

Annual Report 2003

LEGO Company



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Arthur Yoshinami (*Asia/Pacific*)

Mads Ryder (*LEGOLAND parks*)

* *Leadership Team after changes in early 2004*



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Annual Report 2003

2003 was a very disappointing year for LEGO Company.

Net sales fell by 26 percent from DKK 11.4 billion in 2002 to DKK 8.4 billion. Play material sales declined by 29 percent to DKK 7.2 billion.

The result was a pre-tax loss on earnings of DKK 1.4 billion, i.e. a drop of DKK 2 billion as compared with 2002.

The year's result can only be described as unsatisfactory.

The negative development reflects an unsuccessful growth strategy with a consequent loss of market shares.

At the end of 2003, it was decided to change the business strategy and set out a series of specific initiatives in order to ensure a stable platform for the Company's development.

The successful implementation of these initiatives is crucial for LEGO Company to ensure profitable growth and, at the same time, uphold its strong, global brand position among families with children.

Play materials

Sales

At the beginning of the year, substantial inventories of LEGO products, particularly in the USA, had built up within the retail channels as the 2002 Christmas sales had failed to meet expectations. As a result, sales were extremely slow at the beginning of 2003. The downward trends continued and eventually impacted on the year as a whole. The tradi-

tional toy market stagnated in 2003, whereas the trendier part of the market saw progress.

The intensified competition in the traditional toy market resulted in a loss of market share in most markets – partly to competitors who chose to pursue a strategy of aligning themselves with LEGO Company's products and marketing, and partly to new trendy products and retailers' own private labels.

The decline was particularly marked in the US where sales dropped by approx. 35 percent compared to 2002 while Asian markets experienced a fall of 28 percent. A significant part of the decline in these markets can be attributed to shortfalls in the sale of movie tie-in products.

The traditional Central European markets initially performed rather well and showed stability for most of the year. Late in the year, however, sales also declined in these markets. Germany finished the year approx. 20 percent below last year's level, and the UK, Holland and the Nordic markets fell by approx. 13 percent. Only the new markets in Eastern Europe and distributor markets maintained sales on a par with last year.

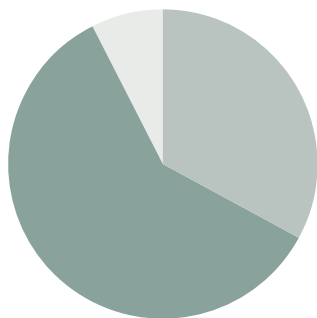
Sales of movie tie-in products developed unsatisfactorily. Interest in the *Star Wars* range and, to an even greater extent, the Harry Potter series - the 2002 top seller - fell below expectations in a year without new movie releases. The drop in sales of these products accounted for more than 50 percent of the overall sales decrease.

LEGO Company's own BIONICLE® range performed better, although sales fell by up to 20 percent. Nevertheless, one of the products in the range reached the Top 10 list of



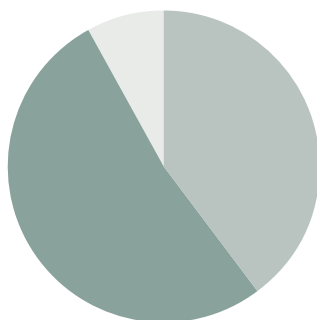
*Kjeld Kirk Kristiansen
President and CEO*

SALES BREAKDOWN 2003



- Americas
- Europe
- Other markets
[Japan, Asia, Australia, Africa]

SALES BREAKDOWN 2002



the most wanted Christmas presents in the USA. At the same time, the first BIONICLE DVD, produced in collaboration with the MIRAMAX film company, had an enthusiastic reception in global markets.

The slowdown affected LEGO Company's product range across the board. Nevertheless, it was encouraging to note that sales of the classic LEGO products, Make & Create, doubled and the new products for girls, CLIKITSTM, also got off to a good start. The Sports range also performed well.

Costs

As early indications were that weak sales would continue throughout the year, LEGO Company increased its focus on cutting costs, especially by adjusting production capacity to the reduced activity level. This resulted in a global reduction in the number of staff of approx. 600.

Moreover, it was decided to move forward the closure of the Lättich factory in Switzerland to February 2004. The planned closure has resulted in further job cuts of approx. 100.

The ongoing endeavours to adapt production to lower sales contributed towards a satisfactory inventory situation at the end of the year.

The reductions in costs, including the above-mentioned redundancies, have only moderately affected the 2003 result, but will impact fully on the 2004 result. This also applies to a pay freeze for all staff not employed under general wage agreements.

For several years, LEGO Company has invested substantial funds in expanding its product portfolio. This commitment and the consequent cost increases have not produced the desired results. In some cases, new products have even

cannibalised on the sales of LEGO Company's core products and thus eroded earnings.

Towards the end of the year, it was decided to focus on the classic LEGO products with their strong ties to the universal and timeless LEGO bricks and the values that consumers associate with this concept. This involved a non-recurring cost of DKK 450 million, primarily allocated to writing down operating assets and buildings as well as redundancy payments resulting from the reduction in activities.

The dollar rate

The dramatic fall in the dollar compared to the Danish krone was offset by a cautious hedging policy.

The overall negative impact from the declining dollar rate thus accounted for approx. DKK 500 million in net sales and DKK 100 million in terms of profit before financial items and taxes.

Yet, the situation was offset by exchange gains exceeding DKK 200 million on forward contracts against foreign exchange fluctuations. The pre-tax result was, therefore, positively affected by net gains of around DKK 100 million.

The fall in the dollar, however, led to substantial competitive problems in both the USA and Europe, partly because LEGO Company's major competitors are US-based.

LEGOLAND parks

The overall result for the LEGOLAND parks was on a par with 2002, although this covers

widely differing developments within the individual parks.

LEGOLAND Billund ended the year with a new visitor record and increased profits by around 10 percent. Despite a slightly weak peak season when the park receives nearly 40 percent of its visitors, the year finished impressively, achieving its highest ever visitor numbers for one day in the park's 35 year history in September 2003.

LEGOLAND Windsor experienced a minor decrease in net sales due to a declining number of visitors. However, turnover per visitor increased, and the result was on a par with 2002.

LEGOLAND California saw a weak start to the year, but ended the season better than ever before. This meant that, in terms of visitors as well as turnover, the park achieved a result comparable to 2002 which indicates that previous years' decline in visitor numbers seems to have been halted.

LEGOLAND Deutschland did not manage to avoid the "second year" effect which has been noted in connection with the opening of new parks. While the year got off to a good start, the very hot weather in the peak season kept many visitors away. Although the hot summer also adversely affected LEGOLAND Billund and Windsor to some extent, the consequences for the German



Make & Create events

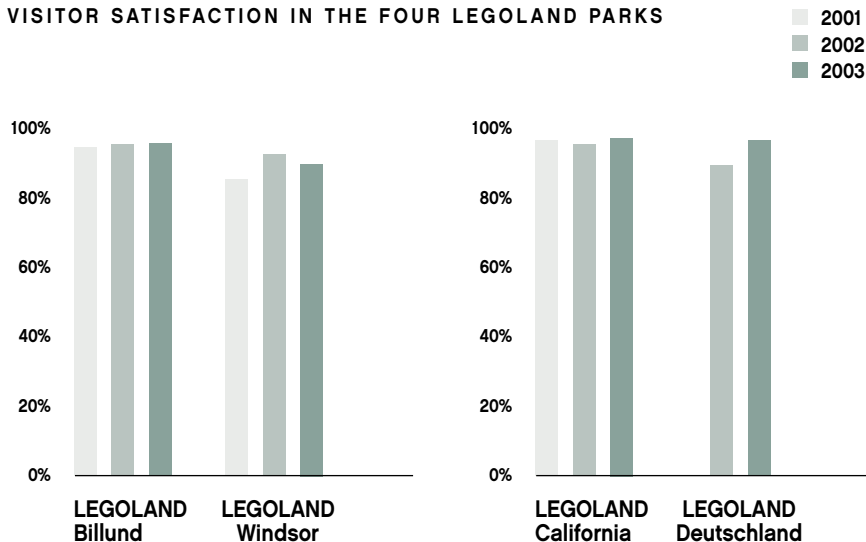
Make & Create products were given high priority in 2003, and the launch was backed by one of the most extensive campaigns the company has ever organised. It was conducted globally under the slogan "What will you make?".

The campaign was kicked off with a huge building event in early June. More than 100 movie stars, fashion models and other celebrities from all over the world were invited to build their very own LEGO models. The many finished models were then shown to the world's media in the Altmann Building in New York.

The New York event signalled the start of a "What will you make?" roadshow in the United States, which visited more than 20 American cities and attracted more than 200,000 visitors. Each family spent an average of one hour building with LEGO bricks.

