The LEGO Group

Annual Report 2020

Annual Report 2020

CVR no: 54 56 25 19

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

Letter from the CEO

I am proud of the agility, resilience and dedication of all our colleagues who kept the world playing during 2020 and helped to achieve these very strong results.

As I look back over 2020 for the LEGO Group I am filled with pride, humility and gratitude. Proud of the extraordinary agility and resilience of our colleagues who kept the world playing during the pandemic. Humble that millions of families around the world turned to LEGO® play to help them get through a challenging time. And grateful to be part of a family-owned company who supports those most in need, while continuing to build a sustainable business set to thrive for generations.

While the pandemic changed almost every aspect of how we live and work, the one constant was our team's focus on bringing the power of Learning through Play to children and families. This dedication contributed to very strong financial performance in 2020, with double-digit top and bottom line growth. We are very pleased with these results and I would like to thank everyone in the LEGO Group, who contributed to this success. The passion and dedication of all our LEGO colleagues is inspiring and they responded to extraordinary challenges in ways we couldn't have imagined.

Benefits from long-term investments

The strong momentum we saw in 2020 was also the product of a focused, long-term and strategic investment programme. For the past two years, the LEGO Group has stepped up investments in driving long-term growth – through innovating play, building the LEGO brand, innovating the retail ecosystem and expanding into new markets to reach more children around the world.

In 2020, we saw early benefits of these investments. A strong, diverse portfolio attracted builders of all ages. The launch of LEGO® Super Mario™ introduced an entirely new way to play and was one of our most successful new themes. Our global brand campaign 'Rebuild the World' resonated with families everywhere. Investments in our e-commerce platforms allowed fans to continue to shop while stores closed. And we reached more children in China through opening 91 new stores and launching LEGO® Monkie Kid™, the first theme inspired by a local legend.

Our contribution to society & the planet

As the pandemic paused millions of children's education, closed down communities and disrupted supply chains we worked to support those most in need. We brought Learning through Play to homes around the world through our digital campaign #LetsBuildTogether. With the LEGO Foundation we donated funds to support COVID-19 relief in local communities. And we repurposed our factories to make visors for frontline health professionals.

We also stepped up our efforts to have a positive impact on the environment and society our children will inherit. We announced our plans to invest up to USD 400 million (DKK 2.6 billion) over three years to accelerate our environmental and social responsibility initiatives. Our latest move, trialling the replacement of single-use plastic bags in our products with paper, was inspired in part by letters from hundreds of children.

We take these letters seriously and read and respond to each one. That's because we look to children as our role models. Their creativity has driven us for more than eighty years – and continues to do so. It is also what drives us to invest and grow to ensure we can continue to inspire and develop the builders of tomorrow for generations to come.

Niels B. Christiansen
CEO, the LEGO Group

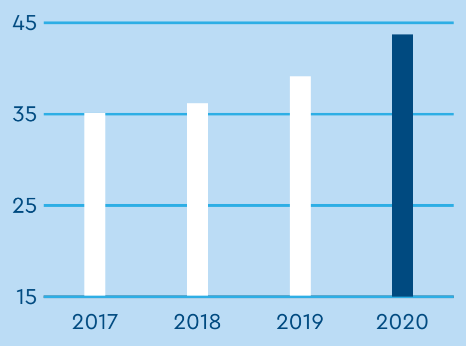
2020 Performance Snapshot

The LEGO Group is very pleased with the progress made during 2020 to deliver long-term sustainable growth. We are very satisfied with our results in 2020. Revenue, operating profit and consumer sales all grew double-digits. We leveraged our strong financial foundation to continue to make strategic investments in areas such as product innovation, our retail network and brand to support growth in the long term.

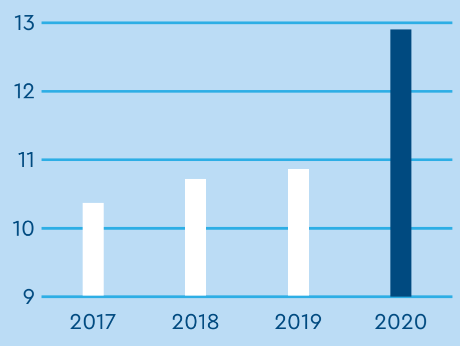
High-performing Themes

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

Revenue
DKK 43.7 billion



Operating Profit
DKK 12.9 billion



Cash Flow from Operations DKK billion

13.4

Revenue growth

13%

Operating profit growth

19%

Return on Invested Capital

75.3%

Our contribution to the planet and society

Our 'Planet Promise' is a commitment to have a positive impact on the world and society children will inherit. In 2020, we made progress against this promise, as well as announcing up to USD 400 million (DKK 2.6 billion) investment to accelerate sustainability efforts.

Environment

LEGO® Replay is a simple way to donate pre-loved LEGO bricks to children in need. After a successful launch in the US in 2019, we expanded the programme to Canada in 2020.

119,000 kg of LEGO bricks have been donated so far, reaching over

54,000

children in need of play.

100%

balanced by renewable energy.

We began trialling **paper bags to replace single-use plastic bags** in our products.

COVID-19 response

As the COVID-19 pandemic paused millions of children's education, closed down communities and disrupted supply chains we worked to support those most in need.

500,000 visors for healthcare workers made in three LEGO® factories.

1.2 million sets donated to children in need of play.

35,000 sets donated to frontline healthcare workers in the UK.

#LetsBuildTogether campaign engaged with children and families.

With the LEGO Foundation we donated funds to support COVID-19 relief in **local communities**.

Learning through Play

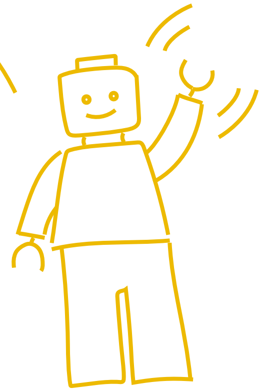
We believe that all children should have access to play, which helps them develop life-long skills.

25%

of profit goes to the LEGO Foundation. The LEGO Foundation brings Learning through Play to children in need, including refugees and those in underprivileged communities.

3.2 m

children reached across 28 countries through local community engagement, Learning through Play programmes, partnerships and Build to Give, a holiday giving campaign.



Strategic Overview

Building a brighter future
We believe in the power of play to shape a child's future. Through play, children learn skills that will help them succeed in an uncertain world. Skills such as problem solving, communication, creativity, collaboration and resilience.

As we look to the future, change is accelerating. Children starting education today will enter a workforce many of us may not recognise. The skills that will be in demand are ones that they can start building now through play. In a study we conducted in 2020 with more than 18,000 parents in 18 countries, parents rated play as being as important as homework to their child's future success and well-being[1].

Play also has the power to unite. In the same study, around 90% of respondents said that play helped to bring the family together and remain emotionally healthy, especially during the past year[2].

It's these life-long benefits that inspire our ambition to bring LEGO® play to more children and families around the world. An ambition supported by focused, long-term investment efforts designed to ensure that the LEGO Group is also well prepared to inspire children for generations to come.

Innovating play
One of the LEGO Group's top-selling products in 2020 was a LEGO Classic box of bricks. This proves the enduring popularity of the brick and the endless opportunities to build, unbuild and rebuild that offers. Just six two-by-four LEGO bricks of the same colour offer 915,103,765 different possibilities.

1 According to the LEGO Play Well Study 2020, parents see play (44%) as being as important as homework (43%) to their child's future success and well-being.

2 According to the LEGO Play Well Study 2020, during the COVID-19 pandemic, play is important to help the whole family stay entertained (91%) and emotionally healthy (88%).

The LEGO® brick will always be at the heart of our business. Each year, around 55% of our portfolio is new. Our talented designers configure LEGO elements in ingenious and fun ways to inspire creativity and storytelling.

However, this generation of children are growing up in a digital world and see no difference between digital and physical play. This offers us a fantastic opportunity to blend the two.

In 2020, we launched LEGO® Super Mario™, which features embedded technology to inspire new ways to play. It was one of our most successful product launches. We also relaunched LEGO® MINDSTORMS® to make robotics even more accessible for children. And we saw high levels of engagement in our digital play ecosystem. There were 5.3 million downloads of our LEGO Building Instructions app and 5.9 million downloads of our safe digital app LEGO Life, which expands play and storytelling possibilities in safe, fun ways.

Strong, purpose-driven brand

During 2020, we continued to invest in building our LEGO brand to connect with more parents and children. A strong brand purpose has never been more important. Our global brand campaign, Rebuild the World, showcased the endless possibilities of building and rebuilding, and successfully attracted new builders to LEGO play. We entered product partnerships with brands such as adidas, IKEA® and Levi's® which share our passion for creativity and self-expression. We also signed agreements for long-term collaborations with Universal Pictures and Universal Music Group to tell stories and create unique experiences which will engage and inspire builders of all ages.

We will continue to invest in innovative ways to blend the power of physical play with the digital world.

Great retail experiences

2020 marked a tipping point in the retail industry. The shift to e-commerce accelerated as stores were temporarily closed during COVID-19 lockdowns. A multi-year investment effort to upgrade our own e-commerce platform allowed us to support the 269 million visits to LEGO.com – almost double the number from 2019. We also supported our retail partners through improved e-commerce capabilities.

Despite this shift, our shoppers and fans continue to seek unique, memorable and immersive brand experiences in-store. We have embarked on an ambitious branded store development programme. During 2020, we opened 134 new LEGO branded stores worldwide, 91 in China including two flagship stores, taking the total number of LEGO stores worldwide to 678.

We will continue to accelerate investment in our retail ecosystem to create great LEGO brand experiences for our shoppers and fans online and in-store.

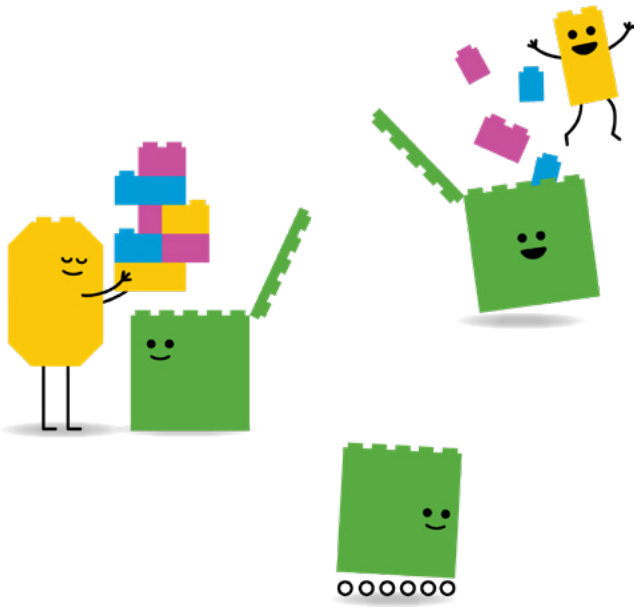
Inspiring children in China

China continues to be a strategic growth market for the LEGO Group. During 2020, in addition to opening new stores, we expanded our portfolio and developed our local retail ecosystem to connect with Chinese shoppers and children.

We launched LEGO® Monkie Kid™, a new theme inspired by the Chinese legend, Journey to the West, which became one of the top-selling themes in China and across Asia Pacific. We also launched a LEGO Brand store on the popular e-commerce platform T-Mall, where we have attracted more than one million followers.

