

Plain

Talk

Talking plainly. Acting sustainably.

About This Report

For the first time, this Sustainability Report provides an overview of the strategic basis of and management approach to sustainability in the Schwarz Group. To this end, we are providing information on how we organize and implement our financial, ecological, and social responsibility within our day-to-day activities. The Schwarz Group is made up of the Kaufland and Lidl retail divisions, the GreenCycle environmental division including its PreZero sales brand, Schwarz Produktion, and Schwarz Dienstleistungen as well as other affiliated companies and national organizations (see p. 8). The information contained in this report refers primarily to the overall Schwarz Group and overall management approaches. In order to provide a comprehensive overview of our activities, the report has also been supplemented with information from specific corporate divisions and countries. Since GreenCycle, including its subsidiaries PreZero and PreZero Polymers¹, was still in the process of being built up into an independent corporate division over the course of the reporting period, the report describes its specific organizational structures and management approaches only in cases where they already existed. In report sections where GreenCycle is not mentioned explicitly, it is subsumed under the regulations, activities, and key figures of Schwarz Dienstleistungen, the central services and administration division to which it previously belonged from a corporate organization perspective.

In addition, the key figures presented in this report also generally refer to the overall Schwarz Group or to the business units specified. Individual divisions contribute to the key figures by which they are affected owing to their business activities or business model; for example, purchasing figures refer exclusively to retail divisions. In the case of Kaufland and Lidl, all national entities which were in operation for at least one complete fiscal year (FY) after their initial store opening contribute to results. Countries within the startup phase are not taken into consideration in results,

with the exception of the key personnel figures from the annual financial statement (indicated accordingly). Countries which were undergoing a startup phase during the reporting period include Lidl Serbia (in FY 2018; first store opening in fall of 2018), Kaufland Republic of Moldova (in FY 2018 and 2019; first store opening in fall of 2019), Kaufland Australia, Lidl Estonia, and Lidl Latvia (all in FY 2018 and 2019).

This report was produced in accordance with the GRI standards: “core” option. Our report also shows which of our activities are contributing to the Ten Principles of the UN Global Compact (UNGC) initiative; corresponding contents are indicated with “UNGC”. Moreover, a corresponding overview appears on p. 23 and in the GRI Content Index. This report relates to the period from March 1, 2018 to February 29, 2020 and thus comprises two complete fiscal years. Unless otherwise specified, the closing dates for data collection were February 28, 2019 for the FY 2018 and February 29, 2020 for the FY 2019; the editorial deadline was August 20, 2020. Any information which was included and does not lie within the reporting period is clearly indicated. Going forward, we will release a comprehensive Sustainability Report every two years as well as an interannual progress report on our participation in the UNGC initiative.

In the summer of 2020, the auditing firm KPMG AG subjected selected information in this report to a limited assurance engagement of sustainability information during an independent business audit in accordance with the International Standard for Assurance Engagements (ISAE 3000 revised). This focused on the materiality analysis, selected management approaches, and a portion of the key figures presented. Audited contents and key figures are indicated in the text and the Index of GRI Content Index with “✓”. The statement of the independent auditor appears on pages 109–111.

¹ During the reporting period, PreZero Polymers operated under the name Sky Plastic Group.

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For reasons of improved readability, the masculine form is used in this report, but refers to all genders equally.

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Global challenges are also our challenges. We are ready to take on that responsibility and will use the special strength of our corporate group to meet these challenges. We do not intend to be part of the problem – instead, we will use our influence to be part of the solution. For us this means: Talking plainly. Acting sustainably.



**Klaus Gehrig,
General Partner, Schwarz Group**

Dear Readers,

The complex ecological and social challenges of our time – be they ongoing climate change, human rights violations within supply chains and value chains or the increasing loss of biodiversity – confront us every day. We need to, now more than ever, own up to the fact that these developments have partially come about as a result of economic growth, which has received too little examination for quite some time. In order to make the future worth living, not only for us but for future generations as well, it is up to all of us to make rigorous changes in the way we think and to take decisive action. We at the Schwarz Group are also directly affected by these developments, in many ways. From production by the Group's internal Schwarz Produktion division, to worldwide distribution by our Kaufland and Lidl retail divisions, up to recyclables management by GreenCycle – with our around 450,000 employees, we cover virtually the entire value-added chain in the retail sector.

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Our activities are diverse – as a result, our day-to-day work touches on the most pressing issues of our time in a number of ways. To put it another way – global challenges are our challenges as well. And we are ready to take on that responsibility and will use the special strength of our corporate group to meet those challenges – this is an opportunity for us to demonstrate our unity in diversity and to make a significant contribution to sustainable development. Because we do not intend to be part of the problem, but instead to use our influence as the largest retailer in Europe to be part of the solution. For us this means: Talking plainly. Acting sustainably.

To underpin our declared commitment to sustainable retail trade, we joined the UN Global Compact this year. The United Nations, on the basis of its ten universal principles and Sustainable Development Goals (SDGs), pursues a vision of a sustainable global economy – both today and in the future. Through our accession to the UNGC and this report, we profess our ongoing support for the Global Compact and for the realization of that vision, a goal toward which we want to work with commitment and drive. Maintaining a balance between economic,

UNGC

ecological, and social concerns has always been a guiding principle of our group, and we have already had many notable achievements towards this end. We are especially proud of our unique commitment to the path towards a circular economy – where we try to close material loops wherever possible. Consequently, in 2018 we signed the Ellen MacArthur Foundation's Global Commitment for a New Plastics Economy. As a result, the Schwarz Group was the first corporation to bring together under one roof all steps involved in recycling disposable bottles. Several million bottles are returned each day to Kaufland and Lidl's bottle recycling machines and are then sorted, recycled and processed into new bottles in the corporation's own three recycling and plastic plants. This is just one example of how we act sustainably each and every day – and you will find countless other projects and initiatives in this report. These are exciting times, not just for our corporation but for the entire industry as well. More than ever, we at the Schwarz Group are inspired and driven by the need for sustainable development and the role we can play in this process of transformation.

It is therefore my great pleasure to share with you the Schwarz Group's very first Sustainability Report. It presents an overview of the ecological and social topics which concern us and which are being addressed by the Schwarz Group's corporate divisions and national entities working as one. In this report we share details on how we are realizing innovation and quality throughout the corporation and how we are taking responsibility for what, in our view, are sustainability's four central themes: life quality, product quality, circulatory systems and ecosystems. For each of these themes we present our basic management approach, the goals we set, milestones up to this point and our future challenges – by just talking plainly.

I hope you find this report informative. Please make use of the contact options mentioned in this report to send us your questions and suggestions – we look forward to maintaining a dialogue with you.

CORPORATE PROFILE

We are one of the leading retail companies in the world. We cover large parts of the value chain in the food retail sector, ranging from food production and retail trade to recycling. This allows us to exert influence on sustainable development, which we are actively developing further – and we also make use of our varied business models as significant leverage in that area.

About the Schwarz Group

Approx.
110
billion euros
in revenue

Approx.
12,500
stores worldwide

Approx.
40,000
items offered

The internationally active Schwarz Group primarily consists of GreenCycle (with its PreZero sales brand), Kaufland, Lidl, and Schwarz Produktion as well as a central services division under Schwarz Dienstleistungen. By the end of fiscal year 2019 the Schwarz Group was active in over 30 countries – and in 29 of these countries, Kaufland and Lidl together operate around 12,500 stores (+3 percent over the previous year). GreenCycle along with PreZero is active in five countries with waste and recycling management operations. The Group's own production division, Schwarz Produktion, operates in 14 locations in Germany. Eight of these locations are responsible for producing food and beverages for Kaufland and Lidl, while plastics plants are operated at three locations. In addition, Kaufland operates five meat processing plants which produce meat and sausage products for its stores.

The Kaufland Stiftung & Co. KG and Lidl Stiftung & Co. KG, whose international headquarters are located in Heilbronn and Neckarsulm respectively, act as process and system providers

to support their corresponding national entities in their business activities. Apart from some activities carried out by Schwarz Dienstleistungen, the international activities of the retail divisions are bundled together under the companies mentioned above, where the legal structure of each national unit must fulfill operative and regulatory requirements. For example, Kaufland and Lidl's German national companies are based legally on a variety of independent companies – including regional distribution centers, distribution companies, logistics companies, and meat processing plants for Kaufland. Lidl's online activities are bundled together under Lidl Digital International GmbH & Co. KG. Starting with France in 1989, the Schwarz Group undertook ongoing expansion to other foreign markets, and is currently planning to enter the market in Estonia and Latvia.

Schwarz Produktion companies support the retail divisions by ensuring supply, especially with products in the beverages, chocolate, ice cream, dried fruit and baked goods departments. Its headquarters is located in Weißenfels. GreenCycle is the environmental division of the Schwarz Group. On top of conventional disposal services, the division is testing and making ready for market a variety of cutting-edge business models in legally independent entities.

GRI 102-1 | 102-4 | 102-6 | 102-7

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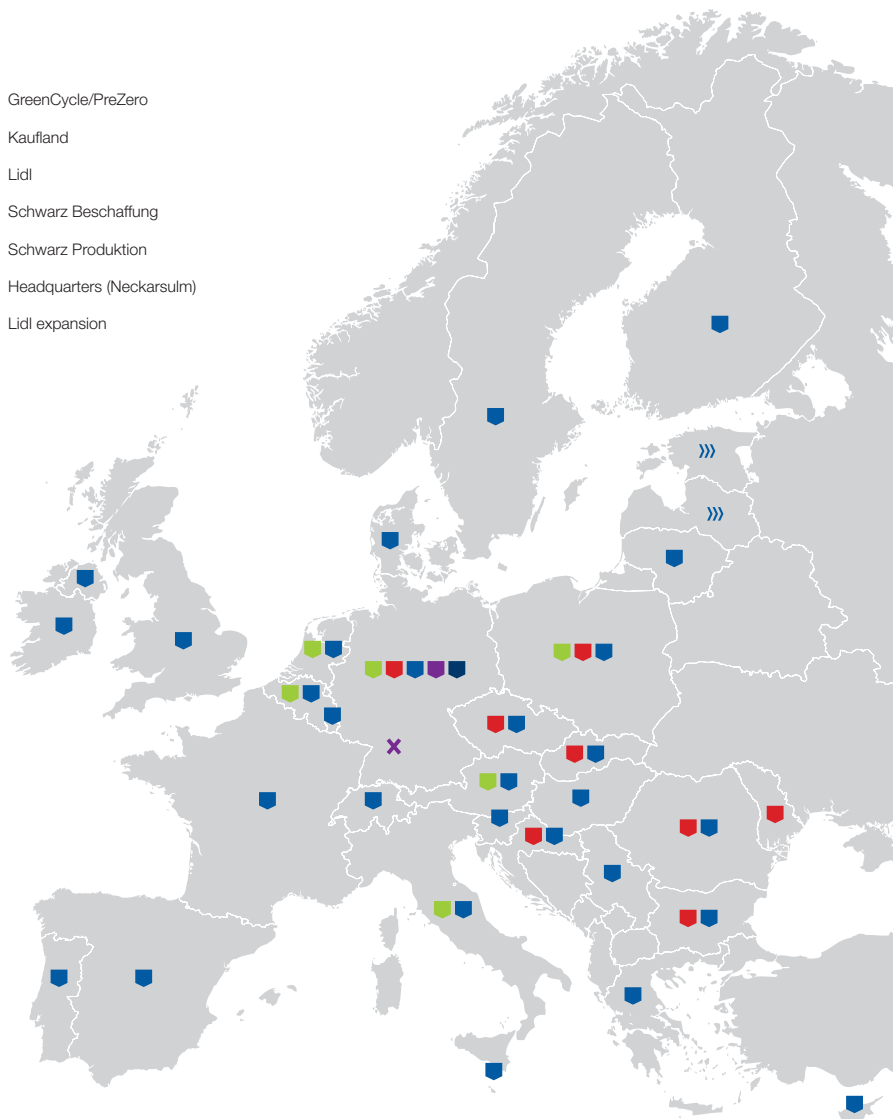
Essential steps for the further development of the Schwarz Group's recyclable material business were taken over the course of the reporting period through the acquisition of the Tönsmeier Group and PreZero Polymers, and through further development of the PreZero sales brand. In addition to waste and recycling management, GreenCycle is establishing innovations in the area of energy and the environment, as well as coordination of the Heilbronn half-pallet pool system.

All Schwarz Group companies receive support through various central services companies in Germany and abroad. Apart from the provision of administrative services, these include, for example, the procurement of non-merchandise items and operation of the fleet. By February 29, 2020, the Schwarz Group consisted of 856 companies. Due to the companies' legal structures, it is not necessary to prepare a consolidated financial statement for the overall corporate group. The Schwarz Group is managed operationally by boards of directors in each division. This structure is complemented by Schwarz Unternehmenstreuhand KG, which assumes the function of a supervisory body and is also filled by external members.

GRI 102-5 | 102-18 | 102-45

Active in over
30
countries
worldwide

- GreenCycle/PreZero
- Kaufland
- Lidl
- Schwarz Beschaffung
- Schwarz Produktion
- ✕ Headquarters (Neckarsulm)
- »»» Lidl expansion

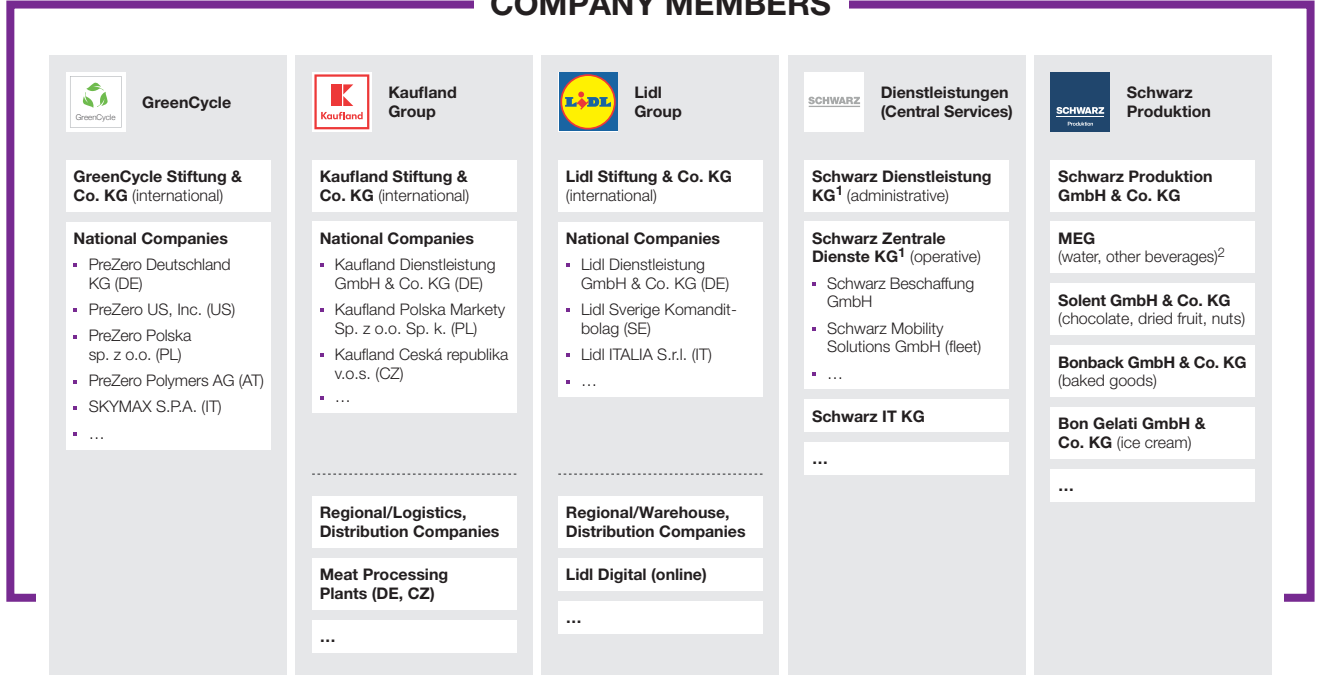


As of 2/29/2020

Schwarz Group Corporate Structure

COMPANY MEMBERS

GRI 102-5 | 102-7



¹ These two business units form Schwarz Dienstleistungen.

² Production at eight locations in Germany by MEG Leifling GmbH, MEG Jessen GmbH, MEG Löningen GmbH, MEG Kirkel GmbH, MEG Wörth GmbH, MEG Roßbach GmbH, MEG Neuensalz GmbH, and MEG Übach-Palenberg GmbH.

Growing Responsibly

From an economic point of view, the reporting period was characterized by great success for the Schwarz Group. Following record revenue in fiscal year 2018, the Schwarz Group continued in fiscal year 2019 to be able to prove itself in a challenging environment and again surpassed its results from the previous year. The investment amount was similar to the previous year's level. A large part of our investments during the reporting period went into the construction and modernization of Kaufland and Lidl stores. This makes it possible for us to take into account the demands of giving stores a contemporary design and to ensure a sustainable local supply in the regions of our business activities. Our worldwide goal is to increase our current number of stores (roughly 12,500) even further.

GRI 102-7 | 102-10 | 201-1 | 203-1

Since the Schwarz Group was able in fiscal year 2018 to earn more than 100 billion euros for the first time (at 105.3 billion euros), it again generated an increased level of revenue (114.3 billion euros) in fiscal year 2019. As a result, the Group was able to increase its net revenue by 31 percent over the last five years and thus steadily expanded its market position as the largest retail group in Europe.

Business abroad made an above-average contribution to our growth. The Schwarz Group realized approximately two-thirds of its revenue abroad. In Germany, the Group generated 37.9 billion euros of revenue in 2019, mainly through its retail divisions Kaufland and Lidl together (2018: 36.6 billion euros, +3.55 percent). By now, the Group has a presence in over 30 countries in Europe and the United States. New countries added during the reporting period include Serbia, with Lidl's entry into that country's market, as well as the Republic of Moldova, through opening the first Kaufland stores in the fall of 2019.

Digitalization continues to play a key role as an economic driver. The Schwarz Group operates successfully in this sector as well: Lidl currently operates online stores in seven countries and has roughly 18 million customers (2018: 12 million). In 2019 alone, Lidl's percentage lead over the rest of the market in the online sector was in double digits; in 2018 that lead was even greater than 50 percent. Kaufland and Lidl are enjoying increasing popularity in the form of digital customer apps. Kaufland has an app in all countries, in Poland, Czech Republic, Romania, and the Republic of Moldova in connection with customer benefit programs. At Lidl this is the case in Germany, Austria, Spain, and Poland.

GRI 102-2 | 102-4 | 102-7

Since 2006, the Schwarz Group has continuously expanded its portfolio beyond the retail business to include production capacities for food. Schwarz Produktion is currently involved in erecting a modern production facility at its Rheine location, for the purpose of manufacturing high-quality coffee products. In addition, the Schwarz Group also continues to consolidate its disposal and recycling business. With the acquisition of the Tönsmeier disposal company by the Group's GreenCycle service provider, the Schwarz Group, through the PreZero sales brand, began to establish recyclables management as an additional area of business during the reporting period and is thus promoting an all-in-one circular economy from a single provider.



13 Production facilities

Sorting and recycling plants

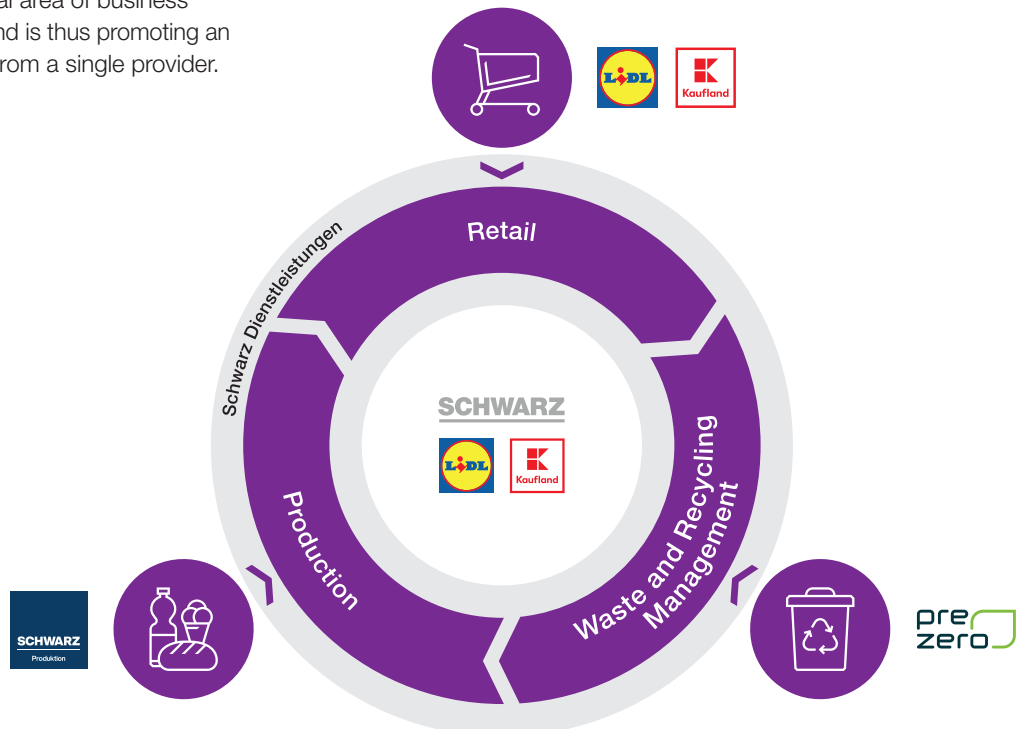
37



228 Warehouses

Stores

12.523



Compliance

Economic success for the Schwarz Group is directly related to responsible corporate management. A key element to this end are the compliance management systems established in all business units, which ensure all employees throughout the Group conduct themselves with integrity. Training concepts rolled out on a large scale ensure our employees are systematically sensitized to rules of conduct and applicable guidelines.

Central Corporate Principle

The corporation, including its employees, conducts itself under the principle: “We comply with applicable laws and internal guidelines”. This is a single central corporate principle which is binding for all employees. Any violations of applicable laws could bring about financial losses as well as loss of reputation for the Schwarz Group and its corporate divisions. In addition, such violations could also lead to personal claims for damages and criminal consequences for individual employees or board members of the corporation. As a result, the Schwarz Group and the divisional executive management expressly declare their commitment to compliance with this corporate principle and to ensuring its implementation.

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Compliance Management System as a Basis

Against the background of its central corporate principle, the Schwarz Group has implemented compliance management systems (CMS) in all relevant business units, which establish binding CMS guidelines. These guidelines prescribe specific standards and elements for the purpose of ensuring an appropriate level of compliance within the entire Group. One essential element of these CMSs is that violations of applicable laws and internal guidelines must be avoided, and identified violations must be rigorously prosecuted and punished (“principle of zero tolerance”). CMS areas of focus include topics such as anti-corruption/anti-fraud, anti-trust law and data protection. CMS measures include in particular the enactment and communication of regulations (e.g. regulations on handling financial contributions

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as well as data protection regulations), procedures for carrying out training measures, and the tracking of any internal or external indications of possible compliance-related violations of the law. Apart from support from all employees and managers, the implementation of any CMS requires a compliance organization adapted to the given business unit. The division departments responsible for compliance assess the effectiveness of the measures described above. In addition, they follow up on and resolve all internal and external indications of compliance violations. The Schwarz Compliance task force provides a platform for regular exchange on relevant group-wide compliance topics and is also responsible for the continued development of CMSs. The task force consists of division compliance officers and their stand-ins.

Training and Whistleblower Systems for Prevention

In order to reach its objective of avoiding compliance violations, the Group focuses on sensitization training for employees and managers in addition to the continuous identification of compliance risks. This training demonstrates possible compliance risks which may arise as part of business activities as well as the proper conduct to take when they do arise. Employees receive appropriate training for their responsibilities on the compliance topics which are relevant to them. Divisions carry out mandatory in-class and online training sessions in order to systematically sensitize employees to relevant compliance topics. In general, business partners and suppliers are also bound to compliance with legal regulations through an appropriate contractual clause. In addition, each corporate division maintains a whistleblower system. The system provides a number of different channels which make it possible for employees, business partners and third parties to report violations of legal regulations or internal corporate regulations; violations may also be reported anonymously to the competent compliance officers. The system thus makes it possible to identify and remedy any misconduct as well as system deficiencies at an early stage. The Auditing department established under Schwarz Dienstleistungen is responsible for regular CMS reviews.

GRI 205-2

SUSTAINABILITY AT SCHWARZ

Sustainable behavior must be controlled. A common objective is highly relevant, especially in a diverse corporate group like the Schwarz Group – in addition to division-specific priorities and priorities based on various business models. In order to provide a framework for the overall area of sustainability, the Schwarz Group has developed an overarching CSR strategy and has also completed a multi-faceted materiality analysis along its entire value chain.



Responsibility grows with size – that is our deep conviction. But with size also grows the chance, that if you do the right thing, you do it at scale. That’s why we are actively involved in circular economy, climate protection and fair pay, for example. In one sentence: We know our responsibility and act upon it.

Gerd Chrzanowski,
Deputy of the General Partner

Our CSR Strategy

Based on the solid foundation provided by its divisions' long-standing commitment to sustainability, the Schwarz Group set forth towards developing one common group-wide CSR strategy during the reporting period – and will continue to develop this in the future.

Where We Are Coming From – SDG 12 as a Common Basis

Teamwork and a shared understanding of where you are headed are essential to any organization embarking on the path to sustainable development. This prompted us in the summer of 2018 to draft a group-wide CSR strategic approach based on the common standards, frameworks, and guidelines we had established up to that point. Being a multi-faceted corporate group, this was no easy task we set for ourselves – building on the different areas of priority and strengths of each division, which range from the long-standing experience and sustainability performance of Kaufland and Lidl to the innovative, green principles that guide GreenCycle. The result: a group-wide declared commitment to Sustainable Development Goals (SDGs) focusing on SDG 12, which centers on the guiding principles of sustainable patterns of consumption and production. To this end, the Schwarz Group underwent a comprehensive process to set internal goals for achieving the business-related sub-goals of SDG 12¹:

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Sustainable Raw Materials (SDG 12.2):

We will organize a more sustainable procurement process for the raw materials that are most essential to us. For cocoa, this will be by the end of 2022 and for flowers and plants by the end of 2023. In the case of cotton as well as fish and fish products, this will be by the end of 2025. We will carry out ongoing detailed analyses for other raw materials.

Food Waste (SDG 12.3): We will reduce our food waste at the Schwarz Group by 50 percent² by the end of 2030³. We will reduce food waste in the supply chain for selected raw materials.

Chemicals (SDG 12.4): We will strive for a healthy, environmentally-friendly use of chemicals in the production of our own brands by the end of 2030. To this end, we will continue to work towards observing our Detox commitments on the basis of a standard restricted substances list, for the production of our textiles and shoes (MRSL⁴). In both the fruit and vegetables as well as flower and plants range, we will define ambitious restricted substances lists by the end of 2020 and will gradually develop them further in subsequent years.

Zero Waste (SDG 12.5): We will reuse, recycle or recover the volume of waste which accumulates in the corporation⁵ by a significant percentage by the end of 2025. We will strive to limit our non-recoverable waste that accumulates within the company itself in pilot countries to a maximum of 5 percent by the end of 2022.

Empowerment (SDG 12.8): We will empower and support each employee to act sustainably in his area of activity by the end of 2022 and will continue to do so afterwards. We will provide our customers with greater transparency on the social, ecological, and health-related impacts of the products we sell by the end of 2025 so that they can make informed decisions. We will implement the conditions necessary for this by 2022.

All corporate divisions will contribute appropriately so that we will be able to reach these group-wide objectives. Therefore, each business unit has set for itself additional division-related and country-related goals and will implement a variety of measures and projects to achieve them.

**Where We Want to Be –
A Holistic CSR Strategy**

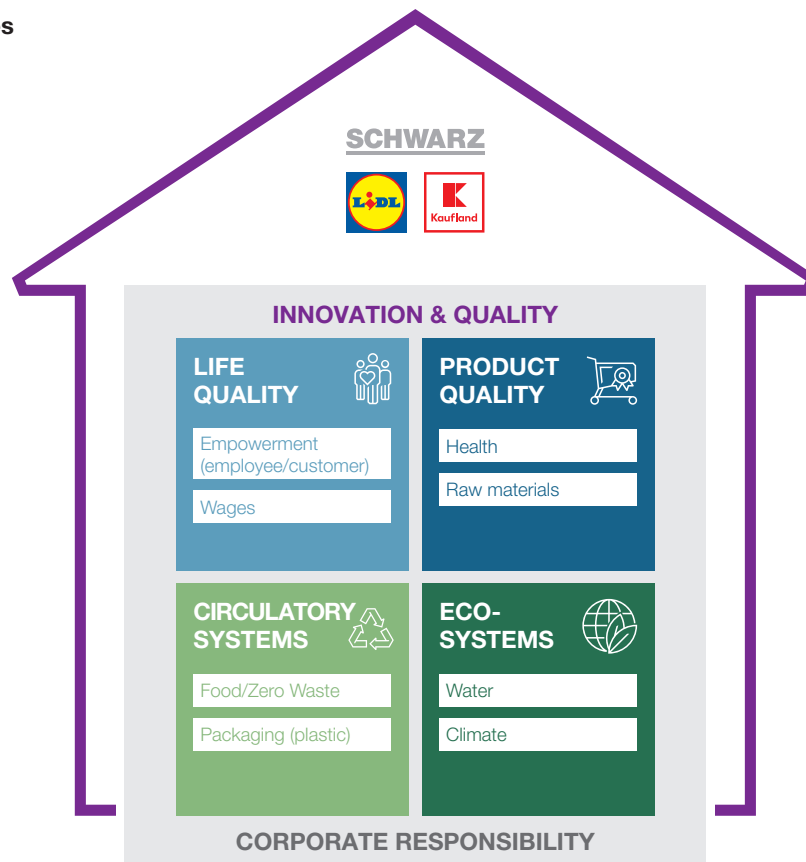
Although the formulation of common goals represented a key milestone in the Schwarz Group’s strategic approach in the area of CSR, we do not intend to stand still at this point. As a result, we also want to devote attention to topics which go beyond SDG 12, such as climate protection, water, and health. Since fiscal year 2019, we have therefore initiated an extensive process for the further development of our group-wide CSR tasks. We are currently laying the foundation for this development through detailed stock-taking, in which we have involved all internal points of contact for CSR and the external expertise of the ZNU (Center for Sustainable Leadership).

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A first intermediate step in this process is to bundle together the sustainability issues relevant to us under four areas of focus: life quality, product quality, circulatory systems, and ecosystems (see illustration).

Going forward, we will then work within these thematic complexes and across all divisions toward the continued sustainable development of the Schwarz Group. Our corporate responsibility represents an important foundation in this regard – for us, it includes items not only like fundamental guidelines and frameworks such as the development of a group-wide Code of Conduct and corporate due diligence, but it also encompasses procedural tools and IT tools for key figures and management systems.

**Relevant Sustainability Issues
and Four Areas of Focus**



¹ Sub-goals 12.1 and 12.6 are intended only for individual countries and for that reason were not included. Sub-goal 12.7 covers the area of reporting – we implement this through the present Sustainability Report.
² In comparison to the base year 2018 for retail companies.
³ We will reduce food waste for in-house production by 50% (food) by 2025 (in comparison to base year 2017; in relation to material quantity turnover).
⁴ MRSL = Manufacturing Restricted Substances List (listing of restricted substances usable in manufacturing processes).
⁵ Not including municipal waste (e.g. on parking spaces).



Our experience shows that a sound, transparent sustainability strategy is the basis for positioning a company for future success. As a long-standing strategic partner in sustainability, we are accompanying the Schwarz Group on its path to implementing its group-wide CSR strategy. Together we are working out clear, forward-looking areas of focus, which the entire Group can work towards in a coordinated manner in order to make measurable progress. A clear strategy for the future.