In Germany, Austria and Switzerland, 146 towns and cities participated in a building competition in September, creating a giant LEGO spider in the shortest possible time. Each team of children and adults had to assemble a set quantity of 40,000 LEGO elements, and the main prize of more than EUR 10,000 went to the German city of Emden, whose team of children and adults created an enormous spider in just 44 minutes and 24 seconds.

VISITOR SATISFACTION IN THE FOUR LEGOLAND PARKS





BIONICLE at the movies

The BIONICLE film – developed jointly by the LEGO Company and the Miramax film company – got off to a flying start in the USA, when it was launched in mid-September 2003. The film "BIONICLE – Mask of Light" was marketed on VHS and DVD in the United States and Canada – and within a week had earned top spot as the best-selling VHS title in the USA. On the DVD chart it was no. 4. The chart is compiled by Nielsen Videoscans for www.hollywoodreporter.com.

The film was translated into 26 different languages. "Mask of Light" runs for 70 minutes and appeals to the whole family – especially children in the 6-12 age group.

A sequel is in the pipeline. The next BIONICLE film will also be issued on VHS and DVD and is expected to reach the shops in autumn 2004. The title of the next Direct To Video (DTV) film will be "Legends of Metru Nui", and it will again be developed and distributed in collaboration with Miramax and Buena Vista Home Entertainment.

park were more noticeable. On some days, the number of visitors totaled only 60 percent as compared with the same days in 2002.

2003 saw changes to all leadership positions at the parks, primarily through internal reshuffles aimed at ensuring that experience, know-how and skills are exchanged between the parks.

LEGO Brand Stores

12 new test shops were opened during the year in accordance with the strategy aimed at strengthening the consumers' experience of LEGO products through own brand stores. This brings the total number of shops under the new concept to 15.

Besides the 15 test shops and the shops in the parks, LEGO Company has a further five brand-ed shops and four outlet shops.

The final expansion plans for brand stores are under preparation and are expected to be in place during 2004.

The future

Creating a platform for stable earnings and balanced growth within the play material area is crucial for LEGO Company's future.

For this reason, the Company changed its business strategy at the end of 2003 and set out a number of specific initiatives for 2004.

The revised business strategy will focus on developing and marketing the Company's more timeless core products that are in general demand because of their power to stimulate children's creativity and learning.

One of its consequence is the re-launch of LEGO® DUPLO®. In 2002, the DUPLO brand was replaced by the new development system for pre-school children, LEGO EXPLORE, aimed at creating a simple and accessible system of stimulating play methods for young children. The company failed, however, to persuade consumers of these benefits, and sales of pre-school products dropped by 37 percent during the year and now account for approx. 10 percent of LEGO Company's sales. Such sales levels are obviously far from satisfactory for these former top sellers.

In 2004, the pre-school products will be relaunched under the LEGO DUPLO and LEGO BABY brands.

Movie tie-in products will continue to be an important, although relatively minor, part of LEGO Company's range. The substantial fluctuations in the sales of these products are incompatible with the desired stability in earnings.

Focus will, in particular, be on regaining market shares in the traditionally strong Central European and Nordic markets.

In the American and Asian markets, investments will aim at creating a long-term, stable platform based on classic products and, to a lesser extent, on movie tie-in products.

The initiatives, which will be implemented during 2004, include cost adjustments in keeping with the lower activity levels, a focused effort to enhance competitiveness and efficiency, and a series of necessary changes to the Company's mindset and behavior to pave the way for a more competitive and effective organisation.

Knowledge resources

One of LEGO Company's most important knowledge resources is a strong brand and sound knowledge of the market. The company continuously develops products in keeping with the LEGO values. Another important quality is the company's ability to form strong ties with other enterprises plus the determination to ensure that our suppliers adhere strictly to quality standards both for the product and for the way in which it is manufactured. A determined effort is also made to develop the skills of LEGO employees to enhance their pleasure and satisfaction at working for the LEGO Company.

All of these assets are vitally important in the company's bid to hold and expand its current market position and thus in the generation of future value for the company. Knowledge resources are discussed in more detail in the section on the LEGO brand and People & Culture.

To LEGO Company, the changes will translate into a strengthening our efforts in all markets.

There are no plans to change the business strategies for LEGOLAND parks and brand stores.

Organisation and leadership

A series of changes were introduced to LEGO Company's organisation and leadership during the year.

In November, Jørgen Vig Knudstorp, Corporate Affairs, and Jesper Ovesen, Corporate Finance, joined the leadership team, which subsequently comprised 14 members.

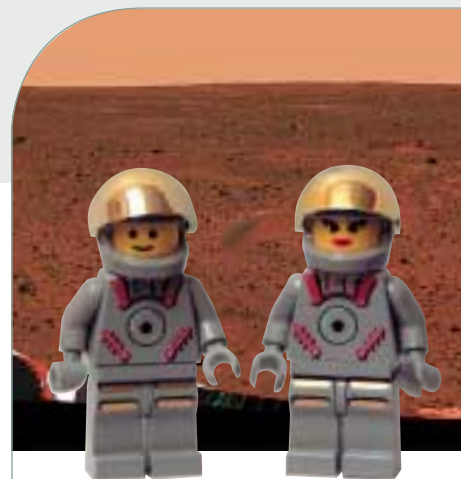
In December, it was decided to change the Company's business strategy and corporate structure. As part of this process, the leadership team was reduced from 14 to nine members.

The objective was to create a simplified, dynamic organisation and a leadership structure that reflects the new business strategy.



NEW LEADERSHIP TEAM

Kjeld Kirk Kristiansen (foreground) is seen here with the Leadership Team. Left to right: Tommy Gundelund Jespersen, Jesper Ovesen, Arthur Yoshinami, Henrik Poulsen, Mads Nipper, Søren Torp Laursen, Dominic Galvin and Jørgen Vig Knudstorp.



LEGO minifigure on Mars

On June 10, 2003 – at precisely 19:58 Danish time – NASA, launched the first of two Mars Rovers on the 55 million km voyage to Mars. The launch was from Cape Canaveral in Florida, USA. Rover Spirit was the first into space, followed a few days later by Rover Opportunity. The two Rovers landed safely on Mars in January 2004.

Both Rovers carry a very special cargo: a DVD bearing the names of four million earth-dwellers. The DVD also carries an image of a LEGO minifigure, a so-called Astrobot. The DVD and minifigure are fastened to the Mars lander by means of three LEGO bricks made of aluminium. The DVD contains a secret message in the form of a bar-code, which children and adults throughout the world have been invited to unlock.

The Planetary Society and LEGO Company have jointly developed several concepts designed to give children all over the world the opportunity to follow the Mars expedition on their own terms. For example, each LEGO minifigure aboard the two Rovers has kept a diary of the mission, which has been published on the respective websites of LEGO Company and The Planetary Society as well as in LEGO Company's club magazine. In addition, four "Mars stations" have been built – three in the United States and one in Spain, where children via their Internet browser can guide a LEGO Rover across a 100 percent authentic Martian terrain.

Board of Directors

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Kjeld Kirk Kristiansen

Corporate Finance

Jesper Ovesen

Corporate Affairs

Jørgen Vig Knudstorp

LEGOLAND Parks

Mads Ryder

Innovation and Marketing

Mads Nipper

Supply Chain

Tommy Gundelund Jespersen

European Markets & LEGO Trading

Henrik Poulsen

Americas Markets

Søren Torp Laursen

Asia - Pacific Markets

Arthur Yoshinami

Brand Retail

Dominic Galvin

The changes meant that the three European sales regions were combined into one region headed by Henrik Poulsen.

Mads Nipper, former head of the Central European sales region, took on responsibility for the LEGO Company's global innovation and marketing activities.

Søren Torp Laursen was appointed head of the American market succeeding Stig Toftgaard, interim acting head of the Americas following the departure of Andrew Black from LEGO Company earlier in the year.

The organizational adjustment also meant that Corporate Development was abolished as an independent business area and its activities transferred to other areas.

In connection with the organisation and leadership changes, Poul Plougmann, COO, and Francesco Ciccolella, head of Corporate Development, resigned from the Company early in 2004.

The LEGOLAND parks, an independent business area, are headed by Mads Ryder reporting to Jørgen Vig Knudstorp.

Slight drop in visitor numbers at LEGOLAND parks

In 2003, a total of 5,535,961 adults and children visited the four LEGOLAND parks in Germany, USA, Britain and Denmark – a slight drop on the 2002 visitors' total of 5,651,316.



Thanks to the workforce

Although 2003 failed to meet expectations, sincere thanks are extended to all employees for their great loyalty to the Company, a loyalty which will be put to its test during these very difficult years.

