Annual Report 2004
LEGO Group

The LEGO Group through three generations

1932: Ole Kirk Christiansen founds a toy factory – under the motto "Only the best is good enough"

1934: The LEGO name first appears – a combination of the Danish words LEG GODT (meaning "play well")

1935: The company manufactures its first wooden construction toy

1949: The first plastic blocks "Automatic Binding Bricks" are marketed

1955: Godtfred Kirk Christiansen, develops LEGO System of Play in the process creating a new play platform

1958: The LEGO brick is patented – with internal tubes as the interlocking component

1958: Ole Kirk Christiansen dies, and Godtfred Kirk Christiansen becomes the Company's CEO

1960: After a fire in the wooden-toy warehouse, production is concentrated on the LEGO System (plastic LEGO bricks)

1962: The LEGO wheel is invented

1966: The first LEGO train – with rails and motor – rolls off the production line

1968: LEGOLAND family theme park opens in Billund

1969: Big bricks for small hands – LEGO DUPLO – are launched

1973: Kjeld Kirk Kristiansen, Godtfred's son, is appointed Managing Director of the new Swiss production companies

1977: Kjeld Kirk Kristiansen returns to Billund and joins the management company, INTERLEGO A/S

1978: "System in a System" – Kjeld Kirk Kristiansen's development model splits production into product ranges and lines. It is the start of an intensive period of product development

1978: Launch of the Minifigure

1978: The LEGO Technic product line is developed to challenge the experienced LEGO builder

1979: Kjeld Kirk Kristiansen becomes President and CEO

1980: The Institutional Department is built up to handle the Company's relations with children's and educational institutions – LEGO Dacta was the name in 1989, changing later to LEGO Educational Division

1986: Launch of LEGO TECHNIC Computer Control. A result of the partnership with Media Lab at the Massachusetts Institute of Technology, Boston

1989: Dr. Seymour Papert, MIT, Boston, appointed "LEGO Professor of Learning Research"

1993: Children's clothing manufactured under licence by clothing company Kabooki

1995: Godtfred Kirk Christiansen dies – a few days after his 75th birthday

1996: LEGOLAND Windsor opens

1996: www.LEGO.com website is set up

1998: LEGO Mindstorms – the intelligent LEGO brick, robot technology and the LEGO building system are integrated

1998: Global robot competition, FIRST LEGO League, is announced

1999: The Company's first film licence deal is signed with Lucasfilm – resulting in LEGO *StarWars™*

1999: LEGOLAND California opens

2001: BIONICLE creates a new toy category: "Constraction", combining construction toys and action themes.

2002: LEGO Learning Institute organises and communicates knowledge of play and learning

2002: LEGOLAND Günzburg opens

2002: LEGO Brand Stores are launched to get closer to the consumer

2003: Clikits – launch of a new design system for girls

2004: Kjeld Kirk Kristiansen retires as President and CEO, handing over the position to Jørgen Vig Knudstorp, after having initiated the action plan that is to return the company to value creation.

Financial Highlights - LEGO Group

[mDKK]	2004	2003	2002	2001	2000
Income Statement:					
Revenue	6,704	7,196	10,116	9,475	8,379
Expenses	(6,601)	(8,257)	(9,248)	(8,554)	(9,000)
Profit/(loss) before special items, financial income and expenses and tax	103	(1,061)	868	921	(621)
Impairment of fixed assets	(723)	(172)	–	–	–
Restructuring expenses	(502)	(283)	–	(122)	(191)
Operating profit/(loss)	(1,122)	(1,516)	868	799	(812)
Financial income and expenses	(115)	18	(251)	(278)	(280)
Profit/(loss) before tax	(1,237)	(1,498)	617	521	(1,092)
Profit/(loss) on continuing activities	(1,473)	(953)	348	420	(788)
Profit/(loss) on discontinuing activities	(458)	18	(22)	(54)	(75)
Net profit/(loss) for the year	(1,931)	(935)	326	366	(863)
Balance Sheet:					
Assets relating to continuing activities	5,657	10,049	12,560	14,093	13,072
Assets relating to discontinuing activities	2,432	–	–	–	–
Total assets	8,089	10,049	12,560	14,093	13,072
Equity (incl. minority interests)	2,948	4,892	6,478	6,225	5,699
Provisions and debt relating to continuing activities	4,731	5,157	6,082	7,868	7,373
Provisions and debt relating to discontinuing activities	410	–	–	–	–
Cash Flow Statement:					
Cash flows from operating activities	774	944	1,853	1,227	(286)
Investment in property, plant and equipment	457	709	1,264	1,478	1,186
Cash flows from financing activities	(29)	(560)	(1,003)	870	(139)
Total cash flows	538	(215)	(290)	771	(1,374)
Financial ratios (in %)					
Operating margin (continuing activities)	(16.7)	(21.1)	8.6	8.4	(9.7)
Net profit margin (continuing activities)	(22.0)	(13.2)	3.4	4.4	(9.4)
Return on equity (ROE)	(46.3)	(16.7)	4.6	6.8	(15.2)
Equity ratio	36.4	48.7	51.6	44.2	43.6
Equity ratio (incl. subordinate loan capital)	46.3	48.7	51.6	44.2	43.6
Employees:					
Average number of employees (full time), continuing activities	5,569	6,542	6,659	6,474	6,570
Average number of employees (full time), discontinuing activities	1,725	1,756	1,657	1,184	1,328

Financial ratios have been calculated in accordance with the "Guidelines and Financial Ratios 2005" issued by the Danish Society of Financial Analysts.

DEFINITIONS:

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

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

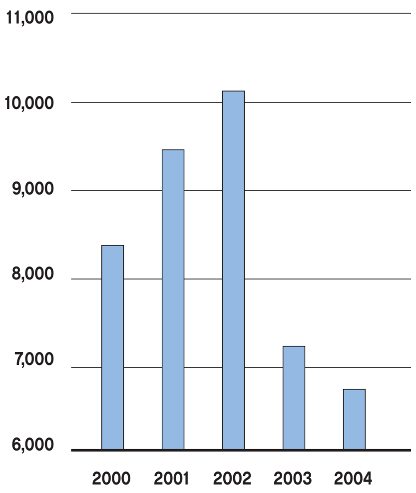
RETURN ON EQUITY (ROE): $\dfrac{\text{Net profit for the year x 100}}{\text{Average equity}}$

In addition the following are presented:

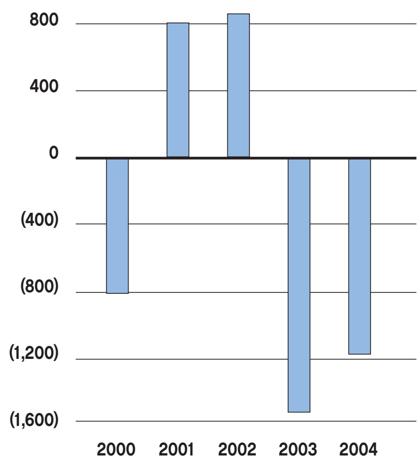
EQUITY RATIO: $\dfrac{\text{Equity (incl. minority interests) x 100}}{\text{Total liabilities and equity, end of year}}$

EQUITY RATIO INCL. SUBORDINATED LOAN $\dfrac{\text{Equity (incl. minority interests) + subordinated loan x 100}}{\text{Total liabilities and equity, end of year}}$

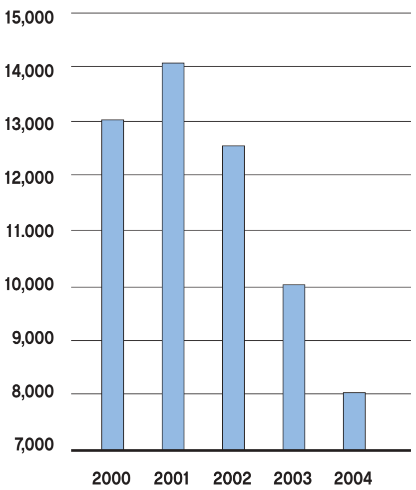
REVENUE [mDKK]



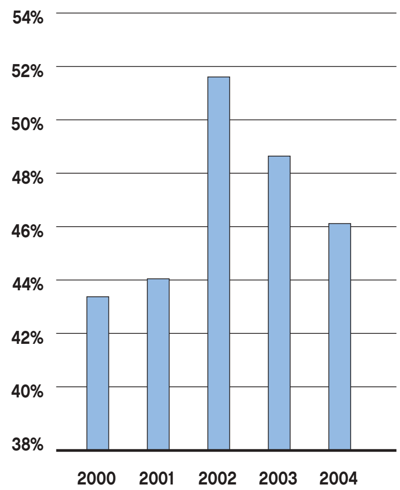
OPERATING PROFIT/(LOSS) [mDKK]



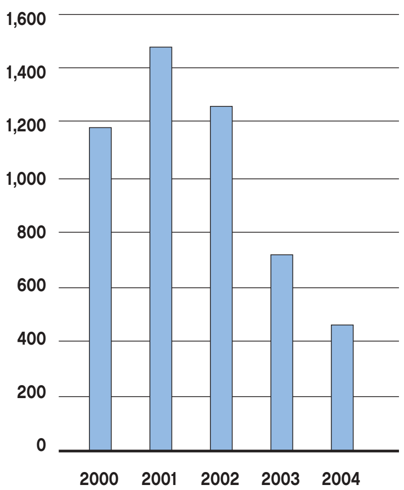
TOTAL ASSETS [mDKK]



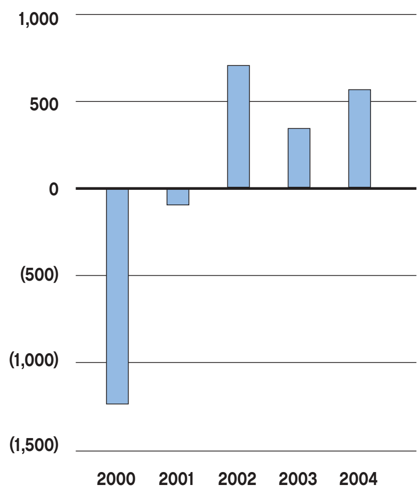
EQUITY RATIO INCL.
SUBORDINATED LOAN CAPITAL



INVESTMENT IN PROPERTY,
PLANT, AND EQUIPMENT [mDKK]



FREE CASH FLOW BEFORE
FINANCING ACTIVITIES [mDKK]



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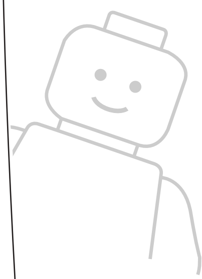
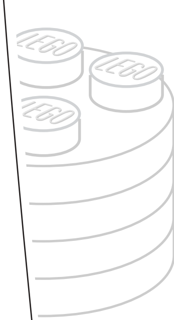
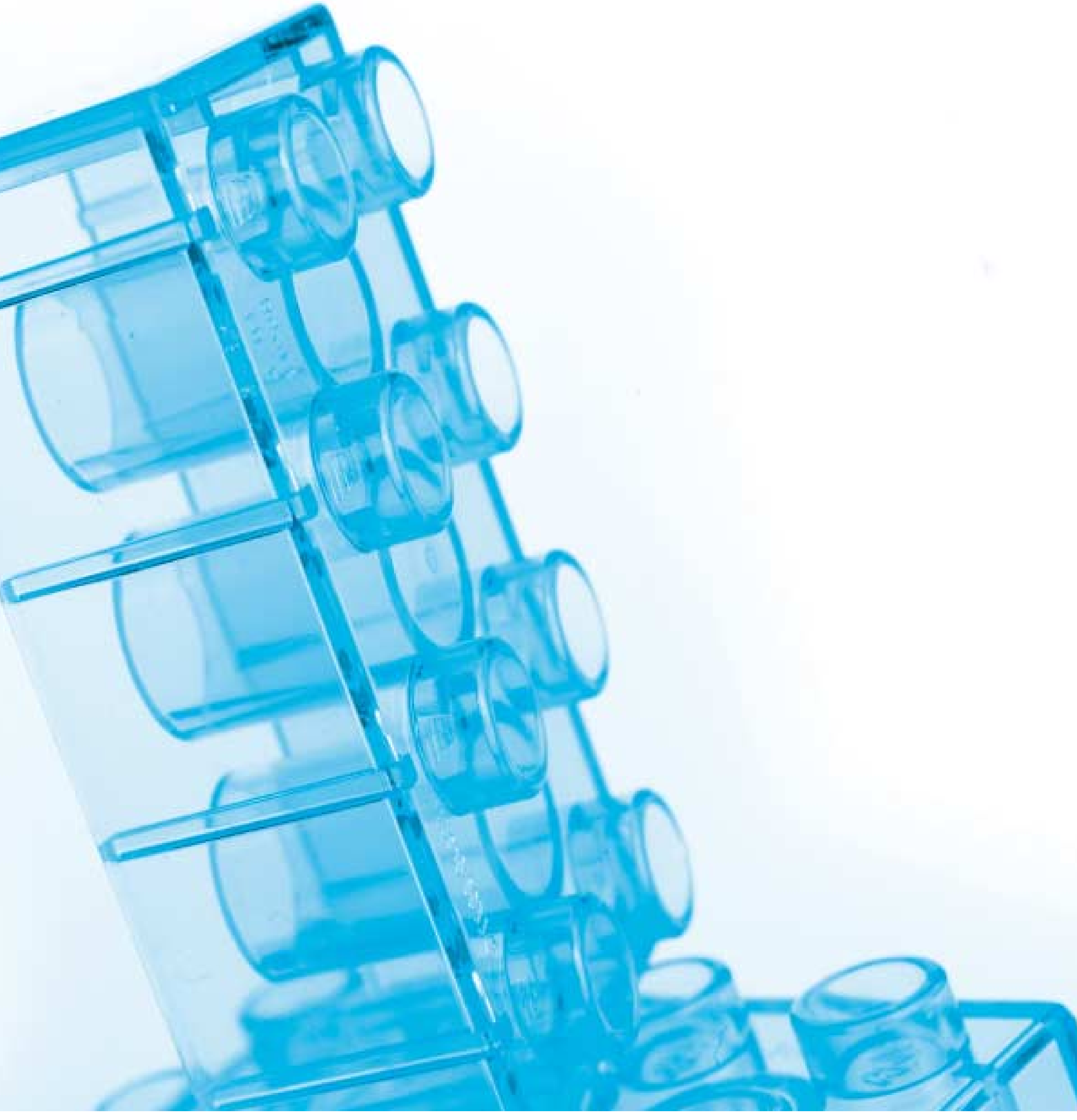






New Direction for the LEGO Group

In 2004 the LEGO Group had to take radical new steps to tackle its most serious financial crisis to date.

