



# Annual Report 2017

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# Management's review



# Information about the LEGO Foundation

<b>Name</b>	LEGO Fonden (in English: the LEGO Foundation)
<b>Address</b>	Koldingvej 2, 7190 Billund
<b>Country</b>	Denmark
<b>CVR no.</b>	12 45 83 39
<b>Branch</b>	LEGO Foundation, Baar (CH)*

## Leadership team as per 1 March 2018



**John Paul Goodwin**  
CEO



**Bo Stjerne Thomsen**  
Head of LEGO Foundation Centre for Creativity, Play and Learning



**Sarah Bouchie**  
Head of Learning through Play in Early Childhood



**Carsten Klokkeholm Wammen**  
Head of Excellence  
(governance, operation and processes)



**Halima Begum**  
Head of Connecting Play and Education



**Diana Ringe Krogh**  
Head of Advocacy and New Ventures



**Kasper Ottosson Kanstrup**  
Head of Communities of Learning through Play



**Charlotte Qvist Frandsen**  
Head of HR and Capability Building

\* Expected to be closed in 2018/19

# Legal overview

## Koldingvej 2, Billund A/S

Koldingvej 2, Billund A/S is a 100%-owned subsidiary of the LEGO Foundation. The most significant asset in the company is the 25% shareholding in the LEGO Group.

Another significant asset in the company consists of ownership and operation of the LEGO® House, a newly opened experience house in Billund designed to give LEGO fans of all ages the ultimate LEGO experience.

## CoC Office A/S

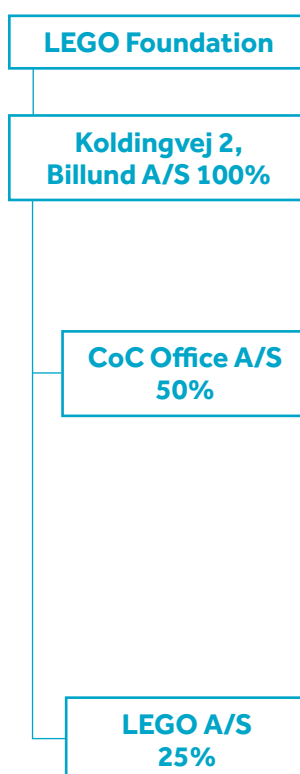
CoC Office A/S is an independent public-private corporation, founded on 1 January 2012, in which the LEGO Foundation and Billund Municipality each own 50% of the shares.

The company is a unique partnership between a municipality and a foundation, with a shared desire to develop Billund into an outstanding place for children, play, learning and creativity, to benefit everyone who lives in Billund Municipality – and children all over the world.

## The LEGO Group

The LEGO Group is 25%-owned by the LEGO Foundation through the Koldingvej 2, Billund A/S share of ownership in LEGO A/S. The remaining 75% is owned through KIRKBI A/S by the Kirk Kristiansen family.

The LEGO Group is engaged in the development of children's creativity through play and learning. Based on the world-famous LEGO® brick, the company today provides toys, experiences and teaching materials for children in more than 130 countries. The head office is in Billund, Denmark.



# Board of directors



**Chairman of the board**  
Thomas Kirk Kristiansen

**Born:** 1979

**Gender:** Male

**Education:** Degree in marketing

**Year elected:** 2013 (chairman since 2016)

**Re-elected:** Yes

**Term expires:** 2018

**Short bio:** Shareholder of KIRKBI A/S and representing the fourth generation of the LEGO® owner family. Deputy chairman of the LEGO Brand Group

**Special competences:** Family-owned companies and board work

**Other management positions:** Deputy chairman in LEGO A/S and LEGO Juris A/S. Board member in KIRKBI A/S and three subsidiaries of KIRKBI A/S. Executive management member of Kirk og Kirk Holding ApS and management roles in four subsidiaries of Kirk og Kirk Holding ApS

**Appointed by authorities:** No

**Independent member:** No

**2017 board remuneration:** DKK 0



**1st deputy chairman of the board**  
Kjeld Kirk Kristiansen

**Born:** 1947

**Gender:** Male

**Education:** MBA from IMD, Lausanne, CH

**Year elected:** 2000

**Re-elected:** Yes

**Term expires:** 2019

**Short bio:** Third generation of the LEGO® owner family and principal shareholder of the family-owned LEGO Group through KIRKBI A/S. President and CEO of the LEGO Group 1979–2004. Appointed Knight 1st Degree in 2008. Appointed Chamberlain in 2012

**Special competences:** Business development, sales, marketing, production and board work

**Other management positions:** Chairman of the board of KIRKBI A/S, Koldingvej 2 Billund A/S, Ole Kirk's Foundation and 3 subsidiaries of KIRKBI A/S. Board member in LEGO A/S, CoC Office A/S and in a subsidiary of KIRKBI A/S

**Appointed by authorities:** No

**Independent member:** No

**2017 board remuneration:** DKK 0



**2nd deputy chairman of the board**  
Jørgen Vig Knudstorp

**Born:** 1968

**Gender:** Male

**Education:** Master's degree in economics and PhD from the University of Aarhus. Executive MBA from Cranfield School of Management