LEGO® Monkie Kid™ is the first ever Chinese-inspired LEGO theme

As part of the Rebuild the World campaign, a giant globe made from over 350,000 LEGO bricks and elements was installed in LEGO House and featured hundreds of builds by kids in lockdown



Building a sustainable future

Each year the LEGO Group sets ambitious environmental and social targets to create a better world for children. In 2020, despite the impact of the pandemic, we continued to make progress against our targets. In addition, we announced an investment of up to USD 400 million (DKK 2.6 billion) to accelerate our environmental and social responsibility initiatives. These funds will be spent over three years to create more sustainable products and packaging, to achieve zero waste and carbon neutral operations, and to inspire children through Learning through Play. Combined with the many initiatives already in progress at the LEGO Group, we've set goals that will help secure a better future for **children**, the **environment**, and **people** around the world.

Environment: We are trialling recyclable paper bags as a replacement for the single-use plastic bags currently used to hold loose bricks in our LEGO® sets. This is a significant step towards achieving our aim to make our packaging 100% sustainable by 2025. We also continue to be balanced by renewable energy and are on track to achieve carbon-neutral manufacturing operations by 2022.

LEGO Replay launched in the United States in 2019 and Canada in 2020. LEGO Replay is a simple way to donate pre-loved LEGO bricks to children's non-profits in both countries. We have joined with the Ellen MacArthur Foundation Network to share ideas and drive the global transition to a circular economy.

We will continue our efforts to create new sustainable materials and expand our use of bio-based bricks, such as those made from sugar cane.

Children: In 2020, we reached 3.2 million children through a range of activities in collaboration with partners and the LEGO Foundation and our annual Build to Give holiday programme. We aim to reach eight million a year by the end of 2022.

We fundamentally believe in children's right to safe play – whether it's physical play or online. This underpins our ambition to set the standard for responsible engagement with children. During 2020, we launched a series of 'Build and Talk' campaigns designed to help parents talk to children about how to be a responsible digital citizen and stay safe online.

People: Our aim is to ensure the rights and well-being of everyone involved in making LEGO products – from our suppliers to our own employees.

We collaborate closely with our suppliers to ensure they uphold our Responsible Business Principles. And in our workplaces take steps to create a family friendly environment. In 2020, we announced plans to extend parental leave globally, which will provide all employees a minimum 26 weeks paid childcare leave for the primary caregiver and eight weeks paid childcare leave for the secondary one. We also introduced four weeks of caregiver leave to make it easier for LEGO employees to take care of loved ones.

You can read more about our sustainability efforts in our Sustainability Progress 2020 report or visit: LEGO.com/AboutUs/Sustainability

Grateful for dedicated colleagues

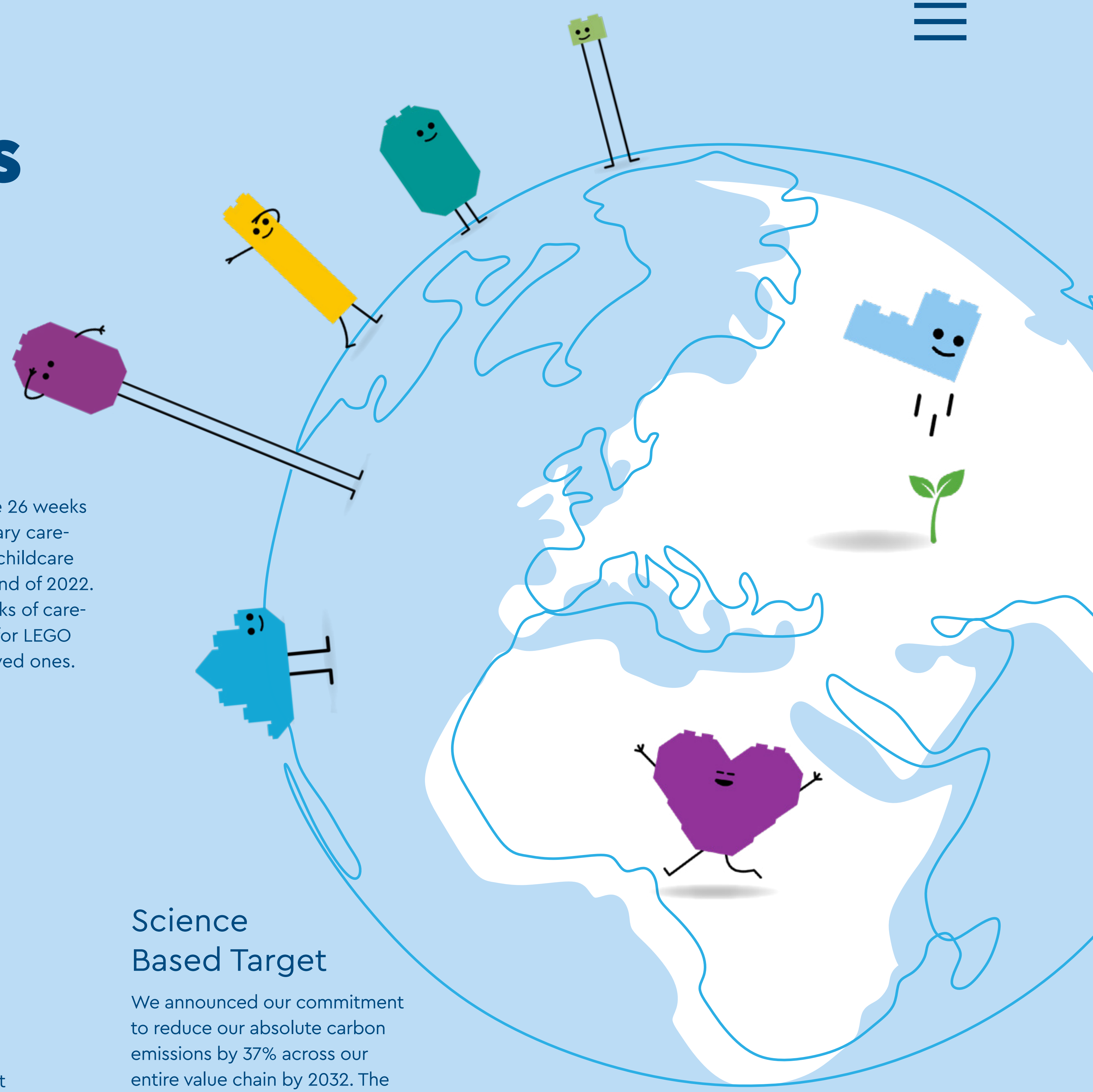
The reason that the LEGO Group was able to achieve such strong results in 2020 was due to the extraordinary response from our colleagues. The dedication, focus and resilience in the face of so many unexpected challenges has been inspiring.

We also closely tracked colleagues' engagement during the year. Despite the challenges of the pandemic, colleagues' motivation and satisfaction was extremely high – above 2019 levels and amongst the strongest of all companies tracked by external partner, Ennova. We will continue to take steps to ensure the health and safety of all colleagues working in our offices, factories and stores and provide well-being support for those people who have been working from home for extended periods. We have provided employees with access to health and well-being support services. In December 2020, all employees received a well-being payment of DKK 10,000 no matter their role or location.

We are grateful for everything our colleagues have done in an unprecedented year to continue to inspire and develop the builders of tomorrow.

We began trialling paper bags to replace single-use plastic bags in our products

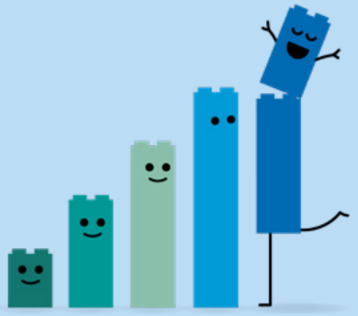
2020 Sustainability Highlights



400m

USD 400 million investment in sustainability efforts

We announced our plans to invest up to USD 400 million (DKK 2.6 billion) over three years to accelerate our environmental and social responsibility initiatives.



COVID-19 response

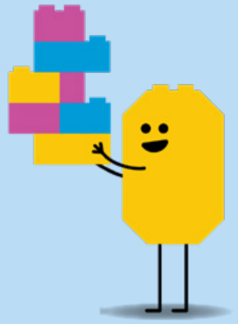
With the LEGO Foundation, we donated funds to support COVID-19 relief in local communities.

Inclusive workplace

All LEGO employees will have 26 weeks paid childcare leave for primary caregivers and eight weeks paid childcare leave for secondary one by end of 2022. We also introduced four weeks of caregiver leave to make it easier for LEGO employees to take care of loved ones.

More sustainable packaging

To achieve our target of 100% sustainable packaging by 2025, we've tested several prototypes to replace single-use plastic bags in our LEGO® boxes. From early 2021, we start trialling recyclable paper bags in the boxes.



Digital safety and well-being

We launched a series of creative challenges that offer parents a guided way to talk with their children about being a responsible digital citizen and the importance of online safety reaching over 55 million families.

UN Women

We signed the UN Women's Empowerment Principles reaffirming our commitment to being an organization that empowers women and works to inspire all children.

Science Based Target

We announced our commitment to reduce our absolute carbon emissions by 37% across our entire value chain by 2032. The target has been approved by the Science Based Targets initiative.

2020 Financial Review

Summary
Overall, 2020 was a very satisfactory year for the LEGO Group. The company achieved double-digit revenue, consumer sales and profit growth during the challenges of the COVID-19 pandemic. It also continued to make significant investments in strategic initiatives designed to drive long-term growth.

The LEGO Group's main activity is the development, production, marketing and sale of play materials. It operates in the traditional toy market, which grew 10.4%[1] in 2020 in part due to demand driven by families having to stay home to prevent the global spread of COVID-19 virus. The LEGO Group consumer sales growth of 21% outpaced this industry's growth based on a strong and diverse portfolio, resilient supply chain and robust e-commerce platform.

Revenue
Revenue for the full year was ahead of expectations and increased by 13% to DKK 43.7 billion compared with DKK 38.5 billion in 2019. Excluding the impact of foreign currency exchange, revenue for the full year increased by 16% compared with 2019. The LEGO Group's revenue was driven by double-digit growth in all major markets.

Expenses, Tax & Profit
Operating profit grew 19% to DKK 12.9 billion in 2020 compared with 10.8 billion in 2019. The operating margin was 29.6% in 2020 compared to 28.1% in 2019. Net financials created an expense of DKK 412 million compared with DKK 85 million in 2019. This resulted in a pre-tax profit of DKK 12.5 billion against DKK 10.8 billion the prior year.

Corporate income tax amounted to DKK 2.6 billion compared with DKK 2.4 billion in the prior year and the effective tax rate declined compared to 2019, driven by a different mix of income from jurisdictions globally, which is in line with expectations.

Net profit was DKK 9.9 billion in 2020 against DKK 8.3 billion in 2019. This was above expectations, and was achieved due to strong revenue growth.

In 2020, the LEGO Group made significant investments in initiatives designed to deliver future growth. This included portfolio innovation, investing in brand awareness, expanding the number of LEGO® branded stores globally, upgrading LEGO.com e-commerce platform and building presence in newer markets such as China.

