

otto group

The Way Ahead

Report on the Sustainability of our
Value Creation 2015

About this report— With our Report on the Sustainability of our Value Creation 2015 we provide an account of the ecological and social impacts along our value chain. We report transparently on our performance in relation to our CR Strategy 2020 and in doing so, on how sustainable our business activities are.

G4-17 **Reference framework**— The Report on the Sustainability of our Value Creation 2015 complements the Otto Group's reporting on important developments relating to its CR Strategy and its key indicators in the Group's Annual Reports 2013/14 and 2014/15. It covers the period 1 March 2013 to 28 February 2015 (financial years 2013/14 and 2014/15). Key indicators have been recorded primarily on an annual basis since 2013, with any exceptions stated.

The key figures relate to 14 Group companies, except where exceptions are explicitly indicated. These cover the 13 Group companies which were already included in the previous reporting period: baumarkt direkt, Baur, bonprix, EOS, Frankonia, Heine, Hermes, OTTO, OTTO Office, Schwab, SportScheck, UNITO und Witt. myToys is a new addition. Details on the businesses belonging to the Group companies as well as their legal structures are provided in the brief company portraits from page 6 onwards.

Consequently, all companies in the Report on the Sustainability of our Value Creation 2015 have their headquarters in either Germany or Austria and report annual revenue of more than 100 mn€. The Report comprises companies from all three of the Otto Group's business segments – Multi-channel Retail, Services and Financial Services. Together, these companies generate 57% of Group revenue.

G4-18 **Reporting structure and content**— Prior to the reporting process, the Otto Group evaluated the ecological and social impact of its activities along the value chain. This approach forms part of the impACT sustainability management process (see p. 12 et seq.). Among other things, it serves to prioritise topics for presentation in this report.

For the first time, this Report on the Sustainability of our Value Creation 2015 was produced in accordance with the Core option of the new Global Reporting Initiative Guidelines (GRI G4). It also represents the Communication on Progress on the extent to which the Group has implemented the UN Global Compact.

List of material GRI aspects— The Otto Group has assigned topics which are identified as important in the Materiality Analysis to the aspects defined by the GRI (see table). Key topics are those which have been assigned the strategy types 'Priority', 'Innovation' and 'Base' in the Materiality Matrix (see p. 18). From page 29 onwards the Otto Group will report on at least one GRI indicator in relation to the aspects listed here.

GRI ASPECT	Raw Materials & Processing	Final Production	Trade	Customer
GRI category ENVIRONMENT (corresponds to ecological impacts)				
Emissions	x	x	x	x
Energy	x	x	x	x
Materials	x			
Water	x			
Biodiversity	x			
Transport			x	
GRI category SOCIETY (corresponds to social risks)				
Evaluation of suppliers regarding human rights		x		
Evaluation of suppliers regarding working conditions		x		

G4-19*

G4-20

G4-21



The Otto Group's impACT management process covers topics which are managed centrally by the Group. This means that employee, governance and societal topics which are decentrally managed by the individual Group companies are included in the reporting process under materiality criteria, but not as a result of the impACT process.

Auditing— The Report on the Sustainability of our Value Creation 2015 was audited by PricewaterhouseCoopers (PwC) under the International Standard on Assurance Engagements (ISAE) 3000. The CR Strategy 2020's five key indicators were audited (see p. 20). Key figures audited by PwC are marked in the text with and are indicated in the GRI Index.

Editorial remarks— The Report on the Sustainability of our Value Creation 2015 is available in German and English. The editorial deadline was May 2015. The next Report on the Sustainability of our Value Creation is scheduled for publication in summer 2017.

For the sake of readability, this report omits gender-based dual entries and uses the masculine form. In such cases, however, both women and men are intended.

Additional remarks— The Report on the Sustainability of our Value Creation 2015 is available online at www.ottogroup.com/sustainabilityreport.

* This symbol denotes where the Otto Group meets specific Global Reporting Initiative G4 indicators e.g. (G4-19). For further information, please visit www.globalreporting.org.

Award-winning CR management: In September 2014 the Otto Group received the German federal government's CSR Award. This recognises innovative companies that integrate social and environmental sustainability into their business operations. The Otto Group was rated highly on the centrepiece of its sustainability management: the impACT process.

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We intend
to be judged against
our claim to
act responsibly.

Otto Group CR Board

NAME: *Hans-Otto Schrader*
POSITION: Chairman of the Executive Board and
Chief Executive Officer Otto Group (CEO)



NAME: *Dr Michael Heller*
POSITION: Member of the OTTO Management Board
for Categories

NAME: *Hanjo Schneider*
POSITION: Member of the Executive Board,
Services Otto Group

Dear Reader,

We have long been convinced of the fundamental necessity of structuring our business activities sustainably, regardless of the prevalent economic situation. Our principles become especially evident when our company must unfortunately report a loss, as it has for the 2014/15 financial year.

Amongst other factors, this was due to the planned revenue shortfalls resulting from the restructuring of the business model of some of our subsidiaries. Furthermore, the Group has invested in its own future viability – investments that will begin to pay off in the medium and long term. The company has invested in the digital transformation of its ongoing activities and in establishing new business models such as the multi-award winning start-up Collins.

We are also benefiting from our forward-looking approach in terms of sustainability. Our deep-rooted understanding of ourselves as a responsibly acting group of companies enabled the Otto Group to achieve considerable progress in the reporting period. A further milestone in the ongoing development of our sustainability management process has been achieved thanks to impACT. Through this, the Otto Group is revolutionising the way in which it identifies the impact of its business activities on people and nature along the entire value chain, evaluates them, and then derives efficient countermeasures. Our company has received much praise for this innovative approach. Indeed, we were especially pleased to receive the German federal government's CSR Award.

Within the Otto Group, the firm anchoring of the topic of sustainability goes hand in hand with unwavering support for the topic, both from the Group Executive Board and the Executive Boards of the Group companies. In 2014 an important new decision-making board was established to manage the Group's CR activities: the Sustainable Supply Chain Management Board.

It focuses on sustainability topics in the value chain, putting the spotlight on topics which pose the greatest environmental and social challenges. As CR Board members we can be sure that through involving the Executive Directors of the Group companies in this committee, sustainability-related decision papers are thoroughly reviewed to ensure their feasibility and practical benefit.

Our company is also taking a fresh approach with this Sustainability Report 2015 itself, in which the Group company myToys is included for the first time. This breaks new ground, as our reporting is now in accordance with the new G4 version of the internationally respected Global Reporting Initiative (GRI) guidelines. At the same time, this publication also represents our Report on Progress in the implementation of the Ten Principles of the UN Global Compact.

The Otto Group's many activities and achievements in the reporting period show that it is on the right path with this approach – precisely in the spirit of the motto of this year's report: The Way Ahead. In the reporting period the company came another step closer to achieving the five goals of its CR Strategy 2020. This Sustainability Report provides a detailed insight into our progress, complementing the information on sustainability provided in the Otto Group's Annual Report 2014/15.

We hope you find our report informative, and that you enjoy reading it.

On behalf of the Executive Board,



Hans-Otto Schrader



Hanjo Schneider



Dr Michael Heller

Business model and profile of the Otto Group

At the heart of our vision and mission is our responsibility to people and nature. It is the foundation on which we build to achieve our business, social and environmental goals. As a component of our overarching Group strategy, the CR Strategy is derived from these goals.

The Group can look back on 60 years of family ownership. The businessman Dr Michael Otto has now transferred the majority of the shareholdings in the Group to a foundation under German civil law.

In financial year 2014/15 the Otto Group generated revenues of 12.1 bn€. The Multichannel Retail segment generated the largest share, at 9.9 bn€.

The Otto Group's business mandate specifies within which frameworks and guidelines sustainable, profitable business models are to be developed and implemented. In conjunction with the vision and mission of the Otto Group, the business mandate forms the basis for developing the Group strategy further.

'The Power of Responsibility' mission embeds a set of values, and calls upon employees to engage in profitability, innovation, diversity and sustainability issues.

GROUP STRATEGY

The business mandate as well as the vision and mission place an emphasis on sustainability – whereby business goals are combined with social and environmental responsibility. The Group strategy (see Otto Group Annual Report 2014/15, p. 50 et seq.) is derived directly from this basis. It comprises three essential elements: strategies in the segments, the e-commerce strategy, and the strategy for complying with social and environmental responsibility (CR Strategy 2020). These strategies are transferred to the Group companies by means of portfolio management and other control mechanisms, and are therefore closely interlinked. The Group's Executive Board is also incentivised to achieve both the business and Corporate Responsibility goals.

STRATEGIES IN THE SEGMENTS

In the *Multichannel Retail* segment the further development of e-commerce is a fundamental strategic goal, as the sales channel with the strongest growth and a major driver of future business. In terms of the further development of the various retailing business concepts, particular focus will be placed in future on the growth area of the Group's own brands. The use of over-the-counter channels will also be important, particularly for these business models, and the objective will be to integrate these with online and mobile activities in a way that creates added value.

In the *Financial Services* segment, financial year 2014/15 saw the Otto Group invest in companies such as Yapital which develop and offer innovative financial services. The focus in this segment is on the growth of services relevant to the end-consumer.

Services are becoming an increasingly significant factor in business activities with end-consumers. Under the Hermes umbrella brand, the Otto Group's strategy in the Services segment places particular emphasis on B2C and B2B customers. Besides speed, reliability and the transparency of the supply chain, the Group places particular importance on service quality at all points of contact with the end-consumer. The Group's strong position as a provider of retail-related services is being expanded both in Germany and internationally in attractive e-commerce markets such as the United Kingdom.

GERMANY STILL THE MOST IMPORTANT SALES MARKET

As in previous years, in financial year 2014/15 Germany remained the most important sales market for the Otto Group, generating 59% of the Group's revenue. The share of revenue generated by the other European countries was 28%.

STABLE EMPLOYEE STRUCTURE

In financial year 2014/15 the Otto Group's employee headcount – converted to FTEs (full-time equivalents) – was 54,037. The 14 Group companies included in this report employed 43% of the Group's workforce. A detailed breakdown of the employee structure can be found in the chapter Trade (see p. 53 et seq.).

Key operating figures

in mn€

	2011/12	2012/13	2013/14	2014/15
Revenue whole Group	11,597	11,784	12,001	12,057
Revenue reporting companies	6,107	6,254	6,596	6,897
Equity whole Group	2,000	1,910	2,022	1,620
Equity reporting companies	978	1,005	972	985
Profit/loss for the year whole Group	23	146	194	-196

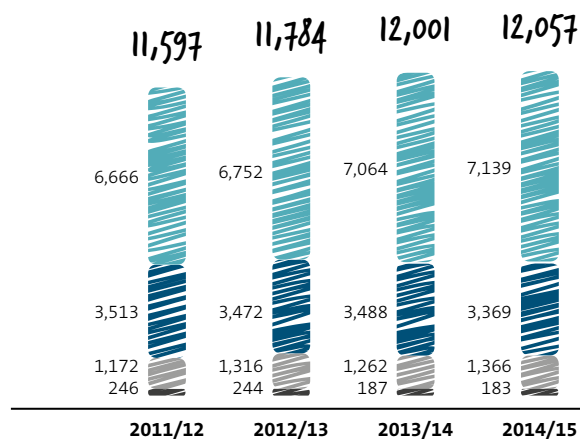
Revenue by business segment (whole Group)

in mn€

	2011/12	2012/13	2013/14	2014/15
Multichannel Retail	10,035	10,057	10,017	9,918
Financial Services	532	594	683	644
Services	1,030	1,133	1,301	1,495

Revenue by region (whole Group)

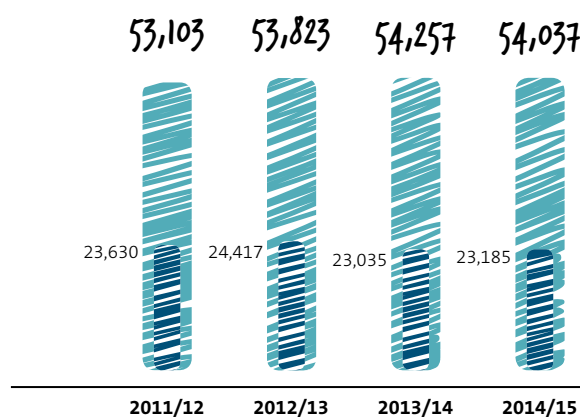
in mn€



Germany Europe* North and South America Asia

*without Germany.

Number of employees, rebased as full-time equivalents (FTEs)



Whole Group Reporting companies



Multichannel Retail

82%
revenue share

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Multichannel Retail generates the largest share of the Otto Group's revenue. It comprises Group companies which offer their products via the three distribution channels of e-commerce, print catalogues and over-the-counter retail. With a share of 65%, the internet is the most important sales channel.

baumarkt
direkt

OVERVIEW: Retailer of DIY products and market-leading mail-order retailer in this sector.

HEADQUARTERS: Hamburg • **EMPLOYEES***: 172 • **MARKETS:** AT, CH, DE, NL • **STORES:** None • **OTTO GROUP'S SHAREHOLDING:** 50.1% • **GROUP COMPANY COVERED BY THIS SUSTAINABILITY REPORT:** baumarkt direkt GmbH & Co. KG • **WEBSITES:** www.baumarktdirekt.de, www.hagebau.de

OVERVIEW: E-commerce and retail-related services.

HEADQUARTERS: Burgkunstadt • **EMPLOYEES***: 3,747 • **MARKETS:** AT, CH, DE • **STORES:** None • **OTTO GROUP'S SHAREHOLDING:** 49% • **GROUP COMPANIES COVERED BY THIS SUSTAINABILITY REPORT:** Baur Versand (GmbH & Co. KG), BFS Baur Fulfillment Solutions GmbH and Zweite Hermes TransStore Service GmbH & Co. KG • **WEBSITE:** www.baur.de

In 2015 BAUR published its own sustainability report.

BAUR

**bon
prix**
it's me!

OVERVIEW: Globally successful fashion retailer.

HEADQUARTERS: Hamburg • **EMPLOYEES***: 1,425 • **MARKETS:** 27 countries • **STORES:** 53 in Germany and a further 13 in Austria, Switzerland and Italy • **OTTO GROUP'S SHAREHOLDING:** 100% • **GROUP COMPANIES COVERED BY THIS SUSTAINABILITY REPORT:** bonprix Handelsgesellschaft mbH, bonprix retail GmbH • **WEBSITE:** company.bonprix.de

OVERVIEW: Retailer of equipment for hunters, sports marksmen and collectors as well as premium fashion articles.

HEADQUARTERS: Rottendorf • **EMPLOYEES***: 550 • **MARKETS:** AT, CH, DE, FR • **STORES:** 23 plus two outlets in Germany and two stores in France • **OTTO GROUP'S SHAREHOLDING:** 100% • **GROUP COMPANY COVERED BY THIS SUSTAINABILITY REPORT:** Frankonia Handels GmbH & Co. KG • **WEBSITE:** www.frankonia.de

FRANKONIA



OVERVIEW: Retailer of premium fashion articles and furnishings.
HEADQUARTERS: Karlsruhe • **EMPLOYEES***: 572 • **MARKETS:** AT, CH, DE, FR, NL • **STORES:** None • **OTTO GROUP'S SHAREHOLDING:** 100% • **GROUP COMPANY COVERED BY THIS SUSTAINABILITY REPORT:** Heinrich Heine GmbH • **WEBSITE:** www.heine.de

New reporting company

DESCRIPTION: myToys.de GmbH is headquartered in Berlin. Under the myToys brand it operates Germany's leading online shop for toys and children's products as well as 13 stores by the same name. The extensive assortment of the myToys online shop ranges from maternity wear, baby clothes, and toys, to children's clothes and books for school leavers. The 'Tipps und Kaufberatung' ('Tips and Shopping Advice') section on myToys.de supports parents and children in finding suitable products and provides information on health and safety aspects.

Besides myToys, the brands ambellis (womenswear) and mirapodo (footwear) also belong to myToys.de GmbH. Thanks to the multi-shop concept, customers can buy from all three online shops using a single customer account.



The offering of all three online shops almost exclusively comprises external brands. This means myToys only has an indirect influence on its products' production conditions.

HEADQUARTERS: Berlin • **EMPLOYEES***: 1,189 • **MARKET:** DE (delivery to all EU member states and Switzerland) • **STORES:** 13 in Germany • **OTTO GROUP'S SHAREHOLDING:** 74.8% • **GROUP COMPANIES COVERED BY THIS SUSTAINABILITY REPORT:** myToys.de GmbH, myToys Logistik GmbH • **WEBSITE:** www.myToys.de

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G4-23



OVERVIEW: Germany's largest online retailer of fashion and lifestyle products.

HEADQUARTERS: Hamburg • **EMPLOYEES***: 5,231 • **MARKETS:** AT, CZ, DE, HU, NL, RU, SK • **STORES:** None • **GROUP COMPANY COVERED BY THIS SUSTAINABILITY REPORT:** Otto (GmbH & Co. KG) • **WEBSITE:** www.otto.com

*The employee number is a headcount and is not rebased to full-time equivalents (FTEs). It includes employees on indefinite contracts, as well as working students at the companies covered by this Sustainability Report as at the end of 2014.

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OVERVIEW: Mail-order retailer specialising in office equipment, communications technology and office furniture.

HEADQUARTERS: Hamburg • **EMPLOYEES***: 307 • **MARKETS:** BE, DE • **STORES:** None • **OTTO GROUP'S SHAREHOLDING:** 100% • **GROUP COMPANY COVERED BY THIS SUSTAINABILITY REPORT:** OTTO Office GmbH & Co KG • **WEBSITE:** www.otto-office.com



Schwab

OVERVIEW: Mail-order retailer with a large selection of fashion trends, consumer electronics and household products. sheego – a Schwab Versand GmbH brand – specialises in young, fashion-conscious women from size 40 (UK size 16) and upwards.

HEADQUARTERS: Hanau • **EMPLOYEES***: 1,052 • **MARKETS:** Exports to 21 countries • **STORES:** Several shop-in-shop stores • **OTTO GROUP'S SHAREHOLDING:** : 99.98% • **GROUP COMPANY COVERED BY THIS SUSTAINABILITY REPORT:** SCHWAB VERSAND GmbH • **WEBSITES:** www.schwab.de, www.sheego.de

OVERVIEW: Germany's leading multichannel retailer of sports goods.

HEADQUARTERS: Munich • **EMPLOYEES***: 1,615 • **MARKETS:** DE, AT, CH • **STORES:** 19 in Germany • **OTTO GROUP'S SHAREHOLDING:** 100% • **GROUP COMPANY COVERED BY THIS SUSTAINABILITY REPORT:** SportScheck GmbH • **WEBSITE:** www.sportscheck.com



OVERVIEW: Largest multichannel mail-order group in the Alpine region. Through its multibrand strategy it optimally serves assorted markets and various customer requirements.

HEADQUARTERS: Salzburg • **EMPLOYEES***: 645 • **MARKETS:** AT, CH, CZ, DE, IT, SK, HU • **STORES:** None • **OTTO GROUP'S SHAREHOLDING:** 67.87% • **GROUP COMPANY COVERED BY THIS SUSTAINABILITY REPORT:** UNITO Versand & Dienstleistungen GmbH • **WEBSITE:** www.unito.at

OVERVIEW: Mail-order retailer of clothing, underwear and home textiles for customers over the age of 50.

HEADQUARTERS: Weiden • **EMPLOYEES***: 2,662 • **MARKETS:** In 10 countries in Europe as well as Russia and Kazakhstan • **STORES:** Approx. 115 in Germany • **OTTO GROUP'S SHAREHOLDING:** 99.98% • **GROUP COMPANIES COVERED BY THIS SUSTAINABILITY REPORT:** Sieh an! Handelsgesellschaft mbH, AMBRIA GmbH, Creation L Handelsgesellschaft mbH, Josef Witt GmbH • **WEBSITE:** www.witt-gruppe.eu





Services

13%
revenue share

The Services segment comprises all the services of the retail logistics value chain – from sourcing, through quality testing, transportation and warehousing, to final delivery to business and private customers.

