

Otto Group Progress Report 2013/2014

on the leadership declaration of the 'Biodiversity in Good Company' Initiative

The Leadership Declaration:

The signatories hereby recognise and support the three objectives of the international Convention on Biological Diversity:

- Conserving biological diversity
- Sustainable use of the components of biological diversity
- The fair and equitable sharing of the benefits arising from the utilisation of genetic resources

Further, the signatories commit to:

1. analyse the impacts of business activities on biological diversity;
2. incorporate the conservation of biological diversity and its sustainable implementation in the environmental management system;
3. establish a department in the company responsible for managing all biological-diversity activities and reporting to the management team;
4. set measurable and realistic objectives to improve the conservation of biological diversity and its sustainable use, which are to be reviewed and modified every two to three years;
5. publish all activities and achievements in the area of biological diversity in the company's annual, environmental or sustainability report;
6. inform suppliers about its biological diversity objectives and to integrate them gradually in its work to achieve these;
7. assess collaborative efforts with potential partners such as environmental protection organisations, scientific bodies and state institutions, to expand expertise by engaging in dialogue and to develop the management system.

A progress report must be presented to the initiative every two years as proof of continuing engagement.

Detailed progress report based on the Leadership Declaration

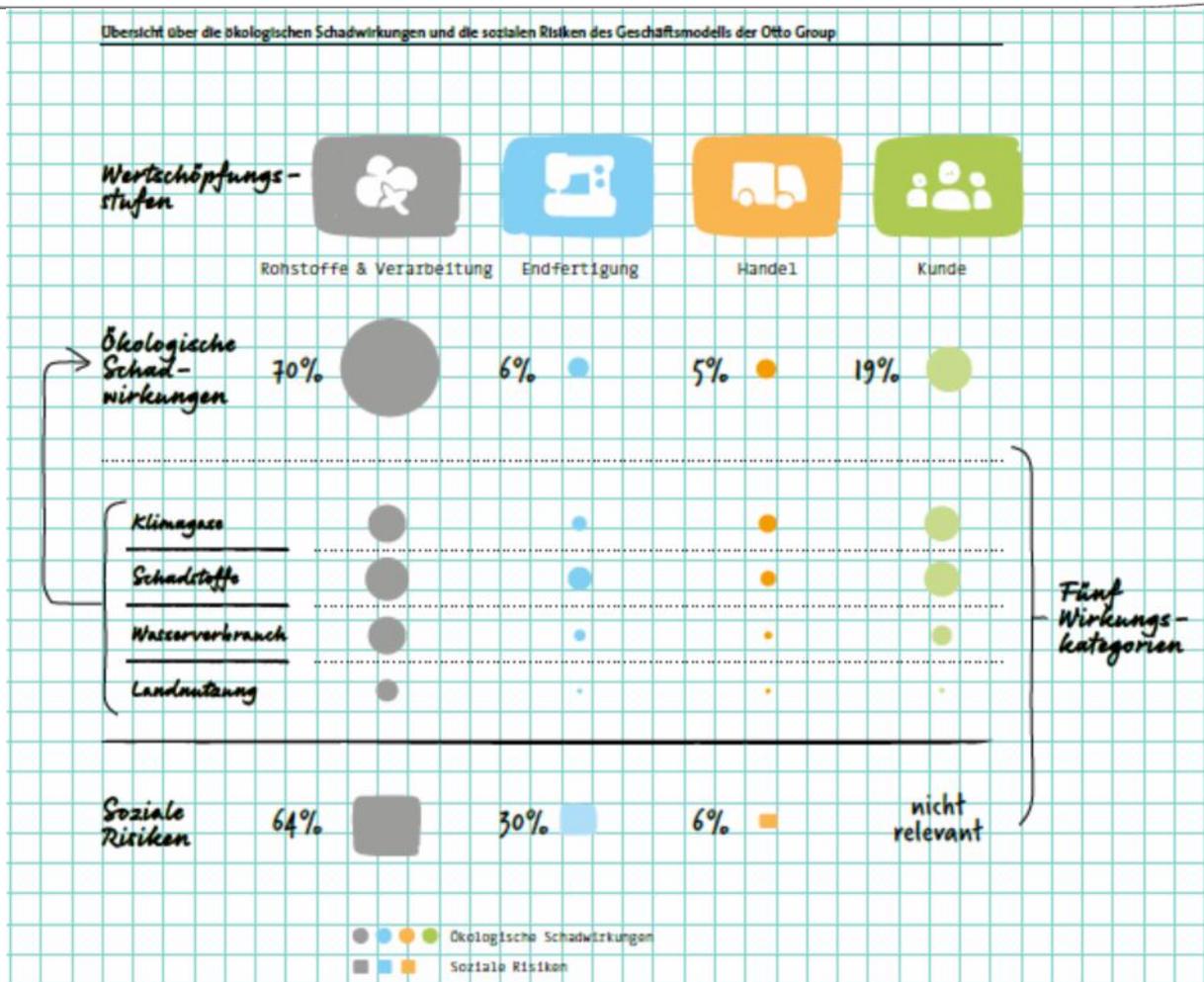
At the heart of our vision and mission is our responsibility to people and nature. It is the foundation on which we build to achieve our business, social and environmental goals. As a component of our overarching group strategy, the CR Strategy is derived from these goals. The CR Strategy aims to embed sustainability within all essential business processes. In order to reach this goal, the Otto Group's CR-Strategy currently comprises five sub-strategies that work towards the preservation of biodiversity either directly or indirectly.

