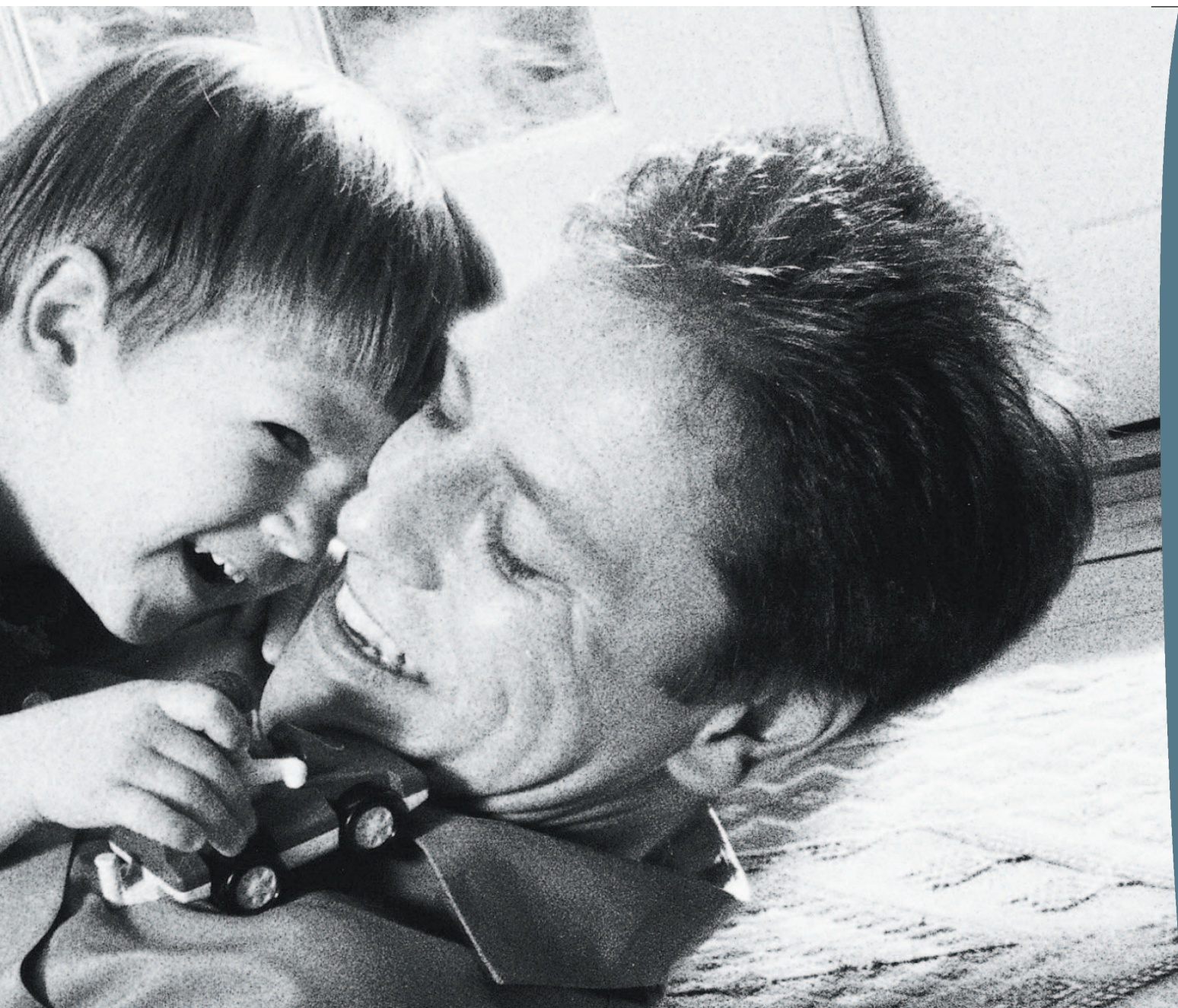


# Annual Report 2002

## LEGO Company



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The LEGO Company comprises LEGO companies owned by the Kirk Kristiansen Family and to a minority extent by the LEGO Foundation.

The accounting information shown here for the LEGO Company is therefore not the accounts of a separate legal entity but is the consolidated accounts of the above group of companies, prepared as if these companies were a group.

### LEGO A/S Board of Directors:

Mads Øvlisen, *Chairman*  
Kjeld Kirk Kristiansen, *Vice Chairman*  
Gunnar Brock  
Mogens Johansen  
Lars Kann-Rasmussen  
Anders Moberg

### Executive Office:

Kjeld Kirk Kristiansen,  
*President and CEO*  
Poul Plougmann,  
*Executive Vice President and COO*

### Global Management Team:

Andrew Black (*Americas*)  
Francesco Ciccolella (*Global Branding*)  
Dominic Galvin (*Global Brand Retail*)  
Tommy G. Jespersen (*Global Supply Chain*)  
Brad Justus (*LEGO Direct*)  
Søren Torp Laursen (*Europe North/East*)  
Mark Livingstone (*LEGO Interactive*)  
Mads Nipper (*Europe Central*)  
Henrik Poulsen (*Global Innovation and Marketing*)  
Lars Risager (*Europe South*)  
Mads Ryder (*LEGOLAND Parks*)  
Stig Toftgaard (*Global Business Support*)  
Arthur Yoshinami (*Asia/Pacific*)



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# Annual report 2002

With sales up by DKK 756m and a pre-tax result of DKK 626m compared with DKK 532m the previous year, 2002 may in the circumstances be regarded as a good year.

The LEGO Company continues the pattern of growth begun last year, with expansion on more or less all markets. We have thus been able to adjust to the major changes in the market situation during the year under review.

It was a remarkable year in that demand and sales fluctuated sharply from the first half of the year to the second, especially in the US market, while renewed optimism in some of the European markets served to restore some positive balance.

## Sales

The year began extremely well. Christmas 2001 had reduced both LEGO Company and retail stocks to a low level, and also in other respects the first few months of the year witnessed a heavy demand.

The activity level was maintained throughout most of the first six months, stimulated by new product launches and the première of the new *Star Wars* film in late spring. Sales of LEGO Harry Potter and BIONICLE products also remained high. In consequence, the first half of the year was substantially better than had been expected when the year began.

These factors meant that LEGO Company was able to maintain a high level of activity – and corresponding level of production – throughout the summer months. The aim, of course, was to ensure that a similar steep rise in demand during the peak season would not cause delivery problems.

