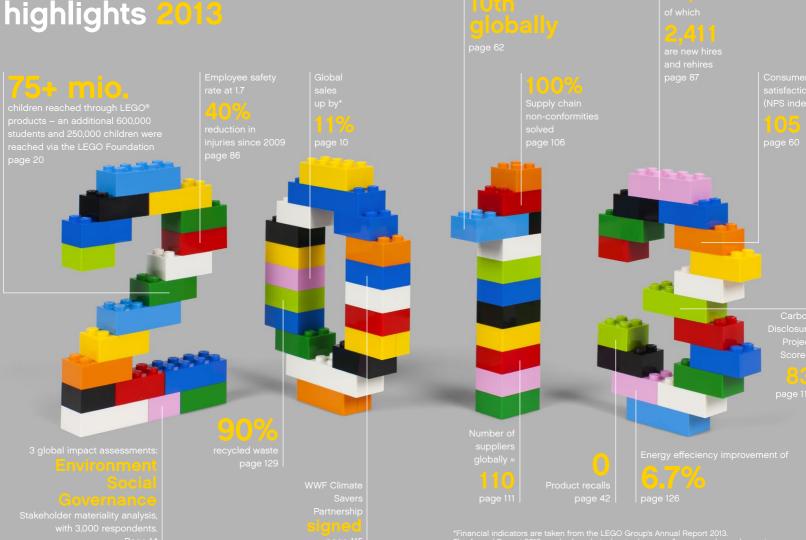
# Responsibility Report 2013



# The LEGO Group's highlights 2013



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### About this report

The LEGO Group's 2013 Responsibility Report celebrates our 10 year anniversary with the United Nations Global Compact, showing our long-term commitment of being a responsible manufacturer of play experiences.

The Responsibility Report and the Annual Report for the year 2013 jointly set out the LEGO Group's development and reporting commitment.

The Responsibility Report 2013 complies with our legal and voluntary obligations, with non-financial data being reviewed by PricewaterhouseCoopers (PwC). The report serves as our annual Communication On Progress (COP report), as required by the United Nations Global Compact and in accordance with the statutory statement on Corporate Social Responsibility by the Danish Financial Statements Act, section 99a.

The Responsibility Report 2013 also serves to fulfil the statutory statement on Corporate Social Responsibility by the Danish Financial Statements Act, section 99b.

Created and inspired by the principles of the Global Reporting Initiative (GRI), version 3.1, and the AA1000 Accountability Principles, the report covers all activities of the LEGO Group (see page 65 in the Annual Report). A GRI Content Index is available at  $\Omega^2$ .

The materiality analysis performed this year has informed our choice of content for this report (see page 14 for details). There have been no changes in reporting or restatement. The period covered by this publication is 1 January 2013 to 31 December 2013. Our previous report – the LEGO Group's Progress Report 2012 has been available since 22 February 2013 on our website.

PwC has reviewed the non-financial data (pages 65-76) and accounting policies (pages 77-81) in this report. The review concluded that the consolidated non-financial data has been presented in accordance with the stated criteria. The complete Independent Assurance Statement can be found at page 70.

Please forward any questions or comments to Corporate Communications at the LEGO Group:

Responsibility@LEGO.com

For more information about the LEGO Group and our efforts to make a positive impact, please visit: www.LEGO.com/responsibility







### The LEGO® Storybox

Just like the LEGO® brick invites for countless building opportunities, the LEGO Group has embarked upon a staggering array of inventions in striving to continuously inspire and develop the builders of tomorrow. Unfolding parts of this journey, here are some less known LEGO product highlights.

#### 1930s Early innovation

Left with a large stock of unsold yoyos in 1932, Ole Kirk Kristiansen demonstrated solid creative and business acumen when he decided to cut the yoyos in half and use the pieces as wheels for other wooden toys, such as the horse carrier.





### 1960s Entering new grounds

When launching a 4.5 volt batterypowered train in 1966, the LEGO Group entered new grounds that have later proven fundamental to all electricitydriven LEGO products.



### 2000s Back to the core

Introduced in the late 1990s, LEGO City is in many ways a symbol of the core business (construction toys) and has roots dating back to the LEGO System in Play Town Plan from the 1950s. After a brief intermezzo where it was known as LEGO World City, LEGO City was rejustated again in 2005.



Capitalising on the many Ferguson tractors imported by Danish farmers in extension of the Marshall aid, the plastic Ferguson tractor became a must-have item for many Danish families in the 1950s: if dad had a Ferguson tractor, his children wanted one too!



### 1980s Looking to the horizon

For the first time in history, the minifigure changed facial expressions when LEGO Pirates was launched in 1989. Beards and eye patches thus laid the foundation for personalised minifigures.





#### A letter from the CEO

<u>Children</u> – and their parents – should continue to have very <u>high expectations</u> of us, says Jørgen Vig Knudstorp.

2013 was a very positive year for the LEGO Group. Our results in the global toy market have been very satisfactory, with revenue growing to DKK 25.4 billion.

This strong market performance means we have reached children in many areas of the world with LEGO® play experiences, which they hopefully found cool, fun and creative. In 2013 our leadership updated the LEGO Strategy, reconfirming our long-term aspiration to inspire and develop the builders of tomorrow, by globalising and innovating the LEGO system-in-play.

#### Strategy founded in the core

With a strong company purpose and a strategic intent anchored in family ownership, we continue a business founded on the core idea of construction play. While expanding our

global reach, we are determined to leave a positive impact on society, and the planet that our children will inherit. Our biggest contribution is through inspiring and developing children as they experience the joy and learning opportunity that creative play provides. This is reflected in how we work; we will continue to have impeccable safety standards and search for better materials, packaging, and recycling while seeking to utilise more renewable sources of energy.

We have always focused on running a responsible and sustainable business, and since 2003 we have been committed to the United Nations Global Compact. Again this year, we set specific targets and initiated activities to deliver on our ambition to make a positive impact. This 2013 publication is our tangible way of reporting how well we are meeting our ambition and commitments.

#### 2013 was a year to be proud of

Overall, we are doing really well, and I want to highlight a few results from 2013:

- we concluded a comprehensive four-year project ensuring that LEGO products adhere to, and go beyond, the strictest global toy safety standards.
- · we had zero product recalls.
- we have set an ambition to move into more sustainable raw material solutions for our products by 2030.
- we reached more children than ever with the LEGO play experience, a total of 75+ million.
- we became a safer place to work, reaching our best employee safety rate ever of 1.7 injuries per million hours.
   The number of injuries have decreased by 40% compared to 2009.

- we entered a partnership with WWF, underlining our commitment to decrease our CO<sub>2</sub> emissions not just from our own factories, but from the entire value chain.
- we increased energy efficiency in our production by 6.7% amounting to a 30% improvement over the last five years.
- we continued to expand our collaboration with partners and solved 100% of the Code of Conduct non-conformities found at suppliers.
- we grew our footprint by adding and expanding facilities around the globe.

#### Improving overall, yet still room for improvement

We are proud of our 2013 results. They are all important steps on our journey to improve our actions as a responsible company. In 2013, we reached our best performance ever on employee safety, yet fell short of our target. We successfully promoted and hired more female leaders in 2013, achieving a share of 37%, but we must keep pushing. We realise that reaching true equal opportunities in our company requires dedicated work and we insist on continuing our positive journey of improvements.

Making responsible business behaviour second nature
We want to further integrate responsibility and sustainability
into the way we think and act in our company.

In 2013, a risk-mapping exercise identified areas for us to continuously improve our training, guidance and tools in regards to ensuring high ethical business conduct.

In 2013 we also started sourcing packaging material certified by the Forest Stewardship Council and reduced the box sizes

of all novelty LEGO products by 18%, simply because it makes sense for consumers, customers, the environment and us.

We welcome any feedback that can challenge our processes, as we believe an open and ongoing dialogue will help facilitate improvement and strengthen our commitment to future generations.

My best regards,

Jørgen Vig Knudstorp CEO, the LEGO Group

Looking to the future, we will certainly face challenges as we expand our global presence, including integrating our business in new cultures, building stronger relationships with our suppliers and moving into more sustainable raw material solutions for our products.

# What our stakeholders tell us

During 2013, we made a special effort to engage with 3,000 of our stakeholders to better understand what they regard as the most relevant and material issues for the LEGO Group.

To gain a deeper knowledge of our stakeholders' expectations of us, we engaged with a broad range of them across our major markets, using an online survey including more than 1,500 people, and an interview round with almost another 1,500 people. We invited representatives from various stakeholder groups, including consumers, customers, employees, relevant NGOs and interest groups, and industry associations.

#### Consensus across stakeholders

Across our stakeholders, a shared expectation became evident. Among the 25 issues rated, three were singled out as the most important. We have discussed and reviewed the list, enabling us to determine the strategic, financial and reputational importance of each issue. The review informed us on how best to balance our strategic ambitions with our stakeholders' concerns

#### Stakeholders' priorities

- 1. Safety and quality of products
- 2. Supporting children's right to grow
- 3. Communication with children

In the 'Children deserve only our best' section we focus on the three most important issues for our stakeholders, while we in the 'Building a responsible business' section touch upon other important issues called out, such as: employees, diversity, community engagement, business ethics, supply chain standards, the environment, optimisation of products, and governance.

Please see pages 65-76 for an overview of our responsibility measures and performance in 2013.

For more information on the work we do within our nine responsibility areas go to page 136 and  $\bigcirc$ <sup>2</sup>.



### Caring for children

In the LEGO Group, we have a <u>responsibility</u> to contribute wherever possible, allowing children to play, be creative and develop.

Children and their rights, needs and opinions must be taken seriously. However, many societies lack the capacity, resources and sometimes even the will to come up with sustainable solutions. Too many children have limited, or no access to the play and education they need in order to grow to their full potential and later contribute to the global society.

At the LEGO Group we see children as the builders of tomorrow and our primary stakeholders. To us, all investment in children is investment in the future. We have always been devoted to children and providing them with high quality play experiences.

Since our establishment in 1932, we've been on a journey to support children's right to grow. In 2013, for example, we promoted this very point when the EU and Toy Industries of

Europe gathered key participants to discuss and advance the importance of creativity and play in children's development.

#### Collaborating for Children's Right to Grow

The development potential of play and learning has always been at the heart of the LEGO Group.

When we add the characteristics of our unique LEGO play experience to our global reach we have the opportunity to be children's ambassador of play. To increase our impact, we will in the years to come, across the LEGO business, work in joint collaboration with major international stakeholders who share this objective.

#### Children's Right to Grow - a matter of principle

Our opportunity is to decide exactly where we have the competencies and muscle to make a real difference for children.

To create a solid foundation for children's right to grow, we use the Children's Rights and Business Principles.

Developed by the UN Global Compact, UNICEF and Save the Children, these principles guide our ongoing efforts.

The LEGO Group has identified the principles we find most relevant. For instance, we support children's right to grow by putting appropriate systems in place, such as preventing our products from being produced by child workers. Read more about the principles and our efforts on page 48.

Changing the world – brick & by brick

Through a series of global initiatives in 2013, the LEGO Group, the LEGO Foundation and LEGO Education actively supported children's right to grow.

75+ mio. children were reached through sales Additional 250,000 children in vulnerable conditions and 600,000 students have benefitted from our philanthropic efforts. Learn more about some of our projects here:

In the United States of
America the Building
Tomorrow Project, run
by the LEGO Foundation, takes place in the
Enfield Public School
district. It reaches more
than 2,700 students in
seven schools to help
enhance competences
and improve problem
solving skills. The project
includes LEGO® products
and teacher training.

In Germany, the LEGO Group invited the local neighbourhood to participate in a charity sale of LEGO products. All profit was donated to a local home for young children who due to neglect have been removed from their families. While caring for these children, the home also offers therapy to their parents, permitting about 60% of the families to be reunited.

In Ukraine, the LEGO
Foundation is raising the quality of education by implementing innovative and hands-on teaching methods in 75 kindergartens where 20,000 children receive LEGO Education sets, methodological materials, and teacher training focusing on learning through play.

In Syria, the LEGO
Foundation aims to
reach out to 14,000
refugee children and offer them a much needed
play-break through LEGO
product donations. This
initiative is handled by
War Child International, a
humanitarian organisation, which works to
help children and young
people affected by this
armed conflict.

In China, the academic value of using LEGO products as part of middle and high school technology classes continues to gain recognition among the Chinese Ministry of Education through a LEGO Education and LEGO Foundation project. Building on last year's progress, the project was expanded to include 47 teacher training centres. reaching 420 schools and 11.000 children in 2013.



# The LEGO Foundation's role

The LEGO Group and the LEGO Foundation believe in inspiring and developing the builders of tomorrow. We do this through a series of <u>initiatives</u>, which all come together in support of this philosophy.

The LEGO Foundation is dedicated to building a future where play empowers children to become creative and engaged lifelong learners. Its work is about redefining play and reimagining learning. In collaboration with thought leaders, influencers, educators and parents, the LEGO Foundation aims to equip, inspire and activate champions for play.

As a catalyst for a global movement centred on the value of play, the LEGO Foundation's work aims to change the perception of play and increase awareness about its transformational role in learning throughout life. Our goal is to build on the growing evidence that play has a transformational power in learning, making children's lives better and communities stronger.

Learn more about the LEGO Foundation at 13.

# Play is our favourite way of learning

In 2013, the LEGO Foundation published the <u>Cultures of Creativity</u> report, which advocates <u>childhood</u> as the inspiration for lifelong creativity.