**Year elected:** 2008

**Re-elected:** Yes

**Term expires:** 2019

**Short bio:** Executive chairman of the LEGO Brand Group. Former president and CEO of the LEGO Group from 2004–2016.

**Special competences:** Business development, sales, marketing and production

**Other management positions:** Chairman of LEGO A/S and LEGO Juris A/S. Member of the board of Starbucks

**Appointed by authorities:** No

**Independent member:** No

**2017 board remuneration:** DKK 0



**Member of the board**  
Agnete Kirk Thinggaard

**Born:** 1983

**Gender:** Female

**Education:** Bachelor's degree in psychology

**Year elected:** 2016

**Re-elected:** No

**Term expires:** 2018

**Short bio:** Professional dressage rider and owner of Julianelyst in Østbirk, Denmark. Founder of Center for ADHD S/I in Aarhus, Denmark. Fourth generation of the LEGO® owner family and shareholder of KIRKBI A/S

**Special competences:** Family-owned companies and board work

**Other management positions:** Chairman of the board of the Center for ADHD S/I and Julianelyst ApS, deputy chairman of the board of Edith og Godtfred Kirk Christiansen's Foundation. Executive manager of A&C Holding ApS

**Appointed by authorities:** No

**Independent member:** No

**2017 board remuneration:** DKK 0



**Member of the board**  
Mette Morsing

**Born:** 1963

**Gender:** Female

**Education:** PhD at Copenhagen Business School

**Year elected:** 2010

**Re-elected:** Yes

**Term expires:** 2018

**Short bio:** Professor at Copenhagen Business School and Executive Director and Mistra Chair of Sustainable Markets at the Stockholm School of Economics

**Special competences:** Leadership, corporate social responsibility and sustainability, and public-private research collaborations

**Other management positions:** Board member of the Claus Meyer Melting Pot Foundation and Copenhagen Business School. Editorial board member of the "Business, Society and Value Creation" series for Cambridge University Press

**Appointed by authorities:** No

**Independent member:** Yes

**2017 board remuneration:** DKK 200,000



**Member of the board**  
William Ervin Hoover

**Born:** 1949

**Gender:** Male

**Education:** MBA from Harvard Business School

**Year elected:** 2010

**Re-elected:** Yes

**Term expires:** 2018

**Short bio:** Previously director of McKinsey & Company – 30 years in total, of which 27 years in Scandinavia

**Special competences:** Strategy, organisation, supply chain, M&A and performance transformation

**Other management positions:** Working chairman of ReD associates Holding A/S. Deputy chairman in GN Store Nord A/S and two subsidiaries of GN Store Nord A/S. Member of the board of Danfoss A/S, Neopost S.A. and Specialisterne Foundation

**Appointed by authorities:** No

**Independent member:** Yes

**2017 board remuneration:** DKK 200,000

# Governance and leadership

The LEGO Foundation is managed by a board of directors composed of six members elected in accordance with its charter. The board approves the strategy of the LEGO Foundation and makes decisions about how the Foundation directs its use of resources, including grants.

Furthermore, the board also supports and supervises the organisation and makes sure that the LEGO Foundation is managed appropriately and in accordance with applicable legislation and its charter.

The board has appointed a CEO who is responsible for the day-to-day management of the Foundation. The CEO is supported by a leadership team of seven members.

A minimum of four board meetings is held each year, supplemented by additional conference call meetings when necessary.

The work of the board is regulated in its rules of procedure. The rules of procedure are drawn up to describe the responsibilities of the board of directors and the CEO and how the board work is to be organised.

The board of the LEGO Foundation reviews the Foundation's strategy and distribution policy on an annual basis as well as making sure that policies and procedures are in place to ensure good governance.

The six members of the board are elected for a period of two consecutive years, taking the need for continuity in the board's work into consideration. In compliance with the recommendations on foundation governance, two members are independent.

In accordance with the board's rules of procedure, the board of directors annually evaluates the competences of the board to ensure that the required collective competences are present to serve the overall purposes of the LEGO Foundation.

New board members are nominated and appointed, in accordance with the terms, rights and entitlements laid out in the Foundation's charter. Members of the board of directors are appointed on the basis of their personal qualities and competences.

The age limit for election or re-election to the board is 75.

The independent members of the board receive a fixed remuneration that does not depend on the financial results. The remuneration of each member is specified in the annual report. No board members received extraordinary remuneration for special tasks in 2017.

The LEGO Foundation provides transparency with regards to all its activities via information on the LEGO Foundation website, where the activities of the year are described in more detail.

The LEGO Foundation board of directors has approved the LEGO Foundation 2017 Mandatory Report on Recommendations on Foundation Governance\*.

With reference to the Danish Financial Statement Act (*årsregnskabsloven §77a, stk. 2 and BEK no. 558 01.06.2016*) the Mandatory Report on Recommendation on Foundation Governance is published at the LEGO Foundation website: [www.legofoundation.com/da-dk/who-we-are/policies](http://www.legofoundation.com/da-dk/who-we-are/policies).

*\* Redegørelse for god fondsledning jf. årsregnskabsloven §77a*



# Report on distribution policy\*

In accordance with the LEGO Foundation charter, strategy and distribution policy\*\*, our aim is to build a future where Learning through Play empowers children to become creative, engaged, life-long learners and to ensure the ongoing existence and development of the LEGO Group.

Based on our charter and strategy, the board of directors laid down the framework for grants by approving the 2017 annual budget and plan. During the year and within that framework, the leadership team put forward individual grant proposals for the board's approval.