Cash flow and equity
The LEGO Group's assets increased to DKK 37.2 billion in 2020 compared with DKK 34.9 billion in 2019. Cash flow from operating activities was DKK 13.4 billion, against DKK 9.6 billion in 2019. After recognition of

1 NPD Year to date, December 2020.

the profit and distribution of dividend, the LEGO Group's equity was DKK 23.5 billion against DKK 22.2 billion in 2019. Return on equity for the LEGO Group was 43.4% in 2020 against 37.8% in 2019.

Investments
During 2020, the LEGO Group invested DKK 1.8 billion in property, plant and equipment, similar to DKK 1.8 billion in 2019. This included increasing processing capacity in its factories in Nyíregyháza (Hungary) and Monterrey (Mexico).

Research and development (R&D)
Innovation is critical to the success of the LEGO Group and each year new products make up approximately 55% of the portfolio. The LEGO Group invests in innovating core play themes as well as exploring new play patterns. Digitalisation is influencing how children play and the LEGO Group has stepped up investment to understand the intersection between digital and physical play and create new products to meet these changing needs. R&D activities include developing new technologies to enable Learning through Play; trend spotting; anthropological studies; and collaborating with educational institutions to deepen the understanding of children's development.

Intellectual capital resources
The number of employees at the end of 2020 was 20,468 compared with 18,800 at the end of 2019. Employees participate in the LEGO Group's Performance Management Programme (PMP). The programme is designed to ensure all employees work towards achieving the LEGO Group's short and long-term growth ambitions. Employees have targets which are aligned to Group-wide targets and awarded a bonus based on performance versus target.

Innovation is critical to the success of the LEGO Group and each year new products make up approximately 55% of the portfolio.

Responsible business conduct
The LEGO Group strives to have a positive impact on its stakeholders and its local communities. In 2003, the LEGO Group signed the United Nations Global Compact to demonstrate its support of human rights, labour standards, anti-corruption and the environment. The LEGO Group's Sustainability Progress 2020 report (COP report) describes how it is working to adhere to the Compact. Pursuant to section 99a and 99b of the Danish Financial Statements Act, the Sustainability Progress 2020 report constitutes the statutory statement of corporate social responsibility. This also includes the required quantitative targets for the under-represented gender on the Board of Directors. Sustainability Progress 2020 report is available at: www.LEGO.com/AboutUs/Sustainability.

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

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

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

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

Outlook
We expect growth in 2021 to be single-digit, ahead of the global toy market. This will be achievable due to continued focus on product innovation, development of retail channels, including e-commerce, and growth in established and new markets such as China. The LEGO Group will also continue to make substantial investments in strategic growth initiatives including digitalisation and sustainability designed to achieve growth in the long term.

→ LEGO® Super Mario™ introduced an entirely new way to play and was one of our most successful theme launches

Financial Highlights of the LEGO Group

The Financial Highlights for 2020 and 2019 are affected by the implementation of IFRS 16 Leases as from 1 January 2019. Comparison figures for 2018, 2017 and 2016 have not been restated due to the use of the modified retrospective approach.

The comparison figures for the financial ratio, Gross margin, have been restated to reflect a classification change in the income statement, see note 1.1.

Financial ratios are calculated in accordance with the guidelines from the Danish Society of Financial Analysts. Definitions are disclosed in note 1.1.

Parentheses denote negative figures.

(mDKK)	2020	2019	2018	2017	2016
Income Statement					
Revenue	43,656	38,544	36,391	34,995	37,934
Expenses	(30,744)	(27,707)	(25,617)	(24,636)	(25,486)
Operating profit	12,912	10,837	10,774	10,359	12,448
Financial income and expenses	(412)	(85)	(264)	(158)	(57)
Profit before income tax	12,500	10,752	10,510	10,201	12,391
Net profit for the year	9,916	8,306	8,076	7,806	9,436
Balance Sheet					
Total assets	37,202	34,946	31,485	29,911	29,937
Equity	23,547	22,183	21,753	20,714	20,039
Liabilities	13,655	12,763	9,732	9,197	9,898
Statement of Cash Flows					
Cash flow from operating activities	13,382	9,557	9,847	10,691	9,084
Purchase of intangible assets	(51)	(346)	(54)	(35)	(92)
Purchase of property, plant and equipment	(1,840)	(1,827)	(1,448)	(1,494)	(2,908)
Cash flow from financing activities	(11,203)	(7,583)	(7,781)	(9,378)	(6,575)
Total cash flows	295	(188)	574	(210)	(483)
Employees					
Average number (full-time)	17,431	16,112	15,050	16,480	16,836
Headcount end of year	20,468	18,800	17,385	17,534	19,061
Other financials (in %)					
Revenue growth in constant currency	16	4	7	(7)	6
Financial ratios (in %)					
Gross margin	69.7	68.4	67.8	67.1	68.6
Operating margin	29.6	28.1	29.6	29.6	32.8
Net profit margin	22.7	21.5	22.2	22.3	24.9
Return on equity (ROE)	43.4	37.8	38.0	38.3	49.9
Return on invested capital (ROIC)	75.3	69.0	78.9	72.3	92.0
Equity ratio	63.3	63.5	69.1	69.3	66.9

Board of Directors and Management

Chairman

Thomas Kirk Kristiansen

Thomas Kirk Kristiansen represents the fourth generation of the owner family and became the Chairman of the Board in February 2020. He was previously Vice Chairman from May 2016 to February 2020 and joined the Board in 2007. Thomas is also Vice Chairman of LEGO Brand Group, member of the Board of KIRKBI A/S and one fully owned subsidiary, Chairman of the Board of LEGO Foundation and Executive Manager of Kirk & Kirk Holding ApS with management roles in four subsidiaries.

Vice Chairman

Søren Thorup Sørensen

Søren Thorup Sørensen has been a member of the Board since 2010 and currently serves as Vice Chairman and Chairman of the Audit Committee. He is the Chief Executive Officer of KIRKBI A/S. Søren is also a member of the Board of Directors of Merlin Entertainments Limited, Landis + Gyr AG, ISS A/S, Ole Kirk's Fond, ATTA Fonden, Koldingvej 2 Billund A/S, Boston Holding A/S (where he is Chairman of the Board of Directors) and six fully-owned subsidiaries of KIRKBI A/S.

Eva Berneke

Eva Berneke has been a member of the Board since 2011 and is currently a member of the Audit Committee. Eva is the Chief Executive Officer of KMD A/S. She is also a member of the Board of Directors of Vestas, the Danish National Bank and École Polytechnique Paris.

Fiona Dawson

Fiona Dawson has been a member of the Board since August 2020. She is Global President of Mars Foods' portfolio of household brands, the various Multi-Segment markets in Mars, Incorporated, and Global Customers and sits on the Mars, Incorporated Leadership team. Fiona is a member of the Board of the Trinity Business School in Dublin, and a Trustee of The Follicular Lymphoma Foundation.

Jørgen Vig Knudstorp

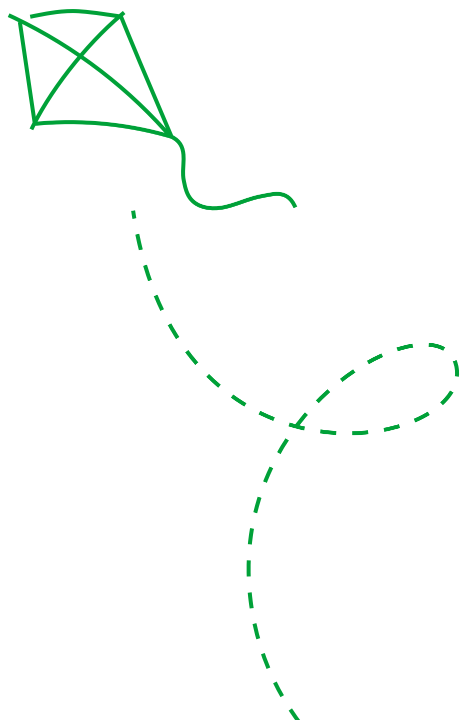
Jørgen Vig Knudstorp has been a member of the Board since 2017 and has previously served as Chairman from May 2017 to February 2020. He is the Executive Chairman of LEGO Brand Group and Vice Chairman of LEGO Foundation. Jørgen also holds positions as member of the Board of Starbucks and member of the Board of Merlin Entertainments Limited. Jørgen joined the LEGO Group in 2001, where he served as President and CEO from 2004 to 2016.

Jan Thorsgaard Nielsen

Jan Thorsgaard Nielsen has been a member of the Board since 2013 and is currently member of the Audit Committee. He is the Chief Investment Officer of A.P. Møller Holding. Jan also holds positions as Vice Chairman of the Board of Danske Bank A/S, member of the Board of APMH Invest A/S, member of the Board of A.P. Møller Capital P/S, and Chairman of the Board of KK Wind Solutions A/S.

Anne Sweeney

Anne Sweeney has been a member of the Board since April 2020. She is also a member of the Board of Directors of Netflix, the Board of Trustees of the Mayo Clinic, and a Deans Distinguished Fellow at the Harvard University Graduate School of Education. Anne previously served as co-chair of Disney Media, President of the Disney–ABC Television Group, and the President of Disney Channel from 1996 to 2014.



Executive Leadership Team

Niels B. Christiansen

President and Chief Executive Officer

Jesper Andersen

Chief Financial Officer

Atul Bhardwaj

Chief Digital & Technology Officer

Colette Burke

Chief Commercial Officer

Julia Goldin

Chief Product & Marketing Officer

Carsten Rasmussen

Chief Operations Officer

Loren I. Shuster

Chief People Officer & Head of Corporate Affairs

Consolidated Financial Statements

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Income Statement 1 January – 31 December

(mDKK)	Note	2020	2019
Revenue	2.1	43,656	38,544
Production costs	2.2	(13,244)	(12,196)
Gross profit		**30,412**	**26,348**
Sales and distribution expenses	2.2	(13,540)	(11,893)
Administrative and IT expenses	2.2	(3,023)	(2,850)
Other operating expenses	2.2	(937)	(768)
Operating profit		**12,912**	**10,837**
Financial income	4.1	7	29
Financial expenses	4.1	(419)	(114)
Profit before income tax		**12,500**	**10,752**
Tax on profit for the year	2.6	(2,584)	(2,446)
Net profit for the year		**9,916**	**8,306**

Statement of Comprehensive Income 1 January – 31 December

(mDKK)	2020	2019
Profit for the year	9,916	8,306
Items that will be reclassified to the income statement, when specific conditions are met:		
Change in market value of cash flow hedges	246	(297)
Reclassification of cash flow hedges from equity to be recognised as part of:		
Revenue in the income statement	(96)	293
Production costs in the income statement	(9)	–
Tax on cash flow hedges	(31)	1
Currency translation differences	(653)	154
Items that will not be reclassified to the income statement:		
Remeasurements of defined benefit plans	(11)	(35)
Tax on remeasurements of defined benefit plans	2	8
Total comprehensive income for the year	**9,364**	**8,430**