1. The Otto Group is analysing the impact business activities are having on biological diversity.

The complexity of the value chain poses the greatest challenge to our sustainability management. In the progress report of 2011/12 we described, how, in 2008, we started to monitor and assess the impact of our business activities on biodiversity. With the impACT process the Otto Group fundamentally realigned its sustainability management in 2013: This allows the quantitative and qualitative evaluation of the ecological and social impacts of our company's business activities throughout the entire value chain and in turn, provides a basis for developing strategic targets and operational measures. Environmental pollution deriving from group-wide business activities is allocated to following impact categories: Greenhouse Gases, Pollutants, Water Consumption and Land Use. These impact categories also directly or indirectly effect biodiversity.

To make the various ecological impacts, such as land use or water consumption during the cotton cultivation, comparable, they are assessed in terms of external costs (in Euros). For this purpose, the Otto Group combines its own purchasing and sales figures with data from external data sources regarding the effects on ecosystems and human health and the therefore resulting external costs. The underlying external data availability is continuously improving.

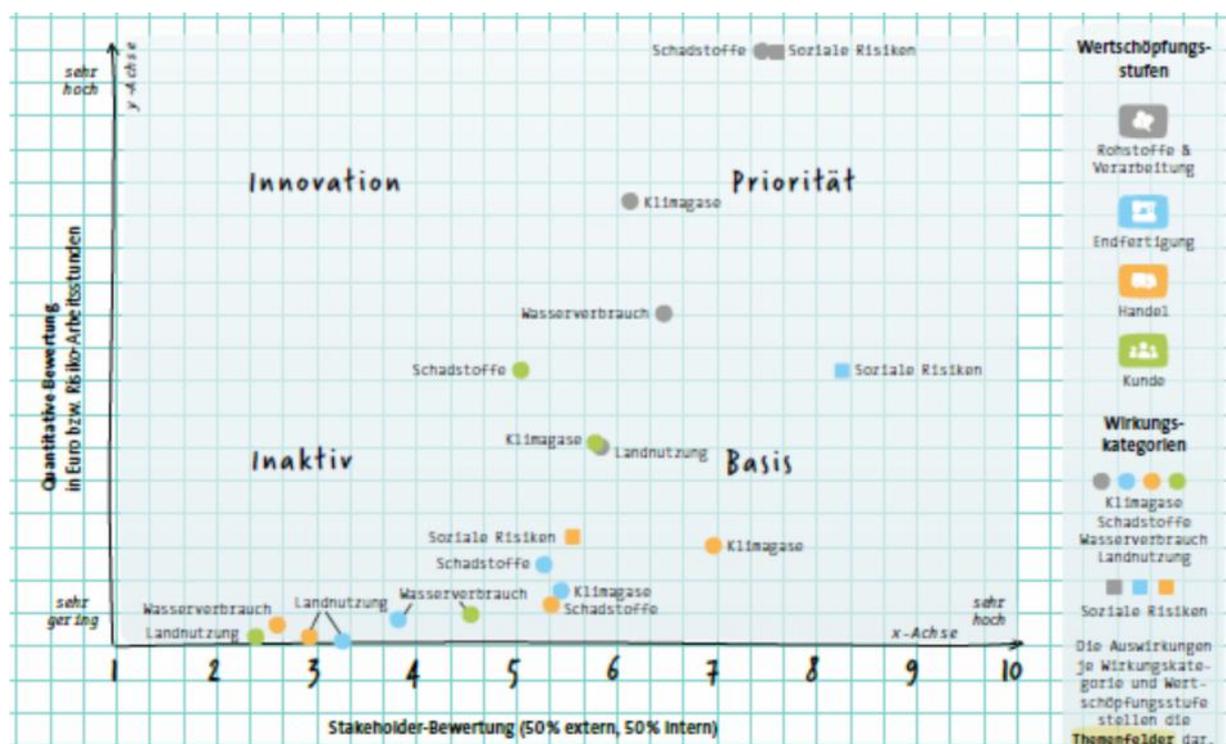
The calculation, which was last carried out in January 2015, showed that at 70%, the highest proportion of ecological impacts is, by far, within the Raw Materials & Processing value-adding stage. The most relevant external costs are caused by exhaust emissions and water consumption.