The LEGO Foundation's grant distribution supports our five core programmes and activities:

- **Learning through Play in Early Childhood** is a global programme supporting the need for quality early childhood development programmes targeted at children up to the age of six.
- **Connecting Play and Education** focuses on integrating play-based learning into the educational system and making play a part of development and learning for children between five and twelve.

- **Communities of Learning through Play** targets our four strategic countries South Africa, Mexico, Ukraine and Denmark. Here we work to create synergies through partnerships and collaboration across the full learning ecosystem in each country in order to support and increase the impact of Learning through Play. We also support Capital of Children, a centre of excellence set up to establish success stories for Learning through Play in and around the town of Billund, where both the LEGO Foundation and the LEGO Group have their headquarter.

- **LEGO Foundation Centre for Creativity, Play and Learning** is our research centre. The centre works with national and international research institutions and academia to build a body of evidence about Learning through Play and aims at establishing a thought leader agenda within Learning through Play.

- **Other charter-related programmes including grants to Ole Kirk's Foundation and LEGO Group-related initiatives** include funding to Ole Kirk's Foundation (a philanthropic foundation) and CSR-related activities in the LEGO Group. The purpose of Ole Kirk's Foundation is to increase quality of life for children, primarily in Denmark.

## The grants were distributed accordingly between programmes and activities:

(million DKK)	2017	2016
Learning through Play in Early Childhood	34	26
Connecting Play and Education	8	31
Communities of Learning through Play	52	71
LEGO Foundation Centre for Creativity, Play and Learning	77	43
Ole Kirk's Foundation	121	75
Other charter-related	3	10
<b>Total of current year's grant activity</b>	<b>295</b>	<b>256</b>

The LEGO Foundation reports the list of individual grant recipients directly to the Danish Business Authority, in its list of grantees (*legatarfortegnelse*).

\* Lovpligtig redegørelse for fondens uddelingspolitik, jf. årsregnskabsloven § 77 b

\*\* The distribution policy is available at [www.legofoundation.com/da-dk/who-we-are/policies](http://www.legofoundation.com/da-dk/who-we-are/policies)

# Annual review

## Income statement

The LEGO Foundation annual result for 2017 amounted to DKK 1,919 million compared with DKK 2,442 million in 2016.

The predominant contribution to this result is the DKK 2,023 million result from subsidiaries, where the 25% share of the result in the LEGO Group amounted to DKK 1,952 (2,359 million 2016).

The result is below expectations, due to lower than originally estimated growth in profits for the LEGO Group.

## Activity statement

The activities for the LEGO Foundation in 2017 amounted to DKK 407 million compared with DKK 378 million in 2016.

In 2016, the LEGO Foundation applied substantial resources to strengthening the Foundation's strategic focus in order to enable the Foundation to have an even stronger voice and demonstrate the thought leadership needed to positively influence children's learning all over the world. In 2017, the Foundation focused its resources on preparing this new strategy for execution.

A slightly higher level of grant activities has been achieved in 2017 compared with 2016, due to higher grant activities to Ole Kirk's Foundation. At the same time, expenses related to administration fell, because 2016 included an extraordinarily high level of expenditures to management consultants, relating to strengthening the strategic focus. Expenses related to programmes were at the same level for 2017 as for the year before.

## Balance sheet

At the end of the year, LEGO Foundation assets totalled DKK 13,620 million compared with DKK 12,024 million in 2016. This increase is primarily due to the increase in the value of the

net assets of the subsidiary Koldingvej 2, Billund A/S, where the value increased by DKK 1,605 million.

The book value of the equity is now DKK 12,616 million compared with DKK 10,981 million in 2016. The equity ratio is 93% compared with 91% in 2016.

## Cash flows

In 2017, cash flows from operating activities amounted to DKK -99 million compared with DKK -127 million in 2016. Cash flows from investment activities amounted to DKK 305 million compared with DKK 500 million in 2016. Cash flow from financing activities amounted to DKK -295 million compared with DKK -256 million in 2016.

## Development in activities and financial position

The financial result for the LEGO Foundation is below expectations due to a decline in growth and result from the LEGO Group.

The LEGO Group achieved good results, despite a challenging year. Sales declined by 8% to DKK 35.0 billion, compared with DKK 37.9 billion in 2016. The result for 2017 was DKK 7.8 billion, compared with DKK 9.4 billion in 2016. In 2017, the LEGO Group had strong operational cash flows of DKK 10.7 billion, compared with DKK 9.1 billion in 2016. Sales declined primarily as a consequence of stock reductions in the retail sector. The LEGO Group ended the year in a better position and expects to stabilise the business in 2018, and to invest in activities that will create further demand.

## Knowledge resources

The staff are the single most critical resource for the LEGO Foundation's activities. Their motivation and commitment are absolutely critical for the results the organisation can achieve.

During 2017, it was decided to open an office in Boston (US) and to close the office in Baar (CH). The closing of the the Baar office is expected to be completed in 2018/19.

At the end of the 2017 financial year, the total number of employees in Billund (DK), Baar (CH), Kiev (UA), Mexico City (MX) and Boston (US) was 49 compared with 42 at the end of 2016.

#### **Risks**

The LEGO Foundation's risks primarily relate to the global markets where the LEGO Group is active, and to developments in the financial markets.

#### **Research and development activities**

The LEGO Foundation has its own research centre that works intensively with children's development and learning. The Foundation also maintains an extensive network of partners working with research on children's development and learning, including many of the most reputable universities in the world.