In recent years the toy industry – and in consequence the LEGO Group – has witnessed crucial changes in business terms and market conditions. There has been consolidation in the retail sector, and major grocery chains have expanded at the expense of traditional toy stores. General economic pressure on consumer demand combined with a squeeze on the toy market specifically driven by consumer electronics caused a decline in sales of traditional toys. In addition, the majority of competitors are sourcing their products in low cost countries such as China. The overall effect of these factors has been intense price competition with pressure on profit margins – in a declining market.

The LEGO Group therefore has to fundamentally change the way it does business if it is to survive as an independent, Danish family-owned group and again become a financially well-founded, value creating business. That is the objective – and as a consequence a fundamental change in strategy has been decided. The change of direction means that efforts are again being concentrated on the Group's classic, core products – LEGO bricks – and on the values that have been built around the LEGO brand over the years.

The global toy market was again in 2004 in decline, and the LEGO Group – in spite of maintaining its share of the market – felt the negative effects of lower sales on almost all markets; in particular driven by a significant weakening of key currencies against the Danish krone, and reduction in retail inventories of LEGO products.

The Group's toy revenues in 2004 were DKK 6,704 million compared with DKK 7,196 million in 2003, while total revenues in 2004 were DKK 7,934 million against DKK 8,428 million in 2003 (including the LEGOLAND Parks).

Faced with this unfavourable market development, the LEGO Group launched an Action Plan early in the year, emphasising three main themes:

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

As part of the Action Plan it has been decided to sell off the LEGOLAND Parks to improve liquidity and establish a more solid financial base for the company. Thus, the Parks are not regarded as part of the continuing activities of the LEGO Group. Consequently, in the Annual report the result, assets and liabilities are stated as discontinuing activities.

The Action Plan involved substantial cost reductions and efficiency measures in the play materials (toys) business, which together with the reduced activity level meant cutting production and operating costs by DKK 1,523 million – a 20% reduction of their 2003 level. It also meant reducing the workforce by approximately 1,000 people.

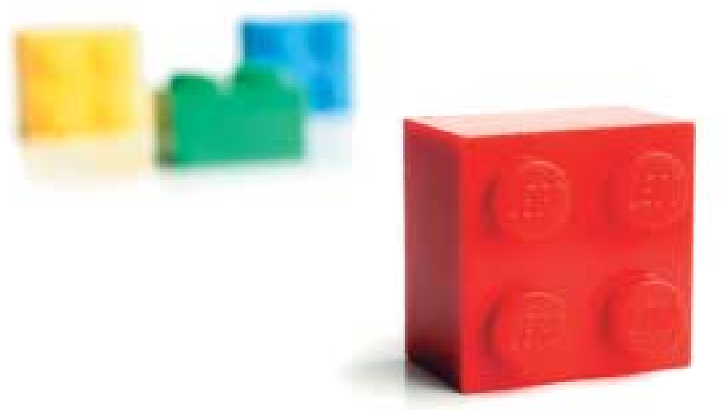
The profit/loss of the play materials business before special items, financial income and expenses and tax was significantly improved to a profit of DKK 103 million compared to a loss of DKK 1,061 million in 2003.

Restructuring expenses were DKK 502 million and impairment were DKK 723 million on fixed assets relating to the play materials business.

This implies that the profit/loss for the play materials business totals to a loss of DKK 1,473 million against a loss of DKK 953 million in 2003.

The loss on discontinuing activities was DKK 458 million including DKK 528 million impairment of LEGOLAND Park activities. The profit before impairment of the discontinuing activities is DKK 70 million against DKK 18 million in 2003.

The net profit/loss for the LEGO Group was a loss of DKK 1,931 million against a loss of DKK 935 million in 2003.



The regrettable workforce redundancies, the significant impairment of fixed assets and the non-recurring expenses reflect the focus of the Action Plan but also have a significant negative effect on the result.

In keeping with the new direction and greater focus on the way of doing business, the LEGO Group modified its communication strategy, placing greater emphasis on communicating openly and timely with all stakeholders – reporting both future strategic direction and the Group's interim results.

One of the first steps towards greater transparency was the 2004 change in ownership of the Group's companies. LEGO Holding A/S is now the parent of both the Danish and the Swiss parts of the Group. At the same time the share capital of LEGO Holding has been increased. The change means that the LEGO Group now coincides exactly with the LEGO Holding Group, and the group will in future be known as the LEGO Group instead of the LEGO Company. To enable comparison previous years' figures have been restated in the 2004 Annual Report to match the new group structure.

Early in the year, Kjeld Kirk Kristiansen resumed responsibility for day-to-day management and was instrumental in developing the changes of direction and in implementing the Action Plan. When the Plan had been formulated and started its implementation, Kjeld Kirk Kristiansen chose to retire from the post of President and CEO, which he had held for 25 years. This marked a generational shift in the management of the LEGO Group. Kjeld Kirk Kristiansen has played a decisive role in the growth and development of the LEGO Group over a period of many years, and at the same time he has been a pivotal figure for the culture and workforce of the company. We are very conscious of honouring this heritage in the effort to a sustainable LEGO Group.

In spite of the question marks over the Group's business situation, LEGO employees met the challenge and made a great effort during the year. It is in large part thanks to them that a renewed LEGO Group is beginning to take shape.

Despite the challenges facing the Group, the year has confirmed the continued relevance of LEGO products in the toy market. The timeless product idea, the uniquely coherent construction system, creates fun, engaging and creative developmental play. During the year, this has been emphasised by growing support to the many LEGO activities for play-oriented children and adults. The LEGO Club now has a membership of more than 2.3 million children aged 6-12 years. In Korea approximately 50,000 children are signed up in LEGO Educational Centres, and LEGO Mindstorms based global robot competitions, such as FIRST LEGO League, experienced an increase in the number of participants, now totalling more than 100,000 children.

The Group will continue in 2005 to work for an enhancement of its competitiveness and profitability. Supported by these new initiatives, the Group expects revenues in 2005 similar to 2004 and a profit before special items and tax in the region of DKK 200 million.

The year under review was one in which the Group launched the Action Plan, made extensive reductions, and worked on improving relations with retailers and consumers.

In 2005 the aim is to achieve results not merely by reducing costs but by substantially improving our market position.

The following pages give an account of developments within the LEGO Group in 2004 and of its objective and planned initiatives

Billund, March 2005

Mads Øvlisen,
Chairman

Jørgen Vig Knudstorp,
LEGO Group CEO

Report 2004

Market & Results 2004

The market

In 2004, the global market for traditional toys once again was under pressure, and in most countries the profile for total sales was either flat or in decline. In contrast, the market for electronic toys – video consoles and computer games – enjoyed a minor increase. The most serious threat, however, is that children are losing interest in traditional toys at a younger age, and that other products in the consumer-electronics sector – such as mobile phones and MP3 music players – are replacing toys to an increasing extent.

The market is also affected by increased competition at the retail level. Medium-sized toy retail chains are finding it more difficult to compete with very large chains. At the same time major grocery chains are accounting for a rising proportion of toy sales, often on discount terms. Demands are made upon toy manufacturers for shorter delivery times, lower stocks at the retailer, more exclusivity products, higher profit margins and increased marketing activity. The consequence has been sustained pressure on prices and a further diminishing of gross margins. Furthermore, more and more toymakers are manufacturing the majority of their products in China, thereby lowering production costs.

The declining market means that revenues can be increased only by capturing a larger market share. This intensifies competition, and increases the level of risk in a market which is characterised by here-today-gone-tomorrow fads, which shorten the market life cycle of products. At the same time, toy sales are very seasonal, as much as 50% occurring during the last three months of the year.

Revenue and profit

The LEGO Group's profit/loss before special items, financial income and expenses and tax in 2004 was a considerable improvement on the corresponding figure for 2003. The profit/loss for 2004 was a profit of DKK 103 million compared with a loss of DKK 1,061 million in 2003. The improvement stems from the fact that by reducing many of its activities and implementing efficiencies, the Group was able to cut its costs by DKK 1,523 million equal to 20% compared with 2003.

In spite of this improvement, however, the profit/loss before special items, financial income and expenses and tax remains unsatisfactory. This is mainly due to the declining sales development. Revenue in 2004 was DKK 6,704 million against DKK 7,196 million in 2003.

The weaker value of the US dollar and related Asian currencies caused revenue to decline by 3 percentage points in 2004, equal to a decrease of DKK 200 million.

The decline in revenue was exacerbated by a general tendency among retailers towards inventory reduction. This was driven by the desire for greater retail efficiency, and also reflected the

Jørgen Vig Knudstorp

Jørgen Vig Knudstorp joined the LEGO Group in September 2001. From May 2002 he headed the LEGO Group's strategy department. From April to November 2003 he was acting Chief Financial Officer, and in November 2003 he became Senior Vice President and joined senior management, Global Management Team (now LG-LT), with responsibility for Corporate Affairs.

CV

2004 - :	CEO
2003 - 2004:	Senior Vice President, Corporate Affairs, LEGO Group.
2003 - 2003:	Vice President, Strategic Development, LEGO Group.
2002 - 2003:	Senior Director, Global Strategic Development & Alliance Management, LEGO Group.
2001 - 2002:	Director, Strategic Development, LEGO Group.
1998 - 2000:	Consultant, McKinsey & Co.

Age: 35 years.

Qualifications: BA (econ.) and Ph.D.

Family: Married to Vanessa Knudstorp. Children – Sebastian 4 years, Filippa 3 years, Zacharias 1 year. Lives in Århus..

DUPLO Castle developed in 9 months

Previously, it could take anything up to 24 months from the birth of an idea to the day the finished LEGO product stood on the retailer's shelves. That's far too long in today's rapidly changing toy market. The LEGO Group has therefore set itself the target of a maximum of 12 months for developing individual new products.

The first product to pass through the shortened pipeline is DUPLO Castle, which was launched on October 1, 2004. Development took a mere nine months – with parallel processes and rapid decisions helping to reduce the lead time.

expectation of a continued decline in sales of traditional toys. The retail chains minimised their inventories of LEGO products during the peak season. The LEGO Group enjoyed satisfactory sales from retailers to the consumer in the 2004 peak season – in local currencies, similar to sales in 2003, which ensured preservation of market share. Thus, the effect is that inventories of LEGO products held by retailers at the beginning of 2005 were healthier than in recent years.

Strategy and Action Plan

The profit/loss before tax for 2003 was a loss of DKK 1,498 million. Part of the reason was an unforeseen negative development in the toy markets combined with loss of market shares in certain key markets – causing global sales to fall by 29% below their 2002 level.

In response to the Group's financial result and continued unsatisfactory sales situation, the Corporate Management in consultation with the Board decided to launch a new Action Plan, which was announced in March 2004. The plan lays down a major switch in direction, requiring the LEGO Group to concentrate its efforts in the future on its basic, classic and universal product idea: LEGO bricks, and on the values that have been built around the LEGO brand.

The objective of the Action Plan is to return the LEGO Group to profitability and financial stability and at the same time to keep the Group in the private ownership of the Kirk Kristiansen family.

The Action Plan has three main themes:

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

Set clear direction for the LEGO Group and fundamentally change the way we do business

The aim of the business agenda is to become a value creating company. This requires fundamental improvements in the efficiency of the Group's operation and processes – for example, in product development and in the supply chain. Thanks to the Action Plan, there has been a change in the Company's communication strategy, with more transparent and early information to all stakeholders on both the Group's future strategic direction and its current results.
Clearly defined targets for individual employees and transparent and early follow-up systems are being developed with the aim of giving the LEGO Group's company and leadership culture a more result-oriented profile.