Expectations for 2004

For the coming year, LEGO Company's aim is to adapt its activity levels to the significantly lower turnover and to create a stronger, more focused business strategy which, in

the longer term, will lay the foundation for stable earnings and balanced growth.

This, however, requires substantial changes which must be implemented in the short-term.

On the basis of this, and in view of the continuing difficult market situation, expectations are for an improvement in earnings to secure a break-even result for 2004.

Mads Øvlisen
Chairman of the Board

Kjeld Kirk Kristiansen
President & CEO



New product for girls: CLIKITS

In 2003, LEGO Company introduced a brand-new product targeted at girls. CLIKITS is a new Arts & Crafts design system, which enables girls to make decorative items for their rooms or design their own jewellery and fashion accessories.

Four years of careful research went into developing the CLIKITS concept. In the process, it became apparent that girls – in addition to building – also attach importance to self-expression, and they especially like to make their own gifts and practical, everyday things. Hobby products are very well suited to give them this enjoyment.

Studies also showed that parents have high regard for both hobby and construction materials because with these products their children can express themselves creatively, use their imagination and have fun by producing something they can be proud of.

12 new LEGO Brand Stores opened in 2003

LEGO stores will strengthen the brand

In 2003, the company turned focus on LEGO Brand Retail. A total of 12 new brand stores were opened during the year, bringing the total number of LEGO stores outside LEGOLAND parks to 24. There are 15 stores in the USA, three in Germany, five in Britain and one in Russia.

They offer a number of advantages: LEGO Company comes closer to the consumer, sales rise both in the store and throughout the retail trade generally, and brand image is enhanced.

Brand stores also perform a function in that the LEGO organisation learns from the feedback consumers provide on individual products.

One of the most popular features offered by the new retail outlets is Pick-a-Brick sales of loose LEGO bricks. In the first year of LEGO Brand Retail, sales of loose bricks accounted for 10 percent of the turnover.

The Pick-a-Brick concept has also been very well received in LEGOLAND shops. In 2003, for example, 78 tons of LEGO elements and eight tons of DUPLO elements were sold in LEGOLAND Billund alone.

Experiments with making loose LEGO bricks available to retailers in northern Europe have also proved popular with trade and consumers alike.



The LEGO brand

A world-famous brand

Every 2-3 years, the independent market-research institute Young & Rubicam conducts a comprehensive survey among families with children to identify the 10 strongest brands. The latest survey from autumn 2003 shows that LEGO Company continues to hold 6th place.

The research is based on data from the United States, Germany, Britain and France and measures the status of the brand, i.e. knowledge of the brand among consumers and the esteem in which they hold it.

LEGO Company's goal of becoming the strongest brand in the awareness of families with children by 2005 has been modified since the end of the fiscal year. The target is for LEGO Company to be among the five strongest brands in the awareness of families with children.

The five LEGO values

LEGO Company is currently busy on many fronts developing the brand and implementing initiatives launched in 2002. This work has so far produced the following results:

- Definition of the five LEGO values
- Positioning of "The Power to Create"
- The slogan PLAY ON

The combined purpose of these three points is to strengthen the LEGO brand and to make it easier for the consumer to understand what the company stands for.

In 2002, the LEGO values were redefined to express five value- and attitude-based points which together make the LEGO universe a unique concept:

Self-expression – represents creativity, inventiveness, results and exploration.

Endless ideas – represents unlimited potential, unlimited imagination and an inquiring mind.

Playful learning – represents life as a learning process, a life-long potential for personal development.

Active fun – represents getting more out of play, more out of life.

Trusted – represents quality in everything we do, and a deep trust in the LEGO brand across the generations.

These five values are expressed in our products. Trusted, in the context of LEGO Company, is a matter of never disappointing the expectations of the consumer. The consequence of this policy is that everything LEGO Company does must be of high quality.

The Power to Create

In 2002, LEGO Company revised its positioning. Through its products, the company wants not only to promote creativity and stimulate the imagination, but also to emphasise the whole process of inventiveness associated with playing with LEGO products. This process has been expressed as "The Power to Create" and is firmly anchored in everything we do – from concept and product development to implementation of marketing campaigns.

PLAY ON™

"PLAY ON" is a direct corollary of the very meaning of the LEGO name – from its Danish origins "LEg GOdt", "play well" – and is the outward expression of the Power to Create. PLAY ON is direct, active and inviting and focuses on open and flexible play which can continue ad infinitum. The slogan urges the child in each of us to begin playing – while at the same time it is an invitation to continue playing.

LEGO Company still no. 6 in the charts

1993

1. Coca-Cola
2. Levi's
3. Nestlé
4. Kellogg's
5. **LEGO®**
6. Fisher-Price
7. Disney
8. Pampers
9. Pepsi
10. Milky Way

1997

1. Kellogg's
2. Coca-Cola
3. Fisher-Price
4. Disney
5. Levi's
6. Mickey Mouse
7. Pepsi
8. Pampers
9. **LEGO®**
10. Nestlé

1999/2000

1. Coca-Cola
2. Kellogg's
3. Disney
4. Levi's
5. Pampers
6. **LEGO®**
7. Fisher-Price
8. Sony
9. Nestlé
10. M&M's

2002/2003

1. Coca-Cola
2. Kellogg's
3. Disney
4. M&M's
5. Fisher-Price
6. **LEGO®**
7. Sony
8. Levi's
9. Kit Kat
10. Pampers

The tables show LEGO Company's placing since 1993. Young & Rubicam conducts its market survey every three years. In 1999/2000 calculations indicated that LEGO Company was in 7th place. But a revised count of the number of households with children later led to Y&R calculating the position of the LEGO brand at no. 6 in 2000.



Small robots with huge potential

LITTLE ROBOTS™ is the story of a community of small robotic characters who have created their own universe in a garbage dump. The story was written by Mike Brownlow and published by Ragged Bear Co. In 2003, it premiered as a TV series.

The robots share a sense of bubbling energy and a desire to create a universe in which everyone works for the common good. LEGO Company holds the rights to manufacture toys based on the popular TV series, which has won many young fans in Britain, Australia, Canada and Denmark – where the series was shown during the year.



Ferrari in LEGO bricks

In early December 2003, LEGO Company and Ferrari signed a partnership agreement under which LEGO Company will launch six brand-new LEGO Racers Ferrari products in 2004.

The first four LEGO Racers models will hit the streets in April and will include a LEGO Racers set with Michael Schumacher and Rubens Barrichello, repeated race winners in Formula 1 Ferraris. Two LEGO DUPLO products will follow in May.

The three-year contract with Ferrari will run until the end of 2006. Initially, Ferrari building sets will focus primarily on Formula 1 cars, but over the next few years there will also be models of Ferrari's much-coveted GT road vehicles.

There are many similarities between Ferrari and LEGO Company. Both were started in small provincial towns, and in spite of their respective modest sizes – by international standards – each company has succeeded in creating some of the world's strongest brands.

In view of its contract with Ferrari, LEGO Company has terminated its agreement with BMW Williams F1 – opting now to concentrate exclusively on the red racing cars.

In that it stands for infinite play, PLAY ON also represents a passion for unlimited play, creativity and lifelong learning. Thus PLAY ON reflects the very mission of the LEGO brand.

Brand architecture

The brand architecture comprises four portals, each providing a different approach to the brand. Each portal expresses and employs different facets of "The Power to Create" – each presents a unique identity, echoing the experience each particular portal can offer.

- **LEGO EXPLORE** (pre-school age) – a fully integrated development system serving the needs of the child from birth to school start. Since the end of the fiscal year, it has been decided to revert to the familiar LEGO DUPLO and LEGO BABY names.
- **Make & Create** – devoted to construction, the building process and creating
- **Stories & Actions** – based on a story, a universe, a figure and/or activity
- **Next** – highlighting the latest advances in building concepts

The LEGO universe and consumers

Satisfied visitors at LEGOLAND parks

LEGOLAND parks are part of the embodiment of the LEGO values, and visitors have a unique opportunity to experience the LEGO universe at close quarters.

An important parameter in measuring whether visitors have enjoyed themselves in the parks is ... visitor satisfaction. It has been generally rising in all four parks in recent years. Top score this year was achieved by LEGOLAND California with a visitor-satisfaction rating of 97.5 percent. LEGO-

LAND Billund reached 96.1 percent visitor satisfaction, LEGOLAND Windsor 90.4 percent, and LEGOLAND Deutschland 97.0 percent. All parks raised their visitor-satisfaction ratings above the 2002 level except for LEGOLAND Windsor, which declined by 2.9 percent.

The high rate of visitor satisfaction at LEGOLAND parks can be attributed in large measure to their highly service-minded staffs – but parks also offered a range of exciting new features.