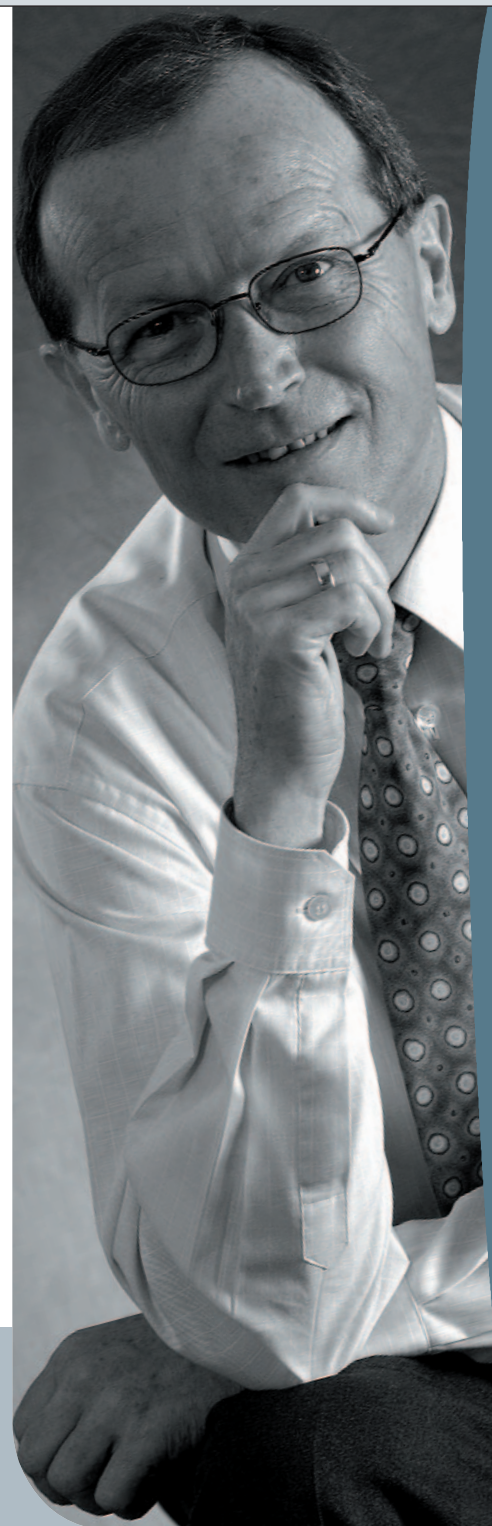
Although the second half of the year as such was not a bad one for LEGO Company, it did not entirely live up to the expectations that had been raised in spring. Increasing uncertainty and caution on the part of American consumers caused a noticeable slowdown in the US economy. These factors held sales at a lower level than had seemed likely in springtime.

## The Americas

The slowdown in activities in the United States during autumn was not a temporary phenomenon. It became increasingly clear as the year progressed, culminating in early December.

One consequence was that product stocks held by LEGO Company at the end of the year were substantially higher than at the beginning.

Viewed in the round, however, the American market as a whole again this year accounted for a significant increase in both earnings and sales. Total sales for the year were up by 5% on the previous year. The US market continues to generate approx. one-third of the total sales of LEGO



*Kjeld Kirk Kristiansen,  
President and CEO*

Company and is thus the Company's largest single market.

#### **Europe Central**

The large Europe Central market – comprising Germany, Austria and Switzerland – reported a more uniform flow of business. Relatively good sales in Germany over the summer may have been positively influenced by the opening of the new German LEGOLAND Park.

Unfortunately, there was a corresponding decline in sales during the December peak season, with German consumers clearly cutting back on both the volume and value of Christmas presents. Sales of the large Christmas sets at the more expensive end of the scale were particularly badly hit.

Christmas sales amply illustrated the state of stagnation that has befallen the German economy, and the overall result was that total toy sales for the year were down. The LEGO Company actually recorded a modest rise, thereby increasing its share of the market. The markets in Switzerland and Austria also reported only slight progress.

#### **Europe North**

In contrast, the Europe North market – comprising the Benelux countries, Great Britain and Scandinavia – increased its sales by more than 10%. This total figure concealed a significantly higher rate of growth in Great Britain and Scandinavia, the rise in the Benelux countries being only modest. The handsome increase in

the Scandinavian countries was particularly pleasing, considering that the increase came on top of already high per-capita sales.

#### **Europe South**

A very positive rate of growth was also recorded in the Europe South market, encouraging an air of optimism for future years. The LEGO Company has not had the same vigorous sales tradition on this market as in Europe Central and North.

Europe South comprises France, Italy, Spain and Portugal.

During the year the Company has enjoyed a significantly higher market profile through building events, in-store models, etc.

With sales up by nearly 20%, this market has taken a very positive turn. This is especially encouraging following as it does some disappointing years, which had necessitated major restructuring.

#### **Europe East**

Europe East is also showing signs of becoming a major market, with Russia and Poland as its biggest segments. Large orders for educational materials – particularly for schools in Moscow – helped boost sales. These orders gave LEGO Educational Division a marked increase in turnover.

#### **Asia**

A sharper focus on the Asiatic region has already generated success, which is expected to gain momentum in the years ahead. Sharp rises in growth in Australia

and New Zealand have been echoed by growth in the large Japanese market. Korea, too, is very much an expanding market. One special feature of this region is that the Japanese teenage generation has developed a very special interest in the LEGO brand and everything associated with it in the form of licensed products, etc.

#### Mail-order and Internet sales

Mail-order and Internet sales were satisfactory in every respect and displayed a steep growth rate. Sales went predominantly to the American market, which remains the biggest buyer of LEGO products via these channels.

#### Products

The top-selling product ranges during the year were again BIONICLE, closely followed by Harry Potter and *Star Wars* products. Individual products in the Harry Potter series occupied many of the top places. Hogwarts Castle was the best-selling individual product, with several other Harry Potter products close behind.

Although the increase in sales of EXPLORE products for the youngest consumer group are not quite up to expectation, the success of this range nevertheless places it on a par with Harry Potter and *Star Wars* products.

But LEGO Company has high expectations for this product range, once parents everywhere realise the development

potential in this outstanding range for their youngest children. EXPLORE products can help stimulate children's development at all its phases.

These products have undergone a noteworthy change of name – as a result, such well-known names as PRIMO and DUPLO have disappeared and re-emerged under the portal name of EXPLORE. Naturally, there has been a down side, also in a sales context. But there is no doubt that switching to the new portal structure is the right decision and that it will prove itself in the long term.

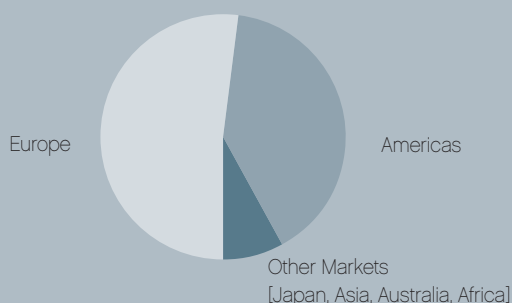
Consumers are showing a serious interest in the new product ranges, Racers and Sports. During the year sales have multiplied several times. LEGO Racers is now the fifth biggest product range in terms of sales.

One particular product launch during the year proved disappointing: The introduction of Galidor products in the United States.