Restore competitiveness by focusing on customers, in particular their profitability

The LEGO Group must recapture its position as one of the retail trade's key toy suppliers. This will require an ongoing understanding of the conditions and profitability of the retail trade and of consumer preferences. The Group has adjusted its products, prices and product-development processes in response to feedback from retailers and consumers. This will result in, for example, a halving of the product-development time, which makes the organisation more responsive to the changing needs of the market. In addition, the Group is working to reduce its lead times and inventories.

The product range must be in keeping with the core idea of the brand. This means sharpened focus on such classic product lines as LEGO DUPLO, LEGO Make & Create, the classic play themes (e.g., LEGO City), and LEGO Technic. Development projects which are not directly associated with the LEGO Group's core business – for instance, electronic games – have been transferred to licensed partners.

The LEGO Group's own analyses indicate that in 2004 it has been able to maintain its share of the market in the Americas and Europe in spite of increased competition in a stagnant market. Feedback from the retail trade also shows that the turnaround which the Group started in 2004 – with its greater emphasis on the customer – has been remarkable. But there is still room for improvement and a need to concentrate effort on meeting the expectations of retailers.

Reduce the level of risk by right sizing our activities, cost base and assets to a lower revenue base

The tool for minimising risk will be to trim LEGO Group activity and cost base to match lower revenues and to the expectation that the future growth rate will be moderate. The Group had more production capacity than it needed – due to slow growth in the toy market and the productivity improvements achieved by the LEGO Group in recent years. It was therefore decided to make substantial impairments in some of the Group's assets. Asset values have also been reduced through a process of disposal.

In 2004 fixed assets were impaired by a total of DKK 1,251 million, of which DKK 528 million related to discontinuing activities. The impairment was spread across several asset categories, including buildings, production capacity and LEGOLAND Parks. Moreover, the Group ceased using its own aircraft on December 31, 2004. Company aircraft will be disposed during 2005.

These asset impairments were necessary mainly on account of surplus capacity in several areas. Revenues of toys have fallen by more than 25% in recent years, and in the same period production efficiency has been increased. As business during this period had been expected to grow by 8-10% a year, the Group found itself with surplus production capacity.

A number of activities have also been transferred or centralised. For example, computer games and film production have been contracted out and as has the sale of educational products in Europe. Hereby, substantial cuts in Group costs have been made, and the target of reducing total costs by DKK 700 million with full effect in 2005 was already achieved in 2004. This has led to a reduction in the work force by approximately 1,000 employees.

In 2004 the LEGO Group opened a further nine Brand Retail stores, bringing the total number to 33 worldwide. The stores are primarily located in the USA, supporting the Group's strategy of broadening public awareness of the LEGO brand. At the same time the stores are an important sales platform

LEGO production shuts down in Lättich

At the end of March 2004 the LEGO Group ceased production at its Lättich plant in Switzerland after 30 years. At the time of its closure, the plant employed 137 people in its moulding shop. 25 employees were transferred and integrated in production at Willisau and Steinhausen, and 12 took early retirement. The remaining employees were given assistance in seeking new jobs.

After closure of the Lättich plant, 350 people are now employed by LEGO Switzerland at Willisau and Steinhausen.

Royal couple visited Billund

Thousands of children and adults were on hand to greet Crown Prince Frederik and Crown Princess Mary of Denmark, when the couple made an official visit to LEGOLAND Billund in September 2004. The royal couple – who were married in May 2004 – had a special task to perform: officially inaugurating a model of their own home, Fredensborg Castle with its Kancellihuset wing.

Prince Frederik and Princesss Mary were presented with two small LEGO figures of themselves – which they have opted to place near the door of the Kancellihuset leading to the garden.

Nine model designers spent 3,000 hours researching, drawing and building the large model of the castle – the equivalent of one person working for two years. The model is built to a scale of 1:20 and required a total of 369,000 LEGO bricks.

in a market which is becoming increasingly less specialised and subject to retail consolidation. Over the years, the Group has tested a variety of retail concepts, locations and product portfolios in order to identify the most relevant combination. It has now developed a formula for a small chain of retail stores. The retail concept has been well received by consumers, and in 2004 it won an international design, marketing and property-development award. The LEGO Group, however, intends accumulating further experience in the construction and operation of these outlets before engaging in further major investment. It is estimated that it will take 1-2 years to fine-tune the concept.

The year under review saw visitor numbers rise at LEGOLAND Parks. The increase of 140,000 was almost 3% above the previous year's total. The number of season tickets sold rose sharply; more than 350,000 visitors to LEGOLAND Parks are now season-ticket holders. LEGOLAND Parks improved their activities markedly compared with the previous year, and across the four Parks it was gratifying to see visitor satisfaction continuing to rise – and from a very high base point. The profit/loss of the LEGOLAND Parks was a profit after tax of DKK 20 million against a profit after tax in 2003 of DKK 27 million.

LEGOLAND Parks are expected to be sold off during 2005. The Parks are capital-intensive, and a disposal of them will release liquidity, and reduce the LEGO Group's fixed expenses in support of a sustainable core business (play materials/construction toys). The market for family theme parks is currently undergoing a process of consolidation due to increased competition and the need to realise economies of scale. A new ownership structure can inject the future investment needed to renew the infrastructure (including hotels, etc.) and create other synergy benefits.

In 2004 the LEGO Group disposed a holding of nominal DKK 5 million "A" shares in KOMPAN A/S. The remaining shares will be disposed in 2005. KOMPAN A/S is no longer included in the consolidated accounts but classified as discontinuing activities.

During 2004 the LEGO Group reduced its total assets from DKK 10,049 million to DKK 8,089 million, of which DKK 2,432 million relate to discontinuing activities which are expected to be disposed in 2005.

Expectations for 2005

The Action Plan launched in 2004 will also have a significant effect on 2005. In general terms, the plan will produce a smaller, but financially stronger and more streamlined Group, ready to deal with a low-growth industry and product category. The Group's main effort will be in the field of classic construction toys, which represent its core business.

The LEGO Group expects revenues in 2005 similar to 2004 and profits before special items and tax in the region of DKK 200 million.

Organisational structure and leadership

Kjeld Kirk Kristiansen, majority shareholder of the LEGO Group, took over day-to-day management of the Group in January 2004, since when he has been responsible for putting the Company on a new course.

When the Action Plan was firmly in place and the key changes implemented, Kjeld Kirk Kristiansen announced his intention of retiring as President and CEO of the Company after 25 years in the post. In October 2004 the Board appointed a new leadership team – Corporate Management – comprising Jørgen Vig Knudstorp as President and CEO and Jesper Ovesen as Chief Financial Officer.

Mads Øvlisen remains Chairman of the Board, with Kjeld Kirk Kristiansen as Vice Chairman.

Market areas

The Group's organisation was restructured in October. The new organisation is designed to have a more customer-focused and simplified structure.

In sales, there are now only two market areas: European & Emerging Markets (EEM) and the Americas (AMS). Markets which were previously grouped under Asia Pacific now report to European & Emerging Markets, while Australia and New Zealand have been organised under the Americas.

Direct-to-Consumer, which is the Group's Brand Retail store chain, and Shop@Home, the internet and mail-order outlet, also report to the leadership of the Americas organisation.

Leadership Team

The new organisational structure creates a simplified leadership team, which now consists of Corporate Management and the heads of four departments, a total of six people. The LEGO Group Leadership Team – in addition to CEO Jørgen Vig Knudstorp and CFO Jesper Ovesen – is made up of Henrik Poulsen, Senior Vice President (European & Emerging Markets); Søren Torp Laursen, Senior Vice President (Americas, Australia, New Zealand, Direct-to-Consumer); Mads Nipper, Senior Vice President (Global Innovation & Marketing); and Lars Altemark, Senior Vice President (Global Supply Chain). Mads Ryder, Senior Vice President, LEGOLAND Parks, reports directly to Corporate Management.

The brand

The right to use the LEGO brand remains one of the Group's most important "intangible assets". Intending to consolidate and protect the brand and re-establishing a sustainable level of business, the Corporate Management and Board of the LEGO Group have opted to sharpen the focus on the core idea behind the brand.

The products that are based on the core idea are classic product lines: for example, LEGO QUATRO/DUPLO, LEGO Make & Create, the classic play themes, such as LEGO City, LEGO Technic and LEGO MINDSTORMS. The Group will work for the creation of a better balance between these classic product lines and story-based products such as BIONICLE, LEGO *Star Wars™* and LEGO Harry Potter™ with the aim of recapturing market shares which the Group has lost in recent years.

Products

There were new-product launches and relaunches of existing products in 2004. The most notable examples include:

Big LEGO show in the Netherlands

LEGO World was held in the Netherlands in autumn for the fourth consecutive year. This five-day LEGO activity, building and competition event is a joint venture by LEGO Benelux and several external partners, including the Dutch fan club, Bouwsteen.

In the 17,000-m2 event centre children and adults were able to try out LEGO Sports, a CLIKITS Corner for girls, Knights' Kingdom, LEGO Pirates, assorted building activities and much more besides. The Fox Kids TV Channel arranged musical entertainment with popular bands.

A record number of 40,000 visitors paid to attend LEGO World.

LEGO DUPLO brand is back

In 2004 the familiar DUPLO rabbit returned to the front of LEGO sets for the youngest. Since 2002 these sets had been marketed as LEGO EXPLORE, which did not win the favour of consumers. The LEGO Group therefore took the logical step at the end of 2003 and launched the product portfolio for 2004 under its earlier name: LEGO DUPLO.

Feedback from consumers and retailers was that LEGO EXPLORE had made it difficult for consumers to find the products they knew and liked. As a result, the LEGO Group's three building systems for the youngest users – LEGO BABY, QUATRO and DUPLO – will now share a marketing platform. The reintroduction of the DUPLO brand was one of the first examples of the LEGO Group's objective of responding quickly to signals from the market.

QUATRO

QUATRO was launched during the year for children aged 1-3 years. QUATRO bricks are eight times the size of DUPLO bricks and are designed to give the very young child its first experience of building. The two systems complement each other.

DUPLO

The LEGO Group relaunched the DUPLO brand in 2004. LEGO DUPLO products were previously very popular purchases for the youngest children but in 2002 they were replaced by a new child-development system – LEGO EXPLORE. Unfortunately, the new system never really caught on with consumers – and the LEGO Group lost a substantial portion of its sales of products for the "pre-school" child. The relaunch of DUPLO products has been warmly welcomed by both retailers and consumers.

Make & Create

The classic Make & Create line sold well in 2004, which confirms the decision to increase emphasis on the core idea.

KNIGHTS' KINGDOM

The KNIGHTS' KINGDOM range of products came to the market in 2004. It is based on a classic castle-and-knight theme and, in common with BIONICLE, creates its own universe, with an integral story – and its own Internet website. One of the products in this range, Castle of Morcia, was among the 10 LEGO bestsellers in 2004.

CLIKITS

CLIKITS, a product for girls, which is a creative construction toy with jewellery etc., continued the success it has enjoyed since its launch in 2003. Sales to retailers increased by approximately 15% compared to the previous year. This product range is now on sale on most of the markets, i.e. USA and North and Central Europe.

Spider-Man™ 2 and Harry Potter™ 3

The LEGO Group holds the rights to manufacture construction toys tying in with several successful cinema sequels. Two of these were premiered in 2004 – Spider-Man™ 2 and Harry Potter™ 3, and both contributed positively to the annual result.

BIONICLE

Once again, BIONICLE has proved our biggest-selling product. The second BIONICLE DVD appeared in autumn and, like the first film, was well received.

FERRARI

In February, the LEGO Group announced a new partnership with Ferrari. A number of LEGO Ferrari products were launched during the year, all based on Ferrari's Formula 1 racing cars. The products are part of both the LEGO Racers and LEGO DUPLO series and have generated very encouraging sales figures. In 2005 the Formula 1 racers will be joined by a number of products based on Ferrari's street cars.

Ongoing dialogue with LEGO fans

Day-to-day contact and interaction with fans and consumers throughout the world continue to be an important avenue for ensuring that products appeal to consumers. The Group therefore engages in many initiatives which boost and stimulate the creativity and imagination of children and adults – often in collaboration with LEGO fans. Examples are FIRST LEGO League, LEGO Club and www.LEGOfactory.com.

FIRST LEGO League & Mindstorms Competitions

In 2004, the LEGO Group continued its work on the so-called FIRST LEGO League competitions. FIRST LEGO League is a robotics competition for children and young people between the ages of 9 and 16 years, who compete in teams in several disciplines. Competitions are run in conjunction with the American non-profit organisation FIRST (For Inspiration and Recognition of Science and Technology). Through projects run by the children themselves, competitions foster a child's interest in and propensity for science and mathematical/technical subjects.

In 2004 FIRST LEGO League competitions were held in 20 different countries – including newcomers Japan, South Africa, Switzerland, Mexico, Israel and Turkey. The number of participating children has increased by more than 30% since 2003 – to a total of 55,000 in 2004, made up of 6,000 teams. As a new venture, a series of pilot competitions was conducted in the USA aimed at children in the younger age group of 6-9 years.