For example, LEGOLAND Billund opened its 2003 season with a world first: Power Builder robots now give visitors the opportunity to build their own exciting rides.

LEGOLAND California welcomed visitors with a BIONICLE Blaster and a sports centre. LEGOLAND California was described by Forbes.com as one of the best theme parks around – while ThemeParkInsider.com awarded the park its title of "Best Theme Park for Children".

The big new feature of the year at LEGOLAND Deutschland was a Dragon roller-coaster, which was inaugurated by Danish Princess Benedikte to mark the park's Denmark Day. LEGOLAND Windsor presented its Wonderwall of Stars to the public, with more than 70 portraits of celebrities such as David Beckham, Pierce Brosnan and Madonna – all built of LEGO bricks. Windsor also introduced its new display of busts featuring such persons as Marilyn Monroe and William Shakespeare – also in LEGO bricks.

Leading research in child development

Vision Lab was set up on January 1, 2003, with the aim of developing and communicat-

ing future scenarios which – in conjunction with the company's strategic guidelines – will create the foundation of product and concept development at LEGO Company. Vision Lab submitted its first research findings in October 2003, indicating trends and commercial challenges and opportunities for LEGO Company. The material has been collated in The Vision Book 2006+.

The LEGO Learning Institute (LLI) is the company's knowledge centre for play, learning, creativity and child development. The Institute engages in research, and shares the accumulated data with internal and external partners.

In 2003, LLI focused on learning through play. Through a combination of lectures, workshops and round-table debates, LLI communicated with more than 4,000 researchers, politicians, teachers, educationists, etc., in Britain, USA, Denmark and Singapore. LLI notes a growing interest from outside the company in our viewpoints on children's play, learning and creativity.

Global LEGO community

Popular club membership

More than two million children all over the world are members of the LEGO Club. The LEGO Club consists primarily of an Internet website and a members' magazine. The website is in English, German and French and registers up to 800,000 visitors every month.

The magazine is published in English, German, French and Japanese. Membership is free and for two years at a time. The club publishes up to six issues of its magazine a

year. The most popular section of the LEGO Club is "Cool Creations". It is a place where members can show pictures of their own LEGO models and tell other members a little about themselves.

Active LEGO fans

Adult LEGO fans were very active during the year. LEGO Company carries on an active dialogue with the many thousands of LEGO fans, and in a number of cases dialogue has actually developed into direct collaboration.

Projects such as the international LEGO Train Club Organisation, EuroBrick, 1000 Steine Land in Germany and SciBrick in the USA have attracted many thousands of LEGO fans from all over the world.

LEGO Company's "What will you make?" road tour of North America and the LEGO World Event in the Netherlands – attended by more than 40,000 visitors – demonstrate the extent to which LEGO fans have become involved in the arrangement of events. A partnership of this nature benefits both parties.

It is intended in 2004 to expand this form of grass-roots collaboration, and LEGO Company wants to help LEGO fans attain a higher profile for their hobby.

FIRST LEGO League

The American non-profit organisation FIRST (For Inspiration and Recognition of Science and Technology) aims to stimulate interest among children and young people for science and technology/maths subjects by organising projects in which children themselves are the driving force. The organisation was formed by Dean Kamen, an American who has become famous for his inventions iBOT and the Segway Human Transporter.



More than 50m clicks on LEGO.com

More than 50 million children and adults visited www.LEGO.com in 2003. The website was redesigned in the spring, centred on the four LEGO portals.

The site is also more user-friendly, thanks to a clearer grouping into three main areas: products, play and sales. The About Us section has also been updated and made more inviting. One of the most popular areas is the BIONICLE page, where consumers stay for an average of nine minutes.



FIRST LEGO League is a robotics competition for teams of children and young people between the ages of nine and 16 years, who compete in several disciplines. Teams are required to build and programme a LEGO® MINDSTORMS™ robot to perform certain tasks on a robot track, solve a research task, and demonstrate co-operation and innovation. In 2003, the theme was Mission Mars, and robots had to carry out assignments on "Mars" – for example, collect mineral samples, build houses, collect ice samples, and free a Mars Rover which had become stuck on a sand bank.

In 2003, approx. 42,000 children participated in the competition representing 14 countries: USA, Canada, Brazil, South Korea, Germany, Britain, France, Netherlands, Norway, Sweden, Denmark, Austria, Singapore and China.

As many as 18,000 adult volunteers throughout the world participate as team leaders and help to organise the competitions. Several hundred companies, universities and organisations sponsor the FLL programme.

LEGO MINDSTORMS Centres

LEGO Company set up the first LEGO MINDSTORMS Centre in 1998. By 2003, there were as

many as 39 centres dotted all over the world. The great majority of these are located in conjunction with science centres or technological museums. The centres are typically visited by children as part of a schools project. At weekends they are used by families with children.

Quality policy

LEGO Company's quality policy is not restricted to LEGO products. It is also applied to the quality we aim for in connection with inquiries from our consumers.

Whether inquiries arrive by e-mail, letter, fax or phone, our staff take time to listen and speak to the consumer. On a daily basis, a total staff of 165 is employed in these activities, 75 of which are located in Europe, 80 in USA and 10 employees cover the rest of the world, altogether representing 27 countries and 20 different languages.

LEGO Company thereby gains invaluable knowledge and repeat response, which is passed on to LEGO colleagues who need this information in their day-to-day jobs – whether in production, product development, marketing or in LEGOLAND parks.



New partnership with Discovery

In 2003, LEGO Company launched five new products in the series featuring authentic space vehicles. The products are associated with the mission to Mars, and they herald a new working partnership with Discovery, the media and entertainment company.

In the fields of science and research, Discovery is a leading player on the global stage – and therefore a good partner for the series. One immediate result of the partnership is that LEGO products can be purchased on the Discovery.com website and also in Discovery stores throughout the United States.

The 39 LEGO MINDSTORMS Centres are located as shown below:



* (In Norway, a special arrangement has been made with the Norwegian Association of Civil Engineers, and the centres are run with the assistance of parent volunteers.)



3 million consumer contacts

LEGO Direct contact centres received inquiries from more than three million consumers worldwide in 2003. Inquiries are wide-ranging in nature – everything from ordering products via LEGO Shop-At-Home to inquiring about opening hours and prices at LEGOLAND parks, renewing lost LEGO bricks, ordering new building instructions, advice on the purchase of gifts, locating the nearest retailer who sells LEGO products, requests for membership of the LEGO Club, and reporting changes of address.

Movie licensing agreements

Licensing agreement with Warner Brothers renewed

LEGO Company's licensing agreement with Warner Brothers was renewed in spring 2003. This secures for LEGO Company the right to produce building sets for the two forthcoming Harry Potter™ films, due to première in world cinemas in June 2004 and November 2005 respectively.

A total of 15 LEGO Harry Potter products were launched in 2003, but sales have not lived up to expectations.

"The Prisoner of Azkaban" will reach cinema screens in 2004, and 10 new and classic Harry Potter products will be launched in this connection.

Three of the products are familiar classics. Hogwarts™ Castle and Hogwarts Express will be relaunched, and there will be a new, improved version of Hagrid's Hut.

Licensing agreement with SONY

Back in 2001, LEGO Company signed a licensing agreement with SONY. It secured the right to manufacture products for the Spider-Man™ movie, which premiered in 2002.

In 2002, two Spider-Man products were launched under LEGO Studios. In 2003, a further three products were marketed – now under the name of LEGO Spider-Man – and LEGO Company is also entitled under the agreement to manufacture products closely associated with the next Spider-Man movie, which will reach cinemas in July 2004.

Shortly before the première, seven new LEGO Spider-Man products will be launched – for the first time appealing to children as young as four years old.

Licensing agreement with Lucasfilm Ltd.

Ever since the first Star Wars™ movie hit the cinemas, this universe has enthralled millions of children and adults. In 1998, LEGO Company signed a licensing agreement with Lucasfilm Ltd., which for the time being will run until 2007. LEGO Company has already developed quite a number of products closely associated with the three classic Star Wars movies, and the two new ones: Episode 1 and 2.

In 2003, the company broke new ground by introducing a Star Wars mini collection, and in 2004, a number of classic products will be launched – including the X-Wing Fighter™.



People and Culture

People and Culture – together with brand-building and profitable growth – are one of LEGO Company's three primary strategic priorities.

LEGO Company is a values-based enterprise with a Global HR department whose responsibilities include getting the right people with the right skills into the right jobs – and supporting employees in developing their professional and technical skills sets.

LEGO Company must make a profit. At the same time, LEGO Company aims to be a fun – if challenging – place to work. A workplace which is able to attract, develop and hold on to employees who share the company's values.

Employee training

As already indicated, developing the skills of our employees is important to our company. Training and development activities within the company place the emphasis on practical and relevant assignments related to the individual's daily work. By giving employees new challenging assignments, we help them to expand their skills set as they solve the problems before them.