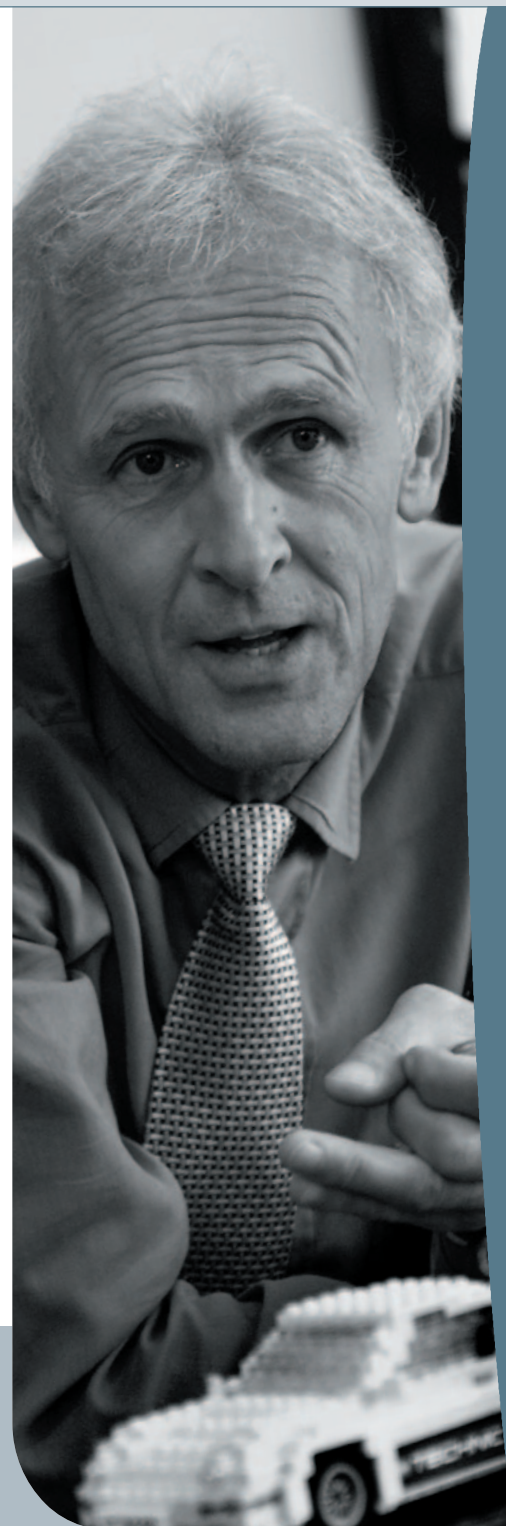
The Galidor TV series from which the products drew their inspiration failed to attract the audience figures in the US that were originally expected.

Indications are that the figures in this range are too distant in their idiom from the kind of thing that LEGO products are known for. This may be one of the reasons consumers displayed little interest in the product, which seemed to have the necessary characteristics to expand and renew the action-figure category.

#### NET SALES



*Poul Plougmann,  
Executive Vice President and COO*





## NEW PARTNERSHIPS IN 2002



### Partnering the NBA

*In May the LEGO Company entered into a business agreement with the NBA (National Basketball Association) of the USA covering the global marketing of a series of new basketball products. Under the deal, a number of NBA players will appear as LEGO minifigures.*

### PARTNERSHIPS:

**Nike**  
**Intel**  
**FC Bayern München**  
**National Basketball Association (NBA)**  
**National Hockey League (NHL)**  
**NASA**  
**Williams F1**



## Parks

LEGOLAND Parks also enjoyed a good year.

High visitor figures and an improved economy were the general trend.

Investments during the year produced attractions with clear ties to LEGO Company's other products – primarily LEGO Racers. Apart from very considerable activity (Xtreme Racers) in Billund and Racers miniland settings in Billund and Windsor, 2002 was the first year the same feature had been launched at all four parks more or less simultaneously: the LEGO Racers 4D film, which was produced in record time. In addition, each of the three "old" parks opened an EXPLORE showroom to mark the launch of EXPLORE products. The parks improved their marketing efforts by working in closer harmony with their respective market areas.

## LEGOLAND Deutschland

The opening of the new LEGOLAND Deutschland park in Günzburg was a major happening. It was a most satisfactory event in every respect. Experience from the most recently opened parks enabled the project to be completed on schedule and within budget – in fact the park opened earlier than expected. Although the economic downturn in Germany is also noticeable in this area, the park's first season indicates that expectations will quickly be fulfilled. The general economic situation in Germany is the biggest unknown factor.

## LEGOLAND Billund

LEGOLAND Billund broke most of its existing records. Heavy investment in new features brought more visitors than ever, higher visitor satisfaction, and one of the best economic results in the history. Hotel LEGOLAND also enjoyed a record season.

## LEGOLAND Windsor

The season at LEGOLAND Windsor was also satisfactory. Admittedly, the park had fewer visitors than in 2001 but an improved economic result meant that in its 7th season the park is close to turning a profit. The improved result came chiefly from the fact that on average visitors spent more money during the season than in the previous year. Surveys also showed that visitors were more satisfied with their visits than previously.

## LEGOLAND California

LEGOLAND California had a much better season than in the previous year. In response to the economic slowdown in America and in order to improve the efficiency of the park, opening times have been adjusted. LEGOLAND California now closes for 66 days a year during the period in which experience indicates there are fewest visitors. This has improved the park's bottomline. Visitor satisfaction remains very high.

All in all, LEGOLAND Parks proved their operational success in 2002, and there is nothing to indicate that this situation will not continue.



*The National Hockey League of America is the world's leading ice-hockey organisation. In November the LEGO Company signed a licensing and marketing deal with the well-established league. A key element of the deal is the ice-hockey products the LEGO Company will launch in spring 2003. The products in the new LEGO sports series will feature the NHL league and team logos.*





### **Production**

A general desire to introduce optimum flexibility in the manufacture of LEGO products has necessitated certain changes in production. As a result, those functions that can be automated are for the most part handled by the Company's Danish and Swiss plants. Those productions that do not lend themselves to the same degree of automation have increasingly been transferred to LEGO Company's plant in the Czech Republic and to external suppliers.

Christmas sales were down in some of LEGO Company's main markets. As a result, substantial stocks accumulated in the retail trade and within LEGO Company itself. With sales not expected to rise significantly during the coming year, it is likely that production in 2003 will be rather lower than in 2002. The effect of this is already being felt: The number of production workers in Billund has been reduced by about 10%.

But even with this reduction, the number of people employed in production in Billund will still be higher than after the cutbacks caused by the poor economic results some years ago.

### **The brand**

In 2002, LEGO Company once again invested many resources in building up the LEGO brand. A series of agreements were signed with various partners during the year, and efforts have been made on a large scale both within and outside LEGO

Company to broaden familiarity with the values behind the LEGO brand.

The Company has also made major investments in developing a Brand Retail concept, which is now being tested in practice. The first three test retail outlets (Brand Stores) in a series were opened in Cologne, London and Moscow. A number of similar retail outlets will follow during 2003. Together with experience gained from existing LEGO shops, these test results will help to form the Company's long-term plans for making more direct contact with the consumer.

These activities should be seen as an important step in the Company's efforts to learn more about consumers and their needs. At the same time the Company wants to examine how it can best inform children and their parents about the values inherent in learning through play products. It is intended that the results drawn from the test period and the experience gained from LEGO retail outlets generally will benefit not only the consumer and the Company but also the rest of the retail trade.

The LEGO Company was very active during the year in seeking international protection for its brand and products against the innumerable attempts at product plagiarism. In an increasingly competitive construction-toy market, the problem of copy products grows correspondingly. One of the more notable successes on this front was that LEGO Company won a landmark and internationally noted injunc-





tion against copy products in the Supreme Court of China.

#### **The environment**

In 2002 LEGO Company launched a number of initiatives which will help to focus on the environment in the coming years. It set up a unit whose task will be to further concentrate environmental efforts globally within LEGO Company. In addition, an analysis was made of energy consumption and energy needs in selected parts of the Danish production plant.

The objective in analysing and defining energy consumption and needs is to develop energy-saving solutions for production, logistics, maintenance, IT/automation and other parts of the Company.