#### **Corporate responsibility**

The LEGO Foundation strives to observe and maintain high ethical standards in all operations carried out by the Foundation itself as well as when working with strategic partners. The Foundation wants to have a positive impact on its stakeholders and its surroundings.

The Foundation's policy is to ensure high standards for corporate responsibility in all its operations. The Foundation also supports the LEGO Group commitment to United Nations Global Compact and the Responsibility Report, describing how the LEGO Group is working within the areas of human rights, labour standards, the environment and anti-corruption.

The LEGO Group Responsibility Report 2017 is available at [www.LEGO.com/da-dk/aboutus/responsibility/story/report](http://www.LEGO.com/da-dk/aboutus/responsibility/story/report)

#### **Diversity policy**

The board of directors has signed a general policy, recognising the value of a diversified organisation, and striving for a balance between genders, with a specific commitment to keeping the minority gender at 25% or higher.

The current board of directors consists of four men and two women.

#### **Compliance status report**

The LEGO Foundation governance and leadership are managed with respect for good governance in corporate foundations. A compliance status report from the board of directors is available at [www.LEGOFoundation.com/da-dk/who-we-are/policies](http://www.LEGOFoundation.com/da-dk/who-we-are/policies).

#### **Expectations for 2018**

The LEGO Foundation expects that its high level of activities will continue in 2018.

Expectations for the future depend heavily on how the financial markets for Koldingvej 2, Billund A/S and the LEGO Group business will develop.

The overall result for 2018 for the LEGO Foundation is expected to be satisfactory.

# Financial highlights

(million DKK)	2017	2016	2015	2014	2013
<b>Income statement</b>					
Net result from subsidiaries	2,023	2,551	2,344	1,804	1,562
Other operating income	0	9	1	1	1
Result of financial items	8	4	1	13	24
Result before tax	1,919	2,442	2,249	1,734	1,529
Result during the year	1,919	2,442	2,248	1,734	1,529
<b>Balance sheet</b>					
Total assets	13,620	12,024	9,872	7,821	6,313
Equity	12,616	10,981	8,786	7,459	6,265
<b>Activities and commitments</b>					
Grant activities during the year	295	256	272	178	105
Expenses related to programmes	70	70	70	55	36
Expenses related to administration	42	51	27	29	22
Total activities during the year	407	378	369	262	163
Grant commitments during the year	252	210	983	458	126
<b>Employees</b>					
Average number (full-time) during the year	46	41	38	28	19
<b>Financial ratios</b>					
Portfolio cost share of total activities	90%	86%	93%	89%	87%
Administration cost share of total activities	10%	14%	7%	11%	13%

## Definitions, key figures and ratios

Activities: Administration + programme costs  
+ grant activities related to the financial year

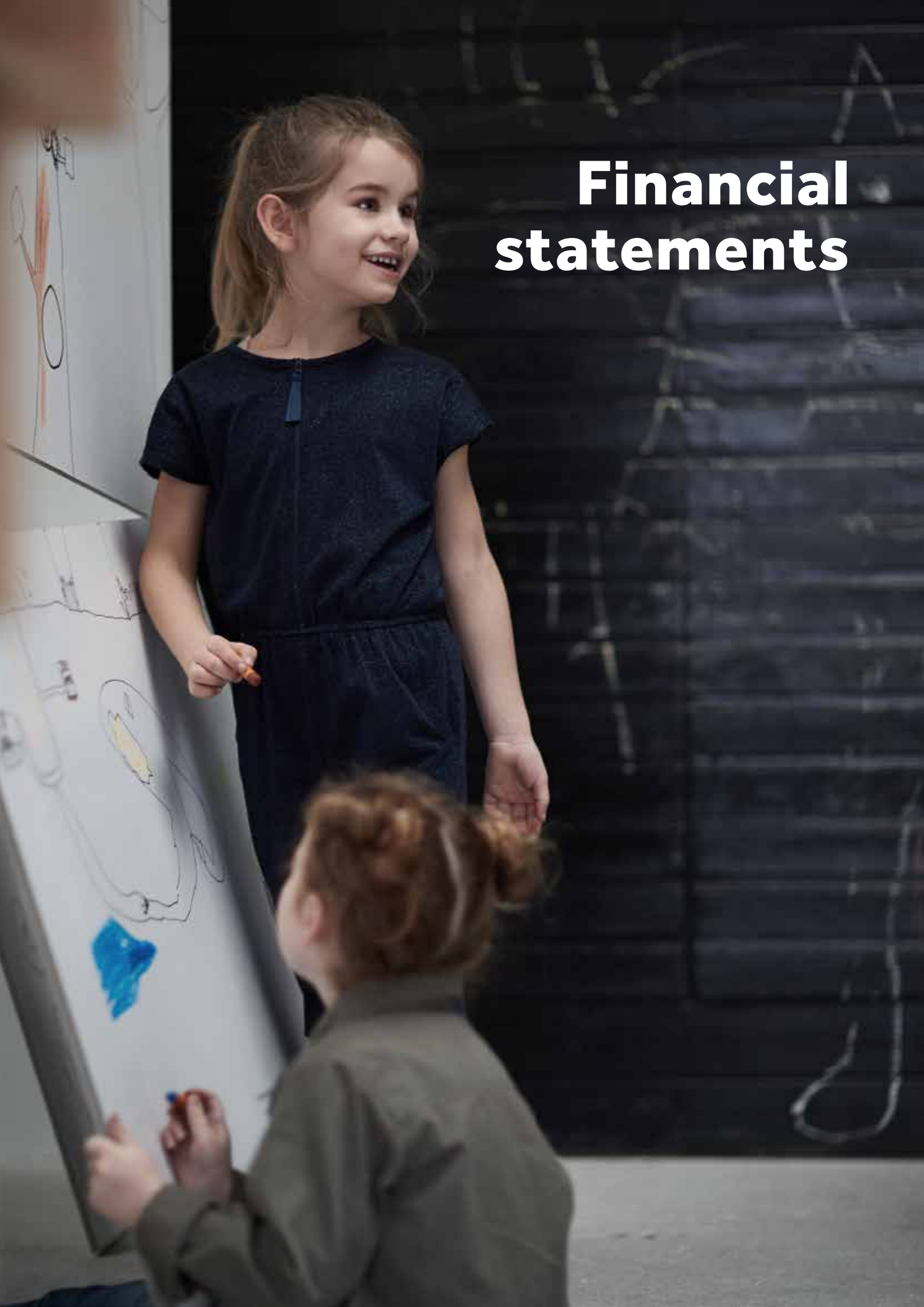
Portfolio: Programme costs  
+ grant activities related to the financial year