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OVERVIEW: International supply-chain service provider that covers the entire service spectrum along the retail value chain – from the sourcing of products to distribution to the end-customer.

HEADQUARTERS: Hamburg • **EMPLOYEES***: 8,972 • **MARKETS:** AT, DE, GB, IT, RU • **STORES:** Over 36,000 ParcelShops in Europe, of which approx. 14,000 are in Germany • **OTTO GROUP'S SHAREHOLDING:** 100% • **GROUP COMPANIES COVERED BY THIS SUSTAINABILITY REPORT:** Hermes Europe GmbH, Hermes Logistik Gruppe Deutschland GmbH, Hermes Einrichtungs Service GmbH, Hermes Transport Logistics GmbH, Hermes Fulfilment GmbH • **WEBSITE:** www.hermesworld.com

In 2015 Hermes published its own sustainability report.



Financial Services

5%
revenue share

The Financial Services segment covers the Otto Group's international financial services offering, focusing on retail-related services such as receivables management and consumer loans.



OVERVIEW: One of the leading international providers of individually tailored financial services, with a focus on receivables management.

HEADQUARTERS: Hamburg • **EMPLOYEES***: 1,842 • **MARKETS:** Over 50 companies in 26 countries in Europe, America and Asia • **OTTO GROUP'S SHAREHOLDING:** 100% • **GROUP COMPANIES COVERED BY THIS SUSTAINABILITY REPORT:** EOS DID – EOS Deutscher Inkasso-Dienst, EOS KSI Inkasso Deutschland and 13 further companies • **WEBSITE:** www.eos-solutions.com

* The employee number is a headcount and is not rebased to full-time equivalents (FTEs). It includes employees on indefinite contracts, as well as working students at the companies covered by this Sustainability Report as at the end of 2014.

The Otto Group's value chain

The complexity of the value chain poses the greatest challenge to our sustainability management. Arranging the chain into four value-adding stages helps the Otto Group to better understand the Group's environmental and social impacts, and derive strategic measures.

For companies, the greatest share of their business activities' environmental and social impacts often lies beyond the factory gates – far removed from their own locations and shipments. Consequently, the sustainability management of the Otto Group consider the entire value chain. Its incredible complexity represents the greatest challenge to effective and efficient sustainability management, as the Group companies' own brands are produced by suppliers in over 70 sourcing markets. Overall, they work with many thousands of their own subsuppliers, who in turn contract out to subcontractors.

Moreover, another factor is the increasing range of articles offered by the Otto Group to provide its customers with the largest possible selection of goods. The result is a vast network of actors which becomes progressively more opaque the more comprehensively the upstream supply chain is taken into consideration.

To reduce complexity, the Otto Group arranges the value chain into four stages as part of its sustainability management process: Raw Materials & Processing, Final Production, Trade, and Customer. The illustration at right shows the value chain using cotton textiles as an example.



In the first value-adding stage, **Raw Materials & Processing**, cotton is harvested, the fibres are spun into yarn, then either woven or knitted, and then finished to make a cloth fabric.

The second stage, **Final Production**, involves sewing the cloth fabric into clothing for instance, and packaging the finished products ready for shipment.

The transportation of the goods from the country of production to the sales market takes place in the **Trade** value-adding stage. Once in the sales market, the products are first warehoused. When ordered, they are delivered to the end-customer.

The final stage, **Customer**, comprises the overall phase of the use of the product by the end-consumer as well as its disposal or recycling at the end of its useful life.

Process stages based on textiles



By arranging the chain into these four value-adding stages, the Otto Group's Sustainability Report 2015 reflects the Group's integrated sustainability management process for the first time. Furthermore, the report provides

an account of the ecological and social impacts of the Group's business activities as well as their evaluation by stakeholders. This forms the basis for agreeing strategic goals and measures to mitigate the impacts identified.

Sustainability management process impACT

We fundamentally realigned our sustainability management in 2013: Our company now identifies and evaluates the impact of its business activities on people and nature along the whole value chain. This provides a sound decision-making foundation and allows us to configure the sustainable orientation of our business model in an efficient and effective way.

The Otto Group's impACT* sustainability management process enables the company to focus its financial and employee resources where these have the most leverage. This clear orientation towards effectiveness and efficiency, as well as taking business relevance and risks into account, is a milestone in anchoring professional sustainability management at the heart of the Group's business activity. The process is based on a quantitative and qualitative evaluation of the ecological and social impacts of our companies' business activities along the whole value chain. In turn, the assessments serve as a basis for developing strategic targets and operational measures. The impACT management process was introduced in March 2013.

The German federal government acknowledged the Otto Group's sustainability management with its CSR Award in September 2014, with a particular reference to impACT.

* The term 'impACT' was coined to signify that the management process both identifies effects ('impact') and generates measures ('act').

impACT as the basis for reporting according to the Guidelines of the Global Reporting Initiative (GRI)

The impACT sustainability management process is also used to determine the scope of the Otto Group's sustainability reporting. The process of determining material topics (see impACT Step 1) corresponds to the GRI Reporting Principles for selecting report contents: inclusion of stakeholders, sustainability context, materiality and completeness.

Sustainability topics that cannot be measured in terms of either environmental impacts or social risks do not form part of the impACT process. Besides employee issues that go beyond social risks, this also includes governance topics such as anti-corruption. These are also incorporated into the Group's reporting under the materiality perspective, but not as a result of the impACT process.

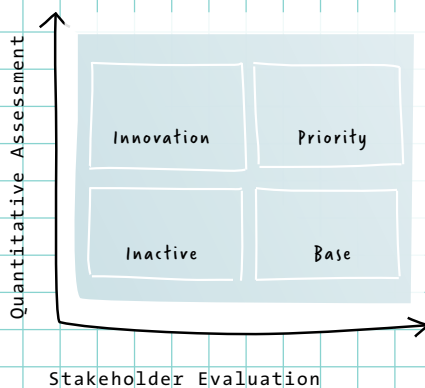
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G4-26



The three steps of impACT – an overview

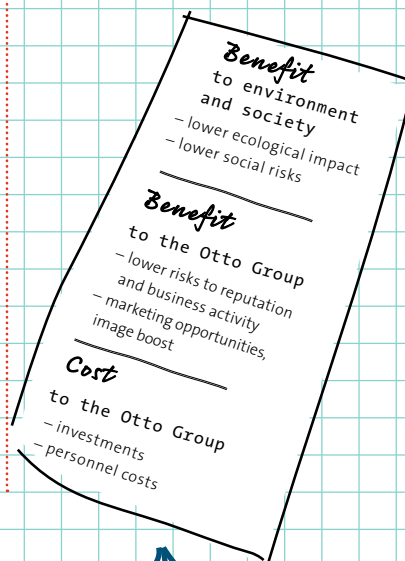
1.

Carry out a
Materiality Analysis



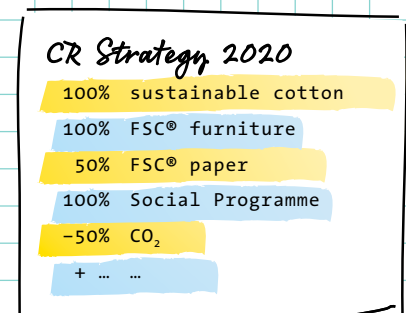
2.

Develop measures
and carry out
a cost-benefit
assessment

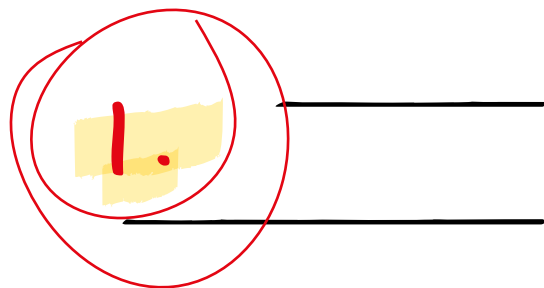


3.

Implement measures
under the umbrella
of the CR Strategy



Controlling
measures



G4-18



impACT STEP 1: MATERIALITY ANALYSIS

The Otto Group Materiality Analysis encompasses a quantitative analysis of the ecological impacts and social risks arising from its business activities on the one hand, and on the other a qualitative stakeholder assessment of these challenges. These are visualised in the two-dimensional Materiality Matrix (see diagram, p. 18) – subdivided into the four value-adding stages of Raw Materials & Processing, Final Production, Trade and Customer (see pp. 10 onwards).

Quantitative identification of external costs and risks*

Ecological and social impacts are identified along the four value-adding stages. Ecological impacts are additionally allocated to four distinct impact categories: Greenhouse Gases, Pollutants, Water Consumption and Land Use. Social impacts are shown in the Social Risks impact category (see info box).

The four ecological impact categories and their most significant effects

Greenhouse Gases

Greenhouse gas emissions such as carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O) as well as their effects on global warming, people and nature.

Pollutants

Pollutant influx (NH₃, SO_x, NO_x, heavy metals, fine particulates, dioxins, NMVOC, formaldehyde, toxic organic substances) into water and air, as well as their effect on human health and biodiversity.

Water Consumption

Consumption of surface and ground water along the whole value chain, as well as the associated effects on human health and biodiversity.

Land Use

Land consumption, e.g. through agriculture and forestry, pasture as well as industrial land use (incl. buildings, roads, land sealing) and their negative impact on ecological systems' integrity.

The impact category Social Risks and its underlying criteria

Social Risks

A meta-indicator which includes criteria in the areas of occupational safety, child labour, forced labour, wages, working times, discrimination and social dialogue.

* The calculation is based on the 'estell' model developed by the Group's internal consultancy company, Systain Consulting GmbH. 'estell' is a multi-regional, multi-sector input/output model augmented with environmental and social factors, based on the Exiobase database. Among the scientifically validated data sources used are NEEDS, TEEB and statistics from the World Bank and the ILO.

To make the various impacts along the value chain comparable, ecological impacts are assessed in terms of external costs (in euros) and social impacts in Risk working hours.

Identifying ecological impacts:

For the calculation of ecological impacts, the Otto Group combines its purchasing and sales figures with data from external data sources regarding the effects on ecosystems and on human health. For example, clothing manufactured in China causes 1.05 kg of CO₂ on average per euro of sourcing volume. Taking a sourcing volume of 1 mn€ as an example, this would generate an average of 1,050 tonnes of CO₂. According to the German Federal Environment Agency (Umweltbundesamt), the underlying external costs of one tonne of CO₂ currently amount to €87. Therefore, for this example in the Final Production value-adding stage, €91,350 of external costs would arise due to the emission of greenhouse gases.

Identifying social impacts:

To show Risk working hours, the Otto Group determines the country- and sector-specific risks that working hours could have been performed in breach of minimum standards. This risk is identified using seven criteria relating to working conditions and human rights (see info box on p. 14). For example, if 10 million working hours are performed in textile production in a particular country, and the risk calculated for the country and sector amounts to 40%, this results in 4 million Risk working hours.

Results

The calculation, which was last carried out in January 2015, showed ecological impacts amounting to more than 20% of turnover. At 70% the highest proportion by far of ecological impacts was in the Raw Materials & Processing value-adding stage. The highest external costs here are caused by Pollutants, followed by Greenhouse Gas emissions and Water Consumption. In Risk working hours, at 64% the largest share is also due to the extraction and processing of raw materials, while just under a third of Social Risks arise from Final Production (see diagram, p. 16).

The calculated figures contain the impacts and social risks that arise from the production, transport and utilisation of all goods traded or used by the Otto Group, as well as all services that it has used. In addition, the identified values also contain indirect effects, some of which lie far beyond those the Otto Group is able to influence. As an example, a share of the energy and resource costs of the manufacture of sewing machines for textile production is included in the figures.

The Otto Group's influence on external impacts

Quantitatively determined external costs and risks correspond to current average economic activities; the identified values in euros and Risk working hours are based on average, region-specific ecological impacts and social risks of products and services that correspond to the Otto Group's business models. If other companies with the same business model, the same sourcing markets and the same purchasing volume carried out this calculation, they would arrive at very similar results.

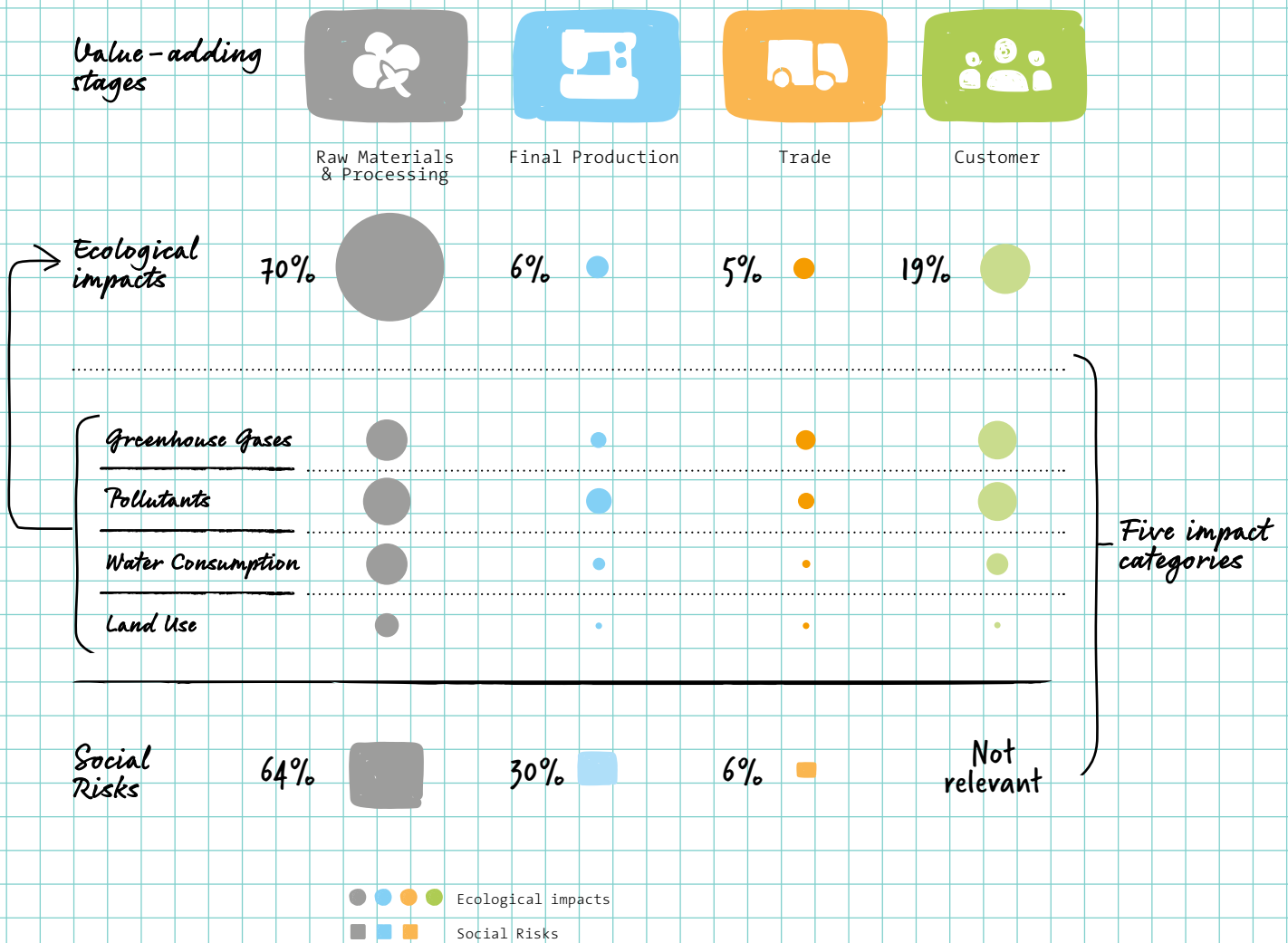
Improvement measures in the Otto Group – such as the use of sustainable cotton – have not yet been taken into account in the values identified. The figures shown here rather represent a baseline value against which the Otto Group will be able to measure its reduction of negative external impacts.

The calculations of ecological effects and social risks also include, for example, effects from third-party brands, and additionally indirect effects such as the energy and resource costs of manufacturing sewing machines (see above). Therefore, even if the Otto Group achieves its CR Strategy targets completely, the identified external impacts will only be partially reducible.

G4-18



Overview of the ecological impacts and the social risks arising from the Otto Group's business model

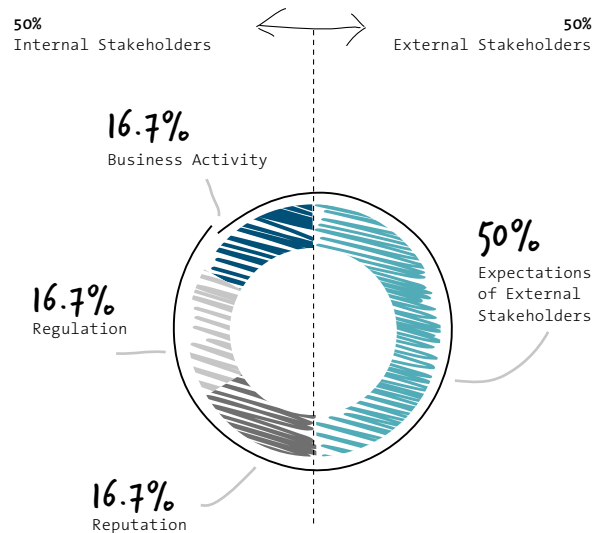
**G4-18 Stakeholder Evaluation**

G4-26 In addition to this quantitative assessment (y-axis), the Otto Group's Internal and External Stakeholders carried out a qualitative evaluation from June to October 2014 (x-axis) for the individual topic areas (see diagram, p. 18). Topic areas refer to the effects by impact category and value-adding stage.

The topic areas encompass one of the five impact categories in one of the four value-adding stages (e.g. CO₂ emissions due to transport in the Trade value-adding stage). In this assessment, the Group includes four perspectives from External and Internal Stakeholders, with regard to developments in the next two to five years respectively:

- **External Stakeholders** formulated their **Expectations** towards the Otto Group as part of a workshop. Twelve experts from the spheres of science and research, non-governmental organisations and government assessed the action priorities for the Otto Group in the topic areas. For example, the stakeholders had high expectations of the Otto Group regarding the reduction of CO₂ emissions in the Trade value-adding stage.
- An internal assessment of **Reputation** opportunities and risks for the Otto Group with regard to the topic areas mentioned was carried out by representatives of the Group Divisions CR and Corporate Communications. Social risks in Final Production were assigned the highest relevance to reputation.
- The implementation of new environmental and social legislation in sourcing and sales markets leads to costs for the Otto Group, due to required changes in sourcing processes or higher costs of upstream products, for example. To estimate these **Regulation** risks, first the likelihood is determined of whether regulations will be put in place that are relevant to the Otto Group business model. These likelihoods are linked with estimated costs that would arise for the Otto Group if such regulations were put in place. For example, the Otto Group is most affected by regulations in China, since this is where more than three-quarters of its sourcing volume originates; and in the EU, since this is the Otto Group's largest distribution market by far.
- Finally, the members of the Sustainable Supply Chain Management Board (see p. 23) assess each of the topic areas with regard to their relevance to the **Business Activities** of the Otto Group, taking into account both potential financial risks and potential business opportunities. With a view to the upcoming five years, in particular topics in the value-adding stages Raw Materials & Processing and Final Production were considered to be material, as rising costs due to increased CR activities are to be expected here.