Learning by doing deepens our engagement and strengthens the most important pathways our minds use to learn and develop. Play has a profound impact on children's cognitive, social, developmental and academic skills. It stimulates their learning abilities by fostering creativity, which supports critical thinking, sparks curiosity, and facilitates learning by doing.

There is a strong scientific basis for believing in the power of play: when playing we relax, allowing us to drop into the state known as 'flow'. It is in this state of mind that we learn best.

#### **Promoting Cultures of Creativity**

The Cultures of Creativity report promotes the understanding that culture plays a significant role in children's ability to stay creative throughout their youth and as adults. The report highlights that playing, thinking, making and sharing

are key components in defining a culture that accepts, acknowledges and nurtures creativity. It also emphasises the importance of recognising playfulness and creativity as prerequisite aspects to help societies prepare and accommodate for the rapid changes associated with technology and globalisation.

#### Play connects people across cultures

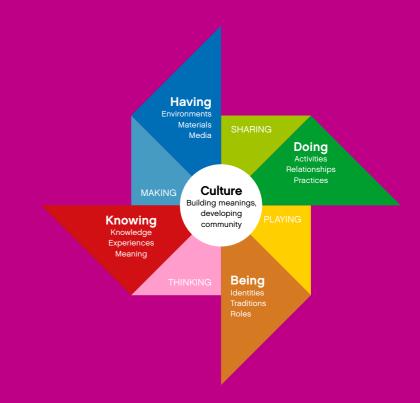
Culture is a system where people can build meanings, and develop communities, through the dimensions of having, doing, being and knowing. The four dimensions are driven by playing, sharing, making and thinking the active processes through which people learn and form meanings together.

Creativity should be actively encouraged, praised and rewarded, in homes and schools. There is one place of learning which fosters creative, risk-taking, collaborative activities: the kindergarten. Adults can play a key role in enabling everyday creative behaviour for children. The particular activity is not as important.

To develop as creative thinkers, children and adults need opportunities to make things. They also need stimulating environments to do this in, and engaging tools and materials to do this with.

Read the report at +4.

### A model of culture 4 (adapted from Sørensen et al., 2010)





## Developing talent through play

Reaching up to 40,000 students in 25 elementary schools in South Africa, the LEGO Foundation aims to spark creativity and boost children's education.

Thanks to a strong partnership between Optimus Foundation, Hands on Technologies and the LEGO Foundation, children from 25 elementary schools in Pretoria's Atteridgeville township are now being provided with creative tools to find solutions through play.

As social challenges and lack of school resources pose a challenge to the educational development of many South African children, they are deprived of the possibility to be self-directed and engaged in their current and future education.

Research shows that children who are actively engaged in their education learn more effectively. In an effort to empower these young learners of the Atteridgeville township to take charge of their education, this project involves students in their learning process by using a range of LEGO Education sets and workbooks, and inspires innovative learning activities through teacher quides and training.

Having reached up to 40,000 students already, this project focuses on sparking creativity, enabling children to develop into empowered, critical thinkers while keeping them engaged in long-term education. Preliminary indicators of the sustainable impact our partnership is having include a significant decrease in student absence, stronger communication and collaboration skills, improved performance in subjects such as math and science, and feedback from teachers who feel the project has reinvigorated joy in their job of teaching.

Ultimately, the LEGO Foundation seeks to help the Atteridgeville community produce solution-seekers who are empowered to take charge of their own educational future as a means to equalizing social and economic dividing lines.

www.LEGOFoundation.com

# The Capital of Children vision

Establishing the <u>International School of</u>
Billund is just one of the LEGO Foundation's many initiatives to realise the Capital of Children vision.

Imagine a unique public-private partnership between a local authority and a company, with a common ambition to develop a strong society where children are the center of attention. This principle is being tested in the Danish city of Billund, which plans to transform itself into an outstanding place for children, focusing on play, learning and creativity.

The LEGO Foundation strongly believes that a creative, high-quality and internationally-minded education is part of preparing children to become lifelong learners in an ever-changing world. The LEGO Foundation's Capital of Children initiatives include: the LEGO Education Innovation Studio, available to all schools in the municipality, Summer Camp, the Knowledge Center and the International School of Billund.

#### Life at the International School of Billund

The school plans to combine the best Danish learning traditions with a creative approach to learning through play using a variety of materials, including LEGO® products. The International School of Billund seeks authorisation to become IB World School, and it intends to offer the International Baccalaureate programmes in conjunction with this unique approach. 21st century skills such as creativity, critical thinking, problem-solving, innovation, and learning by doing are embedded in the learning philosophy based on the understanding that learning through play strengthens children's ability to think creatively, to be effective problem solvers and to deal with abstract and complex issues.

In August 2013, the school opened its doors to more than 90 children aged three to nine years. By August 2015, it is anticipated that the school will welcome students aged up to sixteen years, providing both the IB Primary and Middle Year Programmes.

#### A special LEGO House

Another activity that will strongly support the vision of Capital of Children is the coming LEGO House to be situated in the centre of Billund. Denmark.

It will be the only place in the world where children and adults from all over the globe can come and experience the essence and potential of the LEGO idea through engaging fun and hands-on, minds-on play activities. Everyone interested in the LEGO brick and the fundamental idea behind the LEGO system-in-play will be most welcome in the LEGO House. The LEGO House is expected to open by 2016.





# We live and act on our promise

Delivering on our promise of making a positive impact on the 75+ million children reached with LEGO® products and learning is engrained in everyone across the LEGO Group.

#### Our business

We are one of the world's leading manufacturers of play materials. We have an obligation to children that goes beyond providing safe and playful products. We promise to produce our products responsibly. We promise to create play experiences for millions of children around the world in a responsible manner.

As a global corporate citizen, we continuously assess our impact. In 2013, to expand our knowledge on the impact of our products and operations, we completed assessments of our Human Rights impact, and environmental value chain, as well as a governance due diligence assessment. This knowledge empowers us to make positive changes where we can have the biggest impact and to mitigate any negative areas. Our actions to make a positive impact on societies and the

world are our way of helping to secure a brighter, safer and more sustainable future.

#### Our world

Our mission is to inspire and develop the builders of tomorrow. The value of learning through play will help children become the leaders of tomorrow who will be capable of solving complex challenges and building a better world.

Playing with LEGO® bricks builds creative, artistic and analytical skill sets that are critical for future generations to thrive in a world where resources will be scarcer and the needs of society more demanding. The growing consumption of natural resources will result in a world struggling to provide the necessary food and fuel needed, unless we change our behaviour. The ways in which the LEGO Group and other companies address resource use across our supply chains will play a critical role in mitigating our environmental and social impact.

#### Our responsibility

The LEGO Group firmly believes that only the best is good enough. This applies not only to the joy our products bring, but also to our responsibility.

#### Key elements of our promise

- · producing safe and high quality toys.
- the support we provide for children and their right to grow.
- how we manage our supply chain to ensure an ethical performance.
- our efforts to reduce our environmental footprint.
- the respectful manner in which we engage with all of our stakeholders.

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# Always the safest products

We <u>never take chances</u> on safety measures; that's why we adopt a <u>zero</u> <u>product recall</u> approach to all LEGO sets sold worldwide.

#### Only the best is good enough

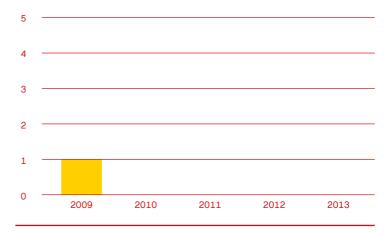
To support a zero recall objective, we integrate product safety measures when selecting materials, design and develop our products and throughout our production processes. We also engage externally to help ensure that toys in general can be safely used by children.

When it comes to compliance, we document the fulfilment of all standards and regulations that apply in the markets where we sell our products. Please read more about our full compliance to the EU Toy Safety Directive via • 2.

#### Going beyond compliance

Product safety goes well beyond any product recall – it is about ensuring that our products are as safe as possible to play with. While standards and regulations are excellent

#### Product Recalls (§)



tools to use for this purpose, product safety includes thinking beyond compliance.

#### State-of-the-art safety assessment

Our safety assessments, based on internal requirements, take us beyond standards and regulations. We only use internally approved materials, based on state-of-the-art chemical safety assessments.

New LEGO elements undergo a meticulous safety assessment that covers mechanical/physical safety, electrical safety, hygiene and flammability safety. We have also implemented additional processes to ensure that our products live up to the highest level of safety. These include extensive production control and continuous testing of raw materials, new elements, and finished products.

#### Product Safety 61

2013 target: 0 product recalls

2013 realisation: 0

2014 roadmap: Proactive identification of

risks and focus on early

stages of product

development.

2014 target: 0

#### Responsibility beyond our own products

As one of the largest toy producers in the world, we have a responsibility to ensure that our industry sector as a whole supports the principle of giving all children the right to safe play with toys. We do this, for example, by continuing our long history of engagement and leadership in organisations that develop the toy safety standards used around the globe, and through active participation in our industry associations. We also believe that by openly sharing information on our internal practice for safety assessments, we can contribute to establishing industry practices that will lead to a gradual reduction in the total number of recalls in the toy industry.

### Raising product quality

We are <u>fully committed</u> to delivering a product which children and parents perceive as a <u>premium play experience</u> and a brand with very high quality standards.

In our constant effort to maintain premium quality standards, we know that consumer feedback is essential in helping us define our quality levels. We appreciate all consumer feedback we receive on quality, play and building experiences.

This year, we have on average added more bricks to our novelty boxes and we hope this gives our consumers a better experience when they open the box. We had 781 calls per million LEGO® products sold, reaching our below 900 target. Read more about consumer experiences on page 60.

#### Global quality insights from the consumer call centre

By working intensively with consumer feedback, we have learned that quality perception is not uniform across the globe. LEGO sets produced in the same factory using the same high quality standards will have different levels of consumer feedback, depending on the country, as consumer behaviour differs between countries and cultures. We know that if the consumer call rate for Europe is at an index of 100, the call rate for the United States will be index 140 and index 280 for South Korea. As we expand to new regions, we adjust and scale our consumer feedback options to the market so we can service our consumers in the best possible manner.

The target for 2014 is 950 calls per million products sold, slightly higher than 2013, as we continue to expand into new markets and add more bricks to our novelty boxes.

#### Learning from the consumer call rate

Consumer call rate is monitored in the LEGO Group to give a temperature check on how our quality is perceived by consumers. It's an effective tool used to maintain and improve our premium product experience. Rigorous quality and consumer tests are carried out in the development of all LEGO sets to ensure only premium play and building experiences reach consumers.

As an example, in 2013, a LEGO Fire Helicopter, product number 60010, received consumer feedback regarding play functionality. Feedback told us that playing with a LEGO Minifigure in the doorway of the helicopter while operating the fire hose could cause the model to become unstable.

A team of designers therefore quickly developed an alternative construction where this particular play feature was possible while keeping the model stable. The product was then reintroduced to the market with a new building instruction.



# Playing with safe and high quality toys

The LEGO Group believes it is vital that children always have safe and high quality play experiences.

The LEGO Group operates in the EU toy category market that saw a total of 366 safety notifications in 2013.

We are proud to announce that we had no safety notifications globally for the third year in a row, thereby adhering to our zero product recall expectation.

#### Product safety in the European market



The latest compilation available; The European Commission. 2012 Annual Report on the operation of the Rapid Alert System for non-food dangerous products. 

5



# Leading regulatory standards

Being one of the largest toy producers in the world, the LEGO Group considers it a matter of responsibility to positively impact the industry as a whole to the benefit of children.

The development of toy safety standards is based on voluntary participation by a variety of stakeholders, including public authorities, consumer NGOs, test labs and manufacturers, all of whom finance their own participation.

#### Leading by example

For many years, the LEGO Group has chosen to support the secretariats that govern the development of EU and ISO standards, and also to hold the chairmanships for the European (CEN) and International (ISO) toy safety committees. In the US, the LEGO Group is an important contributor to the ASTM-committee, responsible for the US toy safety standard. The number of pages in the European standard for mechanical and physical toy safety has grown from about four in the 1970s to 144 pages today and further amendments are in the pipeline.

#### Supporting good toy safety standards

Our role in the various standardisation bodies also ensures that we are always aware of emerging issues in the area of toy safety, new scientific knowledge and relevant accident data. In addition, it allows us to establish long-standing and trustful relationships with authorities and regulators in many parts of the world. Such relationships are valuable for both sides when it comes to ensuring safe and compliant products and a high level of protection for those who play with the toys.

#### Standards across the world

Most countries adopt technical standards to show or check compliance with toy safety legislation; these standards are instrumental in ensuring a high level of safety for children.

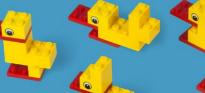
The standards lay down detailed technical requirements and corresponding test methods. They cover different types of hazards: mechanical, flammability, chemical.

Improvement of toy safety standards is a continuous task. New legislation, scientific development and injury data together form the basis for improving toy safety standards and for developing new standards covering specific hazards or categories of toys.

#### 2013 was a very active year

In Europe, new requirements for the chemical safety of toys came into force in July through the European Toy Safety Directive. To support these requirements, several new and revised standards were initiated during the year. All LEGO toys comply with these requirements.

# Learning through play



1500 leading CEOs believe

#### creativity

is the single most important competency for success.

The LEGO Group believes in learning through play, any type of play. Free play can sometimes be forgotten, but it is key to unleashing our creative skills. Learning through playing with LEGO® bricks lets you be as creative as you can imagine.

Play allows children to be creative, seek the unknown, and learn through exploration. Play can be magical. It invites excitement and stimulates social and cognitive skills. Play fosters creative and critical thinking.

