

## Otto Group Progress Report 2011/12

### 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.

#### Responsibility born out of conviction

As a global group of commercial companies, the Otto Group is taking responsibility to ensure its business activities are balanced, taking environmental, economic and social aspects into account in equal measure. By uniting these three pillars, the intention is

also to secure the Group's future viability. Furthermore, sustainable value creation is an integral aim both of the company's Vision, Mission and Corporate Responsibility (CR) Strategy. The Group-wide CR Strategy also aims to integrate and implement sustainability in all business processes. To achieve this aim, specific targets were set in these fields of corporate action: 'Climate and Environment', 'Assortment and Customers' and 'Suppliers'.

As one of many measures, this is why the Otto Group, as a founding member, is also supporting the 'Biodiversity in Good Company' initiative and recognises the seven points of the Leadership Declaration, which it is implementing as follows:

## **Detailed progress report based on the Leadership Declaration**

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

In 2008, the Otto Group specifically analysed for the first time which business activities have a major impact on biodiversity. The screening revealed that the supply chain and, in particular, the use of natural resources such as wood and cotton, are the most significant.

This initially very pragmatic approach is based to a significant degree on qualitative evaluations and is currently being expanded systematically. To this end, the Otto Group is working with its subsidiary Systain, which, through the development of the 'Estell' tool, has made it possible to quantify the environmental impact within the overall value chain. This enables the identification of environmental impacts such as greenhouse gases, water consumption, air and water pollutants as well as land use caused by Group-wide business activities.

While the impact of the Otto Group's business activities in terms of greenhouse gases and water consumption can be calculated very precisely, this cannot be done in the case of biodiversity. For the most part, it is currently only possible to detail the extent of the indirect and approximate impact the company's activities have on biodiversity, as the discernible impacts arise in various ways. However, on the whole the Estell methodology is already providing valuable information which situates the topic of species-diversity conservation within an overall environmental

context and confirms the Otto Group's previously derived aims and measures in relation to conserving biodiversity.

Therefore, the aim should be to provide even more detailed information about the impact on biodiversity in the future. Nevertheless, to achieve this standard it is essential not only to understand the Group's own impact, but also to specifically steer business activities so that these are effective and beneficial in relation to biodiversity.

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

The Otto Group realised the importance of an effective environmental management system as long ago as the 1990s. At the time, individual Group companies (Baur, OTTO, Hermes, UNITO, Schwab and SportScheck) implemented environmental certification procedures in accordance with ISO 14001, thereby ensuring their business activities' impact on biodiversity is analysed.

Today, the Otto Group has a central CR database, which was implemented in 2010. Group companies covered by the CR Report collate a vast range of environmental data here, much of which relates to biodiversity. This database ensures that all environmental data is always available and that it is possible to access particular key figures at any time, such as on the quantity of sustainable cotton ordered or the amount of office paper consumed. This Group-wide transparency and comparability of key performance indicators is instrumental in the further development of control over the environmental management system through a systematic approach to controlling; it also forms the basis of the CR Report.

Nonetheless, the challenge facing the Otto Group in the future is to expand CR and biodiversity management to cover the 'hotspots' within the supply chain, as identified by Estell.

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

Within the Otto Group, the Corporate Responsibility Area is the central point of coordination for all environmental topics. As such, the topic of biodiversity is one which also attracts a great deal of consideration. Internally, the importance of the CR Area is two-fold: first it is an initiator of new topics and also manages the Group-wide CR strategies; secondly, the CR Area is responsible for Group-level development, planning and communication, and provides assistance to the respective Group company CR Coordinators when it comes to implementation. Initiating and managing workgroups, which investigate specific topics and come up with solution strategies, also falls within the CR Area's remit.

A CR Board was also established to serve as the link between the CR Area and the Executive Board. The CR Area and CR Board meet every four months to take decisions on key strategic sustainability topics. Both organs inform the Executive Board every six months about key topics and events, as the Executive Board has top-level responsibility for the CR Strategy.