Key figures and ratios have been calculated in accordance with descriptions below:

Portfolio cost share:  
 $\frac{\text{Portfolio costs}}{\text{Activities}}$

Administration cost share:  
 $\frac{\text{Administration}}{\text{Activities}}$

# Financial statements



# Management's statement

The board of directors and executive management have today considered and adopted the annual report of the LEGO Foundation for the financial year 1 January–31 December 2017.

The annual report has been prepared in accordance with the provisions of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Foundation's financial position at 31 December 2017, and of the Foundation's

activities and cash flows for the financial year 1 January–31 December 2017.

We believe the management's review includes a fair review of the development in the Foundation's activities and finances, the result for the year and the financial position of the Foundation, as well as a review of the most significant risks and elements of uncertainty facing the Foundation.

We recommend that the annual report be approved at the annual meeting.

Billund, 1 March 2018

## Executive management

[John Paul Goodwin](#)  
CEO

## Board of directors

[Thomas Kirk Kristiansen](#)  
Chairman of the board

[Kjeld Kirk Kristiansen](#)  
1st deputy chairman of the board

[Jørgen Vig Knudstorp](#)  
2nd deputy chairman of the board

[Agnete Kirk Thinggaard](#)  
Member of the board

[Mette Morsing](#)  
Member of the board

[William Ervin Hoover](#)  
Member of the board





# Independent auditor's report

## To the board of directors and executive management of the LEGO Foundation

### Opinion

We have audited the financial statements of the LEGO Foundation for the financial year 1 January 2017–31 December 2017, which comprise an income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Foundation's financial position at 31 December 2017 and of its operations and cash flows for the financial year 1 January 2017 to 31 December 2017 in accordance with the Danish Financial Statements Act.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's report under "Auditors responsibility for the audit of the financial statements". As required by the International Ethics Standard Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, we are independent of the Foundation, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibility of the board of directors and executive management for the financial statements

The board of directors and executive management are responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as

the board of directors and executive management consider necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board of directors and executive management are responsible for assessing the Foundation's ability to continue as a going concern; disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting in preparing the financial statements unless the board of directors and executive management either intends to liquidate the Foundation or to suspend operations, or has no realistic alternative but to do so.

### The auditor's responsibility for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient



and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.
- Evaluate whether the accounting policies used are appropriate and whether the accounting estimates and the related disclosures made by the board of directors and executive management are reasonable.
- Conclude on whether the board of directors and executive management's use of the going concern basis of accounting in preparing the financial statements is appropriate, and, based on the audit evidence obtained, conclude on whether a material uncertainty exists related to events or conditions, which could cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may imply that the Foundation can no longer remain a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

#### **Statement on the management's review**

The board of directors and executive management are responsible for the management's review.

Our opinion on the financial statements does not cover the management's review, and we do not express any form of opinion providing assurance regarding the management's review.

In connection with our audit of the financial statement our responsibility is to read the management's review and, in doing so, consider whether the management's review is materially inconsistent with the financial statements or with the knowledge we have gained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management's review meets the disclosure requirements in the Danish Financial Statements Act.

Based on our procedures, we are of the opinion that the management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act.

We did not identify any material misstatements of the management's review.

Aarhus, 1 March 2018

#### **Deloitte**

#### **Statsautoriseret Revisionspartnerselskab**

CVR no. 33 96 35 56

#### **Thomas Rosquist Andersen**

State-Authorised Public Accountant  
mne31482

#### **Nikolaj Thomsen**

State-Authorised Public Accountant  
mne33276

# Accounting policies

The accounting policies applied to the annual report in general are described below.

## Legislation

The LEGO Foundation annual report for 2017 has been prepared in accordance with the provisions of the Danish Act on Commercial Foundations and presented in accordance with the provisions of the Danish Financial Statements Act pertaining to reporting on class C large enterprises.

The income statement presents "expenses related to programmes" and "expenses related to administration" in order to give a fair and true view of the Foundation's activities. The clarification has no impact on the result for the year or the equity at the beginning or the end of the year.