By engaging in learning through play, children grow into more confident, curious and resourceful individuals.

We hope that by inspiring and encouraging children to challenge their creative flair at an early stage, and continue to do so throughout life, they will contribute to a smarter and more innovative tomorrow.

At the age of 3, 98% of us

are creative geniuses.
At the age of 25, less
than 2% of us retain
these creative
skills.



of parents believe play is essential for child development.

10



# Supporting Children's Right to Grow

Continued focus on our social impact has led us to develop a Human Rights approach, which takes outset in the ten Children's Rights and Business principles at the centre.

Since the initial development of the Children's Rights and Business principles, the LEGO Group has been included in shaping the framework. The principles all come together to aid businesses in describing how they interact and impact children's rights positively and negatively.

For the LEGO Group this is of high relevance, as we make play experiences and children are our main stakeholders. In 2013, as part of our Human Rights impact assessment, policy and strategy, we included children's rights to establish how we will work going forward within this area.

We focus our work on the ten UNICEF Children's Rights principles. For now, we have assessed principles one to six as being most relevant, while we continue to asses how to best engage on principles seven to ten.

### Principle 1: Meet their responsibility to respect children's rights and commit to supporting the human rights of children:

To understand our social impact we have conducted a Human Rights impact assessment. Inspired by UNICEF, we specifically included impacts on children in our first Responsibility and Human Rights Policy. Please read more on page 102.

Principle 2: Contribute towards the elimination of child labour, including all business activities and business relationships; and Principle 3: Provide decent work for young workers, parents and caregivers; and Principle 4: Ensure the protection and safety of children in all business activities and facilities:

Our Code of Conduct clearly states our position on child labour. Together with our Environmental Health and Safety policy, it aims to promote decent working conditions at the LEGO Group, and among our business partners. Please read more on page 106.

Principle 5: Ensure that products and services are safe, and seek to support children's rights through them; and Principle 6: Use marketing and advertising that respect and support children's rights:

We meet the most stringent product safety requirements in the industry and have set up a strong system to ensure high safety standards to protect children. We have increased our focus on the safety systems related to physical play with LEGO products, and also in our commercial communication with children. We have safeguards to prevent misleading, exploitative, or aggressive marketing practices. Please read more on page 50.

# Responsible communication with children

Our brand spirit of 'only the best is good enough' drives our approach to marketing to children and applies to all LEGO entities.

We are sensitive to children and their way of understanding the world. We use this knowledge to introduce them to the LEGO® system of play in an engaging, safe and respectful manner.

We take a comprehensive approach to ensuring that our marketing materials and communication to children are ethical and legally compliant. We have a policy on Marketing to Children which lays down our internal rules and approach. We continuously update our corporate standards on marketing to children and ensure that our guidelines and policies are anchored throughout the business and supported by an annual review process.

We evaluate new challenges in the field of marketing to children. The new opportunities that technology brings all require thoughtful evaluation as to their appropriateness for children.

We are working with international organisations and standards to ensure we are compliant with international best practices:

As a member of the Responsible Advertising and Children Programme, we commit to complying with the International Chamber of Commerce's Code of Advertising and Marketing Communication Practice. We use the US Children's Online Privacy Protection Act as our global standard for data privacy towards children. We are guided by principle six of the UNICEF 'Children's Rights and Business Principles', using marketing and advertising that respect and support children's rights.

#### Taking a clear stand

Our marketing efforts must always be carried out responsibly, across all channels of communication. This means, among other things, that our communication must:

- not take advantage of children's inexperience by creating materials that would potentially mislead their understanding of the product in any way.
- not portray unsafe or harmful situations or actions.
- not put pressure on children or parents to purchase our products, or create an unrealistic perception of the cost or value of our products.

#### **Adding to principles**

Going beyond our basic principles, we clearly address specific issues that deserve special attention. Some of the latest additions to our guidelines deal with:

- · detailed data protection policies.
- restrictions on engaging with children through social media.

 a ban on paying children under age 16 to actively promote LEGO products.

#### Universal application of standards

Our Marketing to Children Standard applies to all LEGO entities, including all third parties who work with us and use the LEGO brand. View the standard at • 11.

In 2013, we formalised third party use of LEGO standards by integrating it into contracts signed with the LEGO Group.

#### Tighter standards and digital training in 2013

During 2013, we focused on tightening standards and processes to ensure global compliance and the implementation of our approach to communicating with children:

We set up a Marketing Guidelines and a Training Programme and strengthened our digital compliance training. Issues related to data privacy and the qualities of the play experience are key and require an aligned approach across the company.

We initiated a Binding Corporate Rule project to ensure we continue to have the highest level of protection on the consumer data we store, including children's data. We implemented a compliance review process.

The process is meant to ensure that we review instances of non-compliance or other cases where an evaluation of a practice is found to be relevant. In 2013, we reviewed eight cases: three involved a review from an official organisation; none of these concluded with any sanctions, but they did prompt us to review our practice and fine-tune our approach. Two cases were identified through internal compliance and quality monitoring and three cases were reviewed based on public attention.

Following our review, we assessed the degree to which our actions had been sufficient and if further changes to processes and standards were needed.

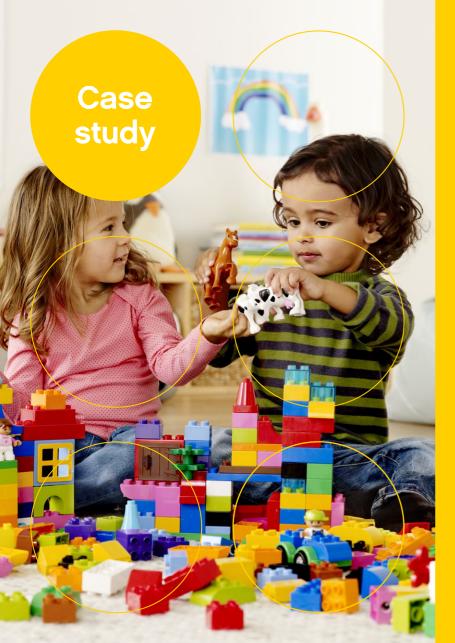
#### **Ensuring appropriate TV commercials for children**

An example; the Children's Advertising Review Unit (CARU) is an organisation which promotes responsible children's advertising, and in 2013 they recommended the LEGO Group to modify a TV commercial for a Lord of the Rings set.

After a review, CARU found that the 30 seconds TV commercial for the LEGO Lord of the Rings Pirate Ship did not clearly communicate to children what came with the initial purchase of the playset, as several minifigures were depicted alongside the playset.

Based on the recommendation we reviewed our internal processes to ensure that the recommendation was taken onboard •8.

At the LEGO Group we support the ongoing efforts of CARU to ensure appropriate advertising to children and we continuously keep the CARU guidelines in mind when developing commercials.



### Gender and toys

Our communication approach enables boys and girls to choose whatever appeals to them.

During 2010 and 2011, we learned from market research that boys were very attracted to our product portfolio, but that girls were less so, although many enjoyed the LEGO® play experience.

With the launch of LEGO Friends, in 2012, a debate on LEGO products and gender was reignited.

#### Children are different

Our aim is to ensure that we apply sufficient gender awareness in our product design and marketing development. All children are unique, and each of them has a range of interests.

We want to offer a broad portfolio of products to allow all children a building experience that matches their skills and links into their interests. However, we do not want to pre-empt that choice by defining in our marketing that some of our products are only for girls and some only for boys.

Our new Gender Marketing Guidelines underline how to strike a balance when creating communication and products that appeal to both boys and girls.

Furthermore, it emphasises that the LEGO Group is committed to ensuring that children are not being subjected to, or limited by, gender stereotypes.

The Gender Marketing Guidelines have been drafted following extensive research and a consultation process involving key stakeholders in different areas

We will regularly revisit the guidelines to ensure that they align with the expectations of different stakeholders, internally as well as externally.

View our Marketing to
Children Standard at 11

# **Encouraging responsible crowd-sourcing**

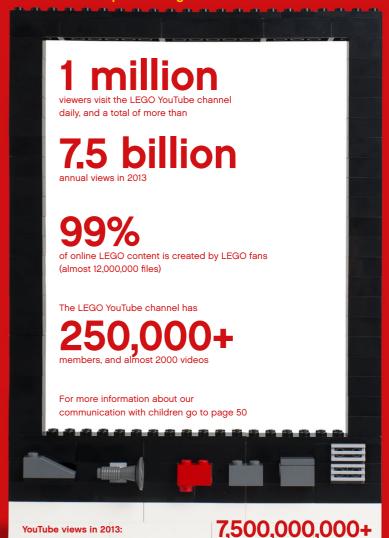


The LEGO Group believes children should only be exposed to appropriate and fair commercial communication.

We recognise the potential risks of commercial communication to children and are committed to taking the responsibility and necessary actions required to only address children in a manner which resembles best practice and meets our Marketing to Children Standard.

In 2013, the LEGO Group reviewed and solved a total of eight marketing-related cases to which no sanctions were made. We take these precautions and actions to ensure that children and parents can safely share fun LEGO® moments online.

Digitalisation has brought LEGO fans and the LEGO Group closer together





### New business models and new considerations

Bridging the gap between physical and digital play calls for new considerations and opportunities – establishing a responsible business model for in-app purchasing.

Physical and digital play is increasingly coming together in new, innovative ways, and at the LEGO Group we are exploring how we best provide children with a safe and fun play experience.

A typical business model in today's world of online and app games is based on a free to play model, where players have the option to buy a membership that unlocks more exclusive items within the game, enabling quicker progress towards completion. Players may also buy items that help them during the game. Yet, when payment is involved in children's activity, special considerations must be taken.

At the LEGO Group we develop a wide range of digital play experiences that provide more opportunities for children to have fun and explore the stories in our product lines. Some of these digital play experiences include options to purchase. It is however, important that such games are built on our 'safety by design' principle, which means that processes are in place to ensure that

purchasing is within reasonable limits and unintended purchases are avoided. It is also important to us that children can fully experience the game without paying.

As an example, we have in 2013 released the LEGO® Legends of CHIMA, a product and play experience which enhances physical play through a number of digital games. The CHIMA Online game lets you choose your own favourite character in an online world where you play with your friends.

In 2014, we will extend the interaction between the physical products and the online game by releasing special cards with the products, enabling gamers to unlock models and powers in the game from their tablet.

View the game via  $\bullet$ <sup>6</sup>: www.chimaonline.com

### Improving consumers' play experience

LEGO® play experiences reach very high marks again in 2013. The key to success is in listening and acting on rapidly changing consumer needs and interests.

In 2013, consumer satisfaction remained at the very high level of 105 index points, which was also achieved in 2012. The score is measured by Net Promoter Score® (NPS®) and is the key metric used by the LEGO Group to evaluate consumer satisfaction and loyalty with LEGO products and experiences at various touch points.

The satisfaction of our products and the play experience remains high. In 2013, almost 283,000 children and 42,000 adults gave their feedback after building and playing with their LEGO sets. This input was fed directly to product teams to trigger immediate action and impact future product development. These early reads also help guide forecasts and provide input to our retail partners, so they have the right LEGO sets available when consumers want to purchase them.

The LEGO Group Responsibility Report 2013

#### Net Promotor Score index 63

2013 target: >105 2013 realisation: 105

2014 roadmap: Continue to improve online

and offline experiences.

2014 target: >105

Consumer satisfaction of visiting www.LEGO.com continues to improve. Feedback from LEGO.com visitors, both children and adults, enables us to meet the rapidly changing interests and expectations of visitors. As a result, in 2013 we updated content more frequently, optimised the mobile experience, launched a video portal and in 2014, we will launch a game portal and continue to improve the online shopping experience. We are also localising the online experience in some of the more than 130 countries where you can purchase LEGO products online.

In our LEGO Brand Betail stores we have in 2013 added more in-store play events and revised store associate training. Also, we have placed more emphasis on store managers' immediate follow-up with any less satisfied visitors and on how we can best correct the issue at hand.

Our consumer services interacted with over 1.500.000 consumers all over the world to solve their immediate concerns in 2013. The satisfaction with the service provided remains at a world-class level despite challenges with the

implementation of a new software platform in 2013, which, unfortunately, temporarily triggered slightly longer queues for phone lines and response times for emails.

Again in 2013, we have seen high engagement among our loyal fans with 4.8 million LEGO Club members, more than six million likes to the LEGO Facebook page, over 250,000 subscribers to the LEGO channel on YouTube and over 14.5 million visitors to Adult Fans of LEGO community events.

In addition to consumer satisfaction and loyalty, the LEGO Group wants to monitor how the company is perceived by the general public. The corporate reputation is monitored once a year. In 2013, the LEGO Group's corporate reputation ranked number ten in the world. This ranking equaled the ranking from 2012.