Dr. Axel Kölle,
Director of ZNU and Executive Partner
fjol GmbH

Sustainability Management

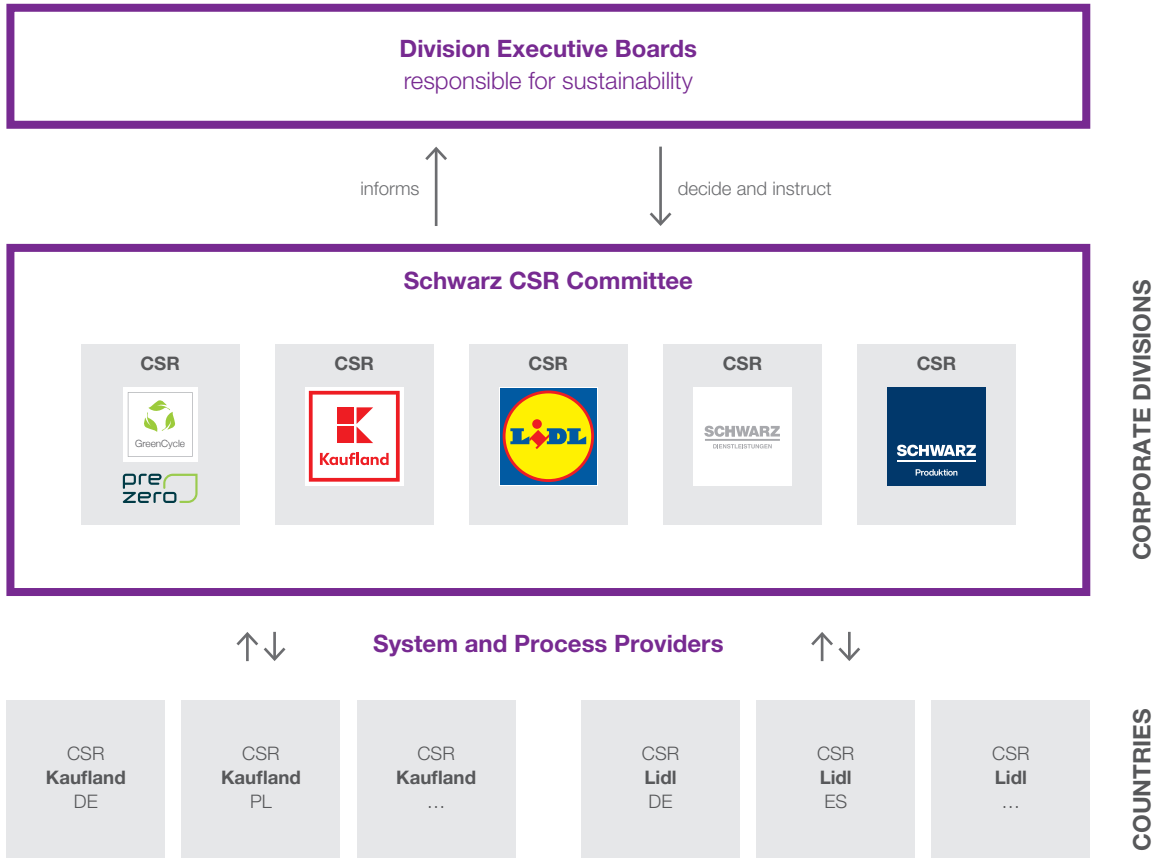
As diverse as the different areas in which the Schwarz Group operates – from food production to retailing up to recycling – are the requirements for effective CSR management. Our divisions therefore manage their sustainability activities in close coordination with one another but also on the basis of their given environments and business models. A joint committee in which all corporate divisions are represented makes it possible for us to provide for group-wide exchange and for the development of a common understanding and joint procedures.

Organizational Anchoring and Responsibilities

The topic of sustainability is also anchored to the following organizational structure within the Schwarz Group on an individual division basis, with autonomous departments established in corporate divisions and national entities. They function as initiators and drivers for CSR topics within their given business unit and coordinate implementation of those topics. As part of the strategic process for working out group-wide objectives based on SDG 12, we established cross-division working groups during the reporting period and thus achieved a new quality for collaboration on the content of CSR topics. Appropriate teams were also established for other relevant topics going beyond SDG 12, such as the development of a climate protection strategy or a group-wide Code of Conduct. Going forward, we are also striving for content-related alignment of structures and collaboration in cross-division teams – in the end, the entire group will profit from the pooling together of our existing strengths and technical expertise over all divisions.

The Schwarz CSR Committee, to which the CSR managers of all group divisions belong, forms the basis for overall coordination of the content of sustainability topics. The CSR Committee jointly defines group-wide guidelines and framework conditions, and works continuously to develop these further. The committee meets on a monthly basis and also exchanges thoughts on a continuous basis; CSR Schwarz Dienstleistungen is responsible for the corresponding management and coordination.

GRI 102-31 Divisional boards of directors are kept informed on sustainability topics at regular intervals and also as needed – for example, through the presentation of current projects at executive board meetings or through monthly management reporting on current internal and external activities.



Effective Sustainability Management

Group-wide transparency of CSR measures and key figures is essential to integrated sustainability management. These measures and key figures represent the central elements of reporting for internal and external stakeholders. The Schwarz Group has implemented a group-wide software solution in order to ensure comprehensive insight into the measures established by individual divisions and countries. The solution makes it possible to record and view CSR measures in all countries. This makes it possible for CSR managers and other employees to take up best practices in their individual divisions and adapt them to their specific country. The Schwarz Group completely refined its database over the course of the reporting period, and thus took the first steps toward the development of an integrated management tool. In the course of this work, the group-wide strategic objectives which were worked out were also added

to the database. When these strategic objectives are tied to division-specific and country-specific objectives and measures, they form a comprehensive group-wide pyramid of objectives. The database thus makes it possible going forward to manage and continuously monitor strategic activities in terms of CSR.

In addition, the Schwarz Group can now keep an eye on the steady progress of their key figures in the area of sustainability. On the basis of a group-wide set of CSR key figures, which is refined and updated on an annual basis, a coordinated process is carried out for collecting the figures and using standard definitions and reference parameters across all countries and divisions. Comprehensive control activities at a number of levels then fully ensure the quality of the raw data collected.

Corporate Responsibility

The Schwarz Group takes responsibility for its actions toward people and the environment – both those carried out as part of its own activities as well as those carried out jointly with direct and indirect business partners in supply chains and service sectors. One area on which this responsibility focuses is compliance with ecological and social standards. We promote fair and sustainable conditions of production through our declaration of principles and our Code of Conduct, which applies group-wide, and on the basis of globally recognized principles like those established by the International Labour Organization (ILO) and the United Nations.

Corporate Principles as a Basis



We assume ecological, social, and economic responsibility in our daily activities.

We took up this principle in 2007 through our twelve corporate principles established for the entire Schwarz Group. Our intent was to clearly show that for us, business success and corporate responsibility are inseparable cornerstones. Looking after corporate success while using our resources economically go hand in hand. We drive change and also scrutinize existing processes and structures in order to continuously develop ourselves.

GRI 102-16

Codes of Conduct Govern Partnerships

The Schwarz Group and its corporate divisions place great importance on social and ecological sustainability in their collaborations with direct and indirect business partners in supply chains and service sectors. In order to address their demands in this area made on suppliers and business partners, the Schwarz Group is currently working out a group-wide Code of Conduct, which will apply to business partners and will appear as part of their contracts, and which will replace the existing Codes of Conduct that apply to the individual divisions. In it, the Schwarz Group will require compliance with established standards for reducing negative ecological and social effects in the supply chain and also assurance of environmental standards in production. In this context, the Schwarz Group will also commit its direct and indirect suppliers to respect human dignity, comply with legal regulations, and observe the internationally recognized principles of the UN Global Compact and the United Nations Universal Declaration of Human Rights. The current Codes of Conduct of the divisions will remain in effect until that time.

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The Schwarz Group will also require compliance with additional standards – these include the principles and core labor standards of the ILO as well as the OECD Guidelines for Multinational Enterprises. Among other things, these standards cover the right to freedom of peaceful assembly and association as well as collective bargaining. Human rights in the workplace are defined group-wide as minimum requirements: The Schwarz Group categorically rejects any form of child labor, compulsory labor and forced labor as well as violations of human rights and labor laws during the production and delivery of resources and goods. In addition, Kaufland and Lidl will define, through topic-related guidelines and position papers, their requirements for the responsible purchasing of merchandise, in observance of corporate due diligence (see chapter “Sustainable Assortment Policy”, p. 58).

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UNGC

Living Wages in Global Supply Chains

The Schwarz Group considers fair wages to be another expression of human worth. This applies not only to the compensation of its own employees but also to its partners which take part in its global value chain, particularly local suppliers in international procurement markets. Starting out from this basic understanding, the retail divisions Kaufland and Lidl signed a voluntary commitment in January 2020 to support the Sustainable Agricultural Supply Chain Initiative (INA), which is committed to fair living wages for farmers and workers in producer countries. The voluntary commitment should make it possible, among other things, to work out concrete initiatives and to further intensify collaboration with local stakeholders.



In November 2019, Lidl already entered into the Action Collaboration Transformation (ACT) Initiative and thus committed itself internationally to fair wages for workers in production countries for the textile industry. In addition, Kaufland has also committed itself to fair wages as part of the Multi-Stakeholder Partnership for a Sustainable Orange Juice (PANAJO).



These are just some examples of how the Schwarz Group is contributing to sustainable development in a number of ways – for example, through the prevention and reduction of poverty, by increasing equal opportunities and living standards and in turn the health of the people concerned, and by strengthening economic development locally – aspects which we also identified as important approaches in our materiality analysis (see p. 24).

GRI 102-10 | 102-12 | 203-2

Organizing Sustainable Purchasing – Group-Wide Procurement of Non- Merchandise Items

A sustainable purchasing policy makes it possible for us to exert influence directly on our supply chains – as a result, purchasing and procurement represents a key lever for improving the situation of people and the environment. Schwarz Beschaffung (SBES) is the division responsible for strategic purchasing of non-merchandise items and services across all Schwarz Group divisions. In this capacity it is part of Schwarz Dienstleistungen and works together with several thousand suppliers all over the world. SBES is involved in many products from the very beginning, and it closely accompanies the production process and is in constant contact with suppliers and service providers. In the case of non-merchandise items, SBES conditions goods, making it possible for Schwarz Group's divisions and national companies to order a majority of them according to their needs, using a variety of group-wide IT systems. SBES maintains its own procurement guidelines, which also prescribe production standards for suppliers. These procurement guidelines focus on maintaining profitability, environmental compatibility, energy efficiency, innovation, and quality standards of goods and services. As a general rule, the Internal Auditing department reviews these guidelines on a regular basis.

GRI 102-9 | 204 | 308

Retail Division Purchasing Structures

The Purchasing department is responsible for overall supplier management for the retail divisions Kaufland and Lidl and works in close coordination with the national entities. A large number of our own brand products are under the responsibility of the International Purchasing department, which is also responsible for quality assurance. Other own brand products fall under the responsibility of the Purchasing department of the respective national company. At Lidl, CSR falls inside the area of responsibility of Purchasing, where it is considered a personal priority for top management. The CSR Purchasing department is responsible for the strategic and operational implementation of all

GRI 102-9 | 102-15 | 102-29 | 204 | 308 | 412 | 414

sustainability topics in International Purchasing and does its work in coordination with its corresponding colleagues in the national entities. A risk analysis carried out in 2019 and updated continuously represents the central starting point

UNGC for a sustainable purchasing policy. Using that analysis as a basis, Lidl systematically analyzes what potential risks related to human rights violations and environmental impacts exist or could arise in business processes and in the production of own brand products. It then uses its findings to derive concrete measures to effectively counter any adverse effects on business activity which need to be avoided and reduced.

In order to further increase transparency over its own supply chain, in early 2020 Lidl published a list of primary suppliers of its own brand products in the hardware department and of its own brand and other brand-named products in Lidl's food assortment in Germany, the Netherlands, and Great

GRI 102-11 | 102-12 | 414-2 Britain. In 2017 Lidl was the first retailer to publish a list of textile and shoe manufacturers involved in its own brand assortment. In order to ensure compliance with applicable social standards, Lidl already established, as early as 2010, the requirement that all manufacturers producing non-food merchandise for Lidl must first be verified by an independent auditor in accordance with the internationally recognized standard Business Social Compliance Initiative (BSCI) for social auditing. Going forward (already beginning in fiscal year 2020), Kaufland will also require BSCI certification from its respective producers. This requirement will be implemented as part of the process of converting Kaufland's own social auditing system, which has already been in systematic use for years, to the BSCI system.

The CSR department at Kaufland manages the company's strategic sustainability commitment policy as its central authority. The strategic and corporation-wide importance of the theme of sustainability is underscored by the fact that the CSR department reports directly to the chair of the board. In the process the CSR department supports, as initiator and advisor, all national organizations and international departments through the joint establishment of strategic goals and their operationalization through the stipulation of uniform international standards

GRI 102-31 | 204 | 308 | 414-2

and guidelines for all corporate areas that focus on the area of sustainability. In the process, intense collaboration with International Purchasing ensures that the measures implemented will have the greatest possible leverage for ensuring food retailers meet their responsibilities.

A key tool in managing ecological and social standards in the supply chain is the risk classification of producers. The department makes use of internationally recognized studies, indices and developments – including those from Transparency International and the Failed State Index – to determine the producer countries in which human

UNGC rights are the most likely to be violated. Prior to its introduction of binding BSCI standards for producers of non-food items (see above), Kaufland carried out audits of high-risk suppliers in order to determine their compliance with minimum social criteria. Suppliers are also required to carry out social audits within their own companies and for their own subcontractors when Kaufland requires such audits to be carried out. These audits are carried out primarily for the purpose of developing suppliers over the long term in order to ensure that minimum ecological and social standards are being met. However, Kaufland will terminate supplier relationships in cases where the supplier does not show any evidence of further development and violates fundamental social and environmental standards and laws.

In order to provide for and support a complaint procedure for all participants along the supply chain,

GRI 102-12 | 403 | 408 Kaufland and Lidl established complaint mechanisms such as the European Supply Chain Initiative. In addition, the corporate divisions have developed a joint online reporting system which has been available in a number of different languages since November 2019.

Complaints can also be brought directly to the respective compliance officer responsible. Lidl has also committed itself to greater transparency in this area by re-signing the international Accord for Fire and Safety in Bangladesh. Retail divisions rely on sensitization and the development of competencies in order to actively improve the situation on site in advance. Lidl has committed itself to a number of projects as part of a multi-year collaboration with the Gesellschaft für Internationale Zusammenarbeit GmbH, a German organization that promotes

international cooperation for sustainable development. In southeast Asia in particular, Lidl qualifies suppliers for occupational safety and health standards. In addition, the non-governmental organization Save the Children, on behalf of Lidl, instructs suppliers in producer countries in the prevention of child labor. Kaufland is also active in this area with its cooperation with the Center for Child Rights and Corporate Social Responsibility.

UNGC

Purchasing Structures in the Production and Environmental Division

At Schwarz Produktion, the Purchasing department is also responsible for procuring certified raw materials. Lidl Purchasing is responsible for a portion of the procurement process for selected strategic product groups. Schwarz Produktion suppliers must submit a detailed self-disclosure form in order to pass the business partner approval process. In addition, suppliers may be audited; these audits are independent of any quality risk assessment carried out by the Quality Management department. These processes fall under the Group's internal supplier management system. Since the middle of 2019, the Public

GRI 102-12 | 204 | 412

Relations & Sustainability department together with Purchasing and Legal/Compliance has been carrying out a risk analysis for possible human rights violations. Production plants also bind their suppliers to compliance with BSCI guidelines as part of their supplier approval process. As an alternative to this, suppliers can be approved if they prove membership in a comparable consortium such as Sedex.

UNGC

GreenCycle went through restructuring in 2019 with the establishment of its Disposal Network department. On top of the purchase of disposal services and other tasks, the department has been entrusted with creation of a central supplier and service management system. Apart from compliance with legal regulations, the purchase of disposal services must place importance on sustainable factors, such as reducing the number of miles traveled and by ensuring recyclable material containers are used to capacity.

Consequences and Dealing with Impacts of Climate Change

In the supply chain, but also in areas well beyond, the ongoing climate change brings with it serious consequences. Significant risks exist for the Schwarz Group as well: In agriculture, crop failures due to droughts or storms lead to limited availability of goods, reduced planning reliability and rising prices for goods and raw materials. Extreme weather events can have a detrimental effect on our facilities, while extreme temperatures can lead to increased requirements for heating or cooling. A detailed description of how we deal with these challenges and which concrete measures – such as the development of a group-wide climate protection strategy – we are implementing can be found online at: www.csr.schwarz/sustainability-report

GRI 201-2 | 102-15



Climate change is global. Its effects are felt by people all over the world, including here in Baden-Württemberg. Climate protection, on the other hand, takes place primarily on a regional and local level. We all have a responsibility, especially in a highly developed industrial state like Baden-Württemberg. The companies in the state, from small family-owned businesses and medium-sized companies to large international corporations such as the Schwarz Group, are aware of their responsibility.



Franz Untersteller,
Member of the State Parliament
Minister of the Environment of Baden-Württemberg

Stakeholder Management

As a globally active retail company, the Schwarz Group has numerous stakeholders and a variety of channels through which it makes contact and maintains a dialogue with them. The primary channel is our millions of customer contacts which occur each day in our stores, but just as important are our cooperations with direct and indirect business partners, our contacts with politicians, banks and non-governmental organizations (NGOs), our membership organizations, and our commitment to associations and initiatives. These channels make it possible for us not only to maintain transparency but also to gain inspiration for our continued business and sustainable development.

Maintaining Dialogue with Our Stakeholder Groups

A continuous exchange with our stakeholder groups is an essential part of the day-to-day activities of the Sustainability and Communications departments in the Schwarz Group, its divisions and national entities. They carry out regular analyses – e.g. in the form of surveys and topic monitoring – of relevant stakeholders and their interests and areas of focus. Other departments in the divisions and countries also have direct contact

GRI 102-21 | 102-43

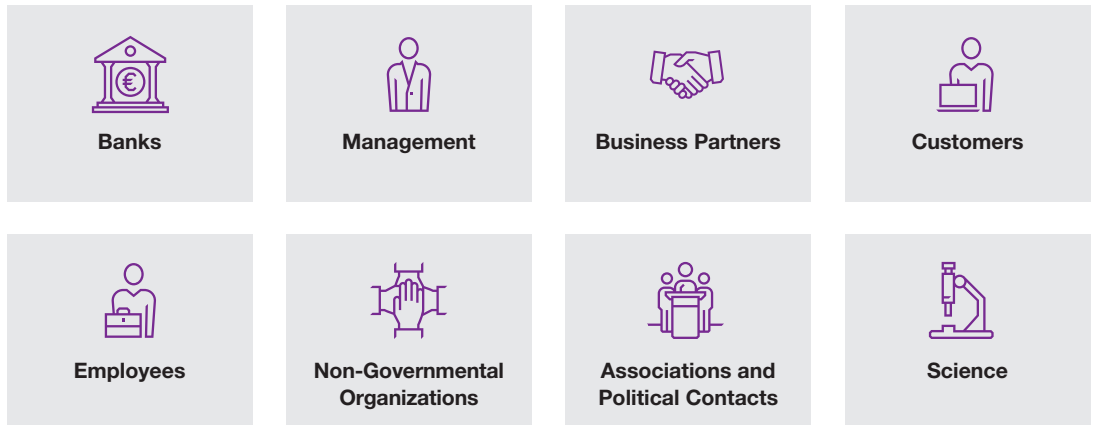
with stakeholders on occasions when this makes sense because of topic-related points of reference. We keep our stakeholder groups informed both through various formats such as sustainability reports and press releases, and in the case of our customers and employees, through customer brochures and the Group's internal intranet portals. In addition, we also facilitate and encourage direct exchange through event series and face-to-face meetings. One example of this is our dialogues with neighborhoods and local residents which we maintain to accompany major construction projects. On top of this, the corporate group is involved in a wide range of cooperations and networks, and it also takes part in dialogue and information exchange formats organized by third parties. For example, our retail divisions Kaufland and Lidl regularly maintain a constructive dialogue with NGOs, which makes it possible for them not only to pick up on ideas for further sustainable development, but also to position themselves with respect to a number of business-related topics.

Stakeholders at the Group Level

In addition to division-specific stakeholder dialogues, the Schwarz Group has identified key stakeholders both over the course of preparing the initial group-wide Sustainability Report and while it carried out a materiality analysis (see p. 24).

GRI 102-40 | 102-42

SCHWARZ GROUP STAKEHOLDERS



Membership of Organizations and Division Commitments

GRI 102-12 | 102-13
All corporate divisions are involved – based on their specific environment and how they address their areas of focus – in a variety of associations and initiatives, both at the national and international level. A selection of these appears below.

Politics and Society



When it comes to politics and society, the Schwarz Group is involved in the following networks and associations, to name just a few. Since early 2020, the Schwarz Group has had a representation in the capital city of Berlin, in addition to its office in Brussels. In addition, it is a member, along with the national entities of its retail divisions, of the national associations of those companies.

- Außenhandelsvereinigung des Deutschen Einzelhandels – AVE (Lidl, Schwarz Dienstleistungen)
- Bundesverband des Deutschen Lebensmittelhandels – BVLH (Kaufland, Lidl, Schwarz Dienstleistungen)
- Handelsverband Deutschland – HDE (Kaufland, Lidl, Schwarz Dienstleistungen)
- International network Leading Executives Advance Diversity – LEAD (Lidl)
- Lebensmittelverband Deutschland (Kaufland, Lidl)
- Tafel Deutschland e.V. (Kaufland, Lidl)
- UN Global Compact/Deutsches Global Compact Netzwerk (Schwarz Group)

Sustainable Assortment and Supply Chain Policy



As part of a policy for structuring a sustainable product assortment and supply chain, the retail divisions and Schwarz Produktion are committed to the following initiatives, among others, either as a member or acting in close cooperation:

- Action Collaboration Transformation – ACT (Lidl)
- Aquaculture Stewardship Council – ASC (Kaufland, Lidl)
- Bündnis Nachhaltige Textilien/Partnership on Sustainable Textiles (Lidl)
- Business Social Compliance Initiative – BSCI (Kaufland, Lidl)
- Compassion in World Farming (Kaufland, Lidl)
- Dialogforum Nachhaltige Eiweißfuttermittel (Kaufland, Lidl)
- Fairtrade (Kaufland, Lidl, Schwarz Produktion)
- Forest Stewardship Council – FSC (Kaufland, Lidl)
- Forum Nachhaltiger Kakao (Lidl)
- Fur Free Retailer (Kaufland, Lidl)
- Grüner Knopf (Kaufland, Lidl, Schwarz Beschaffung)
- Initiative für Nachhaltige Agrarlieferketten – INA (Kaufland, Lidl)
- Initiative Tierwohl (Kaufland, Lidl)
- Marine Stewardship Council – MSC (Kaufland, Lidl)
- Roundtable on Sustainable Palm Oil – RSPO (Kaufland, Lidl, Schwarz Produktion)
- Supply Chain Initiative (Kaufland, Lidl, Schwarz Produktion)

Food and Product Quality



In addition, Kaufland and Lidl participate in a variety of organizations responsible for food and product standards:

- British Retail Consortium – BRC (Kaufland, Lidl)
- International Featured Standard – IFS (Kaufland, Lidl)
- Prüfsystem QS (Kaufland, Lidl)
- Global G.A.P. Quality Standard (Kaufland, Lidl)

Environment, Logistics, Recyclable Materials and Packaging



When it comes to the environment, logistics, recyclable materials, and packaging, the Schwarz Group divisions are committed to a variety of initiatives and associations, either as a member or acting in close cooperation:

- Alliance for Water Stewardship – AWS (Lidl)
- Arbeitsgemeinschaft Verpackung + Umwelt e.V. – AGVU (Schwarz Produktion)
- Bundesverband der Deutschen Entsorgungs-, Wasser- und Rohstoffwirtschaft e.V. – BDE (GreenCycle, Schwarz Produktion)
- Bund Getränkeverpackungen der Zukunft – BGVZ (Schwarz Produktion)
- Ellen MacArthur Foundation (Schwarz Group)
- Lean & Green (Kaufland, Lidl)
- WWF Deutschland (GreenCycle/PreZero)

Accession to UN Global Compact

UNGC

As a globally active enterprise, the Schwarz Group is aware of its special responsibility for sustainable development. We want to declare our clear commitment to sustainable corporate management to the public as well, and we have committed ourselves to acting accordingly in our day-to-day business.

For this reason, the Schwarz Group acceded to the United Nations Global Compact (UNGC) initiative in early 2020, and thus declared its commitment to the observance and promotion of the UNGC's ten principles. In the past the Schwarz Group had already made a substantial effort in this area and implemented a number of measures toward supporting those principles. Since our accession, we have continued to drive forward our commitment in this area in recent months. The chart below makes reference to appropriate information and content in this report which is relevant to our implementation of the UNGC's principles. In addition, p. 112 of the GRI Content Index contains a corresponding assignment to the relevant indicators of the standard.

GRI 102-12

WE SUPPORT



HUMAN RIGHTS

01

Businesses should support and respect the protection of international human rights.

Corporate Responsibility, p. 16
Materiality Analysis & Report Contents, p. 27

02

Businesses should make sure that they are not complicit in human rights abuses.

Corporate Responsibility, p. 16/18f.

LABOR

03

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

Corporate Responsibility, p. 16
Key Figures on Life Quality, p. 52

05

Businesses should uphold the effective abolition of child labor.

Corporate Responsibility, p. 16/19

04

Businesses should uphold the elimination of all forms of forced and compulsory labor.

Corporate Responsibility, p. 16

06

Businesses should uphold the elimination of discrimination with respect to employment and occupational activities.

Corporate Responsibility, p. 17
Materiality Analysis & Report Contents, p. 27
Diversity & Equal Opportunities, p. 33ff.

ENVIRONMENTAL PROTECTION

07

Businesses should support a precautionary approach to environmental challenges.

Materiality Analysis & Report Contents, p. 27f.
Recyclable Materials & Recycling, p. 77ff.
Energy & Emissions, p. 93ff.
Land Use & Biodiversity, p. 104ff.

09

Businesses should encourage the development and diffusion of environmentally friendly technologies.

Materiality Analysis & Report Contents, p. 27f.
Sustainable Assortment Policy, p. 59/62f.
Recyclable Materials & Recycling, p. 77ff.
Materials & Packaging, p. 83/86f.
Energy & Emissions, p. 93ff.
Water & Oceans, p. 99ff.

08

Businesses should undertake initiatives to promote greater environmental responsibility.

Materiality Analysis & Report Contents, p. 28
Empowerment & Further Training, p. 43/46
Social Engagement, p. 49/51
Customer Health & Conscious Nutrition, p. 71
Recyclable Materials & Recycling, p. 78f.
Water & Oceans, p. 99 f./102

ANTI-CORRUPTION

10

Businesses should work against corruption in all its forms, including extortion and bribery.

Compliance, p. 10

Materiality Analysis and Report Contents

For the first time ever, the Schwarz Group prepared a materiality analysis over the course of the reporting period in order to determine what content would be relevant for this report; in addition to a detailed analysis of our own impacts as a corporation, the analysis also contained a stakeholder survey. The ten essential topics that resulted from the analysis form the basis for this Sustainability Report.



A conscientious materiality analysis reveals what topics have the greatest relevance for a business with respect to sustainability. Because of their multiple areas of business – and in turn equally varied sustainability topics – preparing this analysis was a challenging yet exciting undertaking for the Schwarz Group. By working together, we succeeded in working out a clear group-wide sustainability profile.

**Hubertus Drinkuth,
Managing Director, Sustain Consulting GmbH**

Methodology for the Schwarz Materiality Analysis

– In order to be able to determine the relevance of individual CSR topics for stakeholders as well as the impacts of the corporation on the economic climate, on people and on the environment, the Schwarz Group carried out a two-part materiality analysis and superimposed the results over one another.

GRI 102-46 (☑)

Step 1 – Impact Analysis Based on Sustainable Development Goals

The basis used for the impact analysis (impact measurement) comprised the 17 Sustainable Development Goals (SDGs) of the United Nations, including their 169 targets (sub-goals). Together with experts from Sustain Consulting, these goals and targets were first reduced to 80 corporation and industry-specific goals and then divided into 17 categories. Added to these were the two categories of animal welfare and product quality and safety which were relevant in the view of the Group, resulting in 19 categories and a total of 45 individual topics which were available for the impact analysis.

GRI 102-28 | 102-46 (☑)

In order to analyze the impact of the Schwarz Group on its environment, the current degree to which SDGs achieved objectives was compared to the added value of the Schwarz Group over the entire value chain: Using the SDG Index established by the Bertelsmann Foundation as a basis, the sub-goals relevant for the Group were analyzed according to their state of implementation and on a country-specific basis. As a next step, those sub-goals whose state of implementation was determined to be below average were compared to the added value or revenue of the Schwarz Group in the countries concerned. As a result, it was possible to determine the areas where improvements made by the Schwarz Group potentially had the greatest impact through its core business – including the value chain stages of relevance here, i.e. raw materials and supply chain, trade and logistics, and use and recycling.



Step 2 – Comprehensive Stakeholder Survey

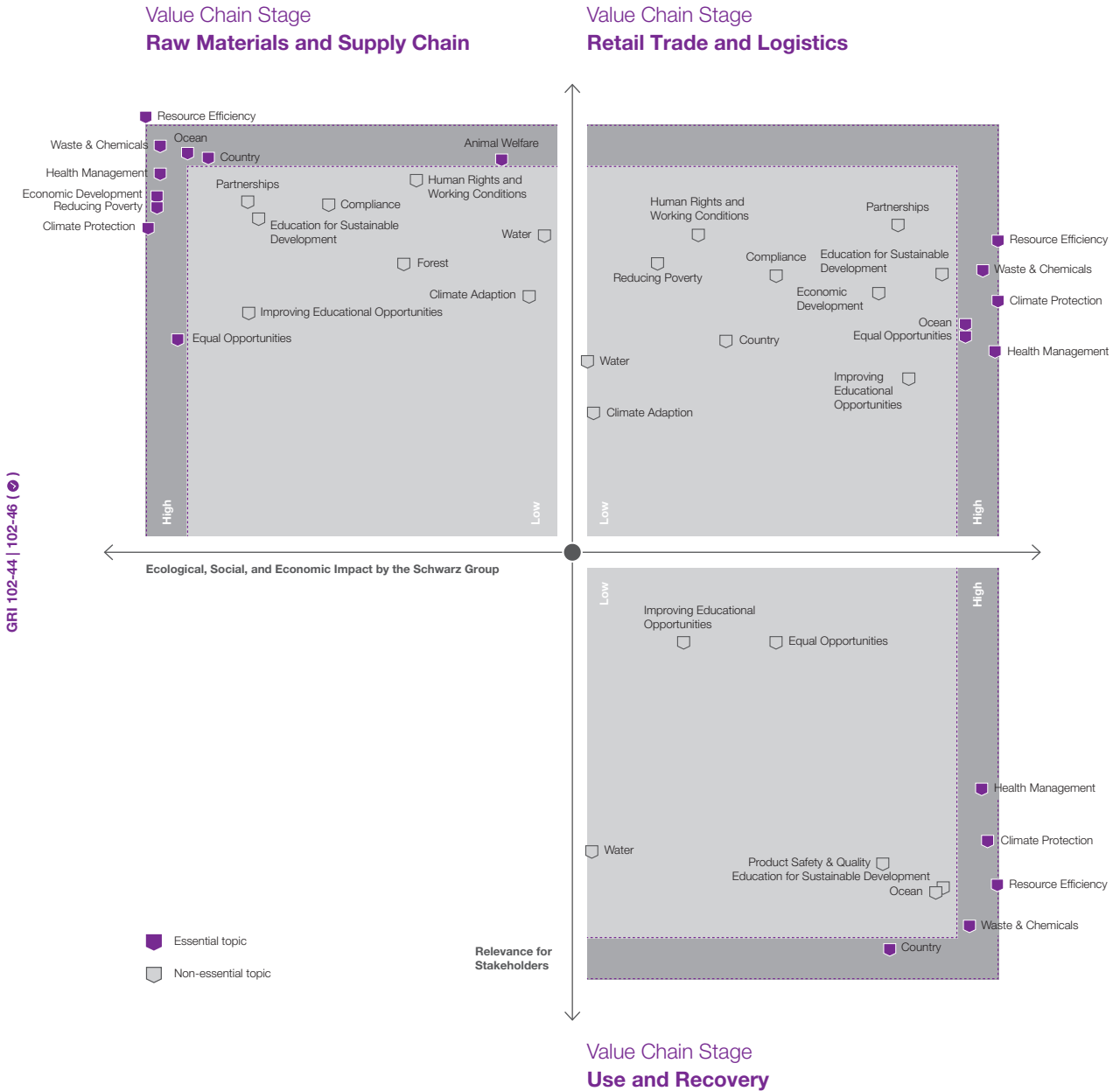
In addition, in 2018 the Schwarz Group, for the first time ever, carried out a systematic survey of its relevant stakeholder groups on sustainability topics. Over 1,100 people in eight categories – including employees, business partners, banks, and NGOs – were contacted as part of an online survey. With a response rate of 33 percent, the Schwarz Group had a representative picture of the topics which were most important in the view of its stakeholders. These topics were determined through a simplified conjoint analysis. The stakeholders surveyed rated the relevance of the topics that appeared on the survey on the basis of previously defined guidelines (see chart on p. 29) and divided them into three value creation stages.