A number of robot competitions were held in Asia based on LEGO Mindstorms – by World Robotic Organisation (WRO) and Robocup. In these competitions, more than 6,000 teams participated in 2004, which means that the total number of children, participating in Mindstorms-based competitions (including FIRST LEGO League) was more than 100,000 in 2004.

LEGO Club

The LEGO Club is for children aged 6-12 years. In 2004 it had 2.3 million members. It communicates with members via a website and a members' magazine. The magazine is published in English, German, French and Japanese approximately six times a year. Through the LEGO Club, members can share pictures of their favourite building work and draw inspiration for future play.

In September a new club was launched in the USA: LEGO BrickMaster. On a subscription basis members have access to a number of activities.

Launch of www.LEGOfactory.com

In November 2004 the LEGO Group launched a new website: www.LEGOfactory.com. Children and other building enthusiasts visiting the site are invited to design LEGO models and take part in competitions for LEGO prizes. The idea behind the website is to develop the Group's contacts with LEGO fans of all ages. If children are looking for advice or ideas, they can see inspirational material at the site posted by LEGO designers and adult LEGO fans.

Visitors can build 3-D LEGO models using a special software application, LEGO Digital Designer (LDD) and join the LEGO Factory competition. Every week, new winners are selected. On top of receiving LEGO products, they automatically compete for the certification of "professional LEGO Factory designer", which entitles them to have their model mass produced and sold in Shop@Home on www.LEGO.COM. The 10 final winners will receive a 5% royalty on each set sold.
The first version of LDD appeared a year ago on www.LEGO.com. The programme can be downloaded free of charge. So far, more than 700,000 consumers throughout the world have downloaded LDD.

Knights' Kingdom on the shelves in 200

In early 2004 the LEGO Group launched Knights' Kingdom, based on the classic knights-in-shining-armour theme. The core target group for this product is boys aged 5-7 years. Boys who love action – and who are fascinated by the physical play that the products encourage.

The product comprises two lines: Action Figures and Play Themes. The two lines have different qualities, which supplement each other. Play Themes provide building satisfaction, the Action Figures tend more to feature fast-moving play.

LEGO educational centres open in Asia

In 2004 the LEGO Educational Division opened two new educational centres for children aged 3-6 years – one in Singapore, the other in Japan. LED opened its first centres in Asia back in 2001, and today there are 150 LEGO education centres located throughout Korea, Japan, Australia and Singapore. In Korea alone, nearly 50,000 children take part in a LEGO Educational Centre programme.

LEGO bricks are acclaimed in Asia for their great learning value, and at LED centres children can develop their skills in creative problem-solving and communication. A specially-trained teacher takes small classes of 5-10 children. A "course" lasts 48 hours, and course materials have currently been developed for three-, four- and five-year-olds. Children attend the educational centres in the afternoon, after regular school or kindergarten.

In the new centres, LED is responsible for the design of the centre, the curriculum, educational materials, training the instructors and supplying the LEGO products. The investment and operation of each centre are handled by a number of external partners.

Adult LEGO fans

A growing number of adult LEGO enthusiasts have begun setting up groups to discuss their LEGO hobby. They call themselves "AFOLs" – "Adult Fans of LEGO". Over a period of years, the LEGO Group has actively developed relations with many "AFOL" groups, who have their own websites, organise public events, and take part in LEGO development projects. In January 2005 the LEGO Group announced its "LEGO Ambassador" programme for AFOLs worldwide. The purpose of this programme is to expand mutually useful relations between the LEGO Group and its loyal, talented and committed consumers.

LEGO VisionLab

LEGO VisionLab was set up in 2003 with the aim of developing and communicating future scenarios as a basis for product and concept development. In October 2004 VisionLab submitted its second generation of future scenarios and a trend overview. The Group will take steps to integrate existing scenario findings in its product development in 2005. The department discontinued its operations at the end of 2004.

LEGO Learning Institute

The LEGO Learning Institute is the LEGO Group's research unit responsible for collecting knowledge of play, learning and creativity in modern society. The Institute was set up in 2001, and accumulates and communicates knowledge for product development, marketing and communication purposes internally within the Group, i.e. through a "Whole Child Development Guide" that covers children's development through the age of 0-8 years. During the year the LEGO Learning Institute also supplied speakers to address a number of international conferences, round tables and workshop sessions on children, play and learning.

Employees and corporate culture

Employees of the LEGO Group have seen the Company enter a period of crisis in 2004, while experiencing increased demand for individual performance and simultaneous cost savings, some of these leading to redundancies. The uncertainty surrounding these circumstances has imposed a great strain on employees – whose active help in achieving sustainable development for the Group is more important than ever. So communication between the Leadership Team and employees has been strengthened with a view to establishing a clear direction and to promoting a business understanding throughout the organisation.

In May 2004 the Leadership Team set up a Stakeholder Relations function as part of the organisation People, Culture & Corporate Communication (PCC). This reflected the Leadership's wish to maintain the LEGO Group's commitment to the environment, society and a range of interest groups – and generally to live up to its social responsibility as a corporate entity. A definite ethical standpoint and a strong social commitment form the link between the values of the LEGO Group throughout its history and the urgent demand for a healthy bottom line. PCC comprises two former departments: Corporate Communications and Human Resources.

Feedback from employees – Pulse 2004

The annual employee survey – Pulse –

was conducted in late 2003 and early 2004. The survey examines employees' commitment to, satisfaction with and understanding of the Group's direction and the Leadership's communication. Pulse plays an important role as a means of dialogue between the Leadership and employees.

Employee & culture policy

The LEGO Group wants to attract and keep the best employees. To this end, a new policy was drawn up in 2004 explaining the Group's position and promises to and expectations of its employees. The policy underlines the LEGO Group's desire to create a culture in which employees and leaders work together to achieve economic results – all the while ensuring that the Group's traditional respect for high ethical standards is upheld. During the course of 2005 this new policy will provide a basis for reviewing other staff policies.

Improved Performance Management Programme (PMP)

The LEGO Group introduced its Performance Management Programme (PMP) in 2000. Under PMP, employees (individually or in teams) agree with their immediate manager a breakdown of the Group's strategies into clear individual targets for the critical tasks.

In 2004, the programme was modified to give greater reward to individual results, and a clear link was established between individual Key Performance Indicators (KPIs) and the Group's overall objectives. PMP may be regarded as a management tool specifically developed to help the LEGO Group achieve its stated goals by way of a focused, measurable and effective process. The programme supports the chosen strategic direction and focuses priorities in the current crisis situation. As the LEGO Group's 2004 result was negative, bonuses were not paid to employees unless they were directly engaged in sales.

Developing talent

During 2004 the LEGO Group stepped up its efforts to develop its internal talents. Ongoing and targeted development of potential leadership talent is necessary in order to motivate and retain high-potential employees and to ensure continuity and consistency in the leadership of the Group.

The Group's talent programme comprises "senior talents" (leaders with the potential in the longer term of joining the Leadership Team) and "business-unit talents" (employees and leaders with general leadership potential). By the end of 2004 a total of 16 senior talents and 67 business-unit talents were engaged in the talent programme.

Redundancies

The LEGO Group laid off a large number of employees in 2004. All redundant employees were offered assistance through an outplacement scheme. Close to 300 employees accepted the offer of the scheme, which both supports the individual in dealing with his or her future situation and provides assistance with job applications.

Work environment

The health and safety of its employees has always been an area of special concern for the LEGO Group, and efforts are constantly being made to secure uniform working conditions at all locations. In 2001, the Danish Labour Inspection Service introduced a special effort aimed at workplace acci-

Greater dialogue between leaders and employees

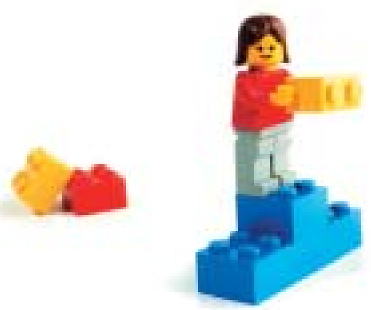
Dialogue was a keyword for the LEGO Group throughout 2004. In an era when the Company has undergone many changes, it has been important to provide employees with the full perspective. With this in mind, the Leadership Team held a number of so-called "town hall" meetings globally across the Group. The Leadership Team has met employees at more than 45 meetings in support of the implemented Action Plan and to give employees an opportunity to ask and obtain answers to any questions they might have.

Dialogue and transparency are also reflected in the Group's intranet communication. Employees can follow daily reports on the Group's sales and supply performance. As something new, employees are able to "chat" with their leaders on the intranet at certain fixed times. Another innovation enables employees to comment on or ask questions of particular individuals concerning all news stories published on the intranet.

LEGO bricks most popular toy in 20th century

In a poll in Britain during the year, LEGO bricks were acclaimed the most popular toy of the past 100 years. The Internet poll was organised by the Museum of Childhood in London, which wanted to discover which toy people thought they just had to have.

LEGO products were a convincing winner with 31% of the vote. Computer games came in second with 14%, and teddy bears were in third place. The result of the on-line survey was announced at the opening of a large exhibition, Must-Have Toys, in October 2004.



dents reported by large companies. A report issued in December 2004 by the Danish Working Environment Council and Danish Working Environment Authority showed that through a programme of targeted measures the LEGO Group had been able to reduce the number of workplace accidents by 75% during the period 1997-2004.
The LEGO Group continues to work towards global implementation of the health and safety management system, OHSAS 18001. Activities in Billund were certified in 2003, and implementation in the rest of the world will be finalised by the end of 2006.

Corporate responsibility of the LEGO Group

In 2003 the LEGO Group became the first toy manufacturer to join the UN Global Compact. This UN initiative reflects the Company's desire to live up to its social responsibility in the field of human rights, environment and labour standards.

In 2004, Kjeld Kirk Kristiansen, majority shareholder and the then President and CEO of the LEGO Group, took part in a Global Compact Leaders Summit in New York to demonstrate the LEGO Group's continued support for the obligations implied by the principles of the Global Compact.

A plan has been drawn up for implementing the principles of the Global Compact within the organisation (www.LEGO.com is regularly updated with details of the Group's action in a Global Compact context).

LEGO Group quality assurance

The LEGO Group strives to maintain a high general standard of toy manufacture in regard to both child safety and environmental protection. It is therefore the Group's policy always to use the most updated research and information, and constantly endeavour to use materials that balance safety, environment and product quality.

Under the Group's ongoing quality assurance programme, all activities from product development to distribution are subject to a system of quality assurance and certificated under DS/EN ISO9001:2000. In addition, revisions were made in 2004 to the Group's Quality Assurance manual, which provides guidelines for the relevant employee categories, who are involved in the work with LEGO products.

Choice of materials

Toys sold by the LEGO Group meet the official requirements of all national and international authorities in the field. Furthermore, the Group has its own internal rule that products must satisfy the expectations of quality and safety that consumers may reasonably have – with an allowance for pattern of play and foreseeable abuse of the product.

The LEGO Group does everything it can to avoid the use of softeners (phthalates) in all its products. The Group takes as its basic starting point the most stringent legislation in this field for products for children aged 0-3 years, and has opted to let its products for the other age groups comply with the same stringent quality standard. As a result, LEGO play material contains no phthalates beyond what may be present as a minimum background contamination which does not exceed current legislative standards – the equivalent of "measurement uncertainty" in the single product.

In view of the fact that no research proves or indicates that a child's health and safety are compromised by PVC, the LEGO Group has decided to accept the use of PVC in certain limited areas of the product range where PVC is regarded as the safest and highest quality material. This includes electric wires, decorative paints and a selected few other categories. LEGO bricks, other building elements and LEGO packaging contain no PVC.

All materials and substances and their environmental and health effects are subject to constant reassessment, and all materials are in compliance with the LEGO Group's product-safety policy which – at the very minimum – conforms to current legislation.

All of the Group's toy products carry the European Union CE symbol. The symbol indicates that LEGO Group products comply with the EU Toy Directive. Products manufactured for the American market must satisfy the Code of Federal Regulation and ASTM standard F963. Thanks to these very high quality standards, 2004 was another year in which no request was made upon the LEGO Group to recall toys on account of product safety.

Environmental obligations and action

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

In 2004 the LEGO Group began developing a system for registering additives. The purpose of the system is to ensure continuous registration and monitoring of the use of additives in the Group's processes and products. The actual system was ready by the end of the year. It is expected to be implemented and personnel trained in its use during the second quarter of 2005.

The LEGO Group continues to work towards global implementation of the environmental management system ISO 14001. Development of the management system commenced in 2004, and final implementation will occur in 2006.

LEGO Group Code of Conduct

In 1997 the LEGO Group drew up a series of guidelines on the behaviour expected of the Group and its suppliers in relation to child labour, compensation, working hours, discrimination, etc.

The standard laid down in the LEGO Group's Code of Conduct is in several respects higher than the general standards applying in many supplier countries. During 2004 the Code of Conduct was revised, and an appendix was added on child labour. The appendix was formulated in consultation with Save the Children Denmark, and reflects the approach of the LEGO Group to child labour.