# Results 2013

#### **Consumers**

Measures	Number of product recalls	Consumer complaint call rate	Net Promoter Score Index®
Definition/Note	1	2	3
See page	36	39	60
2011 results	0	623	120
2012 results	0	792	102
2013 targets	0	<900	>105
2013 results	0	781	105
Status	•	•	•
2014 targets	0	<950	>105

Target met ●
Target not met ●

Results 2013 **65** 

### **Employees**

	Employee Pulse								Health and Safety					
Measures	Work-life range to global scorecard	Motivation and satisfaction	Employee Net Promotor Score	Female promotions Director level and above	Number of employees	Female	Male	Average age	Number of FTE	Rate of employee turnover	Sick leave	Injury rate	Absence rate due to injuries	Number of injuries with absence
Definition/Note	4	5	6	7,8	9, A	Α	Α		10	11, B	12	13, D	14	С
See page	90	89	91	92	-	-	-	-	_	-	87	87	87	87
2011 results	6	14	62%	23%	10,790	47.4%	52.6%	36.4	9,374	8.1	2.1%	2.1	0.35	36
2012 results	6	15	56%	34%	12,264	47.4%	52.6%	36.3	10,400	8.8	1.9%	1.9	0.18	37
2013 targets	>0	>10	>62%	>30%							<2.2%	<1.5	<0.14	
2013 results	6	14	56%	37%	13,869	46.5%	53.5%	36.0	11,755	8.8	2.0%	1.7	0.14	36
Status	•	•	•	•							•	•	•	
2014 targets	>0	>10	>62%	>30%*							<2.2%	<1.6	<0.16	

Target met ●
Target not met ●

#### **Employees (continued)**

### **Partners**

LEGO sites EHS & Co	Cnerformance

		_							
Measures	Percentage of Director level and above at LEGO Group sites trained in business	Percentage of major quality, EHS and CoC non-conformities found in audits at main LEGO Group sites solved in accordance with corrective action plans	Number of audits conducted at main LEGO sites	Number of major quality non- conformities found at main LEGO sites	Number of major EHS non- conformities found at main LEGO sites	Number of major CoC non-conformities found at LEGO sites	Percentage of major quality non-conformities found in supplier audits solved in accordance with corrective action plans	Percentage of major CoC non-conformities found in supplier audits solved in accordance with corrective	Total number of core and extended line suppliers
ivicasules	- Integrity blerinally	Corrective action plans	LEGO sites	Sites	51.65	LEGO Sites	action plans	action plans	inie suppliers
Definition/Note	15	16	17, E	18, E	18, E	18, E	19	20	21, F
See page	134	110	110	110	110	110	107	107	111
2011 results	79%		20	1	10	0	100%	98%	154
2012 results	100%	100%	23	0	0	3	100%	90%	139
2013 targets	100%	100%					100%	100%	
2013 results	100%	100%	12	0	0	0	100%	100%	110
Status	•	•					•	•	
2014 targets	100%	100%					100%	100%	

Target met ●
Target not met ●

#### Partners (continued)

### Surrounding environment

Measures	Number of quality audited suppliers	Number of CoC audited suppliers*	Number of major quality non- conformities found at suppliers	Number of major CoC non- conformities found at suppliers	Energy efficiency improvement	Recycled waste, % of total registered waste	Raw materials, plastic, 1,000 tonnes	Water consumption, 1,000 m³	Total energy consumption at production sites, GWh	Waste,
Definition/Note	21, G	21, G	21	21, H	22	23	24	25	26	27
See page	108	107	108	107	126	130	118	130	126	129
2011 results	47	54	33	64	2.4%	88%	49	225	198	11,055
2012 results	32	44	20	46	4.1%	88%	57	279	224	14,237
2013 targets					>2.5%	>90%				
2013 results	39	56	9	71	6.7%	90%	68	339	247	14,590
Status					•	•				
2014 targets					>2.5%	>90%				

Target met ●
Target not met ●

### **Notes to** performance data

Note A			
Total number of employees	2011	2012	2013
Female	5,118	5,812	6,454
Male	5,672	6,452	7,415
Total	10,790	12,264	13,869
Asia	219	224	366
Americas and Oceania	3,286	4,135	4,666
Europe	7,285	7,905	8,837
Total	10,790	12,264	13,869
Top management	50	54	71
Management	335	370	399
Other	10,405	11,840	13,399
Total	10,790	12,264	13,869
Note B			
New hires, rehires and terminations	2011	2012	2013
Tron inico, remise and terminations			
New hires and rehires	1,754	2,219	2,411

#### Note C

Injury rate per million working hours, split by facility	2011	2012	2013
Billund, Denmark	-	2.1	2.1
Munich, Germany	-	2.3	1.9
Kladno (Production), Czech Republic	-	0.4	0.6
Kladno, (Model Center) Czech Republic	-	2.3	1.9
Monterrey, Mexico	-	0.5	0.9
Nyíregyháza, Hungary	-	0.0	0.4
Slough, United Kingdom	-	4.0	0.0
Enfield, United States of America	-	1.7	0.7
LEGO Brand Retail stores	-	8.5	6.6
TOTAL	2.1	1.9	1.7

#### Note D

Total number of injuries with absence, split by facility	2011	2012	2013
Billund, Denmark	-	13	14
Munich, Germany	-	1	1
Kladno (Production), Czech Republic	-	1	2
Kladno, (Model Center) Czech Republic	-	1	1
Monterrey, Mexico	-	2	4
Nyíregyháza, Hungary	-	0	1
Slough, United Kingdom	-	2	0
Enfield, United States of America	-	2	1
LEGO Brand Retail stores	-	15	12
TOTAL	36	37	36

Note E  Third party audits for main LEGO Group sites	Conduct	ISO 9001	ISO 14001 and OHSAS 18001
Third party addits for main LEGO droup sites	Conduct	3001	O110A0 10001
Billund, Denmark	-	1	1
Kladno, (Production) Czech Republic	-	1	1
Kladno, (Model Center) Czech Republic	-	1	1
Nyíregyháza, Hungary	-	1	1
Monterrey, Mexico	1	1	1
Hong Kong, China	-	1	
Slough, United Kingdom	-	-	-
Enfield, USA	-	-	-
Munich, Germany	-	-	-
Total number of audits	1	6	5
Total number of major non-conformities	0	0	0

N	0	te	•	F	

Total number of suppliers split on Code of Conduct risk	Core line (BOM)	Extended line	Total
Hong Kong / China	16	8	24
Mexico	11	0	11
High-risk countries, total	27	8	35
Czech Republic	6		6
Hungary	3		3
Italy	2		2
Spain	1		1
Japan	0		0
Korea	2		2

Poland	3		3
Slovakia	2		2
Romania	0		0
Taiwan	1	1	2
USA	2		2
Total intermediate risk countries	22	1	23
Austria	2		2
Canada	0		0
Denmark	20		20
Germany	15		15
United Kingdom	3		3
Nederland	1		1
Switzerland	2		2
Sweden	9		9
Total low risk countries	52	0	52
Total	101	9	110

#### Note G

Total number of core line

and extended line suppliers audited	Code of Conduct	Quality
Total number of audits	56	39
High risk countries	41	6
Intermediate risk countries	14	11

#### Note H

Total number of major Code of Conduct non-conformities found at suppliers

Total	71
Intermediate-risk countries	16
High-risk countries	55

The audits create a dialogue with the suppliers, and the major non-conformities set the main focus for the continuous improvement process.

The major non-conformities for the Code of Conduct area can be summerised as:

- 0 related to child labour
- 1 related to forced labour
- 3 related to wages and compensation
- 22 related to working hours
- 3 related to employment terms
- 2 related to freedom of association/expression and grievance
- 34 related to health & safety
- 1 related to environment
- 5 related to integrity and transparency
- 0 related to corruption and bribery
- 71 Total

## **Accounting** policies

Data has been calculated by consolidating data for the parent company (LEGO A/S) with data for all subsidiaries. Consolidation is based on data of a uniform nature and calculated using the same methods. However, data relating to health and safety includes only data from sites with more than 100 employees.

New sites with more than 100 employees will be added to the reporting scope by the beginning of a new reporting year. Similarly, environmental data relates only to production facilities.

Average number of employees (FTE) is added this year to ensure coherence with our Annual Report. The accounting policy (10) is consistent with the one used in the Annual Report.

The measurement method remains unchanged from last year.

Data measurement methods and the basis of calculations are addressed below.

#### Consumers



#### 1) Number of product recalls

Product recalls are calculated as launched products recalled from the market due to product safety issues and calculated per stock keeping unit.

#### 2) Consumer complaint call rate

The consumer complaint call rate is calculated as the number of consumer complaints received relating to products launched in the year of reporting as a parts per million (ppm) of the number of products sold in the launch year. Due to the substantial Christmas trade, and in order to give a true and fair view, complaints received in January of the following year are also included in the calculation, corresponding to a 13-month period.

#### 3) Net Promoter Score Index®

In connection with consumer contacts and the LEGO Group's online sales, randomly selected consumers are asked how likely they are, on a scale from 0-10 (10 = best), to recommend the purchased product or service to others. The development in promoters – levels 9 and 10 – minus the development in detractors – levels 6-0 is calculated and shown in this Progress Report with 2011 as index basis.

<sup>\*</sup> The definition is being revised for 2015.

#### **Employees**



#### 4) Worklife range to global scorecard

The Worklife balance index is based on a LEGO® Worklife balance index score on the basis of one question in our annual employee engagement survey 'the LEGO Pulse' (I feel good about the workload in my job) and compared to a comparable benchmark called 'LEGO EEI' which is calculated as a weighted average of the EEI (European Employee Index) results for the eleven largest LEGO employee countries.

#### 5) Motivation and Satisfaction

The Motivation and Satisfaction index is based on a LEGO Motivation & Satisfaction score calculated on the basis of four questions in our annual employee engagement survey 'the LEGO Pulse' (1. I always look forward to going to work. 2. I feel motivated in my job. 3. From an overall point of view, how satisfied are you with your job at the LEGO Group?, 4. Imagine the perfect place of work. How close is this ideal to your place of work?) and compared to a comparable benchmark called 'LEGO EEI' which is calculated as a weighted average of the EEI results for the eleven largest LEGO employee countries.

# 6) Employee Net Promoter Score At the end of the reporting year a survey, the Employee Pulse, is carried out in which all employees are asked to evaluate the LEGO Group as a workplace. The questions cover

a wide range of the areas included

in the LEGO Group strategy and measure the employees' motivation and commitment. The results are used to identify significant target areas at Group and departmental level. New measure is Employee Net Promoter Score (F-NPS) based on the results for the Pulse question "I would recommend the LEGO Group as an employer to other people". The E-NPS is calculated by subtracting the number of detractors (1-6 on the 10-point scale) from the number of active promoters (answering 9-10). The 13 largest LEGO Group employment countries are included in the calculation.

#### 7) Director level and above promotions (externally recruited or internally appointed) of female employees. The number of female director levels and above promotions (externally recruited or internally appointed) is shown as a percentage of all promotions into the director level and above group of employees.

#### 8) Job classification

Top Management comprises all employees at Vice President level or above. Management comprises Senior Directors and Directors. The director level and above consists of Senior Management and Management. Other employees are included in the group 'Others'.

#### 9) Number of employees

Comprises all employees paid by the LEGO Group, including permanently employed staff, contractually employed staff, and trainees. The statement is calculated at the end of the year and measured as headcount.

#### 10) Average number of employees (FTE)

FTE is a measurement equal to one employee working a full-time work schedule for one year. An employee working 30 hours a week all year is equivalent to 0.8 FTE, i.e. 30/37, provided that the normal working week is 37 hours. An average of FTE's during the year is calculated.

#### 11) Rate of employee turnover

Employee turnover is measured as the number of permanent employees who have voluntarily left the LEGO Group during the reporting period compared to the average number of permanent employees during the reporting period. The average is calculated on the basis of monthly data. The number of new employments and rehires as well as dismissals is also stated

#### 12) Sick leave

Sick leave is calculated as time lost due to the employees' own illness. The sick leave is calculated as the number of absence hours as a percentage of the total number of working hours excluding holidays and non-business days. Only data from sites with more than 100 employees and LEGO Brand Retail stores is included.

#### 13) Injury rate per million working hours

The number of occupational injuries is calculated as the number of occupational injuries resulting in at least one day's absence following the day of the injury. The rate of occupational injuries is calculated per million working hours. Only

data from sites with more than 100 employees and LEGO Brand Retail stores is included

#### 14) Absence rate due to injuries

The number of absence hours as a consequence of occupational injuries. The rate is calculated per 1,000 working hours, and the absence is calculated from the day following the injury. Only data from sites with more than 100 employees and LEGO Brand Retail stores are included

#### **Partners**



 Percentage of director level and above at LEGO sites trained in business integrity biennially

The percentage is calculated at director level and above (employed for more than three months) having completed the e-learning programme in Business Conduct biennially as a percentage of all director level and above (employed for more than three months) in the LEGO Group.

16) Percentage of major quality, EHS and Code of Conduct non-conformities found at audits at main LEGO sites solved in accordance with corrective action plans

The percentage of major quality, EHS and Code of Conduct non-conformities found by third-party audits at main LEGO Group sites which have a deadline for the corrective action in the reporting year and which have been solved within the agreed deadline.

17) Number of audits conducted at main LEGO Group sites

The number of audits conducted at LEGO Group sites is calculated as third-party audits connected to the certification process or voluntary Code of Conduct audits.

 Number of major non-conformities found at main LEGO Group sites (Quality/EHS/CoC)

The number of major quality, EHS and Code of Conduct non-conformities found during third-party audits conducted at LEGO Group sites.

 Percentage of major quality non-conformities found at supplier audits solved in accordance with corrective action plans

The percentage of major quality non-conformities found at suppliers which have a deadline for the corrective action plan in the reporting year and which have been solved within the agreed deadline.