One important step towards a more determined effort on the environmental front is the Company's current policy of adopting a certificated environmental management system under the ISO 14001 standard. The process began in 2002 and involves, among other things, a tightening-up of LEGO Company's environmental policy and objectives.

The LEGO Company is constantly on the look-out for ways to lessen the environmental impact of its packaging. Cardboard packaging used in the manufacture of LEGO products is now made of 95% recycled material, and the search continues for ways of reducing packaging consumption still further.

With regard to the Company's products, environmental matters are regulated by such instruments as the European Toy Directive, whose provisions lay down a fundamental standard. As a very minimum, LEGO Company uses only plastic materials which satisfy standards set for materials which come in contact with food. And PVC is not used in LEGO products. A comprehensive approval procedure and regular internal and independent external audits ensure that these standards are strictly observed.

#### **Prospects for 2003**

With 2002 ending on an economic downturn and disappointing Christmas sales in both the United States and Europe Central, LEGO Company has found itself approaching 2003 with substantial stocks in hand and at retailers. Inevitably, 2003 is likely to start slowly.


The continued prospect of a weak dollar is also a negative factor. The LEGO Company is sensitive to exchange fluctuations, and it is unavoidable that the low dollar rate will influence the result for the year ahead. One third of the Company's sales are paid in dollars.

The LEGO Company, however, can look forward to a largely unchanged result and turnover in 2003 despite these negative factors – thanks to its broad product range and the efforts of the Company in recent years to improve efficiency and become more competitive.

## **BMW WILLIAMS F1**

*LEGO Racers roared into action in 2002. The flagship of the series is the big, blue LEGO TECHNIC racing car inspired by the BMW Williams original Formula 1 car. In addition to the car itself, working with the Formula 1 team provides an in-depth look into the world of motor racing for children who buy LEGO Racers products or visit LEGO Racers on the Internet.*





In the light of the current political and economic situation, consumers in the early part of the year are showing uncertainty and caution. Just how far international political events will further influence consumer reaction is difficult to foresee – a fact which in itself represents significant uncertainty.

In 2001 and 2002 LEGO Company passed through a period in which focus on the business and the Company's basic values was a vital priority. Now the organisation is moving into a new phase in which the objective is to lay down a foundation for future growth. This phase, which will continue to be a period of further focus and consolidation, is expected to last some years.

In the longer term the growth in sales is expected to average around 10% a year, while LEGO Company profits are expected to rise at a rather higher percentage rate.

#### **Thanking employees**

In many ways 2002 was a turbulent year which made great demands upon LEGO employees. The fact that LEGO Company at the same time is engaged in a process of adjustment does not make those demands any easier. There is therefore every reason to thank employees for their extraordinary effort and contribution.

**Kjeld Kirk Kristiansen**  
**Poul Plougmann**

## **FC Bayern München**

LEGO Company and FC Bayern München, the Germany soccer club, signed a partnership deal in October. Under the agreement a large marquee tent will be erected at the club's Olympic stadium in Munich, where children will be able to play with LEGO bricks while Mum and Dad watch the soccer game. In return the LEGO Company is entitled to feature the club's jerseys and logo in its LEGO Football products.





# Increasing the LEGO brand strength

Although we are already rated in the top ten brand among families with children, we have the capacity to become even more recognised, trusted, respected and loved. The perception of our brand is much greater than the size of our business implies. We will become the strongest brand among families with children through strengthening our core without limiting our brand to a predefined product expression.

During 2002 our brand was further strengthened through focused evolution of the underlying strategy and a contemporary directional interpretation of the values that over the years have been the fuel of the LEGO brand. The strategy has been further developed to narrow the focus and ensure a more direct and relevant execution.

Our fundamental beliefs remain that children are our role models. Children are curious, creative, imaginative. They embrace discovery and wonder, they are natural learners. These are precious qualities that should be nurtured and stimulated throughout life. Thus our mission is also to nurture the child in each of us.

## Evolution

Our values are the most essential elements of the brand as they describe the core of the brand. To reinforce the values as our guiding tools in everything we do, we have interpreted our claim for distinction and added directive meaning. "Creativity" for the LEGO Company is about "Self-expression" and the empowerment of the individual.

"Imagination" is about "Endless ideas", curiosity, discovery and exploration to bring ideas to life. "Learning" is about "Playful learning", learning through play, challenging play, hands-on minds-on play that encourages accomplishment. "Fun" is about "Active fun", social, childlike, adventurous fun and the thrill of creation. And "Quality" is about being valued as "Trusted" through product quality, ethical values and a consistency in all of our actions. It is fundamentally important to understand that it is the combination of the core values that makes the LEGO brand unique and nothing can be true to our brand without being rooted in all five core values.

Furthermore the positioning of the brand has been revised. The LEGO brand is not just about stimulating creativity or motivating imagination. It is the expansive process of creating ideas, of exploration, construction, accomplishment and more... – an infinite expansive process of creation. Therefore the LEGO brand positioning is "The Power To Create", where power communicates the empowerment of the user and to create remains consistently the unique proposition of the LEGO brand and taps into the philosophy of constructivism. Positioning is anchored in the brand experience and establishes the brand as an empowering tool for creation – unrestricted by product category, age, gender or culture.

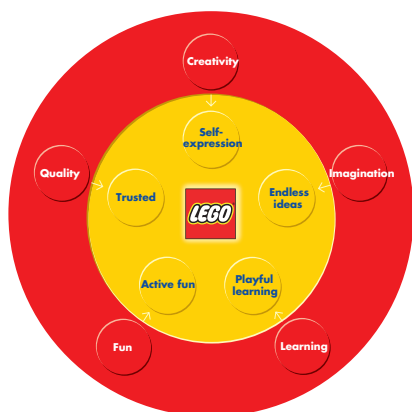
In addition to interpreting values and revising the positioning a new architecture has been established to leverage the LEGO brand through unique brand experiences. The architecture is relevant to both children and



## Knowledge resources

One of LEGO Company's most important knowledge resources is its strong brand and a sound knowledge of the market. The Company engages constantly in developing products which conform with the LEGO values. In addition, it has the skill of forming strong relations with other companies and the drive to ensure that its suppliers comply with strict quality standards both with regard to the product and to the manner in which it is produced. LEGO Company also pursues a consistent policy of furthering the personal development of its employees – to enhance the pleasure and satisfaction they derive from working with the Company.

All of these assets are important ingredients in the Company's ability to maintain and expand its current market position – and thus to generate future value.



adults while at the same time facilitates a strong and clear communication of the LEGO brand across segments, categories and channels. It leads users to a wider perspective of the LEGO brand through experience-based segmentation and enables us to prioritise our strategically important areas instead of solely considering individual product lines and categories. The brand architecture consists of four portals that act as doorways into the brand. Each of the portals has a unique identity that reflects the different experiences they provide. The four portals are:

**Explore** – a complete discovery system to help parents help their children grow

**Make & Create** – is about construction, building processes and creations

**Stories & Actions** – characters, worlds, stories and games & competitions

**Next** – highlighting the latest and most innovative constructivism of logical construction

The visual identity of the LEGO brand has been updated to reflect how our positioning and architecture have evolved so the experience-based portals have their own unique design – although clearly connected through the visual language that crosses all portals.