Step 3 – Determination of Essential Reporting Topics

In order to determine what content would be essential for the report after the materiality process was completed, the results of the impact analysis and the stakeholder survey were superimposed for each value creation stage (see diagram on following page). The determination of significant topics for the Schwarz Group took into account the topics which were considered to be in the top 10 percent of all topics as rated by stakeholders and/or from the standpoint of the impact analysis. These topics are listed on the following pages according to their relevance in individual value chain stages.



Materiality of Topics by Value Chain Stage



GRI 102-44 | 102-46 ()

Essential Topics in Detail

As a result of its analysis, the Schwarz Group defined ten essential topics. We formulated, over the course of the analysis, short guidelines for the value chain stages relevant to each topic, which reflect our understanding of the aspects that are particularly relevant for each stage.

Concrete control mechanisms and measures which we track for the essential topics are described in detail in the management approaches of this report (see graphics for references). Other detailed explanations regarding materiality as well as direct and indirect impacts can be found at: www.csr.schwarz/sustainability-report

Waste & Chemicals

– An environmentally sound and healthy waste and chemical management system over the entire value chain is one challenge facing the Schwarz Group in light of its role in a packaging- and resource-intensive retail business and its recyclable materials business. However, its divisions provide the Schwarz Group with appropriately powerful leverage within its own business activities and in its relationships with its suppliers and partners. Key aspects of this essential topic are addressed through a resource-efficient procurement policy and well thought-out waste and chemical management systems, the designing of product packaging and recycling, and recyclable material management within the business itself. This makes it possible to reduce negative impacts on the environment and on society – regardless of whether they concern soil and water pollution, food insecurity, or damage to health.

Reducing Poverty

The Schwarz Group considers it its duty, together with its business partners in the countries concerned, to make decent employment possible through good working conditions and fair wages. As a result, the business activities of the Schwarz Group will positively impact the people who work in its supply chain as well as their families and local communities.

Equal Opportunities

– Equal opportunities and the prevention of discrimination are complex topics from a societal and economic standpoint – for us as a business, they are especially important in view of our supply chain and our internal operational processes. Negative impacts due to a failure to observe corresponding values and regulations affect individual employees in particular. However, we also see potential negative effects for society, the economy as a whole and even for our own business due to a possible loss of reputation. By contrast, non-discrimination in dealings with and between employees and the people working in the supply chain as well as a respectful working environment make it possible to achieve greater satisfaction and productivity overall in addition to the positive development of the individual.

Health Management

Having our own concept for occupational safety and health, demanding appropriate regulations from our business partners, and implementing a healthier assortment and product policy give the Schwarz Group powerful leverage for protecting the health of the individuals with whom we are associated along our value chain.

Climate Protection

– The negative impacts of climate change are omnipresent, and the Schwarz Group would also be greatly affected by such impacts should the present trend continue – for example, through impaired agricultural production due to periods of drought and natural disasters or even due to higher financial costs (see topic box, p. 19). At the same time, as a corporate group active worldwide, we have caused the problem to some extent directly or at least indirectly through our supply chain, for example through critical land cultivation methods, internal production facilities or complex logistics processes. The emissions and other ecological impacts that arise from this accelerate not only climate change as such, but also its

social and societal consequences. At the same time, this responsibility of the Schwarz Group also offers great possibilities for shaping a more sustainable development – whether this be through a sustainable assortment policy or a steady improvement of energy efficiency in the areas of production and logistics. ♡ –

Country

In terms of the topics of land use and biodiversity, the sustainable management of natural ecosystems as well as extracting raw materials and producing goods in a manner that conserves resources as best as possible are priorities of special importance to us. The Schwarz Group is committed to positive development in this topic area through its sustainable assortment policy – for example, by rearranging agricultural practices or requiring our suppliers to undertake proper chemical disposal – and through the sensitization of its consumers.

GRI 304 | 304-2 | 308-2

Resource Efficiency

Managing available resources responsibly is a key factor for the Schwarz Group along its entire value chain. We provide positive stimuli in this area through a sustainable assortment policy, efficiency measures at our locations, sensitization of our employees and consumers, and corporate-wide initiatives like our group-wide REset Plastic strategy.

GRI 301 | 303 | 306

UNGC

Animal Welfare

Schwarz Group divisions which process or sell animal products are committed to promoting more responsible husbandry conditions for livestock, especially species-appropriate animal husbandry, and the development of ecological farming.

FP 2

Water & Oceans

The Schwarz Group is committed to protecting the world's oceans and freshwater resources – for example from overfishing, pollution, and excessive use, including negative impacts which result from rising food and textile production – through initiatives such as a sustainable fish and seafood assortment policy, water conservation measures at its own locations, and the REset Plastic strategy.

GRI 303 | 306 | 308-2

Economic Development

As a globally active corporate group and reliable economic partner, we invest in long-term business relationships and stable cooperations in producer countries, and in this way, we are making on-site contributions to economic development – for example, by securing jobs or strengthening the infrastructure.

GRI 203 | 203-1 | 203-2

	Raw Materials and Supply Chain	Retail Trade and Logistics	Use and Recovery	Value chain stage
Waste & Chemicals	To reduce waste and to minimize the use of harmful chemicals when manufacturing products.	To reduce the amount of waste which accumulates at our facilities.	To reduce the amount of waste which our customers accumulate through product designs and take-back systems.	Our understanding
	Corporate Responsibility, p. 16 Sustainable Assortment Policy, p. 58 Recyclable Materials & Recycling, p. 76 Materials & Packaging, p. 82 Water & Oceans, p. 98 Land Use & Biodiversity, p. 103	Empowerment & Further Training, p. 42 Social Engagement, p. 50 Recyclable Materials & Recycling, p. 76	Recyclable Materials & Recycling, p. 76 Materials & Packaging, p. 82	
Reducing Poverty	To make sure that the people who work along our supply chain receive appropriate and secure wages.			
	Corporate Responsibility, p. 16 Sustainable Assortment Policy, p. 58			
Equal Opportunities	To exclude discrimination and call for equal opportunities along our supply chain.	To exclude discrimination and guarantee equal opportunities at our locations.		
	Corporate Responsibility, p. 16 Sustainable Assortment Policy, p. 58	Diversity & Equal Opportunities, p. 32 Empowerment & Further Training, p. 42		
Health Management	To ensure that the health of the people who work along our supply chain is protected and disease and illness are prevented.	To protect and promote the health of our employees beyond legal requirements.	To protect the health of our customers by selling products which promote health and to implement measures against substance abuse.	
	Corporate Responsibility, p. 16 Water & Oceans, p. 98	Health & Occupational Safety, p. 37	Product Safety & Quality, p. 64 Customer Health & Conscious Nutrition, p. 69	
Climate Protection	To observe climate protection when manufacturing our products.	To observe climate protection at our facilities.	To sell products and services which make it possible for our customers to contribute to climate protection.	
	Corporate Responsibility, p. 16 Sustainable Assortment Policy, p. 58 Energy & Emissions, p. 92	Empowerment & Further Training, p. 42 Energy & Emissions, p. 92	Sustainable Assortment Policy, p. 58 Energy & Emissions, p. 92	
Land	To protect natural habitats and biodiversity in agricultural food production.		To design products and circulatory systems for our customers in a way that protects natural habitats and does not endanger biodiversity.	
	Sustainable Assortment Policy, p. 58 Land Use & Biodiversity, p. 103		Sustainable Assortment Policy, p. 58 Recyclable Materials & Recycling, p. 76 Materials & Packaging, p. 82 Land Use & Biodiversity, p. 103	
Resource Efficiency	To respect resource efficiency and reduce food waste along the supply chain.	To implement measures for resource efficiency at our facilities.	To promote resource-saving consumption.	
	Corporate Responsibility, p. 16 Sustainable Assortment Policy, p. 58 Recyclable Materials & Recycling, p. 76 Water & Oceans, p. 98	Empowerment & Further Training, p. 42 Recyclable Materials & Recycling, p. 76 Materials & Packaging, p. 82 Water & Oceans, p. 98	Social Engagement, p. 47 Customer Health & Conscious Nutrition, p. 69 Recyclable Materials & Recycling, p. 76 Materials & Packaging, p. 82	
Animal Welfare	To ensure that animal welfare standards are observed when manufacturing products of animal origin.			
	Sustainable Assortment Policy, p. 58 Product Safety & Quality, p. 64			
Water & Oceans	To observe sustainability in fishing and not pollute seas in production processes.	To avoid water pollution at our facilities.		
	Corporate Responsibility, p. 16 Sustainable Assortment Policy, p. 58 Water & Oceans, p. 98	Water & Oceans, p. 98		
Economic Development	To promote economic development and the use of environmentally friendly technologies in our supply chain.			
	Growing Responsibly, p. 8 Corporate Responsibility, p. 16 Sustainable Assortment Policy, p. 58 Water & Oceans, p. 98 Land Use & Biodiversity, p. 103			



“

Through our actions we are making an active contribution to a future worth living for people.

LIFE

QUALITY

Whether as a responsible employer or a reliable partner for society, the actions of the Schwarz Group affect the life quality of numerous people in a wide variety of ways. We provide our roughly 450,000 employees with a safe working environment marked by equal opportunity. For us, appreciation also means: We support not only the health and well-being of our employees, but also their development. In addition, we have committed ourselves to social and ecological concerns by initiating and supporting charitable projects worldwide.

DIVERSITY & EQUAL OPPORTUNITIES



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Our business is international, our employees come from all over the world – diversity is not only part of the Schwarz Group, diversity enriches the Schwarz Group! A commitment to diversity and equality opportunities is therefore a basic principle of our company. We believe in mixed teams, which help us to create an environment that enables and values different mindsets and cultures.

Melanie Köhler,
Chair of the Board,
Schwarz Dienstleistungen

Materiality and Objectives UNGC

As an international retail company, the Schwarz Group employs people from a wide variety of backgrounds. We seek to provide our employees with a respectful working environment – regardless of gender, age, skin color, ethnic origin, intellectual and physical capabilities, sexual orientation, or religious affiliation. As a fair employer, we seek to create, through objective selection criteria, the framework conditions for equality already in the hiring process. Each employee should receive the same opportunities to develop himself personally and professionally.

GRI 405 () | 406 ()

As a globally active employer, we seek to contribute to the economic development in the regions and communities in which we operate by offering secure jobs with fair compensation. Each of our divisions maintains uniform salary structures based on objective criteria, such as professional experience, technical knowledge and skills – regardless of gender. As early as 2010, the Schwarz Group was the first food retail company in Germany to introduce an internal minimum wage, which is continually adjusted to the labor market situation. We exceed the legal minimum wage in most operative countries where one exists, both for our employees in stores and production facilities as well as our warehouse employees.

GRI 202-1 | 203-2 | 401 | 405 () | 405-2 ()

Our continuous development of a holistic approach to diversity is also a tool for the Schwarz Group to strengthen employee loyalty to the company and to stimulate the performance of our teams. Diversity is therefore of great importance across all divisions and is established in the corporate principles and values of the Schwarz Group through the topics of fairness, mutual respect, and appreciation. To confirm our commitment to active diversity, Kaufland, Lidl, and Schwarz Dienstleistungen have signed a diversity charter – a voluntary commitment by the private sector in this area.

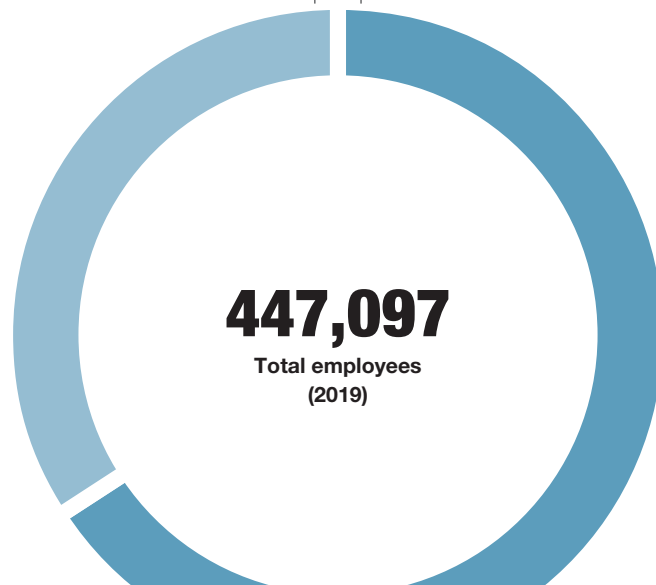
GRI 102-12 | 102-16 | 405 ()

65.8%

Share of female employees

34.2%

Share of male employees



122,109

Total new hires
(2019)



70,027

thereof female new hires

65.4 %

thereof new hires younger
than 30

Organization and Management UNGC

Structure and Responsibilities

The Chief Human Resources Officers at our Kaufland and Lidl retail divisions and at Schwarz Dienstleistungen are directly responsible for issues in this area, and the Human Resources departments, along with line managers, are responsible for operative implementation. In addition, the national Chief Executive Officers at Kaufland and at Lidl, together with the Human Resources Managers in the respective countries, have corresponding responsibility at the national level. General management is handled by the International Human Resources departments, while the national companies implement the defined framework conditions and any additional country-specific measures in accordance with the defined areas of focus. These national entities also collect key figures for the purpose of controlling and evaluating measures for diversity and equal opportunities. Diversity and equal opportunities are likewise managed at a high level at Schwarz Produktion – here, executive management, the Human Resources department, the Compliance department, and line managers are all responsible for these issues.

Respect for diversity and variety, as well as treating each other fairly and with respect, affect all employees, regardless of the division to which they belong or their work level. Kaufland, Lidl, Schwarz Dienstleistungen and Schwarz Produktion have also established these topics within their management guidelines, not only to implement corporate principles and values but also to underscore the special importance of a respectful management.

Up to now, no quantifiable objectives in the area of equal opportunities have existed at the Group or division level. For example, Lidl Netherlands, as a national entity, set for itself the goal of increasing the percentage of women in management positions to at least 30 percent within three years (base year 2017) as part of its external “Talent to the Top” commitment. A corresponding

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qualitative objective for increasing the percentage of women also exists at Lidl at the international level, and additional objectives are being worked out as part of its CSR strategy. Schwarz Produktion has established for itself a two-stage approach for improving equal opportunities, which includes the implementation of concrete defined measures over the coming years.

Sensitization of Employees and Managers

In order to comply with requirements dictated by internal corporate guidelines and by the law, especially line managers and employees in Human Resources are continuously sensitized to relevant aspects and changes. Up to now, Kaufland and Lidl have provided intercultural training in order to promote internationality and cultural understanding for specific groups of people, for example as part of temporary assignments and job rotation. In the case of Lidl, this also applies for trainees. Lidl is currently planning corresponding training for other employee groups as well as general diversity training; this training is to be implemented in some countries by as early as 2020. Kaufland programs include training for line managers that focuses on diversity; at Schwarz Produktion, Kaufland and Schwarz Dienstleistungen managers, as well as employees in these divisions, first named, receive training on the German General Act on Equal Treatment (AGG) on a regular basis. In addition, the “Intercultural Workshop” tool was introduced at Schwarz Dienstleistungen during the reporting period, the purpose of which was to support collaboration by teams with a diverse background.

Contact Persons and Complaint Mechanisms

Clear structures and points of contact exist for employees in all divisions for their questions and complaints on the subject of diversity and equal opportunities. In addition to line managers, these points of contact are generally the Human Resources departments as well as employee representative bodies, where these are provided under national legal regulations and local conditions – for example, at certain Kaufland facilities, in parts

of Schwarz Dienstleistungen or in some national companies. Moreover, so-called employee relations consultants are appointed in all divisions to act as neutral, trustworthy, and independent points of contact. They are available to all employees for concerns or issues concerning general human resources issues or for complaints in the area of diversity and equal opportunities. This also includes indications of possible cases of discrimination in the working environment. In addition, the regulations of the Transparency in Wage Structures Act (EntgTranspG), by which all employees are entitled to receive information on matters of compensation, generally apply to all facilities in Germany. Within the Schwarz Group, works councils are also involved in such matters where applicable.

Evaluation and Development

An evaluation of the general and division-specific activities and measures, which were described above and carried out over the course of the reporting period, showed positive developments in the area of diversity and equal opportunities. For example, Lidl has continued over recent years to increase the percentage of women in management positions, and at Kaufland roughly half of all line managers are women¹. Schwarz Produktion successfully implemented the initial measures established in the strategic action plan. Until now, this division has not made any modifications to the initial measures established over the course of the reporting period, and Schwarz Dienstleistungen likewise did not make any significant changes. Nevertheless, retail divisions continued to further develop their activities in terms of making steady improvements. For example, at Kaufland and Lidl an analytical tool was developed for talent management and was made available to its national companies. Kaufland also established a standard process in all countries for reviewing salaries on an annual basis and also initiated a pilot project for a mentoring program. –

¹ In relation to the “Management” level.

Implementation and Measures

UNGC

GRI 102-12 | 405 | 406 | 406-1 | 413-1

Commitment to Equal Rights

Increasing the number of women in management – this was the goal Lidl had in mind in 2020 when it became a partner of the international LEAD network (Leading Executives Advance Diversity), which is committed to diversity and to increasing the percentage of women in management positions in retail and in the consumer goods industry. Lidl also proved its commitment in this area by signing the Women’s Empowerment Principles (WEP) of the United Nations. WEP was the first global initiative to systematically promote and increase the proportion of women in business – on the basis of a management culture which promotes gender equality. In addition, Lidl Stiftung implemented a mentoring program available to both genders which is intended to promote gender equality. Kaufland is also currently experiencing a balanced ratio in its management structure – as a result, half of its management positions across all countries are held by women. Kaufland also started a mentoring program in 2019 to support women.

Schwarz Produktion is likewise actively committed to equal rights for all employees. In order to exclude discrimination, in 2019 the division went through the gender equality check established by the German Federal Anti-Discrimination Agency and was awarded a certificate in early 2020. These analyses confirm that Schwarz Produktion maintains a high level of gender equality, and they provide an excellent basis for further commitments by the division in this area. On the basis of the analysis results of the gender equality check, Schwarz Produktion established an extensive program with additional measures which have already begun to be implemented. Lidl had already taken part in the pilot of the gender equality check in 2016/2017.

Integrating Persons with Disabilities

Since 2019 Kaufland in Romania has been running a program to facilitate the hiring of persons with disabilities. Taking into consideration its different employment needs, Kaufland has developed a number of job positions at each of its locations that are also available to persons with disabilities. Following the pilot program in 2019, efforts were then extended to all Kaufland stores and facilities in Romania – the program has made more than 500 such jobs available throughout the country. Through this program, Kaufland Romania is pursuing its objective of an employment rate of 4 percent for people with disabilities. In addition, Kaufland Croatia has been working since June 2019 with Ozalj, an association for people with intellectual disabilities. Kaufland Croatia employs members of the association in its Logistics department. Kaufland Czech Republic also supports a number of charitable organizations, including Centrum Paraple, which cares for people who have suffered severe spinal injuries, the Světluška relief organization for the blind, and Helppees, which is a non-profit organization that provides training for assistance dogs.

Lidl France has also committed itself to a variety of causes: In addition to sensitization campaigns for its own employees and holding events for the occasion of the European Week of Persons with Disabilities in the Workplace (2018 and 2019) and the International Day of Disabled Persons 2019, Lidl France also carries out initiatives in its own business operations. This national company works consciously with organizations and businesses that employ people with disabilities and also targets such candidates when hiring.

Kaufland in the Czech Republic supports charitable organizations such as “Centrum Paraple”

Additional measures and details on projects are available online at: www.csr.schwarz/sustainability-report/life-quality



HEALTH & OCCUPATIONAL SAFETY



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The health of our employees is our first priority. A modern health management system not only intervenes reactively, it also promotes health pro-actively. As a result, both our employees and the corporation benefit over the long term – and our employees appreciate the concern for their well-being, even ensuring that they maintain a healthy work-life balance.

Frank Schumann,
Chair of the Board, Kaufland

Materiality and Objectives

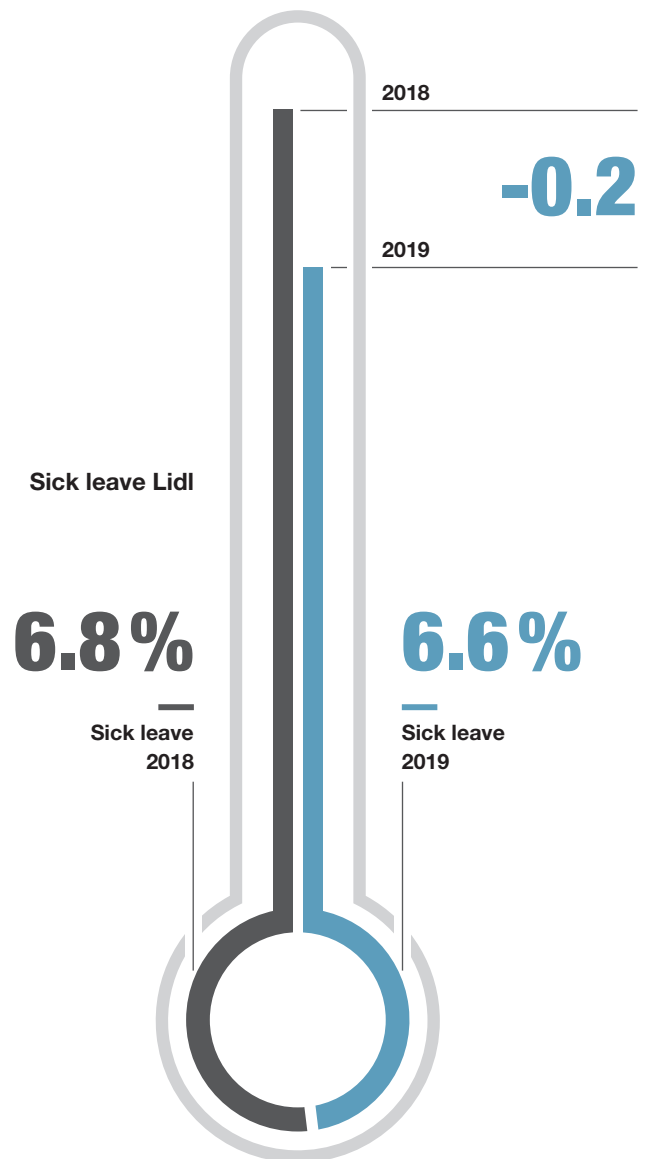
Safety in the workplace and promoting the health of each employee play a key role in the Schwarz Group. We are committed to creating a safe working environment, to supporting the well-being of our employees, and to preventing lengthy absences – and to this end, we have implemented a wide range of services for promoting health in the workplace as well as measures for preventing work-related accidents. There are no indications of employees who show a high rate or risk of disease due to their work activities at the Schwarz Group. Prevention plays a crucial role at the Schwarz Group and touches on all occupational safety activities across all divisions, ranging from risk assessments to how information and guidelines are presented and effectiveness checks are carried out. The topic of occupational safety is especially relevant in our production facilities. Schwarz Produktion has therefore set for itself the goal of reducing the accidents reported each year by an average of 10 percent in comparison to the previous year. In 2019 the division was able to reduce its accident rate by 20 percent compared to 2018, and this accomplishment was achieved after it had already reduced the rate by 11 percent in 2018 compared to 2017.

In order to promote employee health awareness as well as appropriate behavior in this regard, attractive services and programs are offered in all divisions as part of the operational health management program (BGM), such as programs offered in the areas of movement, nutrition, and balance. These types of programs are available at many central locations and take the form of fitness rooms, sports classes, health days, and lectures. For example, employees of stores and warehouse centers can take advantage of company discounts for membership of fitness studios or recreational facilities like sports clubs.

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10%

Fewer Work-Related Accidents –
Schwarz Produktion has set this target as its annual goal



Organization and Management

Structure and Responsibilities

The Schwarz Group feels that everyone, not just a single division or department, shares responsibility for health and occupational safety as well as health promotion – from employee to manager, every individual is responsible for maintaining and implementing the corresponding guidelines. At Kaufland, the Occupational Safety department falls under corporate security at both the national and international level – it supports the organization in an advisory capacity for establishing occupational safety system requirements for all departments. Lidl manages issues related to health and occupational safety at the international level through the Occupational Safety department.

Issues of health promotion and operational health management are managed at Kaufland and Lidl by their respective Human Resources departments. For both retail divisions, the human resources managers, with the support of the corresponding Human Resources department, have responsibility at the national level. In addition, Lidl believes in the concept of employee relations consultants who are appointed across all service companies and regional distribution centers to ensure that employees can address any concerns and feedback. Kaufland has likewise adopted this concept and appointed employee relations consultants at stores, logistics centers, meat processing plants, and service companies to act as points of contact for personnel issues and questions. Typically these include health-related issues and topics such as mobbing, stress, addiction, and workplace discrimination.

At production facilities, the management of each location has responsibility for issues of occupational safety and health management. At the departmental level, the Environment, Health and Safety department (EHS) manages issues of occupational safety and supports the affiliated companies in an advisory capacity. The Human Resources department is responsible for protecting health. A health expert supports, among other things,

the implementation, coordination, and management of operational health management at individual facilities.

In the case of Schwarz Dienstleistungen, the Occupational Safety and Fire Protection department is responsible for matters related to occupational safety and fire protection. Its key tasks include preparing risk assessments and implementing occupational safety training programs. Finally, services and programs in the area of sports and prevention, which also serve purposes of employee loyalty, are the responsibility of the Human Resources department.

Processes, Risk Assessments and Auditing

The divisions are responsible for defining all processes related to occupational safety and health protection in the group-wide ARIS IT process system. For the most part, these processes are defined on the basis of the essential content of recognized occupational safety management systems such as ISO 45001. For example, since 2012 all Kaufland meat processing plants in Germany have been awarded the professional association's "Sicher mit System" ("Safety Through System") seal of quality, which is based on ISO 45001. Every Schwarz Produktion location maintains an occupational safety management system based on ISO 45001.

All divisions arrange for activity-specific risk assessments to be carried out when necessary. The competent occupational safety and health protection specialist – for example, the occupational safety specialist in the case of Schwarz Produktion – supports and advises line managers in the preparation of these assessments. Safety inspections are carried out in operational facilities at regular intervals in order to identify and prevent risks and hazards early on. The results of risk assessments are then used as a basis to define and implement the required technical/structural, organizational, and personnel-related measures for occupational safety and health protection. These also include the training and instruction of employees as well as medical examinations and consultations. For example, Kaufland makes arrangements for monthly on-site effectiveness

GRI 403

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GRI 102-11 | 102-16 | 403-3

checks of its managers as well as periodic checks by the Occupational Safety department as part of their inspections. Applicable guidelines and processes as well as their implementation are audited on a regular basis. Audits of occupational safety systems are carried out at the country level by Schwarz Dienstleistungen's Internal Auditing department; in the case of Kaufland, these audits are supplemented with Kaufland's own audits carried out by Corporate Security. Internal and external audits are also carried out for the production facilities at regular intervals. The latter are carried out by an external service provider every two years. An internal evaluation is provided through a monthly EHS (Environment, Health, Safety) report on relevant key figures.

Occupational Safety Committees

Moreover, occupational safety committees have been set up for all divisions in accordance with country-specific laws, and the composition of each committee is dictated by the laws of the respective country. For example, the occupational safety committee at Schwarz Produktion meets on a quarterly basis and is composed of the operational officer, works council, company physician, an occupational safety specialist, and the safety officer. A representative from the Human Resources department also takes part in meetings. In accordance with legal regulations, all committees act in an advisory capacity.

Training and Continuing Education

In order to ensure our occupational safety organization remains functional and to actively involve our workforce, selected employees are trained and serve as fire safety officers, first responders, etc.

In general, all employees receive regular training on possible hazards in the work environment. This is carried out primarily through online training or in-class training when necessary. All employees in Germany must participate in these training programs on a yearly basis. In the case of employees working in the central administrative facilities for GreenCycle, Kaufland, Lidl and Schwarz Dienstleistungen, occupational safety training is handled centrally

by Schwarz Dienstleistungen's Occupational Safety and Fire Protection department. The frequency of this training at national companies is dictated by the regulations of the given country and/or the results of risk assessments. For example, Kaufland has implemented division-wide online training for general instruction on occupational safety for all employees of its stores and main facilities in all countries.

Occupational Health Service and Corporate Integration Management

In order to support the continued health of all employees and to prevent work-related health problems, the Schwarz Group, in accordance with legal regulations, provides a corporate health service in all countries and business units, which is responsible for matters like risk assessments and mandatory examinations. In addition, many locations provide additional health services, coordinated by the Human Resources departments. The administrative locations of GreenCycle, Kaufland, Lidl and Schwarz Dienstleistungen in the Heilbronn/ Neckarsulm region offer an occupational medical service which operates across those divisions. In addition to general hours for consulting the company physician, this service provides employees with eye examinations and flu shots. Moreover, employee relations consultants are available for specific questions on inclusion, severe disabilities, and chronic illnesses.

In accordance with legal regulations, the Schwarz Group divisions in Germany have set up an operational integration management service (BEM). Due to legal regulations, a BEM or comparable service also exists at the individual national entities of Kaufland and Lidl. In essence, this type of service involves coming to a common understanding on help, services or measures for avoiding the inability to work in the future and for supporting the employees concerned in all aspects of their integration back into the workforce.

GRI 403-1

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GRI 404-2

Implementation and Measures

Promoting Health – Preventive Measures

Depending on their location, Schwarz Group divisions offer their employees activities which promote health, such as sports classes and preventive medical checkups. In addition to physical health, these activities also focus on mental health. Depending on the division and location, these types of activities can include legally required preventive checkups, such as skin and breast cancer screenings, eye examinations, back training sessions, and flu shots in addition to training and advice on adjusting office chairs or proper lifting and carrying. Activities like corporate runs, sporting events, and health days round off the assortment of preventive services being offered, and they also heighten employees' awareness for healthy day-to-day living in addition to providing them with athletic activity. For example, Schwarz Produktion's annual Health Day 2019 revolved around the theme of stress prevention. Employees at the event could receive a physical examination from a "stress pilot".

Better Ergonomics

New Kaufland and Lidl stores are being equipped as standard with ergonomic cashier chairs, and the chairs in some existing stores are being appropriately retrofitted. Moreover, stock replenishment at Kaufland locations is being made easier through the use of ergonomic industrial trucks, and physical strain is also being reduced in sales and logistics distribution centers through optimized shelf heights and adjustable conveyor belts. All new office facilities at the retail divisions and Schwarz Dienstleistungen are being equipped as standard (but gradually) with ergonomic desk chairs and height-adjustable tables, thus providing for an office environment that promotes health. The topic of ergonomics is very important in meat processing plants as well. In 2018, the Heilbad Heiligenstadt meat processing plant won the prevention prize from

the German professional association for foodstuffs and catering (BGN) for the safe, ergonomic tipping device it developed for the disposal of sacks. This technology has since been implemented in a number of other meat processing plants.

Healthy Eating and Exercise

A holistic prevention approach also includes providing employees with healthy food and sports activities. A number of countries have established programs and services in this area. Employees get fruit for free at the central administrative facilities in Neckarsulm and in other locations, including Lidl in Austria, Great Britain, and Finland as well as Kaufland Slovakia. In addition, employees in the central German facilities and other locations, such as Kaufland in Poland and Lidl in Italy, Spain, France, and Switzerland, have access to fitness rooms at these sites. A number of Kaufland and Lidl national entities – including the Czech Republic and Slovakia – provide employees with a multi-sports card, which makes it possible for them to visit selected sports and leisure facilities, fitness studios, tennis courts, and swimming pools. In addition, Schwarz Dienstleistungen, Kaufland and Lidl in Germany as well as some national companies partner with various providers and sports centers. Numerous sports classes, lectures on nutrition and consultation services round off the programs being offered by the Schwarz Group in the area of health promotion. Because of its variety of employee health programs, Kaufland in the Czech Republic received a health award in 2018 and 2019, while Kaufland Croatia was the first retail company in that country to receive the "health-friendly company" certificate in 2019.