The impacts of the Otto Groups business activities regarding biodiversity within the impact category land use can be derived directly, as the evaluation is based on the land use dependant ecosystem services. The effect of all other impact categories is far more indirect (e.g. Greenhouse Gases) and can differ by location and region, thus only allowing a general outline. Nonetheless does the quantification of external costs already provide valuable information that helps to evaluate the effects on biodiversity and to place it within an overall context.

2. The Otto Group is incorporating the conservation of biological diversity and its sustainable use in its environmental management system.

The quantification through external costs within the impACT-method is the basis to identify the material ecological impacts of the business activities and to be considered within the CR-management process. In addition to this quantitative assessment the Otto Group's Internal and External Stakeholders carried out a qualitative evaluation from June to October 2014 for the CR topic areas. In this assessment, the Group includes four perspectives: The expectations from external stakeholders towards the Otto Group and an internal assessment on the topics of reputation opportunities, regulation risks and relevance to the business activities. The Otto Group's Materiality Matrix results from combining external costs with the stakeholder evaluation, and classifies all CR topic areas strategically:



Topic areas with high ecological impact and a high degree of action relevance attributed by stakeholders (e.g. Pollutants during raw material extraction and processing) have a high priority. Topic areas with high external costs, but which stakeholders do not (yet) see as particularly relevant to the Otto Group hold potential for innovative measures. Contrasting, there are topic areas with relatively low ecological impacts, to which stakeholders have, however, allocated a high degree of relevance (e.g. land use at the value-adding stage Raw

Materials and Processing). Topic areas with low external impacts and low action relevance (e.g. water consumption at own location and during transport) are treated with a low level of materiality. In accordance with their strategic allocation, potential measures are developed for the topic areas, which are then subjected to a cost/benefit analysis. The implementation of potential measures evaluated as material and effective falls under the umbrella of the CR Strategy 2020.

3. The Otto Group is establishing a department in the company responsible for managing all biological-diversity activities and reporting to the management team.

The Otto Group has established an organisational structure that incorporates designated people from different functions and Group companies. The central committee for preparing strategic CR decisions is the CR Board, which was created in 2012 and is headed by the Chairman of the Executive Board. The CR Board's decisions are prepared by the Sustainable Supply Chain Management Board (SSCMB), which was created in April 2014 and examines sustainability topics throughout the supply chain from an integrated perspective. The committee, which currently consists of six Managing Directors and Directors, holds an executive management function for current projects. The Group CR Division, which is the linking point for all sustainability topics within the Otto Group, is responsible for content preparation for the SSCMB Board meetings. Therefore also the topic biodiversity is taken into account within this division.

Furthermore, the Group CR Division operates as a change leader and takes responsibility for the development and planning of Group-wide strategies and pilot projects. In addition, it makes measurement tools for planning and management available and advises individual Group companies on implementing the CR Strategy. Controlling stakeholder management and sustainability reporting are also among the central tasks of the Group CR Division, as well as networking and knowledge transfer between the Otto Group and the Group companies.

4. The Otto Group is setting measurable and realistic objectives to improve conservation of biological diversity and its sustainable use, which are reviewed and modified every two to three years.

Otto Group's 2020 CR Strategy pools tangible and comparable goals, which integrate sustainable economic principles into the core activities of the reporting companies.

The highest share in terms of overall ecological impacts lies within the Raw Materials & Processing value-adding stage. The Otto Group is countering this challenge with three sub-strategies, which all focus on more sustainable land use and forestry practices, and whose goal attainment was already reported in the last progress report of 2011/2012:

100 % sustainable cotton by 2020

In 2012 the Otto Group set itself the target of increasing the share of sustainable cotton among its own brands and licensed brands to 100% by 2020 (this applies to all Group companies with a relevant percentage of cotton in their textile assortment). Unlike conventional cotton cultivation, the use of sustainable cotton, such as Cotton made in Africa, has far fewer negative impacts on people and the environment. Cotton made in Africa labels cotton from sub-Saharan Africa, which was produced in close communion with people and nature. Through Cotton made in Africa, smallholder farmers are supported to improve their living standards as well as the living standards of their children. Cotton made in Africa is produced without dangerous pesticides and under the exclusion of genetically modified organisms: The use of pesticides underlies strict regulations. In accordance with the damage threshold principle, specific pesticides can only be used after a certain degree of pest infestation. This procedure reduces the use of pesticides noticeably. Furthermore, the use of transgenic cotton seeds is contrary to the CmiA exclusion criteria (Nr. 14, Exclusion of GMO seeds). This means, there is, and also in the future will not be any Cotton made in Africa from transgenic seeds. Cotton farmers', cotton associations' and ginning facilities' compliance with the social, ecological and economic criteria of the CmiA standard is monitored regularly within the framework of a so called Verification, carried out by independent organisations (EcoCert and AfriCert). They check if cotton associations and smallholder farmers producing Cotton made in Africa quality comply with the criteria. In 2014, the Otto Group was able to achieve a share of 11% of sustainable cotton in terms of overall cotton assortment. The single company OTTO even achieved a share of 33,7%.