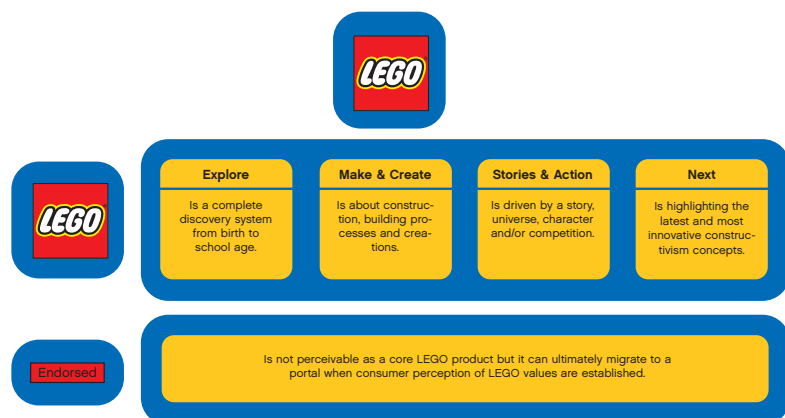
### LEGO Learning Institute

LEGO Learning Institute was set up in 2002. The task of the LEGO Learning Institute is to form a basic insight into child development and the relationship between play and learning. The Institute carries on its own research projects and participates in international research environments, enabling it continuously to update its knowledge. This knowledge is shared with employees of the LEGO Company and with parents, teachers and researchers throughout the world. At the same time the LLI concept connects with all research in child development.

### Advancing towards 2003

Increased focus on brand strategy has already made strong impact within the LEGO Company. In everyday life, architecture, positioning and especially values have an important effect on all employees in their behaviour and decisions. In addition, 1,000-plus employees have participated in brand school workshops which have brought to a significant part of the Company an even deeper rooted understanding of the brand, and this will strengthen global implementation of the activities in 2003.

By 2005, our goal is still for the LEGO brand to become the world's strongest brand among families with children.



## PARTNERING NIKE

Nike, the world-famous sporting-goods manufacturer, and the LEGO Company signed a partnership agreement in October. Under the deal, Nike will manufacture sports shoes whose packaging and decoration will be based on the BIONICLE universe. The new Nike BIONICLE shoe is aimed especially at children and young people. Each pair of shoes is accompanied by a set of masks, any of which can be fitted on the nose of the shoe as the wearer wishes. Extra BIONICLE masks are available in a range of different colours. The first BIONICLE shoes were launched in the United States at the end of 2002, and the product will reach European shops in 2003.





# Living the LEGO values

A conscious effort to make the LEGO Company a pleasant place to work has paid measurable dividends for the third successive year.

The aim is to ensure that the Company not only offers optimum working conditions, career opportunities, personal development and work satisfaction but also permits a sensible balance between working life and off-duty hours.

## LEGO Pulse

Annually since 2000 the LEGO Company has consulted its employees by conducting a questionnaire survey designed to gauge the workplace climate. Entitled LEGO Pulse, the survey comprises more than 60 questions focusing on LEGO values, workplace environment and management.

One of the significant conclusions to be drawn from the 2002 survey is that employees derive a remarkably high degree of satisfaction from working for the LEGO Company. No fewer than 85% of employees say directly that they enjoy going to work. That figure is

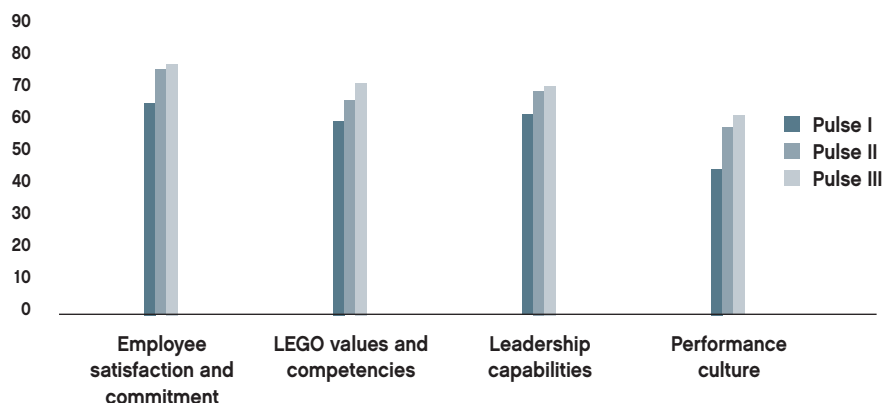
seven percentage points higher than in the first survey three years ago.

A total of 80% of employees are satisfied with the Company, while 6% are not. In the previous year's survey the corresponding figures were 76% satisfied and 7% not satisfied. In the first Pulse survey (December 2000) the figures were 65% and 13%.

Progress has been made in all eight main areas in which analyses were conducted. The biggest improvement was in "working conditions", the smallest in "co-operation and task delegation".

Employees' assessment of management has also improved annually and is currently at 71%.

There was also obvious satisfaction at the Company's respect for the need for balance between working hours and family life. Similarly, employees clearly feel that work gives them a good opportunity to develop and to exert influence. There was also a favourable response to questions on whether managers back up their employees and treat them with respect.



*Approx. 1,000 employees attended Playful Learning courses (picture), and a similar number underwent Brand School courses in 2002.*





On a more negative note, the latest survey shows relatively low percentages on the question of efficiency and simplicity in working procedures. This is something one employee in four has highlighted as being of major significance to the LEGO Company – and it will be a focus area in 2003. For the third consecutive year more and more people are responding to the survey. The latest response rate was 81%. The Pulse survey is conducted in 10 different languages, attracting responses from more 6,600 employees.

The LEGO Company is based on a series of values founded on five core value areas: Creativity, fun, learning, quality and imagination. And to promote and strengthen employee skills the Company has defined a special personnel-development system: Performance Management Programme (PMP). It converts the Company's long- and short-term strategies to individual objectives, agreed between manager and employee.

Since PMP was introduced in 2000, all employees have been required annually to draw up clear-cut operational and focus objectives in consultation with their immediate supervisor. These objectives are based on the employee's primary tasks and activities and on the LEGO Company's strategic priorities. PMP is supplemented by a bonus scheme. The Company also intends in 2003 preparing a personal-development plan for all of its salaried workers. The plan will be based on the five LEGO competencies: "Living the LEGO values", "leadership", "customer and brand focus", "business orientation" and "professional know-how and skills".

Personal-development plans were started among the LEGO Company's 90 senior managers in 2001. In 2002 these managers conducted development interviews with an additional approx. 300 managers on the layer of management below them. The objective is that during 2003-2004 a development plan will be in place for all employees to consolidate and develop the skills of the individual and support the strategy of the LEGO Company.



### Learning through play

During 2002 employees had access to a number of courses based on LEGO values and the LEGO brand. One of these was entitled Playful Learning. A total of 800-1000 employees attended this course during the year, gaining an insight into the importance of learning through the medium of play. Moreover, 1000 employees attended Brand Schools. These comprise a two-day seminar, examining the essential nature of the LEGO brand for the LEGO Company.



# Global Focus on the environment

**1990:** Launch of the "green LEGO wave".

Much of the plastic waste is recycled for production of new components – the remainder is converted into patent fuel for heating.

Thickness of packaging material is reduced by 30% on switching from PVC to PET.

**1991:** 90% of our packaging consists of recycled cardboard.

**1992:** Our packaging carries the "Grüne Punkt" symbol as proof that we meet the requirements of the packaging regulations. Focus on recycling in all our production companies worldwide.