## Consolidated financial statements

No consolidated financial statements have been prepared, as the company is a commercial foundation with no more than one subsidiary, the Foundation itself has only limited business activities, and the Foundation has no receivables at the subsidiary, besides receivable dividends and convertible outstandings, see section 111(2) of the Danish Financial Statements Act.

## Reporting currency

The annual report is presented in Danish kroner (DKK).

## Translation of foreign currency

Transactions in foreign currencies are translated into Danish kroner using the foreign exchange rates applicable on the transaction date. Monetary assets and liabilities in foreign currencies are translated into Danish kroner using the foreign exchange rates applicable on the balance sheet date. Realised and unrealised foreign exchange gains and losses are recognised in the income statement under financial income and expenses, except exchange gains and losses related to grant commitments.

## Recognition and measurement in general

Income is recognised in the income statement as earned. Furthermore, all expenses incurred

to generate the year's earnings, including depreciation and amortisation, impairment losses and write-downs and provisions, are recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the entity, and the value of such assets can be measured reliably. Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the entity and the value of such liabilities can be measured reliably. Upon initial recognition, assets and liabilities are measured at cost.

On recognition and measurement, allowance is made for foreseeable losses and risks arising before the time at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

## Income statement

### Investments in subsidiaries

Income from investments in subsidiaries consists of the proportional share of its profit after tax and any adjustment of internal profit/loss and deduction of amortisation of goodwill on consolidation.

### Other operating income

Other operating income consists of rental income.

### Depreciation

Depreciation of and impairment losses on property, plant and equipment are based on an ongoing assessment of the useful lives of the entity's assets. Non-current asset depreciation is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life.

Gains and losses from the disposal of non-current assets are recognised in the income statement under other operating income and expenses.

### Financial income and expenses

Financial income and expenses are recognised in the income statement with the amounts

related to the financial year. Financial income and expenses include interest income and interest expenses, realised and unrealised capital gains and losses on securities, payables and transactions in foreign currencies.

#### **Tax**

The LEGO Foundation has opted to use section 3(4) of the Danish Corporation Tax Act. Under these rules, the taxable income of Koldingvej 2, Billund A/S is considered to have been earned by the LEGO Foundation if the taxable income is distributed as dividends to the LEGO Foundation. Since the LEGO Foundation's taxable income is regularly offset against grants for the year and provisions for future grants, no current or deferred tax is recognised. Tax on the result for the year consists of taxes paid in Switzerland related to the activities in the Swiss branch.

#### **Balance sheet**

##### **Property, plant and equipment**

Property, plant and equipment are measured at cost plus any revaluations and less accumulated depreciation and impairment losses. Cost comprises the acquisition price and directly related costs up until such time as the asset is ready for use.

Impairment testing of property, plant and equipment is performed if indications of impairment exist. The impairment test is performed for each individual asset or group of assets. Assets are impaired to the higher of the capital value of the individual asset or asset group and the net sales price (recoverable amount) if this is lower than the carrying amount.

##### **Investments in subsidiaries**

Investments in subsidiaries are measured according to the equity method based on the proportionally owned share of the subsidiaries' equity plus any consolidated goodwill and less intra-group gains and negative goodwill. Entities with negative equity are recognised at zero, with the negative value corresponding to the

proportionate share being offset against any receivables. Any amounts over and above this are recognised under provisions if a legal obligation or other obligation to cover the deficit exists.

#### **Securities**

Securities are measured at fair value. For listed equities at market value, and at estimated fair value for unlisted equities.

#### **Other receivables**

Other receivables are measured at amortised cost, which usually corresponds to nominal value. The value is reduced by provisions for expected losses.

#### **Cash**

Cash comprises cash at bank and in hand.

#### **Liabilities**

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

Committed grants comprise grants that are conditional upon fulfilment of certain conditions.

#### **Cash flow statement**

The cash flow statement shows the company's cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as the Foundation's cash and cash equivalents at the beginning and end of the year.

##### **Cash flows from operating activities**

Cash flows from operating activities are calculated as the profit/loss for the year adjusted for non-cash operating items, and changes in working capital.

##### **Cash flows from investing activities**

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of entities and activities, intangible assets, property, plant and equipment and investments.

##### **Cash flows from financing activities**

Cash flows from financing activities comprise payments of committed grants.

# Income statement

1 January–31 December

(tDKK)	Note	2017	2016
Net result from subsidiaries		2,022,740	2,550,834
Other operating income		0	8,840
Financial income		13,989	6,463
Financial expenses		(5,869)	(2,127)
<b>Total net income</b>		<b>2,030,860</b>	<b>2,564,010</b>
<b>Expenses related to programmes</b>			
Employee expenses	1	(34,424)	(29,889)
Operating expenses	2	(35,992)	(40,551)
<b>Total expenses related to programmes</b>		<b>(70,416)</b>	<b>(70,440)</b>
<b>Expenses related to administration</b>			
Employee expenses	1	(22,990)	(14,787)
Operating expenses	2, 3	(18,643)	(36,156)
Depreciation	4	0	(384)
<b>Total expenses related to administration</b>		<b>(41,633)</b>	<b>(51,327)</b>
<b>Total expenses</b>		<b>(112,049)</b>	<b>(121,767)</b>
<b>Result before tax</b>		<b>1,918,811</b>	<b>2,442,243</b>
Tax on result for the year		(272)	(324)
<b>Result for the year</b>	<b>5</b>	<b>1,918,539</b>	<b>2,441,919</b>