50 % share of FSC® paper by 2020

Owing to their business models, Otto Group companies use a lot of paper to produce catalogues and advertising materials. Limiting the resulting negative environmental impacts is very important to the Otto Group, which is why it has embedded the responsible use of paper resources in a CR objective: by 2018, the share of FSC (Forest Stewardship Council®) paper used for catalogues and advertising materials (using the gravure printing process) is to be increased from its current level of 18 % to 50%.

100 % FSC-certified wooden furniture by 2020

To prevent illegal logging and the associated negative consequences, the Otto Group is committing strongly to responsible forestry practices and is increasing the use of FSC-certified wood. In terms of wooden furniture and home accessories, the share of FSC-certified wood was already around 33% in 2014. By 2020 the Group-wide goal is to increase the share to 100%. In 2014, OTTO customers were already able to choose from a selection of over 8,000 FSC-certified items of wooden furniture and home accessories, accounting for 41% of this assortment.

5. The Otto Group will publish all activities and achievements in the area of biological diversity in the company's annual, environmental or sustainability report.

The Otto Group publishes a CR Report (<http://www.ottogroup.com/en/die-otto-group/strategie/corporate-responsibility/nachhaltigkeitsbericht.php>) every two years. In it, the Otto Group explains what impact its business activities have had on people and the environment. The Otto Group reports transparently on its performance in relation to the CR Strategy 2020 and in doing so, on how sustainable its business activities are. The CR Report 2015 adheres to the Guidelines of the Global Reporting Initiative in its current G4 version; it has been produced in compliance with the "core" option.

6. The Otto Group is informing suppliers about its biological diversity objectives and is progressively integrating them.

Suppliers are informed centrally through the Otto Group Sustainability Guideline. It applies Group-wide and is the basis for sourcing any type of merchandise. It also sets out the Group's specific requirements on suppliers, including the correct handling of tropical wood, the use of animal-derived materials such as furs and wool, and standards for sustainable

cotton. In addition, the Sustainability Guideline provides information on specific assortment-based targets (as mentioned) which have a considerable impact on biodiversity.

7. The Otto Group is assessing its collaborative efforts with potential partners such as environmental protection organisations, scientific bodies and state institutions to expand its specific expertise through dialogue and to develop its management system further.

The Michael Otto Foundation for Environmental Protection was founded in 1993 with the aim of supporting future-orientated projects and perspectives. It does this by developing strategies, supporting large nature-conservation projects for water bodies and wetlands, promoting innovative educational measures and initiating forums such as the Hamburg Forum for Nature Conservation as platforms for discussion between nature conservationists, politicians, scientists and business representatives.

Within this framework, the Otto Group has been supporting NABU, the German Nature and Biodiversity Conservation Union, for many years now by providing support with project financing. Furthermore, the Aid by Trade Foundation and the Michael Otto Institute works closely with NABU. Indeed, the Michael Otto Institute acts as the central organ within NABU for nature and wildlife conservation, with a focus on wetlands and the protection of birds. As a partner of the Aid by Trade Foundation, the Otto Group initiates pioneering projects in developing countries which, besides improving people's living conditions, also improve environmental protection at a local level. One result of this engagement is the cotton produced within the Cotton Made in Africa (CmiA) project, for which market demand is continually being stimulated and expanded. Now, over 20 international retailers and manufacturers purchase CmiA cotton and market it to their customers.

With the 'Initiative 2° – German CEOs for Climate Protection' launched by Dr Michael Otto in 2007, a group of prominent CEOs was formed who have set themselves the aim of implementing a global climate policy based on market-economy principles. The aim is to counter climate change, which is one of the five main drivers behind the loss of biodiversity, and make a positive contribution to bringing about a sustainable change. As a member of the Forest Stewardship Council (FSC), the Otto Group is actively campaigning for responsible forestry practices. It also organises subject-specific forums in which printers, paper suppliers and other FSC-certified companies, among other interested parties, can take part. It is especially important to offer companies a platform to engage in dialogue and advance the topic together.