Stakeholder Evaluation weighting

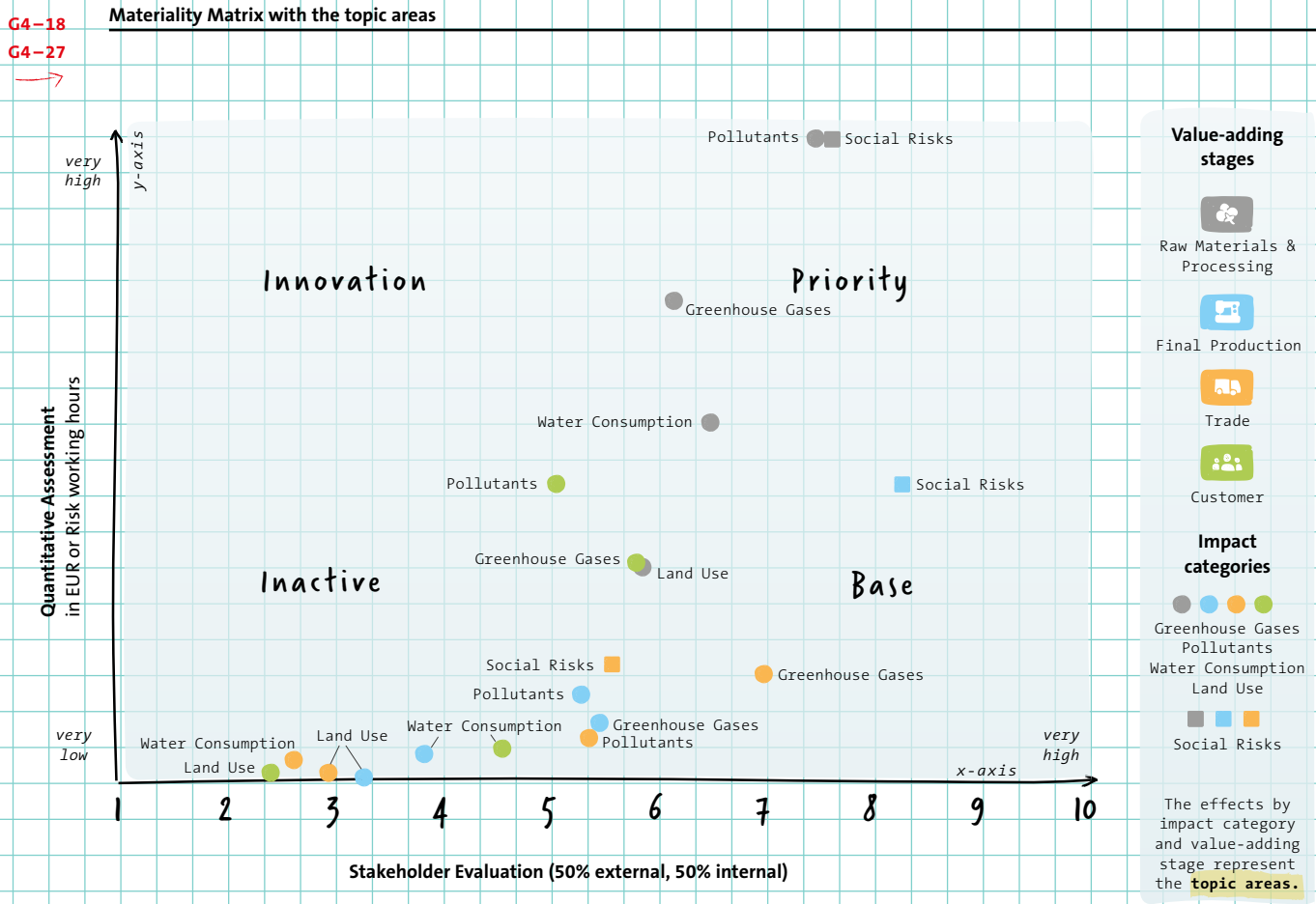


G4-18

G4-26

Combined quantitative and qualitative assessment

The Otto Group's Materiality Matrix results from combining external costs and social risks with the Stakeholder Evaluation. This shows the topic areas. All values are converted to a scale running from 1 (very low) to 10 (very high), so that they can be placed in relation to each other. Depending on where the topic areas fall on the matrix, they are allocated to one of four strategy types (see p. 18 et seq.). On this basis, strategic targets and operational measures are derived (impACT Step 2), which are implemented under the umbrella of the CR Strategy (impACT Step 3). In future, the Otto Group will carry out a corresponding Materiality Analysis every two years.



2.

impACT STEP 2: DERIVING TARGETS AND MEASURES

For the second step of the impACT management process, topic areas are initially classified strategically. With the help of this classification, appropriate targets and measures can be developed for the individual topic areas. All potential measures are first subjected to a cost/benefit assessment. This ensures that the Otto Group mitigates ecological impacts and/or social risks as efficiently as possible and can take the various Stakeholder Perspectives into account as effectively as possible.

Strategic Allocation

Based on the Materiality Analysis, the topic areas are allocated to four strategy types according to their quantitative and qualitative assessment:

- **Priority:** Topic areas with a high ecological impact and/or high social risks and a high degree of action relevance attributed by the stakeholders (e.g. water consumption during raw material extraction and processing). When setting targets and measures, these are the main focus.
- **Innovation:** Topic areas with high ecological impact and/or high social risks, but which stakeholders do not (yet) see as particularly relevant to the Otto Group. They hold potential for innovative measures.
- **Base:** Topic areas with relatively low ecological impacts and/or low social risks, to which stakeholders have, however, allocated a high degree of relevance (e.g. emission of greenhouse gases at own locations).

and during transport). Corresponding measures therefore aim primarily at lowering reputation and regulation risks.

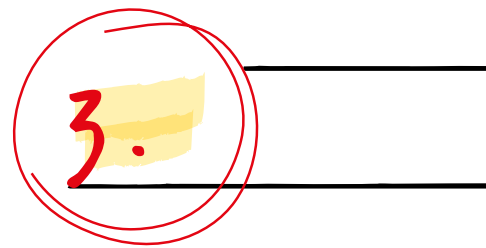
- **Inactive:** Topic areas with low external impacts and low action relevance (e.g. water consumption at own locations and during transport). Due to a low level of materiality, these topic areas are not the focus of Group management.

Cost-benefit analysis

In accordance with their strategic allocation, potential measures are developed for the topic areas, which are then subjected to a cost/benefit analysis. The assessment of measures encompasses three components: firstly, it is determined to what extent the respective measure is capable of mitigating ecological impacts and/or social risks. Secondly, this is contrasted with estimated costs to the Otto Group which would arise from implementing this measure, such as investments or personnel costs. Finally, the assessment considers any benefit which would arise for the Otto Group, for example due to a reduction in reputation and regulation risks or due to marketing opportunities.

Assortment-specific evaluations show a high degree of social and ecological impacts in textile production. Therefore, the Otto Group initially concentrated on developing a comprehensive Textile Strategy that takes all relevant fibres and all value-adding stages into account, in addition to the existing cotton target (100% sustainable cotton in own and licensed brands, see p. 21).

With the help of this cost/benefit analysis the Group also reviewed the five sub-strategies agreed as part of the CR Strategy 2020 (see p. 20 et seq.), both with regard to their contribution towards reducing ecological impacts and/or social risks, and with regard to the Stakeholder Evaluation that had meanwhile been carried out more systematically. The result was that all sub-strategies have been evaluated as material and effective, and will continue to be implemented.



impACT STEP 3: **IMPLEMENTING THE CR STRATEGY**

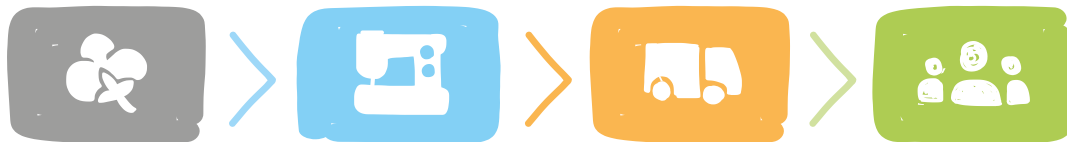
The potential measures evaluated as material and effective in Step 2 are discussed by the Sustainable Supply Chain Management Board (see p. 23) and adjusted where necessary. Afterwards, they are submitted to the CR Board and/or the Group Executive Board for a decision. If implementation of a measure is approved, then managing target achievement falls under the umbrella of the CR Strategy 2020 (see p. 20 et seq.). In the third and final step of the impACT management process, the Otto Group thereby integrates the knowledge gained from the Materiality Matrix and cost/benefit assessment into its strategic approach in a long-term and effective way.

Notes on the Materiality Matrix

While impACT makes it possible to compare the various ecological impacts with each other, no relationship can be established between these and the social risks. However, they are shown together in the one Materiality Matrix to provide a better overview. The maximum value on the y-axis was allocated to those topic areas with the highest ecological impacts or the highest social risks. The challenges arising from the Materiality Analysis are presented at the start of each chapter on value-adding stages, which begin on p. 29.: Raw Materials & Processing, Final Production, Trade and Customer.

CR Strategy 2020

The management and implementation of measures under the umbrella of the CR Strategy 2020 represent the third and final step of our impACT management process. The CR Strategy aims at lowering the negative impacts on people and nature along the value chain, lessening risks for the Otto Group and utilising business and reputation opportunities.



Raw Materials & Processing

Final Production

Trade

Customer

Since 2014, the CR Strategy has been a fixed component of the overall Otto Group strategy (see p. 4). It encompasses five substrategies which are allocated to the value-adding stage in which they have the greatest effect: Strategies for Textiles, Furniture and Paper aim at saving resources when extracting and processing raw materials, while the Social Programme focuses on compliance with social standards among suppliers in Final Production. With its Climate Strategy, the Otto Group intends to improve its CO₂ balance in the Trade value-adding Stage, which includes sourcing and distribution transports alongside its own locations. The ecological impacts of product use and disposal by customers are not currently part of the Group-wide CR Strategy. Activities in the Customer value-adding stage are carried out by individual Group companies and are presented in the chapter of the same name (see p. 59 et seq.).

The CR Strategy 2020 was approved by the Otto Group Executive Board in 2012 and is valid until the end of 2020. It is intended to contribute to the more sustainable alignment of the Otto Group and its companies' business processes.

Status CR Strategy 2020

in %

Value-adding stages	Sub-strategy	2013	2014	Target value 2020
Raw Materials & Processing	Textile	7	11	100
	Furniture	26	33	100
	Paper	8	18	50
Final Production	Social Programme	—	17	100
Trade	Climate	-17	-24	-50



RAW MATERIALS & PROCESSING

The majority of the Otto Group's ecological impact arises from the extraction and processing of raw materials. The Group is countering this challenge with three sub-strategies, all of which aim at more sustainable agriculture and forestry.



For detailed information about the Otto Group's sub-strategies and progress, please see the chapter on Raw Materials & Processing from p. 29 onwards.

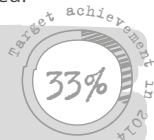
Textile Strategy

TARGET: 100% sustainable cotton in own and licensed brands



The Otto Group intends to switch the entire volume of cotton used for its own and licensed brands to sustainably cultivated cotton by 2020. Currently, it uses cotton from the Cotton made in Africa (CmiA) initiative as well as from certified organic cultivation. Compared with the conventional resource- and CO₂-intensive cultivation process, CmiA saves around 2,100 litres of water and 40% CO₂ per kilogramme of cotton produced.

Furniture Strategy*
TARGET: 100% FSC-certified furniture products



Wooden furniture is one of the largest durable goods ranges for Group companies besides electronics. The Otto Group aims to completely switch its range of wooden furniture to FSC®-certified articles by 2020. The Forest Stewardship Council (FSC) is committed to protecting forests through responsible felling and the associated conservation of biodiversity.

* previously the Durable Goods Strategy

Paper Strategy

TARGET: 50% FSC-certified paper for catalogues (gravure printing)



With its Paper Strategy, the Otto Group will increase the share of FSC-certified paper to at least 50% for catalogues and advertising materials by the year 2018. This includes products manufactured in the gravure printing process, which makes up about two-thirds of the total paper volume for the reporting companies. Overall, the paper volume used for catalogues and advertising materials by the reporting companies came to around 264,000 tonnes in 2014. This makes the Otto Group one of the largest paper consumers in German-speaking countries. For several years, the Otto Group has been a pioneer in the use of FSC-certified print materials, a position it intends to consolidate.



FINAL PRODUCTION

Final Production of merchandising goods by suppliers causes a significant part of the social risks. In this value-adding stage, the Otto Group focuses on auditing and qualifying factories to improve working conditions.



For detailed information on the Otto Group's Social Programme and progress, please see the chapter on Final Production from p. 37 onwards.

Social Programme

TARGET: 100% integration of suppliers of own and licensed brands



The Otto Group Social Programme, which was expanded in 2013, consists of three levels: by the end of 2015, all suppliers with factories in risk countries will be integrated in the programme at the Basic Programme level. The second level is a Development Programme for selected factories. The third level, the Excellence Programme, targets the integrated qualification of suppliers and includes environmental and economic aspects alongside the social ones.



TRADE

The Trade value-adding stage includes the impacts of the Otto Group's business activities at its own locations as well as of its sourcing and distribution transport. There is a significant lever here for more sustainability in the reduction of the greenhouse gas CO₂.



For detailed information about the Otto Group's Climate Strategy and progress, please see the chapter on Trade from p. 45 onwards.

Climate Strategy

TARGET: 50% reduction of CO₂ emissions



The Otto Group Climate Strategy aims to halve Group companies' CO₂ emissions by 2020 – whether caused by locations, transport or mobility – compared to the 2006 base year. This should be done as efficiently and economically as possible, primarily through increasing energy efficiency. The operational implementation of the required measures is done decentrally in the individual Group companies.

EXPANDING THE SCOPE

Since 2013, the 'Scope of the CR Strategy' procedural framework has determined which Otto Group companies are included in the implementation of CR Strategy 2020. In addition, it sets specific relevance thresholds for every sub-strategy: once companies exceed these, they are integrated in the sub-strategy. For example, Group companies are required to contribute towards achieving the Furniture Strategy targets once they generate more than 10 mn€ revenue in the furniture product group.

In 2013, myToys was integrated into the sustainability reporting process. This Group company had already participated in both of the sub-strategies assessed as relevant to its business: the Social Programme and the Climate Strategy. For the 2015/ 16 financial year, the inclusion of Freemans Grattan Holdings and Eddie Bauer Japan as well as all major foreign companies belonging to the Hermes and bonprix groups is planned.

Group companies are responsible for implementing the sub-strategies and augment these with their own activities in accordance with the specific requirements of their business models and the expectations of their stakeholders.

THE RIGHT INCENTIVES

Since the 2014/15 financial year, the annual variable remuneration of all members of the Group Executive Board has been linked to achieving the five targets of CR Strategy 2020. These targets are weighted according to materiality criteria and summarised in a CR Strategy Index.

The target achievement values of CR Strategy 2020 are components of variable Executive Board remuneration.

CR organisational structures

The various challenges along the value chain, such as protecting the climate and conserving resources, as well as responsibility for working standards in the supply chain, require an integrated approach. We not only respond to this with the impACT management process, we have also established an organisational structure that integrates employees from different functions and Group companies.

Responsibility for sustainable action in the Otto Group lies with the Group Executive Board. The central committee for preparing strategic CR decisions is the CR Board, which was created in 2012 and is led by the Chairman of the Executive Board. Other permanent members are the Group Board Member for Services, as well as the OTTO Management Board Member for Categories since the start of 2014, who supplements the existing body particularly in his function as overall Head of Purchasing at the Group's largest trading company, OTTO. The committee meets two to three times a year.

Since the 2014/15 financial year, the variable remuneration for the Otto Group Executive Board has also been linked to the degree of target achievement in the CR Strategy (see p. 20).

SUSTAINABLE SUPPLY CHAIN MANAGEMENT BOARD IMPLEMENTED

With the Sustainable Supply Chain Management Board (SSCM Board), another body was created in April 2014 which examines sustainability topics in the supply chain from an integrated perspective. The committee currently consists of six Managing Directors and Directors from the Group companies bonprix, Hermes, OTTO and Witt, as well as the sourcing company Hermes-OTTO International. The SSCM Board Chairman is the Director of the Group CR Division. The members of this committee debate and decide in the interest of all Group companies on sustainability related topics in the value chain.

They hold an executive management function for current projects and prepare decisions for the CR Board. Due to its cross-company composition, the SSCM Board forms a bridge between the divisions with operational responsibility and the CR Board.

The Group CR Division holds responsibility for content preparation and facilitates SSCM Board meetings, which take place four to five times a year.

CR COORDINATORS IN KEY ROLES

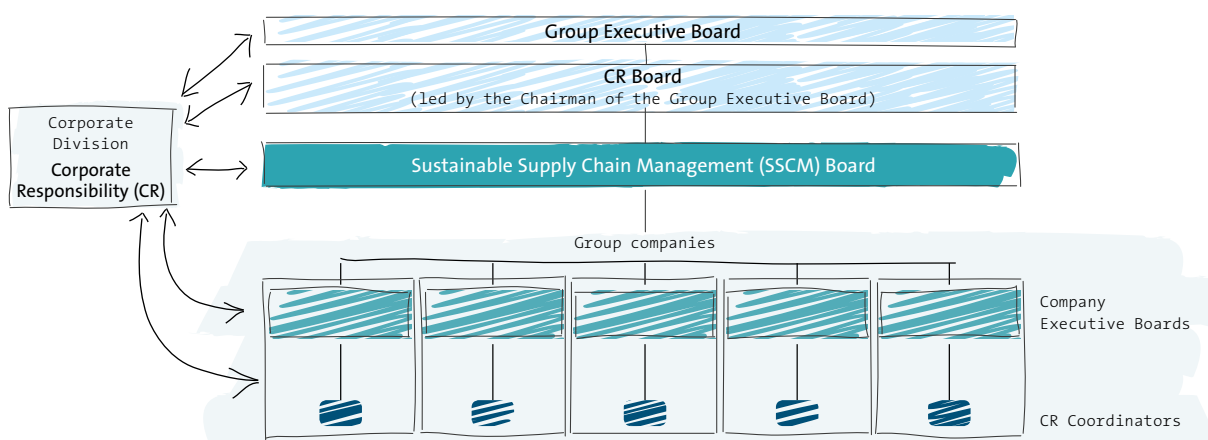
The Otto Group is decentrally organised. The Managing Directors of individual Group companies are responsible for meeting CR targets and for implementing sustainability activities in their companies. The CR Coordinators in the Group companies have a key role to play here: they support their company management in managing the relevant CR activities, initiate new measures, manage the capture of key figures and therefore represent the interface to the Group CR Division. OTTO and Hermes have established their own CR management bodies, which decide and organise the implementation of CR activities and include Board Members, Directors and Divisional Managers.

GROUP CR DIVISION SETS STRATEGIC FRAMEWORK

The Otto Group CR Division fulfills a Group-wide advisory and management function within the organisation. It operates as a change leader and takes responsibility for the development and planning of Group-wide strategies and pilot projects. In addition, it makes available measurement tools for planning and management and

advises individual Group companies on implementing the CR Strategy. Among the central tasks for the Group CR Division are also controlling stakeholder management and sustainability reporting, as well as networking and knowledge transfer between the Otto Group and the Group companies. In 2014 a meeting took place to present and discuss the impACT management process with the CR Coordinators of the Group companies.

Otto Group CR Organisation



CR CONTROLLING

The core tools for managing sustainability processes in the Otto Group are the CR Database, and the Supply Chain Database (SC Database) which was implemented in January 2015. Through both of these systems the key figures are recorded with which the implementation progress of CR targets and the effectiveness of measures taken can be reviewed and compared. The reporting companies enter employee and assortment data, as well as climate and environmental figures, in the CR Database on an annual basis. Key figures for measuring and managing the Social Programme are determined every six months from the SC Database. Through its interfaces, it brings together data from various systems and from manual entries, such as those made by auditors. For example, it enables the viewing of audit results for factories and the status of suppliers regarding the Social Programme. Every six months, the Otto Group Executive Board receives a report on the development of strategic CR targets and measures to achieve them.

