**LEGO**

*Play On*

The Lego Company is a US$2.8 billion global business built out of the humblest of materials: interlocking plastic toy bricks. From its base in Denmark, the family-owned Lego empire extends around the world and today includes theme parks, clothing, and toys that can be controlled by computer. Each year, the company produces about 1.5 billion plastic blocks as well as tiny human figures to populate towns and operate gizmos that spring from the imaginations of young people. Lego products, which are especially popular with boys, are available in more than 130 countries. In the key North American market, the company’s overall share of the construction-toy market has been as high as 80%. Kjeld Kirk Kristiansen, Lego’s chief executive and the grandson of the founder, says that Lego products stand for “exuberance, spontaneity, self-expression, concern for others, and innovation. The company’s name comes from the Danish phrase “leg godt” which means “play well”. Kristiansen also attributes his company’s success to the esteem the brand enjoys among parents. “Parents consider Lego not as just a toy company but as providing products that help learning and developing new skills” he says.

For the past several years, however, some of those parents have been switching loyalties. Mega Blok Inc., a rival company in Montreal, Canada, has been aggressively gaining market share with its own colourful plastic blocks. Some are compatible with Lego products, and all generally cost less than comparable Lego products. Lego executives believe that Lego’s proprietary mix of resin results in a higher quality toy. By contrast, Mega Bloks holds costs down by using commodity-grade resin. While Lego dominates the 7 to 12 year-old segment, Mega Blok is the number one player in the preschool market. Because the bricks in Mega Bloks’ original line are larger and softer than Lego, some parents believe they are easier for very young children to use. Lego responded by introducing a Duplo line of oversized blocks made of the same material as the company’s core brick line. In recent years, Mega Bloks has introduced a midsized line as well as a line called Micro for the elementary school set. Micro bricks can be used interchangeably with Legos. Lego filed a lawsuit alleging that the Micro line copied the “look” of the knobs on Lego bricks and thus violated Canadian trademark law. Canada’s Court of Appeal dismissed the claim concluding that the bricks’ design is functional and thus entitled to trademark protection. Canada’s Supreme Court has announced that it would hear Lego’s appeal.

In short, Mega Bloks has prospered at Lego’s expense. Meanwhile Hasbro and other competitors are also targeting the $700 million market for construction toys. In the 1990s, Lego’s strategy called for new sources of growth beyond the core block category. The company developed its own line of original robot action figures. Known as Bionicles, the figures can be integrated with the traditional construction materials.

Currently, the Bionicle line is Lego’s best seller. In 2003, a direct-to-DVD animated feature, *Bionicle – Mask of Light*, was released by Miramax. Another product, Mybots, was a $70 toy set that included blocks with computer chips embedded to provide lights and sound. A $200 Mindstorms Robotics Invention System allowed users to build computer-controlled creatures.

To further leverage the Lego brand, the company also formed alliances with Walt Disney Company and Lucasfilms, creator of the popular *Star Wars* series. For several years, sales of licensed merchandise relating to the popular Harry Potter and Star Wars movie franchises sold extremely well.

More recently, however, while the Harry Potter movie series continued to enjoy great success, interest in the Potter themed play sets was waning.

The company has unveiled a number of new initiatives. Its new Quattro line of large, soft bricks is targeted directly at the preschool market. Clikits is a line of pastel-coloured bricks targeted at young girls who want to create jewellery.

*Intellectual capital resources*

An important condition for the continued success of the Lego Group is the continuous development of the skills of Lego employees. Therefore, both talent development and general competence development are very important elements of the Group’s People & Culture strategy. Consequently, there has been great focus on the preparation of individual development plans for most Lego Group employees.

The average number of full-time employees was 8,365 in 2010 against 7,286 in 2009. The increase is attributable both to the capacity expansion and to the large increase in activities in connection with the considerable sales growth. Such an increase in the number of employees places heavy demands on the Group in respect of recruiting, welcoming and introducing new employees. Therefore, investments were made in both centralised and decentralised recruitment resources and tools in 2010.

Moreover, continuous efforts are made to ensure that the new employees are quickly brought to understand the Group’s objectives, values and strategic direction. In support of the Group culture, the basic cultural elements are described in a so-called ”brand framework”.

*Sustainability*

In 2003, as the first company in the toy industry, the Lego Group signed the UN Global Compact. This was a confirmation of the many years’ support of human rights, labour standards and the environment. Global Compact has later been extended to include anti-corruption. The Lego Group continues in its support to Global Compact. The Lego Group issues Progress Report describing how it is working within the areas of human rights, labour standards, the environment and anti-corruption. The Progress Report thus constitutes the statutory statement of social responsibility pursuant to section 99a of the Danish Financial Statements Act. The Progress Report also describes the LEGO Group’s efforts to achieve its non-financial goals.