GRI 102-11 | 403

Lidl employees take part in a corporate run



EMPOWERMENT & FURTHER TRAINING



“

The current labor market is characterized by constant change – new requirements, new qualifications and new forms of employment. We are used to these constantly changing conditions and have the means to adapt to them. We invest in lifelong learning and thus in the development of our employees as well as in a dynamic future for the Schwarz Group. By opening up prospects of training and continued education, we seek to motivate our employees and develop their potential – and with our more than 400,000 employees, we have got plenty of that.

Ignazio Paternò,
Chair of the Board, Lidl

Materiality and Objectives

A forward-looking approach to workforce planning is of central importance for the Schwarz Group. In light of the shortage of skilled workers and demographic changes, a needs-based approach to training and further education is an essential component for attracting and retaining qualified employees. In addition, a holistic approach to personnel development also has a positive impact on our reputation as an employer and strengthens the sustainability of our business. Our employees' qualifications in areas of sustainability are key in this regard.

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Employee Qualification:

The Schwarz Group also has set for itself the goal of qualifying and supporting every employee to act sustainably in his area of activity by 2022 and beyond.

We are currently developing an appropriate modular training system. This will comprise employee training on CSR/sustainability issues, such as waste avoidance, food waste, human rights, plastics, and raw materials, and it will complement training concepts which are already in effect. These include, for example, our “Appreciation of Recyclable Materials” program, which sensitizes logistics employees to resource efficiency and proper waste sorting.

UNGC

Training and further education are key human resources issues at the Schwarz Group. Trainee programs, dual courses of study, and training in business and commerce are firmly anchored in our corporate culture in all of our divisions. Through a comprehensive catalog of methods, we support every single employee in his professional and personal development. The development of competencies is a key part of our human resources strategy in all divisions.

2022

All employees will be capable of acting sustainably in their areas of responsibility by 2022

Climate

Empowerment

Food Waste

Packaging (Plastic)

Raw Materials

Zero Waste

As part of the Schwarz Group's comprehensive qualification of our employees, we started a job rotation program which has so far involved GreenCycle, Kaufland, Lidl and Schwarz Dienstleistungen. For up to two years, employees take on a specialist or managerial job in another division in order to gain cross-divisional experience, which they can bring back to enrich their own division after they return from the rotation. We are currently making plans to involve Schwarz Produktion in the program as well. In addition, new Schwarz Group employees undergo extensive orientation. In the case of service company employees, this includes the possibility of starting out their Schwarz careers working in a Kaufland or Lidl store.

Modular Training System

Organization and Management

Structure and Responsibilities

The division-specific development and implementation of concepts for training and continuing education are also reflected in our organizational structure. This topic is managed locally in all Schwarz Group divisions by each Human Resources department. Responsibility for continued development of an individual employee lies primarily with the employee's managers and the employee himself/herself – the two parties agree on individual needs for further training and appropriate measures while taking the employee's current and future tasks into consideration. Managerial responsibilities in this area are clearly governed – the Group has defined corporation-wide competencies and management guidelines, which are based on common corporate values and principles and are adapted to the specific needs of each division.

GRI 102-16 | 404-2 | 404-3

At Kaufland and Lidl the Human Resources departments at the national level and the regional distribution centers support managers and departments through targeted processes, programs, and seminars. Kaufland and Lidl countries also receive support from the Central Talent Management department, which was established in recent years. This department uses a sustainable talent management approach to prepare individual development plans for employees. Schwarz Dienstleistungen likewise makes use of this approach with the support of the Human Resources department as part of a systematic process.

Further Education of Employees and Managers

The Schwarz Group offers a wide variety of programs for further training which are geared to the individual employee. As a result, the Schwarz Group offers a comprehensive set of programs for continuing education for all employees in all divisions in order to meet their individual needs and foster the range of skills of the workforce. In addition to in-person events, Kaufland,

GRI 404-2

Lidl, and Schwarz Dienstleistungen also rely on e-learning concepts to train their employees in areas such as occupational safety, health protection and data protection.

Our group also focuses on development for managers. Kaufland makes use of a modular system of qualification to impart its business values and management tools to junior employees and to facilitate a comprehensive understanding of their new tasks. The division also provides a cross-national development program for staff at the director level. Lidl has likewise established standardized development programs for all management levels, which support employees with managerial responsibilities in their new tasks. In the case of Schwarz Dienstleistungen, new managers go through a job-related management program in their first year of work, which combines practical workshops with training sessions.

Vocational Training

The Schwarz Group also places great importance on the professional training of its junior staff and has established training programs in all of its divisions. Divisions offer a variety of training occupations depending on the needs and focus of their business activities. With roughly 20 different areas of focus, ranging from retailer and operational logistics specialist to specialist in food technology, Kaufland and Lidl provide a number of different ways for employees to start careers along the value chain. Dual training is also offered in countries where local conditions make this possible. For example, Lidl offers these types of programs in eleven countries. Schwarz Produktion offered training for eleven skilled occupations over the course of the reporting period, while Schwarz Dienstleistungen offered training for six skilled occupations. In addition, Schwarz IT and Schwarz Dienstleistungen offer a joint turbo IT program, which targets, wins, and promotes trainees in relevant IT professions, thereby meeting the increasing demand of skilled workers in this field. As a subsidiary of GreenCycle, PreZero has trained junior employees in nine different professions at its German locations; GreenCycle itself took part in vocational training within the Schwarz Group through a pool system.

5,312
trainees in the
Schwarz Group
(2019)



Dual University Study

In order to make it attractive for students to work with the company, the Schwarz Group offers a dual university study program in all divisions, which in some cases is supplemented by high school graduate and trainee programs. Here again the number of study programs offered as well as their type vary depending on need, and in the cases of Kaufland and Lidl, also on the availability of a corresponding system in the given country. Both divisions offer over 20 courses of study in total. One country on which the program focuses is Germany; at Lidl, for example, such programs have also been established in seven other countries. The other divisions (GreenCycle/PreZero, Schwarz Dienstleistungen and Schwarz Produktion) likewise offered roughly 20 courses of study during the reporting period. In general, all trainees and students in the Schwarz Group receive intense support and some are given the opportunity to participate in in-house training programs. The support given in this area as well as responsibilities can differ depending on the division and country. For example, when it comes to training in the production facilities, instructors, training

managers and human resources staff are all involved at the individual locations. Just like all other employees, trainees and students are entitled to contact the Human Resources department responsible, works council (where applicable), and appointed employee relations consultants at any time with questions or complaints. In addition, youth training councils have been established at some Kaufland locations in Germany.

^
In order to attract young talent, the Schwarz Group offers a wide range of training and study programs with different areas of focus, ranging from retailer to specialist in food technology, and even dual university study programs are available

Implementation and Measures

UNGC

Sensitization for Resource Protection

Of the approximately 2.7 million tons of waste that the Schwarz Group accumulates each year, three-quarters can be reused or converted into other products. Apart from an appropriate infrastructure, exploiting the ecological and economic potential of this recyclable material requires the comprehensive sensitization of our employees.

In addition to providing standard collection points for Schwarz Group stores, warehouses, and administrative buildings, the GreenCycle environmental division has also developed a training program on this topic. Through the training, brochures, and explanatory videos provided as part of its “Appreciation of Recyclable Materials” concept, GreenCycle makes Kaufland and Lidl employees worldwide aware of the proper separation of waste and its potential for reuse. This program has made it possible for retail division stores and logistics centers to significantly increase their rate of recycling over the past few years.

Sensitization to sustainable behavior is also an integral component in the orientation training of all new employees at Kaufland stores worldwide. This type of training focuses on themes such as the conscientious use of energy at the workplace and the proper disposal of waste. The specific content required by each employee is conveyed during tours of the store, in online training and explanatory videos.

GRI 304 | 306 | 404-2



^ The “Be(e) IT” project provides students and trainees with an opportunity to try out new technologies on beehives

Some national companies also carry out independent campaigns for sensitizing employees and customers to the responsible use of resources. In 2019, for example, Lidl Italy focused on the topic of reducing food waste and organized a competition for employees, who were given an opportunity to present their favorite recipes for using leftover food at home. The best video recipes for dealing with food waste were then published on social media.

Nature Conservation and Technology

Since early 2020, Schwarz IT has been holding an unusual idea competition for its employees and trainees: Employees at its Weinsberg site in the district of Heilbronn have the opportunity to actively participate in the weekly care of beehives that were set up there in early 2019. The competition gives students and trainees the opportunity to test various IT technologies on beehives, such as GPS trackers and camera technology. Junior employees taking part in the “Be(e) IT” project can submit their ideas, the best of which will be presented to Schwarz IT management and implemented. In this way, the project promotes exchanging ideas between trainees and associates at the executive board level. In addition, the employees taking part in the project will learn how to work with nature in a positive way.

< A guidance system makes it easier for employees in central warehouses to properly separate recyclable materials

SOCIAL ENGAGEMENT

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Food banks combine social and ecological commitment. Every minute we save 500 kilograms of edible food from being destroyed and thus regularly support over 1.6 million people. To be able to do this, we need strong partners at our side. Kaufland and Lidl have been supporting us for many years. This is just one way they look after their social responsibility as a successful corporation.



Jochen Brühl,
Chairman, Tafel Deutschland

Materiality and Objectives

As an internationally active company, the Schwarz Group assumes responsibility for sustainable development beyond just its core business.

We are actively committed to ecological and social issues, especially in the regions where we do business. Together with our employees, customers, and partner organizations, we provide effective support at a local level, primarily in the areas of our locations and stores. Our activities and funding priorities in this area are specifically adapted to the needs of individual regions and countries so that we can meet the specific needs of the people who live there and thus improve their ecological and social development in the regions concerned.

Schwarz Group divisions support charitable goals mainly through monetary donations and donations in kind in addition to sponsoring and partnering with schools, NGOs, and other organizations.

Whenever we talk of our commitment as a corporate citizen, we mean all CSR-related projects, measures, and donations that we carry out voluntarily and which go beyond our immediate core business. It is our understanding that sponsoring activities can also be based on the promotion of social or ecological issues. On the basis of these principles, in 2019 the Schwarz Group worked out group-wide guidelines for handling donations and sponsoring, and rolled them out to the countries in which it operates. The purpose of these guidelines is to ensure that we manage contributions in a responsible, transparent, and comprehensible manner. The guidelines are further supplemented by additional division-specific regulations. These include the Kaufland guidelines titled "Donations and Sponsoring", which among other things govern its principles of corporate citizenship, the Lidl guidelines governing the topics of donations and sponsoring, and the Schwarz Produktion guidelines titled "Donations, Sponsoring and Memberships".

Schwarz Group donations in thousand euros



GRI 201-1

Organization and Management

Structure and Responsibilities

The implementation of applicable regulations and individual projects throughout the Group is overseen by various division departments. Basic strategic guidelines for donation activities fall under the responsibility of the CSR departments of our Kaufland and Lidl retail divisions at the international level. The Kaufland CSR department is also responsible for sponsoring programs related to sustainability, while all other sponsoring programs are overseen by its Marketing department, as is the case at Lidl. National companies have a great deal of freedom in structuring the guidelines which have been established, thus ensuring that the individual needs of the respective populations and societies are taken into consideration in the best possible way. Only in cases where commitments are made on a larger scale does the International department become involved – at Kaufland, the decision itself is made at the executive board level in these cases, while the CSR International department is responsible for bundling together the associated reporting.

Special conditions apply to all donation and sponsorship activities which affect the greater Heilbronn area – where the international headquarters of each division is located and a correspondingly high number of requests are received. All inquiries and activities are coordinated here centrally by Schwarz Dienstleistungen. Here responsibilities are differentiated based on their area of focus. For example, the Human Resources department manages trainee programs and cooperations with secondary schools, while cooperations with universities are overseen by the Human Resources Marketing department. In general, the CSR department assumes a coordinating role for all requests, but it is also responsible for appropriate social engagements that do not fall under other defined areas of focus. An email address exists for central support and coordination, which is valid group-wide and is used to systematically bundle together and answer all inquiries. In the case of Schwarz Produktion, donation requests can be

directed decentrally to any business location in addition to being sent to the central email address. Donations are first reviewed to determine if they meet the requirements of the applicable guidelines, after which executive management decides whether or not to approve them.

Because its related structures are still under development, GreenCycle does not yet have an overall corporate citizenship concept; however, it does implement individual projects in various departments in accordance with the Schwarz guidelines on managing donations and sponsoring – for example in the areas of sport, culture, science, and education. These projects are often carried out in cooperation with other stakeholders such as NGOs and ministries, and they focus on topics related to GreenCycle's core business of waste avoidance, waste separation, recycling, and other aspects related to climate and the environment. GreenCycle is usually associated in the public eye with its PreZero sales brand. All cooperations and donations related to the area of plastics are coordinated through the group-wide REset Plastic strategy and especially within the REmove and REsearch areas of action.

Evaluation and Feedback

The Group evaluates its social engagement in a number of different ways. For example, Kaufland collects feedback on the measures it implements through standardized feedback forms or project partner surveys. In addition, whenever quantified results may possibly be needed or actually required under internal guidelines such as the REmove catalog, these results are collected and evaluated, for example, as part of waste collection campaigns (e.g. kilograms of waste collected) or as part of corporate volunteering campaigns (e.g. number of participants). In the case of retail divisions, the impact of a sponsoring campaign can be measured according to its specific objective by using previously defined marketing indicators and systems. In such cases, the international Marketing department is involved mainly in a supporting role, with national companies being responsible for the actual measurements of individual sponsoring campaigns.

Implementation and Measures

GRI 102-12 | 102-43 | 201-1 | 413-1

Passing on Food

The retail divisions of the Schwarz Group are actively committed to avoiding food waste and give food away as a measure for reaching its reduction target in this area (see p. 77). Our stores and logistics centers around the world regularly give charitable organizations food which can no longer be sold but is still suitable for consumption. In Germany, for example, local food banks regularly receive food and other items from Kaufland and Lidl stores, then pass it on to people affected by poverty in return for a token payment. Lidl Sweden donates its surplus food to charitable organizations such as Allwin as well as city missions. Lidl Italy partners with an Italian food bank “Banco Alimentare”, which picks up food in stores about four times a week and distributes it to the needy through a network of local charities. Lidl’s national entities in France, Belgium, Ireland, and the Netherlands have also established similar concepts for distributing food as well as other initiatives. Lidl Romania not only donates food but also invests in starting up food banks and setting up a corresponding network. Three new food banks were established in the 2019 reporting year alone and three more are in planning, with Lidl Romania bearing all costs involved.

Numerous national entities of Kaufland likewise donate food to charitable organizations and even have a legal requirement to do so in several countries. In Croatia, for example, Caritas visits 18 stores twice a week to collect unsold baked goods, fruit, and vegetables. The organization also picks up food from the central warehouse on a weekly basis, such as food which is about to expire or which has damaged packaging. In addition

to working with food banks, 80 Kaufland Germany locations partner with the “foodsharing” initiative to prepare leftover food for collection. Similar initiatives and concepts for food donation also exist at Kaufland in Poland, the Czech Republic, Romania, and other countries.

Donating Deposits

Apart from food donations, Lidl has also been working together with its own customers since 2008 to support food banks across Germany through deposit donations. Roughly 6,100 bottle/can return machines in 3,200 stores have a button which lets customers donate all or part of their deposit return to food banks. By the end of fiscal year 2019, over 18 million euros had been collected in this way, allowing food banks to finance not only items like refrigerated vehicles, hygiene products, and new furnishings but also cooking classes for their clients. A total of about 2,500 such projects had been implemented by the end of 2019. Other countries also make use of the concept of deposit donations – for example, since 2017 Lidl Lithuania has been using this concept to support a national donation project which supports daycare centers, and it even goes a step further by doubling customer donations. Kaufland likewise organizes deposit donation campaigns at the local level, which support not only food banks but other charitable organizations. In addition, all German stores are working on setting up deposit donation boxes to support charitable organizations in their regions during fiscal year 2020.

“Learning by Doing” – Inspiring Children

Since 2004, Kaufland has been committed to environmental education and to bringing children closer to nature and the environment in playful ways. Its “Learning by Doing” (“Machen macht Schule”) program organizes environmental

↳ Lidl in Italy regularly donates food to Italian food banks



action days as well as action days focusing on nature and nutrition. Kaufland puts on roughly 200 action days each year, which reach almost 30,000 children and adolescents. In 2020 the focus of the environmental action days will be on water. Schoolchildren attending the kick-off event in February 2020 had the opportunity to meet with environmental experts to analyze how every individual can make contributions to conserve the valuable resource of water. Kaufland's nature action days, which involve one-day excursions to nearby natural parks, were even named as an official project of the UN Decade of Biodiversity in the fall of 2019. Kaufland's nutrition action days bring in nutrition experts to teach children and adolescents about healthy eating. Kaufland has also shown its commitment in this area through a number of international projects such as "Akademia Kinderland". The project in Romania has been teaching children about healthy eating through games held right in front of its stores since 2018.

Employee Commitment

The employees of the Schwarz Group are likewise committed to the environment and to society. At Kaufland Croatia, for example, roughly 150 employees from all stores, headquarters and logistics centers took part in Green Week 2019 by helping to collect waste and garbage in eleven national parks and natural parks. Moreover, Kaufland Bulgaria employees also showed their commitment to a cleaner environment by taking part in World Clean Up Day in September 2018.

Promoting a Sustainable Fan Culture

Through its PreZero sales brand, GreenCycle provides major support in the area of sustainable waste management to the national German TSG Hoffenheim soccer club. As a widely visible sign of this support, TSG renamed its soccer stadium



PreZero Arena. However, the sustainability cooperation between the two partners goes far beyond stadium sponsorship. Together, they have set themselves the goal of turning the PreZero Arena into a symbol of sustainability and of raising public awareness about stadium operations and games which are resource-efficient and promote a sustainable fan culture. To this end, PreZero supports and advises the club on all environment-related topics – for example, through analyzing and optimizing material flows, through waste separation and waste avoidance concepts, through the development and implementation of a reusable cup system, and finally through the production of grass paper and other PreZero promotional items made from grass clippings such as smartphone cases.

Since 2019, PreZero has been the official sustainability partner of the German Bundesliga soccer club TSG Hoffenheim

As part of "Green Week", employees from Kaufland Croatia are committed to a clean environment



Additional measures and details on projects are available online at: www.csr.schwarz/sustainability-report/life-quality

KEY FIGURES

Total Workforce

Based on year-end financial statement

	Kaufland	Lidl	Schwarz Dienstleistungen	Schwarz Produktion	Schwarz Group
Total Number of Employees (based on year-end financial statement)¹	132,246	314,141	8,342	3,626	458,355
	131,666	287,350	6,166	3,417	428,599
thereof full-time employees	61,409	112,573	7,066	3,429	184,477
	60,669	100,392	5,366	3,221	169,648
thereof part-time employees ²	69,486	197,912	1,049	119	268,566
	69,473	183,524	613	122	253,732
thereof trainees	1,351	3,656	227	78	5,312
	1,524	3,434	187	74	5,219
Newspaper carriers	15,956	–	–	–	15,956
	14,891	–	–	–	14,891

GRI 102-7 | 102-8

■ Fiscal year 2019
■ Fiscal year 2018

Collective Agreements

Percentage of employees to whom collective agreements apply³



UNGC
GRI 102-41

¹ The employee definition used for the Group's year-end financial statement was used as the basis for collecting and reporting all the figures which appear above. These include full-time/part-time employees, marginal employees, apprentices, dual students, trainees, participants in the Kaufland Management Program, posted workers from abroad, employees in the active phase of sabbaticals and partial retirement, working students, interns, undergraduates and temporary employees (provided they worked during the reporting period) as well as employees on extended sick leave, and employees taking maternity leave. Excluded are employees who were on leave of absence for more than 90 days, employees on parental leave, employees in partial retirement programs (passive phase), employees on sabbatical (passive phase claims), and employees being reintegrated following an illness.

² Part-time employees are considered employees whose percentage of working time is less than 100 percent. In cases where no national regulation exists, employees are considered part-time if they work less than 163 contract hours per month.

³ Figures include the percentage of both tariff employees and non-tariff employees with collective agreements.

Employment Type

Employees by Employment Type ^{1, 2}	Indefinite	Temporary
By gender³		
Female	271,426	22,353
Male	137,437	15,766
	–	–
By region		
Germany ^{4, 5}	157,436	7,186
	147,125	8,569
International	251,427	30,933
	230,595	29,572

91.5%

Permanent employment (2019)

GRI 102-8

■ Fiscal year 2019 (✓)
■ Fiscal year 2018

New Hires and Employee Turnover

	2019		2018	
	Number	Share in %	Number	Share in %
Total new hires⁶	122,109		111,166	
By age				
Age group < 30 years old	79,891	65.4	72,443	65.2
Age group 30 – 50 years old	37,410	30.6	34,104	30.7
Age group > 50 years old	4,808	4.0	4,619	4.1
By gender				
Female	70,027	57.3	64,048	57.6
Male	52,082	42.7	47,118	42.4
By region				
Germany ⁴	33,220	27.2	26,503	23.8
International	88,889	72.8	84,663	76.2
Employees leaving the company⁷	107,848		103,532	
Turnover rate⁸	24.2		24.9	

GRI 401-1

¹ For reasons of control relevance, the employee definition that applied at the time of the cut-off date and was used in internal management reporting was used as the basis for collecting and reporting all figures which appear above; for further details see footnote 3 in the "Employee Diversity" table on p. 54.

² Not included are the 115 employees with special employment contracts who are shown in the total number of employees.

³ The gender survey was introduced in FY 2019. As a result, no data are available for FY 2018.

⁴ For reasons of data collectability, all GreenCycle employees were assigned to the German region, even though a few GreenCycle business units are based abroad.

⁵ Among other factors, the drop in temporary workers is due to new guidelines at Kaufland Deutschland by which temporary employment contracts are no longer permitted without good reason.

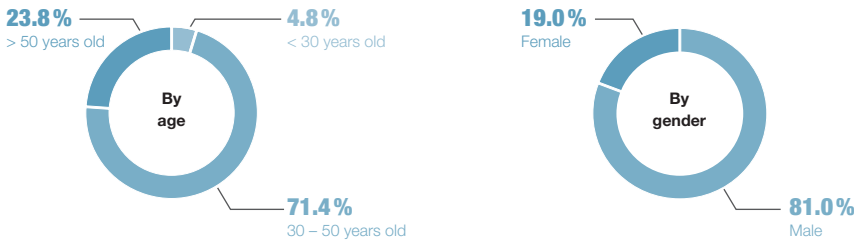
⁶ All employees who began working in the Schwarz Group in the respective FY (initial hires) are included regardless of the length of their employment contracts.

⁷ All employees who left a Schwarz Group company in the respective FY are included with the exception of temporary employees, interns, working students, or undergraduates. Due to the system, employees who moved within the Schwarz Group are counted as departures. However, employees who moved within the Group for reasons of re-integration are not counted as departures. By contrast, any Lidl employee with a fixed-term contract of less than 6 months is not included, nor are moves within the Lidl division counted.

⁸ Ratio of employees who left the company to the average number of employees.

Diversity in Management Bodies

Percentage of personnel in management bodies^{1, 2}



GRI 405-1

Employment Diversity

Personnel by employee category in FY 2019 (✓) 2, 3, 4, 5

	Employees without managerial functions		Management		Higher management		Top management		Total	
	Number	Share in %	Number	Share in %	Number	Share in %	Number	Share in %	Number	Share in %
Total workforce	412,438		33,573		762		324		447,097	
By age										
Age group < 30 years old	139,496	33.8	5,569	16.6	10	1.3	0	0.0	145,075	32.4
Age group 30 - 50 years old	214,052	51.9	25,135	74.9	633	83.1	272	84.0	240,092	53.7
Age group > 50 years old	58,890	14.3	2,869	8.5	119	15.6	52	16.0	61,930	13.9
By gender										
Female	280,114	67.9	13,680	40.7	137	18.0	40	12.3	293,971	65.8
Male	132,324	32.1	19,893	59.3	625	82.0	284	87.7	153,126	34.2

Average age of employees:

2019
36.1

2018
36.0

GRI 405-1

Employee Health

Sick leave in percent^{6, 7, 8}

6.8%

2019

6.5%

2018

GRI 403-2

¹ Management bodies are considered the divisional boards of directors. The figures reflect the status by the end of FY 2019.

² For reasons of safeguarding personal rights, information on minority affiliation was not collected.

³ For reasons of control relevance, the employee definition used in internal management reporting, and not the definition contained in the year-end financial statement, was used as the basis for collecting and reporting all figures which appear above. This includes full-time/part-time employees, marginal employees, apprentices, dual students, trainees, participants in the Kaufland Management Program, posted workers from abroad, employees in the active phase of sabbaticals and partial retirement, working students, interns, undergraduates, and temporary employees (provided they worked during the reporting period). Long-term absentees are excluded from this group for the following reasons for example: illness / inability to work / private accident / work accident / quarantine / family care leave for more than 90 days / maternity or parental leave including employment prohibition / reintegration following illness.

⁴ In accordance with the internal definition, employee categories are broken down as follows: top management = management level III, management = managers starting from management levels IV-VI with no deputy / no specialist level, employees without managerial functions = other employees.

⁵ As these key figures were collected for the first time in FY 2019; figures from the previous year are not available.

⁶ For reasons of relevance to internal control, we only collect and report information on sick leave.

⁷ This key figure indicates the ratio of sick hours to the planned hours of work to be performed by employees (sick hours divided by planned hours x 100). Included are the sick hours of all employees who are normally entitled to continued remuneration in the event of illness (e.g. excluding temporary employees). The method used for counting sick hours varies from country to country and is based on national conditions and/or laws. The development of a standard, group-wide method of counting is currently in planning.

⁸ In contrast to the survey for FY 2019, employees on long-term sick leave were not included in the FY 2018 survey. This also explains the increase in numbers in FY 2019.

Employer Awards

Kaufland

Europe



Croatia



Germany



Romania



Bulgaria



Czech Republic



Poland



Slovakia



Lidl

Europe



Bulgaria



Finland



Greece



Lithuania



Netherlands



Romania



Spain



Belgium



Cyprus



France



Italy



Malta



Poland



Slovakia



The employer awards depicted here are just a few examples. Information on other awards can be seen online at Kaufland and Lidl.



“

We work to provide a product assortment that is healthy and sustainable.

PRODUCT QUALITY

Providing safe, high-quality products is a top priority for the Schwarz Group. The selection and composition of the food we provide as a retail company ultimately impact the health and well-being of our customers. A key area of focus for us in this area is the reduction of sugar and salt in our own brand products. We also take aspects of sustainability into account when designing our assortment of products, and we are working steadily to increase our assortment's share of ecological, fairly traded products with appropriate seals and certifications.

SUSTAINABLE ASSORTMENT POLICY



“

It is a challenge, especially for the food retail industry, to reconcile issues of sustainability with consumer expectations of low prices. Sustainable agriculture is essential if we intend to leave behind a good future for our children. As a result, we are very pleased that the Schwarz Group approached us early on and offered fairly traded products throughout the country. Close cooperations like ours will make important steps for a more sustainable range of products – in the retail area as well – and will also open up new customer groups.

Dieter Overath,
Chair of the Board, TransFair e.V.

Materiality and Objectives

The retail business is directly involved in the way in which and the conditions under which natural resources and raw materials are processed and consumed. A product assortment policy that increasingly incorporates social and ecological criteria and is based on a responsible approach to handling people and the environment is an effective tool for the Schwarz Group to promote the sustainable development of its retail business. For this reason, our CSR strategy focuses on the responsible management of raw materials, since our retail divisions require these on a large scale for manufacturing the products they sell and consume. The Schwarz Group has therefore set for itself an ambitious goal in this area:

Sustainable Raw Materials: We will organize a more sustainable procurement process for the raw materials that are the most essential to us. For cocoa, this will be by the end of 2022 and for flowers and plants by the end of 2023. In the case of cotton as well as fish and fish products, this will be by the end of 2025. We will carry out ongoing detailed analyses for other raw materials.

The objective as well as the raw materials selected represent the results of a comprehensive raw material analysis, which was carried out by a cross-divisional team formed over the course of the reporting period as part of the strategic process. Within the Schwarz Group, Kaufland and Lidl have the greatest influence on sustainable consumption due to the design of their product ranges.

The companies are directly responsible in this area, especially for their own brands, while they are still allowed the greatest freedom possible for implementing a sustainable product portfolio. Their own brand policies are just one more area in which our companies show their commitment to making sustainability and fairness towards people and the environment possible. Kaufland and Lidl

are gradually increasing the overall percentage of ecological and fairly traded products in their product ranges and are giving their customers a highly visible, direct interface for taking part in sustainable consumption. Primarily responsible for the quality and sustainability of these products are our conditions for cultivation and husbandry as well as our manufacturing and processing procedures; some of these are developed in-house, and maintaining them also requires us to remain in close exchange with our suppliers and business partners.

Labels and certifications play a key role, in view of the Schwarz Group's strategic commitment both to a more sustainable raw material procurement process and to its fundamental objective of building up its assortment of sustainable products. In the food sector, our retail divisions rely on recognized standards such as Fairtrade, Bio, and the Rainforest Alliance to encourage socially and environmentally compatible food production. Kaufland and Lidl incorporate a variety of socially and/or environmentally relevant certifications into the production of their non-food items as well – these include GOTS (Global Organic Textile Standard), FSC (Forest Stewardship Council), Blauer Engel (Blue Angel), and Grüner Knopf. Both Kaufland and Lidl are driving forward the implementation of their concrete division-specific raw material objectives through appropriate strategic targets in purchasing. These objectives also flow into the wider group-wide raw material strategy.

Another area of focus is on their assortments of food produced locally and regionally. This decision was driven by short transport routes, product freshness and the support of local businesses. Both divisions have launched related programs to promote their assortments of regionally and locally produced food. The definition of a local supplier can vary from country to country.



Organization and Management

Structure and Responsibilities

In the cases of Kaufland and Lidl, the respective Purchasing departments are responsible for assortment policies and ensuring the implementation of guidelines and principles. National entities are primarily responsible for expanding the regionality and local sourcing of products in the two divisions. Schwarz Beschaffung is responsible for procuring non-merchandise items such as employee uniforms (see Implementation and Measures section, p. 62). Additional division-specific organizational structures and management approaches are described in the Corporate Responsibility chapter on p. 16.

Defined Guidelines and Standards for Responsible Purchasing

Kaufland and Lidl, along with the support of their CSR points of contact in Purchasing, define their requirements for the responsible purchasing of merchandise by means of topic-specific guidelines and position papers – for example, in guidelines for raw materials like palm oil and coffee, the principles of responsible animal husbandry, or the position paper on corporate due diligence at Lidl. The extent to which requirements apply at the country level can vary depending on the topic and is clearly defined in the given policy document or position paper. With the goal of having one uniform standard for all its national entities, Kaufland has adopted a coordinated raw materials program for coffee, palm oil, tea, fruit tea, eggs, and cocoa. Lidl has prepared and published position papers on the raw materials relevant to its business – these include fruit, vegetables, fish, shellfish, and other products in addition to those mentioned for Kaufland. Both retail divisions carry out programs and projects for pesticide reduction. Additional information on this topic can be found in the chapter on Land Use and Biodiversity on p. 103. Any merchandise at Kaufland and Lidl which is manufactured in accordance with ecological and social standards

is clearly labeled with appropriate product seals. These advantages are also made clear to consumers through information on sustainability characteristics which appears in product brochures and on packaging. Kaufland labels such products in its own brand assortment in a variety of ways, including the “Our actions do the talking” initiative tied to relevant, popular sustainability seals like Fairtrade.

Commitment to More Responsible Livestock Farming

The observance and promotion of more responsible husbandry conditions for livestock on land and in water play an important role in the countries in which we do business, and some national companies have even set goals in this area. We pay special attention to labeling products of animal origin so we can transparently show the conditions in which they are kept and can provide consumers with the information they need to make a conscious purchase decision. For example, in Germany Kaufland and Lidl have been making use of a four-level model to transparently label husbandry conditions for all their fresh meat products since 2018 (1 = indoor livestock farming, 4 = premium). The retail divisions are aiming over the long term to convert their entire assortments of fresh meat products in Germany to at least level 2. With approximately every other fresh meat product at level 2 (“indoor livestock farming plus”) or higher, Lidl has already achieved its interim goal. Through its pork quality meat program, Kaufland promotes species-appropriate livestock husbandry in Germany, for example, in the form of humane stables or giving swine a larger amount of space, which far surpasses legal requirements and meets level 3 husbandry conditions.