- 20) Percentage of major Code of
  Conduct non-conformities found at
  supplier audits solved in accordance with corrective action plans
  The percentage of major Code of
  Conduct non-conformities found
  at audited suppliers which have a
  deadline for the corrective action
  in the reporting year and which
  have been solved within the agreed
  deadline. Non-conformities found at
  ICTI Care certified suppliers are not
  included
- 21) Data relating to suppliers and business partners

The number of suppliers includes the LEGO Group's active direct suppliers calculated at the end of the reporting period. The number is broken down into direct suppliers and extended line suppliers. Direct suppliers deliver bill of material (BOM) components whereas extended line suppliers primarily deliver merchandise. Suppliers do not include indirect purchases. The number of suppliers who have been audited is calculated as the number of suppliers visited with a view to formalised monitoring and reporting of compliance with quality standards or Code of Conduct. The

number of significant discrepancies is reported. These form the basis of the continued dialogue with the suppliers in order to continuously work on improvements.

#### Surrounding environment



#### 22) Energy efficiency improvement

The energy efficiency improvement is calculated as the rate between energy consumption and raw materials used. The data is shown with the previous year as baseline. Only data from LEGO Group sites with production is included.

#### 23) Recycled waste

The recycled waste percentage is calculated as the recycled quantities of waste disposed compared to total quantities of waste disposed.

Only data from LEGO Group sites with production is included.

#### 24) Raw materials

Raw materials are calculated as plastic granulate used in manufacturing at LEGO Group sites.

#### 25) Water consumption

Water consumption is calculated as the quantity of water supplied to the LEGO Group. Only data from LEGO Group sites with production is included.

#### 26) Energy consumption

Energy consumption is calculated as the total energy in the form of electricity and heating supplied to the LEGO Group. Only data from the LEGO Group sites with production is included.

#### 27) Waste

Waste is calculated as the recorded quantities of waste disposed of by the LEGO Group. Only data from LEGO Group sites with production is included.

### Independent Auditor's Report

#### To the stakeholders of the LEGO Group

We have reviewed the consolidated non-financial data of the LEGO Group's Responsibility Report for 2013 as expressed on pages 65-76.

### Criteria for preparation of the Responsibility Report's non-financial data

The criteria for preparation of the Responsibility Report's non-financial data are the accounting policies described on pages 77-81. These contain information concerning which of the Group's business areas and activities are included in the reporting, types of data, and Management's reasons for choosing the data included. The non-financial data are recognised and measured in accordance with the accounting policies described on pages 77-81.

#### **Delegation of responsibility**

Company Management is responsible for preparing the Responsibility Report's non-financial data, including establishing registration and internal control systems with a view to ensuring reliable reporting, specifying acceptable reporting criteria as well as choosing data to be collected. Our responsibility is, on the basis of our work, to express an opinion on the 2013 Responsibility Report's non-financial data.

#### Scope of our work

We have planned and completed our work in accordance with the International Standard on Assurance Engagements (ISAE 3000) for the purpose of obtaining limited assurance that the nonfinancial data presented on pages 65-76 has been computed in accordance with the stated criteria in the accounting policies.

The obtained assurance is limited compared to that of an engagement with reasonable assurance. Our work has thus – based on assessment of materiality and risk – comprised inquiries regarding applied registration systems and procedures, review of data used in connection with preparation of the 2013 non-financial data, and review of underlying documentation, including review of whether the scope of the 2013 non-financial data complies with described accounting policies for the 2013 non-financial data. During the review process, we have visited entities in Denmark, Czech Republic and Mexico.

### Conclusion regarding the 2013 Responsibility Report's non-financial data

Based on our review, nothing has come to our attention causing us not to believe that the consolidated non-financial data of the Responsibility Report of LEGO Group for 2013 has been presented in accordance with the stated criteria.

#### Copenhagen, 21 February 2014

 $\label{price} {\bf Pricewater house Coopers, Stats autoriser et Revisions partners elskab}$ 

Mogens Nørgaard Mogensen
State Authorised Public Accountant

Henrik Trangeled Kristensen State Authorised Public Accountant



# **Empowering employees**

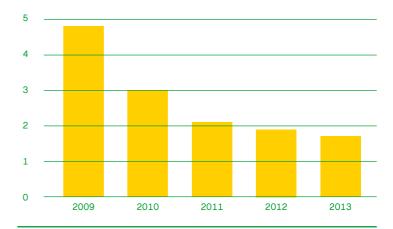
In 2013, the LEGO Group became a <u>safer</u> place to work and overall our employees maintained a high level of motivation.

The LEGO Group continues to be a great company to work for, also from a safety and motivation perspective, seen in the context of a highly demanding and dynamic work environment. This is an achievement which we do not take for granted and will continue to focus on going forward. In 2013, we took several steps towards our ambition and promise to our employees, namely, that of 'succeeding together'.

#### Embedding a safety culture

Employee safety performance is today at a very high level in the LEGO Group, but we want to improve further by developing the safety and well-being mindset and behaviour to an even more proactive state in order to reduce sick leave and injuries. Our spirit inspires us to embed a safety culture with every employee of the company so we reach a level where we all go home safely after an inspiring day at work.

#### Injury Rate (§ 13



Our current safety and absence rate due to injuries level is comparable to some of the best performing international companies, but we can improve. To enable such change we made safety awareness campaigns across the organisation and conducted behaviour-based safety training, as well strengthened and aligned our processes on workplace assessment and incident management during 2013.

This resulted in a decrease in the absence rate due to injuries to 0.14, revealing that we are experiencing less serious injuries with shorter absence, and a total of 36 injuries from a global workforce of 13,869 employees.

Going into the year we had an ambitious target of an injury rate at 1.5, which we did not meet. We have learned that driving behavioural change in this area takes time, as we

continue to onboard a significant number of new employees globally. As we increase the safety awareness and improve our reporting tools across our global organisation we start capturing and registering more safety observations, near miss reports and injuries from employees. In the short run, this is likely to impact our injury rate negatively. We see this as a necessary evolution that will enable more targeted actions towards implementing a world-class safety culture among our employees.

Our target for 2014 is an injury rate of 1.6 or less, which will require hard work to ensure continued improvements globally compared to 2013.

In the last five years we have improved our safety performance in relation to the number of injuries by approximately 40%.

#### The challenging areas

To reach our ambition we will increase our focus on two specific areas, where we witness a series of injuries: the administrative area and the LEGO® Brand Retail stores. In 2014, we will address these areas by:

- continuing to roll-out behaviour-based safety training to LEGO Brand Retail Store employees
- transferring good proactive safety practices from our production sites to administrative areas
- implementing systems and processes, which will enable
  us to register and track performance in an even more
  disciplined and globally aligned manner, ultimately
  allowing us to improve our safety management.

#### Injury Rate (9 13

2013 target: <1.5 2013 realisation: 1.7

2014 roadmap: Focus on key areas of our

organisation and continue roll-out of safety training.

2014 target: <1.6

#### Employee motivation and satisfaction is top-in-class

The LEGO Group is experiencing global growth and in 2013, 2411 employees joined us. We want all employees, new and old, to experience the LEGO Group as a highly motivating and engaging place to work.

In the 2013 employee motivation and engagement survey, we witnessed the highest response rate ever; 95%. This is a statement of active employee involvement in making the LEGO Group an even better place to work.

Our employees testify that their motivation and satisfaction is mainly based on the image of the company and their daily work. In 2013, the motivation and satisfaction score was forteen index points ahead of the International benchmark European Employee Index – a measure we have gradually improved on since 2007 from a score of eight index points. In the Group we are experiencing an increased level of motivation, yet, when we compare with the benchmark our score has decreased relatively by one index point since 2012.

#### Motivation and Satisfaction § 5

2013 target: >10 2013 realisation: 14

2014 roadmap: Continue to work systemati-

cally and with local initiatives.

2014 target: >10

#### Managing work-life balance

We know that dedicated employees can push themselves and their work-life balance out of the comfort zone, where an issue like online availability only adds to the equation. Our leaders work with their organisation to actively address this through dialogue at personal meetings.

Work-life balance is perceived by employees to be at the same level of six index points above the European Employee Index benchmark, which is a great accomplishment given our growth.

We will continue to work deliberately with this area to adequately handle the pockets in the organisation where there are still workload challenges.

#### Employee Net Promoter Score 66

2013 target: >62% 2013 realisation: 56%

2014 roadmap: Corporate Management

action plans and follow-up. Anchor our action plan on

a global level.

2014 target: >62%

#### **Employee ambassadors**

Every day our employees deliver great results and drive our business forward. Our employees take a lead when adapting to the new global context. The Employee Net Promoter Score survey measures to which degree employees recommend the LEGO Group as an employer to other people.

The result of 56% is similar to that of 2012, but below the ambition to bounce back to the 62% we experienced in 2011. When we compare the result with benchmarks, the LEGO Group's employee evaluation is well ahead. Since we in 2013 conducted a number of concentrated efforts across the company to improve the result and yet, fell short, this result is disappointing.

Quarterly, each of our 25 Corporate Management members have tracked the development in the Employee Net Promoter Score, and through dialogue, have put in place actions and follow-up mechanisms to address the opportunities and root causes of issues.

# Staying open to diversity

We believe that more diversity in the make-up of the LEGO Group will be a benefit to our global company as we look for growth and high-level innovation.

In the LEGO Group we see diversity as a great opportunity when it comes to successfully adapting to, and solving the challenges ahead. To prepare the LEGO Group for the global challenges of the future, our organisation has to become truly diverse and embrace new ways of working across cultures.

Being open to diversity means we become better at exploring and appreciating the different nuances of people and cultures, as we deliver on our company vision. We approach gender diversity as the first important milestone for creating a healthy organisation. Through research and dialogue with experts, we understand that addressing and solving this issue will have a positive effect on other diversity issues, such as cultural differences.

#### Female promotions director level and above § 7.8

2013 target: >30% 2013 realisation: 37%

2014 roadmap: Continue global roll-out of

diversity programme and

focused initiatives.

2014 target: >30%

#### A real equal-opportunities mindset

The LEGO Group's Board of Directors consists of seven members. The Board has set an on-going target to always have one to two members of the underrepresented gender among the four independent members of the full board. At present one of the independent members is female, thus fulfilling our on-going target.

In 2013, we expanded our corporate management to 25 members by hiring two female corporate management members.

This year, our diversity practices have moved in the right direction, both in mindset and actual numbers. In terms of promoting female employees to director level and above, we achieved a 37% share.

We will continue to pursue diversity, on the understanding that we will always hire the most suitable and competent person for any job. To achieve a better gender balance at the top leadership level, we have to go further on this agenda. The next step is to enact our approach globally and ensure we truly embed an equal-opportunities mindset and set of actions.

In 2013, various new work streams have enabled the organisation to begin delivering this implementation:

- update of our global recruitment policy i.e. by introducing neutral language job advertisements.
- appeal to both genders in any position and ensure interviewee panels are of a diverse composition.
- adjust our practices and policy for promotions and mobility to take in gender-specific considerations, such as dual career possibilities.
- enable top managers to receive mentoring with a range of female senior leaders to discuss and provide their perspective on decisions. The programme has had a very positive start-up and will continue in 2014.

# Case study



### **Engaging with employees**

Engaging with employees on an open online innovation and co-creation platform is a valuable way to leverage collective insights, experiences, and perspectives from LEGO employees.

We launched the LEGO® Ideas project as a pilot in December, 2012. Now, a year on, it's an internal community of:

- 3,529 employee account activations
- 1,124 idea submissions
- 3.024 comments
- 5.563 votes

It is a space for all LEGO employees to have their voice heard and influence the direction and success of the LEGO Group by participating in challenges, discussions or by contributing anytime to the 'All Ideas Big or Small' section.

Ideas can be anything from how to make the LEGO Group a better place to work, to our next big product line. Community members get to review and vote on all ideas. Once an idea has received 20 or more votes, it's taken to the relevant internal department for review and possible action.

Every action a LEGO employee performs on the platform adds to their 'clutch power' LEGO Ideas' social currency or achievement framework that measures levels of participation.

## Supporting communities wherever we are

The LEGO® play experience, our company values and the local communities where we operate all join forces in our Local Community Engagement approach.

It could be the LEGO School Club in the UK, where employees delegate their time, enthusiasm and several LEGO products to engage children from over 20 schools in the building experience.

Perhaps it's the Kidscamp near Munich, Germany, where 21 of our team members spent the day simply playing with children who face challenges in their daily lives.

Maybe it's the five kilometre Road Race at the Group's US office in Connecticut, which combined a day of family fun with a fundraiser for a local children's camp, or Mexican LEGO employees supporting robotic workshops in public schools.

Large or small, around the globe the LEGO Group wants to be part of the local community. We participate across the many LEGO sites in activities to create a close 'family link' between the LEGO Group and our local communities.

#### Five playful years in Grassbrunn

In 2013, our European Central office celebrated its fifth anniversary in the town of Grassbrunn, Germany. Families from the local neighbourhood were invited to join their LEGO 'neighbours' to share play experiences and participate in a special sale of LEGO products.

All profits were dedicated to a local home for young children who have been removed from their families due to neglect. While caring for these children, this home also offers therapy to parents, hoping to create a situation where the children can safely return to their homes. Over time, about 60% of the children and parents will be reunited.

The potential impact of LEGO employees worldwide is immense. With the scale of the LEGO brand and the passion of our employees, we have a group of 13,869 advocates. Together, we need to equip, inspire and activate champions for play.

#### **LEGO employees and Toy Associations**

Local Community Engagement takes on various forms depending on the location. In addition to social engagement, our employees are active in national Toy Associations, where we focus our efforts on promoting the value of play as a priority of the toy industry, legislators and authorities.

The LEGO Group is active in 16 national Toy Associations, helping to drive this priority. In 2013, the Vice President of our France/Iberia market focused his efforts as a Board

member of the French Toy Association helping the expansion of Espaces Ludiques (Playground Spaces at School) in cooperation with the French education ministry. The project focuses on schools in districts with underserved students. Over 300 schools are now part of this programme, which has been credited with helping to reduce conflict in the schools.