ROLLOUT FURTHER DELAYED

In 2011, a Corporate Responsibility Rollout was launched to make CR management more consistent across the Group and to include all major international companies. Progress towards this target once again fell short of expectations in the reporting period. Instead, a topic-specific rollout of sub-strategies at individual Group companies took place. Besides an increased degree of decentralisation in the Group, the reason for this is the varying economic development of foreign subsidiaries (see Otto Group Annual Report 2014/15, p. 59 et seq.). With myToys, all significant companies in the German-speaking region are now integrated in the CR Strategy (see p. 20 et seq.). Likewise, Hermes UK is now integrated and will be fully included from the next reporting cycle, as are bonprix' foreign companies in France, Poland and Italy, and Venus in the US. In future, Freemans Grattan Holding in the UK and Eddie Bauer Japan will also be added. The full integration of Crate & Barrel (USA), Otto Group Russia, and the 3Suisnes Group (France) has been deferred by the Group Executive Board until at least 2016.

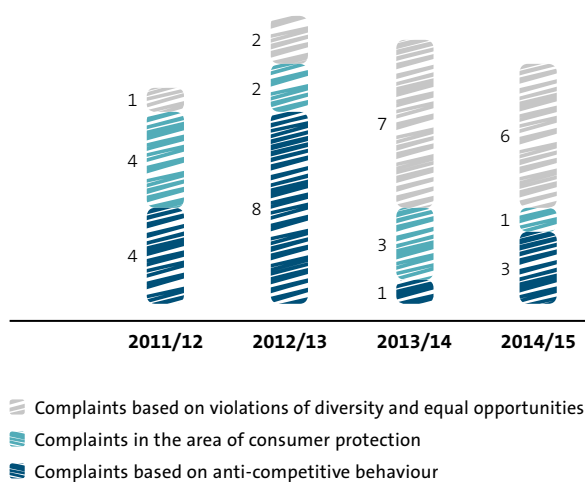
GOOD CORPORATE GOVERNANCE AND COMPLIANCE

The Otto Group has more than 50,000 employees and is active worldwide. It is conscious of the fact that in complying with international laws and guidelines, conflicts of interests and standards can arise that bear risks. As a significant component of the Compliance Management System currently in place across the Group, the Compliance Committee ensures compliance with national and international laws as well as the Group's own internal directives. It is composed of officers from relevant Group departments such as Law, Data Protection, Internal Audit and Corporate Responsibility. Another central instrument is the Code of Conduct, which applies Group-wide (see p. 40) and which is a required component of contractual relationships between the Otto Group and its suppliers.

Furthermore, Group Directives govern our companies' approach to anti-corruption, donations, embargo measures, dealing with gifts as well as data protection and security (see p. 63). Managers are required to instruct their employees personally about the contents of these Directives and any changes to them. In case of questions or on suspicion of a breach, employees can contact an internal department or an external Ombudsman. If violations occur, the Otto Group imposes appropriate sanctions by taking measures foreseen by employment law, or may even terminate supplier relationships.

Complaints

Number



In the two-year reporting period, four complaints were received regarding anti-competitive behaviour; of these, two were related to suspected trademark violations of a test seal. The four complaints in the area of consumer protection referred to the unauthorised sending of newsletters and an unsolicited advertising call. All 13 of the complaints submitted in the reporting period regarding the violation of diversity and equal opportunities originated from the same person, who felt discriminated against in the online application process.

Violations

Number

	2011/12	2012/13	2013/14	2014/15
of environmental standards	0	0	0	0
of health or safety standards (product recalls)	6	2	4	1
of product information standards	8	10	3	0
of marketing standards	4	5	5	0

Of the five product recalls carried out in the reporting period, the majority were textiles in which raised levels of azo dyes had been found. In one case, an own-brand dishwasher was recalled following a technical defect. The violations of product information and marketing standards, a total of eight in the reporting period, related to product descriptions such as an incorrect description of materials.

PROACTIVE RISK MANAGEMENT

Entrepreneurial activity bears inherent risks. Likewise, achieving company goals can be endangered by risks. Therefore, the Otto Group maintains a systematic risk register both on Group and Group company levels, which serves at the same time as a Group-wide 'early warning system'. Among the short-term risks are currency risks and economic fluctuations that influence consumers' willingness to spend. Longer-term risks for the Otto Group arise for example from climate change, since the increase in extreme weather events can lead to crop failures and raw-material scarcity in producer countries.

Involving Stakeholders

We address the expectations and demands of our stakeholders in discussions, through surveys and at events. Constant exchange is essential to identify their expectations and demands at an early stage and take account of these in our decisions.

G4-24

The Otto Group is in constant contact with numerous stakeholder groups. The most important are customers, suppliers, employees, non-governmental organisations (NGOs), and political, scientific and business representatives.

MANAGING STAKEHOLDER INTERESTS

G4-25

The significance of the different stakeholder groups to the Otto Group depends on the relationship they have to the Group's business or products. Identification and involvement of stakeholders, internal responsibilities and divisions of duties are set out uniformly in a directive. The CR Division manages this process; it coordinates stakeholder discussions and, if required, performs risk assessments.

The key parties for managing stakeholder dialogue are the Executive Board, the CR Division, Corporate Communications and the Group companies. Approved internal information flows ensure the Group companies respond uniformly to external enquiries. These are classified into those with a high risk to the Group's reputation, and those with a low risk. High-risk enquiries are sent directly to the CR Division for action; CR then works with Corporate Communications in the case of critical media enquiries.

STAKEHOLDER DIALOGUE

The Otto Group is in contact with its stakeholders across a range of channels, initially by providing information in its Sustainability Report and on its corporate website. Subsequently, meetings at events and platforms for exchange organised by the Group strengthen the dialogue. Involvement through consultation represents the closest form of stakeholder involvement. For example, the views of selected stakeholders concerning the impACT sustainability management process (see p. 16) are incorporated into the Group's strategic focus. This also has a major influence on the scope of this Sustainability Report.

G4-26

FOCUS ON LABOUR STANDARDS

At the end of 2013 the Otto Group presented its new Social Programme at a one-day forum (see p. 40 et. seq.). By focusing on purchasing processes in risk countries and with a wider scope of application, the Group intends to improve working conditions in the supply chain. The Otto Group gains valuable external assessments through podium discussions and workshops to improve its Social Programme.

The Otto Group helped shape, and is a signatory to, the Bangladesh Accord on Fire and Building Safety, which was a response to the collapse of the Rana Plaza factory in Bangladesh in 2013 (see p. 44). The Otto Group was also closely involved in discussions concerning the Partnership for Sustainable Textiles, a multi-stakeholder initiative founded by the German Federal Ministry for Economic Cooperation and Development (see p. 44).

NATURAL CAPITAL EVENT

In November 2014 around 100 companies responded to the 'Biodiversity in Good Company' initiative's invitation to meet at the Otto Group's headquarters in Hamburg. Under the motto 'On the doorstep and beyond the horizon: companies addressing the challenges of biodiversity', business representatives and politicians discussed how natural resources can be conserved, and presented best practices. 'Biodiversity in Good Company' was launched in 2008 by the German Federal Ministry of the Environment, Nature Conservation and Nuclear Safety, and today is a company-driven initiative. Since 2011 the Otto Group has chaired the initiative's Board.

DIALOGUE AT A POLITICAL LEVEL

The Otto Group is in constant dialogue with political institutions. In 2013 and 2014 it took part in workshops organised by the German Federal Ministry for Foreign Affairs on social responsibility in the supply chain.

The Group is also represented at the German national CR forum, which advises the German Federal Ministry for Labour and Social Affairs on developing and implementing the national German CR strategy. Furthermore, in 2014 the Group supported the German government's Research for Sustainable Development (FONA) agenda by providing information on natural capitalisation and measuring external effects, for instance.

G4-26



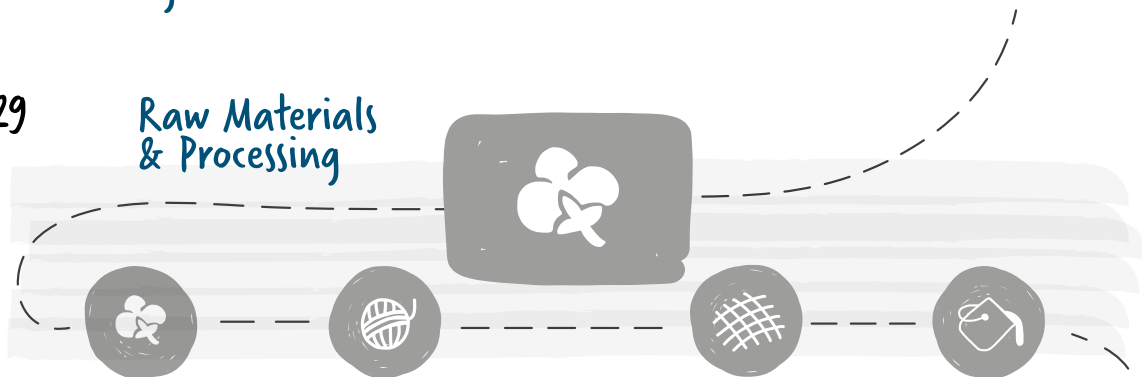
THE OTTO GROUP'S KEY MEMBERSHIPS AND COLLABORATIONS

- 2° – German CEOs for Climate Protection (initiated by Dr Michael Otto and a member since 2007)
- Bangladesh Accord on Fire and Building Safety (since 2013)
- Biodiversity in Good Company initiative (founding member 2008)
- Bundesverband der Personalmanager [German Federal Association of Personnel Managers] (since 2009)
- Business For Climate initiative (since 2012)
- Business Social Compliance Initiative (BSCI) (since 2004)
- Carbon Performance Improvement Initiative (CPI₂) (founding member 2011)
- Forest Stewardship Council Germany (FSC) (since 2006)
- Founding member of the Cotton made in Africa (CmiA) initiative (since 2005)
- German Association for Personnel Management (since the 1980s)
- German Environmental Management Association (B.A.U.M.) (since 1987)
- German Retail Federation (HDE) (since 2009)
- terre des hommes (partner since 2008)
- Textile Exchange (since 2006)
- United Nations Global Compact (since 2002)

Process stages based on textiles

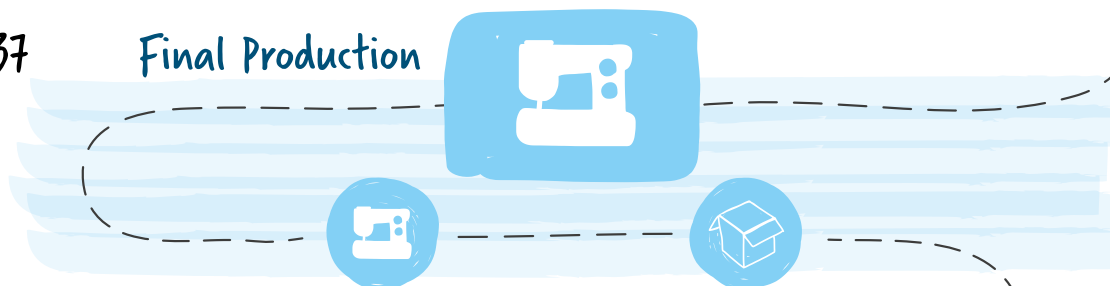
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Raw Materials
& Processing



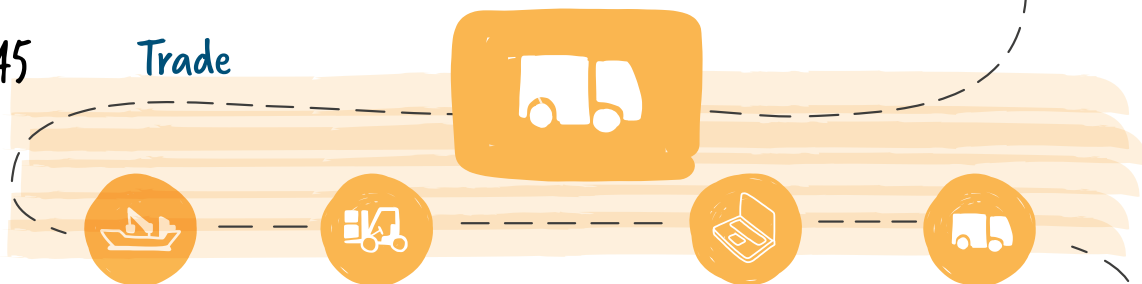
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Final Production



Page 45

Trade



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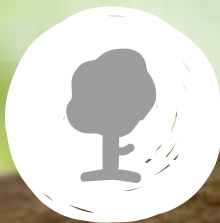
Customer





1. Raw Materials & Processing

Process stages based on furniture



Raw Material Extraction

Timber is harvested from managed forests and plantations.



Sawmill

At the sawmill, logs are processed into sawn timber and prepared for further processing.



Processing

Assorted tools and processes are used to process the pieces of timber.



Refinement

The timber is finished, meaning it is waxed, stained, lacquered or oiled to protect it from dirt and stains, etc.

Raw Materials & Processing

The cultivation and extraction of raw materials, and their further processing, lie at the start of the value chain. According to the materiality analysis this causes the majority of ecological impacts and social risks. The Otto Group is countering these challenges with three sub-strategies which all focus on more sustainable land use and forestry practices.

CHALLENGES IDENTIFIED BY impACT

Overview of Materiality Matrix assessments for the Raw Materials & Processing value-adding stage:

See p. 12 et seq. for further information on impACT.

G4-27

	Quantitative Assessment	Average Stakeholder Evaluation (on a scale of 1 [very low] to 10 [very high])	
Ecological Impacts	Share of Raw Materials & Processing value-adding stage in terms of overall ecological impacts: 70%	External Stakeholders: 8	
		Internal Stakeholders	Relevance to Reputation: 4
			Regulation Risks: 3
			Business Activity: 7
Social Risks	Share of Raw Materials & Processing value-adding stage in terms of overall Social Risks: 64%	External Stakeholders: 9	
		Internal Stakeholders	Relevance to Reputation: 7
			Regulation Risks: 4
			Business Activity: 9

QUANTITATIVE ASSESSMENT RESULTS

The quantitative assessment of **ecological impacts** was high for all four impact categories – Greenhouse Gases, Pollutants, Water Consumption and Land Use – compared to the other three value-adding Stages.

Greenhouse Gases are emitted for instance through the consumption of energy in the agricultural sector and in the rearing of animals for leather. Textiles and electronic articles are in part manufactured in multi-staged, and consequently energy-intensive, production processes which have a climate impact.

Pollutants enter the air and water through the use of chemicals in finishing and production processes, also through the use of pesticides in cotton cultivation for instance.

The cultivation of plant-based raw materials such as cotton is also highly water-intensive. On average it takes around 2,100 litres of **water** to produce one kilogramme of cotton. The artificial irrigation of cotton fields involves many factors. This includes extracting water from rivers, which affects existing ecosystems. In arid regions, the water requirement for cotton cultivation is in strong competition with the population's need for water for drinking and other purposes.

The majority of **land** is used for agriculture and forestry, such as for commercial forestry and cotton cultivation. This has a major impact on diversity, which is much lower in these cultivated areas than in areas left to nature. Furthermore, mining, industry and transportation – even if to a much lower degree – all contribute toward land use. All these forms of land use have ecological impacts.

Compared to the other value-adding stages, the share of **Social Risks**, meaning violations of social standards through unacceptable working conditions, is greatest in the Raw Materials & Processing value-adding stage. These risks occur both in the extraction of raw materials and their further processing. Furthermore, they arise particularly in risk countries (see p. 40). Instances are particularly high for example in dye works for textile production.

STAKEHOLDER EVALUATION RESULTS

External and Internal Stakeholders considered the ecological impacts in the Raw Materials & Processing value-adding stage to be very relevant. In this value-adding stage, all stakeholders expect the Otto Group to make long-term improvements in terms of Greenhouse Gases and Pollutants, Water Consumption and Land Use.

In textile production in particular, all four Stakeholder Perspectives consider **Pollutants** to be of great importance for the Otto Group – for External Stakeholders as well as from a Reputation, Regulation and Business Activity perspective.

One reason for the great importance attached to **Land Use** by External Stakeholders is the public debate on the increased global competition for land. It refers to the conflict between the cultivation and extraction of raw materials on the one hand, and the conservation of natural habitats and diversity on the other. By contrast, from an Internal Stakeholder perspective, Business Activities are still not considered to be highly relevant over the medium term.

The Otto Group also considers **Social Risks** in pre-production stages as being highly relevant to its Business Activity and Reputation. This assessment corresponds with External Stakeholders' high expectations as well as the associated high level of relevance for this topic area to the Group's Reputation.

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THE OTTO GROUP'S SCOPE OF ACTION

Although this value-adding stage has the greatest share of Social Risks, the Otto Group has not yet implemented a sub-strategy to reduce them. The reasons are a lack of contractual relationships and a resulting poor level of transparency and limited influence over upstream suppliers. Only a few aspects of Raw Material Extraction are manageable. Sustainability requirements can be implemented and managed in this regard using credible certifications, for instance through the use of the FSC® label.

TEXTILE, FURNITURE AND PAPER STRATEGIES AND ADDITIONAL MANAGEMENT APPROACHES

The Raw Materials & Processing value-adding stage has the greatest potential to reduce the Otto Group's ecological impacts. This is why three of the CR Strategy 2020's five sub-strategies deal specifically with this. They aim to reduce all four ecological impacts (Greenhouse Gases, Pollutants, Water Consumption and Land Use).

Through its Textile Strategy, by 2020 the Otto Group aims to only use sustainably cultivated cotton in its own and licensed brands. To achieve this, it is using certified organic cotton and cotton from the Cotton made in Africa (CmiA) initiative. Under the Otto Group's Furniture Strategy, by 2020 only FSC-certified articles are to be used in the Group's assortment of wooden furniture. Through its Paper Strategy, by 2018 the Otto Group intends to increase the share of FSC-certified gravure print paper for catalogues and advertising materials to at least 50%.

GROUP DIRECTIVE SUSTAINABILITY IN PROCUREMENT

The Otto Group's entire assortment is subject to minimum standards which are brought together in the Group Directive Sustainability in Procurement. It applies to all Group companies and sets out the environmental and social requirements under which merchandising and non-merchandising goods are sourced and sold (see p. 39). It bans such things as the use of real fur, feather and down gained from live plucking or foie-gras production, as well as the use of non FSC-certified tropical wood.

CODES OF CONDUCT

Two additional target-group specific documents complement the Group Directive Sustainability in Procurement: the Code of Conduct for Merchandise, and the Code of Conduct for Non-Merchandise Goods and Services (see p. 40) – the latter covers external cleaning services at several locations. These set out social standards both for suppliers and their subcontractors.

Application scope of key figures

The key figures in this chapter cover all reporting companies from the business segment Multichannel Retail, provided they pass the sub-strategies' relevance thresholds. All figures relate to calendar years and are rounded off.

GRI aspects covered

Emissions, Energy, Materials, Water, Biodiversity

TEXTILE STRATEGY STATUS

Scope of application of the Textile Strategy

All reporting companies with an annual sourcing volume of over 10 mn€ for own and licensed brands in the textiles product group are involved in the Textile Strategy. In the reporting period, this concerned bonprix, Frankonia, Heine, OTTO, Schwab, SportScheck and the Witt Group.

As OTTO has managed sourcing for the Group company Baur since 2014, Baur itself is no longer involved directly in the Textile Strategy.

Nevertheless, Baur still has the indirect ability to influence the success of the Textile Strategy, for example by marketing sustainable cotton textiles to customers. The same applies to the reporting company UNITO, whose textile assortment is sourced primarily by OTTO.

In the Otto Group's textile assortment cotton is by far the dominant fibre compared to polyester, viscose and wool. The Otto Group has set itself the goal of only using sustainably produced cotton in its cotton assortment of own and licensed brands by 2020. This includes all textiles with a cotton share of at least 5%. Own and licensed brands were focused on, as the Group has a direct influence over the raw materials used here. To achieve its goals, the Otto Group is using cotton from the CmiA initiative in particular (see info box). In 2014 its share of the total quantity of cotton was 9.6%. Certified organic cotton also contributed toward this goal with a share of 1.3%.