414

Average number of organic items in Lidl's product range (own brands, 2019)

1,762

Average number of organic items in Kaufland's product range (own brands and named brands, 2019)

GRI 102-16 | 308 | 414 | 417

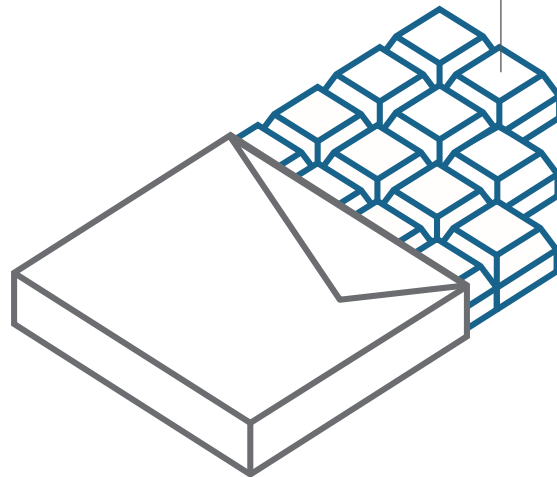
Involvement in Stakeholder and Dialogue Formats

Through its divisions, the Schwarz Group is committed to a number of raw material initiatives at the national and international level – these include the German Initiative on Sustainable Cocoa, the Roundtable on Sustainable Palm Oil, the Marine Stewardship Council (MSC), and the German Action Alliance for Sustainable Bananas. The aim of these multi-stakeholder platforms is to identify and establish appropriate measures and solutions together with all stakeholders in the supply chain. Further details on initiatives and memberships are described in the section on Corporate Responsibility on p. 16.

GRI 102-12 | 102-13

Approximately
90%

of the cocoa products in the product range at Kaufland and Lidl come from sustainable sources (own brands, 2019)



Additional Information



The following is a selection of guidelines, position papers and reports on Kaufland and Lidl's sustainable assortment policies:

Kaufland

- Detox Report
- Fish Guidelines
- Animal Welfare Guidelines
- Transparency Report on Flowers and Plants
- Transparency Report on Fruits and Vegetables

Lidl

- Position Paper on Corporate Due Diligence for Human Rights and Environmental Protection in the Purchase of Merchandise
- Position Paper on the More Sustainable Purchase of Fish, Shellfish and Their Products
- Position Paper on Fresh Fruits and Vegetables
- Position Paper on More Sustainable Purchase of Cocoa

All publications on this topic are available online at Kaufland and Lidl

Implementation and Measures

Acting Ecologically with Strong Partners UNGC

Kaufland and Lidl, in cooperation with renowned organic associations, are increasingly offering their customers local organic food produced according to the highest standards. Lidl Germany has been partnering



with Bioland, the leading association for organic farming in Germany and Southern Tyrol, since November 2018. In total, over 80 permanently-established food items in Lidl Germany's product assortment

have already been produced in accordance with Bioland's strict criteria, including apples, garden herbs, and wheat flour, as well as almost all dairy products under its own BioOrganic brand. In addition, Lidl has also been supporting the Bioland Stiftung since January 2020. Through investments in research and development, this foundation promotes forward-looking projects which ensure the principles of organic farming over the long term and make it possible to measure their impact. The foundation began as a training initiative for farmers and was intended to support them by increasing the fertility of their soils by building up humus. Another foundation project actively uses humus for the purpose of climate protection, since humus buildup is an effective tool for enabling soil to retain CO₂ and at the same time it makes the soil more fertile and rich in nutrients.



Kaufland has been offering numerous quality food products through its Demeter line, which was established in February

2019. By now, the assortment has grown to over 250 products and includes juices, dairy products, canned vegetables, pasta products, baby food, and cereals as well as fruits and vegetables. Especially stringent guidelines in terms of biodynamic agriculture, which go far beyond the minimum standards of the EU organic label, are imposed on products with the Demeter brand. As Kaufland's partnership with Demeter is intended for the long term, the product assortment will be gradually expanded.



Improving Husbandry Conditions Together with Farmers

In 2018 Kaufland, together with over 60 contract farmers, launched the "Qualitätsfleischprogramm Schwein", which goes far beyond the legal requirements for husbandry conditions. Among other things, the program provides for 40 per cent more space for livestock in so-called open front stables, which provide plenty of daylight and fresh air in addition to feed produced without genetic engineering. Through these and other criteria, the products under the program also fulfill the high standards of the "Level 3 Farming Method – Outside Climate". Kaufland is currently the only retailer in Germany which can offer pork produced with a level 3 farming method. The entire process chain is in Kaufland's own hands – Kaufland's meat processing plants maintain a direct contractual relationship with every farmer taking part in the program and regularly sends its trained animal welfare officers to audit farms and slaughterhouses.

Making Regional Products Visible

In order to promote its sales of regional products, in 2010 Lidl Germany began to offer regionally produced dairy products and eggs from Bavaria as well as other products under its own brand "Ein gutes Stück Heimat" (A Good Piece of Home). The core elements of the concept include species-appropriate animal husbandry, the use of GMO-free feed and supporting participating farmers through additional transparent proceeds. The farmers were thus able to earn nearly 20 million euros more by the end of the reporting period. In addition, since 2012

Lidl Germany has used the “Window to the Region” seal on selected products to show the origin of the key ingredient and processing site. Kaufland likewise offers regionally produced foods in its German stores, which are appropriately marked with the “Regio-Herz” (Regional Heart) seal. Kaufland considers regional products to be products that are grown in the respective region and are produced or harvested within a 30-kilometer radius of the respective store. Other Kaufland countries in central and eastern Europe also tag their own brands which are produced within the country with corresponding country hearts. The program also manages regional products whose sales are promoted in part by appropriate programs. For example, Kaufland Slovakia supports, under a funding project, small and mid-sized food producers in that region. By the end of fiscal year 2019, 59 regional suppliers were supplying Kaufland stores in Slovakia with dairy products, pasta products, and other items.

Sustainable Textiles – in Products and in Employee Clothing



The Schwarz Group also makes use of sustainable and recyclable products in its textiles.

Whenever possible,

Kaufland certifies its organic cotton textile products in accordance with the ambitious criteria established by the Global Organic Textile Standard (GOTS). In addition to the GOTS, Kaufland is also committed to the Global Recycling Standard (GRS) and had itself audited accordingly in 2019. In addition, all Kaufland stores offer tote bags made of GOTS-certified organic cotton.

For the first time in September 2009, Lidl in Germany offered Fairtrade-certified textiles with a Fairtrade code, which makes it possible for customers to trace the origin of a product back to the producer. In addition, as part of a special campaign in

the fall of 2019, all German Lidl stores temporarily offered an assortment of GOTS-certified textile collections produced in accordance with the Cradle to Cradle standard. All aspects of Cradle to Cradle Certified™ products are reviewed by independent experts for resource effectiveness and recyclability. Lidl also offers GRS-certified textiles as part of its promotional assortment. In addition, in 2019 Kaufland and Lidl were among the first German retail companies to have items certified in accordance with the social and environmental criteria of the “Grüner Knopf”, a national German seal for sustainably manufactured textiles.

The retail divisions also apply the highest standards of sustainability to its employee uniforms. Since 2016, the cotton work clothes worn by all Kaufland and Lidl store employees worldwide has been produced from organic cotton in accordance with the strict criteria of GOTS, and these textiles will also have the “Grüner Knopf” certification in the future. Moreover, our cotton clothing at Kaufland stores is 100 percent Fairtrade-certified, and this requirement will also be extended to Lidl by the end of 2020.

Certified Cocoa

All raw materials containing cocoa used at Schwarz Produktion for product manufacture are certified not only in accordance with recognized sustainability standards, but also in accordance with the strict requirements of the Lidl Purchasing department. Procedures for UTZ certification and/or certification in accordance with the Fairtrade cocoa program are also implemented as needed in various production units, and numerous cocoa products – including virtually the entire assortment of ice cream and all chocolate bars – are provided with corresponding seals.



PRODUCT SAFETY & QUALITY

“



Product safety and quality is what we do each day. As experts, we know that defect-free products and clear indications of origin are essential, especially in connection with food products – it’s about nothing less than consumer health and protection from deception. In order to be able to ensure both of these, it is essential for retail companies like the Schwarz Group to be rigorously committed to providing systematic quality assurance at all stages along the food chain.

Dr. Katrin Hoenicke,
Managing Director, Eurofins Analytik GmbH

Materiality and Objectives

Safe high-quality food, drugstore items and non-food products are indispensable to the health and well-being of our customers and are therefore deeply ingrained within our image of ourselves as a responsible retail company. They also form the basic prerequisites for the economic success of the Schwarz Group, since the quality of the products we offer represents a key buying criterion for our customers and significantly impacts our reputation. Accordingly, our Kaufland and Lidl retail divisions as well as our production plants place a great deal of importance on having a comprehensive quality management system that ensures we meet the hygienic and quality standards imposed on us by both the law and our customers. Our overall approach in this area is to reduce risks to a minimum and to continuously improve and develop our systems for monitoring and control. In the end, this is how we maintain and strengthen the trust of our customers.

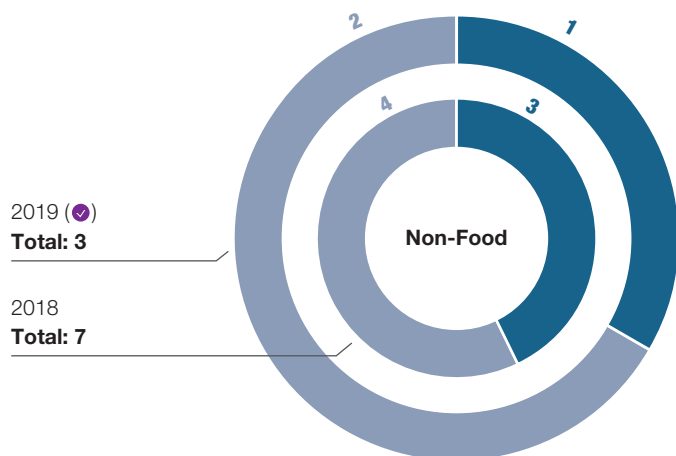
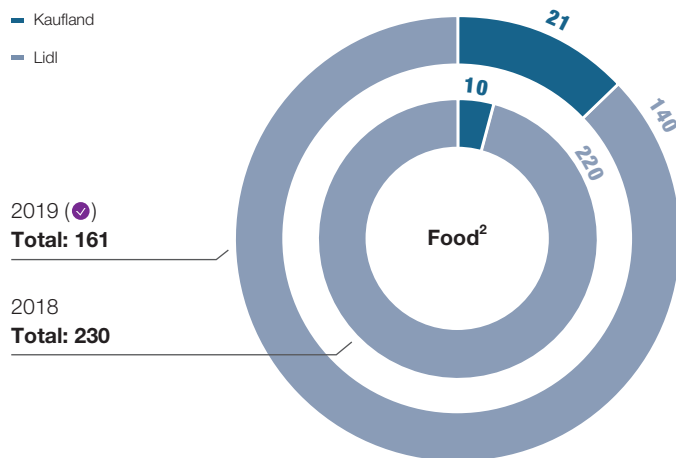
One key quality criterion for our own brand products are their ingredients. In addition to reducing undesired ingredients such as possible residue or contaminants, this quality area also involves building up so-called value-determining ingredients, for example increasing the amount of nuts in chocolates. Kaufland and Lidl implement a wide variety of measures for the purpose of reducing or replacing potentially undesirable ingredients. For example, Lidl Germany and Lidl in other countries have set for themselves concrete objectives for reducing coloring agents and preservatives (see Position Paper on Conscious Nutrition), while Kaufland excludes certain

coloring agents from its own brands in the food segment. Recognized standards and seals also ensure our products show a higher ecological and social quality, factors which are becoming increasingly important for our customers as well. These types of seals in the food segment include Bioland and Demeter. In the case of textiles, the Global Organic Textile Standard (GOTS) ensures that we use and process organic cotton in accordance with strict social and ecological criteria.

GRI 416 | 417

GRI 417-1

Number of recalled own brand items¹



GRI 416-2

¹ The number of different recalled sales items in public product/item recalls is shown for our own brands. Item returns are not taken into account. In the case of Lidl a sales item is considered any single item with an EAN; in the case of Kaufland, a sales item is considered any item with a DIS-listed item number (items which can be ordered in stores). If an identical item is recalled more than once during the year, it is recorded multiple times. If an item is recalled for different reasons, it is counted multiple times.

² The food category includes all food as well as near-food items, such as cosmetics, laundry detergents/polishers/cleaners, flowers, and plants.

In addition, we implement comprehensive quality management in the textile segment through our compliance with the ÖkoTex 100 standard, which makes it possible for us to ensure the sizing is precise and the textile products have undergone various quality tests.

GRI 102-16 | 416-2
As manufacturers for our Kaufland and Lidl retail divisions, the manufacturing facilities of Schwarz Produktion and Kaufland's meat processing plants directly impact the product quality of our own brands. As a result, the topic of "quality" is also reflected in their corporate values accordingly. The raw materials and production conditions they use are subject to the highest demands, like those of the International Featured Standard (IFS), and as a result, they pass through numerous quality controls. Our fundamental approach is to only bring to the market food that is safe, to ensure consistent high quality, and to avoid potential health risks. No product recalls occurred within Schwarz Produktion's own plants over the course of the reporting period. There was one recall at Kaufland's meat processing plants during fiscal year 2019, which was handled completely internally.

31%
—
fewer product recalls
than in the previous year
for Kaufland and Lidl
(2019)

Assurance/Quality Management department is also responsible for food safety at Schwarz Produktion, while the Marketing department, in close cooperation with Quality Management, has responsibility for product labeling. A separate Procurement department exists in Schwarz Beschaffung for assuring the quality of non-merchandise items.

Comprehensive Quality Management Processes

In order to systematically control product safety, legality, and high quality, Lidl operates according to a recognized quality management system that is certified in accordance with ISO 9001. The system has product safety as its highest priority. All related processes are implemented on the basis of this system, which regulates quality goals and guidelines as well as clear process specifications and responsibilities. All processes are reviewed by a law firm specializing in food law and also undergo an annual internal audit. Employees receive regular training in these processes.

Kaufland has also defined quality standards for ingredients, contaminants and sustainable raw materials for its food and drug own brands, which go beyond those imposed by law. It also has extensive quality requirements for its own brands and own non-food imports, which are continuously being developed. Both retail divisions have defined and implemented essential steps for ensuring food safety. These include:

- Certification in accordance with the International Featured Standard (IFS) and British Retail Consortium (BRC) for all production facilities that supply divisions with food and drug store products as part of their own brand product range¹
- Regular, unannounced risk-oriented audits of production sites by selected external certification bodies
- Risk-oriented review of all own brand articles in the food and drugstore area by accredited institutes (e.g. Fresenius, Eurofins) to check their marketability

Organization and Management

Structure and Responsibilities

GRI 416 | 417
The Schwarz Group governs responsibilities in the area of product and food safety on a division-specific basis. In the case of our Kaufland and Lidl retail divisions, the Purchasing department is responsible – in close coordination with the Quality Management or Quality Assurance departments – for purchasing safe products at the national or international level, depending on the scope of the negotiations. Their core processes and strategic development projects are in turn defined, together with Purchasing, by the Quality Management department (Kaufland) or the Quality Assurance department (Lidl). The Quality

- Compliance with specification values which go beyond legal requirements and even take into account the requirements established by NGOs and test magazines, including appropriate review by accredited independent institutes

All potentially critical results which are uncovered through the aforementioned processes are passed on to the divisional departments responsible for product safety so they can be prioritized, processed, and resolved by taking appropriate measures if necessary.

Customer, Supplier, and Stakeholder Communication

A complaints management system has been set up in both retail divisions and is under the responsibility of customer management. Customer concerns and complaints can be submitted through an online form provided on the Kaufland and Lidl websites. In addition, both divisions maintain emergency numbers which are available to all suppliers – at Lidl this is organized at the international level, while Kaufland maintains country-specific points of contact. Quality complaints about products as well as product-related crises are likewise controlled, evaluated, and processed by the Purchasing department responsible for quality management. In addition to their own extensive activities, Kaufland and Lidl are also involved in a number of organizations responsible for food safety. A comprehensive overview of these can be found in the chapter on Stakeholder Management on p. 20.

GRI 102-12 | 102-43 | 416

Quality Management in Production Plants

All plants at Schwarz Produktion and Kaufland's meat processing plants in which food is produced meet the requirements of the IFS food standard and are regularly reviewed for compliance with this standard by an external certification body. They

also carry out internal inspections. The quality system comprises a wide range of requirements, standards, and quality assurance processes, which are implemented accordingly and observed in the individual plants. The most important aspects of the system include:

- HACCP concepts² implemented to identify and minimize risks in order to ensure impeccable food safety
- Observance of best manufacturing practices, e.g. through appropriate cleaning plans or flawless, up-to-date plant technology
- Analytical, microbiological testing of finished products based on clear guidelines established by internally and externally accredited laboratories
- Clear procedures for approving suppliers and materials which require that suppliers have established a quality management system recognized by the GFSI (Global Food Safety Initiative)

The plants have established a comprehensive system for managing complaints and inquiries, which bundles together all consumer complaints and inquiries and passes these on to quality management where they are processed. In addition, clear processes exist in this area for reporting to plant and company management.

81,799

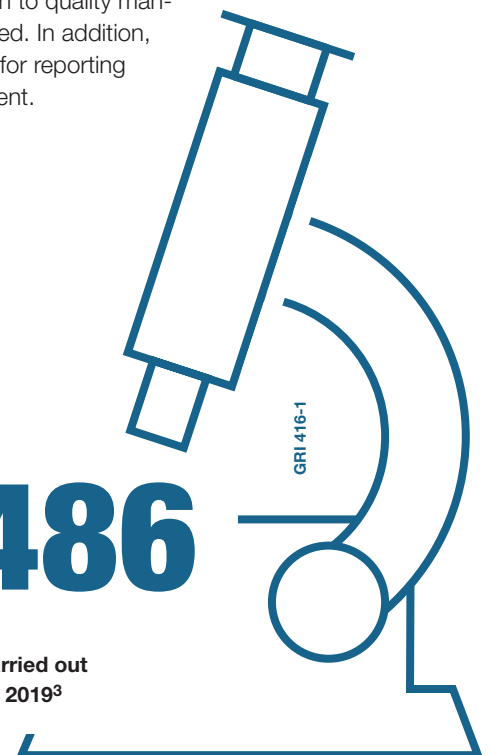
product analyses in food assortment (own brands, 2019)

28,687

product analyses in non-food assortment (own brands, 2019)

110,486

product analyses carried out for own brands in 2019³



¹ In the case of Kaufland, certifications are included in supplier requirements. If a supplier cannot provide a necessary certification, a risk assessment and audit are carried out; these are used to make a decision about whether or not to start a relationship with the supplier.
² HACCP = hazard analysis and critical control points.
³ Analytical product testing for safety, legality, and quality.

Implementation and Measures

GRI 102-16 | 204-1 | 416-1 | 417-1 | FP 2



Fresh Fruits and Vegetables

Hundreds of tons of fresh fruit and vegetables are delivered each day to our roughly 12,500 Kaufland and Lidl stores around the world. In order to ensure these remain at a consistently high quality, all deliveries are carefully inspected in accordance with standardized processes. We support our pesticide management process by carrying out roughly 86,000 independent chemical product tests each year. We arrange for most tests to be carried out before products are harvested or loaded. In addition to the results of test reports by neutral samplers and externally accredited laboratories, we also make use of evaluations of the general conditions in our cultivation areas. The following are just a few more examples of quality assurance measures at our Kaufland and Lidl retail divisions:

- Defining internal specification values for pesticides which go beyond legal requirements (also see p. 105)
- Requiring certification in accordance with Global GAP or QS quality standards from all agricultural providers who supply Kaufland and Lidl
- Requiring implementation of the additional GRASP module (for social concerns of workers) by all producers of fruits and vegetable for Kaufland and Lidl

Additional information on division-specific approaches and measures can be found in Lidl's Position Paper on Fresh Fruits and Vegetables and in Kaufland's Transparency Report on Fruit and Vegetables.

Country-Specific Quality Management

Kaufland and Lidl national entities rigorously maintain the quality and safety of the products they sell. For example, Lidl Spain's quality management system is certified in accordance with ISO 9001:2015

by the AENOR and iQNET standardization and certification companies. Moreover, national companies also carry out regular supplier audits and extensive laboratory testing of their own brand product-lines as well as fruits and vegetables – this also applies to nationally procured own brand products in all Kaufland countries. Lidl Romania also conducts internal audits in its production units which are responsible for food for its own brand product range. 63 audits were carried out over the course of the reporting period. These were in addition to the audits which were carried out by external organizations for the purpose of obtaining IFS or BRC certification required by Kaufland and Lidl by standard for their production plants responsible for food own brand items.



For years, Lidl Austria has been relying on the AMA seal of approval (Agrarmarkt Austria) and related stan-

dards for its assortment of fresh meats. The aim of AMA certification is to promote food quality and quality assurance across all stages of production, processing, and retail trade. The concept provides for evaluations on a regular basis. Since 2017 Lidl Austria has been stocking fresh pork with the additional AMA+ modules “better animal welfare”, “special feed”, and “regional origin”.

In order to be able to provide its customers with regional products with outstanding, guaranteed quality and in turn make it possible for smaller producers to sell their products as well, Kaufland Germany also carries out partial audits of its regional suppliers. These audits are carried out before products are listed and then are repeated at regular intervals. Laboratory testing is also provided for in order to monitor these suppliers even more closely.

Additional measures and details on projects are available online at: www.csr.schwarz/sustainability-report/product-quality



CUSTOMER HEALTH & CONSCIOUS NUTRITION

“



Conscious nutrition starts with shopping. The food retail sector offers a wide range of different foods, which makes it possible for consumers to maintain a healthy, balanced diet. Retailers can make a valuable contribution in this area by reducing the amount of sugar and salt contained in their own brands. Consumer information also plays a key role in this: Appropriate and transparent labeling of products and related information campaigns by retailers can sensitize customers and help them make responsible choices from retailers' shelves.

Stefan Genth,
Secretary General, Handelsverband Deutschland
(German Retail Federation)

Materiality and Objectives

Through its 12,500 stores around the world, the Schwarz Group reaches a large number of customers who purchase food, drugstore items and non-food products for their daily needs from Kaufland or Lidl. In this way, we not only make a significant contribution to supplying local areas, but we also impact the health and sustainable behavior of our customers – not just through the products we sell but also through the associated communication with consumers.

In addition to the central aspect of product safety and quality (see p. 64), the selection and composition of the food we offer are a key tool for customer health and conscious nutrition. One area of focus for the Schwarz Group in this regard is the reduction of sugar, salt, and fat. In order to counteract these substances, our retail divisions as well as Schwarz Produktion have adopted appropriate reduction strategies which significantly reduce the share of those ingredients. Kaufland in Germany has set itself the goal of reducing the sugar, salt, and fat content in more than 300 own brand items by an average of 20 percent by 2021. This goal is well on its way to being reached, with Kaufland Germany reaching an average content reduction of 19 percent in over 190 products up to and including 2019. One focus in this area is on products that are frequently consumed by children, such as soft drinks and cereals.

Lidl has set for itself the goal of reducing the weighted average content of added sugar and salt in its own brand assortment by 20 percent by 2025. In addition to Germany, this goal also applies to 17 Lidl countries, and four other countries have also adopted similar reduction strategies. To this end, the corporation has defined product groups to focus on for reducing sugar (including yogurt and sweet pastries) and for reducing salt (including bread, bread rolls, and pizza), which have nutritional profiles that can potentially be improved and/or have the potential to do without additives altogether. The corporation is currently reviewing all relevant own brand products which fall under

Kaufland goal¹



By 2021

-20%

reduction of sugar, salt, and fat content on average in more than 300 own brand items

Lidl goal²



By 2025

-20%

reduction of sales-weighted average content of added sugar and salt in the own brand assortment

¹ In Germany
² In 18 countries

these focus groups and have the potential for reductions. When possible, guidelines for each product family define the target values for improving the nutritional profile and for reducing unwanted additives. Lidl in Germany successfully reduced sugar by roughly 14 percent and salt by 8 percent salt in its own brand assortment by the end of 2018. Schwarz Produktion is also pursuing two strategic reduction goals, i.e. to reduce the average sugar content per liter of beverages sold and the average salt content per kilogram of baked goods sold by 20 percent each by 2025.

To provide consumers with a clearer overview of nutritional values, Kaufland and Lidl are currently testing their planned implementation of the simplified Nutri-Score system for nutritional labeling on their own brands. Kaufland has already labeled some initial products and is currently looking into the extent to which Nutri-Score can also be implemented in other countries. This is because a balanced diet does not just depend on offering products which are safe and healthy, but it also depends on raising customer awareness. For this reason, sensitization to a healthy diet is another area of focus for our retail divisions and is directly related to the Schwarz Group's overall goal of customer empowerment:

GRI 417-1

Customer Empowerment: We will provide our customers with greater transparency on the social, ecological, and health-related impacts of the products we sell by the end of 2025 so that they can make informed decisions. We will implement the conditions necessary for this by 2022.

On top of this, Kaufland and Lidl also initiate and support worldwide campaigns which make children and adults aware of how to use food and natural resources responsibly. In addition to promoting nutritional skills, these campaigns focus on general sensitization to environmentally friendly and socially responsible behavior.

UNGC

Organization and Management

Structure and Responsibilities

In terms of organizational structure, the reduction strategies for our Kaufland and Lidl retail divisions are the responsibility of the respective Purchasing departments. These strategies are implemented in close cooperation with the suppliers of Kaufland and Lidl own brands and with our internal production plants, Schwarz Produktion and Kaufland's meat processing plants. In the case of Kaufland, communication measures and initiatives that are implemented to raise customer awareness are the responsibility of the CSR department, but they are supported by the Marketing, Purchasing and Quality Management departments as well. Complaint mechanisms such as customer hotlines are the responsibility of Customer Management. In the case of Lidl, product marketing (based in the Purchasing department) as well as the Marketing and Corporate Communications departments are responsible for the topic of customer information. Issues related to compliance with food laws, reviewing potential consumer complaints and internal company guidelines for labeling own brand products are the responsibility of the respective Purchasing departments at Kaufland and Lidl, along with the Quality Management and Quality Assurance departments. The national entities of the two retail divisions also implement their own measures and projects, which are adapted to their given environments and meet the needs of the local people.

GRI 102-43 | 416 | 417

Compliance with Internal and External Guidelines

Retail division initiatives and measures take into account international guidelines and directives such as the Nutrition and Health Claims Regulation of the European Parliament. This regulation is especially relevant when making claims regarding reduced levels of sugar, salt, and fat. Internal purchasing guidelines, topic-specific position papers and inspection criteria, which also include NGO evaluations, serve as the basis for designing a responsible assortment of products. More information on this can be found in the chapter on Sustainable Assortment Policy on p. 58.

GRI 102-16

Implementation and Measures

Promoting Healthy Nutrition

Kaufland and Lidl initiate and support projects and initiatives around the world which make children and adults aware of making responsible food choices and conscious nutrition. To show consumers that it is also easy for anyone to reduce sugar in their everyday lives, Lidl Germany invented the Lidl spoon. The Lidl spoon is intended to raise awareness that it is still possible to enjoy food without giving up taste.

Lidl also supports the “5 a Day” campaign through the Lidl Fruit School program. This program uses games under the guidance of qualified nutrition consultants to teach elementary school students in the third and fourth grades how to incorporate fruits and vegetables into their daily diets. Together with the children, the nutritionists prepare simple dishes that prove they will actually enjoy having fruit and vegetables five times a day. In the 2018/19 school year, the program also included a segment on biodiversity. Roughly 200 elementary school classes across Germany were sensitized in this way in the 2019/20 school year alone, with a total of about 600 school classes and 15,000 students over the past three years. The concept was also implemented in a similar form in Italy, Greece, Cyprus, and Spain. Within the past three years, Lidl Spain alone has succeeded in reaching over 190,000 schoolchildren along with their teachers and families through a fruit & vegetable roadshow staged in more than 230 cities and municipalities. And Kaufland in Poland is currently planning or has already implemented a number of measures such as awareness programs



In Poland, Kaufland organizes a painting competition in elementary schools to promote a healthy diet

and campaigns based on its product range in order to raise awareness about healthy eating. These measures also include a number of extensive campaigns in print and digital media. Kaufland carries out such campaigns using products from its own brand product range, in particular the “K-Bio”, “K-free”, and “K-take it veggie” lines, to provide tips for a balanced diet – for example through product presentations or recipe ideas. In this way, Kaufland is promoting a healthier lifestyle. To this end, Kaufland in Germany also initiates nutritional action days for schoolchildren as part of its “Learning by Doing” (“Machen macht Schule”) program (see p. 51).

Fresh Fruits and Vegetables for Schools and Kindergartens

As part of the EU school program, Kaufland provides schools and day care centers throughout Europe with fresh fruit and vegetables once a week. In Germany, more than 4,000 children in the greater Heilbronn area alone have been benefiting from a healthier, more varied diet since 2010. And in Croatia, roughly 40 stores each provide regional fruit and vegetables once a week to a school in the store’s immediate vicinity. As a result, approximately 19,000 schoolchildren received a total of 94 tons of fruit and vegetables in the 2019/20 school year. Slovakia also began to take part in the program in 2019. The over 60 Kaufland stores in this country have distributed more than 4.5 tons of fruits and vegetables each week to nearby elementary schools since the beginning of the new school year. Moreover, in 2019 Kaufland Poland tied a painting competition for healthy eating to financial aid for renovating school cafeterias. As a result, ten schools received financial contributions totaling 600,000 PLN (approximately 133,000 euros) from Kaufland.

GRI 102-43 | 413-1 | 416








Together with former national soccer coach Vicente del Bosque and basketball players Rudy and Marta Fernández, Lidl employees are promoting healthier eating habits at Spanish schools



KEY FIGURES

Product Seals for Sustainability

Number of products with sustainability seals^{1, 2, 3}

							
Kaufland	1,762	183	20	118	49	235	35
average	1,489	161	19	110	-	-	-
Kaufland	3,069	294	35	197	91	437	67
up to... items	2,549	271	32	178	-	-	-
Lidl	387	89	20	284	62	118	67
average	351	64	17	273	-	-	-
Lidl	642	156	39	472	192	207	162
up to... items	578	176	34	469	-	-	-

GRI 417

■ Fiscal year 2019
■ Fiscal year 2018

Sustainable Product Assortment by Raw Material Category

Share of products with sustainability seals in respective assortment in percent (2019)⁴

	Kaufland	Lidl
Sustainable fish⁵		
Own brand	61.6	57.8
Brand	41.6	-
Sustainable cocoa⁶		
Own brand	100.0 ⁷	79.6
Brand	-	-
Sustainable coffee⁶		
Own brand	65.8	61.4
Brand	7.8	-
Sustainable tea⁶		
Own brand	56.1	51.3
Brand	10.2	-

GRI 417 | FP 2

¹ Number of all sales items, not including promotional/seasonal and non-food items intended for sale to customers through stationary retail. In the case of Kaufland, items are counted as of the closing date of the FY; Lidl includes all of its own brand items available for sale to customers during the entire FY.
² In order to show an average number of items for the entire Kaufland/Lidl division, the values for each country were weighted by the number of stores in that country. Moreover, the figure for each division in a country is shown for each seal, which represents the highest number of items with this seal within that division.
³ Lidl figures also include its own brand items from campaigns.
⁴ The average percentages of items with sustainability seals in the respective Kaufland/Lidl product range were weighted by the number of stores in each country. Since this is the first time this survey has appeared, only the figures for FY 2019 are shown.
⁵ All items in the fish assortment with at least one of the following seals: ASC, Aqua GAP, BAP, Bio, Dolphin Safe (Kaufland only), FAD free, FOS (Kaufland only), Global G.A.P., MSC, Naturland, Pole and Line.
⁶ All items have at least one of the following seals: Bio, Fairtrade, Rainforest Alliance, UTZ.
⁷ Data collection was possible only for internationally procured own brand articles in the cocoa assortment.



“

We think
and act
in cycles.

