notes

[mDKK]

Note 13 Inventories – Group

	2005	2004
Raw materials, components and work in progress	308	240
Finished goods	401	472
Total inventories	**709**	**712**

Note 14. Receivables from subsidiaries

Parent Company			Group	
2004	2005		2005	2004
198	**655**	**Including 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 nominal DKK 76 million took place in 2004. Apart from this, there have been no changes in the share capital during the last 5 years.

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 Aalborg

Notes

[mDKK]

Note 16. Minority interests

Parent Company 2004	Parent Company 2005		Group 2005	Group 2004
–	–	Balance at 1 January	335	698
		Share of net profit/(loss) for the year	(30)	(356)
–	–	Exchange adjustments etc	3	(7)
–	**–**	**Balance at 31 December**	**308**	**335**

Note 17. Other provisions

Parent Company 2004	Parent Company 2005		Group 2005	Group 2004
–	–	Balance at 1 January	645	359
–	–	Exchange adjustment at 1 January	13	(1)
–	–	Additions	216	530
–	–	Used	(116)	(212)
–	–	Reversed	(56)	(31)
–	**–**	**Balance at 31 December**	**702**	**645**

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:			
Subordinate loan capital	800	–	800
Banks and other credit institutions	134	1	123
	934	**1**	**923**
Group:			
Subordinate loan capital	800	–	800
Banks and other credit institutions	517	5	470
	1,317	**5**	**1,270**

Notes

[mDKK]

Note 19. Subordinate loan capital

Loan from KIRKBI A/S, totalling DKK 800m, is irredeemable from the lender and is due in December 2011.

The loan, on which an interest of CIBOR +3% p.a. is calculated, has been granted on special terms and can be repaid before maturity by the borrower provided that the equity ratio is at least 40% after repayment. Moreover, the loan is subordinated in favour of all other creditors.

Note 20. Security and contingent liabilities

Parent Company			Group	
2004	2005		2005	2004
–	–	Guarantees	1	1
–	1	Lease obligations	373	449
–	–	Other obligations	109	37
–	**1**		**483**	**487**
–	**–**	Including amount relating to discontinuing activities	**–**	**4**

Security:

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

–	**22**	**Land and buildings**	**383**	**–**

Group

The Group has entered into forward exchange contracts in the amount of DKK 2,954 million and currency options of DKK 1,265 million. 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 2005, unrealised losses totalling DKK 12 million have been recognised in the income statement and unrealised gains totalling DKK 2 million 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			Group	
2004	2005		2005	2004
(156)	(177)	Gain/(loss) from sale of fixed assets	(378)	(176)
(99)	165	Exchange adjustments	55	(39)
1,573	(540)	Subsidiaries	–	–
44	(24)	Financial instruments	(33)	44
–	–	Change in provisions	32	277
(9)	43	Other adjustments	35	3
1,353	**(533)**	**Total other adjustments**	**(289)**	**109**

Note 22. Financial resources (cash flow statement)

Parent Company			Group	
2004	2005		2005	2004
–	–	Securities	641	–
1	1	Cash at bank and in hand	1,968	312
		Short-term debt:		
–	(1)	Banks and other credit institutions – continuing activities	(5)	(139)
–	–	Banks and other credit institutions – discontinuing activities	–	(255)
1	**–**	**Total financial resources**	**2,604**	**(82)**

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
LEGOLAND Parks for the period 1 July – 31 December	51	–	188
KIRKBI AG Group	–	1	–
KIRKBI A/S Group	–	–	175
	51	**1**	**363**

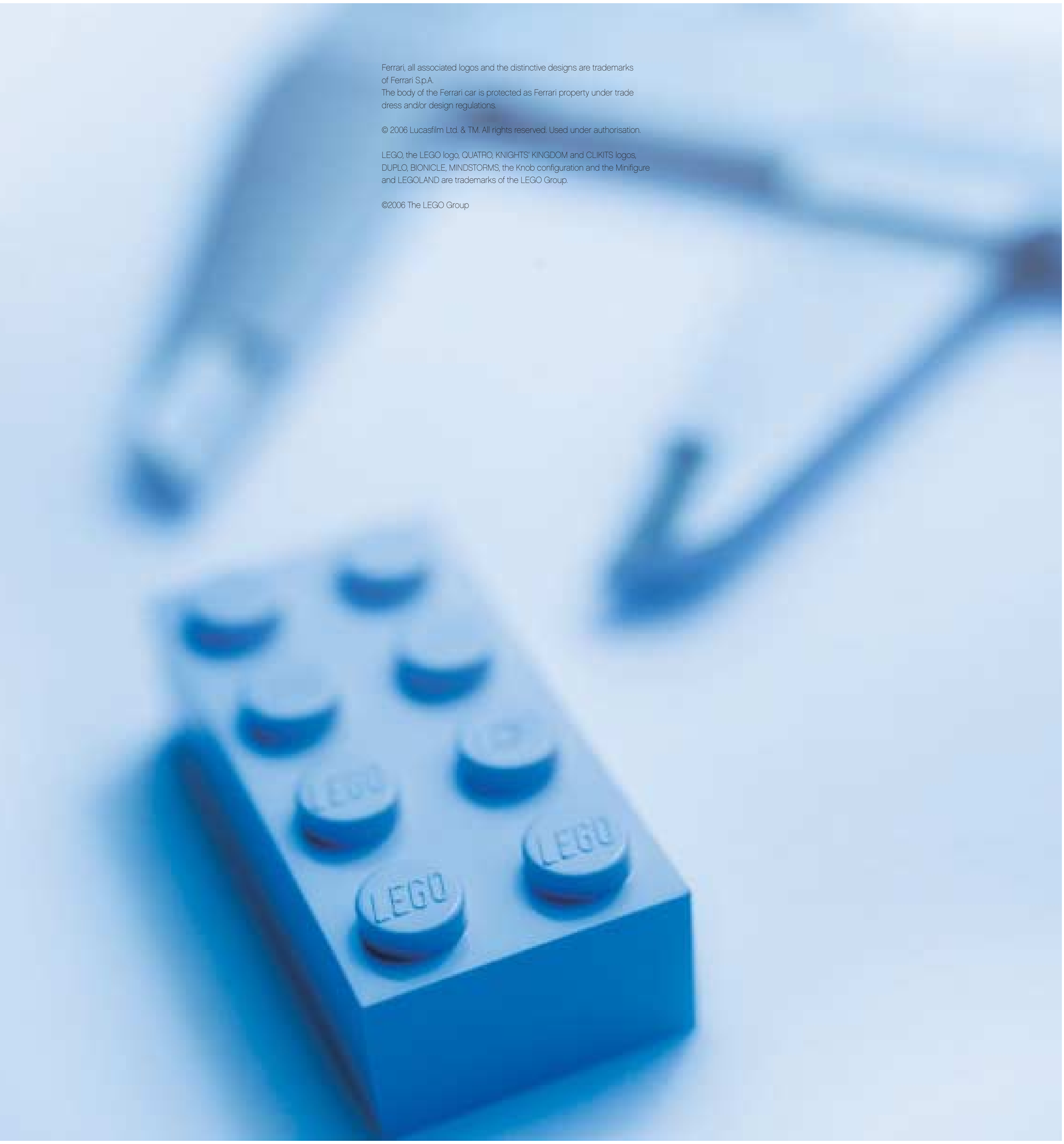
	Rent paid to	Interest paid to	Service fee paid to
LEGOLAND Parks for the period 1 July – 31 December	–	–	–
KIRKBI AG Group	–	2	–
KIRKBI A/S Group	3	42	26
	3	**44**	**26**