*Market development*

The Lego Group’s main activity is the development, production, marketing and sale of play materials. The market for traditional toys, in which the Group operates, has for a number of years been under pressure from new product groups. However, in 2010 this market saw a slight increase. The world’s largest toy market, USA, grew by almost two percent while most of Europe saw higher growth rates.

The Japanese toy market continues to be under high pressure while both rest of Asia, Australia/New Zealand and Latin America experienced considerable growth.

*Lego Sales*

LEGO City and LEGO Star Wars were also in 2010 the two best selling product lines of the Lego Group. Other classic lines such as LEGO DUPLO, LEGO Bricks’n’more, LEGO Creator and LEGO Technic are also showing high growth rates. Likewise, quite new product lines such as Atlantis and Hero Factory are contributing to growth.

The global launching of the board games, LEGO Games, which were initially launched on selected markets in 2009, resulted in considerable sales growth in 2010. At the end of 2010, the Lego Group for the first time entered the market for online pay games through the launching of LEGO Universe, a so-called MMO G (massively multiplayer online game). As the product was launched at the end of the year, LEGO Universe only had limited effect on sales in 2010.

The Lego Group achieved growth on all markets in 2010. The extensive growth on the English-speaking markets seen in recent years was further reinforced in 2010. Although the consumers in Europe are those who, on average, own the largest number of Lego bricks in the world, double digit growth rates were realised in most markets. The highest growth rates are seen on the Eastern European markets and Great Britain being part of the focus areas of the Lego Group growth strategy.

Recent years’ growth on the Asian markets also continued. The growth also included Japan, which has achieved double digit growth rates in 2010 despite the financial crisis in recent years.

Direct sales to consumers, accounting for some 10% of the Lego Group’s sales, have also seen a major increase in 2010. Sales to the educational sector, which have in recent years been impacted by the financial crisis, achieved considerable growth in 2010.

Thanks to the growth generated during the year, the Lego Group’s global market share at the end of 2010 amounts to approximately 5.9%.

**Financial Performance**

The strong growth achieved by the Lego Group in recent years continued at the same pace in 2010. The sale of Lego products grew considerably all over the world, and the Group’s earnings increased significantly.

The Lego Group’s profit before tax amounted to DKK 4,889 million in 2010 against DKK 2,887 million the year before. The result is considered highly satisfactory.

The Lego Group’s revenue increased from DKK 11,661 million in 2009 to DKK 16,014 in 2010. This was a growth of 37.3%. Markets defined by the LEGO Group as special growth areas, the USA, Great Britain, Russia and Eastern Europe, contributed particularly to the extensive growth, but all the Lego Group’s markets gained market shares in a slightly increasing global toy market.

The classic product lines such as LEGO City, LEGO DUPLO® and LEGO *Star WarsTM* created the highest sales in 2010. However, nearly all product lines showed higher increases in 2010 than expected.

The new online game LEGO Universe was launched at the end of 2010 and therefore only had limited effect on sales in 2010. However, it did not meet the expectations for the year.

**Licence and royalty expenses**

Licence and royalty expenses increased in 2010 to DKK 988 million from DKK 694 million in 2009. The item includes royalty to the KIRKBI Group for the use of trademarks, including the LEGO trademark, but also includes licence agreements with inventors, designers and other licensees for the use of intellectual rights. Licence income from other companies’ use of the Lego Group’s trademarks increased in 2010 by DKK 33 million to DKK 145 million.

**Profit before special items, financial income and expenses and tax**

The Lego Group’s profit before special items, financial income and expenses and tax amounted to DKK 5,115 million in 2010 against DKK 3,002 million in 2009.

The operating margin (ROS) was 31.1% in 2010 against 24.9% in 2009.

The highly satisfactory results are mainly attributable to the massive sales increases and continuous cost control.

**Special items**

The Lego Group has performed an impairment assessment of the Group’s intangible assets as of 31 December 2010. Consequently, the Group has recognised a write-down amounting to DKK 150 million.

**Financial income and expenses**

Net financials amounted to an expense of DKK 84 million in 2010 against DKK 15 million in 2009.

**Corporation tax**

Corporation tax amounts to DKK 1,171 million against DKK 683 million the year before. The effective tax rate for the year is 24% which is the same level as in 2009.

**Profit for the year**

The Lego Group’s profit for the year amounted to DKK 3,718 million in 2010 against DKK 2,204 million in 2009.