CIRCU- LATORY SYSTEMS

We feel that the greatest leverage for resource conservation lies in the design and recyclability of our products and packaging in addition to closing material loops. Less plastic means closed loops – this is also the vision of our REset Plastic strategy for plastics. In Germany, we can already map out the entire material loop for PET bottles completely in-house – from the integrated production and recycling companies of Schwarz Produktion to our retailers and our GreenCycle environmental division. This makes it possible for us to collect and reuse virtually all of the recycling materials that accumulate.

RECYCLABLE MATERIALS & RECYCLING



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Waste is just recyclable material that is in the wrong place – this fact is our mission at GreenCycle. A large share of worldwide waste is not disposed right or reused properly – and that is a huge problem for the environment. This is why we focus on a closed loop, which starts by having a completely reusable product from retail and disposal up to sustainable recycling and reprocessing into new products. Our goal: zero resource waste across our entire value chain.

Thomas Kyriakis,
Board Member, GreenCycle

Materiality and Objectives UNGC

– In addition to its retail business, the issues of recyclable materials and recycling play a key role in the Schwarz Group. As part of the business model and actual operations, recyclable materials and recycling are relevant for all divisions in the corporate group, both with respect to internal division processes and our overall supply chain, and they are therefore always being developed further. Examples of this development over the reporting period included the continued expansion of our GreenCycle environmental division (along with its subsidiaries PreZero and PreZero Polymers) and our development of strategic group-wide goals (see below). By reducing waste and wasted food as well as closing material loops – which is also a key concern of the group-wide REset Plastic strategy (see p. 84) – we can protect the environment, reduce disposal costs, and extract the raw materials of tomorrow from the waste of today. Our basic aim in this regard is to avoid resource waste across our entire value chain. As part of our internal CSR strategy, the Schwarz Group is especially committed to the topics of waste avoidance and food waste, and has formulated corresponding goals:

Zero Waste: We will reuse, recycle or recover the volume of waste that accumulates in the corporation¹ by a significant percentage by the end of 2025. We strive to limit our non-recoverable waste that accumulates within our own company¹ in pilot countries to a maximum of 5 percent by the end of 2022.

Food Waste: We will reduce our food waste at the Schwarz Group level by 50 percent² by the end of 2030³. We will reduce food waste in the supply chain for selected raw materials.

¹ Not including municipal waste (e.g. parking spaces).

² Compared to the base year 2018 for retail companies.

³ We will reduce food waste for in-house production by 50% (food) by 2025 (compared to base year 2017; in relation to material quantity turnover). At Kaufland's meat processing plants we will reduce food waste by 50% by 2030 (compared to base year 2018; in relation to material quantity turnover).

A key role in the Schwarz Group's recyclable material loop is played by the Group's own waste disposal and recycling company, GreenCycle. In addition to services for third parties, GreenCycle organizes the collection and recycling of almost all recyclable materials which accrue in Kaufland and Lidl's store and logistics operations as well as in all administrative facilities of the divisions. In addition, Schwarz Produktion is responsible for the recovery of PET beverage bottles as well as their recycling. We are currently in plans to implement the GreenCycle management system in our production plants as well. Given the support of this IT system for handling our operational disposal processes in Germany, GreenCycle will cooperate with MEG recyclables management in the future for its disposal of recyclable materials for Schwarz Produktion plants. The close cooperation of all divisions in day-to-day affairs is crucial to the smooth organization of the disposal of recyclable materials at the Schwarz Group.



84%

of all waste is recycled,
reused, fermented
or composted.
This is the equivalent
to 2,260,678 tons (2019)



Kaufland and Lidl rely on optimized scheduling, short transport routes, innovative logistics systems, and a continuous cold chain to avoid food waste. Starting with the production of the food for our own brands, we seek to ensure that raw materials are exploited to the greatest extent possible through resource-efficient manufacturing techniques and modern production facilities. For example, with the help of our price reduction processes, food which is about to reach its sell-by date can still be sold. Stores take items that can still be consumed but can no longer be sold and distribute them to charitable organizations like local food banks in accordance with applicable regulations.

The close cooperation of the Schwarz Group's other divisions with GreenCycle is organized differently for each division, with differing responsibilities. In the case of the two retail divisions, the Logistics and Supply Chain Management departments represent the main points of contact for GreenCycle. In addition, each retail division's Sales department is responsible for managing waste that accumulates within stores. All processes and activities starting from the store's ramp are coordinated at Lidl by the responsible employee in Logistics; at Kaufland this role is assumed by a so-called reusable material and waste manager who is assigned to the Supply Chain Management department. At the national level as well, reusable material managers also exist in some national entities and are responsible for recycling management in their own country and the related cooperation with GreenCycle. In the case of the Kaufland's meat processing plants, the Environmental Management department is responsible for issues related to recyclable materials and recycling. At Schwarz Produktion, each company management is responsible for cooperation with GreenCycle, while the internal Recycling Management department is responsible for operational coordination. In addition, all aspects identified by Schwarz Produktion as relevant are coordinated with the departments responsible for the area, such as the Environment, Health and Safety (EHS), Quality Assurance, Resource Management, and Legal departments. All Schwarz Dienstleistungen processes and measures relating to recyclable materials and recycling are managed through GreenCycle. Apart from this, no separate organizational structure exists which is responsible for recyclable materials and recycling.

Organization and Management UNGC

Structure and Responsibilities



GreenCycle with its PreZero sales brand is the Schwarz Group's own waste disposal and recycling company

Within GreenCycle there are a number of areas which reflect the Group's self-image as a driver of innovation in the areas of resource management, energy and environment innovations, and logistics solutions (pallet pools). With approximately 3,500 employees, recycling management is GreenCycle's largest department and it covers the PreZero sales brand in three countries and the PreZero Polymers subsidiary as well as the departments for divisional support, services, purchasing and sales. All in all, PreZero operates more than 80 facilities in Germany and Europe and also has a presence in the U.S. market.

The goal of GreenCycle's recycling management operations within the Schwarz Group is to reduce the volume of waste and to collect waste by type for further recovery. The corporation coordinates all procedures in this area through the GreenCycle management system and thus provides for a recovery and disposal system which is legally compliant, economical, and ecological.

Employee Sensitization and Training

A crucial element for ensuring high recycling rates is the proper collection of all waste via separation systems. In order to be able to determine what kinds of waste accumulate at what points within the company and how collection and separation can be designed to be as intuitive as possible, GreenCycle carried out a small-scale analysis of its own waste generation during the reporting period. As part of its "Appreciation of Recyclable Materials" concept, GreenCycle plans in the future to sensitize store and production

GRI 301 | 306 (e)

GRI 102-16 | 301 | 306 (e) | 404-2

employees to proper waste collection and separation, through training, additional brochures, and videos. This concept has already been implemented in full in Kaufland and Lidl retail division warehouse locations. In addition, the concept has been integrated as a measure in the group-wide CSR strategy and in the REset Plastic strategy.

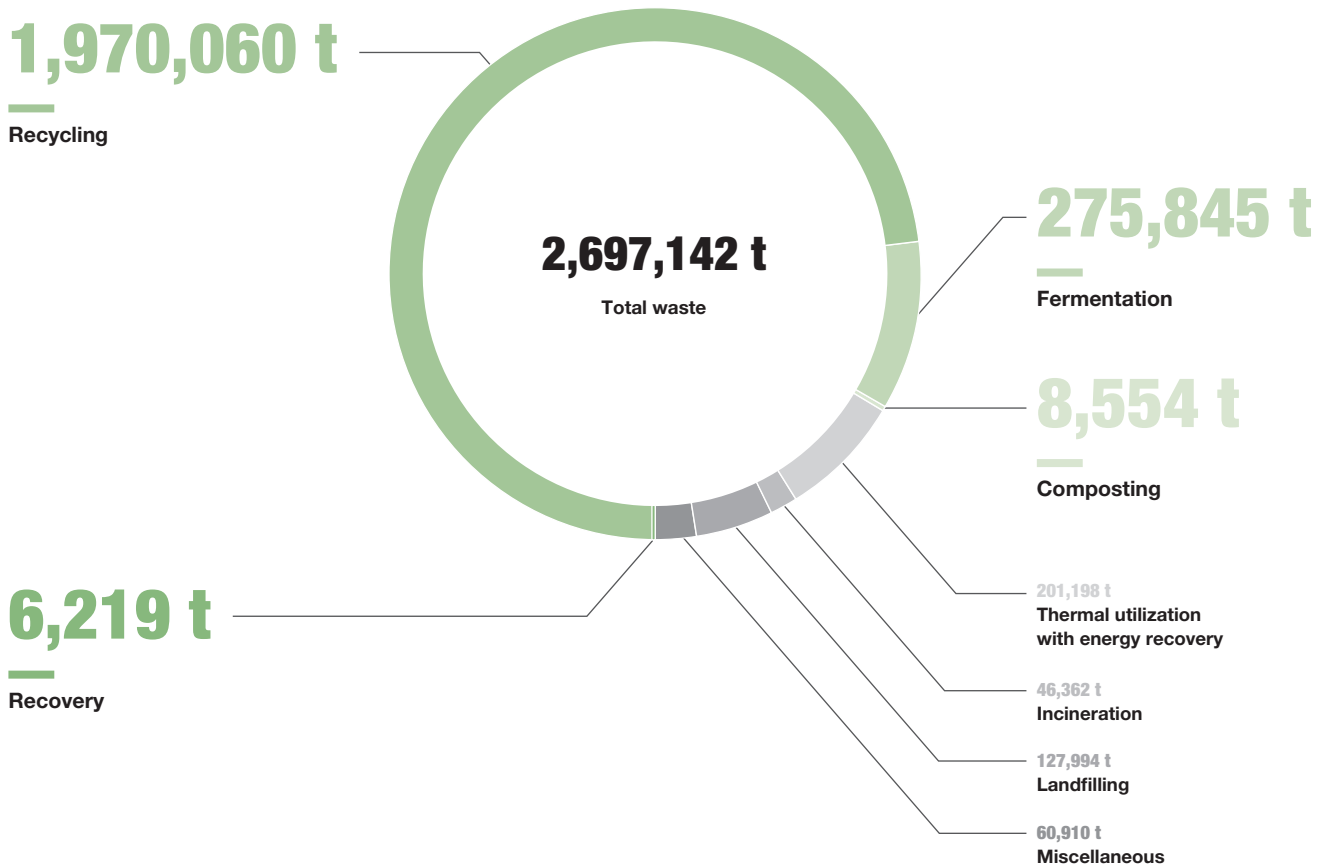
As a department within GreenCycle, Country Support International acts as the system provider and central point of contact for all companies in the Schwarz Group, and it is responsible for issues related to waste and recycling management. It advises and trains employees and managers on current topics, such as separation concepts,

revenues and costs, and changes in laws, through workshops, training measures, informational letters, and sorting instructions, some of which are tailored to specific groups. In addition, the department prepares evaluations of relevant key figures on a regular basis and discusses them with the corresponding business departments. Due to the heterogeneous nature of recycling management at the international level, requirements like those concerning sorting and recovery rates can differ from country to country. Waste accrued in stores, logistics, and production should generally be sorted and disposed of or prepared for removal in accordance with the guidelines. They are established in a separate process in the Schwarz Group's IT process system. ♻️ -

Disposal Methods

in tons (2019)

GRI 306-2



Implementation and Measures

UNGC

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Education on Proper Waste Separation

Recyclable material loops are only truly effective if all steps in the cycle are carried out properly. They start with consumers, for example, when they sort waste after the checkout area, but they also include stages which go far beyond this. The better waste is separated, the easier it is to extract new, valuable recycled raw materials from it. Together with its subsidiary PreZero, GreenCycle has been a member of the German “Gelbe Tonne” (Yellow Waste Bin) initiative alliance since 2019. PreZero and the initiative work together to educate consumers in Germany about properly separating waste in the yellow bins. As its first step towards better separation quality, the initiative – with the active support of PreZero, Kaufland, and Lidl – held a promotional tour across Germany. The initiative held campaigns in front of Kaufland and Lidl stores in Germany to sensitize more than 20,000 people in a playful and informative manner to the proper separation of waste so that they can do it at home.

Counteracting Food Waste

Our measures for avoiding food waste are geared to the entire value chain – from production and transport to discounting products which are nearing the end of their shelf life. Our approach for giving away food that can no longer be sold but is still suitable for consumption to charitable organizations such as food banks plays a central part (see p. 50). Our customers can make a significantly greater contribution to avoiding food waste by storing food properly and by trusting their own judgment when dealing with best-by dates. For this reason, Kaufland and Lidl in Germany have joined the “Too Good To Go” organization as one of the many measures in their “Usually Good for Even Longer” initiative. The organization labels appropriate products to encourage consumers to use their own judgment when assessing the shelf life of food. Its goal is to avoid throwing away certain types of food which can often be eaten beyond the best-by date. Through the program, the retail divisions of the Schwarz Group are laying



In Romania, Kaufland raises awareness of waste separation with the “Recicleta” project

Together with the initiative alliance “Gelbe Tonne”, PreZero, Kaufland and Lidl inform consumers in Germany about good separation quality

the groundwork for raising consumer awareness of non-perishable foods on a wide scale.

Recovery at the End of the Value Chain

Despite our forward-looking approach to volume planning, it sometimes happens that food needs to be written off and disposed of. Products that cannot be sold or donated despite careful ordering and discounting before their expiration dates are collected and partially recovered in biogas plants at Kaufland and Lidl in Germany and a few other countries. Other parts are recovered as fertilizer in agriculture and as animal feed and contribute to the production of new food. The retail divisions, with the support of GreenCycle, are able to reuse some of their food waste for energy generation as well.

Lidl also makes use of innovative ideas from start-ups. Lidl Austria, in cooperation with “Livin farms”, is trying out another method for making practical use of food waste.

The young business has developed a process which converts organic waste such as old bread into high-quality proteins and fertilizers. In a test run carried out in four stores in the Vienna area, baked goods from the bakery shop which cannot be sold are collected separately and picked up by Livin farms on a regular basis. The Viennese start-up has developed a small industrial facility in which mealworms utilize organic waste. The insects are later used as an alternative source of protein, for example as animal feed. The potential of this method is great, since 15 percent of Lidl Austria’s biogenic waste currently consists of old bread. Their goal is to implement separate bread collection in all Austrian stores by the end of fiscal year 2020. PreZero is currently building a similar facility in California.

**LIVIN
farms**

Examples of Recycling Projects at the National Level

As the world’s largest buyer of Fairtrade cotton for employee clothing, Kaufland consistently puts the concept of sustainability into practice and does this at the end of the value chain as well. In 2018, some of the no longer used employee clothing at Kaufland in Germany and six other European countries was not disposed of but instead was recovered with the support of the Group’s own recycling company GreenCycle. Among other products, the recovered clothing resulted in the production of more than 10,000 warming blankets, which Kaufland then donated to the German Workers’ Samaritan Federation (ASB).

Another exemplary measure for recycling initiatives implemented by our national entities is the “Recicleta – Your Ecomunity” project initiated by Kaufland Romania. This project, which was initiated in Bucharest in 2017, involves an environment- and climate-friendly technology used for the disposal of paper and plastic waste – it has the aim of making separate disposal profitable, even for smaller amounts of waste, and making sustainable disposal possible for individual households, apartment blocks, and schools. In 2019 alone, the technology made it possible for a record 146 tons of recoverable waste to be collected, and it has enabled a total of 430 tons to be recovered since the project started. The initiative benefits roughly 46,000 residents of the Romanian capital city. In addition, Recicleta successfully carries out educational campaigns in schools – in fact, two tons of the waste which the project collected in 2019 came from collections at 20 schools where appropriate awareness measures were implemented.

MATERIALS & PACKAGING

“

Whether it is drinks, ice cream or nuts, it is not just the content that counts, but also the packaging. Before you can assess how environmentally friendly a piece of packaging is, you need to consider its full life cycle. We, in beverage production, rely on disposable PET bottles with high recycled content and low weight. As a result, we only transport our water in Germany over short distances. Our bottles are light, hygienic, and safe – and the environment wins as well. After the bottles are returned to stores, they are pretreated in our recycling plants and then processed into new bottles. In this way, everyone can work together to contribute to conserving resources and protecting the climate.



Jörg Aldenkott,
Board Member, Schwarz Produktion

Materiality and Objectives UNGC

The Schwarz Group is committed to using natural resources as efficiently as possible and to reducing stress on the environment and climate. The materials we use for packaging our merchandise are a key tool in this regard – however, the efficient use of resources in our own food production processes and for our consumables also plays an important role. Packaging materials are essential for the Schwarz Group as a retail company, especially for keeping food fresh and protecting it for shipment. At the same time, we also require resources and energy for producing packaging, which negatively impacts the environment and climate. As a result, the Schwarz Group strives to use as little material as possible and to transfer the materials it does use within closed loops – in other words, to recover them by recycling them after they are used. Its focus here is mainly on plastic as a reusable material, since this is a key packaging material for the food retail business – because anyone who puts plastic into circulation is also responsible for its continued use. As a result, the Schwarz Group has been committed to related measures for these recyclable materials for a number of years, especially their collection, sorting, and recovery.

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In order to live up to its self-image as a future-oriented driver of innovation, the

Schwarz Group launched the REset Plastic strategy in 2018. In 2018, the Schwarz Group also signed the New Plastics Economy Global Commitment, which is led by the Ellen MacArthur Foundation in cooperation with the United Nations' Environment Programme.

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Their goal of resource conservation generally applies to all packaging materials as well as consumables. Our retail divisions have already been selling unpacked, loose items in the segments of fruits and vegetables and baked goods for many years. The composition of our product packaging

is specified in contracts and is subject to environmental criteria including recyclability, the share of recycled material and general resource savings. Schwarz Produktion is a pioneer in the implementation of closed material loops for disposable deposit PET bottles in Germany. Since 2010 the PET material loop has been set up together with Lidl. As part of its own strategic objectives, Schwarz Produktion is striving to increase the content of recyclate (PET), i.e. recycled plastic, in the beverage bottles it produces. Its goal is to use approximately 75 percent recycled PET in its bottles by the end of fiscal year 2025.

When it comes to consumables in our stores, logistics centers, and administration units, we use products made from recycled materials wherever this is possible and makes sense from an operational and sustainable standpoint. For example, we focus on the content of our advertising materials being made from paper such as handouts, customer newsletters or special editions. A limited number of our consumables and packaging materials even come from our stores' own paper and plastic waste. When meeting the needs of the divisions' administrative facilities for copy paper, GreenCycle, with the support of external service providers, sees to it that these needs are in part met by recycling paper products within the corporation. The consumable bags used in our international logistics centers and European stores are also, for the most part, recycling products (see illustration on p. 84). Moreover, the cartons and other shipping packaging used by Lidl Online are primarily produced from internally recycled paper and film materials.

75%

new plastic saved through recycling PET



Schwarz Produktion Goal

Our Closed Loop Products



Organization and Management

Structure and Responsibilities

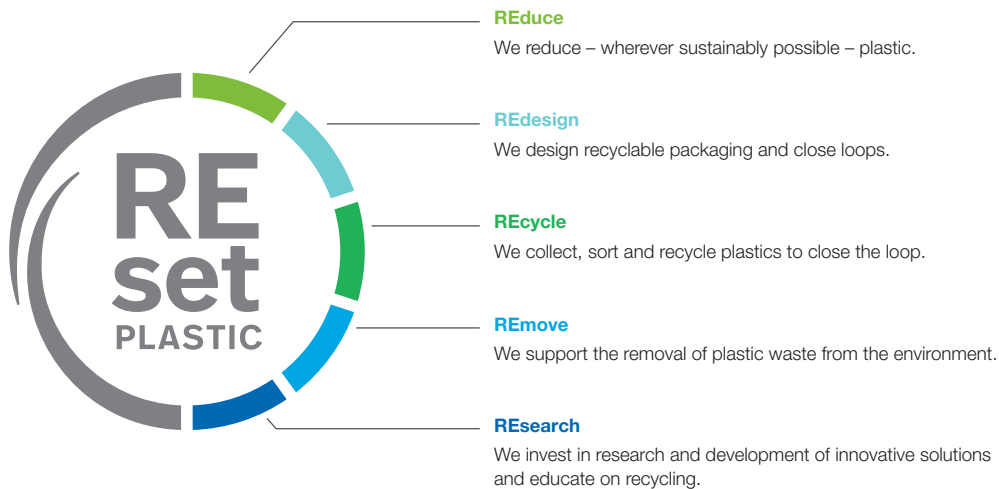
The Schwarz Group, through its REset Plastic strategy, seeks to manage plastic in a holistic manner across all its divisions – and has set up a corresponding organizational structure, which involves all relevant areas of the Group, and at the same time defines clear responsibilities for implementing and achieving its objectives in this area. Responsibility for overall management of the project is assigned to a separate Plastic Strategy department, which reports directly to the executive board of the GreenCycle environmental division. Cross-divisional teams, each with a responsible project leader, work together on the five defined areas of action (see p. 85). Team members are assembled with employees coming from all departments in the company depending on their business backgrounds and knowledge, and they also act as multipliers for employee sensitization in their own divisions.

Responsibilities for the purchasing of merchandise and product packaging are established in the Purchasing departments of the retail divisions

and production plants – this is in contrast to non-merchandise, such as consumables and office supplies, which are purchased centrally by the Group’s procurement division Schwarz Beschaffung (see chapter on Corporate Responsibility, p. 16). As a result, implementation of the corporation’s own guidelines as well as legal regulations related to materials and packaging affect different departments at the Kaufland and Lidl retail division level, depending on the specific issue. For example, the Logistics department establishes guidelines regarding the use of plastic film in order picking by optimizing its use through special winding technology. The Sales department establishes guidelines for receipts

The Vision of REset Plastic: “Less Plastic – Closed Loops” is also systematically pursued against an economic backdrop. In this context, we are the first retail group to commit to use up to 20% less plastic and to make 100% of our private label packaging maximum recyclable by 2025 in all countries and business units – starting from production, procurement, and logistics and ending with disposal and waste management.

REset Plastic covers the following five areas of action:



and produce bags. Purchasing is responsible for the use of materials in product packaging and is supported in this by the Quality Assurance, Supplier Management (Lidl), and Packaging Management (Kaufland) departments as well as by the CSR experts responsible in each case. At Lidl, the Real Estate/Construction department is responsible for the use of materials in properties; in the case of Kaufland, this issue is the responsibility of the Construction, Sales, and Procurement departments. The respective regional distribution center is responsible for operational management. The production facilities of Schwarz Produktion and of Kaufland's meat processing plants likewise assign responsibilities related to materials to different parts of the organization, depending on the type of material or how it is used. At Schwarz Produktion, the Purchasing, Quality Management and Marketing departments as well as Public Relations and Sustainability are responsible for any packaging-related issues. These departments, as part of a joint "plastics round table", regularly exchange ideas on relevant aspects of packaging and recyclability. This is ensured by a comprehensive material and supplier management system, which the departments use to save packaging material when it is possible and makes sense. In addition, the round table carries out regular evaluations of the status quo of issues related to plastic reduction and use of recyclates. Due to its business model, materials play a key

role for GreenCycle as the environmental division (see chapter on Recyclable Materials & Recycling, p. 76). Finally, the relevant GreenCycle technical experts are closely involved in the retail divisions' packaging design processes.

Complaint Mechanisms and Stakeholder Contacts

A number of channels are available to both customers and employees who have complaints and suggestions regarding materials and packaging – these can be submitted directly to retail division stores, by telephone through a customer hotline, by email or by mail. Our group-wide compliance management system also makes it possible for employees and customers to report violations of applicable law or internal guidelines. These can be reported anonymously through the online reporting system or directly to the compliance officer.

One area of action established within our plastic strategy is REsearch, a scheme which makes it possible for the Schwarz Group to remain in close contact with various start-ups and incubators that give us valuable suggestions, especially in relation to innovative packaging solutions.

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Implementation and Measures

UNGC

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Bottles in Circulation

The Schwarz Group makes a major contribution to a sustainable circular economy with its unique recyclable material loop for deposit PET bottles, which Schwarz Produktion developed in 2010 together with Lidl and operates for the retail divisions with the support of GreenCycle. Every bottle that passes through a Lidl return machine in Germany is subsequently brought into Lidl's recycling system. Bottles taken back to Kaufland are likewise processed in this cycle. The Schwarz Group has succeeded in incorporating all the steps of the PET recyclable material loop under one roof. This makes it possible for us to use our available resources optimally and ensure that we will be able to continue to use as much food-grade recycled PET as possible to manufacture new PET bottles.

The success of its commitment is best demonstrated by the 1.5 liter PET bottle for the still mineral water of Lidl's "Saskia"¹ own brand. Except for its lid and label, the bottle has been made exclusively out of recycled PET since fiscal year 2019, and new plastic is not required for its production. PET bottles are collected in stores and then sorted, recycled, and processed into new bottle bodies by Schwarz Produktion. They are subsequently filled in the corporation's own beverage plants and delivered back to stores.

The remaining PET bottles under our beverage own brands, which are manufactured in Schwarz Produktion plants, consist on average of more than 50 percent of recycled PET material. In addition to the use of recycled PET, Schwarz Produktion is also continuously working on reducing the weight of the PET bottles it produces and thus has saved as much as 30 percent of plastic per bottle since 2008. All in all, this weight reduction and use of recycled material has made it possible for us to save more than 60,000 tons of new PET material in fiscal year 2019 alone and thus more than 110,000 tons of CO₂.

Replacing Disposable Bags – Establishing Alternatives

The Schwarz Group has set itself the goal of examining its use of plastic in all areas of the Group and reducing its use whenever this makes sense and contributes to sustainability. This goal also applies to our packaging. By 2017, Lidl had already listed standard plastic bags with a thickness between 15 and 50 micrometers for use in all of its 3,200 German stores. Kaufland likewise implemented this measure in all its countries in 2019, making it the first retailer in Poland, Slovakia, and other countries to do so. At this point, no Kaufland or Lidl store in the world offers any kind of disposable

Recyclable Material Loop for Deposit PET Bottles



¹ Available in Lidl stores in Germany, Austria, Denmark, and Switzerland during the reporting period.

² Without cap and label.

plastic shopping bags (< 50 micrometers). Instead, the two retail divisions rely on sturdy permanent shopping bags that are more sustainable because they can be reused, and for the most part, the bags are produced from their own film waste. The divisions also provide reusable shopping bags made out of certified cotton. Alternatives to conventional plastic bags are also being established in other areas: For example, Kaufland and Lidl offer their customers a wide assortment of unwrapped fruits and vegetables. Both retail divisions also provide durable reusable nets, which make it safe and easy for customers to bring these products back home. Since they can be used a number of times, they are more resource-efficient than conventional plastic knot bags. The net bags made of recyclable polyester can hold up to five kilos of fruit and vegetables, are reusable, and can be washed in a washing machine at 30 °C. The reusable nets from Kaufland and Lidl are available in all of our stores around the world.

Reducing Packaging Material

The retail divisions continuously analyze the areas in which packaging material can be optimized or reduced. As members of the European Association for Soaps, Detergents and Maintenance Products (A.I.S.E.), Kaufland and Lidl are committed to sustainability in that area – also through combining products and packaging designs. For example, by changing the formulation of its Formil laundry detergent, Lidl has been able to reduce the amount of detergent required per load from 120 g in 2006 to 65 g today. While still maintaining 65 washes per package, optimizing the powder detergent made it possible to re-develop the product's packaging and to reduce its weight by more than 20 percent as a result. Through the optimized packaging, Kaufland has likewise been successful in saving materials for products like laundry detergent, polishers, and cleaning agents. The packaging of six products in its K-Classic line – including the bathroom cleaner and McBride rinse and fabric softener – consists

of 60 percent recycled PET. Kaufland is consistently optimizing packaging for its textiles and accessories as well. In the autumn of 2018, Kaufland began to switch from poly-bags to recyclable FSC cardboard for all packaging for textiles including clothing, accessories, and home textiles; this is how it has minimized its need for plastic by nearly 100 percent and also saved approximately 60 tons of plastic each year.

The retail divisions also rely on labeling so customers can consciously choose to use more sustainable packaging – Kaufland uses the logo “Bewussterverpackt” (consciously packed), while Lidl uses the logo “Verantwortlicher verpackt” (packaging responsibly).

100%

recycled PET²
“Saskia” Still 1.5 l bottle

More than

10,000 t

new PET saved in
fiscal year 2019

More than

17,000 t

CO₂ saved in
fiscal year 2019



KEY FIGURES

Recyclable Materials and Waste by Type and Disposal Method

	Reuse	Recycling	Fermentation	Composting ¹	Thermal utilization with energy recovery	Combustion	Landfilling	Miscellaneous ²	Total ⁶
Total weight of reusable material in tons	6,219	1,970,060	275,845	8,554	201,198	46,362	127,994	60,910	2,697,142
	2,840	1,664,729	305,529	1,591	4,125	8,031	12,536	503,224	2,502,605
thereof non-hazardous waste	6,150	1,962,703	275,845	8,554	200,821	46,051	127,940	59,877	2,687,942
	2,840	1,664,729	305,529	1,591	4,125	8,031	12,536	503,224	2,502,605
Paper/card-board/cartons	-	1,526,943	-	-	790	1,339	-	4	1,529,077
	-	1,364,286	-	-	47	-	-	64,147	1,428,480
Organic	-	78,260	275,845	8,554	54,955	8,376	16,585	231	442,806
	-	72,359	305,529	1,591	2,978	8,027	12,453	6,467	409,404
Residual waste ³	-	-	-	-	135,198	35,346	105,103	47,654	323,300
	-	-	-	-	-	-	-	291,994	291,994
PET	-	158,067	-	-	-	-	-	-	158,067
	-	163,273	-	-	-	-	15	2	163,291
Plastics	-	77,163	-	-	2,679	-	637	102	80,581
	-	64,693	-	-	1,093	-	68	1,396	67,250
Wood ³	-	58,842	-	-	5,567	84	2,344	4,527	71,364
	-	-	-	-	-	-	-	55,065	55,065
Scrap ⁴	-	31,836	-	-	-	-	1,296	974	34,106
	-	-	-	-	-	-	-	-	-
Glass ⁴	-	24,988	-	-	-	-	-	-	24,988
	-	-	-	-	-	-	-	-	-
Textiles	3,956	84	-	-	462	12	57	-	4,571
	2,840	118	-	-	7	4	-	321	3,290
Miscellaneous	2,194	6,520	-	-	1,170	894	1,918	6,385	19,082
	-	-	-	-	-	-	-	83,832	83,832
thereof hazardous waste ^{4, 5}	69	7,356	-	-	377	310	54	1,033	9,199
	-	-	-	-	-	-	-	-	-

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■ Fiscal year 2019

■ Fiscal year 2018

¹ The composting disposal method was newly implemented for the collection of key figures in FY 2019. The fermentation/composting collection item was used for FY 2018 figures and was included in the fermentation category for FY 2018.

² The "miscellaneous" category is a compound item which also includes quantities that were transferred with an unknown method.

³ No disposal processes were recorded for the reusable material fractions of residual waste or wood for FY 2018; as a result, these values are generally included under the "miscellaneous" disposal process.

⁴ Glass, scrap, and hazardous waste reusable material fractions were collected separately for the first time in FY 2019. These fractions are included in the miscellaneous category for FY 2018.

⁵ These include, for example, used paints/varnishes, household/industrial batteries, energy-saving light bulbs, electronic waste, hazardous goods, cleaning agents, and special waste.

⁶ Deviations between the last digits of the totals for individual items and grand totals are due to rounding of decimal places.