**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.**

The Otto Group's CR Strategy 2020 combines specific and comparable aims which integrate sustainable business principles into the reporting companies' core activities. Five individual strategies are identifiable: the Climate Strategy, the Paper Strategy, the Social Programme, the Textile Strategy and the Hardware Strategy.

The following aims relate directly to biodiversity conservation:

100 % sustainable cotton by 2020

Unlike conventional cotton cultivation, the use of sustainable cotton has fewer negative impacts on people and the environment, as considerably fewer non-degradable synthetic chemical pesticides, insecticides and fertilisers are used, nor

any genetically-modified organisms. Employing methods such as rain-fed watering results in a drop in water consumption; pests are only controlled using natural agents and it is ensured that crops are rotated annually. All these measures serve to protect biodiversity in the cultivation regions and to prevent monocultures.

Since, as described, sustainable cotton cultivation brings clear advantages, in 2012 the Otto Group set itself the target of increasing the share of this 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).

To achieve this target, among other measures the Group companies are using organic cotton or Cotton made in Africa yarn. Thanks to this clear positioning and decision to move to sustainable cotton cultivation, in 2012 the Group companies reported that the share of sustainable cotton in their assortments was approx. 5 %, with the single company OTTO even achieving a share of 17 %.

From a sustainability perspective, the challenges with textile value-creation are not only restricted to cotton cultivation. As part of a hotspot analysis, it was identified where the need for optimisation exists at which particular stage in the value chain. Consequently, the '100 % sustainable cotton' target for textile fibre is to be expanded in future to include an integrated approach covering both the entire supply chain as well as the Otto Group's complete textile assortment.

### 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. Naturally, due to goods shipment waste also continues to be generated in the form of cardboard and other packing materials. Limiting the resulting negative environmental impacts is very important to the Otto Group, which is why it has embedded the responsible use of wood 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 6 % to 50 %.

## 100 % FSC-certified wooden furniture by 2020

In terms of wooden products, the risk of illegal logging exists without clear and stringent regulations. To prevent forest destruction 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 10 % in 2012; however, by 2020 the share is to be increased to 100% under the Group-wide target; the single company OTTO has set itself the even more ambitious aim of achieving this target by 2015. In 2012, 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 34 % 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 CR Report 2011 was produced in accordance with Global Reporting Initiative G3 Guidelines and was awarded the Application Level A+.

Furthermore, biodiversity activities and achievements are also communicated via the company's homepage, with exhibitions and conferences providing the opportunity for the Otto Group to engage in dialogue directly with its stakeholders.

## **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.

Lastly, and as just as fundamental a commitment, the Otto Group is involved in the Carbon Performance Improvement Initiative (CPI2) within which it, as one of nine founding members, is campaigning for climate protection. The aim of this workgroup is to establish a global network between factories and companies to reduce energy consumption and thus reduce carbon emissions by many millions of tonnes. To achieve this aim, CPI2 assists both in measuring and analysing energy consumption and also provides specific recommendations for action.

## Example project

### **Hermes' collaborations with NABU**

As a collaborative partner of the Hamburg regional association of the German Nature and Biodiversity Conservation Union (NABU), Hermes supports various environmental and social projects. For example, as part of the collaboration NABU reviews all new building projects to examine how the environmental performance of a company facility can be additionally supported by local climate and environmental protection activities. NABU's local groups provide expert advice which Hermes headquarters has followed, such as by installing bat-roosting boxes and nest boxes for protected birds. Thanks to this, NABU has already awarded Hermes' new buildings the distinction of 'bat friendly'. At the new logistics hub facilities, on NABU's initiative green spaces, ponds, swallow towers

and insect hotels are also being factored in – bringing clear benefits for the environment and local employees.

Furthermore, Hermes is involved in protecting the ‘Elbetalauen’ biosphere reserve, which is an area of land along the River Elbe. Owing to the former division of Germany, the natural area along the Elbe is largely intact and forms Germany’s largest contiguous nature reserve. It covers over 500 hectares and is home to many rare species of plant and wildlife. Since the 1970s it has been NABU’s stated aim to conserve it, and this is to be achieved through land acquisition. Hermes has supported this engagement since November 2010 as an exclusive environmental partner to NABU.