Balance Sheet at 31 December

(mDKK)	Note	2020	2019
Intangible assets	3.1	443	488
Property, plant and equipment	3.2	12,099	12,356
Right-of-use assets	4.4	3,067	3,123
Deferred tax assets	2.6	789	738
Total non-current assets		**16,398**	**16,705**
Inventories	3.3	2,948	2,672
Trade receivables	3.4, 4.5	6,590	7,201
Other receivables	4.5	954	974
Prepayments		299	376
Income tax receivables		373	284
Loans to related parties	4.5, 5.5	8,463	5,876
Cash at banks	4.5	1,177	858
Total current assets		**20,804**	**18,241**
Total assets		**37,202**	**34,946**

(mDKK)	Note	2020	2019
Share capital	4.2	20	20
Reserve for hedge accounting		75	(35)
Reserve for currency translation		(1,070)	(417)
Retained earnings		24,522	22,615
Total equity		**23,547**	**22,183**
Borrowings	4.3, 4.5	137	147
Lease liabilities	4.4, 4.5	2,519	2,523
Deferred tax liabilities	2.6	111	168
Employee benefit obligations	3.5	223	209
Provisions	3.6	85	78
Deferred revenue	3.7	23	14
Other debt	3.8, 4.5	86	176
Total non-current liabilities		**3,184**	**3,315**
Borrowings	4.3, 4.5	10	10
Lease liabilities	4.4, 4.5	581	573
Trade payables	4.5	2,947	3,422
Income tax liabilities		541	347
Provisions	3.6	75	9
Deferred revenue	3.7	331	248
Other debt	3.8, 4.5	5,986	4,839
Total current liabilities		**10,471**	**9,448**
Total liabilities		**13,655**	**12,763**
Total equity and liabilities		**37,202**	**34,946**

Statement of Changes in Equity 1 January – 31 December

2020 (mDKK)	Share capital	Reserve for hedge accounting	Reserve for currency translation	Retained earnings	Total equity
Balance at 1 January	20	(35)	(417)	22,615	**22,183**
Profit for the year	–	–	–	9,916	**9,916**
Comprehensive income/(expenses) for the year	–	110	(653)	(9)	**(552)**
Dividend paid relating to prior year	–	–	–	(8,000)	**(8,000)**
Balance at 31 December	**20**	**75**	**(1,070)**	**24,522**	**23,547**

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

§ Accounting policies

Reserve for hedge accounting

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

Reserve for currency translation

The reserve for currency translation consists of exchange rate differences that occur when translating the foreign subsidiaries' financial statements from their functional currency into the LEGO Group's presentation currency. On disposal of the net investment, the reserve for currency translation of that foreign subsidiary is recognised in the income statement. Reduction of a net investment in a foreign operation which does not result in loss of control is not treated as a disposal.

Statement of Cash Flows 1 January – 31 December

(mDKK)	Note	2020	2019
Profit before income tax		12,500	10,752
Adjustments for non-cash items	5.4	2,763	2,046
Change in working capital	5.4	888	(696)
Interest received	4.1	7	8
Interest paid	4.1	(119)	(114)
Income tax paid		(2,657)	(2,439)
Cash flow from operating activities		**13,382**	**9,557**
Purchases of intangible assets	3.1	(51)	(346)
Purchases of property, plant and equipment	3.2	(1,840)	(1,827)
Proceeds from sale of property, plant and equipment		7	11
Cash flow used for investing activities		**(1,884)**	**(2,162)**
Repayments of borrowings		(10)	(10)
Payment of lease liabilities		(606)	(555)
Repayments from related parties	5.5	12,388	11,845
Payments to related parties	5.5	(14,975)	(10,863)
Dividends paid to shareholders	4.2	(8,000)	(8,000)
Cash flow from financing activities		**(11,203)**	**(7,583)**
Total cash flows		**295**	**(188)**
Cash at banks at 1 January		858	1,098
Effect of exchange gains/(losses)		24	(52)
Cash at banks at 31 December		**1,177**	**858**

§ Accounting policies

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

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

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

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

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

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

Notes Notes Notes

Basis of preparation

Results for the year

Operating assets and liabilities

Capital structure and financing

Other disclosures

Note 1.1

Basis for preparation of the Consolidated Financial Statements

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

General Accounting Policies

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

The Consolidated Financial Statements are presented in Danish kroner (DKK), which is the functional and presentation currency of the Parent Company. All amounts are rounded to nearest million DKK, unless otherwise stated.

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

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

Changes in classification in the income statement

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

Consolidation practice

The Consolidated Financial Statements comprise LEGO A/S (Parent Company) and entities controlled by LEGO A/S. Control is achieved when the LEGO Group is exposed or has the rights to variable returns from its involvement of the investee and can affect those returns through its power over the investee. LEGO A/S and these entities are referred to as the LEGO Group.

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

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

Foreign currency translation

Functional currency

Items included in the financial statements of each of the LEGO Group's entities are measured using the currency of the primary economic environment in which the entity operates.

Transactions and balances

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

Group entities

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

- Assets and liabilities for each subsidiary are translated into DKK at the closing rate at the balance sheet date.
- Income and expenses for each subsidiary are translated into DKK at the rate at transaction date. An average exchange rate for the month is used as exchange rate at transaction date to the extent it does not deviate significantly from the actual exchange rate at transaction date.
- Differences deriving from translation of the foreign subsidiaries' opening equity to the exchange rates prevailing at the balance sheet date, and differences owing to the translation of the income statements of the foreign subsidiaries from average exchange rates to balance sheet date exchange rates are recognised in comprehensive income and classified as a separate reserve for exchange adjustments under equity.

Financial highlights

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

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

Gross margin

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

Operating margin

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

Net profit margin

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

Return on equity (ROE)

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

Return on invested capital (ROIC)

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

Equity ratio

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

Note 1.2

Effects of new and amended accounting standards

All amended standards and interpretations issued by IASB and endorsed by the EU effective as of 1 January 2020 have been adopted by the LEGO Group.

During 2020, the LEGO Group has adopted the following new standard with no significant impact on recognition and measurement:

- Amendments to IFRS 16 COVID-19 Related Rent Concessions

Amendment to IFRS 16 COVID-19 Related Rent Concessions

In May 2020, the IASB issued COVID-19 Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19 related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The LEGO Group has applied the practical expedient retrospectively to all rent concessions that meet the above conditions, and has not restated prior year figures.

In the current financial year, the LEGO Group has applied the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date. The impact of this amendment is considered insignificant with no impact on the consolidated financial statements of the LEGO Group.

Note 1.3

Significant accounting estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis.

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

Management believes that the estimates are the most likely outcome of future events. Management bases the estimates on historical experience and other assumptions that Management assesses are reasonable under the given circumstances. Actual results may differ from these estimates under different assumptions or conditions.

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

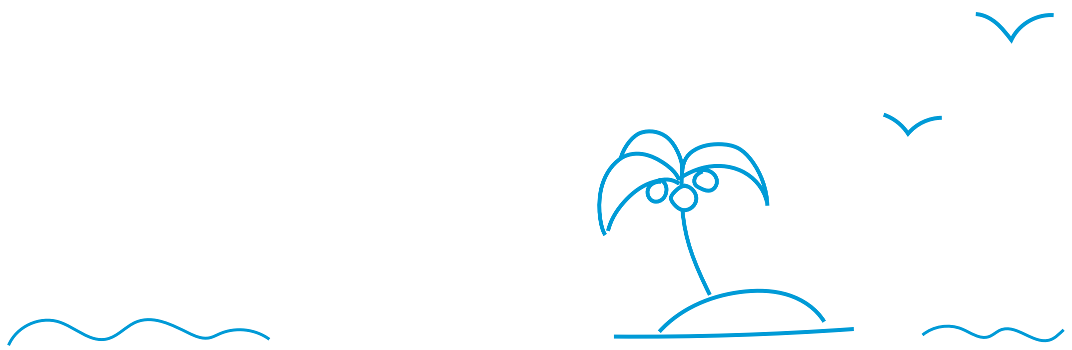
Further information on the areas that involve a high degree of estimation and judgement and are material to the financial statements, can be obtained in the respective notes.

Note	Key accounting estimates and judgements
2.6 Tax	Tax provisions
3.2 Property, plant and equipment	Estimate of residual value and useful life of assets
3.3 Inventories	Estimate in calculation of actual cost and provision
3.4 Trade receivables	Estimate level of expected losses

Note 2.1

Revenue

(mDKK)	2020	2019
Sale of goods	43,262	38,093
Licence income	394	451
Total revenue	**43,656**	**38,544**
Sales of goods per region		
Americas	16,345	14,328
Europe, Middle East & Africa	19,060	17,089
Asia & Pacific	7,857	6,676
	43,262	**38,093**



§ Accounting policies

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

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

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

Provisions and accruals for rebates, sales incentives and return of products are made in the period in which the related sales are recorded. Historical data are readily available and reliable and are used for estimating the amount of the reduction in sales.

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

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

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

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

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

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

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

Note 2.2

Expenses by nature

(mDKK)	Note	2020	2019
Raw materials and consumables used		5,775	5,603
Employee costs	2.3	8,470	7,047
Depreciation, amortisation and impairment	2.4	2,114	1,963
Licence and royalty expenses		3,308	2,777
Other external expenses		11,077	10,317
Total expenses		**30,744**	**27,707**
Included in the income statement under the following headings:			
Production costs		13,244	12,196
Sales and distribution expenses		13,540	11,893
Administrative and IT expenses		3,023	2,850
Other operating expenses		937	768
		30,744	**27,707**

§ Accounting policies

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

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

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

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

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

Other operating expenses
Other operating expenses include research and development expenses.

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

Note 2.3

Employee costs

(mDKK)	Note	2020	2019
Wages and salaries		7,657	6,336
Restructuring costs		19	–
Pension costs	3.5	257	238
Social security and other costs		598	510
Employee costs before transfers to assets		**8,531**	**7,084**
Transfers to assets		(61)	(37)
Total employee costs		**8,470**	**7,047**
Included in the income statement under the following headings:			
Production costs		2,326	2,116
Sales and distribution expenses		3,516	2,948
Administrative and IT expenses		1,924	1,540
Other operating expenses		704	443
		8,470	**7,047**
Average number of full-time employees		17,431	16,112
Headcount end of year		20,468	18,800

§ Accounting policies

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

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

Note 2.4

Depreciation, amortisation and impairment

(mDKK)	Note	2020	2019
Intangible assets, amortisation	3.1	96	112
Property, plant and equipment, depreciation	3.2	1,344	1,282
Right-of-use assets, depreciation	4.4	674	569
Total depreciation, amortisation and impairment		**2,114**	**1,963**
Included in the income statement under the following headings:			
Production costs		1,296	1,206
Sales and distribution expenses		582	507
Administrative and IT expenses		236	250
		2,114	**1,963**

§ Accounting policies

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

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

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

Note 2.5

Research and development expenses

(mDKK)	2020	2019
Research and development expenses	937	768
Total research and development expenses	**937**	**768**

§ Accounting policies

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

For more information, see Intangible assets note 3.1.