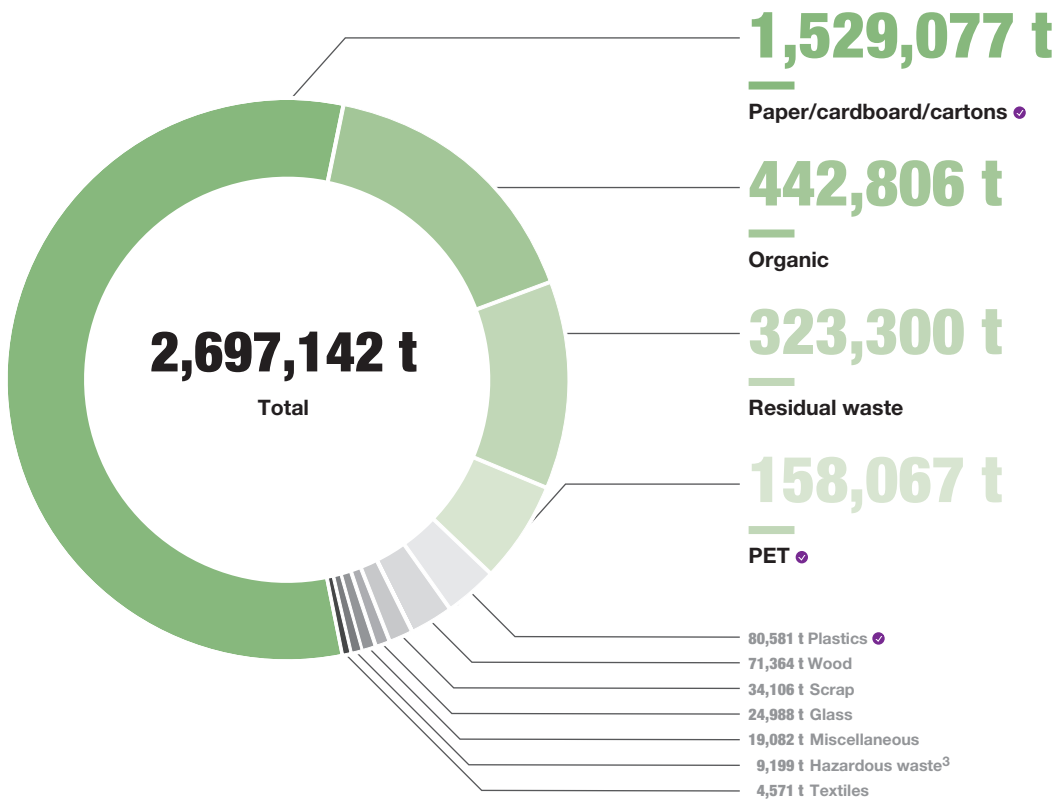
Materials Used by Weight or Volume

Consumables in tons	2019 ¹	2018
Total advertising material	556,707.4	528,507.7
from fresh fiber ²	245,302.4	216,180.7
from recycling material ²	311,405.0	312,327.0
Total printer paper	4,898.1	3,936.0
from fresh fiber ²	2,078.4	1,629.4
from recycling material ²	2,819.7	2,306.5
Total bread bags	16,013.7	18,277.0
from fresh fiber ²	16,013.7	18,277.0
from recycling material ²	-	-
Trash bags	7,112.8	5,121.1
Plastic bags/knot bags	7,916.0	12,528.5
Stretch film (packaging material)	11,672.4	11,441.9
Sold reusable mesh bags (fruit and vegetables) in units	9,651,373.0	-

GRI 301-1

Total Weight of Reusable Material Fractions

in tons (2019)



GRI 306-2

¹ Collected during calendar year.

² In the case of paper consumables, a differentiation is made between paper made out of fresh fiber paper and recycled paper. If a consumable is produced from both fresh fiber and recycled paper, it is assigned to the type of paper that has the higher content.

³ These include, for example, used paints/varnishes, household/industrial batteries, energy-saving light bulbs, electronic waste, hazardous goods, cleaning agents, and special waste.



“

Through our actions,
we are making a positive
contribution to preserving
ecosystems.

ECO- SYSTEMS

As a corporate group operating worldwide, we are making a contribution to environmental and climate protection. We construct stores and buildings to be as energy-efficient as possible in order to promote the transition to sustainable energy. More than 30 percent of the power we consume comes from renewable energies – we even produce some of these energies ourselves. Our commitment to efficiency and sustainability also includes initiatives related to the consumption of fresh water, the protection of lakes and oceans, and the preservation of biodiversity – for example, we use circulatory systems and rigorous systems for waste, chemical, and pesticide management.

ENERGY & EMISSIONS



“

The threat to the world’s food supply caused by climate-related droughts, floods and harvest failures only can be overcome if we keep global warming under 2 degrees Celsius. This means we need to bring our production of greenhouse gases down to zero by 2050. As a vital part of our economy, the food retail business also bears responsibility for achieving this goal. The Schwarz Group should therefore make an appropriate contribution to the stabilization of our climate. To do this, it needs a solid plan for rapidly reducing its emissions resulting from the cooling, lighting, distribution, and of course the production of its goods. This will make it possible for our grandchildren to also live safely and eat well.

Professor Hans Joachim Schellnhuber CBE,
Director Emeritus of the Potsdam
Institute for Climate Impact Research (PIK)

Materiality and Objectives UNGC

– As a corporate group operating worldwide, the Schwarz Group seeks to drive forward a transition to sustainable energy and mobility.

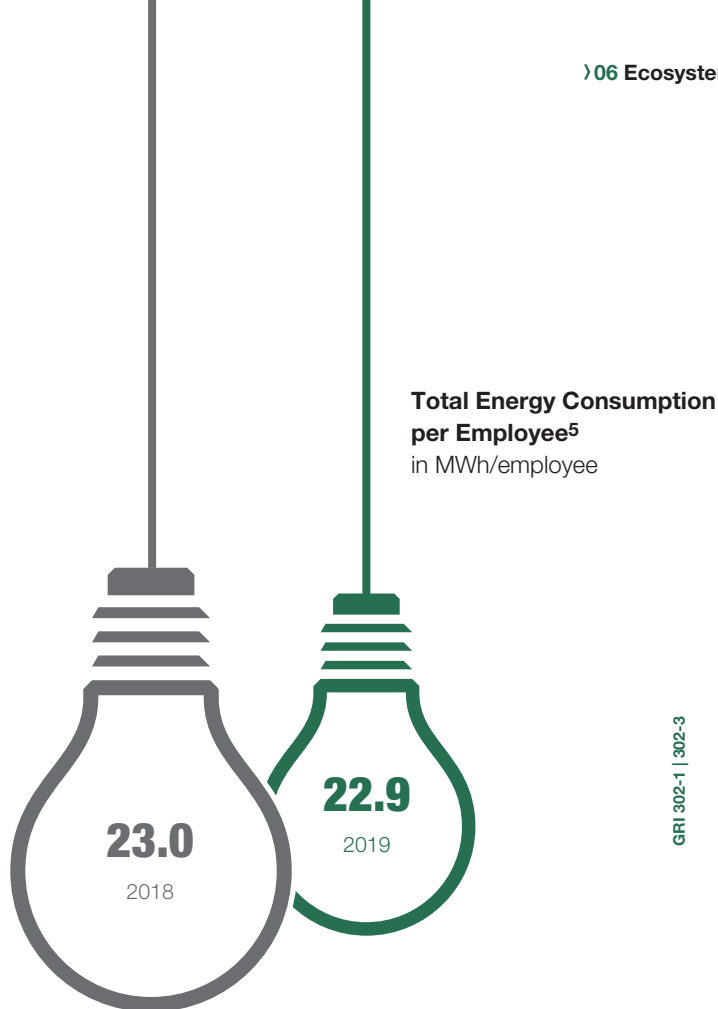
In order to meet the challenges of ongoing climate change and its impacts on people, the environment, and the economy, we consider it the duty of all businesses to develop appropriate measures for increased climate protection and resource efficiency. To this end, in 2015 the Schwarz Group, together with other retail businesses in Germany, declared its commitment to the conclusions of the Paris Climate Agreement – in essence, limiting global warming to far below 2 degrees Celsius – and to its continuous support. In order to coordinate all climate protection measures within the corporation and to set ambitious goals for the future, we are in the process of planning a group-wide climate protection strategy.

The key tools for fighting climate change and reducing negative impacts include using energy more efficiently and increasing the use of renewable energy sources. The Schwarz Group constructs its stores, administrative buildings, production facilities, and logistics centers to be as energy-efficient as possible, and it covers more than 30 percent of its total power consumption exclusively through renewable energies – some of which are produced internally. Division buildings are in part based on nationally and internationally renowned standards for sustainable construction – for example, BREEAM¹, EDGE², LEED³ and the DGNB standard⁴. A holistic approach to energy management based on the international ISO 50001 standard makes it possible for the Schwarz Group to improve its energy efficiency and in turn to reduce associated CO₂ emissions. To this end, all divisions have had their stores, logistics centers, production facilities, and administration buildings

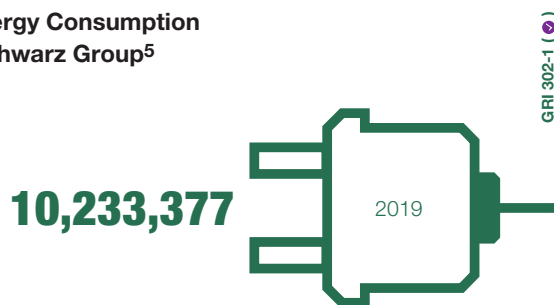
certified in accordance with this standard. In order to optimize its energy-intensive production processes, Schwarz Produktion has also set itself the goal of implementing appropriate measures to save at least 33 million kWh of energy in the period from fiscal year 2018 to fiscal year 2025.

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Total Energy Consumption of the Schwarz Group⁵
in MWh



¹ Building Research Establishment Environmental Assessment Method (BREEAM).
² Excellence in Design for Greater Efficiencies (EDGE).
³ Leadership in Energy and Environmental Design (LEED).
⁴ German Sustainable Building Council (DGNB).
⁵ For reasons of relevance to internal control, we generally report all key energy figures in megawatt-hour units (MWh).

This strategic target is broken down into separate energy targets for each plant and was achieved to approximately 50 percent by the end of fiscal year 2019.

Kaufland's meat processing plants have set the goal of saving 7.8 million kWh of their total energy consumption at all facilities by 2022 (base year 2018); the division had already achieved 70 percent of this goal by the beginning of 2020.

The area of logistics also is a key tool for the Schwarz Group for reducing its internal generation of energy and emissions. As the environmental division, GreenCycle is also heavily invested in logistics processes in addition to the retail divisions and Schwarz Produktion. As part of a group-wide logistics strategy, the divisions are rigorously working on developing future-oriented, innovative, and efficient solutions and processes which cover the entire supply chain and make efficient use of resources, especially by consistently linking them and bundling them together. For example, the efficiency of our logistics processes is already being measured today by key figures. In particular, capacity utilization of trucks and optimal routes are calculated in order to reduce the distance they travel. The Group is also looking into linking all the transport operations of the divisions together in order to discover further potentials for synergy and to make the use of transport capacities even more efficient.

Organization and Management

Structure and Responsibilities

Responsibilities in the area of energy and emissions are structured and assigned differently within each division. However, one uniform approach exists when it comes to energy – The Energy Management department in each division is responsible for its area and for recording energy consumption in cooperation with the respective Controlling departments responsible. In the case of the administrative locations of Schwarz Dienstleistungen in Neck-

arsulm and GreenCycle, energy management is bundled together under a corresponding department of the property management company Schwarz Immobilien Service, which is operationally responsible for the system and operates it. In the case of PreZero in Germany, energy management is handled by the HSEQ (Health, Environment, Safety, Quality) department based in the Porta Westfalica facility. Schwarz Beschaffung organizes overall energy purchasing for nearly 20 national division entities, although the respective countries have the final say on choosing providers. In addition, Kaufland underscores its holistic approach to increased energy efficiency by appointing energy managers in all of its national entities. They are responsible for optimizing energy management on a regular basis and for its strategic control on the basis of key figures.

Other areas of energy are likewise structured and assigned differently within each division. At Kaufland, for example, the Real Estate Projects department is responsible for implementing projects at a national level in accordance with the International Construction department's guidelines in the areas of heating, ventilation, refrigeration, refrigerated shelves, refrigerated cabinets, air-conditioning systems, light, energy, and emissions. In the case of Lidl, the Real Estate department is responsible for air-conditioning and refrigeration systems as well as heating and lighting in stores, logistics centers, and the administration building. The procurement division Schwarz Beschaffung is then responsible for issues related to refrigerated shelves and cold storage cells. In the case of Schwarz Produktion, climate protection and emissions are the responsibility of Central Energy Management in cooperation with the Public Relations and Sustainability departments, while at Kaufland's meat processing plants the Environmental Management department has this responsibility. For GreenCycle, any issues related to environmental and CO₂ management as well as the quality management system are the responsibility of the Energy and Environmental Innovations department.

The group-wide logistics strategy comes from a separate department, which reports directly to the Schwarz Dienstleistungen board of directors, while coordination of any matters related to this topic is the responsibility of the Logistics department at

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the corresponding retail division. In terms of the logistics strategy and beyond, the competent departments and divisions have cultivated a climate of close cooperation and intense exchange of ideas.

Certified Energy and Environmental Management Systems

All Schwarz Group divisions rely on energy management systems to steer their measures for increasing energy efficiency. In the case of Kaufland, seven of its eight countries are currently certified in accordance with the ISO 50001 energy management system; at Lidl, this now applies to 27 of its 30 countries. The goal is to certify all 29 countries in Europe by the end of 2020. As of the reporting date, all production facilities of Schwarz Produktion and Kaufland's meat processing plants as well as the administrative locations of GreenCycle and Schwarz Dienstleistungen in Neckarsulm were also ISO 50001-certified. Other GreenCycle management systems such as environmental management according to ISO 14001 and CO₂ management according to ISO 14064 are currently being set up. In addition, two other GreenCycle companies are operating energy and environmental management systems in accordance with ISO 50001 and ISO 14001: PreZero (at all operational facilities) and PreZero Polymers.

Kaufland and Lidl carry out regular internal and external audits in order to evaluate energy management at their national companies. To identify

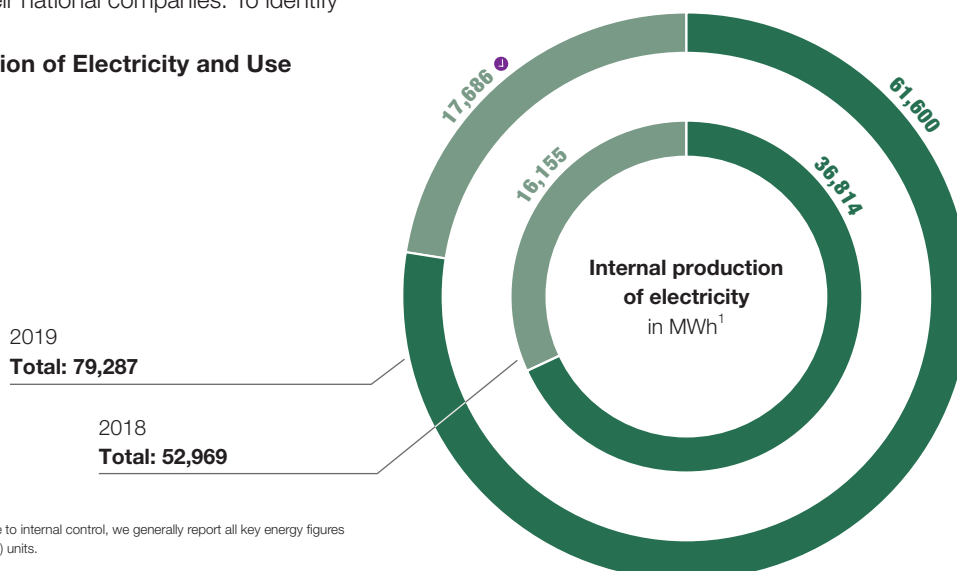
additional suitable measures for reducing consumption, these divisions also use suggestions from their employees as part of an idea management system. Schwarz Produktion makes use of EnEffCo® energy control software to record and process more than 3,000 measuring and data points; this is being used in all of its plants. In addition, the Energy Management department also prepares management reviews on an annual basis for individual plants as well as an overall review for the central energy manager, which are then used to identify and implement potential savings.

Group-Wide Climate Footprinting

An important tool for describing and monitoring consumption and emissions across the Group is climate footprinting. Since fiscal year 2018, a group-wide climate footprint based on the Greenhouse Gas Protocol has been prepared annually for all divisions and countries. Kaufland as well as Kaufland's meat processing plants and Schwarz Produktion have already had division-specific climate footprints since 2012. As part of the process for taking the Group's footprint, which is being handled by the CSR department at Schwarz Dienstleistungen, emissions are recorded and described at the national level so that useful measures for avoiding and reducing emissions can then be developed and evaluated.

Own Generation of Electricity and Use in MWh¹

- Internal use
- Grid feed-in



¹ For reasons of relevance to internal control, we generally report all key energy figures in megawatt-hour (MWh) units.

GRI 302-1

Implementation and Measures

UNGC

GRI 102-12 | 102-16 | 302-4 | 302-5 | 305-5

Driving Forward the Energy and Mobility Revolution

During the reporting period, the Schwarz Group further extended the availability of e-charging stations in Kaufland and Lidl store parking lots. By the end of fiscal year 2019, 308 stores in Germany were each provided with at least one e-charging station, whose electricity comes exclusively from renewable energies. A total of 1,184 stores exist throughout the Group. Lidl is currently constructing an additional 72 stores in Germany, with roughly 200 in planning. Kaufland is aiming to equip 20 of its own facilities as well as selected rental locations with e-charging stations each year until 2028 and to reach a number of 136 e-charging stations operating on green electricity by the end of 2020 alone. Kaufland and Lidl's common goal over the medium term is to have an e-charging station available at each of their stores in Germany. In cooperation with the e-mobility partner WeShare, the retail divisions are also making their stations available for charging at night – which has been the case at their Berlin stores up until now. The cooperation is to be extended to other major cities in Germany. Because of this massive expansion, the Schwarz Group is becoming the operator of the largest e-charging network in the German food retail sector. In addition, Kaufland has also provided e-charging stations to almost 60 stores of other national entities, including the Czech Republic and Romania.

Kaufland and Lidl plan to expand the range of e-charging stations at their own stores in Germany



Energy Efficiency in Production Plants and Stores

Schwarz Produktion and Kaufland's meat processing plants have implemented a wide variety of measures intended to provide climate protection through energy efficiency. These measures range from the large-scale rollout of illumination measures using LED bulbs and compressed air measures using so-called air leader control, to the designing of complex energy networks at the Übach-Palenberg facility. During the fiscal years 2018 and 2019, Schwarz Produktion implemented measures for improving energy efficiency, which resulted in a total savings of more than 17,000 megawatts – this corresponds to the annual power consumption of roughly 7,000 two-person households. Energy efficiency also plays a key role in the store concepts of the retail divisions, for example, exploiting the heat loss from refrigeration systems. Kaufland and Lidl are making increasing use of the heat lost from their refrigeration cabinets and systems to heat buildings. One example of the realization of this long-term commitment can be found at Kaufland, where a total of 241 stores throughout the world have already been equipped with so-called compound refrigeration/climate systems (KKV). In order to reduce CO₂ emissions even further, refrigeration cabinets in many locations are being operated with natural refrigerants like propane or with CO₂.

Standards for Sustainable Building

The Schwarz Group places great value on designing its stores, administrative buildings, and logistics centers to be sustainable and energy-efficient, and it incorporates relevant national and international standards on sustainable construction into these designs. Lidl takes into account

the requirements established for the DGNB's gold certificate for the construction of its new stores in Germany.



BREEAM[®]
delivered by bre



The Lidl logistics center in Waddinxveen in the Netherlands has been awarded the BREEAM “Outstanding” seal of quality. At the time this report was prepared, a Lidl store in Romania (the sales building with the highest rating in the world), a headquarters administrative building, and logistics centers in Greece, the Netherlands and Great Britain also had received BREEAM certification. In addition, a number of retail division stores have also been certified in accordance with EDGE. In the case of Lidl, this certification was

granted to 36 stores in Lithuania, 89 stores in Bulgaria and all stores in Romania. This certification has been issued to 48 Kaufland stores in Bulgaria and one Kaufland store in Romania. More certifications at other facilities in Romania and the Republic of Moldova are being planned. Moreover, Lidl’s US headquarters in Arlington, Virginia received LEED certification in 2017. In 2019 Lidl Italy opened its first warehouse with LEED Gold certification. Additionally in that same year, the Lidl headquarters in Serbia was even awarded the LEED Platinum certification – and is therefore the first building in the country to be awarded this certification. Apart from focusing on energy-efficient expansion, Kaufland and Lidl are also taking increasing energy efficiency into account when renovating their existing properties.

Sustainable Logistics

In addition to using modern vehicles, another primary area of focus for production plants is reducing transport distances when transporting produced goods to retail divisions. This criterion is the basis for investment decisions by Schwarz Produktion. For example, the beverage plant production network has been



793,731 m²

photovoltaic plants are operated by the Schwarz Group (2019). This corresponds to an area of around 111 soccer fields

965

photovoltaic plants in total

reworked in recent years, resulting in significant reductions in transport distances. By 2013, Kaufland had already shown its commitment in this area by joining the Lean and Green environmental initiative, which seeks to reduce greenhouse gas emissions in logistics processes by 20 percent within five years. In 2016, Kaufland Germany was awarded the Lean and Green First Star for the 30.3 percent reduction in CO₂ it achieved between 2010 and 2015. In 2019, Kaufland also received the Lean and Green Second Star for its far-reaching commitment, which included the “Fleet Sharing” project it carried out together with cooperation partners. Lidl Germany received a Lean and Green First Star in 2018. Numerous national entities are also implementing measures for sustainable logistics – for example, in Germany, the Netherlands, Switzerland, Italy, Finland, and Slovakia, Lidl has concluded partnership agreements with service providers for the climate-friendly transportation of merchandise using trucks that run on electricity, gas or biomethane. In Romania and Bulgaria, Kaufland achieved a total savings in transport emissions of 348 tons of CO₂ equivalent in 2019 alone by switching from trucks to rail for the delivery of paper shipments from Scandinavia.

Additional measures and details on projects are available online at: www.csr.schwarz/sustainability-report/ecosystems

WATER & OCEANS

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At One Earth – One Ocean e.V., we are concerned about our waters. Pollution of our oceans, rivers, and seas endangers the organisms which live in them and represents one of the biggest challenges for our global community. Our oceans already contain an estimated 150 million tons of plastic, and every year this figure increases by more than ten million tons. A number of different factors are often at play with the issue of water pollution – and the retail trade is responsible for some of them because of its enormous consumption of plastic. As a result, the Schwarz Group is a key partner in the fight for cleaner oceans – and one with enormous potential.



Günther Bonin,
Board, One Earth – One Ocean e.V.

Materiality and Objectives UNGC

Fresh water is one of the most important resources on this planet. Although it is a renewable resource and therefore continuously available to us, it is also in constant danger of being harmed due to unequal distribution and negative impacts due to use. Neither agriculture nor industrial production would be conceivable without sufficiently available clean water. Without clean seas, fishing would be impossible and the entire ecology of this planet would be severely disrupted. In light of all these challenges, the Schwarz Group intends to prevent water pollution and excessive consumption of water at all of its locations and in all of its countries.

Our greatest leverage in this area lies in the supply chain and own brand production – whether this be through the development of circulatory systems, rigorous waste and chemical management, the implementation of various efficiency measures, or other such initiatives. In the area of textile and shoe production, Kaufland and Lidl decided in 2015 and 2014 respectively to support the Detox campaign initiated by Greenpeace and to hold itself to these detox commitments publicly. As a result, they committed themselves to avoiding the use of chemicals that Greenpeace has defined as questionable in its textile production and have since published regular interim reports. The target of the commitment was to eliminate eleven hazardous substance groups from textile and shoe production at Kaufland and Lidl by early 2020. Together with suppliers, the divisions have undertaken considerable efforts towards achieving this target and have made great progress. However, due to the current state of technology, it has thus far not been possible to completely eliminate certain substance groups like heavy metals across the entire industry.

The Schwarz Group will continue to work intensely to make improvements in this area and has also committed itself in writing to continuing its own detox commitment under a common strategic objective for the environmentally and health-friendly use of chemicals in the production of its own brands.

Non-Food Chemicals: We will strive for a healthy, environmental-friendly use of chemicals in the production of our own brands by the end of 2030. To this end, we will continue to work towards observing our Detox commitments on the basis of a standard restricted substances list, for the production of our textiles and shoes (MRSL).

To achieve our goal, we will continue to monitor our supply chains and discuss the findings systematically with our business partners. The most important aspect is the systematic transition of the industry to a responsible management of chemicals in production. In this regard, we are also exchanging ideas with other industries and carrying out performance analyses of relevant substance groups for selected products to identify potentially unsound chemicals and to avoid them in the supply chain. Moreover, we also plan to publish interim reports on a regular basis in the future.

The group-wide REset Plastic strategy (see p. 84) also makes contributions to this area. This strategy helps the Group reduce plastic and related waste, recycle packaging, and keep valuable resources in circulation. In this way, the strategy indirectly helps to prevent plastic waste from entering oceans and other waters. Moreover, the Schwarz Group is helping to remove plastic waste that has already been released into the environment through its projects and collaborations under the REmove area of action.

The avoidance of microplastics is also a topic which is relevant to the protection of ecosystems and waters. As retail businesses with a wide range of products in the categories of cosmetics and laundry detergent/polishers/cleaning agents, Kaufland and Lidl rely on using microplastic-free formulations. By as early as 2013, Kaufland had already decided to completely eliminate its use of solid microplastic particles in all of its own brand products sold internationally, and it established this goal in a corresponding voluntary commitment statement. Over the course of the reporting period, the retail divisions, as part

of the REset Plastic strategy, also established the common goal of eliminating microplastics on an even larger scale by promising to remove them from the formulations of laundry detergents, polishers, and cleaning agents as well as cosmetic products in their own brand assortment by the end of 2021, provided the elimination of synthetic polymers does not result in significant limitations to product performance and/or safety. In order to sensitize customers to this issue as they shop, the divisions have been labeling their products with the appropriate “without microplastics” logos since the second quarter of 2020. As a scientific competence partner, the Fraunhofer Institute UMSICHT is supporting the Schwarz Group with its implementation of its formulated goals.

In addition to protecting waters from pollution and contamination through waste and chemicals, Schwarz Group is keeping an eye on the efficient use of water resources. As a result, we consider it important to use water-efficient systems in production processes and for construction work at our own facilities. In addition, Kaufland’s meat processing plants and to some extent Schwarz Produktion have set for themselves the goal of continuously monitoring and reducing specific water consumption at their own plants. As part of this goal, Kaufland’s meat processing plants are working on saving 20 percent of average water consumption at all its locations by 2022. By the end of the fiscal year, the division had already succeeded in achieving water savings of 11 percent compared to the 2017 base year. Schwarz Produktion has defined the key figure “specific water consumption” for some of its locations. An ambitious target is established each year for these facilities, where every improvement must be ensured by taking concrete measures (e.g. in cooperation with the operational excellence team).

GRI 303

Organization and Management

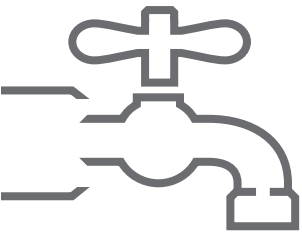
Structure and Responsibilities

In the case of Kaufland, the Construction department has responsibility for water-related issues in operational management; at Lidl this responsibility is divided over several departments. For example, the Real Estate/Construction department is responsible for designing water supply and disposal systems. In the case of Schwarz Produktion, responsibility for implementing efficiency measures and determining water consumption is shared by Central Engineering and the respective production plants. At Kaufland’s meat processing plants it is the responsibility of the Environmental Management department. Moreover, plant managers and local water protection officers are responsible for compliance with wastewater regulations. Responsibilities for all activities related to microplastics and protecting waters and seas from pollution by waste are established under the group-wide REset Plastic strategy. In these cases, the responsible department reports directly to the executive board of the GreenCycle environmental division. In both retail divisions and at Schwarz Dienstleistungen, the Purchasing and/or Procurement department is responsible for compliance with guidelines related to the supply chain.

Supplier Requirements and Review

Businesses involved in the Kaufland and Lidl supply chain that are entrusted with producing textiles for the retail divisions’ assortment of promotional goods, or for Kaufland’s permanent product range, are subjected to a detailed review. In addition, the textiles themselves are tested separately for predominantly harmful substances on the basis of various legal requirements and voluntary commitments. All textile suppliers are bound to compliance with the targets established within the scope of the detox commitment. Kaufland and Lidl use annual waste water tests to review compliance with the respective limit values and bans.

GRI 102-12 | 308 | 308-2 | 414 | 414-2



GRI 303-1

Water Consumption at the Schwarz Group
2019



25.8 m³

per employee

11,550,731 m³

Total

The Code of Conduct for business partners normally applies to all Kaufland and Lidl suppliers. Suppliers are also bound to compliance with environmental standards in the supply chain. Additional information on topics related to environmental and social standards and on the Code of Conduct can be found in the chapter on Corporate Responsibility on p. 16. Suspected violations of supply chain guidelines can also be reported anonymously in 25 languages to the two retail divisions via the Schwarz Group's whistle-blower system. In addition, the divisions support the complaint mechanisms established in the market, such as those established by the European Supply Chain Initiative. An external lawyer of trust is also available for such issues.

GRI 306-2

Management of Water and Springs at Schwarz Produktion

Schwarz Produktion normally makes a distinction between water used in production processes and water used for bottling. For the most part, Schwarz Produktion currently uses mineral water from its own springs to produce its own mineral water and soft drinks. The division operates a number of deep wells for this purpose at each of its five beverage plants, which provide water for products such as Saskia mineral water sold at Lidl and K-Classic mineral water sold at Kaufland. None of the springs used is located in a nature reserve. Our mineral springs always meet all requirements established under mineral and table water ordinances. We observe all legal regulations as well as the extraction volumes authorized for each spring as established by the authorities in order to ensure that excessive demands are not placed on renewable supplies of groundwater and that an imbalance between groundwater extraction and groundwater recharge does not occur. Schwarz Produktion provides the competent environmental authorities with all relevant groundwater monitoring data in an annual report, which is prepared by an independent external engineering firm and is audited by the authorities.

GRI 303-2

Implementation and Measures

UNGC



Together with WWF, PreZero retrieves so-called ghost nets from the Baltic Sea

Resource Conservation in Textile Production

Our retail divisions as well as Schwarz Beschaffung are committed to the responsible management of water, waste, and chemicals in our textile manufacturing plants in Asia. We use on-site training to develop and sensitize our suppliers and producers in targeted areas. Kaufland started a project in 2019 which focuses primarily on studying chemicals in wastewater and developing solutions to optimize chemical management at our production facilities. The Kaufland textile sustainability initiative was carried out in close cooperation with a university in Bangladesh as well as suppliers and test institutes, and this initiative is also aimed at students. The innovative PURE project was initiated by Lidl together with the German Society for International Cooperation for the purpose of having employees of Lidl textile suppliers be trained by local experts. The project also systematically recorded local resource consumption, defined performance indicators and developed specific plans for saving resources.

Expanding Global Marine and Water Protection

As part of its REset Plastic strategy, the Schwarz Group has launched a river cleaning project in Bekasi, Indonesia. This project is also headed by the environmental organization One Earth – One Ocean and PT Wasteforchange Alam Indonesia, a local specialist for waste and recycling management. Intense preparations for the project were carried out over the course of the reporting period, with the project expected to go into implementation later in fiscal year 2020 and to run initially for three years.

With the help of small boats called “sea hamsters”, rivers and bank areas are freed of waste so that it does not reach the sea and instead can be returned to the recyclable material loop. As part

of its plastics strategy, the Schwarz Group has also been taking part in “Project STOP” since 2019, which is the leading initiative for preventing plastic waste in oceans. “Project STOP” develops effective material management systems and contributes to their realization through funding and expertise. The first project started in the Indonesian coastal region of Muncar in April 2018, and two other partner cities were added in late 2019.

The PreZero subsidiary of our GreenCycle environmental division is likewise committed to global marine protection. PreZero works in cooperation with WWF to recover and reuse so-called “ghost nets” from the Baltic Sea. Additionally, the company supports the WWF marine protection program in preventing and disposing of plastic waste in Southeast Asia.

PreZero is working with WWF to stop plastics from entering the oceans



Active Against Pollution of the Black Sea and the Atlantic

In 2018, Kaufland supported the first WIND2WIN maritime windsurfing challenge in Bulgaria as its main sponsor in order to raise awareness of plastic pollution in the Black Sea through various campaigns. As part of a follow-up campaign in 2019, volunteers from Kaufland Bulgaria collected almost 700 kilograms of waste while working together with local surfers. Additionally, Lidl Portugal, as part of the TransforMAR project, is showing its commitment to cleaner Atlantic beaches and to raising public awareness on reducing plastic and recycling. By placing plastic waste collection containers on beaches and by rewarding environmentally conscious behavior, the project succeeded in collecting and recycling more than 267,000 pieces of plastic waste in 2019.

GRI 102-12 | 308-2 | 413-1 | 414-2



Additional measures and details on projects are available online at: www.csr.schwarz/sustainability-report/ecosystems

LAND USE & BIODIVERSITY

“

The loss of biological diversity represents an existential threat for humanity: For example, only ecosystems which are functional and biologically diverse are able to support the continuous production of food. They are an essential basis for a sustainable food retail sector. We at Bioland stand for the protection of biodiversity and are committed to sustainable land use – we are pleased to have Lidl’s cooperation in this endeavor.