During 2003, individual development plans were prepared for approx. 1,500 salaried employees across the globe. The objective is to strengthen professional management skills – and, for example, provide a deeper commercial understanding.

Individual development plans are a natural part of the ongoing staff-training scheme, Performance Management Programme, introduced in 2000. The programme assists employees once a year – working individually or in teams and in consultation with their

immediate supervisor – to define goals for their own primary work situations. By means of these goals, the company's strategies are broken down into individual targets for individual employees.

At the same time, individual development plans lay out a clear-cut programme for furthering the employee's skills. In the process, the programme focuses on productivity and the ability to deliver convincing results to customers and consumers.

New Global Works Council

A Global Works Council was set up within LEGO Company in autumn 2003. The council has 17 members from many parts of the world, representing the company's activities in such areas as the Americas, Germany, France, Britain, Czech Republic, Australia, Switzerland and Denmark.

The aim of the new council is to ease day-to-day dialogue between management and employees in order to define and debate subjects relevant to the company, its employees and the corporate culture. The plan is for the new works council to meet annually immediately following publication of the annual report. In the intervening period, council members will collect input from their respective areas.

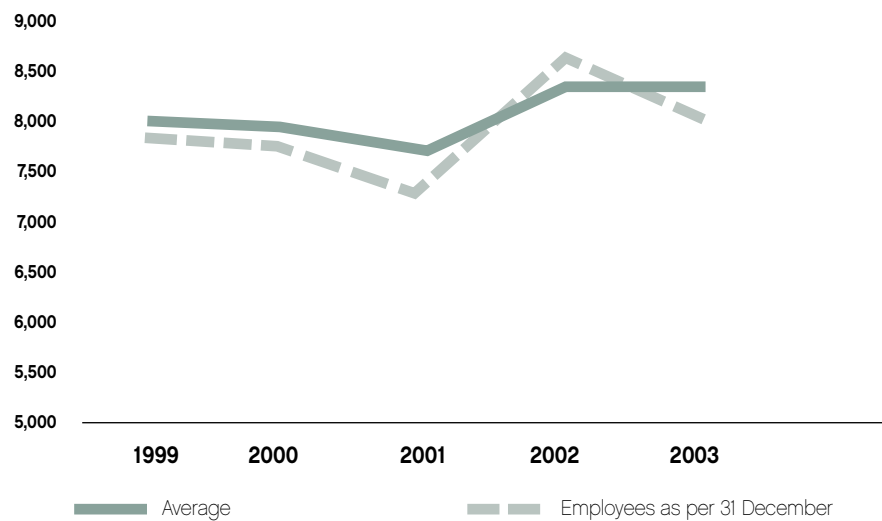
Special initiatives

Approx. 3 percent of all jobs within LEGO Company are posts subject to special terms. These are occupied by employees already working in the company who may need a lighter workload as well as by new employees hired directly into light or flexible jobs. Training and work-experience places are also part of this special jobs pool.





NUMBER OF FULL-TIME EMPLOYEES



LEGO Company invests an extra effort in this field to live up to the social responsibility resting upon a company with approx. 8,000 employees – of whom 3,000 work in Billund.

The company offers regular preventive measures to safeguard its employees against strain, injuries and other work-related ailments. For example, LEGO Company gives employees the opportunity to receive treatment free of charge at Falck Healthcare clinics with reflexology, physiotherapy, massage and chiropractor services. The company also has its own fitness centres in Billund and Enfield.

In March 2003, LEGO Company switched to an online booking system at the Falck Healthcare clinic. Since then, 1,623 employees have each received an average of eight sessions – a grand total of 12,984 sessions.

Under a special group insurance scheme, LEGO Company offers its Billund workforce a treatment guarantee at Mølholm Private Hospital. In 2003, 271 employees were treated at the private hospital; the corresponding figure the previous year was 234.

The company goes to considerable lengths to keep employees who are absent through long-term illness. Employees are offered a confidential health interview. Information from the interview is also used to improve general health and safety standards.

Many employees underwent a process of "job adjustment" in late 2003 in connection with a major round of job cuts. The process is an individual programme and can be used to assist the employee in submitting job applications and also to help individuals

in the new situation in which they find themselves.

Management talent

In addition to individual development plans, LEGO Company launched special initiatives in 2003 with a view to selecting employees from the pool of talent available within the company. Development of management talent is given high priority within the LEGO Company. This is partly because intensive development of the available talent mass will be a crucial element in securing the company's future. The company's talents

were comprehensively evaluated and tested in 2003. Prospective talents were assessed in the light of the special skills and behaviour patterns that indicate good management material for LEGO Company.

One area of special focus is female talent. There are currently too few women in the company's senior management. Only 10 percent of the 60 senior managerial posts in LEGO Company are currently held by women. Steps have, therefore, been taken to strengthen the prospects of the company's female talent mass.



LEGO minifigure celebrates 25 years



In 2003, it was 25 years since the first LEGO minifigure was introduced to the market. Since then, the little yellow figure has moved from success to success. Over the years, 3.7 billion figures have been manufactured in Billund – making the minifigure the largest “population group” in the world. Throughout its lifetime, the minifigure has been moulded exclusively in Billund, but the figures are decorated and assembled both in Billund and in Kladno, Czech Republic.

The invention of the minifigure opened up a whole new era for the LEGO product. The little figure brought new life to the LEGO universe and a new dimension to role-play. The minifigure presented an opportunity to create large play themes with storytelling features, and children were able to build medieval castles, populated by knights and maidens – and launch pirate ships crewed by real pirates complete with eye-patch, wooden leg and hook.

Although tiny in size, the minifigure is actually a technical wonder. Its hands can turn without falling off, and its arms and legs can be moved. Hair and headgear can be removed – without the head coming off at the neck. The minifigure naturally conforms with all LEGO system standards. Its body is the height of three LEGO bricks, its head the height of a single brick. The figure can hold a LEGO brick in its hand, and it can be fitted standing and sitting on other LEGO elements.

During its first many years, the minifigure had a happy, neutral appearance – but with the launch of LEGO pirates in 1989, the figure was permitted to portray good and evil, and be happy or grumpy. Since licensed products such as Harry Potter came on the market, the figure has appeared in various specific roles, and in one of the latest developments, the minifigure in LEGO Basketball has taken on an authentic skin colour – having previously been available only in one colour, yellow.



The Company's responsibility

New quality policy

Ever since it was founded in 1932, LEGO Company has focused on quality in everything it does. To LEGO Company, quality means product quality and ethical values of a high standard. We believe this helps to establish a relationship of trust between consumer and company.

The trust that the outside world displays towards LEGO Company has been achieved by refusing to compromise on quality – whether product quality or responsibility towards employees, customers, suppliers, consumers or the local environment.

LEGO Company leads on quality

One of LEGO Company's declared aims is to be the best in all areas of business in which the company participates. At a very minimum, play material from LEGO Company must satisfy all national and international toy standards. In practice, this means that all LEGO play materials must conform to the toughest regulations that exist anywhere.

Apart from official regulations, we aim to ensure that all LEGO products meet the expectations of quality and safety that consumers can reasonably demand of design, play patterns and foreseeable misuse.

As a further requirement, LEGO Company has opted to ensure that its products not only satisfy the standards for plastics used in making toys, but also the regulations that govern food packaging – plus meet a series of specific requirements for the properties of the raw materials.

The company has a development laboratory for plastics materials and a test laboratory in

Switzerland as well as its own quality and product safety laboratories in Denmark.

LEGO Company uses primarily ABS plastics in the manufacture of its products. This ABS material has been specially developed for our company and is not available to others. This has important consequences: for example, no other manufacturers are able to make products with the same unique clutch power, shine properties and colour stability as LEGO Company products possess. The company's laboratories continuously test our plastics to the extreme in order to improve resistance, for example, to bite marks and scratching.

All LEGO play materials carry the EU CE symbol. The symbol means that LEGO Company guarantees that the product complies with the European Toy Directive. Products manufactured for the American market must satisfy the Code of Federal Regulation and ASTM standard F963.

Thanks to its compliance with very high quality standards, LEGO Company had no product safety issues in 2003.

New toy directive

During 2003, the European trade organisation, Toy Industries of Europe (TIE), held talks with the EU Commission in connection with the latter's drafting of an amended European Toy Directive. LEGO Company is a member of both TIE and TIA (Toy Industries of America), and chairs the European committee for standardisation of toy safety. Through TIE and the European standardisation committee, CEN, LEGO Company is actively engaged in defining toy standards which can promote safety in the toy sector.

UN Global Compact

THE NINE PRINCIPLES:

Human Rights

- Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence; and
- make sure that they are not complicit in human rights abuses.