In 2014 the Otto Group purchased 3,900 tonnes of sustainable cotton. This is equivalent to 11% of the Group's total quantity of cotton (2013: 7%). The main reason for the increase in the share of sustainable cotton was an acceleration in the switchover to CmiA cotton at the Group companies bonprix, OTTO and Witt.

Sustainable cotton¹

in t

	2012	2013	2014
Total quantity of cotton	33,833	39,453	35,599
Quantity of organic cotton	708	607	478
Quantity of CmiA cotton	1,208	2,164	3,405
Share of sustainable cotton	6%	7%	11%

¹ Based on the sourcing volume of raw cotton.

Cotton made in Africa

Cotton made in Africa (CmiA) plays a key role for the Otto Group in achieving its goal of '100% sustainable cotton by 2020'. Cost-efficient sourcing makes the mass-market use of CmiA possible. Among other factors, the lower costs are thanks to the underlying mass-balance approach, which works in a similar way to the eco-electricity model: there is no need to report the individual products in which CmiA cotton was used – what matters is that the corresponding quantity of sustainable cotton enters the value chain and demand is created as a result.

CmiA allows African smallholder farmers to improve their living standards through their own efforts and promotes environmental protection. The initiative is currently active in 10 African states where, through qualification measures, smallholder farmers are learning how to cultivate cotton efficiently and in an environmentally friendly way.

They benefit from contracts of employment and reliable payment for what they produce. In March 2015 there were around 650,000 verified smallholder farmers. The use of CmiA cotton reduces the ecological and social impacts in four out of five impact categories: Greenhouse Gases, Pollutants, Water Consumption and Social Risks. A lifecycle assessment of CmiA cotton revealed that greenhouse gas emissions are 40% lower for CmiA cotton production than conventional cotton production. Furthermore, around 2,100 litres of water are saved per kilogramme of cotton, as CmiA cotton is cultivated purely using rain water.

As with conventional cultivation, pesticides may also be used on cotton produced under CmiA guidelines, as this is not organic cotton. However, the initiative does ban the use of certain pesticides, training and qualifying farmers to use them responsibly.

FURNITURE STRATEGY STATUS

Scope of application of the Furniture Strategy

The Furniture Strategy covers all reporting companies with annual sales of over 10 mn€ in the furniture product group. In the reporting period, this concerned baumarkt direkt, bonprix, Heine, OTTO and OTTO Office.

As in the case of the Textile Strategy, Baur is no longer directly involved in the Furniture Strategy. However, the Group company continues to sell wooden furniture products sourced by OTTO or other reporting companies.

From 2013 a simpler definition has been used to calculate the key figure 'Share of FSC-certified articles in terms of the overall furniture assortment'. This definition only records solid wood articles as well as part-solid and MDF (medium-density fibreboard) articles. Additional sub-assortments specific to baumarkt direkt are no longer incorporated in this key figure.

Next to cotton, timber is the Otto Group's most frequently used raw material. It is used primarily in catalogue paper and in wooden furniture.

To make the Otto Group's furniture assortment more sustainable, it uses FSC-certified timber (see info box). It has set itself the target of increasing the share of FSC-certified timber used in its wooden furniture to 100% by 2020.

In 2014 the share of FSC-certified timber used in wooden articles stood at 33% – a considerable increase over the previous year (26%). This was thanks in particular to the efforts of OTTO: the Group company agreed FSC certifications with key wooden-furniture suppliers and included additional FSC-certified articles in its assortment. bonprix also significantly increased the share of FSC-certified timber in its furniture assortment.

FSC-certified furniture

Number

	2011	2012	2013	2014
Total number of furniture articles	16,815	53,911 ¹	45,485	56,350
of which, number of FSC-certified articles in the assortment	1,605	8,343 ¹	11,872	18,688
Share of FSC-certified articles in terms of the overall furniture assortment	10%	16%	26%	33%

¹ Values adjusted versus CR Report 2013 (previously 50,571 and 8,227).

This was because baumarkt direkt's figures were only incorporated fully after publishing.

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Forest Stewardship Council®

The Forest Stewardship Council (FSC) actively works toward conserving forests by promoting responsible forestry. The prevention of uncontrolled deforestation and violation of human rights, and the conservation of ecosystems and biodiversity are promoted through stringent forestry standards. This primarily reduces impacts in the impact category Land Use.

PAPER STRATEGY STATUS

Scope of application of the Paper Strategy

The Group-wide sourcing of gravure print paper is handled centrally by OTTO. As such, it strongly influences the Paper Strategy's key figures. The other reporting companies also use gravure print paper, with the exception of myToys, Hermes and EOS.

In 2014 the Group consumed almost 275,000 tonnes of paper (catalogue paper, advertising materials and cardboard packaging). This means the Otto Group is still the biggest consumer of paper in the German-speaking region.

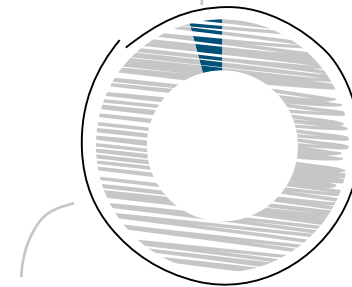
Catalogues and advertising materials account for the greatest share of the paper consumed by the Otto Group (96%), with over 264,000 tonnes consumed annually. Despite the now clear dominance of e-commerce in terms of the share of retail sales, many customers still use catalogues as a source of inspiration. Under its Paper Strategy, the Otto Group has set itself the target of increasing the share of FSC (FSC-C011850) certified gravure print paper for catalogues and advertising materials to at least 50% by 2018.

This focus on gravure print paper is because of its huge share of over three quarters of all the paper used for catalogues. Another reason is central procurement through OTTO, which makes it possible to implement the strategy quickly and efficiently. Of the 201,000 tonnes of gravure print paper used in 2014, around 18% was FSC-certified (2013: 8%). This considerable increase was thanks mainly to long-term contracts with key paper suppliers.

Paper use by the Otto Group 2014

3.9%

Packaging made of paper and cardboard



96.1%

Catalogues and advertising materials

(of which, gravure print: **73.4%**; offset and other print processes: **22.7%**)

Catalogue and advertising-material paper consumption¹

in t

	2011	2012 ²	2013	2014
Total quantity of paper	289,050	258,639	258,382	264,189
Total quantity of gravure print paper	n.d.	209,763	195,437	201,839
of which, FSC gravure print paper	n.d.	14,255	15,818	35,726
Share of FSC gravure print paper	n.d.	7%	8%	18%

¹ Data based on forecast figures which deviate only slightly from actual figures.

² Slight deviation versus CR Report 2013.

EXPANSION OF THE PAPER STRATEGY

Since the Otto Group's cooperation with the Forest Stewardship Council (FSC) began, its label has already appeared on over two billion printed materials – a figure which makes the Group one of the world's leading companies using FSC paper, a position it intends to strengthen further. With its Paper Strategy and Furniture Strategy, two of the Group's five sub-strategies focus on FSC certification.

By the end of 2015 the Otto Group will review and decide whether to incorporate offset print paper in its Paper Strategy. Since it is sourced locally by the individual Group companies' purchasing departments and in significantly smaller quantities than gravure print paper, a changeover to FSC-certified offset print paper will involve significantly higher costs.



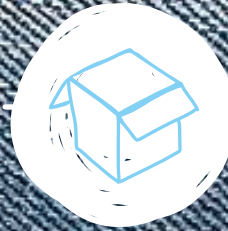
2. Final Production

Process stages based on textiles



Sewing

Textile workers process fabrics into finished products such as t-shirts or bedding. To make these, the fabric is cut, sewn, and if desired is decorated with accessories and designs.



Finishing & Packaging

The brand label is attached to the product, which is then ironed and packed ready for transportation.

Final Production

The Final Production value-adding stage covers the final stages of the production process up to and including packaging of the goods ready for transportation. Here, the focus of the Otto Group's sustainability activities is on improving working conditions, particularly at factories in risk countries. This is why it implements its Social Programme to audit and qualify them.

CHALLENGES IDENTIFIED BY impACT

Overview of Materiality Matrix assessments for the Final Production value-adding stage:

See p. 12 et seq. for further information on impACT.

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	Quantitative Assessment	Average Stakeholder Evaluation (on a scale of 1 [very low] to 10 [very high])	
Ecological Impacts	Share of Raw Materials & Processing value-adding stage in terms of overall ecological impacts: 6%	External Stakeholders: 6	
		Internal Stakeholders	Relevance to Reputation: 3
			Regulation Risks: 2
			Business Activity: 4
Social Risks	Share of Raw Materials & Processing value-adding stage in terms of overall Social Risks: 30%	External Stakeholders: 9	
		Internal Stakeholders	Relevance to Reputation: 10
			Regulation Risks: 3
			Business Activity: 10

QUANTITATIVE ASSESSMENT RESULTS

Compared to other value-adding stages Final Production has relatively low **ecological impacts**. The majority of them are accounted for by the impact categories **Greenhouse Gases** and **Pollutants**. Here, CO₂ emissions are emitted mainly by energy consumption at the factories. Pollutants are emitted through the use of solvents, dyes and lacquers in furniture production.

Almost a third of all **Social Risks** occur in the Final Production value-adding stage. This stage includes, for example, the packaging of textiles and the final assembly of electrical equipment. Consequently, manual labour plays a much bigger role, which entails greater Social Risks than automated processes. Furthermore, the final production of merchandising goods is largely performed in risk countries (see p. 40). Here, for instance, there is a relatively high probability that stipulated labour standards and human rights are not upheld owing to poor control systems.

THE OTTO GROUP'S SCOPE OF ACTION

Owing to the contractual relationship between Otto Group companies and their suppliers, there are greater abilities to exert influence in the Final Production value-adding Stage than in the upstream stages of goods production (see chapter 'Raw Materials & Processing', p. 29 et seq.). Limited influence is, however, brought to bear owing to complex sourcing structures as well as often small order quantities per supplier because of the huge range of articles offered by the Group's trading companies (see info box p. 40).

Goods sourcing structure

When sourcing products, the Group first draws a distinction between merchandising goods and non-merchandising goods. Non-merchandising goods include such items as transportation, office equipment for its own requirements, catalogue paper and services such as power and cleaning.

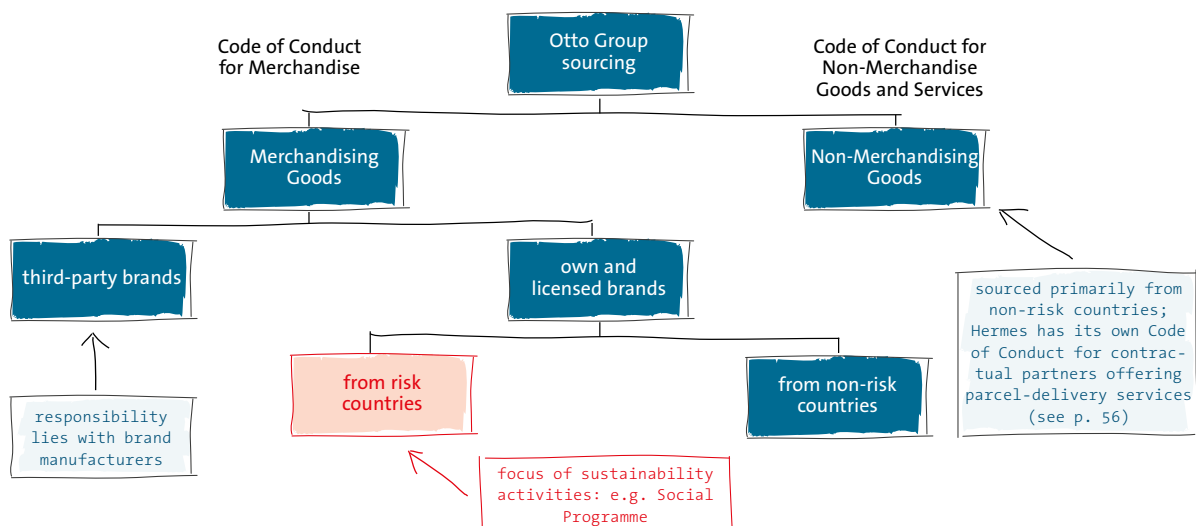
The Otto Group purchases merchandising goods worth around 4.9 bn€ annually. Of this, around half is spent on third-party brands. In the case of these goods, brand manufacturers are responsible for upholding social and environmental standards in production. Own and licensed brands account for the remaining half of the sum of merchandising goods purchased. Own and licensed brands are sourced globally in different ways: through sourcing organisations such as the Group company Hermes-OTTO International (H-OI), external agencies, importers or directly via suppliers.

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STAKEHOLDER EVALUATION RESULTS

From a stakeholder perspective, **Social Risks** are the dominant sustainability topic in this value-adding stage. External Stakeholders expect the Otto Group to take steps to mitigate these risks. Consequently, this topic also poses a high risk to the Group's reputation and is correspondingly relevant to the Group's business success.

Overview of goods sourcing in the Otto Group



Enormous article diversity

Most of the Otto Group's business models are based on offering a huge range of articles. The Group sources over a million different articles from over 70 sourcing countries – and works with several thousand suppliers, which in turn order from various factories.

Production in risk countries

Merchandising goods are predominantly manufactured in risk countries owing to the global division of labour. A country is classified as a risk country if, for instance, human-rights infringements and socially unacceptable working conditions are more likely because of inadequate control systems. The Otto Group adopts this risk-country classification from the Business Social Compliance Initiative (BSCI)* – a global alliance of trading companies, brand manufacturers and importers. The Otto Group's sustainability activities within the Final Production value-adding stage focus on the factories in these risk countries.

SOCIAL PROGRAMME AND ADDITIONAL MANAGEMENT APPROACHES

The Otto Group wants to offer its customers goods which have been produced in compliance with social and ecological standards. To achieve this, in 2013 the Otto Group rolled out the binding Group Directive Sustainability in Procurement. It developed its Code of Conduct long before this in 1996 – and in 1999 it implemented its Social Programme, which builds on this Group Directive.

GROUP DIRECTIVE SUSTAINABILITY IN PROCUREMENT

The Group Directive Sustainability in Procurement sets out the minimum social and ecological requirements on how all goods are sourced by the Group companies. It includes social and ecological requirements on suppliers' products and working conditions. These include a ban on sand blasting when processing denim fabrics.

* For a list of BSCI risk countries, visit: www.bsci-intl.org/bsci-list-risk-countries-0.

CODES OF CONDUCT

The Otto Group has implemented two Codes of Conduct in accordance with its sourcing structure: one for merchandising goods and one for non-merchandising goods and services (see figure p. 39). These set out the social standards which apply to all Group employees, business partners and suppliers. The Code of Conduct for Merchandise is based on the core working standards of the International Labour Organization (ILO), the UN Convention on the Rights of the Child and the UN Convention on the Elimination of All Forms of Discrimination against Women. Further components include BSCI guidelines and OECD Directives for Multinational Enterprises.

By entering into a business relationship, suppliers and business partners commit not only to upholding these in their companies but also to ensuring their subcontractors abide by them. The Codes of Conduct form the basis for reviewing whether all trading and business partners are complying with the standards. To view both documents, visit: www.ottogroup.com/responsibility.

SOCIAL PROGRAMME STATUS

ENFORCING SOCIAL STANDARDS

The Otto Group introduced its Social Programme in 1999 to enforce social standards in risk countries. It focuses on the production and sourcing of own and licensed brands from risk countries. In 2013 it was expanded to include importers and direct suppliers, among other measures. The Social Programme's goal is to establish acceptable working conditions for factory workers. Furthermore, it aims to establish transparency in terms of where and how goods are produced for the Otto Group. To achieve this, suppliers must disclose their factory structure and provide accepted and valid standards, audit results or assessments for each factory which produces goods for the Otto Group (see p. 43).

Scope of application of the Social Programme

All own and licensed brand suppliers with factories in risk countries are integrated in the Social Programme. All suppliers are integrated, irrespective of whether goods are sourced by sourcing organisations, or whether direct suppliers or importers are concerned.

Application scope of key figures

The Social Programme applies to reporting companies from the Multichannel Retail segment. It is managed using the Supply Chain Database (see p. 42). This currently allows the following Group companies to be represented: bonprix, Heine, OTTO, Schwab, SportScheck, the Witt Group and Alba Moda. Since 2013 OTTO has sourced goods for Baur. The responsibility for implementing the Social Programme lies with the Group company that sources the merchandising goods.

Correspondingly, OTTO has since also controlled the particular key figures for merchandising goods sold by Baur.

Together with the joint-venture partner hagebau, baumarkt direkt sources the majority of its merchandising goods through a separate sourcing organisation. This is why baumarkt direkt is not involved directly in the Social Programme. Instead, it operates its own Social Management System as a BSCI member.

In January 2015 the Otto Group rolled out its new Supply Chain Database. This is why at present only the key figures for 2014 can be reported. These figures relate to calendar years and are rounded off.

GRI aspects covered

Supplier Human Rights Assessment,
Supplier Assessment for Labor Practices

THREE-STAGE MODEL

The primary aim of the Social Programme is to improve working conditions in risk countries where goods are produced for the Otto Group. A three-stage model represents this aim. All suppliers are included in the Basic

Programme. This means they establish transparency in terms of their factories and provide valid social standards for them. In the second stage, selected factories of key suppliers with which the Otto Group already works closely are given targeted support through qualification measures.

Overview of Social Programme core processes

Stage 3: Excellence Programme

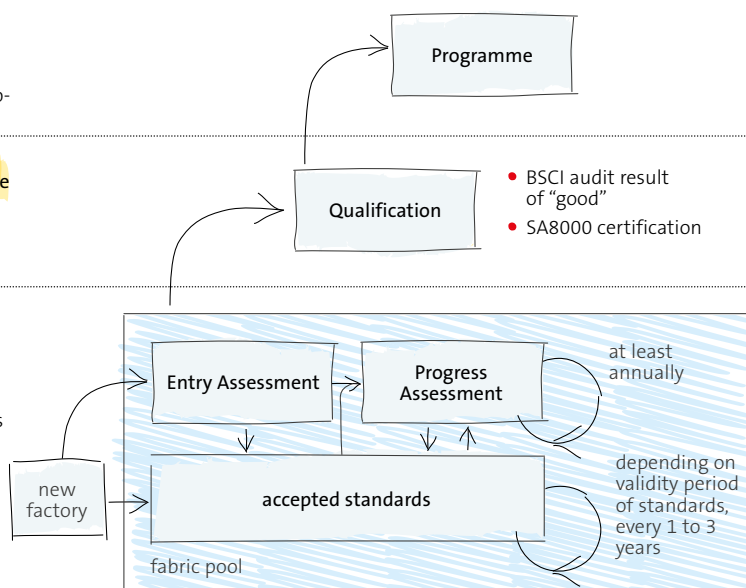
for selected factories of especially relevant suppliers

Stage 2: Development Programme

for selected factories of key suppliers

Stage 1: Basic Programme

for all own and licensed brand suppliers with factories in risk countries (exception: importers that are BSCI members)



Stage 3 aims:

- Comprehensive improvement
- Strategic partnership

Stage 2 aims:

- Promotion of good working conditions
- Closer collaboration

Stage 1 aims:

- Improved working conditions
- Assessment of all suppliers

In the third stage, the Excellence Programme, selected factories belonging to suppliers which are especially relevant from a strategic point of view are fully further trained in terms of social, ecological and economic aspects. Owing to the general economic situation (see Otto Group Annual Report 2014/15, p. 55) implementation of this stage is initially dispensed with.