The transport department introduces diesel with low sulphur content.

**1993:** LEGO Systems Inc. (USA) receives a communication award for the environmental brochure The LEGO Promise to Planet Earth.

**1994:** An environmental video is launched for internal use.

More than 200 employees receive training in environmental auditing. An environmental action programme is set up.

**1995:** New cooling equipment is introduced – using water as the only cooling agent. LEGO Company receives European Environmental Award for the energy-saving and environment-improving cooling equipment.

**1996:** The volume of plastic waste is reduced to less than 1% of total plastic consumption.

The consumption of silicone in the decoration department is halved by means of a new method.

**1997:** Environmental assessment of LEGO Produktion AG (Switzerland). Introduction of new technology in manufacturing and logistics to improve the environment. Mobile water cleaner for the wetlands at LEGOLAND Billund reduces water consumption by approximately 80%.

**1998:** New method of packaging consigned goods halves the consumption of stretch film.

**1999-2000:** A new plant for mechanical separation and recycling of mixed plastic waste is inaugurated in 2000.

**2002:** An Occupational Health & Safety Management System conforming to OHSAS 18001 is currently being implemented in Billund.

**2002:** A project is launched to implement a global Environmental Management System conforming to ISO 14001 standards.



## With NASA to Mars

*In June 2003 NASA will send two spacecraft to Mars. A LEGO figure will accompany the expedition. The partnership between NASA and the LEGO Company and the Planetary Society was announced on October 16 during the international space conference in Houston, Texas.*

## EVENTS



### **LEGO Brand Store**

*In October 2002 Kjeld Kirk Kristiansen snipped the ceremonial ribbon and opened the world's first LEGO Brand Store based on an exciting new concept. The store is located in the heart of Cologne, Germany, and is the first in a series of such test outlets. In November a second brand store was opened in Milton Keynes north-west of London. And in December a LEGO brand store was opened in the largest shopping centre in Eastern Europe in Moscow.*

### **Other events during the year:**

**Opening of LEGOLAND Deutschland.**

**Racers 4D film opens in all LEGOLAND Parks.**

**LEGO Company's 70th birthday.**



### **Opening of LEGOLAND Deutschland**

*On May 17, 2002, Germany got its very own LEGOLAND Park – a year earlier than planned. It is the world's fourth LEGOLAND Park and is located in Günzburg, in the German state of Bavaria. The new park attracted more than 1.3 million visitors in its first season, who admired the many beautiful LEGO models that 140 modelbuilders had constructed over a two-year period – using more than 50 million LEGO bricks.*



# Accounts 2002

## FINANCIAL HIGHLIGHTS [ M. DKK ]

	2002	2001	2000	1999	1998
<b>Income Statement</b>					
Net sales	11,426	10,670	9,467	9,808	7,680
Earnings before interest and tax	830	700	(989)	708	(172)
Earnings before tax	626	532	(1,190)	516	(282)
Net earnings	428	433	(916)	273	(194)
<b>Balance Sheet</b>					
Assets	12,144	13,683	12,280	12,933	11,250
Equity	6,952	6,803	6,283	6,856	5,841
<b>Cash Flow Statement</b>					
Cash flow from operating activities	1,989	874	(142)	419	113
Investment in tangible fixed assets	(1,253)	(1,453)	(1,156)	(942)	(1,398)
Total net cash flow	(289)	771	(1,375)	84	(854)
<b>Financial Ratios in %</b>					
Operating margin	73	66	(10.4)	72	(2.2)
Net earnings margin	3.7	4.1	(9.7)	2.8	(2.5)
Return on equity (ROE)	6.2	6.6	(13.9)	4.3	(3.4)
Equity ratio	57.2	49.7	51.2	53.0	51.9
<b>Employees</b>					
Average number (full time)	8,297	7,641	7,880	8,190	9,079

## INTRODUCTION

In 2002 sales rose by DKK 756m to DKK 11.4bn and the pre-tax result for the year was DKK 94m higher than in 2001 at DKK 626m. Equity increased by DKK 149m, which equates to an equity ratio of 57% – seven percentage points up on 2001. Cash flow from operating activities was more than twice the 2001 level, reaching almost DKK 2bn.



The LEGO Company comprises LEGO companies owned by the Kirk Kristiansen Family and to a minority extent by the LEGO Foundation.

The accounting information shown here for LEGO Company is therefore not the accounts of a separate legal entity but is the consolidated accounts of the above group of companies, prepared as if these companies were a group.



# Accounts 2002

## Revised accounting policies

As in earlier years, the annual accounts of LEGO Company have been prepared in accordance with the provisions of the Danish Corporate Accounts Act, and consequently changes in LEGO Company's accounting policies have been necessitated by legislative amendments.

Amendments relating to inter-company loans (i.e. investments in subsidiaries), forward cover and interest have improved the pre-tax result by DKK 82m and equity by DKK 331m (accumulated).

## Income statement

The sales increase in 2002 occurred primarily during the first half of the year and can be attributed especially to a higher rate of sales in the Americas, Asia Pacific and the opening of the new LEGOLAND Park in Günzburg, Germany. The actual increase in turnover on local markets was to some extent counterbalanced, however, by declining exchange rates, primarily USD.

Sales rose by DKK 756m to a total of DKK 11.4bn.

Result before tax increased to 626m DKK in 2002 compared to 532m DKK in 2001.

The rise in interest costs is related to the new LEGOLAND Park in Germany.

The tax liability for the year rose by DKK 99m to DKK 198m. The large increase may be attributed to the fact that an increasing share of revenue stems from high-tax countries and that unused tax deficits in LEGOLAND Parks were higher than in earlier years.

## Balance sheet

LEGOLAND Park Günzburg, Germany, opened in spring 2002, which reduced fixed assets under construction but increased investment in land and buildings and also increased operational assets.

On account of sluggish Christmas sales, stocks rose while receivables fell.

More efficient cash management resulted in a lower level of tied funds and a reduction in current liabilities and long-term debt.

Equity increased by DKK 149m, producing an equity ratio of 57%. Changes in equity were influenced by the positive result, dividends paid, by negative exchangerate and adjustments on investments in foreign subsidiaries.

## Cash flow

Cash flow from operating activities was more than twice the figure for 2001, reaching almost DKK 2bn.

Investments declined slightly – from DKK 1.3bn in 2001 to DKK 1.2bn in 2002.

This is the equivalent of a net increase from operations and investments of DKK 800m in 2002 compared with a negative contribution of DKK 400m in 2001 – an improvement of DKK 1.2bn.