#### How can we do it better?

During 2013, as our footprint has grown around the globe, we've worked to better define Local Community Engagement for the LEGO Group. We've asked ourselves: "How do we best support the different communities in which we operate?"

As a result, we have begun to develop a structure where we can share experiences and learnings and ensure LEGO values are represented in all of our local community activities, and that our teams in every location have the tools and support they need to engage with their communities. This includes defining the processes needed to ensure we coordinate and manage these activities around the globe.



## **Case** study

## Making children in Kladno happier

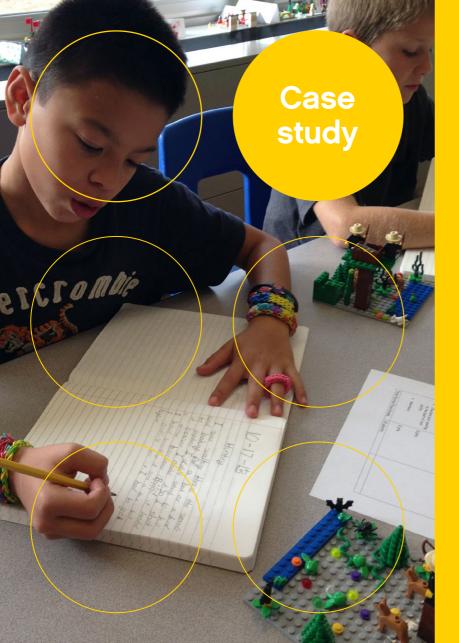
In the area around the LEGO Group's in Kladno, Czech Republic, there is a long tradition of supporting children. Besides a Children's Home in Ledce, there's a special kindergarten and school in Korálek, a rehabilitation daycare centre and the Kladno hospital.

The local LEGO factory is experiencing such rapid growth in the number of employees that activities organised for them and their families are becoming extensive community events.

An Open Factory day in May 2013 attracted more than 2,000 visitors eager to observe processing and packing lines and admire LEGO® models in the halls. The LEGO Summer party provided fun for as many as 1,000+ visitors in spite of pouring rain.

From September 2013, the factory has organised 25 guided tours for schools and citizens in the community. Children are very enthusiastic about everything connected with the production of their popular toys, and value watching the familiar LEGO elements being decorated, assembled and packed.

Many proudly point out that they have relatives or family friends in the factory. At the end of each tour, a real LEGO play experience is a highlight for the factory's many little quests.



### Building Tomorrow - community engagement

The LEGO Foundation has launched the Building Tomorrow project in Enfield, Connecticut, US – to establish a strong working relationship with seven schools in the Enfield school district, the faculty, and ultimately 2,700 children.

A part of the LEGO Foundation's work focuses on taking concrete actions in the communities where LEGO employees live and work – sharing responsibility towards local LEGO communities has been important ever since Ole Kirk Kristiansen founded the LEGO Group in 1932.

The LEGO Foundation's engagement in the Building Tomorrow Project has two objectives: establishing high quality learning experiences through play, and allowing the LEGO Group to be an active supporter of the communities where we are located.

It is key to understand how this project impacts student learning and how we can learn from the project ourselves. We will be measuring our current 1,250 students' performance and engagement as well as the classroom dynamics with their teachers.

We're paying special attention to the development of core skills, such as creative problem solving, critical thinking, collaboration, and communication, as well as the evolution of the overall student learning process.

The Building Tomorrow Project is based on experiences from the LEGO Group's corporate hometown, Billund, Denmark, where the LEGO Foundation has offered all municipality schools a LEGO Education Innovation Studio. This has been to support the vision of making Billund the Capital of Children, and thus a global meeting place for children and everyone who has focus on children's play, learning and creativity.

The Building Tomorrow project in Enfield also marks how the LEGO Foundation wants to encourage joint efforts across LEGO communities and a stronger LEGO employee engagement.

## Responsibility and business ethics

We embed responsibility at the heart of our business – integrating Human Rights and Corporate Policies in how we innovate and manufacture, market and sell our products.

Embedding this responsibility puts demands on us as a business. As we increasingly globalise, we operate in parts of the world where the rule of law is sometimes challenged.

#### Guided by our corporate policy framework

A key tool for us is our corporate policy framework, which consists of 12 corporate policies. The policies set the overall direction and guidance for us on key issues like health and safety, environment, product safety and people culture.

All the policies are global in nature and must be adhered to by all employees. In some cases, the policies are supported by corporate standards which give guidance on turning policies into behavioural requirements. Managers with people responsibility must ensure that all employees are informed about our corporate policies and standards.

Policy owners are responsible for updating and ensuring compliance to the policy for which they are assigned responsibility.

#### Corporate policy framework

The LEGO Group has a framework of 12 corporate policies, all providing positions and guidance on issues. For example, our Responsibility and Human Rights Policy ensures that our spirit and company values are not compromised on.

Our Environmental Policy helps to ensure that all our activities are planned and executed in accordance with environmentally responsible principles. View • 2.

#### Responsibility and human rights policy

Global developments call on us to state the Human Rights part of our responsibility commitment even more specifically. We therefore upgraded our existing Responsibility Policy into a Responsibility and Human Rights Policy during 2013.

Our Responsibility and Human Rights Policy reflects our commitment to our LEGO® Brand Framework and to the United Nations Global Compact, the United Nations 'Respect, Protect, and Remedy Framework' and its 'Guiding Principles'.

The policy supports the gradual process of integrating the appropriate and required responsibility due diligence principles into our daily work.

#### **Human Rights Impact assessment**

In 2013, we carried out a human rights impact assessment of the LEGO Group value chain alongside the development of the Responsibility and Human Rights Policy. The impact assessment aimed to identify human rights risks within our value chain where our existing processes could be adjusted for a better performance. Specifically, we wanted to identify areas where we have a potential to enact our positive role in the protection of certain human rights for children.

The Responsibility and Human Rights Policy and the impact assessment have informed the development of a human rights strategy, which presents focus areas and opportunities for us in the coming three years. This includes a focus on broadening and deepening the implementation of our Supplier Code of Conduct in the supply chain and a focus on labour rights standards in our own operations.

#### Building a responsible factory in China

The LEGO Group will build and operate its own LEGO factory in China, supplying products for the growing Asian market.

Construction began in 2013. By placing a manufacturing site in the region, we are able to better service the Asian market and reduce our environmental impact, as we limit the need for transporting products from Europe to be sold in Asia.

The new factory will be built and run with the same technology, automation and standards for employee safety and product quality as our LEGO factories in Denmark, Hungary, Czech Republic and Mexico, and it will have a distinct LEGO look and feel

#### **Ensuring ethical business conduct**

In 2013, the LEGO Group conducted a risk-mapping exercise to identify areas to continuously improve our training, guidance and tools in regards to ensuring high ethical business conduct.

We also implemented a new compliance hotline (whistle-blower) in order to improve ways to report compliance incidents. While the hotline enables our employees to report unethical practices by phone or web in their own language, it's a last resort. We encourage our employees to report through line management. The LEGO Group received 24 incident reports through the hotline in 2013, mostly related to internal employee matters.

#### Increased focus on anti-corruption

As part of our ongoing actions into anti-corruption, it is important that we continuously raise the bar and always stay compliant with legislation in our main markets, such as the UK Bribery Act. In 2013, efforts have been focused on assessing the current situation and determining where improvements could be made.

#### Three main initiatives have been in focus:

- surveys among LEGO employees to assess bribery risk and to gauge the level of understanding and areas for improvement
- initiate classification and assessment of third parties acting on behalf of the LEGO Group
- assessment of risks and adequate procedures through interviews with key persons within the LEGO Group.

## Setting supply chain standards

We believe our responsibility stretches beyond our own factories, so we require our suppliers and business partners to respect their employees' human rights. We have just implemented the fifth edition of the LEGO Group's Code of Conduct with suppliers.

Since 1997, we have required suppliers and business partners to sign our Supplier Code of Conduct to ensure responsible sourcing.

To promote sustainable supply chains we have ongoing dialogues with suppliers on how we best take a proactive stance together to responsibility issues we face around the world. Through our Human Rights approach, we encourage suppliers to take responsibility for their own practices and management systems. We focus our attention to those countries where employees in our value chain face the highest risks of suffering from breaches to their human rights. The basis for this categorisation is third-party evaluations by Maplecroft. We monitor suppliers' performance and continuous improvements by independent on-site audits.

#### Partner compliance, Code of Conduct (§) 19

2013 target: 100% solved 2013 realisation: 100% solved

2014 roadmap: Keep monitoring and

building capabilities at

suppliers.

2014 target: 100% solved

#### A stronger Supplier Code of Conduct

A main focus for 2013 has been the implementation of our fifth edition of the LEGO Group's Supplier Code of Conduct. The code features a stronger emphasis on ensuring that our suppliers and sub-suppliers live up to international standards as defined by the United Nations and the International Labour Organisation.

#### Long-term relationships raise levels of compliance

In general, we find fewer and fewer non-conformities in our regular supplier base. We believe the main reason is our approach to long-term relationships, which through joint efforts has made it possible to raise awareness and supplier performance.

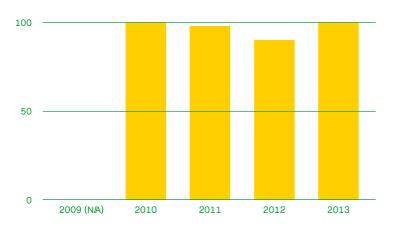
In 2013, the LEGO Group had a total of 110 suppliers. During the year, we conducted 56 audits at supplier facilities located in countries rated medium to high-risk on Human Rights issues. As we grow globally, we take on new suppliers in new countries and some take time to become fully accustomed to our Supplier Code of Conduct requirements.

As a consequence, we found 71 non-conformities during our audits. In 2013, we resolved all major non-conformities, delivering a 100% resolution rate at our suppliers. This is due to strong engagement with, and commitment from, our suppliers to keeping a responsible supply chain.

#### Keeping quality at suppliers high

Quality is of the essence to the LEGO Group, and we work closely together with our suppliers to always deliver the best quality possible. In 2013, we slightly increased our level of quality audits and visited 39 suppliers. This revealed nine major non-conformities, which all have been solved within the agreed timeframe.

#### Partner Compliance, Code of Conduct 19 19



#### Dealing with difficult issues

In 2013, the LEGO Group continued to engage in capability building and the training of suppliers in China, helping them to address the challenges they may face in adhering to the standards of our Supplier Code of Conduct. Our aim is to ensure that suppliers take ownership of maintaining and raising good working conditions in their facilities. We believe it is crucial for employees' wellbeing and work-life balance to work within the international standards, which prescribe a maximum 60 hour working week including overtime.

In China, we are aware that some manufacturers are struggling to fulfil compliance on this aspect. We will continue to work with our suppliers to pursue this standard for the global supply chain we engage with, despite the challenges related to it.

In 2013 specifically, we sustained our close collaboration with our suppliers in China to help them improve their effectiveness, as this is seen as one way of contributing to solving the work-life balance. Various working hours control tools, and lean manufacturing processes, allow them to decrease working hours gradually.

#### Collaborating with the industry and NGOs

To improve our understanding of potentially complicated issues within employees' human rights and working conditions, we have continued our dialogue with national and international NGOs throughout 2013. For example, we have been committed to the ICTI (International Council of Toy Industries) Care Process since 1 January 2006.

In 2013, the LEGO Group had nine suppliers certified by ICTI Care Process in Asia, which is five less than last year. To ensure legitimacy, we have access to the audit reports and can carry out follow-up audits regularly, if needed.

Also in 2013, the LEGO Group joined the Danish Initiative for Ethical Trade (DIEH), a multi-stakeholder initiative that promotes ethical trade and responsible supply chain management among Danish companies and public institutions. During the year, the LEGO Group participated in several DIEH workshops, training relevant staff on responsible sourcing and how to support ethical trade in businesses.

On top of this, we regularly train relevant employees internally on our LEGO Supplier Code of Conduct requirements and processes.

#### Keeping LEGO sites in full compliance

In 2013, in accordance with our audit risk criteria, we audited our production site in Mexico where we found no major negative impacts.

At our main LEGO sites we also conducted one Code of Conduct audit and five within environment and health and safety. These inspections revealed zero non-conformities, which means that our performance is at a satisfactory level and our target of zero non-conformities was met.

To ensure that we keep a consistent high quality, we performed six ISO 9001 audits at sites. Throughout the year we have focused on training and education of employees and have performed an intense review of internal audit findings,

#### The LEGO Group compliance (§) 16

2013 target: 100% solved 2013 realisation: 100% solved

2014 roadmap: Continue focus on high-risk

rated countries and internal

and external training.

2014 target: 100% solved

which has increased the awareness of the entire organisation. In 2013, we found no major quality non-conformities.

#### **Transparency on suppliers**

In 2013, the LEGO Group chose to make a supplier list available on our corporate website. The list shows the core suppliers we purchase from. Please visit • 2.

In 2013, we foused on data reliability and carefully evaluated the active suppliers we have, and thereby reduced our supplier base from 139 in 2012 to 110 in 2013. This is due to an exit of extended line suppliers in low and intermediate risk countries. For more information, please visit  $\bigcirc$  <sup>2</sup>.

# Case study

## Partners with licensing

Close partnership practice and shared business conduct ambitions encourage the LEGO Licensing Partner, Grown Up Licenses, to strengthen its relationship with suppliers.