Labour Standards

- Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- the elimination of all forms of forced and compulsory labour;
- the effective abolition of child labour; and
- eliminate discrimination in respect of employment and occupation.

Environment

- Businesses should support a precautionary approach to environmental challenges;
- undertake initiatives to promote greater environmental responsibility; and
- encourage the development and diffusion of environmentally friendly technologies

In autumn 2003, LEGO Company began the task of charting and collecting documentation showing where it stands in relation to the nine principles of the Global Compact. The conclusions of this work will be applied in determining the areas on which the company should direct special focus – and the results will be published at regular intervals.

LEGO Company policy on quality

"In LEGO Company we aim to exceed our Consumers' expectations of our products, our services and of their experiences with the LEGO brand.

Quality is deeply founded in our fundamental beliefs, mission statement, strategic ambition and in our values. As the world leader in providing quality products and experiences world-wide – we focus on consumer perceived quality reflected in our products, services and communication.

We strive towards operational excellence in the way we develop, produce and deliver products and services, with focus on quality mindset and quality processes throughout our entire business.

Implementation of this policy is a shared responsibility for all LEGO employees".

LEGO Company's Code of Conduct extends to:

- Child labour
- Compensation and working hours
- Discrimination
- Coercion and harassment
- Forced and compulsory labour
- Health and safety
- Freedom of association
- Environment

Social commitment and responsible action

As the first toy manufacturer to join Kofi Annan's Global Compact initiative in 2003, LEGO Company was taking a natural next step in the process of social commitment that is so deeply rooted in the company. Adoption of the Global Compact also reflected a desire to behave decently and to assume a share of the responsibility for helping to solve the major issues facing the world in such areas as human rights, labour standards and the environment.

In this respect, the company wishes to make a contribution within its special field of competence, i.e. the child's right to play and learn through play.

LEGO Company's Code of Conduct

As early as 1997, the company drew up a set of guidelines – a Code of Conduct – outlining what it expected of itself and of its suppliers. The reason was that many countries regrettably fail to ensure compliance with the International Labour Organisation conventions. All suppliers are monitored by independent audit companies.

In several respects, LEGO Company's Code of Conduct is, therefore, more strict than the

general standard observed in many of our supplier countries.

Environmental responsibility

It is company policy that environmental considerations should be incorporated in all company activities, and that a continuous effort should be made to reduce the environmental impact of the company's activities and products.

LEGO Company will take the necessary environmental safeguards by, for example, introducing environmental management in all areas – and at all levels – of the company. The company will seek by these means to adopt a uniform global environmental standard for all of its activities. It was decided in 2002 that LEGO Company should work towards ISO 14001 certification within the next few years.

The process of describing the company's environmental activities commenced in 2003 and is expected to be completed in spring 2004.

Much more information about LEGO Company's quality and environmental policy can be found on our website: www.LEGO.com



Quality

LEGO products – regardless of which part of the world they are made in – must be suitable for sale on any market. For this reason, all products must satisfy all safety requirements. Our requirements with regard to product safety are therefore equal to the strictest external standards applying anywhere in the world.

Royal visit

All visitors to a LEGOLAND park are prominent guests. But there are some visitors who attract more media attention than others. This is the case, for example, with royal guests who visited our parks in 2003.

In June, Queen Elizabeth and Prince Philip toured LEGOLAND Windsor, a close neighbour of the royal couple's Windsor Castle. The British royal family made a tour of many tourist attractions in

support of the tourism industry in difficult times. LEGOLAND Windsor was one of the stops on the royal tour – and it happened on Prince Philip's birthday.

At LEGOLAND Deutschland Princess Benedikte – Danish princess married to German Prince Richard – inaugurated the special Danish Days event in summer 2003.

Princess Benedikte also visited Billund for the annual meeting of the World Scouts Organisation, and she toured LEGOLAND Billund accompanied by the Swedish royals, King Carl XVI Gustaf and Queen Silvia.



Risk Factors

As a business enterprise, LEGO Company must cope with a number of risk factors. These can be grouped into two risk categories: commercial and financial. A brief description is given below of the main risk factors and how they affect the company's earnings. They are not listed in order of priority.

COMMERCIAL RISKS

Consumer demand / Product development

The company's sales will always depend on whether consumers find its products attractive. Consumer demand is changing more rapidly, is becoming more difficult to predict, and at the same time has become more subject to changing fashion – and as a rule this means that some products have a shorter life-cycle. In addition, the company's sales are highly seasonal – more than half of the annual sales take place in the period September-December. This imposes great demands on the company's ability to develop and adapt its products – and, of course, it is vitally important to be able to satisfy customer wishes during the peak season.

Customers

The trend towards fewer and larger units in the retail trade continues. And LEGO Company too has to concentrate its sales on fewer, but larger customers. For LEGO Company, this can mean increased risk in the event of customer bankruptcies, etc. But it also strengthens the customer's negotiating position in discussions on prices and shelf space. To ensure that LEGO products and – especially – LEGO values are marketed in the best possible way, the strategy of setting up LEGO Brand Stores was maintained in 2003.

Market position

For many years, LEGO Company has been the leading manufacturer on the market for construction toys, with few attempts by competitors to break into the market. This has changed in recent years, with several competitors launching construction toys or products which may be regarded as copies of LEGO products.

The company continues to try to secure its market position by various means: upholding patents and rights, keeping an eye on

competitors' copying of LEGO products, and harnessing the LEGO name and the goodwill that flows from it.

Corporate strategy

The year's result may be seen as the result of an unsuccessful growth strategy, which brought about a decision late 2003 to reorganise the company's management and prepare a revised business strategy. This process is also designed to shift the focus back to the core business and adjust the organisation accordingly.

FINANCIAL RISKS

Financial risks are managed centrally by Global Treasury in accordance with the finance policy, which is decided by the Board of Directors and lays down guidelines for the group's risk profile. The finance policy helps underpin the company's strategy plans.

Currencies

The company's basic currency is DKK, and its most exposed activities relate to USD, EUR, CHF and JPY.

An attempt is made to minimise risks by maintaining a natural match between incoming and outgoing payments in the same currency. Where risks cannot be covered by a natural match, the company resorts to forward contracts and currency options in order to keep currency risks at a minimum.

Engaging in foreign-currency hedging is done for purely commercial reasons. It is not company policy to cover all risks relating to net investments in foreign companies.

Interest

Interest represents a risk to LEGO Company in that it is vulnerable to interest fluctuation relating to its financing arrangements, which are made up of long-term, fixed-interest debt and current, variable-interest liabilities. Every

effort is made to minimise the risk by maintaining a natural match between the debt and fixed and current assets respectively. In addition, risks are covered by means of interest swaps and options.

Credit

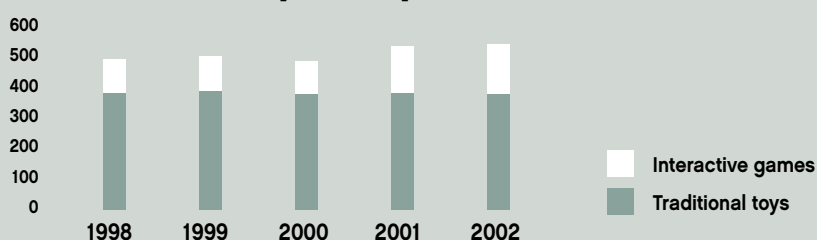
Credit risks arise from the ability of financial partners and customers to honour their commitments.

The company seeks to limit risks in relation to its financial partners by choosing only partners with a high credit rating and by spreading the commitment among several partners. To minimise the risk of losses from bad debts, the company implemented a global credit-insurance programme in 2002 and stepped up its monitoring of receivables.

Liquidity

The company's liquidity risk involves having adequate operating liquidity at all times. This is achieved by focusing constantly on the need to optimise cash flows and ensuring the availability of adequate drawing rights with banks – partly by setting up internal bank and cash-pool schemes. The company also pursues a continuous process of adjusting the balance sheet with a view to strengthening its credit standing and reducing the need for operating capital.

