

## Progress Report Otto Group 2017/2018

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

#### Progress report based on the leadership declaration

At the heart of our corporate vision is our responsibility to people and nature. It is the foundation to achieve our economic, social and environmental goals. As a component of our overarching group strategy, the CR Strategy is derived from our vision. 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 which work towards the preservation of biodiversity either directly or indirectly.

#### 1. The Otto Group analyzes the impact business activities have on biodiversity.

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 influence of our business activities on biodiversity. Since 2013, the Otto Group has realigned its sustainability management completely with the impACT process: This process contains three steps and firstly enables a quantitative and qualitative evaluation of the ecological and social impacts of the business activities throughout the entire value chain. This analysis is the basis for the development of strategic targets and operational measures. Environmental pollution deriving from group-wide business activities is analyzed for the following impact categories: Greenhouse Gases, Pollutants, Water Consumption, Land Use and Social Risks. These impact categories also directly or indirectly effect biodiversity. To compare different ecological impacts, such as Land Use or Water Consumption during the cotton cultivation, they are "translated" into external costs (in Euro). For this purpose, the Otto Group combines internal purchasing and sales figures with data from external data sources and accounting of environmental impacts on ecosystems and human health and the therefore resulting external costs. The underlying external data availability is continuously improving. In December 2018, the quantitative analysis was updated and is currently evaluated.

The impacts of the Otto Group's business activities on biodiversity can be derived directly from the impact category Land Use, as the evaluation is based on the Land Use dependent ecosystem services. In contrast, the effect of all other impact categories on biodiversity is far more indirect (e.g. Greenhouse Gases). In addition, they can differ by location and region, thus only allowing a general outline. Nonetheless the quantification of external costs already provides valuable information that helps to evaluate the effects on biodiversity and to place it within an ecological overall context.

## **2. The Otto Group incorporates the conservation of biodiversity and its sustainable use in its Environmental Management System.**

The quantification through external costs within the impACT-method is the basis to identify main ecological impacts of the business activities and to consider them within the CR management process. In addition to the quantitative assessment, the Otto Group conducts a regular qualitative analysis of the CR topics by stakeholders. Four perspectives are part of the qualitative analysis: The expectations from external stakeholders towards the Otto Group as well as an internal assessment on the topics of reputation opportunities, regulation risks and relevance to the business activities. The last qualitative analysis was conducted in December 2017. The Otto Group's Materiality Matrix results from combining the qualitative analysis with a quantitative assessment, and classifies all CR topics strategically:

Topic areas with high external impact and degree of action relevance attributed by stakeholders have a high priority (e.g. pollutants during raw material extraction or processing). Topic areas with a lot of external costs, 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 external effects, to which stakeholders have however allocated a high degree of relevance (e.g. land use in the value-adding stage Raw Material and Processing). Topic areas with low external costs and low action relevance (e.g. Water Consumption at own locations 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 establishes a department in the company responsible for managing all biodiversity activities and reports to the management team.**

Responsible employees with different functions and from various Otto Group companies are incorporated to manage sustainability holistically in the Otto Group. The CEO Alexander Birken leads the CR-board, the most important decision-making body. The annual variable remuneration is connected to the achievement of the five targets of the CR Strategy 2020. The Sustainable Supply Chain Management Board (SSCM-Board), consisting of managers and directors of the Otto Group companies with most revenue, has been the most important committee since 2014. The department Corporate Responsibility navigates the group-wide sustainability activities within the Otto Group. This department develops targets and concepts as well as consults the Otto Group companies. Due to the decentral organization of the Otto Group, the managers of each Otto Group company are responsible for the implementation of the five CR Sub-strategies 2020. CR-coordinators, who are in a constant exchange with the corporate responsibility department support them. However, the coordination of sustainability will be restructured with effect from the financial year 2018/19: CR-Board and SSCM-Board will be combined to one decision committee (cross-hierarchical decision-making body). Responsibility to decide will be transferred more extensively to the operative level.

#### **4. The Otto Group sets measurable and realistic objectives to improve conservation of biodiversity and its sustainable use.**

The CR Strategy 2020 of the Otto Group combines concrete and comparable targets which integrate sustainable business principles into the core activities of the reporting companies.

The highest share in terms of overall ecological impacts occurs within the Raw Material and Processing value-adding stage with 72 %. This challenge is addressed by the Otto Group with three sub-strategies which all lead to more sustainable land use and forestry practices and therefore to the preservation of biodiversity. The achieved targets are reported in the previous progress reports 2013/2014 and 2015/2016.