Grown Up Licenses is a LEGO Licensing Partner producing school back-packs in the Asian region for the LEGO Group. In 2013, Grown Up Licenses made the principles and values reflected in the LEGO Group's Supplier Code of Conduct very visible by relocating its Operations Manager, responsible for Supplier Code of Conduct, from Denmark to Hong Kong. Grown Up Licenses needed to ensure greater proximity to their manufactures in China in order to understand the challenges they are facing and what is needed to ensure a high standard in terms of compliance. The new Hong Kong location enables a direct dialogue with manufacturers around this.

"For us, it has been very important to have direct – and onsite – dialogue with the factory for them to understand the importance of the LEGO Group's requirements and what impact compliance with the Supplier Code of Conduct, as well as non-compliance, can have on them", says Operation Manager, Katrine Vinther.

Since 2011, the LEGO Group has required all licensing partners to assure that their Supplier Code of Conduct is complied with by their suppliers. Additionally, setting demands at second level suppliers – which is above normal industry standards – is something new to Grown Up Licenses. To enforce the high ethical standard, Grown Up Licenses has addressed the general lack of awareness and low maturity level regarding Code of Conduct with some of its suppliers. Where improvements were not possible, Grown Up Licenses has terminated the relationship.

The close cooperation between the LEGO Group and Grown Up Licenses has inspired the latter to progressively roll out the ethical principles from the Supplier Code of Conduct to its other manufacturing suppliers.



## Environmentone step further

At the LEGO Group, we continuously strive to improve the products we make and the way we make them by raising our own environmental performance and working with our suppliers to do the same.

The LEGO Group has been on a growth path for a decade where revenue has quadrupled. This growth is also reflected in a growing number of employees, a growing global footprint and an increase in the quantity of raw materials used. Growth creates jobs and development in the local communities, but may also put pressure on the environment which is why we focus on achieving efficiency gains within energy and waste.

To go further and deliver a positive impact we have additional targets, such as becoming a 100% renewable energy company and raising the sustainability of our products.

Our concern for the environment has always been present and through years of focus and development of our Corporate policies we have improved our performance. In 2013, we made an environmental impact assessment, which confirmed that the major impact related to the LEGO Group's value chain stems from upstream LEGO production activities.

We are able to multiply our influence when we work together with our value chain partners on environmental issues. Greater focus on collaboration with suppliers in order to reduce the total carbon emissions in our value chain is one of the commitments we have made when we, in 2013, signed a Climate Savers partnership with WWF. Having a sparring partner such as WWF – who has the expertise and tools – means we can engage more effectively with suppliers and begin to reduce our collective impact.

Only one tenth of the total carbon emissions in the value chain originates from LEGO factories during the production of LEGO® bricks and sets. The impacts from our production are mainly related to the energy we use and the waste we produce. View page 119 for an illustration.

#### Working with our value chain

The LEGO Group supports the Carbon Disclosure Project (CDP), which is one of the leading non-profit initiatives working with companies on disclosing their actions within climate change.

This year the LEGO Group advanced our score from a performance band D to B and the disclosure score from 63 to 83, via the preparations from the WWF partnership.

Based on the disclosure given by companies themselves, a disclosure score (0-100) and a performance band (E-A) is calculated to evaluate the performance of the company.

## Partnership for the environment

In 2013, the LEGO Group signed a Climate Savers partnership with WWF, one of the world's largest conservation organisations, to help reduce our environmental impact.

The LEGO Group understands that the production of our products has an impact on the climate. That is why we are the first in the toy industry to partner with the World Wildlife Fund as a member of the Climate Savers Program and have made the following commitments to reduce our total carbon impact.

#### Highlights of the Climate Savers partnership

The LEGO Group is stepping up its dialogue with suppliers to reduce total impact on the environment. In 2014, we will initiate test projects together with suppliers to co-create the best solutions for addressing our supply chain carbon emissions and environmental impact. This could include pilot projects to look at manufacturing products using fewer materials, keeping the recyclability high and using more renewable or recycled materials.

By the end of 2016, our ambition is to reduce the energy in our operations used to manufacture one tonne of LEGO® elements by 10%, compared to 2012.

By 2016, our goal is to balance out our direct and indirect carbon emissions (tonnes CO2e) with renewable energy. Further, the LEGO Group commits to producing more renewable energy than we consume by 2020. These ambitious targets are examples of our continued promise to leaving a better world for our children.

#### Generating power from offshore wind

KIRKBI A/S, the LEGO Group's parent company, has invested in the offshore wind park, Borkum Riffgrund 1, which is located in the Northern part of Germany. KIRKBI A/S owns 31.5% of the electricity generated by the park. This is approximately equal to the production of 25 turbines in this wind park. The electricity generation from the wind park and KIRKBI's share hereof, will support the LEGO Group's goal to generate enough renewable energy capacity to meet the Group's energy needs by 2020.

The wind park is being built and operated by one of northern Europe's largest energy groups, DONG Energy. In 2013, the installation of an offshore substation was completed. The substation will collect the power generated from the 77 wind turbines. In early 2014, the first foundations are scheduled to be installed, followed later by the turbines generating electricity. By 2015, the wind park will be in full production mode.

## Searching for more sustainable materials

In 2013, we increased our efforts to find and implement more sustainable alternatives to the raw materials we use for LEGO® bricks, as these contribute with 30% of our greenhouse gas emissions. By 2030, our vision is to find and implement sustainable alternatives to our current raw materials.

By 2030, the LEGO Group wants to find and implement sustainable alternatives to our current raw materials. This is our vision and ambition.

This year, we started the journey to develop a method for evaluating the environmental impacts of the materials we use, taking into consideration the following impact categories:

- climate change.
- · land-use and land-use change.
- water consumption.
- fossil resource depletion.
- air pollution.

LEGO bricks are made of plastic, a material that provides unique properties for a product where strength, durability, clutch power and colour fastness form the very foundation for the building system, which is at the heart of the unique LEGO play experience.

It is a great challenge to find materials that do not compromise the current high quality and safety standards of LEGO products. For the LEGO play experience it is vital that the consumer can combine bricks in all thinkable ways, be they new or old. This has been a LEGO trademark throughout generations.

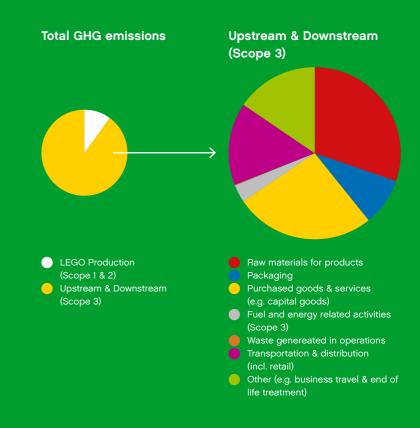
The raw material for LEGO bricks starts out as a fragment currently distilled from crude oil. Through a number of processes, the large molecules from crude oil are processed via small molecules into long chains of molecules to make, in the case of the LEGO brick, the material Polyethylene.

All plastic materials for our bricks are made in this way. They are carefully selected and refined to perfectly match our requirements for their physical properties.

#### Improvement without compromising impact

We continued to grow our production throughout 2013, and in total we used 68,000 tonnes of raw materials. The consumption of raw materials follows our increase in production output, and the production of LEGO bricks for our stocks around the world. In 2013, we updated and extended our greenhouse gas inventory and from this we can see that approximately 30% of greenhouse gas emissions from the

### The LEGO Group's Green House Gas (GHG) emissions (§) 26



LEGO Group come from the extraction and manufacture of raw materials for our products. Please see diagram on page 101. We are therefore focusing on finding more sustainable materials to manufacture our products from.

Our greenhouse gas inventory is coherent with the revised GHG Protocol Corporate accounting and reporting standards and the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

An external party has independently verified the inventory according to ISO 14064-3:2006, thereby enabling us to meet the requirements of the GHG Protocol standards and the ISO 14064-1 standard 3 (Scope 1, 2 and 3).

#### What do we mean by sustainable materials?

The choice of materials for our bricks is important, as it has a large effect on the environmental impact of our value chain.

Different materials create different impacts on greenhouse gas emissions, energy consumption, land, water and resource use. These impacts depend on a range of factors, such as how the material is found, whether it comes from plant material or oil-based resources, and how easily it can be processed.

As we want to be able to make informed decisions when looking for new materials, we are developing systems that allow us to better assess the impacts of the raw materials that go into our products.

#### Specific achievements in 2013

- We established a separate department, anchored in top management, with the sole focus of moving into sustainable raw materials by 2030.
- We launched a number of initiatives in cooperation with both suppliers and selected cooperation partners to start the journey towards our sustainable material vision. We will increase cooperation with cutting-edge material suppliers to develop more sustainable materials suitable for LEGO products and production.
- We started measuring the environmental sustainability of new materials to ensure that we reduce our total impact and do not trade off between different environmental impacts.

# Understanding our design choices

The search for sustainable materials is a major part of the story, but not the whole picture. We must also consider how we use materials in the first place and the design of new elements is one of the key areas where we can address environmental impacts.

We have been looking in detail at the environmental performance of a number of LEGO® elements over the last few years. We have used this experience along with the results of key initiatives, such as our Design for Disassembly project, to create guidelines that enable lifecycle environmental performance to be taken into consideration when we design new LEGO elements. We call this the 'environmental element review' and it ensures that we can move towards lower environmental impact in our element design.

This is one step towards raising the awareness of the relationship between design choices and environmental impact. In our WWF Climate Savers partnership, we have committed to further look into how we can best innovate our products to be more sustainable and how to best embed eco-design.

# Limiting the impact of our packaging

As 10% of the LEGO Group's CO<sub>2</sub> emissions are linked to the packaging material we use, sustainable packaging is a focus area for us.

We are working to limit the environmental impact from our packaging in a number of ways:

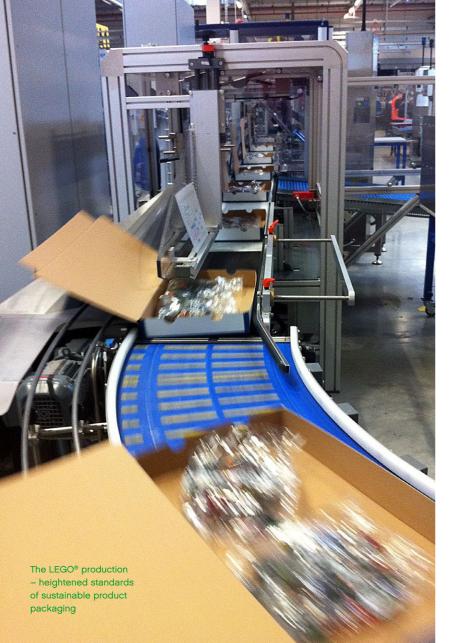
- · reducing the size of our packaging.
- · sourcing raw materials responsibly.
- · driving innovation to reduce environmental impacts.

#### Reduced size fully implemented

In recent years, and in close collaboration with some of our main stakeholders, we have worked on reducing the size of our packaging by up to 18%.

Doing this has several advantages:

- less environmental impact through reduction in materials and transport i.e. saves 4,000 tonnes cardboard annually and reduces the CO<sub>2</sub> from packaging by 10%.
- · consumers can handle products more easily.



retailers have room for more items on their shelves.

In 2013, we implemented the reduced size packaging for 100% of our new products.

### Implementation of responsible sourced paper materials continues

We are committed to responsible forest management, and through our support to the Forrest Stewardship Council we have developed and implemented Chain of Custody management systems. In 2013, the LEGO Group was certified according to the FSC Chain of Custody standard. We also worked to align our suppliers to both our product line and marketing materials.

We are pleased to have passed our audits, made corrective actions and received the final approval for six of our work sites. We are now looking to increase our sourcing of FSC in the Asian region. Today, more than 90% of the material we source for our core line products is FSC-certified.

Our ambition is that by 2015, all paper used by the LEGO Group for printed materials, packaging, building instructions, brochures and in-store material will be FSC-certified.

#### Innovation of product packaging

In 2013, we took stock of how well we integrate environmental impact into our development process. We will build on this knowledge in 2014. Through the Climate Savers partnership with WWF (more information on page 115), the LEGO Group will look into how best to innovate products to become more sustainable. This includes the development of packaging solutions.

# Managing energy and waste efficiently

In 2013, we achieved a very satisfactory energy efficiency improvement of 6.7%, accomplishing an improvement of more than 30% over a five year period.

In 2013, the LEGO Group continued its focus on reducing the impacts from energy consumption and waste generation within the Group's own facilities across the globe. These actions support our WWF Climate Savers partnership and are performed in accordance with the ISO 14001 environmental management system.

#### **Energy Management**

We reached our target on energy efficiency in 2013. Having a total consumption of 247,000 GWh, we became 6.7% more energy efficient compared to the previous year. Such an improvement equals a reduction of more than 6,500 tonnes CO<sub>2</sub>.

The LEGO Group Responsibility Report 2013

In total, we have improved the energy efficiency of our production by more than 30% over the past five years.

#### Energy efficiency improvement § 22

2013 target: >2.5% 2013 realisation: 6.7%

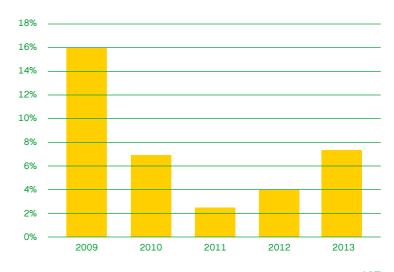
2014 roadmap: Focus on reducing energy

consumption from idle consumption. Focus on the molding process and energy

mappings.