**Equity and cash flows**

Group assets increased by DKK 3,184 million and amount to DKK 10,972 million against DKK 7,788 million at the end of 2009.

Return on invested capital (ROIC) was 161.2% in 2010 against 139.5% in 2009. After recognition of the profit for the year and distribution of dividend, Group equity increased by DKK 2,182 million to DKK 5,473 million in 2010.

At the end of 2010, the equity ratio of the Group was 49.9%. Return on equity for the Group reached 84.8% in 2010 against 82.3% in 2009.

Cash flows from operating activities amounted to DKK 3,744 million against DKK 2,712 million in 2009.

Cash flows from investing and financing activities amounted to DKK -4,615 million against DKK -2,154 million in 2009.

The Group’s total cash flows thus amounted to DKK -871 million against DKK 558 million in 2009.

**Capacity investments**

In 2010, the Lego Group continued its expansion of production capacity seen in recent years. The expansion primarily includes the completion of a new warehouse at the factory in Kladno, the Czech Republic, and the construction of a new moulding hall at the factory in Monterrey, Mexico. The moulding hall is expected to be ready for use in 2012. The capacity expansion should be seen in the light of the extensive sales increases in recent years. Based on the capacity expansion, the Lego Group expects to be able to maintain and increase high supply security for its custom

On the basis of the development in recent years, a slight increase in the global market for traditional toys is expected. Based on the highly satisfactory development of the Lego Group and the significant activities initiated in 2010, the Lego Group expects sales growth in future years, though at a lower scale than 2010. The growth is expected to come from the main markets in North America and Europe as well as from the smaller, yet rapidly growing new markets.

**Company Milestones for last 10 years**

### Timeline 2000 – 2012

**2012**

* “Step Up”: Organisational change in order to prepare the LEGO Group for future growth and to make it more adaptable and competitive. Corporate Management changes from 6 to 22 persons.
* LEGO Universe closes as well as DesignbyME, because the two product lines are not sustainable.
* LEGO Education becomes a separate subsidiary under LEGO A/S.  
    
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**Selected Product news 2012**

* LEGO Friends. A new line targeted at girls aged 5-8

**2011**

* LEGOLAND Florida opens. The world’s largest LEGOLAND Park.
* The LEGO Group launches its first appcessory “Life of George".
* The LEGO Group is now the world’s third largest toy manufacturer in terms of sales.

**Selected Product news 2011**

* LEGO Technic Unimog  
  Ninjago  
  Alien Conquest

**2010**

* Online game LEGO Universe launches.
* The World’s largest LEGO Mosaic is assembled in London. It measures 15,3 x 6,4 meters and consists of 384.000 LEGO Bricks and 1500 building plates and the motif is several Star Wars figures.

**Selected Product news 2010**

* Prince of Persia
* Atlantis

**2009**

* The LEGO Group is now the world’s fifth largest toy manufacturer in terms of sales.
* Warner Bros. and the LEGO Group announce plans to develop the first-ever feature film based on LEGO bricks and icons.
* The LEGO Group announces a multi-year partnership with Disney Consumer
* Products obtaining exclusive rights to construction toys based on the entire portfolio of Disney and Disney Pixar properties.
* A completely new product line – LEGO Games – is launched. The line consists of a series of board games that can be played by the whole family. Pilot launch in the UK and Germany. Rest of world to follow.

**Selected product news 2009**

* LEGO Games
* Powerminers

**2008**

* The LEGO brick celebrates its 50th anniversary.
* While maintaining production in production sites in Eastern Europe, Mexico and Denmark, the LEGO Group decides to take back the majority of its production so that most LEGO products will be produced in-house.
* The Taj Mahal is launched – containing the largest number of bricks so far: 5,922 bricks.
* LEGO owner Kjeld Kirk Kristiansen is inducted to the Toy Industry Hall of Fame (US).

**Selected product news 2008**

* LEGO Indiana Jones
* Agents

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**2007**

* The LEGO Group celebrates its 75th anniversary on 10 August in good shape.
* LEGO Club has approx. 2.6 million members.
* All distribution for the European and Asian markets is gathered in one distribution centre in the Czech Republic.
* The LEGO Group enters a license agreement with Lucasfilm Inc. on the production of LEGO Indiana Jones sets.
* The LEGO *Star Wars™* Millennium Falcon is the largest LEGO model so far. Weight 6 kilos. Number of elements included: 5,195 pieces.