STAGE 1: BASIC PROGRAMME

This stage aims to establish transparency in terms of all suppliers and their factories with regard to compliance with social standards. It also aims to identify violations of the Code of Conduct. This is done by each factory either providing an accepted standard or undergoing the Otto Group's own Entry Assessment prior to being awarded a production order. The validity periods of assessments and accepted standards are limited (most are valid for a year; others, such as the SA8000, are limited to three years). Once their validity expires, either a Progress Assessment needs to be performed or a new valid standard needs to be provided.

SUPPLY CHAIN DATABASE AS A CONTROL TOOL

All supplier and factory data which are relevant for control purposes are logged in the Otto Group's Supply Chain Database. This aims to establish a high degree of transparency over the Final Production value-adding stage and thus forms the basis of the Social Programme.

AIM: 100% INTEGRATION

The Basic Programme aims to integrate into the Social Programme all suppliers with factories in risk countries – an aim it intends to achieve by the end of 2015. A supplier is considered to be integrated if all its factories in risk countries which produce goods for the Otto Group ('active factories') can provide a valid and recognised assessment, certificate or audit result (see info box p. 43). Alternatively, importers will also be accepted if they are BSCI members.

At the end of this reporting period the Group companies involved in the Social Programme were working with 2,628 suppliers. Of these, 449 are considered as being integrated in the Social Programme – equivalent to 17%.

11% of suppliers are not integrated. While the remaining 72% are logged in the system, they cannot be definitively assigned a value, as data correction and clarification are needed.

These figures show that the Otto Group is still trailing far behind its own ambitious aim. The Reasons for the delay in the roll out of this complex, Group-wide programme is due mainly to the wide variety of decentralised IT system environments and sourcing structures. In addition, it is proving more difficult than expected to establish the necessary transparency, particularly with regard to the factories of newly incorporated importers. The Otto Group expects a significant increase in the target achievement rate in 2015.

Integration status and supplier performance

	Description	2014	
Status: integrated		17%	✓
accepted	Valid and accepted standards or assessments provided for all of a supplier's active factories	9%	
advanced achieved	Valid SA8000 certificates or a BSCI audit result of 'good' provided for all of a supplier's active factories	7%	
BSCI member	Importer is a BSCI member	1%	
Status: not achieved		11%	✓
not accepted	A supplier does not have valid and accepted standards or assessments for all active factories	11%	
sanctioned	Sanctions are being brought against at least one of a supplier's factories ¹	0%	
banned	A supplier has been banned ²	0%	
no value	Integration status still unclear as, for example, transparency has not yet been established concerning active factories	72%	✓

¹ Sanctions are applied if serious violations of the Code of Conduct (e.g. in terms of working hours or wages) are discovered, or if a supplier refuses to have audits or assessments performed.

² A supplier is banned if, despite sanctions, it refuses to meet the requirements/implement the Social Programme.

ACCEPTED STANDARDS FOR ASSESSING FACTORIES

Assessments of all of a supplier's active factories in a risk country are used to determine the supplier's status. For this purpose, as part of the Social Programme seven external standards are accepted in addition to the Otto Group's own Entry and Progress Assessments.

Accepted external standards

- BSCI audit (Business Social Compliance Initiative)
- EICC audit (Electronic Industry Citizenship Coalition)
- ICS audit (Initiative Clause Social)
- ICTI audit (International Council of Toy Industry)
- SA8000 certificate (Social Accountability)
- SMETA/SEDEX audit (Sedex Members Ethical Trade Audit)
- WRAP certificate (Worldwide Responsible Accredited Production)

Otto Group's own standards

- Entry Assessment
- Progress Assessment

As at the end of 2014, 711 factories had provided accepted standards. Of greatest relevance at 75% are BSCI audits (41% with a result of 'good', 24% with 'improvements needed', and 10% with 'non-compliant'). The Otto Group is currently assessing 14% of factories (10% Entry Assessment, 4% Progress Assessment). For the remaining factories, other external standards have been provided. Of those, SA8000 certification (8%) was the most widely used.

STAGE 2: DEVELOPMENT PROGRAMME

This stage is intended to qualify factories of long-term suppliers to the Otto Group as far as possible so that they achieve a BSCI audit result of 'good' or gain SA8000 certification. The Development Programme was launched in 2013. It includes measures such as workshops and webinars, and provides the factory representatives with an awareness and ability to develop and implement better long-term working conditions. In 2014, 210 factories were included in the Development Programme.

STAGE 3: EXCELLENCE PROGRAMME

In the third stage, the Excellence Programme, selected factories belonging to suppliers that are especially relevant from a strategic point of view are to be fully developed further in terms of social, ecological and economic aspects.

CLIMATE AND ENVIRONMENTAL PROTECTION

The Otto Group is active particularly in the CPI₂ industry initiative to reduce ecological impacts in the Final Production value-adding stage.

CPI₂ INITIATIVE

Together with seven other German trading companies, the Otto Group launched the CPI₂ initiative to cut CO₂ emissions along the global supply chain. Since it was established, 20 companies have signed up to the initiative. To achieve the goal, CPI₂ provides suppliers with an online management tool which lets them evaluate and control their energy consumption across all areas of their business. In 2014, 362 active factories which produce goods for the Otto Group had already signed up to the CPI₂ initiative. Workshops and webinars were also held in five countries in the reporting period, in which 105 factories took part.

A CPI₂ stakeholder dialogue event was held in November 2014, the third time in a row such an event had been held. There, the companies involved engaged in discussion and networked with representatives from non-governmental organisations, development agencies, associations, as well as members of the scientific and political communities. The focus was on expanding the CPI₂ tool to include chemical and water-use modules. These were implemented at the start of 2015 and are available for use.

COLLABORATIONS AND ALLIANCES

To improve social and environmental standards particularly among its suppliers in risk countries, and in doing so also to improve local working conditions, the Otto Group is additionally involved in international coalitions. These allow an effective approach to be taken to global sourcing markets.

BSCI – MARKET ALLIANCE TO IMPROVE WORKING CONDITIONS

The Otto Group is a founder member of the Business Social Compliance Initiative (BSCI), which was launched in 2003. Its goal is to improve working conditions in international value chains. To achieve this it conducts audits and qualification measures in factories. The BSCI currently has 1,500 members around the world including trading companies, brand manufacturers and importers. Since 2014 the Otto Group has been a member of the BSCI's Steering Committee.

BANGLADESH ACCORD

Bangladesh is an important sourcing country for the Otto Group. Since 2013 the Otto Group has been a supporter of the Accord on Fire and Building Safety developed by international trade-union confederations, the Clean Clothes Campaign (CCC), the Worker Rights Consortium (WRC) and national trade unions from Bangladesh. The agreement includes binding and transparent regulations on independent inspections, compulsory maintenance measures and corresponding cost-sharing by international corporate customers. In the reporting period, compliance with the agreement was reviewed at all factories in Bangladesh which produce clothing for the Otto Group.

PARTNERSHIP FOR SUSTAINABLE TEXTILES

On the German Federal Ministry for Economic Cooperation and Development's initiative, the process to develop an all-encompassing partnership for action comprising industry, business, politics and civil society began in May 2014. Its goal is to systematically mitigate the negative environmental and social impacts of global textile production.

The Otto Group supported this endeavour right from the outset. This is because the complex requirements and challenges are best tackled jointly. However, the major textile producers and retailers, including the Otto Group, did not join initially as many unanswered questions surrounding implementation remained.

To ensure as many companies joined as possible, the Otto Group played an active and leading role in further developing the action plan. To achieve this, it was closely involved in countless discussions and mediation talks between politicians, non-governmental organisations and trade unions on the one hand, and textile producers, retailers and their associations on the other.

In May 2015 both sides agreed on a joint approach. At the start of June, leading companies in the textile industry, including the Otto Group and leading retail and producer associations, announced they were joining the partnership. For the latest information, visit: www.textilbuendnis.com.

EDUCATION PROJECT IN INDIA

In 2014 the Otto Group extended its collaboration for a further three years with the child-aid organisation terre des hommes in the Indian education project Prevention and Alternatives to Child Labour. So far, targeted preparation has enabled 2,500 children from three slum districts of New Delhi and one in the state of Bihar to attend a state school or take up an apprenticeship. Financial assistance is given to their families such as through the awarding of microloans to help them establish their own small business. The goal is to establish lasting structures which will ensure the project is self-supporting once financial assistance has ended.



3. Trade

Examples of process stages



Transport

Trucks, ships or planes transport the finished goods from the production countries to the sales markets.



Warehousing

The goods are first stored in a high-bay warehouse at a logistics centre. Ordered products are labelled, packed and addressed with the customer's information.



Sales

Business processes are organised and products are marketed at the Group companies' locations.



Distribution

A parcel-delivery company brings the ordered goods from the warehouse to the end-customer. This customer is informed beforehand about the delivery date and can track the consignment online.

Trade

The Trade value-adding stage covers procurement and distribution transport and activities at Otto Group locations. The ecological impacts in this value-adding stage are caused mainly in the impact categories Greenhouse Gases and Pollutants. In particular, the Otto Group intends to reduce CO₂ emissions in this area as part of its Climate Strategy. This chapter also includes employee-related topics.

CHALLENGES IDENTIFIED BY impACT

Overview of Materiality Matrix assessments for the Trade value-adding stage:

See p. 12 et seq. for further information on impACT.

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	Quantitative Assessment	Average Stakeholder Evaluation (on a scale of 1 [very low] to 10 [very high])	
Ecological Impacts	Share of Raw Materials & Processing value-adding stage in terms of overall ecological impacts: 5%	External Stakeholders: 5	
		Internal Stakeholders	Relevance to Reputation: 5
			Regulation Risks: 3
			Business Activity: 4
Social Risks	Share of Raw Materials & Processing value-adding stage in terms of overall Social Risks: 6%	External Stakeholders: 6	
		Internal Stakeholders	Relevance to Reputation: 7
			Regulation Risks: 1
			Business Activity: 7

QUANTITATIVE ASSESSMENT RESULTS

Ecological impacts, especially through the emission of **Greenhouse Gases**, are caused by procurement and distribution transport as well as through heating and powering the Group's locations. On the whole, the Trade value-adding stage has the lowest ecological impacts compared to the upstream stages.

The **Social Risks** are also much lower than in the upstream value-adding stages. That said, while the Otto Group employs the majority of its staff in the European Union, Social Risks also exist there. This is because the risk categories (see p. 14) may be violated even at the Group's own locations, for instance if maximum working hours are exceeded.

THE OTTO GROUP'S SCOPE OF ACTION

Besides activities at the Group's own 400 locations, the Trade value-adding stage also encompasses procurement transport from the production countries to the warehouses at the trading companies, and distribution transport from the warehouses to consumers. Every year the Otto Group sources around 100,000 tonnes of goods and delivers more than 120 million consignments through the Group company Hermes.

Compared to other value-adding stages, the greatest ability to exert influence exists with these transport services, which are either directly commissioned or performed by the Group company itself, as well as at the Otto Group's own locations.

CLIMATE STRATEGY AND ADDITIONAL MANAGEMENT APPROACHES

Taking into account the entire value chain, the ecological impacts in the Trade value-adding stage are comparatively low. Nevertheless, External Stakeholder expectations as well as reputation and regulation perspectives show that there are many reasons to lead by example in the area of climate protection – starting with the direct area of influence.

The Otto Group's Climate Strategy aims to halve the adjusted CO₂ emissions for locations, transport and mobility by 2020 versus the base year 2006. The implementation in Otto Group companies will be done as efficiently and cost-effectively as possible. Energy efficiency takes priority over the development of the Group's own renewable energy generation, the purchasing of green energy or the offsetting of CO₂ emissions. Besides the positive climate effects, the reduction in energy consumption and the use of renewables will also reduce air pollutant emissions such as nitrogen oxide and fine dust.

While the Group specifies a clear reductions target centrally, the Group companies implement the climate protection measures at a local level. The Group supports them in their operational implementation with measurement and control instruments.

Environmental management at the Group's locations is also controlled and implemented decentrally by the individual reporting companies.

The HR Strategy and other management approaches can be found in the chapter 'Employees' on page 53.

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STAKEHOLDER EVALUATION RESULTS

In terms of the **ecological impacts** of transport and the Group's own locations, External and Internal Stakeholders consider the need for the Otto Group to take action as relatively high, particularly in relation to the topics of **Greenhouse Gases** and **Pollutants**. External Stakeholders expect the Otto Group to lead by example within its own factory gates. For instance, External Stakeholders believe that only then could the Group credibly drive forward initiatives to reduce CO₂ and pollutants in the upstream and downstream value-adding stages. For Internal Stakeholders, these topics are relevant particularly from a reputation point of view, as public discussions are becoming increasingly critical of the mail-order industry – and goods delivery in particular. The Group also expects the enforcement of additional energy-efficiency regulations and a further tightening of pollutant thresholds.

Social Risks are also considered to be relatively high in the Trade value-adding stage in terms of Reputation and Business Activity. Here too, External Stakeholders consider the need for the Otto Group to take action in this topic area as relevant. The main reason for this is less to do with the Otto Group's own employees and more to do with the working conditions at service providers which are less easy to control. Employee-specific challenges above and beyond Social Risks are listed in the chapter 'Employees' on page 53.

CLIMATE STRATEGY STATUS

Application scope of key figures

All figures relate to calendar years and are rounded off. The key figures in the Climate topic area cover the 14 reporting companies as well as the Group companies Alba Moda and 3Pagen, as they are also involved in implementing the Climate Strategy. The reporting of the Otto Group's CO₂ emissions is based on the Greenhouse Gas Protocol. CO₂ emissions are monitored exclusively.

Special aspects

CO₂ emissions are always presented in an adjusted form – that is, relative to their performance units. They are adjusted using the following performance units to allow a comparison to be made with the base year 2006:

- Procurement logistics: weight of transported goods (tonnage)
- Distribution: shipment volumes to the customer and returns
- Locations:
 - Offices: number of employees and surface area
 - Logistics buildings: parcel turnaround per year
 - Warehouses: gross capacity of buildings
 - Shops: opening hours and sales area
 - Other uses: surface area
- Mobility: employee travel and passenger kilometres

Dynamic business development generates a distorted view of energy-efficiency improvements in absolute terms. By way of illustration, however, the total CO₂ emissions are also given here.

For 2013 and 2014 the Otto Group made methodological changes to the CO₂ reporting tool for the area of sourcing. As a result, this data for 2013 and 2014 cannot be compared with the previous reporting period. For this reason, the data for the base year 2006 has been recalculated, leading to a slight adjustment in the CO₂ value for 2006.

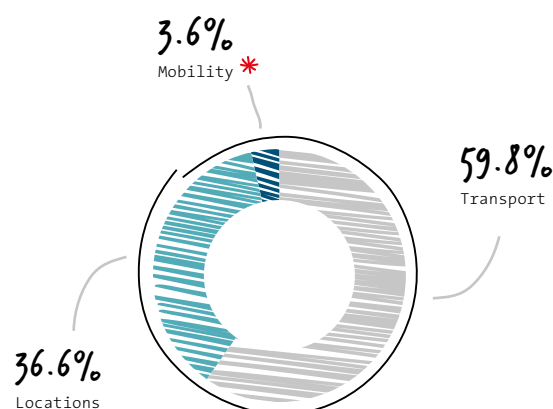
GRI aspects covered

Emissions, Energy, Effluents and Waste, Transport

TOTAL CO₂ EMISSIONS

The Climate Strategy aims to reduce the adjusted CO₂ emissions for transport, locations and mobility. In 2014 adjusted CO₂ emissions fell by 24% versus the base year 2006. Absolute (non-adjusted) figures dropped by 16%.

Distribution of adjusted CO₂ emissions 2014



* Includes employee business trips and the operation of the company car fleet.

Absolute and adjusted CO₂ emissions

	(Base year)		
	2006	2013	2014
absolute	296,200	277,683	248,101
adjusted	296,200	246,162	224,149
Reduction in adjusted CO ₂ emissions versus 2006	–	-17%	-24%



TRANSPORT-RELATED CO₂ EMISSIONS

The Otto Group mainly sources and distributes its goods via the Group company Hermes. In 2014, total transport-related CO₂ emissions (sourcing and distribution) amounted to 134,088 tonnes – a reduction of 27% versus the base year.

At the same time, in 2014 the CO₂ emissions in procurement transport fell by 32% versus the base year, and by 21% in the reporting period. Reducing the share of air-freight made a considerable contribution to this reduction.

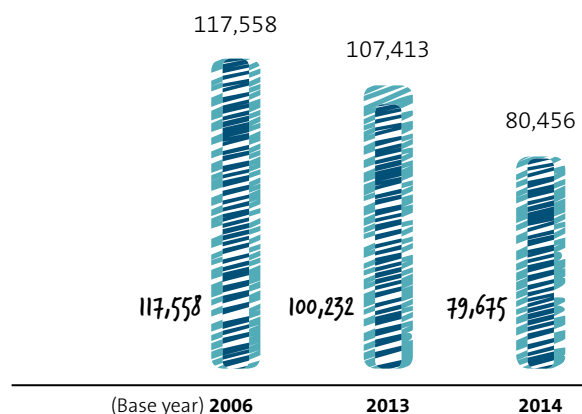
By contrast, CO₂ emissions in distribution transport remained unchanged versus the previous year's level. However, an 18% reduction was achieved compared to the base year 2006.

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CO₂ emissions from procurement transports

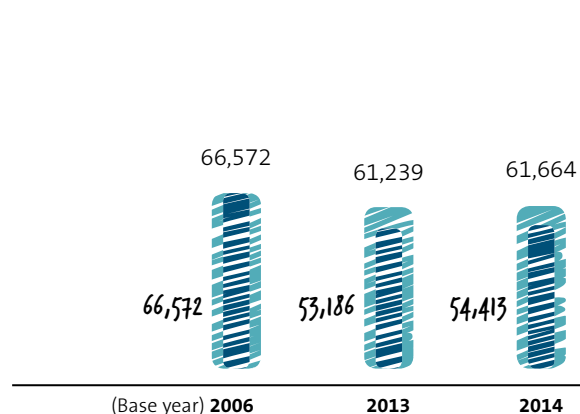
in t



■ Procurement transports (absolute)
 ■ Procurement transports (adjusted)

CO₂ emissions from distribution transports

in t



■ Distribution transports (absolute)
 ■ Distribution transports (adjusted)

Transport performance in sourcing¹

in mn tkm

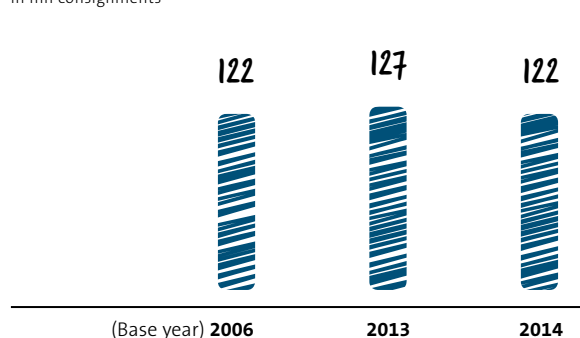
	(Base year) 2006	2013	2014
Total (air-freight, sea-freight, road-freight)	928	1,194	1,162
Share of air-freight	14.6%	11.2%	8.0%
Share of sea-freight	77.3%	83.1%	81.6%
Share of combined sea/air-freight	0.6%	0.4%	0.2%
Share of road-freight	7.5%	5.2%	10.2%

¹ Transport for the sourcing of own and licensed brands carried out or commissioned by the Otto Group is considered exclusively. Transport e.g. by importers is not included in the calculation.

Precise control of stock levels is important in reducing these CO₂ emissions. Usually, ships are the preferred means of transport. However, if customer demand for articles is greater than expected, they often need to be re-sourced at short notice by air-freight so that delivery times for end-customers remain as short as possible. Currently, the share of air-freight is 8%. To reduce this, the expected sales quantities need to be forecast as accurately as possible – something that is not only worthwhile in achieving the Group's climate targets, but which also makes sense operationally.