Note 2.6

Tax

(mDKK)	2020	2019
Income tax charge for the year	2,702	2,393
Other tax for the year	37	59
Deferred tax change for the year	(153)	(31)
Deferred tax impact of change in tax rates	(5)	–
Adjustment to income tax for prior years	16	42
Adjustment to deferred tax for prior years	(13)	(17)
Total income tax expense	**2,584**	**2,446**
Reconciliation of tax		
Profit before tax	12,500	10,752
Corporate tax rate in Denmark, 22%	2,750	2,365
Higher/lower tax rate in subsidiaries	(263)	(138)
Permanent differences	(42)	6
Adjustment to deferred tax	4	15
Adjustment to tax for prior years	3	25
Corporate withholding taxes	13	34
Other corporate taxes	22	25
Other	97	114
	2,584	**2,446**
Effective tax rate	**20.7%**	**22.7%**

(mDKK)	2020	2019
Deferred tax		
Deferred tax, net at 1 January	570	504
Charged to the income statement	166	48
Charged to comprehensive income	(29)	9
Change in tax rates recognised in the income statement	5	–
Exchange rate adjustments	(34)	9
Deferred tax, net at 31 December	**678**	**570**
Deferred tax is recognised in the balance sheet as follows:		
Deferred tax assets	789	738
Deferred tax liabilities	(111)	(168)
	678	**570**

Note 2.6 (continued)

Tax

2020 (mDKK)	Deferred tax assets	Deferred tax liabilities	Deferred tax net
Non-current assets	49	(189)	**(140)**
Inventories	365	(132)	**233**
Receivables	112	(3)	**109**
Provisions	257	–	**257**
Other liabilities	230	(11)	**219**
Offset	(224)	224	**-**
Total deferred tax	**789**	**(111)**	**678**

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

Tax assets arising from tax loss carry-forwards are capitalised based on an assessment of whether they can be utilised in the future. There are no tax loss carry-forwards end of December 2020.

Significant accounting estimates

In order to identify uncertain tax treatments impacting the LEGO Group on a continuous basis, known and appropriate risks that potentially could have a financial impact on the LEGO Group are assessed. The identified risks are reviewed and updated on a continuous basis. The LEGO Group updates and refines the estimated exposure based on new legislation, guidance, or status of an audit.

§ Accounting policies

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

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

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

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

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

Deferred tax reflects the effect of any temporary differences. To the extent calculated deferred tax is positive, this is recognised in the balance sheet as a deferred tax asset at the expected realisable value. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Note 3.1

Intangible assets

2020 (mDKK)	Development projects in progress	Software	Licences, patents and other rights	Goodwill	Total
Cost at 1 January	13	616	243	284	**1,156**
Additions	26	24	1	–	**51**
Disposals	–	(1)	(1)	–	**(2)**
Transfers	(4)	4	–	–	**–**
Exchange rate adjustments	–	(2)	(19)	–	**(21)**
Cost at 31 December	**35**	**641**	**224**	**284**	**1,184**
Amortisation and impairment losses at 1 January	–	431	237	–	**668**
Amortisation for the year	–	95	1	–	**96**
Disposals	–	(1)	(1)	–	**(2)**
Exchange rate adjustments	–	(3)	(18)	–	**(21)**
Amortisation and impairment losses at 31 December	**–**	**522**	**219**	**–**	**741**
Carrying amount at 31 December	**35**	**119**	**5**	**284**	**443**

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

Note 3.1 (continued)

Intangible assets

§ Accounting policies

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

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

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

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

Software
Software comprises mainly internally developed software for the purpose of supporting business operations.

Software is capitalised based on the costs incurred.

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

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

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

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

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

Note 3.2

Property, plant and equipment

2020 (mDKK)	Land, buildings and installations	Plant and machinery	Other fixtures and fittings, tools and equipment	Fixed assets under construction	Total
Cost at 1 January	7,734	9,156	3,183	1,352	**21,425**
Additions	166	641	174	859	**1,840**
Disposals	(7)	(168)	(98)	(1)	**(274)**
Transfers	472	275	99	(846)	**-**
Exchange rate adjustments	(525)	(158)	(223)	(93)	**(999)**
Cost at 31 December	**7,840**	**9,746**	**3,135**	**1,271**	**21,992**
Depreciation and impairment losses at 1 January	1,552	6,058	1,459	–	**9,069**
Depreciation for the year	209	916	219	–	**1,344**
Disposals	(5)	(161)	(95)	–	**(261)**
Transfers	–	(3)	3	–	**-**
Exchange rate adjustments	(78)	(86)	(95)	–	**(259)**
Depreciation and impairment losses at 31 December	**1,678**	**6,724**	**1,491**	**-**	**9,893**
Carrying amount at 31 December	**6,162**	**3,022**	**1,644**	**1,271**	**12,099**

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

Note 3.2 (continued)

Property, plant and equipment

An obligation regarding the purchase of property, plant and equipment of DKK 1,189 million exists at 31 December 2020 (DKK 524 million at 31 December 2019). The obligation has a maturity of maximum 5 years.

Significant accounting estimates

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

$ Accounting policies

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

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

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

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

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

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

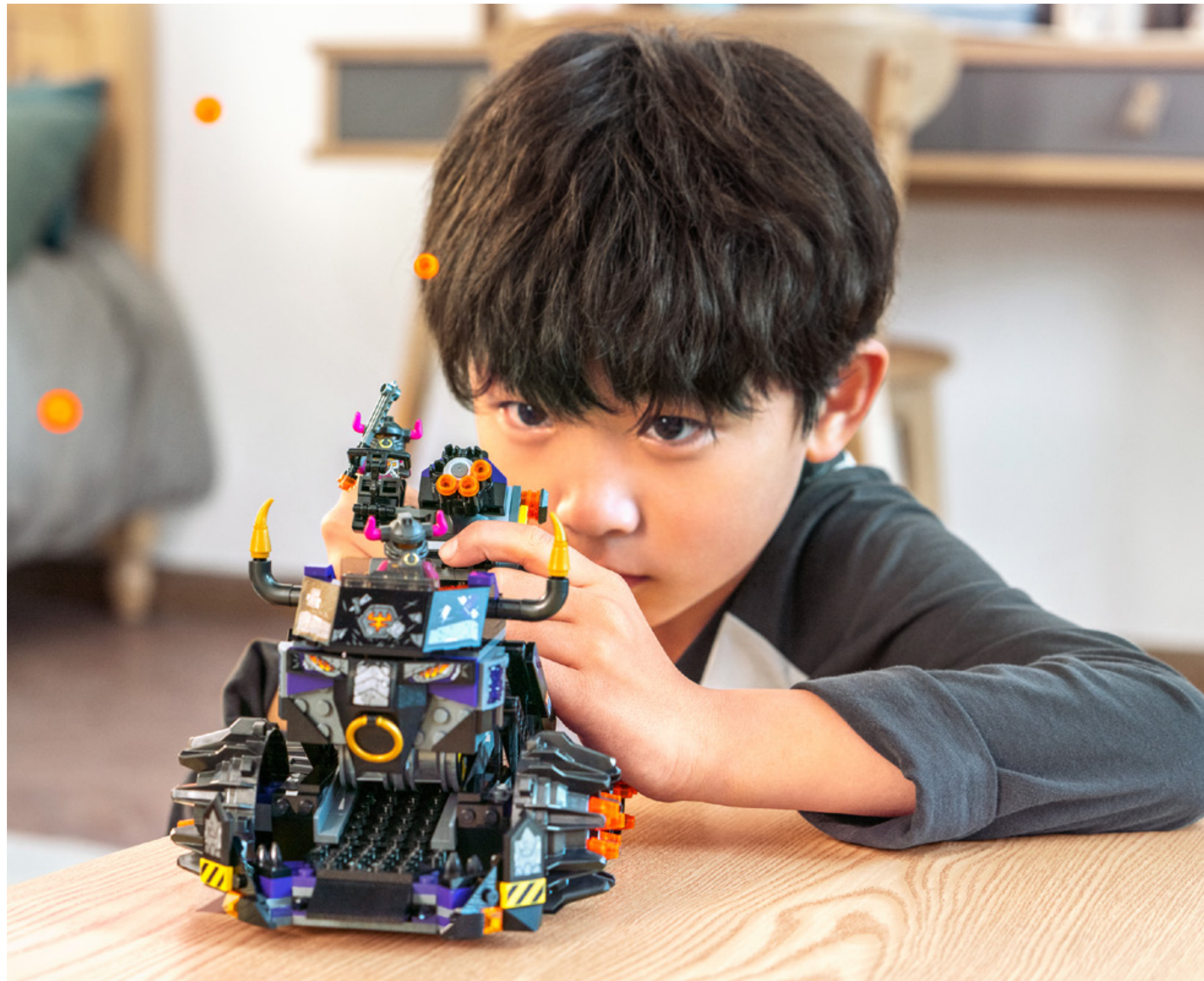
Buildings	40 years
High bay warehouses	40 years
Installations	5–20 years
Plant and machinery	5–15 years
Moulds	2 years
Furniture, fittings and equipment	3–10 years

Land is not depreciated.

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

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

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



Note 3.3

Inventories

(mDKK)	2020	2019
Raw materials	194	199
Work in progress	1,124	1,202
Finished goods	1,630	1,271
Total inventories	**2,948**	**2,672**

Inventories recognised as an expense during the year ending 31 December 2020 amounted to DKK 8,690 million (DKK 7,787 million in 2019). These were included in production cost in the income statement.

Write-downs of inventories are recognised in production costs as an income of DKK 32 million (DKK 25 million as a cost in 2019).

Significant accounting estimates

The carrying amount of inventories is based on a number of assumptions including assumptions on future events. Inventories are adjusted to reflect the net realisable value, comprising actual cost less provisions for obsolescence.

Actual cost
The LEGO Group applies a standard cost model that is defined by estimated production capacity. Cost and capacity can vary during the year and therefore adjustments are made to reflect the actual cost of inventories:

- Adjustments for Indirect Production Costs (IPC), covering productions costs other than direct materials and based on assumptions on cost elements and activity level compared to actual cost and activity level.
- Adjustments for Purchase Price Variance (PPV) and Production Variance (PV) for variances arising from difference in purchase prices and production variance (measured in efficiency) mainly related to direct materials.

The cost adjustments are reviewed regularly to ensure that relevant assumptions are incorporated correctly.

Provision
When the net realisable value is lower than cost, inventory items are impaired and measured at net realisable value. The calculation of provision is based on the LEGO Group's internal impairment policy, which in turn is evaluated based on a combination of assumptions on demand planning and Product Life Cycle stages.

§ Accounting policies

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

Note 3.4

Trade receivables

(mDKK)	2020	2019
Trade receivables (gross)	**7,619**	**8,041**
Provision for bad debts		
Balance at 1 January	(840)	(833)
Change in provision for the year	(266)	5
Realised losses for the year	23	9
Exchange rate adjustments	54	(21)
Balance at 31 December	**(1,029)**	**(840)**
Trade receivables (net)	**6,590**	**7,201**

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

The age distribution of trade receivables is as follows:

2020 (mDKK)	Gross carrying amount	Provision for bad debts	Net carrying amount
Not overdue	6,599	(569)	**6,030**
0–60 days overdue	523	(20)	**503**
61–120 days overdue	22	(3)	**19**
121–180 days overdue	12	(6)	**6**
More than 180 days overdue	463	(431)	**32**
	7,619	**(1,029)**	**6,590**

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

Note 3.4 (continued)

Trade receivables

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

Significant accounting estimates

The allowance for credit losses represents the Management's estimate of the probable credit loss in trade receivables resulting from the deterioration of the financial position of a customer, making it unable to make required payments.