	Trademark fee paid to	Other operating income received from	Other operating expenses paid to
LEGOLAND Parks for the period 1 July – 31 December	(15)	–	–
KIRKBI AG Group	135	–	–
KIRKBI A/S Group	105	–	–
	225	**–**	**–**

	Receivable from	Short-term debt to	Long-term loans from
LEGOLAND Parks	9	3	–
KIRKBI AG Group	65	1	–
KIRKBI A/S Group	–	8	800
	74	**12**	**800**

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

In 2004 it was decided to sell the Group's LEGOLAND Parks, as these are not considered part of the core business. In July 2005 the Group sold the four LEGOLAND Parks to Merlin Entertainments Group, which is owned by Blackstone Capital Partners, at a price of EUR 375m. In connection with the sale, a jointly owned company was established, of which among others Blackstone Capital Partners holds 70%, the LEGO Group holds 15% and KIRKBI holds the remaining 15%. Besides the LEGOLAND Parks, the jointly owned company, Merlin Entertainments Group Luxemburg S.a.r.l., owns Merlin Entertainments' other attractions: Sea Life, Earth Explorer and Dungeons.



LEGO Group – Corporate Management

Jesper Ovesen
Executive Vice President
& Chief Operating Officer (COO)
Supply Chain & Central Functions

Jørgen Vig Knudstorp
President &
Chief Executive Officer (CEO)

Henrik Poulsen
Executive Vice President
Markets, Products & Marketing

Board of Directors

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, Suomi. Member of the Royal Swedish Academy of Engineering Sciences (IVA).

Armin F. Broger

Member of the Board since 2005. Chief Operating Officer (COO) of Tommy Hilfiger in Europe.

Mads Øvlisen

Chairman of the Board since 1996. Member of the Board since 1991. Chairman of the Board of Novo Nordisk A/S until March 2006 and the Danish Royal Theatre, and member of the Board of the Wanås Foundation. Adjunct professor of corporate social responsibility at the Copenhagen Business School.

Kjeld Kirk Kristiansen

Vice 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 Group.

Torben Ballegaard Sørensen

Member of the Board since 2005. President and CEO of Bang & Olufsen. Member of the board of SimCorp A/S.

LEGO Group

LEGO Holding A/S

LEGO A/S (75%)

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 AS
- 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 Hungária Kft.
- LEGO Polska Sp. z o. o.
- OOO LEGO (Russia)

Americas
- LEGO do Brazil Ltda.
- LEGO Canada Inc.
- LEGO New York Inc. (US)

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

INTERLEGO AG, Switzerland

Europe
- Oy Suomen LEGO Ab (Finland)
- LEGO Estates Limited (UK)
- LEGO Schweiz AG
- LEGOLAND Estates AG (Switzerland)
- KIRK AG (Switzerland)

Americas
- LEGO Building Corporation (US)
  - LEGO Dacta Inc. (US)
    - Dacta and Pitsco LLC, 51% (US)
  - LEGO Systems Inc. (US)
    - LEGO Direct Marketing Inc. (US)
    - LEGO Brand Retail Inc. (US)
- LEGO Mexico S.A. de C.V.
- Adm. de Serv. LEGO de C.V. (Mexico)
- Carlsbad Estate Holding Inc. (US)

Asia
- LEGO Singapore Pte. Ltd.
- LEGO New Zealand Ltd.

Associates:
- LEGOLAND Holding A/S, 49%
- Scanesco ApS 23,1% (DK)
- Merlin Entertainments Group Luxemburg S.a.r.l., 15%.

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

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