

Otto Group Progress Report 2015/2016

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

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 analyzing 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 2013/14 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 April 2016, showed that at 72%, 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 land use 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 December 2016 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.

In order to fulfill sustainability requirements, which includes all activities in the field of biodiversity, the Otto Group has established an organizational structure that incorporates designated people from different functions and Group companies. As CEO of the Otto Group, Alexander Birken, is directly responsible for sustainability management and, at the same time, chairman of the CR-Board, which decides on strategic sustainability issues. The CR Board also includes Hanjo Schneider, Member of the Executive Board, Services Otto Group, and Dr Michael Heller, Member of the Otto Management Board for Categories. The annual variable remuneration of the Group's Executive Board is linked to the achievement of the five objectives of the CR strategy 2020.

Since 2014 the Sustainable Supply Chain Management Board (SSCM Board) has been a bridge between the CR Board and the Group's operative divisions. The SSCM examines sustainability issues throughout the supply chain from an integrated perspective and prepares decisions for the CR Board. It consists of managers and directors of selected Group companies, and meets four to five times every year.

The Otto Group's Sustainability Management Division manages the Group-wide sustainability activities and advises companies on strategy implementation and innovation. This includes the development of goals and concepts as well as the provision of appropriate measuring

instruments. Other tasks include stakeholder management, networking and knowledge transfer among 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 with 72% in terms of overall ecological impacts within the Raw Materials & Processing value-adding stage. The Otto Group is countering this challenge with three substrategies, which all focus on more sustainable land use and forestry practices, and whose goal attainment was already reported in the last progress reports of 2011/2012 as well as 2013/2014:

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 organizations (EcoCert and AfriCert). They check if cotton associations and smallholder farmers producing Cotton made in Africa quality comply with the criteria.

In 2015, the Otto Group was able to achieve a share of 27% of sustainable cotton in terms of overall cotton assortment. In 2016 the Otto Group already achieved a share of 49%.

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 34 % (2016) 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 43% in 2015 and increased further to 46% in 2016. By 2020 the Group-wide goal is to increase the share to 100%.

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 regularly reports about its sustainability activities and creates transparency on its environmental and social impacts as well as reactive measures along the value chain. The Otto Group also reports transparently on the achievement of the CR Strategy 2020 objectives and the level of sustainability in its business activities. Since 2017, the Group's sustainability performance and developments are no longer published but have been integrated into the annual report of the Otto Group.

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 organizations, 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 F.R.A.N.Z. (Future Resources, Agriculture & Nature Conservation) project is jointly coordinated by the Michael Otto Foundation for Environmental Protection and the German Farmers' Association.

F.R.A.N.Z. has set itself the target to develop and test measures to preserve and increase biodiversity in agricultural landscape. The measures for nature conservation should be transferred to other farms on a mid- to long-term basis. It is therefore important that the measures can be easily integrated into normal farming practices and that farmers do not suffer economic disadvantages.

Barriers to the implementation of conservation measures within existing regulatory and publicly funded instruments should be identified and reduced to increase their acceptance by farmers. The analysis of the economic and environmental impacts of the implemented conservation measures will be carried out by the Thünen Institutes of Rural Studies, Farm Economics and Biodiversity, as well as the Georg-August University of Göttingen and the Michael-Otto-Institute of the NABU. The regional farmers' associations and their cultural landscape foundations will be responsible for assisting and advising the participating farms.

As a partner of the Aid by Trade Foundation, the Otto Group initiates pioneering projects in developing countries such as the initiative Cotton made in Africa (CmiA). CmiA has set itself the goal to improve the living conditions of cotton farmers in Sub-Saharan Africa while fostering local environmental protection at the same time. In addition, the Otto Group is a member of the Forest Stewardship Council (FSC) and works actively for a responsible forest management.