In 2004 a total of 92 audit visits were made to the premises of LEGO Group suppliers. 16 of these were follow-up audits to ensure continued progress in areas where improvements had been requested. All suppliers have undertaken to optimise areas in which the auditors highlight a need for change or an improvement in conditions.

54,000 copy products destroyed in Finland

In November 2004 a total of 54,514 boxes containing illegal copies of LEGO products were destroyed at Kymenlaakson Jäte Oy waste-plant in Finland. The huge shipment of replica toys was seized by the Finnish customs authorities while it was in transit from China to Russia.

The 10.5 tons of copy products were slavish imitations of LEGO elements - and vastly inferior in quality to LEGO Group products. There was a genuine risk that the bricks would have broken in children's hands.

It was the largest consignment of LEGO copy products ever confiscated by the customs authorities.

Naturally, the LEGO Group's Code of Conduct is not confined only to suppliers; the Group itself complies internally and runs audits conducted by a third party every second year. The first internal audits were held in December 2004 in Billund (Denmark) and Kladno (Czech Republic).

As a further important measure, all employees in the Group's Purchasing Department received information on the content and importance of the revised Code of Conduct in 2004 to ensure the broadest possible knowledge and understanding of the standard that the LEGO Group demands of its suppliers and partners.

Charity work

During the year the LEGO Group continued to work closely with the charity organisation Save the Children Denmark in upholding the LEGO Group's social responsibility in general and its social attentiveness to children and their development in particular. Collaboration with Save the Children Denmark has existed since 2000 and involves both economic support and product donations –including assistance following the tsunami disaster in Asia. (More information on specific projects can be found at www.LEGO.com.) In addition, LEGO Denmark continues to donate products to charity organisations, children's wards in hospitals, and institutions in support of families with children.

Jesper Ovesen

Jesper Ovesen joined the LEGO Group on November 1, 2003, as Chief Financial Officer. At the same time he became a member of senior management, Global Management Team (nowLC-LT). Jesper Ovesen's area of responsibility – in addition to Corporate Activities – includes Global IT, Facilities, and Legal Department. Jesper Ovesen was formerly chief financial officer at Danske Bank, vice-president finance at Novo Nordisk, and CEO of Baltica Bank.

CV:

2003 –	CFO – LEGO Group
1998 – 2003	CFO – Danske Bank
1994 – 1998	Vice-President Finance Novo Nordisk
1993 – 1994	Chief Executive Officer – Baltica Bank
1989 – 1993	Vice-President Finance – Baltica Holding

Age: 46 years.

Qualifications: Chartered Accountant with a Master in Finance from the University of Copenhagen.

Risk factors

The business of the LEGO Group is exposed to a number of risk factors. These can be grouped into two categories: commercial risks and financial risks. A brief description is given below of the main risk factors and how they affect the Group's earnings. They are listed in random order.

COMMERCIAL RISKS

Consumer demand and product development

The LEGO Group's sales will always depend on whether consumers find the products attractive. Consumer demand is changing more rapidly, is becoming more difficult to predict, and at the same time has become more subject to changing fashion, which means that some products have a shorter life cycle. In addition, the LEGO Group's sales are highly seasonal. More than half of the annual sales take place in the period September – December. This makes heavy demands on the Group's product development and adaptation.

Customers

The trend towards fewer and larger units within retail trade continues. Also for the LEGO Group, this has implied increased concentration of sales to fewer, but larger customers. For the Company, this involves an increased risk in the event of customer bankruptcies, etc. Moreover, the increased concentration strengthens the customers' negotiating position as regards both price and shelf space.

Market position

For many years, the LEGO Group has had a strong position on the market for construction toys. During recent years, several competitors have, however, launched construction toys and other products in direct competition with LEGO products.

The LEGO Group seeks, on a continuous basis, to secure its market position through various means, e.g. upholding patents and rights, keeping an eye on competitors' copying of LEGO products and harnessing the LEGO name and the goodwill related to the name.

Corporate strategy

As a consequence of the previous, unsuccessful growth strategy, a new Action Plan with a significant change in strategy was launched and initiated – at the turn of the year.

The Action Plan is of material importance for the LEGO Group's ability to reach its targets for 2005 and onwards. It is therefore important that the individual initiatives of the Action Plan are implemented satisfactorily. This can be ensured, among other things, through close follow-up and successive adjustments.

FINANCIAL RISKS

Foreign exchange

The LEGO Group's base currency is the Danish krone, and the most significant exposures relate to US dollars, Euros, Swiss francs and Japanese yens.

The Group seeks to minimise the risks by matching payments received and made and of borrowing and lending in the same currency. Where the risks cannot be covered by a natural match, the Group uses forward exchange contracts and currency options in order to keep foreign exchange exposure at a minimum. Engaging in foreign exchange hedging is done solely for commercial reasons; it is not Group policy to cover all risks relating to net investments in foreign enterprises.

Interest

The LEGO Group's interest risk relates to interest fluctuations in connection with financing arrangements. The company seeks to minimise the risk by maintaining a natural match between the debt and fixed and current assets respectively. In addition, risks are covered by means of interest swaps and options.

Credit

Credit risks relate to the ability of financial partners and customers to fulfil their obligations. The Group seeks to limit risks in relation to its financial partners by choosing only partners with a high credit rating and by spreading the contracts among several partners. In order to minimise the risk of losses on bad debts, the Group uses a global credit insurance programme.

Liquidity

The LEGO Group's liquidity must always be sufficient to cover investment and operational requirements. This is achieved by constantly focusing on optimising cash flows and ensuring the availability of adequate drawing rights with banks. Besides bank deposits, the LEGO Group's cash reserves consist of both committed credit facilities and uncommitted credit facilities.

It is LEGO Group policy to reduce long-term financing charges as much as possible, and the composition of the debt is spread both on lenders and on maturity periods.

The Group pursues a continuous process of adjusting the balance sheet with a view to strengthening its credit standing and reducing the need for working capital.

FINANCIAL REPORT

Unless otherwise stated, the financial report is based on the continuing activities, comprising the play materials (toys) business. The discontinuing activities, which in all essentials comprise the LEGOLAND Parks, are commented on separately at the end of the financial report.

Highlights

- Revenue fell by 7 per cent compared with the previous year, 3 percentage points of which are attributable to developments in exchange rates, primarily the drop in the USD.
- The gross margin of 60 per cent is 3 percentage points higher than in 2003.
- Profit/loss before special items, financial income and expenses and tax has improved from DKK -1,061 million in 2003 to DKK 103 million in 2004.
- Special items amount to DKK -1,225 million in 2004 and relate to impairment of fixed assets and restructuring expenses.
- Profit/loss for the year before tax amounts to a loss of DKK 1,237 million against a loss of DKK 1,498 million in 2003.
- Total assets have been reduced to DKK 8,089 million, of which DKK 2,432 million relates to discontinuing activities.
- Equity totals DKK 2,948 million including minority interests, corresponding to an equity ratio of 36 per cent (46 per cent including subordinate loan capital).
- Free cash flows of DKK 538 million have been realised despite the net loss for the year of DKK 1,931 million.
- Gross investments amount to DKK 325 million against DKK 573 million in 2003. Proceeds on sale of fixed assets amount to DKK 190 million.

Consolidation

In 2004, LEGO Holding A/S acquired the entire capital of INTERLEGO AG by way of a tax-free exchange of shares, and at the same time, the capital of LEGO Holding A/S was increased. As the same shareholder had controlling interest in INTERLEGO AG and LEGO Holding A/S, the acquisition was accounted for in accordance with the provisions of the Danish Financial Statement Act relating to the pooling of interests: the pooling of interests method. In accordance with this, comparative figures and financial highlights were restated as if the companies had been united as from the beginning of the financial year.

In 2004 the LEGO Group disposed of a holding of nominal DKK 5 million "A" shares in KOMPAN A/S . The remaining shares are expected to be disposed in 2005. KOMPAN A/S is no longer included in the consolidated accounts but classified as discontinuing activities.

As a consequence of the above changes, the Consolidated Financial Statements of LEGO Holding A/S primarily comprise LEGO A/S and INTERLEGO AG with subsidiaries. Previously, the Consolidated Financial Statements primarily comprised LEGO A/S and KOMPAN A/S with subsidiaries cf. the Group Structure

In 2004, the activities relating to the LEGOLAND Parks and KOMPAN A/S are stated as discontinuing activities due to the LEGO Group's necessary focus on its core business and the intentions of selling off activities in the course of 2005. The comparative figures of the income statement and the financial highlights have been restated accordingly.

Net profit/loss for the year

The net profit/loss for the year including discontinuing activities was a loss of DKK 1,931 million against a loss of DKK 935 million in 2003, a decrease of DKK 996 million, which is attributable to several material circumstances.

The reduced revenue due to declining sales and exchange rates has had an insignificant effect, and therefore the gross profit decreased by only DKK 37 million due to improved gross margin. However, the reduced gross profit is more than counterbalanced by cost savings of DKK 1,068 million achieved as a consequence of the Action Plan implemented, as well as an income of DKK 133 million from the sale of fixed assets.

The profit/loss before special items, financial income and expenses and tax has consequently improved by DKK 1,164 million, from a loss in 2003 of DKK 1,061 million to a profit of DKK 103 million.

In 2004, the net profit/loss for the year is furthermore materially influenced by impairment of fixed assets of DKK 1,251 million, including DKK 528 million relating to discontinuing activities, against DKK 172 million in 2003, as well as restructuring expenses of DKK 502 million against 283 million DKK in 2003.

Net financial expenses for the year increased by DKK 133 million as a consequence of lower foreign exchange rate gains from hedging activities.

Revenue

Total revenue in 2004 amounted to DKK 6,704 million against DKK 7,196 million in 2003, a decrease of 7 per cent, which includes an actual decline in sales of 4 per cent and a foreign exchange effect of 3 per cent.

Calculated in local currencies, the decline in sales was generally the same on all markets, which means that the Company has not succeeded in recovering some of the considerable decline in turnover in 2003, neither on the Asian nor the US markets.

The negative foreign exchange effect can be ascribed to the fall in one of the LEGO

Group's primary invoicing currencies. The US dollar continued to decrease towards the Danish krone. The average value of the US dollar in 2004 was 9 per cent lower than the average value in 2003.

Gross margin

The gross margin of 60 per cent is a 3 percentage point increase compared with 2003, which reflects several circumstances. Due to the increased price pressure on the toy market, it has been necessary to reduce the prices of a number of products, and to grant higher and a larger number of discounts, which has resulted in relatively lower sales prices than in 2003. On the other hand, the Company succeeded in compensating for this through streamlining and savings in the production, and by keeping inventory write-downs at a lower level than in 2003.

Expenses

Sales and distribution expenses, administrative expenses and other operating expenses for the year amount to DKK 4,062 million for 2004 against DKK 5,130 million in 2003 – a drop of DKK 1,068 million, which is attributable to realised cost savings.

The most material part of the cost savings achieved is attributable to the goal-directed efforts which were initiated in 2003 and continued in 2004, with special focus on the LEGO Group's administrative, development, and sales and distribution expenses.

Licence and royalty expenses

As part of the ordinary business, the LEGO Group has entered into a number of royalty and licence agreements with inventors and other licensees with a view to using intellectual property rights, including protected trademarks, for the products of the LEGO Group. In 2004, DKK 224 million was paid according to agreements entered into against DKK 256 million the year before. Expenses relating to licences and royalty are included in production costs and other operating expenses.

Impairment of fixed assets

According to the accounting policies applied, impairment tests are performed where there is internal or external indication of impairment of individual assets or groups of assets. Based on the tests performed, total impairment of fixed assets of DKK 1,251 million was made in 2004, of which DKK 528 million relates to impairment of assets of discontinuing activities. The remaining impairment of DKK 723 million can primarily be ascribed to properties and production equipment.

The impairment is due to decreasing activity and increasing streamlining, which have resulted in excess production capacity as the planning was based on considerably higher growth expectations than that realised.

Restructuring expenses

As part of adapting the LEGO Group's business to the present activity level and supporting the focus on core business, it has been necessary to make a number of restructurings and provisions for these in 2004. Consequently, restructuring expenses amounting to DKK 502 million were expensed in 2004.

The expenses primarily relate to compensation to employees in connection with their notice of dismissal, of DKK 368 million. Moreover, restructuring expenses relating to the close down of production and office facilities in the form of expenses for the termination of lease contracts and the restoration of leased premises totalling DKK 84 million were paid.

Financial income and expenses

Net financial expenses amounted to DKK 115 million, an increase of DKK 133 million. In 2003, net financial income of DKK 18 million was realised.

Net interest expenses for the year are lower than in 2003 due to improved cash flows. As opposed to 2003, net financial expenses for the year are only to a limited extent influenced by foreign exchange adjustments. 2004 saw net exchange gains of DKK 59 million compared with DKK 232 million in 2003, a fall of DKK 173 million.

Tax

Tax expenses for the year amount to DKK 236 million against an income of DKK 545 million in 2003. Irrespective of the net loss for the year, a tax expense is realised, which is primarily due to the fact that tax losses relating to the impairment of fixed assets and restructuring provisions have not been capitalised.