The allowance model for lifetime expected credit losses is a probability-based measurement based on historical credit loss experience combined with macroeconomic factors affecting the credit risk and is based on a combination of credit risk characteristics for the customers within geography, creditworthiness, and payment history.

When assessing the adequacy of allowances for credit losses, Management also takes into account changes in payments terms, patterns and expected changes in risk, in particular related to changes observed in the retail landscape, not least during COVID-19, where the LEGO Group experienced weakened financial strength in some groups of customers which increased the risk and uncertainty of receivables.

§ Accounting policies

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

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

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

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

Note 3.5

Employee benefit obligations

Defined contribution plans
The LEGO Group operates a number of defined contribution plans throughout the world. Defined contribution plans are fixed contributions paid to external pension funds after which the LEGO Group has no further legal nor constructive obligation towards current or past employees. DKK 240 million (DKK 224 million in 2019) have been recognised in the income statement as pension costs relating to defined contribution plans.

Defined benefit plans
In a few countries, the LEGO Group operates defined benefit plans. The majority of the defined benefit plans in the LEGO Group includes employees in Germany, Mexico and in the US.

Defined benefit plans are obligations to pay a specific benefit upon retirement or in health related situations etc. The LEGO Group bears the risk and uncertainty as regards sufficient funds being available in the future. The LEGO Group does not enter into new defined benefit pension plans. In the LEGO Group a net obligation of DKK 223 million (DKK 209 million in 2019) has been recognised relating to the LEGO Group's obligations towards current or past employees concerning defined benefit plans. The obligation is calculated after deduction of the plan assets. DKK 22 million (DKK 19 million in 2019) have been recognised in the income statement as costs and DKK 11 million (DKK 35 million in 2019) have been recognised in comprehensive income as a cost.

(mDKK)	2020	2019
The amounts recognised in the balance sheet are calculated as follows:		
Present value of funded obligations	(178)	(169)
Fair value of plan assets	170	165
	(8)	(4)
Present value of unfunded obligations	(215)	(205)
Net liability recognised in the balance sheet	**(223)**	**(209)**
Of which included as part of the liabilities	(223)	(209)
The change in present value of defined benefit obligations for the year is as follows:		
Present value at 1 January	(374)	(300)
Benefit costs relating to current year	(17)	(13)
Benefit costs relating to prior year	–	(1)
Interest expenses	(8)	(9)
Remeasurement losses	(26)	(57)
Benefits paid	13	13
Exchange rate adjustments	19	(7)
Present value at 31 December	**(393)**	**(374)**
The change in fair value of plan assets for the year is as follows:		
Plan assets at 1 January	165	139
Interest income	3	4
Remeasurement gains	15	22
Employer contributions	2	3
Benefits paid	(8)	(8)
Exchange rate adjustments	(7)	5
Plan assets at 31 December	**170**	**165**
Movements in the net liability recognised in the balance sheet are as follows:		
Net liability at 1 January	(209)	(161)
Total expenses charged to the income statement	(22)	(19)
Total expenses charged to comprehensive income	(11)	(35)
Contributions paid	7	8
Exchange rate adjustments	12	(2)
Net liability at 31 December	**(223)**	**(209)**
The actual return on plan assets amounts to	18	26

Note 3.5 (continued)

Employee benefit obligations

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

	2020	2019
Discount rate	1% – 7%	1% – 8%
Future salary increases	1% – 5%	1% – 5%
Future pension increases	0% – 3%	0% – 3%

§ Accounting policies

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

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

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

Past service costs are recognised immediately in the income statement.

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

Note 3.6

Provisions

2020 (mDKK)	Restructuring	Other	Total
Provisions at 1 January	–	87	**87**
Additions	19	60	**79**
Used	–	(1)	**(1)**
Reversed	–	(1)	**(1)**
Exchange rate adjustments	–	(4)	**(4)**
Provisions at 31 December	**19**	**141**	**160**
Provisions are recognised in the balance sheet as follows:			
Non-current			**85**
Current			**75**
			160

Other provisions consist of various types of provisions, primarily provisions for retirement obligations regarding leased premises. Rental of premises normally has a lease period of 3–10 years.

§ Accounting policies

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

Provisions for restructuring expenses are only recognised when the decision is made, and a detailed plan created raising a valid expectation for those affected which has been announced before the balance sheet date. Provisions are not made for future operating losses.

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

Note 3.7
Deferred revenue

(mDKK)	2020	2019
Consumer loyalty programme	270	168
Other	84	94
Total deferred revenue	**354**	**262**
Deferred revenue is recognised in the balance sheet as follows:		
Non-current	23	14
Current	331	248
	354	**262**

Other deferred revenue consists of gift cards and prepaid licence fee.

Revenue recognised included in deferred revenue at the beginning of 2020 amounts to DKK 230 million (DKK 208 million in 2019).

§ Accounting policies

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

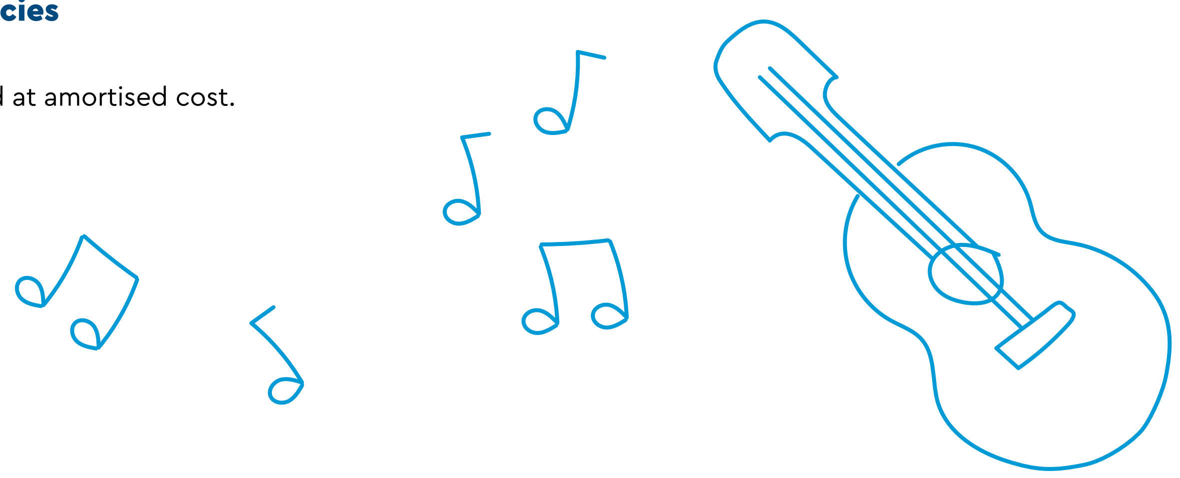
For further information regarding the timing of revenue recognition, see Revenue note 2.1.

Note 3.8
Other debt

(mDKK)	2020	2019
Wage-related payables and other charges	2,632	1,663
VAT and other indirect taxes	432	381
Amortised debt	–	34
Sales incentives	1,144	1,154
Other liabilities to related parties	551	570
Other current liabilities	1,313	1,213
Total other debt	**6,072**	**5,015**
Other debt is recognised in the balance sheet as follows:		
Non-current	86	176
Current	5,986	4,839
	6,072	**5,015**

§ Accounting policies

Other debt is measured at amortised cost.



Note 4.1

Financial income and expenses

(mDKK)	2020	2019
Interest income from credit institutions measured at amortised cost	3	5
Exchange gains, net	–	21
Other interest income	4	3
Financial income	**7**	**29**

(mDKK)	2020	2019
Interest expenses related to lease liabilities	99	88
Interest expenses to related parties	14	14
Interest expenses to credit institutions	1	1
Total interest expenses measured at amortised cost	114	103
Exchange losses, net	300	–
Other interest expenses	5	11
Financial expenses	**419**	**114**

§ Accounting policies

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

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

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

Note 4.2

Share capital

(mDKK)	2020	2019
A-shares	1	1
B-shares	9	9
C-shares	10	10
Total share capital	**20**	**20**

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

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

Dividend of DKK 8,000 million was paid in April 2020, corresponding to DKK 0.4 million per DKK 1,000 of share capital.

Proposed dividend for 2020 is DKK 8,000 million, corresponding to DKK 0.4 million per DKK 1,000 of share capital.

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

§ Accounting policies

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

Note 4.3

Borrowings

(mDKK)	2020	2019
Debt to credit institutions	147	157
Total borrowings	**147**	**157**
Borrowings are recognised in the balance sheet as follows:		
Non-current liabilities	137	147
Current liabilities	10	10
	147	**157**

Debt to credit institutions consists of variable interest mortgage with a remaining maturity of 13–17 years.

§ Accounting policies

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

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

Note 4.4

Leases

Right-of-use assets

2020 (mDKK)	**Rental of premises**	**Other assets**	**Total**
Cost at 1 January	3,377	300	**3,677**
Additions	494	122	**616**
Remeasurements	146	3	**149**
Disposals	(40)	(56)	**(96)**
Exchange rate adjustments	(144)	(7)	**(151)**
Cost at 31 December	**3,833**	**362**	**4,195**
Depreciation at 1 January	464	90	**554**
Depreciation for the year	561	113	**674**
Disposals	(21)	(39)	**(60)**
Exchange rate adjustments	(35)	(5)	**(40)**
Depreciation at 31 December	**969**	**159**	**1,128**
Carrying amount at 31 December	**2,864**	**203**	**3,067**

Right-of-use assets

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

Lease liabilities

(mDKK)	**2020**	**2019**
Lease liabilities are recognised in the balance sheet as follows:		
Non-current liabilities	2,519	2,523
Current liabilities	581	573
Total lease liabilities	**3,100**	**3,096**

Note 4.4 (continued)

Leases

Amounts recognised in the income statement

(mDKK)	2020	2019
Expense relating to short-term leases	130	142
Expense relating to leases of low-value assets that are not short-term leases	8	13
Expense relating to variable lease payments not included in lease liability	63	89
	201	**244**

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

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

The total cash outflow for leases in the year was DKK 906 million (DKK 887 million in 2019).

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

The maturity analysis of lease liabilities is disclosed in note 4.5.

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

The LEGO Group has entered a lease, not yet commenced, to which the LEGO Group is committed (DKK 1,164 million).

§ Accounting policies

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

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

The lease liabilities are initially measured at the present value of lease payments to be made over the lease term. The lease payments are discounted using the incremental borrowing rate. The lease payments include fixed payments and variable lease payments that depend on an index or a rate, less any lease incentives receivable. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made. If the contract holds an option to purchase, extend or terminate a lease and it is reasonably certain to be exercised by the LEGO Group, the lease payments will include those.

The LEGO Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercising an option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate.
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

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

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

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

Note 4.5

Financial assets and liabilities

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

At 31 December 2020 forward contracts and options have been applied for hedging of cash flows covering future financial periods. The hedging mainly relates to the LEGO Group's sale of goods and services in USD, EUR, GBP, JPY, AUD, CNY and CAD as well as purchases of goods in CZK, MXN and HUF. All contracts are expected to expire – and thus affect result – in the financial year 2021. Derivatives are disclosed in note 4.7.