Transport performance in distribution¹

in mn consignments



■ Total (car, truck)

¹ Deliveries made through Hermes and other service providers are recorded here, including large items.

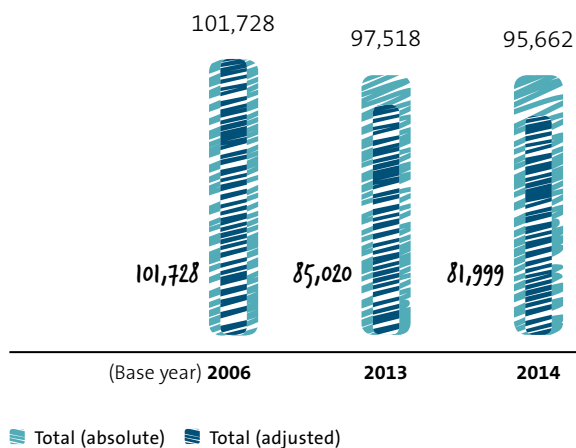
LOCATION-RELATED CO₂ EMISSIONS

The Otto Group's locations generate CO₂ emissions through the consumption of power and heat in offices, warehouses, logistics buildings and shops. In 2014, the total adjusted CO₂ emissions at the Group's locations amounted to 81,999 tonnes. Through efficiency gains and successive development of the Group's own renewable energy generation, the Group has reduced CO₂ emissions on average by 2.5% each year since the base year 2006. In 2014 the reduction amounted to 19% versus the base year. Total energy demand this year was 281,178 MWh.

The Otto Group performed cross-location CO₂ property benchmarking with the goal of identifying further considerable areas of CO₂-reduction potential. In the reporting period a detailed analysis of 20 buildings with the greatest potential to achieve CO₂ savings was completed. For each of the buildings analysed, climate impact-mitigation measures were identified which will both save significant amounts of CO₂ and will remain economically viable over their respective lifespan. The Group companies decide on and implement such measures at a local level.

CO₂ emissions at the locations¹

in t



¹ Conversion factors

Energy mix Germany: 520 g CO₂/kWh (2006); 522 g CO₂/kWh (2013); 511 g CO₂/kWh (2014).
 Energy mix Austria: 215 g CO₂/kWh (2013); 165 g CO₂/kWh (2014).
 Heating energy: Natural gas: 201 g CO₂/kWh, heating oil: 266 g CO₂/kWh.
 District heating: depending on the local district-heating supplier, it varies between 57 g CO₂/kWh and 250 g CO₂/kWh.

Energy consumption at locations and facilities¹

in MWh

	(Base year) 2006 ¹	2013	2014
Total energy demand	275,250	283,919	281,178
of which, electrical power	140,795	154,095	155,830
of which, heating energy demand	134,455	129,824	125,348
of which, district heating demand	23,904	24,808	23,174
of which, heat generated from heating oil	8,481	3,840	1,688
of which, heat generated from natural gas	102,070	90,261	88,381
of which, heat demand and generation from renewables	0	10,915	12,105
Own power generation from renewables	204	1,318	1,486

¹ The base number of buildings is subject to annual fluctuations; 2006: 285, 2013: 384, 2014: 395. The increase is due mainly to the opening of new shops and additional logistics locations.

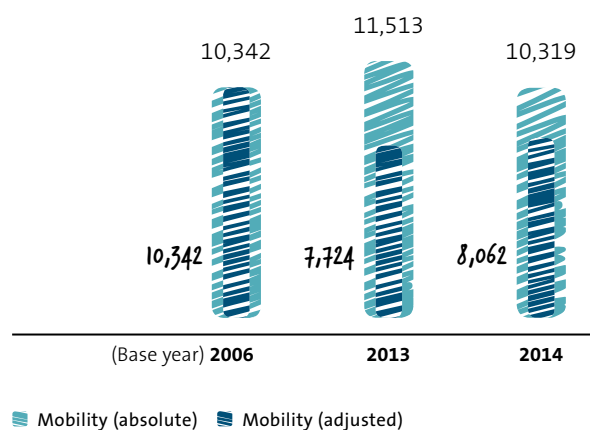
MOBILITY-RELATED CO₂ EMISSIONS

Only a low percentage of CO₂ emissions (2014: 3.6%) are attributable to the area of mobility. This covers both business travel as well as trips using company vehicles. In calendar year 2014 Otto Group employees travelled 85 million business travel- and passenger-kilometres. This resulted in (adjusted) emissions of 8,062 tonnes of CO₂.

The Group's main starting point for its emissions-reduction approach is the preferred use of low-carbon forms of transport. In the reporting period, Hermes also acquired 944 tonnes of CO₂ offsetting certificates for business flights.

Mobility-related CO₂ emissions

in t



ENVIRONMENTAL PROTECTION

Application scope of key figures

In contrast to the Climate Protection topic area, this data only takes into consideration locations which have been used for at least 6 months and which have a usage area of over 5,000 m², as well as all the headquarters of the reporting companies. A total of 60 locations are thus covered. In the reporting period, a further four locations in Haldensleben, four locations in Löhne and the surrounding area, two myToys locations and a new SportScheck store in Munich, among others, have been newly included.

ENVIRONMENTAL MANAGEMENT

The Otto Group's environmental management system forms the basis for analysing environmental impacts at the locations, assigning key figures to them and in doing so making them controllable. This system is closely connected to the occupational health and safety system at the reporting companies. Currently, 14 of the reporting companies' locations have ISO 14001-certified environmental management systems:

- Baur: Altenkunstadt, Burgkunstadt, Weismain and Sonnefeld
- Hermes*: Friedewald, two locations in Haldensleben, Hamburg-Essener Straße, Hückelhoven, Langenhagen and Löhne
- UNITO: Bergheim, Graz and Salzburg

Additionally, since 2003 Hermes has been the only company in the logistics industry to be TIP-certified (Trust Improvement Program). The demands of the TIP process go beyond those of the ISO norm and can only be applied to highly developed management systems.

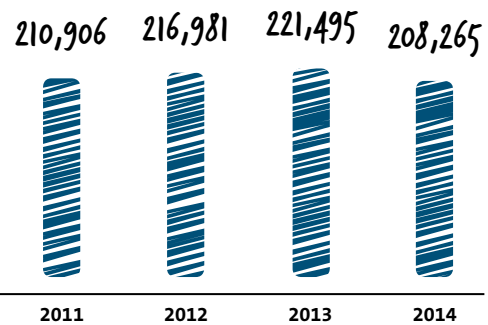
* The certifications relate to the locations of individual Hermes Group companies (see p. 9).

WATER CONSUMPTION AT THE LOCATIONS

Despite including further locations in the reporting period, water consumption remained more or less constant compared to previous years.

Water consumption

in m³

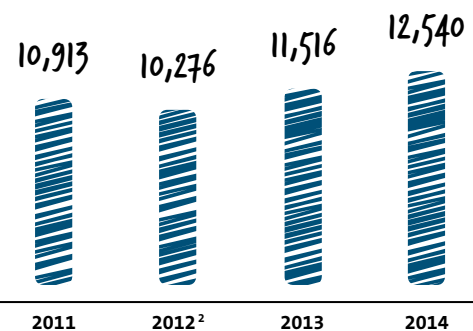


PACKAGING

In the reporting period the quantity of packaging materials used in goods deliveries rose by roughly 7%. Packaging comprises 85% cardboard and paper, with plastic or other materials accounting for the remaining percentage.

Sales packaging consumption¹

in t



¹ Only the sales packaging for the companies for which the Otto Group is responsible has been taken into account here. Any additional sales packaging for which the suppliers of the articles are responsible is not covered here.

² Figure adjusted versus the CR Report 2013

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WASTE MANAGEMENT

The Otto Group goes to great lengths to avoid generating waste. Where this principle cannot be upheld, waste is duly recycled. In 2014 there was virtually no change in the amount of waste generated by the reporting companies, despite the inclusion of myToys locations for the first time.

Waste by category

in t

	2011	2012	2013	2014
Total waste	36,976	33,312	36,602	35,018
Quantity of hazardous waste ¹	146	77	73	115
Share of hazardous waste	0.4%	0.2%	0.2%	0.3%
Quantity of non-hazardous waste	36,831	33,235	36,529	34,903
Share of non-hazardous waste	99.6%	99.8%	99.8%	99.7%

¹ Hazardous waste is generated mainly by electrical waste at the Otto Group.

PROJECTS BY THE MICHAEL OTTO FOUNDATION FOR ENVIRONMENTAL PROTECTION

With its diverse portfolio, the Michael Otto Foundation for Environmental Protection has been actively involved in environmental protection and nature conservation since 1993. Its support focuses on protecting rivers and the sustainable management of wetlands, especially in Germany and Eastern Europe. Through forums and education projects, the activities of the Foundation go far beyond the mere provision of funding.

In 2014 the Michael Otto Foundation for Environmental Protection published the study 'Nature conservation in the agricultural landscape at a crossroads: Failures, successes and new approaches' as part of the Biodiversity in Good Company initiative. This study addresses the conservation of biodiversity in agriculture.

In 2014 the collaboration project AQUA AGENTS received its third award as part of the UN Decade of Sustainable Development. Through this interactive educational offering, children learn about the importance of water to humans, nature and the economy. 2014 marked the first time the project had been run in the USA, in Chicago.

EMPLOYEES

CHALLENGES RELATED TO EMPLOYEES

Social transformation

Demographic change is among the greatest societal challenges for the Otto Group: in certain segments, the labour market is changing to favour employees, so that companies need to compete for the best talent. In this environment, the companies in the Otto Group have to position themselves as attractive employers for the long term. In addition, young employees joining the companies have different expectations towards work and career: classic status symbols are losing importance, whereas flat hierarchies, creative latitude, and a good work-life balance are increasingly expected. This makes HR work a strategic factor in future business success.

Digital transformation

Global interconnectedness is leading to a complex, highly dynamic market and competitive environment. This demands increasing flexibility and agility from companies, as well as an ability to learn and change. New qualities in leadership and cooperation are needed to convey visions, manage change processes, kick off innovations, lead virtual teams, ensure knowledge transfer, and create space to make rapid decisions. On the other hand, everybody is now required much more than in the past to maintain their own employability – through constant learning, by taking on new tasks and responsibilities, or by adopting changing roles in different projects.

HR STRATEGY AND OTHER MANAGEMENT APPROACHES

The aim of the Group-wide Personnel Strategy is to gain new employees and to develop existing ones optimally by creating suitable framework conditions and opportunities. This is done through an effective interlinking of strategic elements, such as strengthening the Otto Group employer brand, Group-wide diversity, recruitment and succession management, as well as pursuing an HR Strategy that is orientated towards employees' different life phases, and an occupational health management aimed at prevention.

To meet the specific challenges of the individual Group companies' business environments, the Otto Group grants them a high degree of independence in setting their focus points in their HR Strategy. The Group HR Division supports them in this. The connecting element and framework is the Group-wide mission 'The Power of Responsibility' (see p. 4). Alongside sustainability, the value of diversity has particular relevance here. The companies develop their individual HR targets and measures on the basis of the Group-wide mission and values.

EMPLOYEE KEY FIGURES

Scope

The key figures in this chapter comprise 13 reporting companies until the year 2013. From 2014, myToys is included for the first time. The figures are given as headcount, which also includes working students alongside permanent employees. Trainees, interns, temporary and agency staff are generally not included, but deviations from this are duly noted. Employee numbers converted to full-time equivalents are shown on page 5.

For the first time in 2014, in addition to the reporting companies, key figures are also included for Manufactum as well as all major international Otto Group companies (3Suisse Group, Crate & Barrel, Freemans Grattan Holdings (fgh), Otto Group Russia, the material foreign companies in the bonprix and Hermes groups, and the Eddie Bauer Japan joint venture.

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Key Aspects

The key figures were recorded by financial year for 2011/12 and 2012/13. In 2013, this was transitioned to calendar years. Therefore, the stated figures for the transition year 2013 are given for ten months (March to December) as a one-off. Most key figures are based on values on cut-off dates. Due to the switch from financial to calendar years, the cut-off date changes from 28/02 to 31/12.

EMPLOYEE STRUCTURE IN THE REPORTING COMPANIES

As at 31 December 2014, a total of 29,720 people worked at the reporting companies.

Employee numbers¹

Number

	2011/12	2012/13	2013	2014	2014 (Otto Group incl. international companies)
Total number of employees	28,252	27,889	28,213	29,720	45,772
of which, female	61.6%	61.0%	60.5%	59.8%	59.8%
of which, male	38.4%	39.0%	39.5%	40.2%	40.2%
Number of employees with full-time contracts	14,481	14,320	10,875	15,251	26,155
Share of female employees with full-time contracts	37.0%	37.1%	36.2%	35.8%	44.9%
Share of male employees with full-time contracts	73.6%	75.4%	76.2%	74.3%	75.4%
Number of employees with part-time contracts	13,850	13,286	13,524	14,469	19,617
Share of female employees with part-time contracts	63.0%	62.9%	63.8%	64.2%	55.1%
Share of male employees with part-time contracts	26.4%	24.6%	23.8%	25.7%	24.6%

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¹ Until the 2012/13 financial year, the employee numbers were recorded including working students, temporary staff, trainees, interns and agency staff.

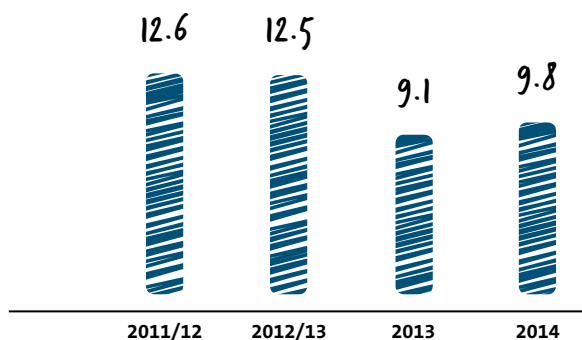
Since the data capture was internationalised, the key figures have been recorded to include working students, but not trainees, interns, temporary or agency staff. As all key figures are given in the table according to the new definition, the values for 2011/12 and 2012/13 deviate from the values given in the CR Report 2013.

STAFF TURNOVER

Staff turnover in the reporting companies corresponds to the overall average in Germany and Austria. The slight increase in 2014 is due to restructuring measures.

Staff turnover

in %



RESTRUCTURING MEASURES

Restructuring measures in connection with the Otto Group's overall alignment with the challenges of e-commerce are implemented based on sound judgement and in collaboration with employee representatives in a socially acceptable way. Hermes is currently in the middle of a more extensive restructuring process. The entire branch network of the company is being reviewed and newly set up.

The Fokus project, which had as its aim the leadership of the three Group companies OTTO, Baur and Schwab through a joint strategy for increased growth and sustained profitability, was completed in 2013 and the reduction in personnel was implemented as necessary in this context. Thanks to a forward-looking HR policy and constructive cooperation in which all participants made efforts towards a considerate but goal-orientated resolution, the demanding staff reduction targets were achieved in a socially acceptable way without requiring redundancies for operational reasons.

REMUNERATION

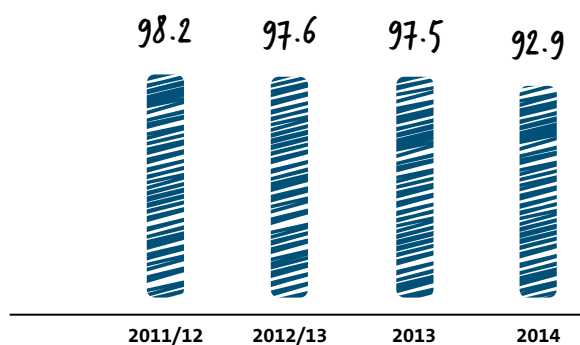
In their remuneration practices, the reporting companies act largely independently within the framework of the applicable pay-scale agreements and take into account regionally differing salary structures. Management staff as well as non pay-scale employees in general receive variable remuneration components which are linked to company performance and individual target achievement. The fundamental structure of remuneration at the highest management levels is prescribed in a binding form by Corporate Human Resources (see Annual Report 2014/15 for the Otto Group, p. 166). Since the 2014/15 financial year, the annual variable remuneration of all members of the Group Executive Board has been linked to achieving the five targets of the CR Strategy 2020 (see p. 20 et seq.).

COLLECTIVE AGREEMENTS

All 14 reporting companies have established Works Councils. With the exception of top management and of myToys, all employees of the reporting companies fall under collective agreements as part of tariff contracts and works agreements. Primarily due to the inclusion of myToys for the first time, the proportion of employees for whom collective agreements apply sank to 92.4% in 2014 (previous year: 97.5%). In the spring of 2015, myToys began making its first collective agreements.

Coverage by collective agreements

in %



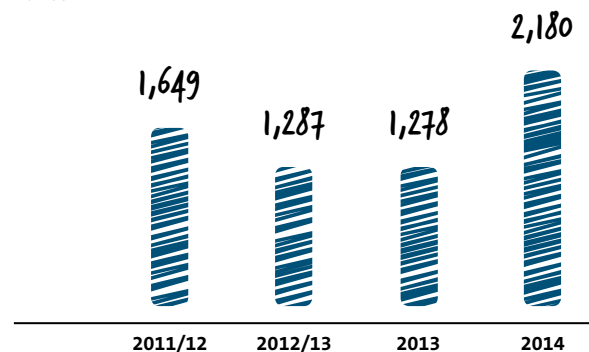
TEMPORARY WORKERS

Temporary workers are essential for covering seasonal peaks in the workload, for example the pre-Christmas period in the Logistics area. Due to an increasingly strained labour market at some Hermes sites, it is not possible to employ permanent staff locally in sufficient numbers.

The increase in temporary workers employed from 1,278 in the previous year to 2,180 in the year 2014 is primarily due to the first-time inclusion of myToys. The company has its own logistics organisation which employs temporary workers, as is typical in that sector.

Temporary workers

Number



MANAGING SUBCONTRACTORS

As a rule, parcel delivery at Hermes is carried out by contract partners. To influence compliance with standards in working conditions, Hermes is the first company in the sector to have developed its own certification model, in collaboration with SGS-TÜV Saar. Since 2012, all contract partners have been subject to regular spot checks on aspects relating to occupational safety, remuneration, working times, quality and environment. Hermes also supports its contract partners in removing any defects identified during the course of audits.

In 2013, 79% of the 344 audited companies received a certificate after the first audit. Of 350 companies audited in 2014, more than 87% passed their first audit. Hermes supports its contract partners in implementing the certification standards and, where audits are not passed, it offers the opportunity of undergoing a further audit in the following year. After implementing improvement measures, 97% (2013) and 99% (2014) of the audited companies achieved positive audit results. If standards are not adhered to despite these measures, any cooperation is terminated. In the reporting period, this affected 4 companies.

In addition, the Code of Conduct offers a basis for all business relationships in Distribution and obliges the contract partners to comply with applicable laws governing working conditions and remuneration. In cases of violations, people employed by the contract partners can contact an Ombudsman anonymously at any time. Five employees made use of this option in the reporting period. An internal whistleblower system additionally serves to effectively follow up on breaches of the Code of Conduct. Since its introduction in 2011, 359 reports have been recorded and processed.

DIVERSITY AND EQUAL OPPORTUNITIES

DIVERSITY MANAGEMENT

The Otto Group has anchored Diversity as one of four central values in its mission: as signatory to the Diversity Charta, the Otto Group aims to offer all employees the same opportunities – regardless of their gender, age, place of origin, religion or world view, physical condition or sexual orientation. Activities to promote Diversity in the Otto Group are bundled under the umbrella of Group-wide Diversity Management.

The Group HR Division manages Diversity Controlling, which ensures more transparency and measurability. It supports Diversity Management through a system of key figures as well as through regular monitoring and reporting. Violations of the principle of equality are recorded on a Group level. No complaints were submitted by employees during the reporting period.

DIVERSITY INITIATIVES

In 2014, just under a fifth of all top managers employed in the reporting companies were women.