At the end of 2004, the LEGO Group had deferred tax assets of DKK 448 million and provisions for deferred tax of DKK 175 million. The deferred tax assets are attributable to the LEGO Group's activities in sales companies, and it is expected that the tax loss carry-forwards can be utilised against future earnings within a few years.

Balance sheet

In 2004, a further adjustment of the balance sheet of the LEGO Group took place, which means that the sum of total assets now amounts to DKK 8,089 million against DKK 10,049 million at the beginning of the year – a fall of DKK 1,960 million, which is primarily due to a material decrease in the fixed assets of the LEGO Group. The working capital has been reduced compared with 2003.

Fixed assets have been influenced by impairments of DKK 1,251 million, as well as a lower level of investments and disposal of fixed assets. After transferring fixed assets in Parks to discontinuing activities and classifying properties, etc totalling DKK 403 million as current assets - as these are expected sold in 2005 - total property, plant and equipment relating to continuing activities amount to DKK 1,594 million.

Investments

Gross investments in property, plant and equipment amounted to DKK 325 million in 2004, a reduction of DKK 248 million compared with 2003. The decrease is attributable to focus on simplification and streamlining of the development and production processes, resulting in a reduced need for investment in specific tools and moulds.

Moreover, in 2004, a number of fixed assets, including properties and aircrafts, were sold as part of the adjustment of the LEGO Group to the future level of activity. In the year, fixed assets at a carrying amount of DKK 57 million were sold, resulting in sales proceeds of DKK 190 million. As part of the action plan, a reduction of the interest-bearing debt will continue in 2005, and this is expected, among other things, to be obtained through the sale of fixed assets at a net book value of DKK 403 million. Fixed assets for sale are stated separately under current assets.

Equity

At the end of 2004, equity amounted to DKK 2,948 million (including minority interests) against DKK 4,892 million at the end of 2003, a decrease of DKK 1,944 million. The net loss for the year has reduced equity by DKK 1,931 million. Moreover, exchange adjustments of equity, adjustments relating to financial instruments, dividend paid, etc of foreign subsidiaries have affected equity negatively by DKK 13 million.

Equity including minority interests corresponds to an equity ratio of 36 per cent, and if the subordinate loan capital of DKK 800 million is included, cf. below, the equity ratio amounts to 46 per cent.

Subordinate loan capital

As part of the change of the structure of the LEGO Group and the financing of this, an agreement was entered into with KIRKBI A/S at the end of 2004 concerning contribution of DKK 800 million as subordinate loan capital through conversion of debt. The loan is non-cancellable on the part of the lender.

The subordinate loan has a maturity period of 7 years with the possibility of early repayment by the LEGO Group provided that the Group has a solidity of at least 40% after repayment. The loan has been granted on special terms concerning repayment and subordination on the part of the lender in favour of all other creditors.

Contingent liabilities

Through 2003 and 2004, the Group has been in dialogue with the Swiss VAT authorities concerning documentation of cost sharing between LEGO Schweiz AG and LEGO System A/S and documentation of exports from Switzerland.

After review of the documentation, both matters have been clarified without any claims against the Group from the authorities.

Cash flows

Cash flows from operating activities of the LEGO Group amounted to DKK 774 million against DKK 944 million in 2003. The positive cash flows achieved despite the considerable net loss for the year are due to the fact that a considerable share of the net loss for the year is attributable to impairment losses relating to cash flows realised in the form of previous years' investments. The working capital has moreover been reduced as a consequence of continued focus here on.

Total cash flows amount to DKK 538 million, including discontinuing activities, against an outflow of DKK -215 million in 2003. The improvement is due to the reduced level of investments and the disposal of fixed assets. Moreover, cash flows from financing activities improved as a consequence of lower dividend payment and repayments on loans. Consequently, the Group's financial resources have improved considerably at the end of 2004 compared with previous years.

Discontinuing activities

As a consequence of the increased focus on core business, it has been decided to find new owners for the LEGOLAND Parks. The activities relating to the LEGOLAND Parks are therefore regarded as discontinuing activities. In addition, the Group's share in KOMPAN A/S is regarded as a discontinuing activity.

The LEGOLAND and KOMPAN activities are consequently treated as discontinuing activities, which means that the net profit/loss after tax, assets and liabilities are stated separately in the financial statements. The comparative figures of the income statement and the financial highlights have been restated accordingly.

The net profit/loss after tax of the discontinuing activities amounts to a loss of DKK 458 million for 2004 against a profit of DKK 18 million in 2003. The net profit/loss for the year includes DKK 528 million relating to impairment of fixed assets. Total assets relating to discontinuing activities amount to DKK 2,432 million, whereas provisions and liabilities amount to DKK 410 million, cf. also note 8 to the Annual Report.

Accounting Policies

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

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

Pooling of interests
In 2004, the Company acquired the entire share capital of INTERLEGO AG by way of a tax-free exchange of shares.

Due to the fact that the same shareholder had controlling interest in INTERLEGO AG and LEGO Holding A/S, the acquisition is accounted for under the pooling of interests method, i.e. the items included in the Annual Report are based on original cost. The income statement comprises both companies for the entire 2004.

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

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

Comparative figures
The comparative figures for 2003 have been restated in accordance with the new structure, and for the income statement restated to the split in continuing and discontinuing activities.

Similar restatements have been made in the financial highlights for the last five years.

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

The Consolidated Financial Statements were prepared on the basis of the financial statements of the companies comprised, as a combination of items of a uniform nature and according to the same accounting policies.

Intercompany sales, purchases, interest, dividends, shareholdings, receivables and payables have been eliminated, as well as intercompany profits and losses.

Minority interests
At the calculation of group results and group equity, the shares of the results and equity of the subsidiaries attributable to minority interests are recognised as separate items in the income statement and the balance sheet. Minority interests are recognised on the basis of revaluation of acquired assets and liabilities to fair value at the time of acquisition of the subsidiaries. On subsequent changes to minority interests, the changed share is included in results as of the date of the change.

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

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

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

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

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

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

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

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

Other balance sheets in foreign currencies are translated into Danish kroner at the exchange rates at the balance sheet date. Realised and unrealised gains and losses are recognised in the income statement.

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

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

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

Income Statement

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

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

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

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

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

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

Profit/loss on investments in subsidiaries and associates
The proportionate share of the profit/loss for the year before tax is recognised in the income statement of the Parent Company.

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

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

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

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

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

Balance Sheet

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

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

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

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

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

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

Fixed asset investments
Investments in subsidiaries and associates are included in the financial statements of the Parent Company under the equity method. This means that the Parent Company's proportionate ownership shares of the net asset value and the profit/loss of the subsidiaries are recognised in the balance sheet and the income statement, respectively.

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

Other investments
Other investments are measured at cost. Where the cost exceeds the estimated value, an impairment is made to this lower value.

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

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

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

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

Impairment of intangible assets and property, plant and equipment is expensed under special items.

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

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

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

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

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

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

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

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

Cash Flow Statement

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

Cash flows from operating activities
Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for non-cash operating

items, changes in working capital and corporation tax paid.

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

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

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

Management's Statement on the Annual Report

The Supervisory Board and Corporate Management have today presented and adopted the Annual Report of LEGO Holding A/S for 2004.

The Annual Report was prepared in accordance with the Danish Financial Statements Act. We consider the accounting policies applied appropriate and the estimates made reasonable. Furthermore, we consider the overall Annual Report presentation true and fair. Therefore, in our opinion the Annual Report gives a true and fair view of assets, liabilities, equity, and the financial position of the Group and the Parent Company and of the results of the Group and Parent Company operations and cash flows.

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

Billund, 1 March 2005

Corporate Management

Jørgen Vig Knudstorp,
CEO

Jesper Ovesen
CFO

Supervisory Board

Mads Øvlisen,
Chairman

Kjeld Kirk Kristiansen,
Vice-chairman

Lars Erik Kann-Rasmussen

Mogens Johansen

Anders Christer Moberg

Lars Gunnar Bertelson Brock

Auditors' Report

To the Shareholders of LEGO Holding A/S

We have audited the Annual Report of LEGO Holding A/S for 2004, prepared in accordance with the Danish Financial Statements Act.

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

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

Our audit did not give rise to any qualifications.

Opinion
In our opinion, the Annual Report gives a true and fair view of the Group's and the Parent Company's assets, liabilities, equity and financial position at 31 December 2004, and of the results of the Group's and the Parent Company's operations and cash flows for 2004 in accordance with the Danish Financial Statements Act.

Billund, 1 March 2005

PricewaterhouseCoopers
Statsautoriseret Revisionsinteressentskab

Lars Holtug
State Authorised Public Accountant

Harald Birkwald
State Authorised Public Accountant

Income Statement 1 January - 31 December

[mDKK]

Parent Company 2003	Parent Company 2004		Note	Group 2004	Group 2003
79	90	Revenue		6,704	7,196
(34)	(29)	Production costs	2	(2,672)	(3,127)
45	**61**	**Gross profit/(loss)**		**4,032**	**4,069**
–	–	Sales and distribution expenses	2	(2,872)	(3,526)
(15)	(25)	Administrative expenses	1, 2	(587)	(860)
–	115	Other operating income		133	–
–	(1)	Other operating expenses	2	(603)	(744)
30	**150**	**Profit/(loss) before special items, financial income and expenses and tax**		**103**	**(1,061)**
–	(46)	Impairment of fixed assets	3	(723)	(172)
–	–	Restructuring expenses	4	(502)	(283)
30	**104**	**Operating profit/(loss)**		**(1,122)**	**(1,516)**
(1,313)	(1,449)	Profit/(loss) on subsidiaries before tax	5	–	–
8	2	Financial income	6	104	286
(54)	(42)	Financial expenses	6	(219)	(268)
(1,329)	**(1,385)**	**Profit/(loss) before tax**		**(1,237)**	**(1,498)**
522	(240)	Corporation tax	7	(236)	522
(807)	**(1,625)**	**Profit/(loss) on continuing activities**		**(1,473)**	**(953)**
(9)	50	Profit/(loss) on discontinuing activities	8	(458)	18
(816)	**(1,575)**	**Net profit/(loss) for the year**		**(1,931)**	**(935)**
–	–	Minority interests´ share of net profit/(loss) for the year		356	119
(816)	**(1,575)**	**LEGO Holding A/S' share of net profit/(loss) for the year**		**(1,575)**	**(816)**

Parent Company 2003	Parent Company 2004	
		Proposed distribution of profit for LEGO Holding A/S
–	–	Dividend
(816)	(1,575)	Retained earnings
(816)	**(1,575)**	**Distributed**

Balance Sheet at 31 December

[mDKK]

Parent Company 2003	Parent Company 2004		Note	Group 2004	Group 2003
		Assets			
228	29	Land and buildings		1,172	3,717
–	–	Plant and machinery		299	731
1	1	Other fixtures and fittings, tools and equipment		91	1,374
110	–	Fixed assets under construction and prepayments for property, plant and equipment		32	281
339	**30**	**Property, plant and equipment**	9, 10	**1,594**	**6,103**
–	–	Deferred tax assets	13	448	588
4,612	2,835	Investments in subsidiaries	11, 12	–	–
–	–	Investments in associates	11, 12	–	–
2	–	Other investments	11, 12	–	61
4,614	**2,835**	**Fixed asset investments**		**448**	**649**
4,953	**2,865**	**Total fixed assets**		**2,042**	**6,752**
–	**–**	**Inventories**	14	**712**	**831**
–	–	Trade receivables		1,630	1,744
41	198	Receivables from group enterprises	15	–	–
–	–	Corporation tax receivable		97	84
5	2	Other receivables		256	344
–	–	Prepayments		205	178
46	**200**	**Receivables**		**2,188**	**2,350**
–	**172**	**Fixed assets for sale**		**403**	**–**
–	**1**	**Cash at bank and in hand**		**312**	**116**
46	**373**	**Total current assets**		**3,615**	**3,297**
4,999	**3,238**	**Assets relating to continuing activities**		**5,657**	**10,049**
–	239	Assets relating to discontinuing activities	8	2,432	–
4,999	**3,477**	**Total assets**		**8,089**	**10,049**

Balance Sheet at 31 December

[mDKK]

Parent Company 2003	Parent Company 2004		Note	Group 2004	Group 2003
		Liabilities and equity			
47	123	Share capital		123	47
4,147	2,490	Retained earnings		2,490	4,147
–	–	Proposed dividend for the year		–	–
4,194	**2,613**	**Equity**	16	**2,613**	**4,194**
–	**–**	**Minority interests**	17	**335**	**698**
–	–	Provisions for pensions		87	101
14	50	Provisions for deferred tax	13	175	115
–	–	Other provisions	18	645	359
14	**50**	**Provisions**		**907**	**575**
–	800	Subordinate loan capital	20	800	–
621	–	Debt to credit institutions		1,551	2,461
621	**800**	**Long-term debt**	19	**2,351**	**2,461**
151	–	Debt to credit institutions		139	736
–	–	Trade payables		571	521
–	–	Corporation tax		78	97
19	14	Other payables		289	340
–	–	Deferred income		396	427
170	**14**	**Short-term debt**		**1,473**	**2,121**
791	**814**	**Total debt**		**3,824**	**4,582**
4,999	**3,477**	**Liabilities and equity relating to continuing activities**		**7,679**	**10,049**
–	–	Provisions and debt relating to discontinuing activities	8	410	–
4,999	**3,477**	**Total liabilities and equity**		**8,089**	**10,049**
		Security and contingent liabilities	21		
		Related parties	24		