GLOBAL TOY MARKET [M. DKK]



Accounts 2003

FINANCIAL HIGHLIGHTS [M. DKK]

	2003	2002	2001	2000	1999
Income Statement					
Net sales	8,433	11,426	10,670	9,467	9,808
Earnings before financial items and tax	(1,484)	820	700	(989)	708
Earnings before tax	(1,432)	626	532	(1,190)	516
Net earnings	(1,072)	428	433	(916)	273
Balance Sheet					
Assets	9,646	12,144	13,683	12,280	12,933
Equity	5,249	6,952	6,803	6,283	6,856
Cash Flow Statement					
Cash flow from operating activities	884	1,989	874	(142)	419
Investment in tangible fixed assets	(673)	(1,253)	(1,453)	(1,156)	(942)
Total net cash flow	(16)	(289)	771	(1,375)	84
Financial ratios in %					
Operating margin	(176)	73	66	(104)	72
Net earnings margin	(127)	37	41	(97)	28
Return on equity (ROE)	(176)	62	66	(139)	43
Equity ratio	544	572	497	512	530
Return on investment	(154)	68	51	(81)	55
Employees					
Average number (full time)	8,278	8,297	7,641	7,880	8,190

Accounting policies

The Annual Accounts have been prepared in accordance with the provisions of the Danish Financial Statements Act. Furthermore LEGO Company aim at applying international accounting standards re recognition and measurement. Accounting policies applied are consistent with prior years.

Unrealized and realized currency gains and losses are recognized in the income statement as financial items. Previously these currency gains and losses have been recognized in Other operating cost. Comparative figures have been adjusted accordingly.

The following accounts are an extract of the audited accounts.



RATIOS

Operating margin: $\frac{\text{Earnings before financial items and tax} \times 100}{\text{Net sales}}$

Net earnings margin: $\frac{\text{Net earnings} \times 100}{\text{Net sales}}$

Return on equity:

$\frac{\text{Net earnings} \times 100}{\text{Average shareholder equity}}$

Equity ratio:

$\frac{\text{Shareholder equity} \times 100}{\text{Total equity and liabilities}}$

Return on investment: $\frac{\text{Earnings before financial items and tax} \times 100}{\text{Total assets}}$



Accounts 2003

ACCOUNTS 2003

2003 was an extremely unsatisfactory year for LEGO Company:

- Net sales fell by DKK 2,993m (26 percent) to DKK 8,433m
- Pre-tax loss amounted to DKK 1,432m compared with pre-tax profit of DKK 626m in 2002.
- Equity now totals DKK 5,249m, reducing equity ratio to 54.4 percent.

The unsatisfactory result, however, has not yet had a negative effect on free cash flow thanks to significant reductions in inventories and receivables.

Income statement

The result for the year was a loss of DKK 1,072m compared with a profit of DKK 428m the previous year. The cause was primarily a decline in sales combined with a falling contribution ratio and a cost level which could not readily be adjusted to the lower level of sales. The recommendation is to distribute the result of the year with DKK 75m on dividend and forward DKK -1,147m.

Gross profit

The decline in net sales for the year from DKK 11,426m to DKK 8,433m was a continuation of the trend that began in late 2002. The negative development persisted throughout

the year on all markets, especially in the Americas and Asia/Pacific, where the drop in net sales was approx. 35 percent and approx. 30 percent respectively. The situation was aggravated by an unfavourable movement in currency rates, particularly the US dollar, which fell by approx. 16 percent during 2003 – of which 12 percent was during the period September to December, coinciding with LEGO Company's main sales season.

The contribution ratio fell as a result of higher discounts, including the clearing of inventories at favourable prices and a higher-than-usual write-off on inventories.

Costs

The general level of costs was similar to that of the previous year, which in reality reflects a positive result of the actual cost adjustments made early in the year. The saving in costs was offset, however, by an amount of DKK 450m in non-recurring costs, including provisions and write downs in accordance with the current strategy work resolved by Management late 2003.

Financial items

Financial items were significantly affected in 2003 by substantial currency-exchange profits, primarily associated with forward contracts in US dollars.

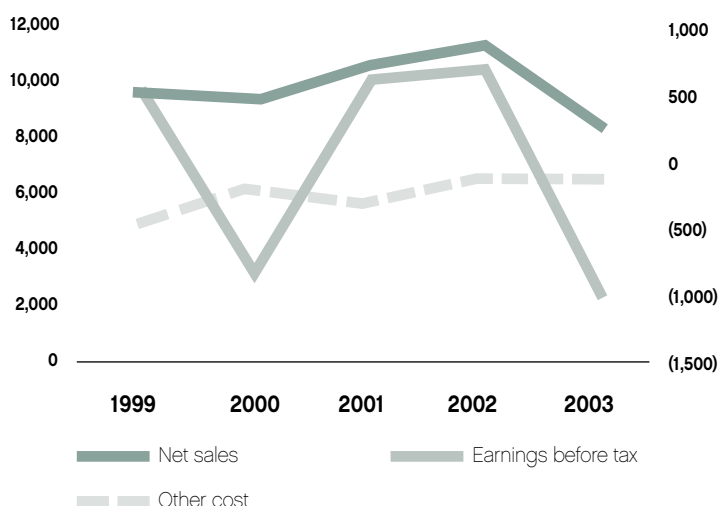
Forward contracts set up on the basis of expected currency flows combined with disappointing sales in USD resulted in a number of the USD forward contracts remaining unused. As the purpose of currency hedging is exclusively of a commercial nature, unused contracts of this type – on expiry – are shown as income in accordance with LEGO Company's accounting policy.

Net interest charges fell compared with 2002 as a consequence of generally lower interest rates – but also as a result of intensive efforts to optimise available liquidity.

Tax

The effective rate of tax for the year rose by 4 percentage point to 28 percent compared with 2002. The increase was largely due to the fact that a large proportion of the loss stemmed from countries with relatively high tax rates.

NET SALES/OTHER COST/EARNINGS BEFORE TAX [M. DKK]



Trademark costs

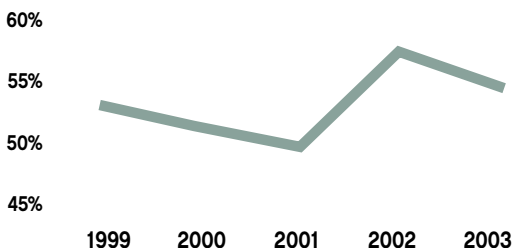
Trademark costs totalled DKK 133m relating mainly to trademark licensing agreements with associated companies within the KIRKBI Group.

Balance sheet

During the year under review a constant effort was made to adjust the consolidated balance with a view to strengthening/maintaining the equity ratio. Total assets were reduced by DKK 2.5bn or 20 percent, due chiefly to the following factors:

- Fewer funds were tied up in working capital
- Decline in exchange rates for assets in foreign currencies
- Greater focus on the use of internal banking and cash-pool schemes

EQUITY RATIO



Cash invested in inventories and receivables was reduced by almost DKK 16bn due to increased focus and the general decline in sales.

Equity fell from DKK 6,952m to DKK 5,249m, representing an equity ratio of 54.4 percent reflecting a decrease of 2.8 percentage-points. Had it not been for the above-mentioned efforts to adjust the balance sheet, equity would have been several percentage points higher.

Apart from the result for the year, equity is significantly affected by negative currency adjustments on net investments in foreign subsidiaries and the payment of DKK 223m in dividend.

Cash flow

Despite the negative result, the company was successful in realising a very satisfactory cash-flow situation. Cash flow for the year was thus DKK 273m better than in 2002. Before repayments on long-term debt, however, cash flow was DKK 635m less than in 2002.

The relatively healthy cash-flow situation in relation to 2002 is attributable to substantially reduced financial commitments in the form of inventories on hand and receivables – but an additional factor was a sharp reduction in investments. The lower commitment to inventories and receivables improved the year's cash flow by DKK 1,584m.

In 2003, the year's net investments totalled DKK 613m compared with approximately twice that figure in 2002. A reduction resulting from economies and the fact that – as opposed to 2002 – no new LEGOLAND parks were opened during the year.

Dividends of DKK 223m were declared and paid during the year, bringing cash flows before repayments on long-term debt to DKK 32m.