## RATIOS

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

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

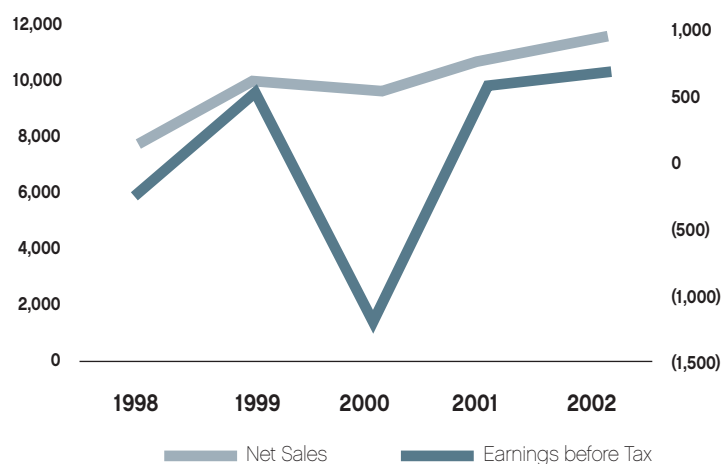
**Return on equity (ROE):**  $\frac{\text{Net earnings} \times 100}{\text{Average shareholders equity}}$

**Equity:**  $\frac{\text{Shareholders equity} \times 100}{\text{Total equity and liabilities}}$

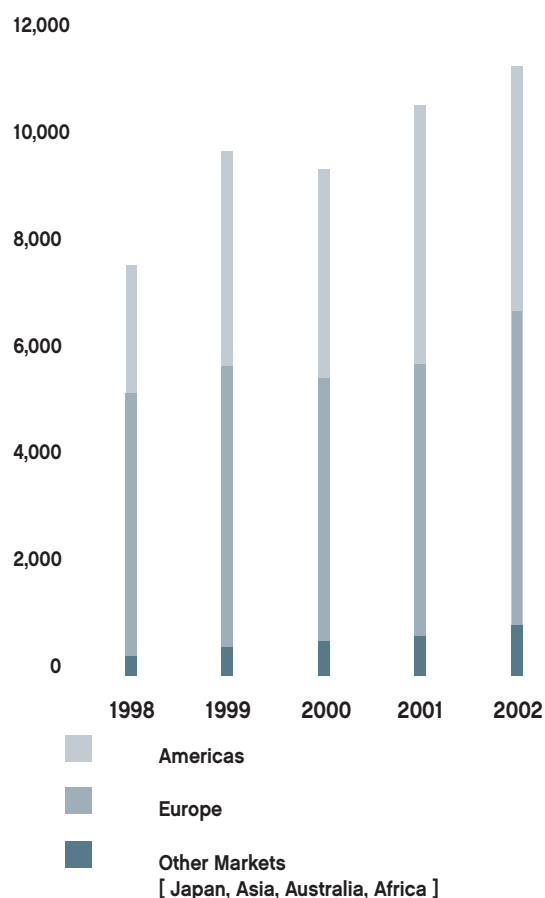
## INCOME STATEMENT [ M. DKK ]

	2002	%	2001	%
Net sales	11,426	100	10,670	100
Operating cost	(10,596)	(93)	(9,970)	(93)
Earnings before interest and tax	830	7	700	7
Net interest	(204)	(2)	(168)	(2)
Earnings before tax	626	5	532	5
Tax	(198)	(2)	(99)	(1)
Net earnings	428	4	433	4

## NET SALES/EARNINGS BEFORE TAX [ M. DKK ]



## NET SALES [ M. DKK ]



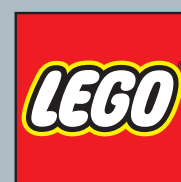
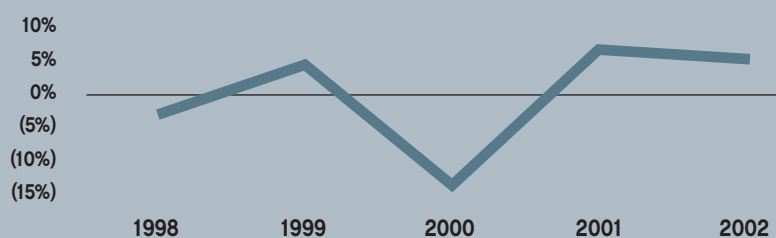
## Selected information relating to the income statement

The positive development reported in 2001 continued in 2002, with an increase in net sales and an improvement in pre-tax earnings.

The higher sales for the year were attributable primarily to the US market, to Asia and to the new LEGOLAND Park that opened in Germany. The actual rise in sales on local markets, however, was to some extent discounted by declining exchange rates, chiefly in the USD.

The tax liability for the year was significantly higher than in earlier years, due to the fact that a proportionately large share of revenue in 2002 was recorded in high-tax countries and that unused deficits were higher than in earlier years.

## RETURN ON EQUITY





# Accounts 2002

## BALANCE SHEET [ M. DKK ]

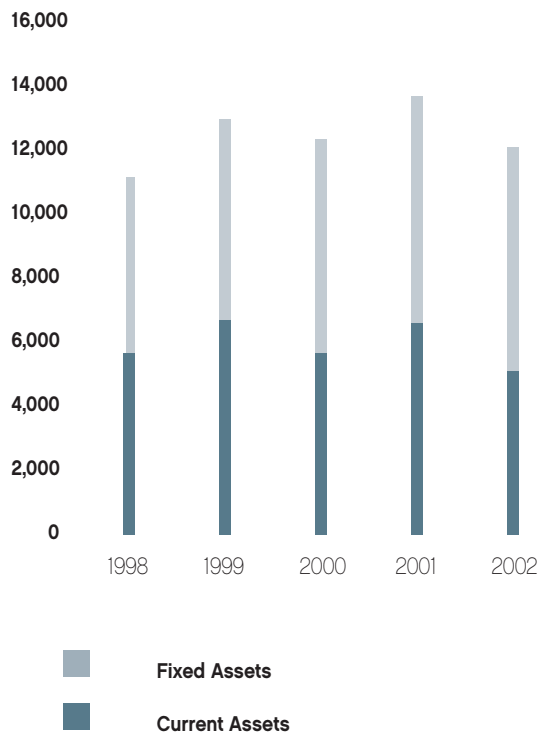
	2002	%	2001	%
Fixed assets	6,962	57	7,076	52
Current assets	5,182	43	6,607	48
Total assets	12,144	100	13,683	100
Equity	6,952	57	6,803	50
Provisions	381	3	322	2
Long term debt	2,113	17	3,069	22
Short term debt	2,698	22	3,489	25
Total equity and liabilities	12,144	100	13,683	100

### Balance sheet

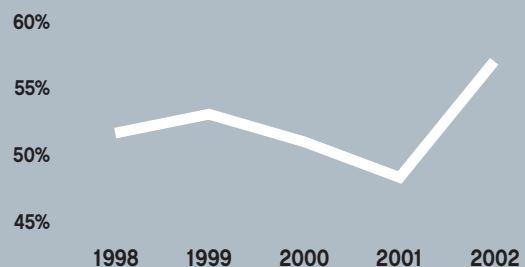
During 2002 it was possible to reduce total assets below their previous level, and at the same time the new LEGOLAND Park in Günzburg was completed. The reduction was mainly in current assets.

In conjunction with the positive result and thus the positive development in net capital, the decline in total assets meant a substantial improvement in the equity ratio, which now exceeds 57%.