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

2020 (mDKK)	Carrying amount	Fair value	0–1 year	1–5 years	> 5 years	Total cash flows
Measured at amortised cost (liabilities)						
Borrowings	147	147	10	42	97	**149**
Lease liabilities	3,100	3,100	668	1,481	1,435	**3,584**
Trade payables	2,947	2,947	2,947	–	–	**2,947**
Other debt	3,134	3,134	3,052	82	–	**3,134**
	9,328	**9,328**	**6,677**	**1,605**	**1,532**	**9,814**
Derivative financial instruments						
Measured at fair value through the income statement (fair value hedging)	8	8	8	–	–	**8**
Measured at fair value through comprehensive income (cash flow hedging)	38	38	38	–	–	**38**
	46	**46**	**46**	**–**	**–**	**46**
Total financial liabilities	**9,374**	**9,374**	**6,723**	**1,605**	**1,532**	**9,860**
Measured at amortised cost						
Trade receivables	6,590	6,590	6,590	–	–	**6,590**
Other receivables	454	454	454	–	–	**454**
Loans to related parties	8,463	8,463	8,463	–	–	**8,463**
Cash at banks	1,177	1,177	1,177	–	–	**1,177**
	16,684	**16,684**	**16,684**	**–**	**–**	**16,684**
Derivative financial instruments						
Measured at fair value through the income statement (fair value hedging)	81	81	81	–	–	**81**
Measured at fair value through comprehensive income (cash flow hedging)	134	134	134	–	–	**134**
	215	**215**	**215**	**–**	**–**	**215**
Total financial assets	**16,899**	**16,899**	**16,899**	**–**	**–**	**16,899**

Note 4.5 (continued)

Financial assets and liabilities

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

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

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

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

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

Note 4.6

Financial risks

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

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

Credit risk

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

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

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

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

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

Foreign exchange risk

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

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

The isolated effects of the financial instruments on profit and equity after tax of a currency strengthening of 10% against DKK at 31 December 2020 are specified below for the most important currencies in the LEGO Group. The sensitivities are based only on the impact of the financial instruments that are outstanding at the balance sheet date, and are thus not an expression of the LEGO Group's total currency risk. The financial instruments included in the sensitivity analysis are the LEGO Group's: Cash, Account receivables, Account payables, Borrowings, foreign exchange forwards and foreign exchange options.

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

(mDKK)	%-change	2020	2019
EUR			
Equity	10%	10	(45)
Net profit for the year	10%	(12)	(45)
USD			
Equity	10%	(289)	(109)
Net profit for the year	10%	(101)	95
GBP			
Equity	10%	43	36
Net profit for the year	10%	(7)	(19)
CZK			
Equity	10%	9	41
Net profit for the year	10%	26	41
MXN			
Equity	10%	164	160
Net profit for the year	10%	159	160
HUF			
Equity	10%	96	88
Net profit for the year	10%	89	88
CNY			
Equity	10%	139	102
Net profit for the year	10%	98	102
SGD			
Equity	10%	(120)	(68)
Net profit for the year	10%	(120)	(68)
CAD			
Equity	10%	(58)	(43)
Net profit for the year	10%	(14)	(1)

Note 4.6 (continued)

Financial risks

Interest rate risk

The LEGO Group's interest rate risk relates to interest-bearing debt and interest-bearing assets. The LEGO Group's interest-bearing assets consist mainly of bank deposits and deposit with KIRKBI Invest A/S. An increase in the interest level of 1 percentage point for 2020 would have had a positive impact on the LEGO Group's profit for the year of approx. DKK 32.2 million in 2020 (DKK 28.5 million in 2019). The LEGO Group's interest rate risk is considered immaterial and is not expected to have a significant impact on the LEGO Group's results.

Liquidity risk

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

Capital structure and risk management

The LEGO Group's Dividend and Capital Structure Committee monitors the capital structure of all legal entities within the LEGO Group and takes adequate measures to ensure the LEGO Group is capitalised in the best interest of the LEGO Group and the shareholders. The overall objective is to ensure a continued development and strengthening of the LEGO Group's capital structure that supports long-term profitable growth. The LEGO Group is not reliant on external financing and the Dividend and Capital Structure Committee seeks to maintain that the strong financials of the LEGO Group are applied to fund investments in subsidiaries via equity and intercompany loan funding.

Dividend

Dividend of DKK 8,000 million has been paid in April 2020 (DKK 8,000 million in 2019).

It is expected that the dividend for 2020, to be paid in 2021, will amount to DKK 8,000 million.

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

Note 4.7

Derivative financial instruments

Total hedging activities

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

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

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

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

2020 (mDKK)	**Contract amount**	**Positive fair value**	**Negative fair value**	**Period covered**
Hedging of forecast transactions qualifying for hedge accounting:				
USD (sale of currency)	2,410	107	–	12 months
JPY (sale of currency)	237	7	–	12 months
GBP (sale of currency)	641	1	3	12 months
AUD (sale of currency)	672	–	27	12 months
CAD (sale of currency)	567	4	2	12 months
CZK (purchase of currency)	210	4	–	12 months
CNY (sale of currency)	519	5	4	12 months
Other (purchase of currency)	154	6	2	12 months
Other (sale of currency)	110	–	–	12 months
Total forward contracts	**5,520**	**134**	**38**	
Hedging of balance sheet items qualifying for hedge accounting:				
USD (sale of currency)	724	56	–	2 months
JPY (sale of currency)	115	5	–	2 months
GBP (sale of currency)	186	9	1	2 months
AUD (sale of currency)	199	–	6	2 months
CAD (sale of currency)	138	6	–	2 months
CZK (purchase of currency)	28	1	–	2 months
CNY (sale of currency)	121	3	1	2 months
Other (purchase of currency)	38	1	–	2 months
Other (sale of currency)	28	–	–	2 months
Total forward contracts	**1,577**	**81**	**8**	
Total for which hedge accounting applies	**7,097**	**215**	**46**	
Total for which hedge accounting is not applied	**–**	**–**	**–**	
Total of forecast transactions	**7,097**	**215**	**46**	

Note 4.7 (continued)

Derivative financial instruments

§ Accounting policies

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

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

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

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

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

Note 5.1

Fees to independent auditor

(mDKK)	2020	2019
Fee for statutory audit	12	12
Other assurance engagements	1	1
Total audit related services	**13**	**13**
Tax consultancy	9	9
Other services	14	14
Total non-audit services	**23**	**23**
Total fees to independent auditor	**36**	**36**

Note 5.2

Remuneration of Group Management

Remuneration to Executive Management and the Board of Directors

(mDKK)	2020	2019
Salaries and other remuneration	51	31

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

Remuneration to Key Management Personnel (Executive Leadership Team)

(mDKK)	2020	2019
Salaries	60	58
Pensions	1	3
Short-term incentive plans	34	18
Long-term incentive plans	21	17
	116	**96**
Severance payments and other one-offs	12	28
Total remuneration	**128**	**124**
Average number of Executive Leadership Team	9	10
Headcount of Executive Leadership Team end of year	10	9

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

Note 5.3

Contingent assets, contingent liabilities and other obligations

(mDKK)	2020	2019
Guarantees	250	483
Other obligations	972	1,138
Total contingencies and other obligations	**1,222**	**1,621**

Guarantees relate to bank guarantees for commitments.

Other obligations consist of service and licence agreements.

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

Security has been given for land, buildings and installations with a net carrying amount of DKK 490 million (DKK 489 million in 2019) for the LEGO Group's mortgage loans totalling DKK 147 million (DKK 157 million in 2019).

The LEGO Group has utilised tax losses in non-Danish jurisdictions in the Danish joint taxation until 31 December 2004. The deferred tax of this amounts to DKK 80 million (DKK 80 million in 2019), of which DKK 0 million has been recognised as a provision for deferred tax. The amount of DKK 80 million (DKK 80 million in 2019) is not expected to be recaptured.

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

Note 5.4

Cash flow specifications

(mDKK)	Note	2020	2019
Depreciation and amortisation of non-current assets	2.4	2,114	1,963
Net loss on sale of non-current assets		4	19
Net movement in provisions		77	(28)
Remeasurement of defined benefit plans		(11)	(35)
Net movement in employee benefit obligation		26	46
Financial income and expenses	4.1	412	85
Hedge accounting		141	(4)
Adjustments for non-cash items		**2,763**	**2,046**

(mDKK)	2020	2019
Inventories	(329)	(76)
Trade receivables	322	(290)
Other receivables	2	(42)
Prepayments	63	(128)
Trade payables	(413)	198
Deferred revenue	97	(3)
Other debt	1,146	(355)
Change in working capital	**888**	**(696)**

Note 5.5

Related parties

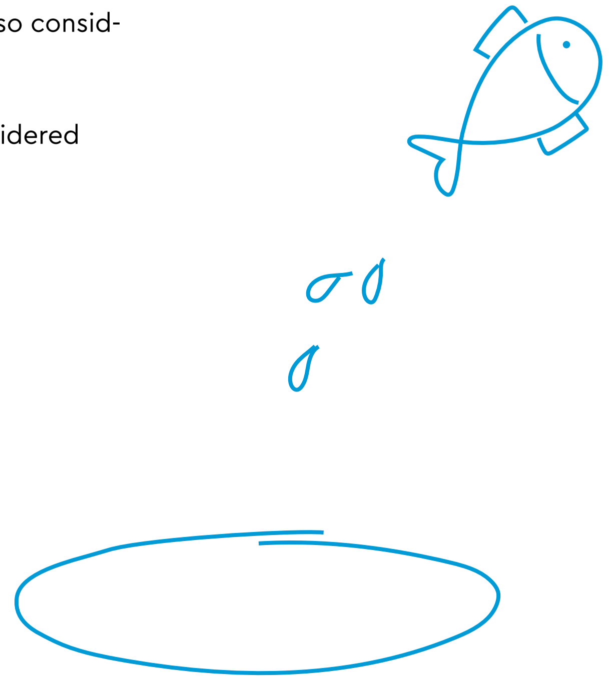
Identity of related parties

The Parent of the LEGO Group is LEGO A/S, a company incorporated in Denmark, whose shares are owned by KIRKBI A/S (75%) and Koldingvej 2, Billund A/S (25%).

The shares of KIRKBI A/S are fully owned by the Kirk Kristiansen family (Billund, Denmark). Koldingvej 2, Billund A/S is fully owned by the LEGO Foundation.

Being an associated company of KIRKBI A/S, Merlin Entertainments Group is considered a related party. Due to shared controlling shareholder, KIRKBI Invest A/S Group is also considered a related party.

Key Management Personnel are considered related parties.



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

(mDKK)	2020	2019
KIRKBI A/S		
Other transactions	(10)	(28)
Dividend	(6,000)	(6,000)
Balance end of year	19	22
Lease liability end of year	(847)	(909)
Koldingvej 2, Billund A/S		
Sale of goods	2	–
Other transactions	(23)	(22)
Dividend	(2,000)	(2,000)
Balance end of year	(13)	(17)
KIRKBI Invest A/S Group		
Trademark royalty	(1,568)	(1,405)
Other transactions	285	82
Balance end of year	(182)	(456)
Lease liability end of year	(8)	(25)
Merlin Entertainments Group		
Sale of goods	295	549
Royalty	9	30
Other transactions	3	(7)
Balance end of year	68	78
Transactions with other related parties		
Other transactions	15	15
Donations	110	82
Balance end of year	52	38

Note 5.5 (continued)

Related parties

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

(mDKK)	2020	2019
Balance at 1 January	5,876	6,858
Loans advanced during the year	14,975	10,863
Repayments	(12,374)	(11,831)
Interest charged	(14)	(14)
Balance at 31 December	**8,463**	**5,876**

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

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

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

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

§ Accounting policies

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

Note 5.6

Events occurring after the reporting period

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

Note 5.7

Group Structure

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

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

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

KIRKBI A/S is the ultimate Parent Company.