##### **100 % sustainable cotton until 2020**

In 2012 the Otto Group set the target of increasing the share of sustainable cotton among its own and licensed brands to 100 % by 2020 (this applies for 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 (CmiA), has far fewer negative impacts on people and the environment. Cotton made in Africa labels cotton from Sub-Saharan Africa, which is produced in close communion with people and nature. The CmiA standard contains sustainability criteria which include both cultivation conditions on the field and working conditions in the cotton de-seeding plants, the first step of processing cotton. Smallholder farmers are supported in improving their living standards as well as the living standards of their families by trainings in sustainable and efficient cultivation methods and basic business skills. The use of artificial irrigation or the deforestation of primary forests is forbidden by CmiA standards. The soil and ground water are protected, a leaching of the soil is prevented and the pest infestation is reduced through environmentally-friendly agriculture such as the cultivation of fields with crop rotation or the production of natural fertilizer. Regular trainings inform the farmers about a conscious use with permitted pesticides including risks and consequences. So-called “illustrated books” are used especially for smallholder farmers to convey risks of the use of pesticides and to sensitize. Dangerous pesticides are excluded in accordance with international conventions as well as genetically modified seed. Besides that, Cotton made in Africa pursues an integrated cultivation (IPM=Integrated Pest Management), which uses the same methods as organic farming. This approach includes improved soil fertility and plant health among others. Having started as a pilot project, CmiA introduced the use of molasse traps. Molasse is a local and cheap available waste product in the sugar production. Due to its smell, it attracts cotton bollworm butterflies and thereby protecting the cotton from eggs of this animals and from voracious caterpillars to hatch. As a result, pest pressure is reduced enormously, and chemical pesticides are used less frequently or not at all. The environmentally friendly cultivation of cotton with CmiA is further boosted with locally available biological pesticides. Firstly, during a project with a scope of three years, effective biological pesticides were identified. Secondly, training materials about bio-intense integrated plant protection (IPPM) were developed and shared among local partners. First steps for a (semi-)commercial processing of biological pesticides were implemented. At the same time, the availability of plant material was ensured as well as erosions prevented with an own tree nursery. After the project has ended, it was continued by the partners and biological pesticides are increasingly used. Overall, the taken approach by CmiA helps to protect the environment and the harvest as well as the incomes of smallholder farmers. Independent organizations (EcoCert and AfriCert) verify regularly the compliance of the before mentioned criteria as well as other social, ecological and economic criteria of the CmiA standard on the field and in the de-seeding plants. Only cotton that meets the requirements of the CmiA standard may carry the CmiA label.

In 2016, the Otto Group reached a share of 49 % sustainable cotton compared to the relevant cotton assortment, in 2017 the share was already at 78 %.

## **60 % 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 into a CR objective: By 2020, the share of FSC paper (Forest Stewardship Council® for catalogues and advertising materials, intaglio and offset printing) is to be increased to 60 %. In 2017, the Otto Group's target achievement was 43 %.

## **100 % FSC-certified wooden furniture by 2025:**

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, the share of FSC certified wood was already at 46 % in 2016 and increased further to 52 % in 2017. By 2025 the Group-wide goal is to increase the share to 100 %.

## **5. The Otto Group will publish all activities and achievements around biodiversity 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 in a separate report but have been integrated into the annual report of the Otto Group.

## **6. The Otto Group informs suppliers about its biodiversity objectives and progressively integrates them.**

Suppliers are informed 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 for 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 above) which have a considerable impact on biodiversity.

**7. The Otto Group assesses 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.**

25 years engagement for environment and nature – since its foundation in 1993 the Michael Otto Foundation for Environmental Protection has more than ever the aim to conduct nature-conservation projects and to intensify societal dialogue due to increasing challenges for environmental and natural protection. With the help of innovative and future-oriented projects as well as dialogue events, the foundation puts environmental topics in the focus of the public and political debate. The project F.R.A.N.Z. aiming at biodiversity protection is supported and accompanied by the Federal Ministry of Food and Agriculture as well as by the Federal Ministry for the Environment. It connects agents from nature conservation and agriculture and was rewarded with the German sustainability price in the category “research”. Besides, the education work of the Foundation is innovative and future-oriented. The offer “AQUA AGENTEN” was created for primary school pupils to bring the diversity and significance of water for people, nature and economy closer to them. The project is already active at eleven locations. Previous to the G20-summit in Hamburg in 2017, the Michael Otto Foundation created a unique alliance for climate protection as the holder of the head-office of the foundation platform Foundations 20 (F20). The Foundation connects more than 50 foundations from twelve different countries to promote climate protection projects and a global energy revolution and therefore the agenda 2030. During the Hamburg Forum (“Hamburger Gespräche”) in 2018, the Michael Otto Foundation set impulses to create future-oriented and sustainable solutions for water protection and to promote societal dialogue.

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 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.