# Activity reporting

1 January–31 December

(tDKK)	2017	2016
<b>Grants</b>		
Grant to Ole Kirk's Foundation	121,030	75,000
Grant activities other core programmes, committed current year	31,544	18,639
Grant activities, other core programmes, committed previous years	142,596	162,144
<b>Current year's grant activities</b>	<b>295,170</b>	<b>255,783</b>
<b>Expenses</b>		
Expenses related to programmes	70,416	70,440
Expenses related to administration	41,633	51,327
<b>Current year's expenses in total</b>	<b>112,049</b>	<b>121,767</b>
<b>Total activities during the year</b>	<b>407,219</b>	<b>377,550</b>

## Activity reporting

The income statement for the LEGO Foundation is prepared in accordance with the provisions of the Danish Act on Corporate Foundations and presented in accordance with the provisions of the Danish Financial Statements Act pertaining to reporting class C large enterprises (Danish GAAP).

The LEGO Foundation measures its "activities" as the sum of grant activities, expenses related to

programmes and expenses related to administration. The total activities for the year are specified above because this information cannot be seen directly in the income statement.

Grant activities for each programme described in the LEGO Foundations distribution policy have been summarised in the section "Report on distribution policy" as part of the management's review.

# Balance sheet

at 31 December

(tDKK)	Note	2017	2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Other fixed assets	4	-	3,000
<b>Property, plant and equipment</b>		-	<b>3,000</b>
Investments in subsidiaries	6	12,015,385	10,410,395
Receivables from subsidiaries	7	808,906	1,102,891
<b>Financial non-current assets</b>		<b>12,824,291</b>	<b>11,513,286</b>
<b>Total non-current assets</b>		<b>12,824,291</b>	<b>11,516,286</b>
<b>Current assets</b>			
Other receivables		24,143	23,119
Securities		681,796	304,320
Cash		89,904	180,292
<b>Total current assets</b>		<b>795,843</b>	<b>507,731</b>
<b>Total assets</b>		<b>13,620,134</b>	<b>12,024,017</b>

# Balance sheet

at 31 December

(tDKK)	Note	2017	2016
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Basic capital		262,453	262,453
Reserve from the use of the equity method		11,356,392	9,751,402
Reserved for future grants		805,521	807,367
Retained earnings		191,509	160,026
<b>Total equity</b>		<b>12,615,875</b>	<b>10,981,248</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Committed grants	8	599,438	714,759
<b>Total non-current liabilities</b>		<b>599,438</b>	<b>714,759</b>
<b>Current liabilities</b>			
Short-term part of committed grants	8	349,537	294,250
Trade payables		4,573	16,748
Payables to subsidiaries		6,145	4,334
Payables to associates		4,633	4,435
Other payables		39,933	8,243
<b>Total current liabilities</b>		<b>404,821</b>	<b>328,010</b>
<b>Total liabilities</b>		<b>1,004,259</b>	<b>1,042,769</b>
<b>Total equity and liabilities</b>		<b>13,620,134</b>	<b>12,024,017</b>
Contingent liabilities and other obligations	9		
Related party transactions	10		

# Statement of changes in equity

(tDKK)	2017	2016
<b>Basic capital</b>		
Balance at 1 January	262,453	262,453
<b>Basic capital at 31 December</b>	<b>262,453</b>	<b>262,453</b>
<b>Reserve from the use of the equity method</b>		
Balance at 1 January	9,751,402	7,359,568
Distribution of result	2,022,740	2,550,834
Dividend distributed	(385,000)	(122,000)
Other comprehensive expenses	(32,750)	(37,000)
<b>Reserve from the use of the equity method at 31 December</b>	<b>11,356,392</b>	<b>9,751,402</b>
<b>Reserved for future grants</b>		
Balance at 1 January	807,367	766,894
Distribution of result	250,000	250,000
Commitments during the year	(251,846)	(209,527)
<b>Reserved for future grants at 31 December</b>	<b>805,521</b>	<b>807,367</b>
<b>Retained earnings</b>		
Balance at 1 January	160,026	397,177
Dividend received	385,000	122,000
Distribution of result	(354,201)	(358,915)
Currency translation	684	(236)
<b>Retained earnings at 31 December</b>	<b>191,509</b>	<b>160,026</b>
<b>Total equity</b>	<b>12,615,875</b>	<b>10,981,248</b>



# Cash flow statement

1 January–31 December

(tDKK)	2017	2016
Result for the year	1,918,539	2,441,919
Net result from subsidiaries	(2,022,740)	(2,550,834)
Depreciation and gain on sale of assets	-	(7,541)
Financial expenses with no effects on result for the year	(16,710)	4,173
Currency translation	684	(236)
Changes in receivables	(1,024)	(13,457)
Changes in payables	21,524	(835)
<b>Cash flows from operating activities</b>	<b>(99,727)</b>	<b>(126,811)</b>
Changes in receivables from subsidiaries	293,985	264,803
Dividend received	385,000	122,000
Investment in securities, net	(377,476)	98,831
Sale of property, plant and equipment	3,000	14,000
<b>Cash flows from investment activities</b>	<b>304,509</b>	<b>499,634</b>
Grants paid	(295,170)	(255,783)
<b>Cash flows from financing activities</b>	<b>(295,170)</b>	<b>(255,783)</b>
<b>Net cash flows for the year</b>	<b>(90,388)</b>	<b>117,040</b>
Cash and cash equivalents at 1 January	180,292	63,252
<b>Cash and cash equivalents at 31 December</b>	<b>89,904</b>	<b>180,292</b>