Parent Company Financial Statements

Financial Statements
Financial Statements

Income Statement 1 January – 31 December

(mDKK)	Note	2020	2019
Revenue		144	134
Gross profit		**144**	**134**
Other operating expenses		(19)	(37)
Operating profit		**125**	**97**
Net profit for the year from subsidiaries	3.3	9,774	8,217
Financial income	2.2	71	120
Financial expenses	2.2	(66)	(74)
Profit before income tax		**9,904**	**8,360**
Tax on profit for the year	2.3	(66)	(60)
Net profit for the year		**9,838**	**8,300**

Balance Sheet at 31 December

(mDKK)	Note	2020	2019
Intangible assets	3.1	230	287
Property, plant and equipment	3.2	7	6
Deferred tax assets	3.5	44	38
Investments in subsidiaries	3.3	23,596	22,006
Receivables from subsidiaries		1,143	1,116
Total non-current assets		**25,020**	**23,453**
Receivables from subsidiaries		4	–
Other receivables		2	19
Total current assets		**6**	**19**
Total assets		**25,026**	**23,472**

(mDKK)	Note	2020	2019
Share capital	3.4	20	20
Reserve from the use of the equity method		6,019	4,944
Retained earnings		9,424	9,213
Proposed dividend		8,000	8,000
Total equity		**23,463**	**22,177**
Provisions		13	13
Other debt		5	8
Total non-current liabilities		**18**	**21**
Trade payables		3	7
Income tax liabilities		38	7
Debt to subsidiaries		1,300	1,097
Other debt		204	163
Total current liabilities		**1,545**	**1,274**
Total liabilities		**1,563**	**1,295**
Total equity and liabilities		**25,026**	**23,472**

Statement of Changes in Equity 1 January – 31 December

2020 (mDKK)	Share capital	Reserve from the use of the equity method	Retained earnings	Proposed dividend	Total equity
Balance at 1 January	20	4,944	9,213	8,000	**22,177**
Dividend paid relating to prior year	–	–	–	(8,000)	**(8,000)**
Profit for the year	–	1,627	211	8,000	**9,838**
Currency translation adjustments	–	(653)	–	–	**(653)**
Entries recognised directly on equity in subsidiaries	–	101	–	–	**101**
Balance at 31 December	**20**	**6,019**	**9,424**	**8,000**	**23,463**

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

Notes

Notes

Notes

Basis of preparation

Income Statement

Balance sheet and other disclosures

Note 1.1

Basis for preparation

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

In pursuance of section 86(4) of the Danish Financial Statement Act, the company has not prepared a statement of cash flow. Reference is made to the Consolidated Statement of Cash Flows on page 18. Referring to section 96(3) of the Danish Financial Statement Act, the company does not disclose the fee paid to the auditors appointed by the Annual General Meeting.

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

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

Note 2.1

Employee costs

Remuneration to Executive Management and Board of Directors

(mDKK)	2020	2019
Salaries and other remuneration	51	31

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

The average number of full-time employees in LEGO A/S for the year is 3 (3 employees in 2019). The salaries for the three employees are included in the Remuneration of Group Management, see note 5.2 in the Consolidated Financial Statements.

Note 2.2

Financial income and expenses

(mDKK)	2020	2019
Interest income from subsidiaries	61	105
Exchange gains, net	10	15
Financial income	**71**	**120**

(mDKK)	2020	2019
Interest expenses to subsidiaries	66	74
Financial expenses	**66**	**74**

Note 2.3

Tax on profit for the year

(mDKK)	2020	2019
Income tax charge for the year	38	7
Other tax for the year	12	21
Deferred tax change for the year	(5)	23
Adjustment to income tax for prior years	22	3
Adjustment to deferred tax for prior years	(1)	6
Total income tax expense	**66**	**60**

§ Accounting policies

For Danish tax purposes, the parent company is assessed jointly with its Danish subsidiaries. The Danish jointly taxed companies are included in a Danish on-account tax payment scheme for Danish corporate income tax. All income taxes under the scheme are recorded in the individual companies. LEGO A/S and its Danish subsidiaries are included in the joint taxation of the parent company, KIRKBI A/S.

Subsidiaries are included in the joint taxation from the date they are consolidated in the consolidated financial statements and up to the date on which they are no longer consolidated.

Note 3.1

Intangible assets

2020 (mDKK)	Goodwill	Patents, software and other rights	Total
Cost at 1 January	253	49	**302**
Additions	2	–	**2**
Cost at 31 December	**255**	**49**	**304**
Amortisation and impairment losses at 1 January	4	11	**15**
Amortisation for the year	51	8	**59**
Amortisation and impairment losses at 31 December	**55**	**19**	**74**
Carrying amount at 31 December	**200**	**30**	**230**

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

§ Accounting policies

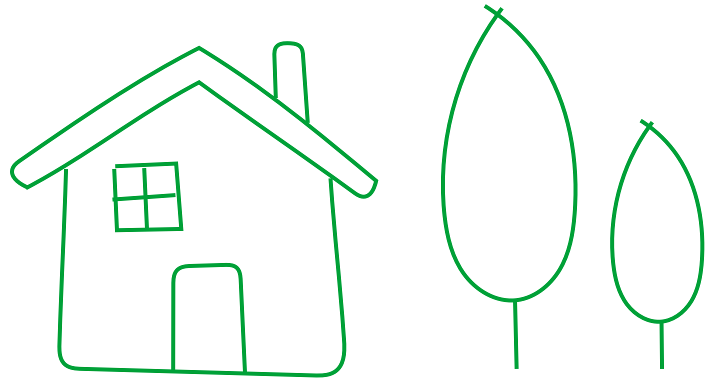
Goodwill is amortised over the estimated useful life, which is estimated at 5 years. The amortisation period is determined by management based on their experience within the area of business conducted.

Note 3.2

Property, plant and equipment

2020 (mDKK)	Land, buildings and installations	Other fixtures and fittings, tools and equipment	Total
Cost at 1 January	6	1	**7**
Additions	–	1	**1**
Cost at 31 December	**6**	**2**	**8**
Depreciation and impairment losses at 1 January	–	1	1
Depreciation and impairment losses at 31 December	**–**	**1**	**1**
Carrying amount at 31 December	**6**	**1**	**7**

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



Note 3.3

Investments in subsidiaries

(mDKK)	2020	2019
Cost at 1 January	9,562	8,737
Correction to cost at 1 January	(4)	58
Additions	19	767
Cost at 31 December	**9,577**	**9,562**
Value adjustment at 1 January	12,444	12,237
Correction to value adjustment at 1 January	–	(49)
Currency translation adjustments	(653)	154
Share of net profit for the year	9,774	8,217
Dividend	(7,647)	(8,085)
Entries recognised directly on equity in subsidiaries	101	(30)
Value adjustment at 31 December	**14,019**	**12,444**
Carrying amount at 31 December	**23,596**	**22,006**

§ Accounting policies

Subsidiaries of the Parent Company are recognised under the equity method, which is at the respective share of the net asset values in subsidiaries. For subsidiaries internal gain and losses are eliminated.

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

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

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

Note 3.4

Share capital

(mDKK)	2020	2019
A-shares	1	1
B-shares	9	9
C-shares	10	10
Total share capital	**20**	**20**

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

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

Shareholders holding more than 5% of the share capital or 5% of the votes:

KIRKBI A/S, Billund, Denmark
Koldingvej 2, Billund A/S, Billund, Denmark

Note 3.5

Deferred tax

(mDKK)	2020	2019
Deferred tax, net at 1 January	38	67
Change in deferred tax	6	(29)
Deferred tax, net at 31 December	**44**	**38**
Deferred tax is recognised in the balance sheet as follows:		
Deferred tax assets	44	38
Deferred tax liabilities	–	–
	44	**38**

Note 3.6

Contingent assets, contingent liabilities and other obligations

(mDKK)	2020	2019
Guarantees	1,084	1,119
Other indemnities	689	570
Total contingencies and other obligations	**1,773**	**1,689**

Guarantees relate to commitments in subsidiaries.

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

The LEGO Group has utilised tax losses in non-Danish jurisdictions in the Danish joint taxation until 31 December 2004. The deferred tax of this amounts to DKK 80 million (DKK 80 million in 2019), of which DKK 0 million has been recognised as a provision for deferred tax. The amount of DKK 80 million (DKK 80 million in 2019) is not expected to be recaptured.

Note 3.7

Related parties

LEGO A/S has had the following material transactions and balances with related parties (excluding wholly owned subsidiaries):

(mDKK)	2020	2019
KIRKBI A/S		
Other transactions	(11)	(16)
KIRKBI Invest A/S Group		
Other transactions	–	13
Balance end of year	–	13
Merlin Entertainments Group		
Royalty	9	30
Balance end of year	2	6

Remuneration to Key Management Personnel is disclosed in note 2.1.

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

Note 3.8

Proposed distribution of profit

(mDKK)	2020	2019
Dividend	8,000	8,000
Reserve from the use of the equity method	1,627	(417)
Retained earnings	211	717
	9,838	**8,300**

§ Accounting policies

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

Management's Statement and Auditor's Report

and Auditor's Report
and Auditor's Report

Management's Statement

The Executive Management and the Board of Directors have today considered and adopted the Annual Report of LEGO A/S for the financial year 1 January to 31 December 2020. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act and the Parent Company Financial Statements are prepared in accordance with the Danish Financial Statements Act. Management's Review is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position at 31 December 2020 of the LEGO Group and the Parent Company and of the results of the LEGO Group and the Parent Company operations and consolidated cash flows for the financial year 1 January to 31 December 2020.

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

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

Executive Management

Niels B. Christiansen
President and Chief Executive Officer

Board of Directors

Thomas Kirk Kristiansen
Chairman

Søren Thorup Sørensen
Vice Chairman

Eva Berneke

Fiona Dawson

Jørgen Vig Knudstorp

Jan Thorsgaard Nielsen

Anne Sweeney

Independent Auditor's Report

To the shareholders of LEGO A/S

Opinion
In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2020 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2020 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2020 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of LEGO A/S for the financial year 1 January – 31 December 2020, which comprise Income Statement, Balance Sheet, Statement of Changes in Equity and Notes to the financial statements, including summary of significant accounting policies, for both the Group and the Parent Company, as well as Statement of Comprehensive Income and Statement of Cash Flows for the Group ("financial statements").

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

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

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

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

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

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

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

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

Aarhus, 3 March 2021

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no 3377 1231

Claus Lindholm Jacobsen
State Authorised Public Accountant
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State Authorised Public Accountant
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Financial Year: 1 January – 31 December
Internet: www.LEGO.com

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