Cash Flow Statement 1 January - 31 December

[mDKK]

Parent Company 2003	Parent Company 2004		Note	Group 2004	Group 2003
(1,329)	(1,385)	Profit/(loss) before tax relating to continuing activities		(1,237)	(1,498)
(9)	50	Profit/(loss) relating to discontinuing activities		(458)	18
20	79	Amortisation, depreciation and impairment losses		2,104	1,133
1,488	1,353	Other adjustments	22	109	(81)
170	**97**			**518**	**(428)**
		Change in working capital:			
–	–	Change in inventories		72	679
236	(154)	Change in receivables		134	858
5	(5)	Change in short-term debt		111	(281)
241	**(159)**			**317**	**1,256**
–	–	Corporation tax paid		(61)	116
411	**(62)**	**Cash flows from operating activities**		**774**	**944**
(36)	(138)	Purchase of property, plant and equipment		(457)	(709)
–	–	Purchase of intangible assets		–	–
–	–	Adjustments of fixed asset investments		–	50
–	173	Sale of fixed assets		250	60
(36)	**35**	**Cash flows from investing activities**		**(207)**	**(599)**
(10)	–	Dividend paid		(19)	(66)
–	–	Capital contribution		–	(16)
–	800	Subordinate loan capital		800	–
(430)	(621)	Change of long-term debt		(810)	(478)
(440)	**179**	**Cash flows from financing activities**		**(29)**	**(560)**
(65)	**152**	**Total cash flows**		**538**	**(215)**
(86)	(151)	Financial resources at 1 January		(620)	(405)
(151)	**1**	**Financial resources at 31 December**	23	**(82)**	**(620)**

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

Notes

[mDKK]

Note 1. Administrative expenses

Parent Company 2003	Parent Company 2004		Group 2004	Group 2003
		Fee to PricewaterhouseCoopers		
–	1	Audit	9	8
–	–	Non-audit services	10	13
		Fee to Ernst & Young		
–	–	Audit	–	–
1	–	Non-audit services	1	1
1	**1**		**20**	**22**
–	**–**	**Including amount relating to discontinuing activities**	**2**	**3**

Note 2. Employees and remuneration

Parent Company 2003	Parent Company 2004		Group 2004	Group 2003
10	4	Wages and salaries	2,179	2,570
1	–	Pensions	119	113
–	–	Other and social security expenses	101	120
11	**4**		**2,399**	**2,803**
–	**–**	**Including amount relating to discontinuing activities**	**364**	**396**
		Including salaries and remuneration to:		
1	–	Corporate Management	4	4
–	–	Supervisory Board	1	1
1	**–**		**10**	**5**
		Employees		
20	6	Average number of full-time employees	7,294	8,298
–	–	Including amount relating to discontinuing activities	1,725	1,756

Notes
[mDKK]

Note 3. Impairment of fixed assets

According to the accounting policies, impairment tests are performed where there is internal or external indication of impairment of individual assets or group of assets. Based on the poor earnings, increased streamlining, excess capacity and the large capital investments of previous years, a number of impairment tests of the carrying amounts of the Company's fixed assets were carried out in 2004. The carrying amounts of fixed assets have been compared with the recoverable amount, determined as the higher of the net selling price and the value in use of the asset. Where the recoverable amount is lower than the carrying amount of the asset, an impairment loss has been recognized.
The calculations have been made in view of the cash flows and the business of the LEGO Group, comprising assets related to the following groups: Play Materials, Parks, Brand Retail and Shop@Home.

As a result of the tests performed, total impairment of fixed assets of DKK 1,251 million was made in 2004, of which DKK 723 million relates to discontinuing activities, and the remaining DKK 528 million relates to discontinuing activities.

Parent Company			Group	
2003	2004		2004	2003
–	–	Land and buildings	335	172
–	–	Plant and machinery	188	–
–	46	Other fixtures and fittings, tools and equipment	200	–
–	**46**		**723**	**172**

Note 4. Restructuring expenses

Parent Company			Group	
2003	2004		2004	2003
–	–	Employee and related expenses	368	76
–	–	Closing down production and office facilities, restoration of leased premises, etc.	84	103
–	–	Other	50	104
–	**–**		**502**	**283**

Notes

[mDKK]

Note 5. Profit/(loss) before tax in subsidiaries

Parent Company 2003	Parent Company 2004	
–	–	Profit
(1,313)	(1,449)	Loss
(1,313)	**(1,449)**	

Note 6. Financial income and expenses

Parent Company 2003	Parent Company 2004		Group 2004	Group 2003
		Financial income:		
4	1	Interest income from group enterprises	–	–
4	1	Other interest income	46	54
–	–	Exchange gain	59	235
8	**2**		**105**	**289**
–	–	Including amount relating to discontinuing activities	1	3
8	**2**	**Financial income relating to continuing activities**	**104**	**286**
		Financial expenses:		
51	40	Other interest expenses	230	280
3	2	Exchange losses	–	3
54	**42**		**230**	**283**
–	–	Including amount relating to discontinuing activities	11	15
54	**42**	**Financial income relating to continuing activities**	**219**	**268**

Notes

[mDKK]

Note 7. Tax on profit/(loss) for the year

Parent Company 2003	Parent Company 2004		Group 2004	Group 2003
–	3	Current tax for the year	(63)	85
4	(36)	Adjustment of deferred tax	(207)	457
–	–	Other taxes, etc.	3	(28)
–	–	Adjustment of tax relating to previous years	24	8
518	(210)	Tax in subsidiaries	–	–
522	**(243)**		**(243)**	**522**
–	(3)	Including amount relating to discontinuing activities	(7)	(23)
522	**(240)**		**(236)**	**545**

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

Parent Company %	Parent Company mDKK		Group mDKK	Group %
(30)	(35)	Calculated 30% tax on profit/(loss) for the year before tax	506	30
		Tax effect of:		
–	–	Higher/lower tax rate in subsidiaries and associates	22	1
–	–	Non-deductible expenses	(22)	(1)
–	–	Adjustment of tax relating to previous years	24	1
–	–	Effect of joint taxation	12	–
–	–	Effect of deferred tax not capitalised	(785)	(45)
(180)	(210)	Tax relating to subsidiaries	–	–
2	2	Other	–	–
(208)	**(243)**		**(243)**	**(14)**
	(3)	Including amount relating to discontinuing activities	(7)	
	(240)		**(236)**	

Notes

[mDKK]

Note 8. Discontinuing activities

In 2004, it was decided to sell off the Group's LEGOLAND Parks and related activities, as these are not considered core business. A sale of the activities concerned is expected carried through in 2005.

Furthermore KOMPAN A/S is classified as a discontinuing activity as a consequence of LEGO Group's disposal of the majority holding in 2004 and expected disposal of the remaining shares in 2005.

Parent Company			Group	
2003	2004		2004	2003
–	–	Revenue	1,230	1,232
–	–	Expenses	(1,196)	(1,170)
–	–	Impairment of fixed assets	(528)	–
(9)	53	Share of profit and gain on sale, KOMPAN A/S	53	(9)
–	–	Financial income and expenses	(10)	(12)
(9)	**53**	**Profit/(loss) before tax on discontinuing activities**	**(451)**	**41**
–	(3)	Tax	(7)	(23)
(9)	**50**	**Profit/(loss) on discontinuing activities**	**(454)**	**18**
–	196	Fixed assets, cf. note 9	2,301	–
–	43	Current assets	131	–
–	**239**	**Total assets**	**2,432**	**–**
–	–	Provisions	12	–
–	–	Debt	398	–
–	**–**	**Total liabilities**	**410**	**–**

Notes

[mDKK]

Note 9. Property, plant and equipment

Group

	Land and buildings	Plant and machinery	Other fixtures and fittings tools and equipment	Fixed assets under construction	Dis-continuing activities
Cost at 1 January	3,774	2.123	1,942	253	–
Additions at 1 January on pooling of interests	2,388	1,248	1,383	28	–
Exchange adjustments at 1 January	(35)	(2)	(35)	3	(98)
Additions	10	138	159	18	132
Disposals	(450)	(476)	(682)	–	(2)
Transfers	(2,491)	31	(1,629)	(270)	4,359
Cost at 31 December	**3,196**	**3,062**	**1,138**	**32**	**4,391**
Depreciation and impairment losses at 1 January	1,364	1.589	895	–	–
Additions at 1 January on pooling of interests	1,081	1,051	1,056	–	–
Exchange adjustments at 1 January	(8)	(1)	(29)	–	(42)
Depreciation for the year	132	352	113	–	256
Impairment losses for the year	335	188	200	–	528
Depreciation, assets sold	(295)	(416)	(424)	–	(1)
Transfers	(585)	–	(764)	–	1,349
Depreciation and impairment losses at 31 December	**2,024**	**2,763**	**1,047**	**–**	**2,090**
Carrying amount at 31 December	**1,172**	**299**	**91**	**32**	**2,301**

According to the official property assessment, the value if the Danish land and buildings for continuing and discontinuing activities amounts to DKK 905 million. The corresponding carrying amount is DKK 712 million at 31 December 2004.

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

Notes

[mDKK]

Note 10. Property, plant and equipment

Parent Company

	Land and buildings	Other fixtures and fittings, tools and equipment	Fixed assets under construction	Dis-continuing activities
Cost at 1 January	513	150	110	–
Additions	1	120	–	17
Disposals	–	(376)	–	–
Transfers	(359)	110	(110)	359
Cost at 31 December	**155**	**4**	**–**	**376**
Depreciation and impairment losses at 1 January	285	149	–	–
Depreciation for the year	2	12	–	19
Impairment losses for the year	–	46	–	–
Depreciation, assets sold	–	(204)	–	–
Transfers	(161)	–	–	161
Depreciation and impairment losses at 31 December	**126**	**3**	**–**	**180**
Carrying amount at 31 December	**29**	**1**	**–**	**196**

According to the official property assessment, the value if the Danish land and buildings for continuing and discontinuing activities amounts to DKK 378 million. The corresponding carrying amount is DKK 225 million at 31 December 2004.

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

Notes

[mDKK]

Note 11. Fixed asset investment

Group

	Investment in associates	Other investments
Cost at 1 January	7	42
Additions at 1 January on pooling of interests	–	59
Additions	–	–
Disposals	(7)	(59)
Cost at 31 December	**–**	**42**
Value adjustments at 1 January	(3)	(40)
Additions at 1 January on pooling of interests	–	–
Exchange adjustments	–	–
Other adjustments	3	(2)
Profit/(loss) for the year	–	–
Tax	–	–
Dividend received	–	–
Value adjustments at 31 December	**–**	**(42)**
Value at 31 December	**–**	**–**

Notes
[mDKK]

Note 12. Fixed asset investment

Parent Company

	Investments in subsidiaries	Investments in associates	Other investments
Cost at 1 January	2,707	2	41
Additions at 1 January on pooling of interests	2,733	–	–
Adjusted cost at 1 January	5,440	2	41
Additions	–	–	–
Disposals	(59)	(2)	–
Cost at 31 December	**5,381**	**–**	**41**
Value adjustments at 1 January	(569)	(2)	(39)
Additions at 1 January on pooling of interests	(259)	–	–
Adjusted value adjustments 1 January	(828)	(2)	(39)
Exchange adjustments	(38)	–	–
Adjustments re disposals	42	–	–
Other adjustments	(13)	2	(2)
Profit/(loss) for the year before tax	(1,449)	–	–
Tax	(204)	–	–
Dividend received	(56)	–	–
Value adjustments at 31 December	**(2,546)**	**–**	**(41)**
Value at 31 December	**2,835**	**–**	**–**

Notes

[mDKK]

Note 13. Deferred tax asset and provisions

Parent Company 2003	Parent Company 2004		Group 2004	Group 2003
–	–	Deferred tax asset at 1 January	588	257
(18)	(14)	Provision for deferred tax at 1 January	(115)	(241)
(18)	(14)		473	16
4	(36)	Change in deferred tax	(207)	457
(14)	**(50)**	**Deferred tax, net at 31 December**	**266**	**473**
–	–	Including amount relating to discontinuing activities	(7)	–
(14)	**(50)**		**273**	**473**
		Specified as follows:		
–	–	Deferred tax asset at 31 December	448	588
(14)	(50)	Provision for deferred tax at 31 December	(175)	(115)
(14)	**(50)**	**Deferred tax, net at 31 December**	**273**	**473**

Deferred tax - Group	Deferred tax asset	Provision for deferred tax	Deferred tax net 2004	Deferred tax net 2003
Fixed assets	22	(85)	(63)	(89)
Current assets	75	–	75	26
Inventories	96	–	96	157
Provisions	52	(1)	51	64
Debt	24	(1)	23	36
Tax loss carry-forwards	178	(31)	147	288
Other	1	(57)	(56)	(9)
	448	**(175)**	**273**	**473**

Not capitalised tax assets relating to tax loss carry-forwards and timing differences amounts to DKK 552 million regarding continuing activities and DKK 555 million regarding discontinuing activities.