**Selected product news 2007**

* Power Functions (electric building system)
* LEGO Aqua Riders

**2006**

* 4922 employees.
* The LEGO Group announces plans to outsource major parts of production to external partners.
* The LEGO plant in Willisau (Switzerland) closes.
* [www.LEGO.com](http://www.lego.com/en-us/) averages more than 8 million aggregated daily unique visitors per month.
* The visitors spend an average of about 28 minutes at LEGO.com.
* CEO Jørgen Vig Knudstorp publicly announces Shared Vision – an action plan for the company until 2010.

**Selected product news 2006**

* MINDSTORMS NXT is launched – new and considerably improved version of the LEGO robotics system.
* Parcheesi – Board Game

**2005**

* The LEGOLAND parks are sold to Merlin Entertainments. The parent company of the LEGO Group – KIRKBI – buys a share of Merlin Entertainments. Today KIRKBI owns approx. one third of Merlin. The LEGO Group posts a profit again. The company is back on track.
* CEO Jørgen Vig Knudstorp launches a five-year strategy plan (Shared Vision) for the LEGO Group.  
  The LEGO Group sets up its LEGO Ambassador Progamme to create closer ties between the company and LEGO Fans.  
  LEGO Factory at [www.lego.com](http://www.lego.com/en-us/) enables you to design your own model and then buy the LEGO elements you need to build it online.

**Selected product news 2005**

* LEGO Vikings
* Exo-Force
* DINO 2010
* LEGO Designer Sets

**2004**

* In January, the LEGO Group announces the results of 2003 – a huge deficit. Owner and CEO Kjeld Kirk Kristiansen heads up the building of an action plan to turn around the company. In October he appoints Jørgen Vig Knudstorp as new CEO of the company.
* The year ends with another huge deficit due to heavy write-downs.
* The LEGO Group and Ferrari launch an agreement to make LEGO sets based on the iconic race cars.
* The DUPLO trade mark is re-launched as a result of consumer requests.  
  LEGO Factory at www.LEGO.com enables you to create your own model and buy the LEGO elements required to build it.

**Selected product news 2004**

* LEGO Ferrari
* LEGO Outdoor Racers

**2003**

* The LEGO Group signs the UN Global Compact initiative.
* For LEGO minifigures who represent real-life persons or characters from books, movies or TV series, the yellow facial colouring is replaced by a more authentic skin colour, facial expression and hair style.
* The first BIONICLE film, Mask of Light, is released and proves to be a big success.

**Selected Product News 2003**

* CLIKITS – new design system for girls
* LEGO Orient Expedition

**2002**

* The brand statement "Play On" replaces "Just Imagine...".
* The LEGO DUPLO brand is replaced by the LEGO EXPLORE brand covering all pre-school activities.
* LEGO Brand Retail stores open in Cologne, Germany (September), Milton Keynes, England (November) and Moscow, Russia (December).
* LEGOLAND Deutschland opens at Günzbrug, Germany.

**Selected Product News 2002**

* Music Composer (LEGO EXPLORE)
* Music Roller (LEGO EXPLORE)
* Island Extreme Stunts (+ PlayStation game)
* WilliamsF1 Racer
* Galidor
* SpyBotics

**2001**

* LEGO My World receives an important award in Germany for the best software learning product at the book fair in Frankfurt.
* LEGO Mindstorms Robot “Jitter” is sent into orbit around the earth with the International Space Station.
* LEGO Serious Play is unveiled in the autumn.
* Deficit is again turned to profit for LEGO Group.

**Selected Product News 2001**

* LEGO BIONICLE (+ BIONICLE PC and Nintendo game)
* LEGO DUPLO dolls
* LEGO Bob the Builder
* LEGO Harry Potter
* Jack Stone
* Alpha Team
* Robotic Invention System 1,5 (LEGO MINDSTORMS)
* LEGO My World (software)
* Island 2 - The Brickster's Revenge (software)

**2000**

* The company mission and fundamental beliefs are being revised to "Children are our role models..."
* The British Association of Toy Retailers names the LEGO brick "Toy of the Century".
* The LEGO Group achieves its budgeted surplus of DKK 500 million and employees are rewarded with a bonus and a global party.
* The LEGO Group signs a partnership deal with Warner Bros. relating to the launch of LEGO Products based on Harry Potter’s magic universe.
* LEGO factory opens in Kladno, Czech Republic.
* The LEGO Group runs a DKK 1 billion deficit.

**Selected Product News 2000**

* LEGO & Steven Spielberg MovieMaker Set (LEGO Studios)
* Decoration foam (LEGO SCALA)
* Grand Silver Champion (LEGO TECHNIC)
* Speed Slammers (LEGO TECHNIC)
* LEGO MyBot
* LEGO Football (LEGO Soccer in the US)
* The Musical Apple