Jan Plagge,
President, Bioland e.V.

Materiality and Objectives UNGC

As part of the ecosystem, biodiversity, also known as species diversity or biological diversity, is a necessary prerequisite for agriculture and thus for human nourishment. Biodiversity is endangered in many places by the effects of climate change and industrial agriculture. The Schwarz Group not only takes measures at the corporate level to maintain biodiversity, but it also initiates activities and projects along the supply chain.

The Schwarz Group directly impacts biodiversity and land use through various activities, for example through the way it seals surfaces when it builds new stores, logistics centers, and production facilities. Building specifications exist at Kaufland and Lidl which also include general rules for the details on planting trees and plants, and they must be taken into consideration when building new facilities. However, we have still not defined any concrete topics related to biodiversity or established any appropriate group-wide regulations.

In order to keep environmental impacts related to biodiversity and land use to a minimum in the supply chain and production processes, the Schwarz Group pays special attention to such topics in its CSR strategy. For example, is our declared goal to strive for a healthy and environmentally friendly use of chemicals in the production of our own brands by the end of 2030. As a result, we can influence the use of pesticides and fertilizers in agriculture for example. In the textile supply chain, one of the issues involves avoiding the use of specific chemicals banned under the Greenpeace Detox campaign (see Water & Oceans, p. 98). In the area of sustainable raw materials, we are addressing the methods of cultivation, extraction and production in detail and want to reduce their potentially negative effects on biodiversity (see Sustainable Assortment Policy, p. 58).

Through their codes of conduct, our divisions commit their business partners to environmental protection as well. Kaufland carries out its own

random audits of its non-food suppliers, which include analyzing individual environmental aspects as well as social aspects. Our divisions also make

use of recognized product seals and labels (see Sustainable Assortment Policy p. 58). Kaufland and Lidl are also Fairtrade partners. In addition to social standards, the Fairtrade seal also imposes ecological standards such as standards related to the use of pesticides and to the encouragement of organic farming. The retail divisions also promote ecological agriculture through their strategic partnerships with Bioland (Lidl) and Demeter (Kaufland). Their goal here is to bring high-quality and premium local organic products into mainstream society and to drive forward the expansion of organically cultivated areas (see p. 62).

Organization and Management UNGC

Structure and Responsibilities

Issues of land use and biodiversity at Kaufland and Lidl are the responsibility of and are implemented by the Real Estate/Construction and Purchasing departments. The Real Estate/Construction department is responsible for environmental protection during the construction of stores, logistics centers and administrative buildings.

Purchasing is responsible for compliance with and implementation of ecological standards in the supply chain. In the case of Lidl, Purchasing is also responsible for controlling raw material targets, while the quality assurance team in Purchasing is responsible for pesticides management. The divisions' CSR departments support this process and act as both initiators and internal advisors.

In the case of Schwarz Dienstleistungen, Schwarz Beschaffung is responsible for communicating the Code of Conduct to business partners

and for its enforcement.¹

The Real Estate/Construction department of Schwarz Immobilien Service is responsible for all issues related to the construction of new buildings and associated surface sealing.

Comprehensive Pesticides Management in the Retail Divisions

When it comes to protecting biodiversity in cultivation and agriculture, Kaufland and Lidl pay special attention to comprehensive pesticide management. To this end, those divisions are pursuing the goal of reducing their use of pesticides as much as possible. By continually tightening its own plant protection guidelines since fiscal year 2019, Kaufland now has the strictest requirements in the industry for residue levels on fruits and vegetables. These levels fall far below the maximum residue levels permitted by law. Corresponding regulations will be developed further in close collaboration with suppliers. In 2019 Kaufland published a fruit and vegetable transparency report containing concrete guidelines and specific measures which are currently being developed to anchor biodiversity even more firmly within the supply chain. In early 2020 Kaufland also released an initial transparency report on flowers and plants.

To comprehensively reduce its use of pesticides, Lidl has concluded a target agreement with its suppliers and producers, which likewise goes far beyond legal requirements. As a result, fruits and vegetables at Lidl are allowed to have at most one-third of the legally permitted maximum level of pesticides. Under these ambitious limits, fruits and vegetables are also only allowed to have residues from up to a maximum of five different active substances. Related programs are being implemented

in both divisions at the national level – for example, as part of its pesticides reduction program, Lidl Germany is developing measures together with its fruit and vegetable suppliers to protect the diversity of flora and fauna. Kaufland has implemented a project in the Valencia region – the most important region in Europe for growing citrus fruits – which is testing alternatives for glyphosate. This initiative is embedded in Kaufland’s broader approach of working with its suppliers to find ways to effectively reduce and/or avoid using glyphosate.

Management Processes for Production Sites and GreenCycle

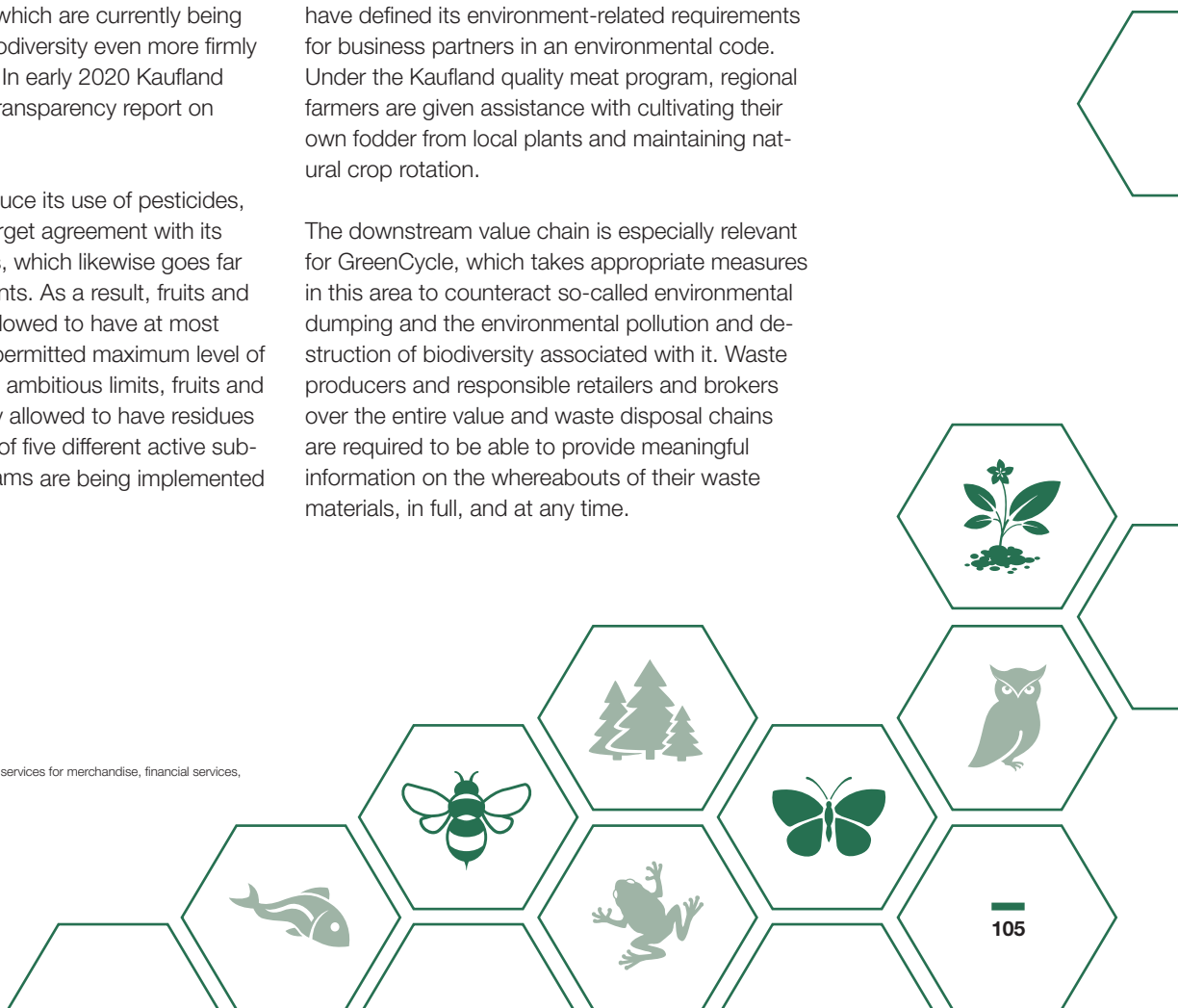
In addition to general certifications and CSR seals which also contribute to promoting biodiversity, Schwarz Produktion relies primarily on a supplier self-disclosure form for new suppliers, which addresses fundamental issues of sustainability. These processes are part of its in-house supplier management system and are defined in an internal policy, which is available to all employees. Kaufland’s meat processing plants have defined its environment-related requirements for business partners in an environmental code. Under the Kaufland quality meat program, regional farmers are given assistance with cultivating their own fodder from local plants and maintaining natural crop rotation.

The downstream value chain is especially relevant for GreenCycle, which takes appropriate measures in this area to counteract so-called environmental dumping and the environmental pollution and destruction of biodiversity associated with it. Waste producers and responsible retailers and brokers over the entire value and waste disposal chains are required to be able to provide meaningful information on the whereabouts of their waste materials, in full, and at any time.

GRI 304-2 | 308-2

GRI 308

¹ Defined exceptions to this are transport services for merchandise, financial services, properties, and real estate.



Implementation and Measures

UNGC

GRI 102-12 | 102-43 | 304-2 | 308-2

Systematically Developing Biodiversity

In order to promote the protection and expansion of biodiversity in food cultivation together with producers, Kaufland is a cooperation partner of the Bodensee-Stiftung and Global Nature Fund and is also involved in the EU-wide initiative “Biodiversity in Standards and Labels for the Food Industry”. Kaufland works together with various producers for conducting on-site tests. Together with some initial farmers, Kaufland implemented concrete measures such as the expansion of flower strips or the increased cultivation of more resistant crops. Kaufland’s focus here is on adapting measures to local conditions such as soil type or the size of the crop and area.

Actively Promoting Biodiversity in Germany

As part of the Lidl Habitat Initiative established in 2018, Lidl Germany is raising customer and supplier awareness of the threats to biodiversity and is also contributing to the protection of wild bees and other beneficial insects. In January 2019, the program was recognized by the United Nations as an official project of the UN Decade on Biodiversity. Just as one example of successful implementation, Lidl installed over 140,000 m² of flowered areas in 30 logistics centers in Germany over the course of 2018 and 2019.

with ideal areas for nesting and feeding has been created on another part of the grounds by maintaining the land appropriately without regular mowing (so-called three-field mowing). In addition, a small herd of alpacas is responsible for maintaining an additional section of 12,000 m², which enables this part of the land to be maintained through permanent, natural, climate-neutral grazing. There are currently plans to also use the fire protection strip around the plant as a wildflower area, which would create an additional living space of approx. 11,500 m² for insects.

Sustainable Cultivation of Soy

As a high-protein feed, soy is used as the central component of animal feed for the production of a great number of products. Lidl is therefore working intensely with a number of Lidl national entities to promote a more sustainable global soy production as part of the “Lidl Soy Initiative”. Together with the non-profit organizations ProTerra Foundation, Roundtable on Responsible Soy, and Donau Soja, Lidl has been working on encouraging a move to more sustainable soy cultivation in Brazil (the main production country) and in Europe for a number of years. By the end of 2019, Lidl had over 700,000 tons of soybeans certified for origin being sold in Germany, Austria, Switzerland, Great Britain, France, the Netherlands, Belgium, Finland, Sweden, and Denmark.

In addition, the Schwarz Group’s retail divisions will rely increasingly on soy grown in the European Union in the future. In order to gradually promote the cultivation of certified, more sustainable and GMO-free soy, Kaufland and Lidl entered into a partnership with Donau Soja in 2019. The organization provides long-term support for small and medium-sized producers who grow their products according to a more sustainable, GMO-free standard and can show shorter transport routes.

Schwarz Produktion also targets and promotes on-site biodiversity at its plant premises in Roßbach (in the Burgenland district). A total area of 275,000 m² is either being managed sustainably through concrete measures like flower and natural grazing areas or is being left completely alone and up to nature. An area of 22,000 m² of this land is laid out as a space for wildflowers, and a permanent habitat for insects



◀ Schwarz Produktion promotes the population of domestic honey bees by establishing their own beehives

KEY FIGURES

Energy Consumption within the Group

	Kaufland	Lidl	Schwarz Dienstleistungen	Schwarz Produktion	Schwarz Group
Total energy consumption in MWh^{1, 2, 3}	2,975,524	6,485,633	309,398	462,822	10,233,377
	2,944,319	6,095,385	52,061	466,633	9,558,399
From renewable sources	225,188	2,245,459	529	4,699	2,475,875
	219,593	1,754,138	609	4,659	1,978,999
From non-renewable sources	2,750,337	4,240,173	308,868	458,124	7,757,502
	2,724,727	4,341,247	51,452	461,974	7,579,400
Electricity	2,214,351	4,983,582	118,835	297,882	7,614,650
	2,235,136	4,691,036	28,553	300,603	7,255,328
From renewable sources	225,188	2,245,459	529	4,699	2,475,875
	219,593	1,754,138	609	4,659	1,978,999
External supply	222,315	2,191,959	–	–	2,414,274
	218,605	1,723,581	–	–	1,942,185
Internal use from internal generation	2,872	53,500	529	4,699	61,601
	988	30,557	609	4,659	36,814
From non-renewable sources	1,989,163	2,738,122	118,306	293,183	5,138,775
	2,015,543	2,936,898	27,944	295,943	5,276,328
District heating	81,255	64,010	1,647	–	146,912
	79,433	69,883	1,182	–	150,498
Gas	526,715	588,672	15,164	147,879	1,278,431
	480,234	579,416	1,040	148,922	1,209,611
Heating oil⁴	33,203	–	–	–	33,203
	34,298	–	–	–	34,298
Mobile combustion⁵	120,001	849,369	173,751	17,061	1,160,182
	115,218	755,051	21,286	17,108	908,663

GRI 302-1

Fiscal year 2019

Fiscal year 2018

¹ For reasons of relevance to internal control, we generally report all key energy figures in megawatt-hour units (MWh).

² Liquid gas consumption is not included in group-wide figures.

³ Deviations between the last digits of the totals for individual items and grand totals are due to rounding of decimal places.

⁴ Conversion of liters to MWh with a combined factor from IPCC 2006 and GHG Protocol Cross Sector Tools 2017 (heating oil: 0.010561). Heating oil consumption by Lidl is not included.

⁵ Gas and diesel for our own company cars and internal store logistics. Conversion of liters to MWh with a combined factor from IPCC 2006 and GHG Protocol Cross Sector Tools 2017 (diesel: 0.010561 / gas: 0.009585).

Volume of Greenhouse Gas (GHG) Emissions

	Kaufland	Lidl	Schwarz Dienstleistungen	Schwarz Produktion	Schwarz Group
Gross volume of GHG emissions in tons CO₂ equivalent^{1, 2, 6, 7}	1,996,822	3,540,431	139,852	304,765	5,981,870
	2,016,661	3,614,358	19,302	319,150	5,969,471
Direct GHG emissions (Scope 1) in tons CO₂ equivalent	406,529	497,656	47,428	32,280	983,893⁵
	387,913	520,420	5,656	31,840	945,829
Volatile gases/coolants ³	271,390	173,379	0	946	445,715
	262,111	220,957	0	297	483,365
Mobile combustion	30,757	216,962	44,664	4,376	296,759
	29,619	193,836	5,467	4,394	233,315
Company cars	30,757	137,671	9,276	2,277	179,982
	29,619	119,409	5,467	2,203	156,698
Logistics (internal)	0	79,290	35,388	2,099	116,778
	0	74,426	0	2,191	76,617
Stationary combustion	104,381	107,315	2,764	26,958	241,419
	96,184	105,627	190	27,149	229,149
Natural gas	96,020	107,315	2,764	26,958	233,058
	87,547	105,627	190	27,149	220,512
Heating oil	8,361	- ⁵	-	-	8,361
	8,637	- ⁵	-	-	8,637
Indirect GHG emissions (Scope 2) in tons CO₂ equivalent					
Incl. electricity per market-based approach	775,808	888,055	65,916	142,370	1,872,150
	794,229	1,035,209	9,261	162,116	2,000,814
Incl. electricity per location-based approach	988,314	1,605,924	49,703	122,170	2,766,110
	1,039,106	1,540,386	12,773	132,198	2,724,463
District heating	19,972	15,734	405	0	36,111
	19,525	17,177	291	0	36,992
Electricity per market-oriented approach	755,836	872,322	65,512	142,370	1,836,039
	774,704	1,018,032	8,970	162,116	1,963,822
Electricity per location-oriented approach	968,341	1,590,190	49,298	122,170	2,729,999
	1,019,581	1,523,209	12,483	132,198	2,687,470
Indirect GHG emissions (Scope 3) in tons CO₂ equivalent⁴	814,484	2,154,720	26,508	130,115	3,125,826
	834,519	2,058,728	4,386	125,195	3,022,827
Purchased goods/consumables	275,702	730,504	604	4,618	1,011,427
	283,533	686,503	0	4,782	974,818
Fuel-/energy-related emissions	307,900	566,353	22,051	43,336	939,639
	317,139	540,589	4,386	45,841	907,955
Transport (store logistics, procurement logistics KL)	141,204	602,315	3,853	70,269	817,640
	143,767	570,297	0	63,619	777,684
Operational waste	89,679	255,548	0	11,893	357,120
	90,079	261,340	0	10,953	362,372

■ Fiscal year 2019
■ Fiscal year 2018

GRI 305-1 | 305-2 | 305-3

GRI 305-4

Emission Intensity

	Kaufland	Lidl	Schwarz Dienstleistungen	Schwarz Produktion	Schwarz Group
Total emissions in t CO₂ equivalent per employee	15.90	11.44	16.29	87.85	13.38
	16.08	12.77	6.41	94.06	14.39
Total emissions in t CO₂ equivalent per m² of sales area	0.42	0.30			
	0.43	0.32			

¹ Scope 2 emissions from the market-based approach were used to calculate total gross GHG emissions.

² Sources for conversion factors: Greenhouse gas potentials (GWPs): IPCC 2013; Scope 1: Fuels IPCC 2006; volatile gases composition in accordance with ASHRAE 34; Scope 2: fuel disclosure of suppliers of IEA 2018; district heating standardized ifeu model across all countries + IPCC 2006; Scope 3: purchased goods ifeu calculation based, among other systems, on Ecoinvent, PlasticEurope and UBA; fuel- and energy-related emissions ifeu calculations based on IEA World Statistics + IPCC 2006, transports IPCC 2006, Ecoinvent and IEA 2018/2019 (electromobility); operational waste ifeu models and Ecoinvent; shuttle service DEFRA and Ecoinvent.

³ Emissions from evaporated coolants from cooling units. Refill quantities were generally collected. Figures may also include initial filling quantities following a switch to new cooling units.

⁴ The values above in part cover categories 1, 3, 4, and 5 under the GHG protocol.

⁵ Heating oil consumption by Lidl is not included.

⁶ Liquid gas consumption is not included in group-wide figures.

⁷ Deviations between the last digits of the totals for individual items and grand totals are due to rounding of decimal places.

Limited Assurance Report of the Independent Auditor regarding sustainability information¹

To Schwarz Dienstleistung KG, Neckarsulm

We have performed an independent limited assurance engagement on selected disclosures on materiality and report boundaries, disclosures on management approaches regarding selected material areas (energy, emissions, recyclable materials and recycling as well as diversity and equal opportunity) including selected indicators and information (total number of employees by employment type, gender and region; fuel consumption within the organization from non-renewable and renewable sources; indirect energy consumption; electricity grid feed-in; total energy consumption within the organization; direct GHG-emissions (Scope 1); indirect energy-related GHG-emissions (Scope 2); total weight paper, cardboard, cartons, PET and plastics; percentage of personnel by gender and age per employee category; number of recalled items), published in the sustainability report (hereinafter "Report") for the reporting period from March 1, 2019 to February 29, 2020 of Schwarz Dienstleistung KG, Neckarsulm (hereinafter "Schwarz" or "Entity").

Selected disclosures in scope of our assurance engagement are marked in the report and in the GRI-index with the following symbol: "✔".

Management's Responsibility

The legal representatives of Schwarz are responsible for the preparation of the Report in accordance with the Reporting Criteria. Schwarz applies the principles and standard disclosures of the Sustainability Reporting Standards of the Global Reporting Initiative (GRI), the Corporate Accounting and Reporting Standard (Scope 1 and 2) by the

World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), in combination with internal guidelines (further: Reporting Criteria).

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the Report and the use of assumptions and estimates for individual sustainability disclosures which are reasonable under the given circumstances. Furthermore, this responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the Report in a way that is free of – intended or unintended – material misstatements.

Independence and Quality Assurance on the Part of the Auditing Firm

We are independent from the entity in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

Our audit firm applies the national statutory provisions and professional pronouncements for quality assurance, in particular the professional code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

Practitioner's Responsibility

Our responsibility is to express a conclusion based on our work performed within our limited assurance engagement on the disclosures described above and marked in the text and the GRI-index with the following symbol "✔".

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" published by International Auditing

GRI 102-56

¹ Our engagement applied to the German version of the Report. This text is a translation of the Independent Assurance Report issued in German language, whereas the German text is authoritative.

and Assurance Standards Board (IAASB). This Standard requires that we plan and perform the assurance engagement to obtain limited assurance of whether any matters have come to our attention that cause us to believe that the above mentioned disclosures for the reporting period from March 1, 2019 to February 29, 2020 has not been prepared, in all material respects in accordance with the aforementioned Reporting Criteria. In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore significantly less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is left to the auditor's professional discretion.

Within the scope of our engagement, we performed amongst others the following assurance procedures:

- Inquiries of personnel on corporate level, who are responsible for the materiality analysis, in order to gain an understanding of the processes for determining material sustainability topics and respective reporting boundaries of Schwarz
- A risk analysis, including a media search, to identify relevant information on Schwarz sustainability performance in the reporting period
- Reviewing the suitability of internally developed Reporting Criteria
- Evaluation of the design and implementation of the systems and processes for the collection, processing and monitoring of the disclosures and information included in the scope of the assurance engagement, including the consolidation of the data
- Inquiries of personnel on corporate level responsible for determining disclosures on concepts, due diligence processes, results and risks, for conducting internal controls and carrying out internal control procedures and consolidating the data and information
- Evaluation of selected internal and external documents

- Analytical evaluation of data and trends of quantitative information which are reported by all sites for consolidation on corporate level
- Evaluation of local data collection, validation and reporting processes as well as the reliability of reported data based on a sample of the sites Kaufland Germany, Kaufland Romania, Lidl Germany and Lidl France
- Assessment of the overall presentation of the disclosures.

Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the information published in the sustainability report of Schwarz for the period from March 1, 2019 to February 29, 2020 marked in the text and the GRI-index with the symbol “✔” are not prepared, in all material respects, in accordance with the Reporting Criteria.

Recommendation

Without affecting the conclusions presented above, we recommend to further develop the reporting guideline for the data collection as well as to ensure its consistent implementation through respective processes and internal controls on division and country level, to increase data quality.

Restriction of Use / Clause on General Engagement Terms

This report is issued for the purposes of Schwarz Dienstleistung KG, Neckarsulm only. We assume no responsibility with regard to any third parties.

Our assignment for Schwarz Dienstleistung KG, Neckarsulm, and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this report, each recipient confirms having taken note of provisions of the General Engagement Terms (including the limitation of our liability for negligence to EUR 4 million as stipulated in No. 9) and accepts the validity of the above mentioned General Engagement Terms with respect to us.

Munich, 12.08.2020

Wirtschaftsprüfungsgesellschaft
Original German version signed by:

Hell ppa. Dollhofer



GRI Content Index

GRI Standard and Specifications		Page/Online	Omissions/Remarks
GRI 101: Foundation 2016			
GRI 102: General Disclosures 2016			
Organizational profile			
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102-2	Activities, brands, products, and services	6–7	
102-3	Location of headquarters	6	
102-4	Location of operations	6, 9	
102-5	Ownership and legal form	6–8	
102-6	Markets served	6–7	
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102-8	Information on employees and other workers	52–53	
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102-10	Significant changes to the organization and its supply chain	2, 6–8, 17	
102-11	Precautionary Principle or approach	10, 12–13, 18, 38–41, 70–71	
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102-14	Statement from senior decision-maker	4–5	
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102-16	Values, principles, standards, and norms of behavior	10–13, 16, 32, 39–40, 44, 48, 60, 66–68, 71, 78–79, 83–84, 93, 96–97, 104	
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102-40	List of stakeholder groups	20	
102-41	Collective bargaining agreements	52	
102-42	Identifying and selecting stakeholders	20	
102-43	Approach to stakeholder engagement	20, 25, 48, 50, 67, 71–72, 80, 85, 106	
102-44	Key topics and concerns raised	25–26	
Reporting practice			
102-45	Entities included in the consolidated financial statements	7	
102-46	Defining report content and topic Boundaries	24–26	
102-47	List of material topics	27	
102-48	Restatements of information	2	Not applicable, since first report
102-49	Changes in reporting	2	Not applicable, since first report
102-50	Reporting period	2	
102-51	Date of most recent report	2	Not applicable, since first report
102-52	Reporting cycle	2	
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For the Materiality Disclosures Service, GRI Services reviewed that the GRI content index is clearly presented and the references for Disclosures 102-40 to 102-49 align with appropriate sections in the body of the report. This service was performed on the German version of the report.



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GRI Standard and Specifications		Page/Online	Omissions/Remarks
Key topics			
GRI 201: Economic Performance 2016			
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		8–9	
201-1	Direct economic value generated and distributed	8–9, 48, 50	We report revenues and donations. Due to competitive reasons, other financial indicators are not reported.
201-2	Financial implications and other risks and opportunities due to climate change	19, 27–28	
GRI 203: Indirect Economic Impacts 2016			
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		8, 27–28	
203-1	Infrastructure investments and services supported	8, 28	
203-2	Significant indirect economic impacts	17, 27–28, 33	
GRI 204: Procurement Practices 2016			
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		16–19, 59	
204-1	Proportion of spending on local suppliers	59, 62–63, 68	Regionality within the Schwarz Group is defined and implemented in accordance with country-specific conditions and approaches. Examples of these and of the number of regional products appear in the report. For competitive reasons, expenditures are not reported.
GRI 301: Materials 2016			
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		28, 77–79, 83–85	
301-1	Materials used by weight or volume	89	We report the weight of packaging materials. Due to competitive reasons, materials used for product manufacture are not reported.
301-2	Recycled input materials used	86–87	
301-3	Reclaimed products and their packaging materials	77, 80–81, 86–87	
GRI 302: Energy 2016			
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		93–95	
302-1	Energy consumption within the organization	93, 95, 107	
302-3	Energy intensity	93	
302-4	Reduction of energy consumption	93–94, 96–97	
302-5	Reductions in energy requirements of products and services	96–97	
GRI 303: Water 2016			
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		28, 99–101	
303-1	Water withdrawal by source	101	It is not possible to specify water consumption by source, since suppliers have currently not indicated their consumption. We will review the feasibility of reporting this information in the future.
303-2	Water sources significantly affected by withdrawal of water	101	
GRI 304: Biodiversity 2016			
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		28, 46, 103–105	
304-2	Significant impacts of activities, products, and services on biodiversity	28, 62, 104–106	
GRI 305: Emissions 2016			
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		27–28, 92–95	
305-1	Direct (Scope 1) GHG emissions	108	
305-2	Energy indirect (Scope 2) GHG emissions	108	
305-3	Other indirect (Scope 3) GHG emissions	108	
305-4	GHG emissions intensity	108	
305-5	Reduction of GHG emissions	86–87, 96–97	
GRI 306: Effluents and Waste 2016			
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		27–28, 46, 76–79, 98–100	
306-2	Waste by type and disposal method	79, 88–89	
GRI 308: Supplier Environmental Assessment 2016			
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		17–18, 59–60, 100–101, 104–105	
308-2	Negative environmental impacts in the supply chain and actions taken	27–28, 62–63, 99–102, 104, 106	We report on impacts that generally arise in the supply chain and corresponding actions; the number/percentage of suppliers checked with regard to their impacts cannot currently be reported across the Group.

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GRI Standard and Specifications		Page/Online	Omissions/Remarks	
GRI 401: Employment 2016				
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		33		
401-1	New employee hires and employee turnover	53	For reasons of surveyability, only overall turnover can be reported, and not turnover by age group, gender or region. We will review the feasibility of reporting this information in the future.	
GRI 403: Occupational Health and Safety 2016				
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		18–19, 27, 37–41		
403-1	Workers representation in formal joint management–worker health and safety committees	40		
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	38, 54	For reasons of internal control relevance, we only collect and report sick leave.	
403-3	Workers with high incidence or high risk of diseases related to their occupation	38–39		
GRI 404: Training and Education 2016				
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		42–45		
404-2	Programs for upgrading employee skills and transition assistance programs	35, 40, 43–46, 78–79		
404-3	Percentage of employees receiving regular performance and career development reviews	44		
GRI 405: Diversity and Equal Opportunity 2016				
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		27, 32–36		UNGC ✓
405-1	Diversity of governance bodies and employees	34–35, 54	For reasons of safeguarding personal rights, information on minority affiliation is generally not collected or reported.	UNGC ✓
405-2	Ratio of basic salary and remuneration of women to men	33	Compensation is based on an employee's position and independent of gender. The ratio of basic salaries is therefore not reported.	UNGC
GRI 406: Non-discrimination 2016				
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		27, 32–36		UNGC
406-1	Incidents of discrimination and corrective actions taken	36, online	www.csr.schwarz/sustainability-report/life-quality	UNGC
GRI 412: Human Rights Assessment 2016				
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		17–19		UNGC
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	16		UNGC
GRI 413: Local Communities 2016				
GRI 103: MManagement approach 2016 (incl. 103-1, 103-2, 103-3)		27, 48–49, 81–82		
413-1	Operations with local community engagement, impact assessments, and development programs	36, 48–51, 72, 102	We report on social engagement, commitment to local communities, etc. across the entire Group also with the aid of division/country best practices. Corresponding activities exist in all divisions and operational national entities.	
GRI 414: Supplier Social Assessment 2016				
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		17–18, 59–60, 100–101		UNGC
414-2	Negative social impacts in the supply chain and actions taken	18, 27, 62–63, 100, 102, 104	We report on impacts that generally arise in the supply chain and corresponding actions; the number/percentage of suppliers checked with regard to their impacts cannot currently be reported across the Group.	
GRI 416: Customer Health and Safety 2016				
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		27, 65–67, 70–72		
416-1	Assessment of the health and safety impacts of product and service categories	67–68	For reasons of relevance to internal control, we report in detail on the number of product analyses carried out for our own brands.	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	65–66	For reasons of relevance to internal control, we report on the number of recalled sales items affected by public product/merchandise recalls for our own brands.	✓
Animal welfare				
GRI 103: Management approach 2016 (incl. 103-1, 103-2, 103-3)		28, 60		
FP 2	Share of purchasing volume which is certified according to recognized standards	59–60, 62, 68, 73		

✓ Content reviewed by independent auditor

UNGC Relevant contents for implementing the UNGC principles

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GRI 102-53

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This report is available in German and English.

From Soccer Stadium to Sustainability Report – How Grass Clippings are Turned into Reusable Material

PreZero, which is part of the Schwarz Group, has been the official sustainability partner of the national German TSG Hoffenheim soccer club since 2019. One of the most important elements of this cooperation is actually the stadium's turf. Because while other people are watching the ball, we are interested instead in the grass underneath.

Optimal stadium turf must be maintained regularly and most importantly, it has to be mowed. We reuse the generated green waste for our grass paper, thus making a contribution to environmental protection. Because in contrast to conventional paper, whose production takes up a lot

of energy, water and chemicals, grass paper is more ecological – the energy-saving production process saves up to 75 percent of CO₂. The materials in this process are not chemically treated, and producing a ton of paper requires around just two liters of water instead of 6,000 liters.

Our grass paper containing original stadium turf has since been used successfully as a popular autograph card. We distribute roughly 200,000 of these cards to TSG fans each season. This is a pilot project which makes a strong statement, including for our Sustainability Report.