CASH FLOW BEFORE CHANGES IN LONG TERM LIABILITIES [M. DKK]

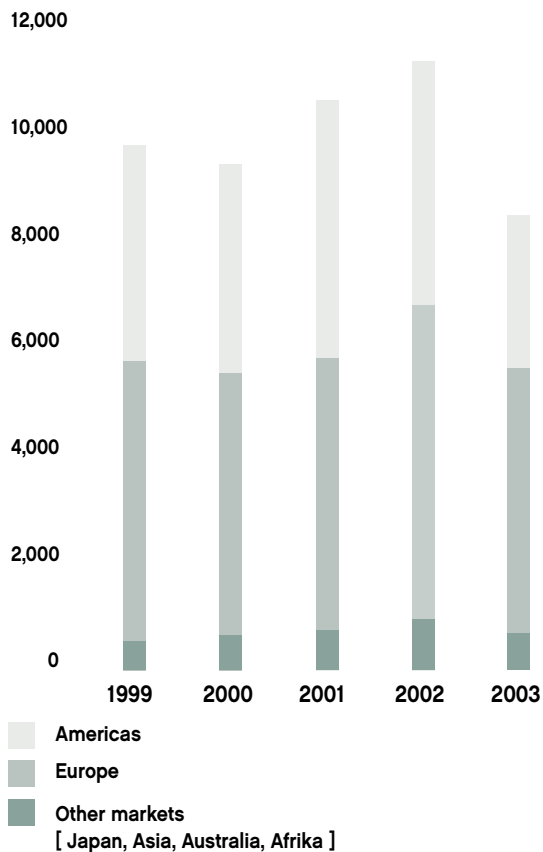


Accounts 2003

INCOME STATEMENT

[M. DKK]	2003	%	2002	%
Net sales	8,433	100	11,426	100
Production cost	(3,624)	(43)	(3,961)	(35)
Gross profit	4,809	57	7,465	65
Other cost	(6,293)	(75)	(6,645)	(58)
<i>Earnings before financial items and tax</i>	<i>(1,484)</i>	<i>(18)</i>	<i>820</i>	<i>7</i>
Financial items	52	1	(194)	(1)
<i>Earnings before tax</i>	<i>(1,432)</i>	<i>(17)</i>	<i>626</i>	<i>6</i>
Tax	360	4	(198)	(2)
Net earnings	(1,072)	(13)	428	4

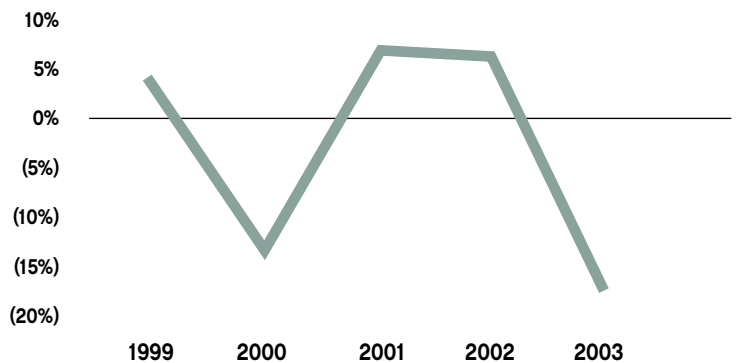
NET SALES [M. DKK]



BALANCE SHEET

[M. DKK]	2003	%	2002	%
Assets				
Fixed assets	5,772	60%	6,705	55%
Deferred tax asset	588	6%	257	2%
Inventories	831	9%	1,510	13%
Trade receivables	1,744	18%	2,319	19%
Other current assets	711	7%	1,353	11%
Total assets	9,646	100%	12,144	100%
Liabilities				
Equity	5,249	54%	6,952	57%
Deferred tax	101	1%	223	2%
Other provisions	460	5%	158	1%
Long term liabilities	1,840	19%	2,113	18%
Short term liabilities	1,996	21%	2,698	22%
Total liabilities	9,646	100%	12,144	100%

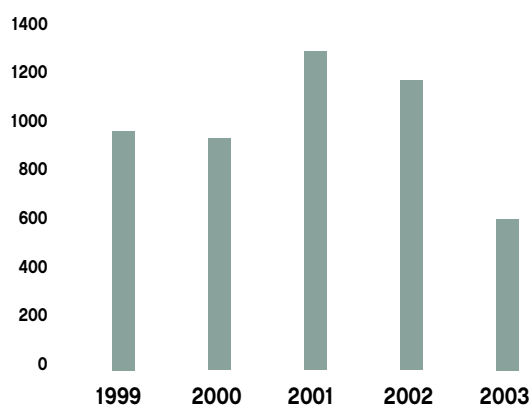
RETURN ON EQUITY



CASH FLOW STATEMENT

[M. DKK]	2003	2002
Earnings before tax	(1,432)	626
Depreciations and write downs	1,113	944
Change in working capital	1,150	343
Change in provisions, etc.	53	76
<i>Cash flow from operating activities</i>	<i>884</i>	<i>1,989</i>
Investments in tangible fixed assets	(673)	(1,253)
Proceeds from sale of fixed assets	60	64
<i>Cash flow from investing activities</i>	<i>(613)</i>	<i>(1,189)</i>
Dividend paid	(223)	(150)
Capital contribution	(16)	17
Change in long term liabilities	(48)	(956)
<i>Cash flow from financing activities</i>	<i>(287)</i>	<i>(1,089)</i>
Net cash flows	(16)	(289)

NET INVESTMENTS [M. DKK]



NOTES

FINANCIAL ITEMS [M. DKK]	2003	2002
Interest income from affiliated companies	3	12
Other interest income	47	22
Net currency gains and other similar income	235	10
<i>Total financial income</i>	<i>285</i>	<i>44</i>
Interest expenses to affiliated companies	(28)	(71)
Other interest and similar expenses	(205)	(167)
<i>Total financial expenses</i>	<i>(233)</i>	<i>(238)</i>
Financial items, net	52	(194)

TAX [M. DKK]	2003	2002
Current tax for the year	(82)	(128)
Deferred tax for the year	453	(63)
Other taxes, exchange adjustments, etc.	(19)	3
Adjustment of tax for previous years	8	(10)
Total tax for the year	360	(198)

Reconciliation between the Danish statutory corporation tax rate and LEGO Company's effective tax rate:

Statutory corporation tax rate in Denmark	30%	30%
Earnings before tax	(1,432)	626
Permanent differences	50	80
Losses where deferred tax assets have not been capitalised / used:		
Parks	(48)	168
Sales entities	90	(70)
Adjusted earnings	(1,340)	804
Income tax for the year	371	(191)
Effective tax rate, LEGO Company	28%	24%



Accounts 2003

NOTES

FIXED ASSETS [M. DKK]

	Land and buildings	Other fixed assets
Cost at 1 January	5,959	7,126
Exchange adjustment	(394)	(373)
Additions	66	607
Disposals	(15)	(402)
Transfers	5	(5)
<i>Cost at 31 December</i>	<i>5,621</i>	<i>6,953</i>
Depr. and write downs at 1 January	1,928	4,452
Exchange adjustment 1 January	(123)	(246)
Depreciation	193	748
Write downs	172	
Depreciation on disposals	(15)	(307)
Transfers		
<i>Depr. and write downs at 31 December</i>	<i>2,155</i>	<i>4,647</i>
Net book value 31 December	3,466	2,306

EQUITY [M. DKK]

	2003	2002
Balance at 1 January	6,952	6,803
Capital contribution	(16)	17
Paid dividend	(223)	(150)
Exchange rate adjustment of foreign subsidiary undertakings, etc.	(305)	(219)
Effect from cash flow hedges on future sales and purchases in foreign currency	(87)	98
Effect from other derivatives		(25)
Net earnings for the year	(1,072)	428
Balance at 31 December	5,249	6,952

LONG TERM LIABILITIES [M. DKK]

	Total liability	Due within one year	Due after more than 5 years
Affiliated entities	263	87	0
Banks and other credit institutions	1,776	112	0
	2,039	199	0

COMMITMENTS AND CONTINGENT LIABILITIES [M. DKK]

	2003	2002
Guarantees	1	1
Operating leasing commitments	850	499
Other commitments	126	183
	977	683

LEGO Company has hedged foreign exchange exposure for an amount of 1,792m DKK. In accordance with applied accounting principles, the unrealised gains at the balance sheet date, have been charged to either the income statement or to equity, depending on the related transactions. At 31 December 2003 unrealised gains of 88m DKK have been charged to the income statement, and unrealised gains of 20m DKK to equity.

LEGO Company has entered into loan agreements in the amount of 1,005m DKK (135m EUR) and 596m DKK (100m USD), which contains a number of different regulations relating to information, change of business, disposals, environment, new loans as well as financial condition requirements that, if not complied with, will result in default of the loan.

Currently LEGO Company is in dialogue with the Swiss authorities in relation to documentation of export from Switzerland. Furthermore LEGO Company is in process of rectifying invoices regarding cost sharing between LEGO Schweiz AG and LEGO System A/S. The issues relate to if the customs documents and invoices for the years 1999-2003 are in line with the strict formal requirements to be VAT exempted in Switzerland.

LEGO Company has entered into leases and contracts with a number of landlords and suppliers. The contracts do not imply any unusual commitments in the normal course of business.

TOP FIVE PRODUCT CATEGORIES IN 2003



Sales by product categories:

TOP FIVE

1. BIONICLE
2. LEGO Sports
3. LEGO *Star Wars*
4. LEGO Racers
5. LEGO Creator



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The LEGO Company comprises LEGO companies owned by the Kirk Kristiansen Family and to a minority extent by the LEGO Foundation. The accounting information shown here for the LEGO Company is therefore not the accounts of a separate legal entity but is the consolidated accounts of the above group of companies, prepared as if these companies were a group.

Annual Report 2003 is published for LEGO Company by Corporate Communications.

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