# Notes

## NOTE 1. EMPLOYEE EXPENSES

(tDKK)	2017	2016
Employee expenses related to programmes	34,424	29,889
Employee expenses related to administration	22,990	14,787
<b>Total employee expenses</b>	<b>57,414</b>	<b>44,676</b>
<b>Which can be split into:</b>		
Wages and salaries	48,717	34,974
Pension costs	2,220	2,551
Other staff and social security expenses	6,477	7,151
<b>Total employee expenses</b>	<b>57,414</b>	<b>44,676</b>
Salaries and remuneration for leadership team*	16,772	13,507
Remuneration for the board of directors	400	400
Average number of employees	46	41

\*) Since the LEGO Foundation executive management consist of one person, the LEGO Foundation CEO, remuneration for management is disclosed as the total remuneration amount, including benefits, paid to the LEGO Foundation leadership team.

## NOTE 2. OPERATING EXPENSES

(tDKK)	2017	2016
Operating expenses related to programmes	(35,992)	(40,551)
Operating expenses related to administration	(18,643)	(36,156)
<b>Total operating expenses</b>	<b>(54,635)</b>	<b>(76,707)</b>

## NOTE 3. AUDITORS' FEES

(tDKK)	2017	2016
Statutory audit of the financial statements	106	106
Tax assistance	-	25
Other assistance	72	266
<b>Total auditors' fees</b>	<b>178</b>	<b>397</b>

# Notes

## NOTE 4. OTHER FIXED ASSETS

(tDKK)	2017
<b>Cost</b>	
Cost at 1 January	3,350
Disposal for the year	(3,350)
<b>Cost at 31 December</b>	<b>-</b>
<b>Depreciation</b>	
Depreciation at 1 January	350
Depreciation for the year	-
Disposal for the year	(350)
<b>Depreciation at 31 December</b>	<b>-</b>
<b>Carrying amount at 31 December</b>	<b>-</b>

## NOTE 5. DISTRIBUTION OF RESULT

(tDKK)	2017	2016
Reserved for future grants	250,000	250,000
Reserve from the use of the equity method	2,022,740	2,550,834
Retained earnings	(354,201)	(358,915)
<b>Total distribution of result</b>	<b>1,918,539</b>	<b>2,441,919</b>

# Notes

## NOTE 6. INVESTMENTS IN SUBSIDIARIES

(tDKK)	2017	2016
<b>Cost</b>		
Cost at 1 January	658,992	658,992
<b>Cost at 31 December</b>	<b>658,992</b>	<b>658,992</b>
<b>Value adjustment</b>		
Value adjustment at 1 January	9,751,402	7,359,568
Share of result for the year	2,022,740	2,550,834
Dividend distributed	(385,000)	(122,000)
Other comprehensive expenses	(32,750)	(37,000)
<b>Value adjustment at 31 December</b>	<b>11,356,392</b>	<b>9,751,402</b>
<b>Carrying amount at 31 December</b>	<b>12,015,385</b>	<b>10,410,395</b>

### Information about subsidiaries:

Name	Municipality	Ownership
Koldingvej 2, Billund A/S	Billund	100%

## NOTE 7. LONG-TERM RECEIVABLES FROM SUBSIDIARIES

(tDKK)	2017	2016
<b>Cost</b>		
Cost at 1 January	1,102,891	-
Additions	6,015	1,102,891
Reductions	(300,000)	-
<b>Cost at 31 December</b>	<b>808,906</b>	<b>1,102,891</b>
<b>Carrying amount at 31 December</b>	<b>808,906</b>	<b>1,102,891</b>

The long-term receivables from subsidiaries is a convertible loan.

# Notes

## NOTE 8. COMMITTED GRANTS

(tDKK)	2017	2016
Committed grants at 1 January	1,009,009	1,051,092
Commitments during the year	251,846	209,527
Grant activities during the year	(295,170)	(255,783)
Currency adjustments	(16,710)	4,173
<b>Committed grants at 31 December</b>	<b>948,975</b>	<b>1,009,009</b>
Committed grants, due within one year (current liabilities)	349,537	294,250
Committed grants, due after one year (non-current liabilities)	599,438	714,759
<b>Total committed grants</b>	<b>948,975</b>	<b>1,009,009</b>

## NOTE 9. CONTINGENT LIABILITIES AND OTHER OBLIGATIONS

The Foundation has lease obligations of tDKK 2.428 (2016 = tDKK 1,208)

## NOTE 10. RELATED PARTY TRANSACTIONS

The Foundation's related parties comprise the board of directors and the executive management of the LEGO Foundation. Related parties also comprise subsidiaries and associates and boards of directors and executive management in these companies.

There were no transactions in the financial year with the board of directors or the executive management besides remuneration, see note 1.

Transactions with subsidiaries and associates include the following:

(tDKK)	2017	2016
Grants	39,386	36,379
Purchase of goods and services	7,059	5,215
<b>Total related party transactions</b>	<b>46,445</b>	<b>41,594</b>

Receivables and liabilities related to subsidiaries and associates are specified in the balance sheet.

Transactions with related parties have been conducted at arm's length.

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