2014 target: >2.5%

#### Energy efficiency improvement § 22



By introducing new production equipment, our process of moulding LEGO® bricks has become approximately 30% more energy efficient, cutting the overall impact of the most energy consuming process in our production. Across the LEGO Group, several projects have together improved production capacity, proving to have a significant impact on energy efficiency.

#### Improving energy efficiency at production sites

Following energy mapping of our LEGO manufacturing facility in Mexico, a number of projects were executed that improved the plant's energy efficiency by 9% over the last year. Thirty percent of these savings came from improving the cooling system in the moulding area by optimising our use of equipment. This project alone managed to reduce the plant's yearly energy consumption by 1,854 MWh, equivalent to approximately 1,000 tonnes of CO2 per year.

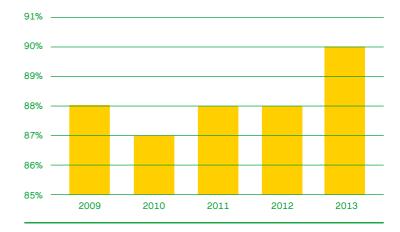
In our production facility in Billund, Denmark, we saved over 3,000 MWh, around 4% of the total electricity use at this site, through a range of cooling related activities, including insulation of cooling water supply hoses and heat recovery.

#### Future energy efficiency

As the LEGO Group keeps expanding production across the globe, we intend to introduce new and more energy efficient equipment in our production portfolio.

We further aim to focus on mapping and comprehending the dynamics of energy consumption as well as reducing the consumption when the production is not utilised.

#### Recycled waste § 23



In 2014, our factory in Hungary will start production on state-of-the-art energy efficient equipment. Increasing production output in the years to come is expected to have a significant positive impact on the energy efficiency of the Group.

#### A milestone on the way to our zero waste ambition

In 2013, the LEGO Group successfully continued its journey towards zero waste to landfill. Our total waste generated was 14,590 tonnes, and we met our target of recycling 90% of this waste. Although we grew as a company, our total waste generated only increased slightly, due to continued focus on this impact area.

Our prioritised efforts have enabled the LEGO Group to achieve a 90% recycling of the raw material for new bricks or for other plastic manufactures across the globe.

Another important contribution towards zero waste has been made by improving the recycling of everything which is not used for LEGO bricks. The recycling of this type of waste has improved by 11% compared to 2012.

As an example; improving 3% in recycling of waste since 2010, we have in 2013 been able to recycle an additional 445 tonnes of waste. This is equivalent to approximately 1,500 Danish households' annual waste. Put into a Danish context, this means that every tonne of plastic which is recycled would avoid approximately two tonnes of CO<sub>2</sub> emissions • 9.

In 2013, we investigated in even greater detail how, and where, we generate waste. Working with external experts we have decided to concentrate our focus in 2014 on reducing waste generation as our first priority, whilst at the same time maintaining the high levels of recycling we achieved in 2013.

We prioritise our waste management to:

- 1. reduce waste
- 2. reuse waste
- 3. recycle waste

#### Water consumption

In 2013, the LEGO Group used 339,000m³ water in total. This is a minor increase in water consumption per tonne of products produced.

The Group recognises water scarcity as a key concern in the world and therefore wants to manage our resource consumption responsibly. In 2014, we will work to better understand our water consumption and accessibility.

#### Recycled waste § 23

2013 target: 90% 2013 realisation: 90%

2014 roadmap: Primarily focus on reducing

waste generation whilst maintaining high levels of

recycling.

2014 target: 90%

# Strengthening corporate governance

The LEGO Group's approach to good corporate governance combines the strengths and benefits of private ownership with ongoing guidance for listed companies.

#### LEGO corporate governance - the facts

- The LEGO Group is owned 75% by KIRKBI A/S and 25% by the LEGO Foundation through an investment company.
- KIRKBI A/S is the holding and investment company of the Kirk Kristiansen Family.
- The LEGO Group has a professional management team and an independent Board of Directors.
- The LEGO Group's Board of Directors consists of seven members. Three of these are considered dependent on the company; two due to ownership of KIRKBI A/S, and one due to being in the management of the parent company, KIRKBI A/S. The Chairman and three other members are considered to be independent.
- The LEGO Group's daily management body consists of the LEGO Group Management Board and Corporate Management team, which holds 25 members organised

- in three main areas: Operations, Marketing and Business Enabling.
- All employees can contact daily management directly and all employees are encouraged to contact the CEO directly with ideas and thoughts.

An overview of the LEGO Group's organisation can be found at  $\bigcirc$ <sup>7</sup>.

#### The role of the Corporate Compliance Board

The LEGO Group has a Corporate Compliance Board, with an explicit obligation to report to the Board of Directors on compliance matters. It is also the highest decision board with respect to non-compliance issues in the LEGO Group.

Headed by the CFO, John Goodwin, the Corporate Compliance Board monitors that external regulation is observed and corporate policies and standards are developed in accordance with the values of the LEGO Group. The Corporate Compliance Board also addresses non-compliance, including ethical issues.

#### Tax

Tax is a major aspect of business in the community. On the wider agenda, the economic impact of our business on society is based on the direct and indirect employment and associated money flows, including tax paid. In the LEGO Group, we respect the tax laws and pay the taxes required of us. We enter into Advance Pricing Agreements, Tax Governance and enhanced relationships where relevant, and always adhere to OECD guidelines on transfer pricing. In 2013, the corporate income taxes paid for the LEGO Group was DKK 2,120 million.

#### No compromise on corruption

Doing business in most countries of the world, we need to respond to the issue of corruption. According to the United Nations Global Compact, corruption adds 10% to the cost of doing business globally. We see these extra resources as a missed chance to invest in children's opportunities and their future.

Corruption obstructs children's rights to have access to social services, such as schooling and health care. The LEGO Group will never compromise on its values or ethical principles in doing business.

We continuously work to improve our business ethics programme by increasing employee awareness of correct business conduct and avoidance of unethical and illegal activities, such as bribery, anti-trust and competition violations and facilitation payments.

#### Training in business integrity

The LEGO Group has set a target for training Directors and the levels above in business integrity. In 2013, 100% of all employees at Director level and above completed our biennial e-learning training programme in business integrity. Other employees working directly with customers and suppliers have also completed this training. The programme explains the LEGO Group's position on several business conduct areas, including bribery, anti-trust and facilitation payments.

Our business operations must reflect real and full compliance with relevant competition laws, as anything less would let children, parents and customers down. In 2013, we trained all of our 399 management members in competition compliance.

#### Business integrity training (§) 15

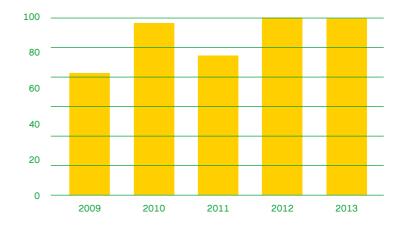
2013 target: 100% 2013 realisation: 100%

2014 roadmap: Continue systematical roll-

out of e-learning training.

2014 target: 100%

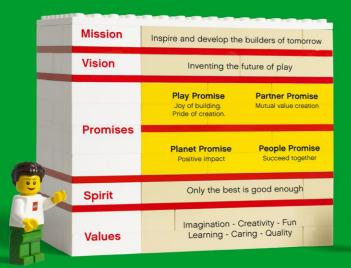
#### Business integrity training (§) 15



# Responsibility areas that echoe our promises

The LEGO® brand framework is our blueprint for everything we do and say. Guided by our four brand promises, we embed responsibility at the heart of all our operations to constantly ensure we adhere to stakeholder expectations and the United Nations Global Compact. To measure our environmental, social and governance impact of the four promises, we have anchored nine responsibility areas into one of our four promises, as illustrated here:

#### The LEGO® Brand Framework





#### **Play Promise**

#### **Top Measure:**

Net Promoter Score NPS®

#### Responsibility Areas:

Supporting Children's Right to Grow.

Material and Product Safety.

Communication with Children.

#### **Responsibility Measures:**

Net Promoter Score, Product Recalls, Consumer Complaint Call Rate, Percentage of major quality non-conformities solved at suppliers, LEGO Foundation activities.

#### **Partner Promise**

#### Top Measure:

**Customer Pulse** 

#### Responsibility Areas:

Supplier Code of Conduct

#### Responsibility Measures:

Partner Satisfaction

Percentage of major Code of Conduct non-conformities solved at suppliers.

#### **Planet Promise**

#### Top Measure:

Global Corporate Reputation

#### **Responsibility Areas:**

Local Community Engagement.
Product Design and Packaging.
Operational Efficiency and Footprint.

#### **Responsibility Measures:**

Energy Efficiency. Recycled Waste. Injury Rate, Sick Leave, Absence rate due to injuries, LEGO Foundation and LEGO Education activities.

#### **People Promise**

#### Top Measure:

People Pulse

#### Responsibility Areas:

Labour Rights and Employee Health and Safety.

Business Conduct and Stewardship.

#### Responsibility Measures:

Employee Motivation and Satisfaction, Work-Life Balance, Employee Net Promoter Score, Director+ promotions of female employees, Percentage of Directors+ Trained in Business Integrity Biennially, LEGO sites EHS/CoC/Quality non-conformity Resolution Rate.

#### Financial sustainability

Top Measure: Economic Value Added

Focus: Financial value creation to ensure the sustainability of our business.

Focus Measure: EBIT, capital efficiency

# The LEGO Group's policies and positions

#### Sources:

- 1: aboutus.lego.com/news-room
- 2: www.LEGO.com/responsibility
- 3: www.LEGOFoundation.com
- 4: www.legofoundation.com/en-us/research-and-learning/foundation-research/ cultures-of-creativity/
- ← 5: ec.europa.eu/rapex
- 6: eu.chimaonline.com/en/
- 1 aboutus.lego.com
- 8: www.asrcreviews.org/2013/12/caru-recommends-lego-modify-future-advertising-for-pirate-ship-ambush-to-better-disclose-what-comes-with-initial-purchas/
- 9: subsite.kk.dk/sitecore/content/Subsites/genbrugsguld/SubsiteFrontpage/ fakta/HaardPlast.aspx
- 10: www.legofoundation.com/en-us/the-power-of-play/play-facts/
- 11: aboutus.lego.com/en-us/sustainability/human-rights

#### **Our Policies**

aboutus.LEGO.com/en-us/LEGO-group/corporate-policies/

**ICTI Care:** 

aboutus.LEGO.com/en-us/LEGO-group/code-of-conduct/icti-care/

Certificates

**US Product Safety Compliance:** 

aboutus.LEGO.com/en-us/LEGO-group/product-safety/

Code of Conduct (7 languages):

aboutus.LEGO.com/en-us/LEGO-group/code-of-conduct/

Information on Product Recalls

service.LEGO.com/en-us/product-recalls/

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# The LEGO® journeys of



### New creative ideas

To come up with new creative ideas for more fun and exciting LEGO sets, in 2013 we:

- · Had 4 product development around the world
- Had more than 200 new product
- Conducted more than 200 focus groups among boys, girls and parents, talking to more than 1000 consumers across US, China and
- Employed more than 180 LEGO designers from 24 countries
- Had more than 1,500,000 interactions with consumers through our service center





### **Better** distribution

To secure more responsible distribution and communication practices, in 2013 we:

- Opened 18 new LEGO Brand Retail Stores, climbing up to 110 in total across the globe
- Received a retail customer satisfaction of 76 index points
- Reduced the size of all new LEGO boxes by 18%, bringing our CO<sub>2</sub> impact from packaging down by about 10%, and saving approx. 4,000 tonnes of cardboard annually
- Tightened our Marketing to Children Standard, both offline and online, after reviewing 8 cases to which no sanctions were made

### Fun and excitement together

To help nurture children's social skills and engage them in creative learning, in 2013 we:

- Donated 250,000 LEGO sets to children globally to provide fun and exciting play experiences via the LEGO Foundation
- Held the Build the Change event for the 6th year running, covering 14 cities and reaching almost 80,000 participants
- Held the 12th LEGO World event in Holland - visited by 70,000 and the 5th LEGO World event in Denmark - visited by 40,000
- · Raised awareness on how culture plays a role in children's ability to stay creative, with the Cultures of Creativity report, published by the LEGO Foundation

### Learning through play

To help children think creatively and reason systematically, in 2013 we:

- · Worked with 600,000 children globally across schools and kindergartens from both developed and non-developed countries with help from the LEGO Foundation and LEGO Education
- Celebrated the 10th World Robotics Olympiad with 392 teams from 37 countries, supported by LEGO Education

### The highest possible standards

By continously challenging our corporate actions to ensure we meet the highest possible standards of good responsibility, in 2013 we:

- Ensured that all corporate actions were tied into at least one of our 9 areas of
- Reached 75+ mio. children across the world with LEGO sets
- Employeed 13,869



### Safe, quality products

In adhering to our responsibility of ensuring safe and quality LEGO products, in 2013 we:

- Achieved zero product recalls (4th year running)
- Ensured full compliance to the **EU Toy Safety Directive**
- · Became a safer place to work, safety rate ever of 1.7 injuries per
- Decreased the number of injuries by 40% compared to 2009



By following our aim to optimise and install more responsible production methods, in 2013 we:

- Pledged to be CO<sub>2</sub> neutral by 2016
- Joined the WWF Climate Savers programme to show our commitment to reducing our total CO<sub>2</sub> emissions incl. suppliers
- Improved our energy efficiency by 6.7% despite a 9% increase in absolute energy use, adding to a total improvement of 30% over the last 5 years
- Recycled 90% of our waste - an increase of 2% since 2012