Tax loss carry-forwards - Group

	2004	2003
Tax assets relating to tax loss carry-forwards have been capitalised based on an assessment of whether they can be utilised in the future.		
The Group's capitalised tax losses expire as follows:		
Within 1 year	4	1
Within 2 years	–	78
Within 3 years	–	–
Within 4 years	18	–
Within 5 years	–	10
After 5 years	125	199
	147	**288**

Notes

[mDKK]

Note 14. Inventories – Group

	2004	2003
Raw materials, components and work in progress	240	252
Finished goods	472	579
Total inventories	**712**	**831**

Note 15. Receivables from group enterprises

Parent Company			Group	
2003	2004		2004	2003
41	198	Including amount falling due after 1 year	–	–

Note 16. Equity – Group and Parent Company

	Share capital	Retained earnings	Dividend	Total
Balance at 1 January	47	1,673		1,720
Capital increase through contribution from INTERLEGO AG Group	76	2,657		2,733
Adjustment from pooling of interest		(259)		(259)
Adjusted equity at 1 January	123	4,071	–	4,194
Exchange adjustments relating to foreign subsidiaries		(41)		(41)
Fair value adjustment of forward exchange contracts relating to hedging of future purchases and sales in foreign currencies		47		47
Adjustment of other financial instruments		(3)		(3)
Other adjustments		(9)		(9)
Retained earnings		(1,575)		(1,575)
Balance at 31 December	**123**	**2,490**	**–**	**2,613**
Minority interests				335
Subordinate loan capital				800
Total liable capital, incl. minority interests				**3,748**

The Parent Company's share capital consists of:

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

Apart from the capital increase in 2004, the share capital has not increased during the last 5 years.

Shareholders that owns more than 5% of the share capital

Kjeld Kirk Kristiansen, DK-7190 Billund
Sofie Kirk Kristiansen, DK-1437 Copenhagen K
Thomas Kirk Kristiansen, DK-8350 Hundslund
Agnete Kirk Kristiansen, DK-9000 Ålborg

Notes

[mDKK]

Note 17. Minority interests

Parent Company 2003	Parent Company 2004		Group 2004	Group 2003
–	–	Balance at 1 January	698	1,076
–	–	Transfer of KOMPAN A/S to discontinuing activities	–	(178)
–	–	Adjusted balance at 1 January	698	898
–	–	Share of profit/loss for the year	(356)	(119)
–	–	Exchange adjustments, etc.	(7)	(81)
–	**–**	**Balance at 31 December**	**335**	**698**

Note 18. Other provisions, continuing activities

Parent Company 2003	Parent Company 2004		Group 2004	Group 2003
–	–	Balance at 1 January	359	59
–	–	Exchange adjustments at 1 January	(1)	–
–	–	Additions	530	340
–	–	Used	(212)	(22)
–	–	Reversed	(31)	(18)
–	**–**	**Balance at 31 December**	**645**	**359**

Note 19. Long-term debt

	Total debt	Due within 1 year	Due after 5 years
Parent Company:			
Subordinate loan capital	800	–	800
Banks and other credit institutions	–	–	–
Other	–	–	–
	800	**–**	**800**
Group:			
Subordinate loan capital	800	–	800
Banks and other credit institutions	1,623	112	–
Other	322	282	–
	2,745	**394**	**800**
Including amount relating to discontinuing activities	255	255	–
	2,490	**139**	**800**

Notes

[mDKK]

Note 20. Subordinate loan capital

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

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

Note 21. Security and contingent liabilities

Parent Company			Group	
2003	2004		2004	2003
–	–	Guarantees	1	1
–	–	Lease obligations	449	569
–	–	Other obligations	37	126
–	–		**487**	**696**
–	–	Including amount relating to discontinuing activities	**4**	**4**

The Group

The Group has entered into forward exchange contracts in the amount of DKK 1,345 million and currency options in the amount of DKK 273 million. In accordance with the accounting policies, unrealised gains and losses at the balance sheet date have been recognised either in the income statement or directly in equity, depending on the transaction concerned. At 31 December 2004, unrealised gains totalling DKK 84 million have been recognised in the income statement and unrealised gains totalling DKK 67 million have been recognised directly in equity.

The Group has entered into loan agreements concerning loans of DKK 546 million (USD 100 million), DKK 147 (CZK 600 million), and DKK 930 million (EUR 125 million), which include various stipulations relating to information on the enterprise, disposals, raising of loans as well as requirements relating to financial conditions which, if not complied with, may result in demand for repayment of the loan.

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

Notes
[mDKK]

Note 22. Other adjustments (cash flow statement)

Parent Company 2003	Parent Company 2004		Group 2004	Group 2003
–	(156)	Profit/(loss) on sale of fixed assets	(176)	35
–	(99)	Exchange adjustments	(39)	(296)
1,579	1,573	Subsidiaries	–	–
(87)	44	Financial instruments	44	(87)
(4)	–	Change in provisions	277	306
–	(9)	Other adjustments	3	(39)
1,488	**1,353**	**Total other adjustments**	**109**	**(81)**

Note 23. Financial resources (cash flow statement)

Parent Company 2003	Parent Company 2004		Group 2004	Group 2003
–	1	Cash at bank and in hand	312	116
		Short-term debt:		
(151)	–	Banks and other credit institutions – continuing activities	(139)	(736)
–	–	Banks and other credit institutions – discontinuing activities	(255)	–
(151)	**1**	**Total financial resources**	**(82)**	**(620)**

Notes

[mDKK]

Note 24. Related parties

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

The following transactions were carried out with related parties in which Kjeld Kirk Kristiansen and his family have controlling or significant influence. All transactions were carried out on normal commercial terms and conditions.

	Sale of products to	Interest received from	Sale of assets to
KIRKBI AG Group	–	–	–
KIRKBI A/S Group	1	1	79
	1	**1**	**79**

	Rent paid to	Interest paid to	Service-fee paid to
KIRKBI AG Group	–	5	–
KIRKBI A/S Group	–	41	26
	–	**46**	**26**

	Trademark fee paid to	Other operating income received from	Other operating expenses paid to
KIRKBI AG Group	67	–	–
KIRKBI A/S Group	54	–	–
	121	**–**	**–**

	Receivable from	Short-term debt to	Loans from
KIRKBI AG Group	21	36	171
KIRKBI A/S Group	24	13	800
	45	**49**	**971**

The Group has forward exchange contracts in the amount of DKK 313 million at 31 December 2004, with KIRKBI A/S as the counterparty.

The Group has lease obligations of DKK 8 million at 31 December towards KIRKBI A/S Group.

In December 2004 the capital of LEGO Holding A/S has increased by nominally DKK 76 million, from DKK 47 million to DKK 123 million. The capital increase has been executed by a non-cash contribution of all the shares in INTERLEGO AG, and paid fully with shares in LEGO Holding A/S. There has not been any payment in addition to this.
All the shares relating to the increase have been subscribed by the existing shareholders Kjeld Kirk Kristiansen, Sofie Kirk Kristiansen, Thomas Kirk Kristiansen and Agnete Kirk Kristiansen.

LEGO Group – Leadership Team

Jørgen Vig Knudstorp, Jesper Ovesen, Lars Altemark, Søren Torp Laursen, Mads Nipper, Mads Ryder, Henrik Poulsen

Jørgen Vig Knudstorp
President & CEO

Jesper Ovesen
CFO, Executive Vice President

Lars Altemark
Senior Vice President
Global Supply Chain

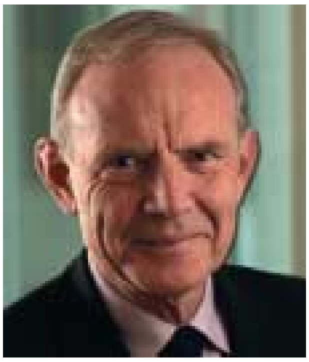
Søren Torp Laursen
Senior Vice President
Americas, including Australia, New Zealand and Direct-to-consumer

Mads Nipper
Senior Vice President
Global Innovation & Marketing

Mads Ryder
Senior Vice President
LEGOLAND Parks

Henrik Poulsen
Senior Vice President
European and Emerging Markets, including Japan and Korea

Board of Directors

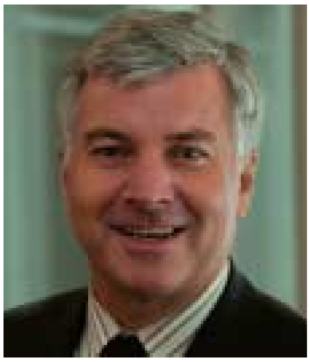


Mads Øvlisen

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

Kjeld Kirk Kristiansen

Vice Chairman of the Board since 1996. Member of the Board since 1975. Chairman of the Board of KIRKBI A/S, the LEGO Foundation, Ole Kirk's Foundation, and Edith and Godtfred Kirk Christiansen's Foundation. President and CEO for the LEGO Group from 1979-2004. Majority shareholder of the LEGO Group.



Anders Moberg

Member of the Board since 1999. President and CEO of the Dutch Royal Ahold. Member of the Board of VELUX A/S, DFDS A/S and Clas Ohlson AB.

Gunnar Brock

Member of the Board since 1995. President & CEO and member of the Board of Swedish Atlas Copco AB. Member of the Board of OMX AB, Sweden. Member of the Royal Swedish Academy of Engineering Sciences (IVA).

Lars Erik Kann-Rasmussen

Member of the Board since 1993. Chairman of the Board of VKR Holding A/S and VELUX A/S. Member of the Board of A.P. Møller – Mærsk A/S and the Foundation for Herlufsholm School & Manor.

Mogens Johansen

Member of the Board since 1978. Representing the family. Brother in law to Kjeld Kirk Kristiansen. Member of the Board of KIRKBI A/S, the LEGO Foundation; and Edith and Godtfred Kirk Christiansen's Foundation.

LEGO Group

LEGO Holding A/S

LEGO A/S (75%)

Denmark
- LEGO System A/S
- LEGOLAND A/S
- LEGOLAND Holding A/S

Europe (others)
- LEGO Park Holding UK Ltd.
  - – LEGOLAND Windsor Park Ltd. (UK)
  - – LEGO Lifestyle International Ltd. (UK)
- LEGO Media International Ltd. (UK)
- LEGOLAND Deutschland GmbH
- LEGO Belgium n.v.
- LEGO Sverige AB
- LEGO GmbH (Germany)
- LEGO Production s.r.o. (Czech Republic)
- LEGO S.A.S. (France)
- LEGO Trading s.r.o. (Czech Republic)
- OOO LEGO (Russia)

Americas
- LEGO do Brazil Ltda.

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

INTERLEGO AG (Switzerland)

Europe
- Oy Suomen LEGO Ab (Finland)
- LEGO Norge AS
- LEGO Netherland B.V.
- LEGO Polska Sp. z o. o.
- LEGO Company Limited (UK)
- LEGO Estates Limited (UK)
  - – LEGO Estates Australia Pty. Ltd.
- LEGO Handelsgesells. GmbH (Austria)
  - – LEGO Hungária Kft.
- LEGO Schweiz AG
- LEGO S.p.A. (Italy)
- LEGO S.A. (Spain)
- LEGO Lda. (Portugal)
- LEGOLAND Estates AG (Switzerland)
- KIRK AG (Switzerland)
- LEGO AG (Switzerland)

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

Asia/Africa
- LEGO Japan Ltd.
- LEGO Singapore Pte. Ltd.
- LEGO New Zealand Ltd.
- LEGO Company Ltd. (Hong Kong)

Other holdings of LEGO Holding A/S

- Executive Discovery Ltd, i likv., 99,9% (UK)
- Executive Discovery Holding Co., Inc. (US)
  - – Executive discovery LLC (US)

Associates:
- KOMPAN A/S, 44% (Voting rights)
- Scanesco ApS, 23,1% (DK)
- IDO Systems A/S, i likv., 50% (DK)

LEGO Group
Aastvej 1
7190 Billund, Denmark

Tel:	+45 79 50 60 70
Fax:	+45 75 33 27 25
CVR-no:	18 59 12 35
Incorporated:	1. april 1995
Residence:	Billund
Financial Year:	January 1st – December 31st
Internet:	www.LEGO.com

Ownership is 100% unless stated otherwise.

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

LEGO Group – Switzerland
Sihlbruggstrasse 3
6340 Baar
Switzerland
Tel.: +41 41 769 20 20

LEGO Group – USA
555 Taylor Road
P.O. Box 1600
Enfield, CT 06083-1600
USA
Tel.: +1 860 749 2291

www.LEGO.com

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Stakeholder Relations · Billund · Denmark · Tel. +45 79 50 60 70 · Fax +45 75 35 33 60

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