## TOTAL ASSETS [ M. DKK ]



## EQUITY RATIO



## CASH FLOW STATEMENT [ M. DKK ]

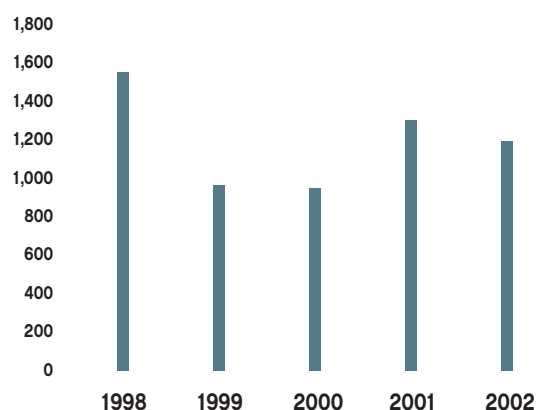
	2002	2001
Cash flows from:		
Operating activities	1,989	874
Investing activities	(1,189)	(1,306)
Financing activities	(1,089)	1,203
Total net cash flow	(289)	771

### Cash flows

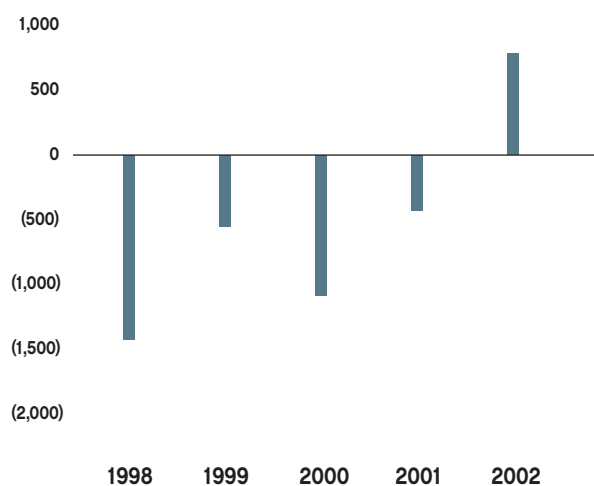
In contrast to earlier years, 2002 provided a positive net cash flow before financing activities. The positive contribution for the year was DKK 800m compared with a negative contribution of DKK 432m in 2001.

The positive development was primarily attributable to improvements in cash flows from operating activities – investment activities were largely at the same level as in previous years.

## NET INVESTMENTS [ M. DKK ]



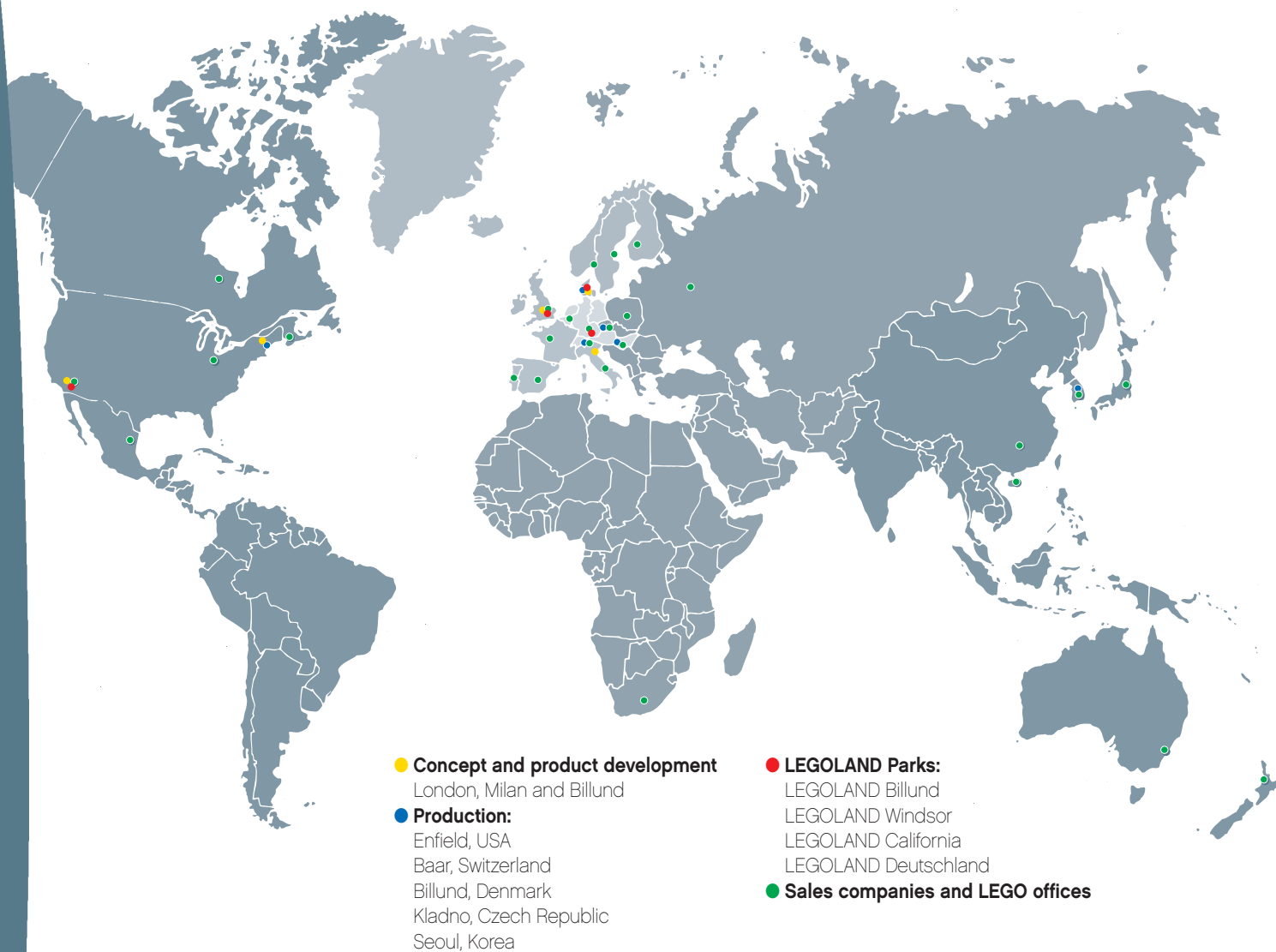
## NET CASH GENERATION [ M. DKK ]



### Trademark costs

Trademark costs totalled DKK 350m, chiefly comprising royalty payments to companies in the KIRKBI Group.

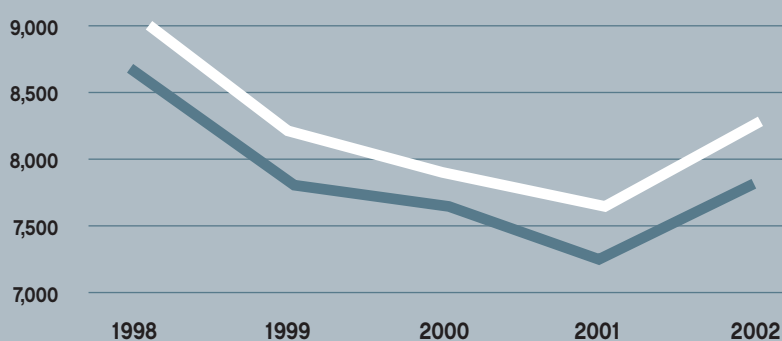




## EMPLOYEES

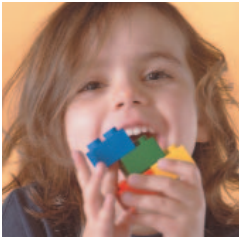
(full time)

Per 31/12  
 Average





# TOP FIVE PRODUCT CATEGORIES IN 2002



## Sales by product categories:

### TOP FIVE

- 1. BIONICLE
- 2. LEGO Harry Potter
- 3. LEGO EXPLORE
- 4. LEGO *Star Wars*
- 5. LEGO Racers



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