Top managers¹ by gender

Number	2011/12	2012/13	2013	2014 ²
Total number	409	402	413	376
of which, share of female top managers	15.6%	16.9%	17.7%	19.7%
of which, share of male top managers	84.4%	83.1%	82.3%	80.3%

¹ Executive Directors, Vice Presidents, Divisional Vice Presidents.

² Excluding UNITO and the Hermes companies HE, HLG, HTL and HES.

If the next management level of Department Heads is included besides top management, then the total number of managers goes up to 1,087, of which 31.1% are women.

Numerous initiatives have been created to support female management trainees across the Group, which will also increase the proportion of women in top management in the long run. 'Boost Your Career' is a new Group-wide development programme for emerging female talent. Other measures included a Diversity Conference 2013, in which around 100 female and selected male top managers took part, as well as a Diversity Award, which is given out among the Group companies.

WORK AND FAMILY

The compatibility of family and work increases the attractiveness of the Otto Group as an employer. In all reporting companies there are flexible working-time directives, depending on the field of activity. Reporting companies improve their family-friendliness with options for working from home, job-sharing and sabbatical options, as well as personal counselling. Various reporting companies offer lectures and support on caring for family members, and the compatibility of this with work.

EMPLOYEES WITH DISABILITIES

5.0% of the employees of the German reporting companies are considered to be severely disabled. Most Group companies utilise integration tools and measures for including disabled people in everyday work, for example through the individual adaptation of workplaces to disabled employees, or cooperation with expert external integration services.

VOCATIONAL AND FURTHER TRAINING

RECRUITMENT

To meet both market conditions and the strategic direction of the business, the focus of the recruitment activities in the Otto Group is currently on management trainees and high-potential employees in the areas of E-Commerce, Business Intelligence, Software Development and IT.

FUTURE-ORIENTATED TRAINING

As an active contribution towards winning over qualified young professionals, the companies in the Otto Group offer almost 30 different technical, trade and business training courses. Apart from the professional qualification of the trainees, an understanding of technology- and e-commerce-related content is part of the training as much as personal development. In 2014, 783 young people, of whom 50% were women, completed their vocational training in one of the reporting companies.

FURTHER TRAINING

The reporting companies independently carry out decentralised measures for ongoing training and staff development, in accordance with their respective requirements. At a Group level, these options are augmented with a Group-wide training programme offered through the Otto Group Academy. The focus is on strategically relevant topics, in particular the increasing digitalisation of retail, the internationalisation of the Group companies and the cross-company development of potential management staff.

DEVELOPING MANAGEMENT STAFF

Successful mastery of the far-reaching changes in the world of work, as well as the Group's orientation towards e-commerce, also require a new understanding of leadership and cooperation. In this context, OTTO has re-defined leadership so as to actively drive the changes and to promote cooperative, flexible and solution-orientated collaboration in the respective areas of responsibility.

The Group-wide, career-oriented Leadership Programmes for middle and top management were augmented with additional components during the reporting period. These develop and expand the attitudes, skills and qualifications needed for the change in values and the digital transformation in a targeted way.

OCCUPATIONAL HEALTH

HEALTH MANAGEMENT

The Otto Group Occupational Health and Safety Management System is based on the principle of prevention. Its goal is to protect the health and performance of employees through preventative measures. All reporting companies have their own Occupational Health and Safety Management Systems.

Some of the reporting companies use the advice and services of aktiv.net, a competence centre established by OTTO in 2000. This was certified in 2013 under the DIN EN ISO 9001 quality management standard in the activity fields of occupational medicine and outpatients, welfare counselling, occupational safety and health promotion.

The preventative measures in the Group companies include a variety of sport and fitness options, nutritional advice, relaxation techniques, addiction counselling and health days. OTTO offers its employees free psychological counselling as well.

The absenteeism rate is within the normal parameters and varies depending on the strength of seasonal illnesses such as colds and flus.

Absenteeism rate¹

in %

	2011/12	2012/13	2013	2014
Total	6.4	6.9	5.2	5.9
Accident-related	0.2	0.1	0.1	0.2

¹ Based on planned working time.

HEALTH INDEX

OTTO determines a Health Index every year on the basis of an anonymous employee survey. This scientifically based tool captures the performance and health of employees through a voluntary self-assessment. Targeted measures are developed and implemented in response to the results, which contribute towards compensating for the stress on employees and thereby increase the productivity of the company.

When the data was last collected in spring 2015, the Health Index reached a value of 64, an increase by one percentage point compared to the previous year, which also comes in 5 points above the average value for companies with comparable activity structures.

In 2014, a total of 114 individual measures were carried out in 26 departments. These organisational units showed clearly improved values compared to the previous year.

ACCIDENTS AT WORK

Physically demanding work in logistics and transport services carries significantly higher risk of accidents than business activities. As is usual in the sector, occupational accidents and lost days in Group companies with logistics and distribution sites are more than three times higher than in other reporting companies.

Work-related accidents

Number

	2011/12	2012/13	2013	2014
Number of occupational accidents ¹ per 1,000 employees (full-time positions)	35	28	32	36
Number of work-related deaths	0	0	0	0

¹ According to the definition by the German Trade Associations, this includes commuting accidents.



4. Customer

Process stages based on electrical appliances



Use

Customers begin operating the supplied electrical appliances, such as fridges, washing machines and smartphones.



Waste Disposal and Recycling

Consumers take their old electrical appliances to collection places or return white goods when they buy new appliances. Expert disposal marks the end of the lifecycle of electrical appliances.

Customer

The Customer value-adding stage includes the whole phase of product use up to disposal and recycling. This causes almost a fifth of total ecological impacts; however, the sustainable design and marketing of the assortment can reduce these. Group companies initiate individual measures to raise their customers' awareness of sustainability during product selection and use.

CHALLENGES IDENTIFIED BY impACT

Overview of Materiality Matrix assessments for the Customer value-adding stage:

See p. 12 et seq. for further information on impACT.

G4-27

	Quantitative Assessment	Average Stakeholder Evaluation (on a scale of 1 [very low] to 10 [very high])	
Ecological Impacts	Share of Raw Materials & Processing value-adding stage in terms of overall ecological impacts: 19%	External Stakeholders: 5	
		Internal Stakeholders	Relevance to Reputation: 4
			Regulation Risks: 2
			Business Activity: 4
Social Risks	not relevant in the use phase	not relevant in the use phase	

RESULTS OF QUANTITATIVE ASSESSMENT

Almost a fifth of *ecological impacts* occur in this value-adding stage. Just as in the Final Production and Trade stages, the greatest impacts are caused by *Greenhouse Gases* and *Pollutants*. This is due to energy consumption during washing, drying and ironing textiles, for example, or to electricity consumption for the operation of electrical appliances. In addition, synthetic dyes and phosphates are released during washing. Since water is not a scarce resource in most distribution countries, the impact of *Water Consumption* is relatively low. Compared to the use phase of textiles, their disposal causes only relatively low ecological damage.

Social Risks do not occur in the use phase, since no working hours are performed here.

RESULTS OF STAKEHOLDER ASSESSMENT

The *ecological impacts* in the value-adding stage Customer are seen as less relevant than other stages by both Internal and External Stakeholders. This is due to the fact that companies are generally assigned a lower responsibility for activities that do not refer to their own business activities or their supply chain. Internal Stakeholders see reputation opportunities here, in particular for marketing especially energy-efficient products.

THE OTTO GROUP'S SCOPE OF ACTION

The Otto Group can only influence the ecological impact of product use indirectly, for example by offering an extensive range of attractive and yet energy-saving electrical appliances. Strict directives governing raw material cultivation, smaller sourcing and distribution markets, as well as the necessary tracing of the flow of goods all increase the sourcing costs of sustainable products, and these additional costs often also lead to higher sales prices. Unless such higher prices work out better later, as they do for efficient electrical appliances which generate savings in the use phase, many customers are not prepared to spend more money on sustainable products. This price sensitivity in turn influences assortment design in the Group companies.

MANAGEMENT APPROACHES

Since the reporting companies address different target groups, they are each responsible for implementing measures for raising awareness among their customers for sustainable consumption, for example by using the Eco Facts labels (see diagram, p. 62). This allows the Otto Group to have an indirect influence on a reduction in ecological impact in this value-adding stage too.

A strong customer orientation is the foundation of economic success in the Otto Group, and decentralised customer communication allows it to address target groups specifically. However, the communication of sustainability aspects is made more difficult by the sheer number of existing product labels with their various requirement profiles. Such a volume of information frequently overwhelms and unsettles customers. To counteract this, it is especially important to the Otto Group to ensure a clear and credible presentation of sustainability aspects.

GRI aspects covered

Customer Health and Safety, Product and Service Labeling







PRODUCT TRANSPARENCY AND QUALITY

ORIENTATION THROUGH QUALITY SEALS

The Otto Group labels products that have particular sustainable quality seals with so-called Eco Facts. These promote and simplify customers' sustainable purchasing decisions by reducing complex information about individual products to the essentials, and enabling Group companies to communicate them in an easily visible way. This helps consumers, who according to surveys often feel overwhelmed with regard to ethical consumption. 6 categories give information about the significant sustainability characteristics of a product (see diagram, p. 62). In the reporting period, new sustainability labels were included in the categories and the scope of application of the Eco Facts was adjusted accordingly.

G4-27
→

The Otto Group's Eco Facts *

					
Eco Bio	Eco Recycling	Eco Commitment	Eco Energy	Eco Resource	Eco Vital
Products manufactured entirely or partly from natural materials with low ecological impact.	Products manufactured entirely or partly from recycled materials.	Products that support social and sustainable initiatives.	Products that are particularly energy-efficient in use.	Products manufactured entirely or partly in a resource-saving way.	Products that promote the health and well-being of customers.

* The Otto Group allocates a product to an Eco Fact category either if it is awarded a demanding label that is accepted by the Otto Group, or if it demonstrates a clearly provable advantage from the point of view of sustainability compared to a conventional product.

Group companies that use Eco Facts in their online shops and catalogues include baumarkt direkt, Baur, OTTO, Schwab and UNITO.

Alongside Eco Facts, Group companies have also developed individual solutions for labelling sustainable products. For example, the Group company myToys uses the mygreenline label to make more sustainable products recognisable for customers at a glance, if the article was manufactured under controlled ecological and/or social conditions. Established and recognised quality-seal committees in the areas of ecology, recycling and social responsibility are consulted and form a basis for assessment.

Under the umbrella of the Future Initiative, the single company OTTO informs its customers further about sustainable consumption and the company's activities in the areas of environment, climate protection, nature conservation and social responsibility. Apart from participating in the Group-wide CR Strategy, this also includes OTTO-specific topics and services such as the re:blog on sustainable fashion.

SYSTEMATIC POLLUTANT CHECKS

The companies in the Otto Group are responsible for the quality of the own and licensed brands that they offer, and they review these regularly. Checking textiles for pollutants is part of the quality-assurance process in the Otto Group.

Using systematic spot checks, the Otto Group monitors compliance with the legal requirements for its clothing ranges. It relies on the competence of Hansecontrol, the testing institute that belongs to the Group. The reporting companies have requirements for pollutant checks in their textile assortments that exceed legal requirements. They use the Öko-Tex 100 standard for orientation, which includes checks for health-impacting azo dyes, formaldehyde and heavy metals. There are particularly strict testing parameters for children's clothing.

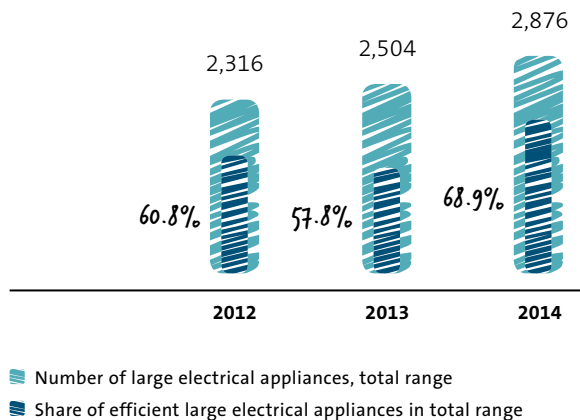
ENVIRONMENTAL PROTECTION

ENERGY-EFFICIENT ELECTRICAL APPLIANCES

For white goods, such as electrical appliances for cooking and washing, the proportion of energy-efficient appliances in the assortment of the reporting companies was 69% in 2014, clearly above the values from the previous year. In particular the product group of dishwashers contributed to this positive development.

Efficient large electrical appliances¹

in %



¹ Electrical appliances are considered to be efficient if they are provably more energy-efficient than the average energy consumption values in their product group.

AVOIDING RETURNS

In the mail-order industry there are frequent returns, especially of textiles. The Otto Group companies take various measures to reduce expensive and climate-damaging returns to a minimum. OTTO, for example, is working on a software solution that gives individual sizing recommendations, as well as a pilot project for significant improvements in demand analysis. Group companies such as OTTO or myToys make customers who order the same product in different sizes aware of the negative environmental effects that are generated by sending items back. baumarkt direkt will swap individual parts in products sets, and SportScheck has removed articles from the assortment of the online shop that are returned particularly frequently.

MAKE SPACE – WITH A HEART

The Group company OTTO raises awareness among its customers for the sustainable handling of resources. For example, as part of the 'Make space – with a heart' initiative, customers can put unwanted clothes, shoes and home textiles to sensible use with the help of OTTO. Having been sent postage-free via Hermes or DHL, the donations are re-used through certified companies. The proceeds are given to German Agro Action, NABU (German Nature and Biodiversity Conservation Union) and the Cotton made in Africa initiative (see p. 33).

DATA PROTECTION AND INFORMATION SECURITY

TOOLS

The Group-wide applicable Information Security Directive regulates the protection of person-related and sensitive company data from unauthorised access and theft and defines how to handle information. In this, the Otto Group follows the international ISO 27001 standard. A compliance process established for the German Group companies for the use of public cloud-computing services is currently being transferred into a globally mandatory process. In addition, a data-protection target model will help to ensure a data-protection level in the Otto Group that is appropriate at all times and will strengthen the anchoring of data protection in the Group.

ANCHORING IN THE GROUP

The continuously increasing requirements on data protection and information security are also growing in importance in the Otto Group. Therefore, the former Data Protection and IT Security Area was divided into two organisational units, and their staff was increased. The managers of each are both standing members of the Group Compliance Committee. They coordinate and advise Data Protection Officers and Information Safety Officers in the individual companies. The existing Group-wide networks are being expanded to promote the internal knowledge transfer in the Otto Group.

The Otto Group's Internal Audit Department monitors individual Group companies' adherence to the stipulations of the Group Directives and implementation of the centrally mandated measures. External audits and certifications (e.g. TÜV, Trusted Shops, ISO 27001) complement the internal audits.

Assurance Statement

Independent assurance report

TO OTTO (GMBH & CO KG), HAMBURG

We have been engaged to perform a limited assurance engagement selected sustainability information of the Sustainability Report 2015 of the Otto (GmbH & Co.KG), Hamburg (hereinafter: "Otto Group"), for the business year 2014/2015, period 1 January to 31 December 2014 (hereinafter: "Sustainability Report 2015"). * The sustainability information, which was selected by Otto Group and reviewed by us, is marked with the symbol (✓) in the Sustainability Report 2015.

MANAGEMENT'S RESPONSIBILITY

The Company's Board of Managing Directors is responsible for the accurate preparation of the Sustainability Report 2015 in accordance with the criteria stated in the Sustainability Reporting Guidelines Vol. 4 of the Global Reporting Initiative (GRI).

This responsibility includes the selection and application of appropriate methods to prepare the Sustainability Report 2015 and the use of assumptions and estimates for individual sustainability disclosures which are reasonable in the given circumstances. Furthermore, the responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the Sustainability Report 2015.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA-Codex) which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies the International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality controls including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

PRACTITIONER'S RESPONSIBILITY

Our responsibility is to express a conclusion based on our work performed as to whether anything has come to our attention that causes us to believe that the quantitative information marked with the symbol (✓) in the Company's Sustainability Report 2015 is in material aspects not in accordance with the criteria "Completeness", "Comparability", "Accuracy", "Clarity", "Timeliness" and "Reliability" of the GRI's Sustainability Reporting Guidelines Vol. 4.

It was not part of our engagement to review product or services related information, which goes beyond the given data.

We also have been engaged to make recommendations for the further development of the sustainability management and the sustainability reporting based on the results of our assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000. This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement, under consideration of materiality, in order to provide our conclusion with limited assurance.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement.

* Our engagement applies to the German version of the Sustainability Report 2015. This text is a translation of the Independent Assurance Report issued in German language – the German text is authoritative.

The procedures selected depend on the practitioner's judgment.

Within the scope of our work we performed amongst others the following procedures concerning the materiality analysis, management approaches and key data – for the aspects that are marked with the symbol (✓):

- Inspection of the documents describing the Sustainability Strategy and Sustainability Management as well as obtaining an understanding of the organizational structure of the company;
- Inquiries of personnel responsible for the preparation of the report regarding the process to prepare the reporting of sustainability information and the underlying internal control system;
- Recording of the systems and processes for collection of sustainability data, inspection of their documentation and validation on a sample basis;
- Analytical procedures on relevant data;
- Gaining further evidence for selected data of the report through inspection of internal documents, contracts and invoices by external service providers.

CONCLUSION

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the quantitative information marked with the symbol (✓) in the Company's Sustainability Report for the business year 2014/2015 is in material aspects not in accordance with the criteria "Completeness", "Comparability", "Accuracy", "Clarity", "Timeliness" and "Reliability" of the GRI's Sustainability Reporting Guidelines Vol. 4.

EMPHASIS OF MATTER – RECOMMENDATIONS

Without qualifying our conclusion above, we make the following recommendations for the further development of the Otto Group's Sustainability management and Sustainability reporting:

- Systematic extension of the Sustainability management and the Sustainability reporting on material German and international affiliated companies;
- Further optimization of the current data collection and consolidation process on the level of the affiliated companies and the Otto Group;
- Formalization and documentation of internal controls for ensuring data quality on the level of the affiliated companies and the Otto Group;
- Further integration of Sustainability indicators and controls into existing control systems and processes.

Munich, 29 June 2015

**PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft**

Hendrik Fink
German Public Auditor

ppa. Anne Pattberg

GRI-G4 Content Index

This report adheres to the Guidelines of the Global Reporting Initiative (GRI) in its current G4 version; it has been produced in compliance with the 'core' option. If not all requirements of an indicator have been completely fulfilled, then the omitted information is not material for the Otto Group.



GENERAL STANDARD DISCLOSURES

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G4-1 Statement from the most senior decision-maker	2	—	
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G4-3 Name of the organization	Otto Group	—	
G4-4 Primary brands, products, and services	4, 6-9	—	
G4-5 Location of the organization's headquarters	Hamburg, Germany	—	
G4-6 Countries with significant operations	GB 12, 46	✓ GB 46, GB 198-199	
G4-7 Nature of ownership and legal form	4	—	
G4-8 Markets served	5, 6-9	—	
G4-9 Scale of the organization	5, 6-9, 39, 47; GB 67-68	✓ GB 67-68, GB 198-199	
G4-10 Employees by employment type, gender and region	54-56	—	6
G4-11 Percentage of employees covered by collective bargaining agreements	55	—	3
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G4-13 Significant changes during the reporting period	54; GB 131	✓ GB 131, GB 198-199	
G4-14 Implementation of the precautionary principle	12, 25	—	
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G4-19 Material Aspects identified	U2	—	
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G4-34 Governance structure, incl. committees of the highest governance body	23-24; GB 6-7, GB 9	—	
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G4-56 Values, principles, standards and norms of behavior	4, 25, 32, 40	—	10

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Ecology	Page	External audit	UNGC
Aspect: Materials – Management approach	30-36	–	7, 8
G4-EN1 Materials used by weight or volume	33-36	✓ 33-34, 36, 64-65	7, 8
Aspect: Energy – Management approach	30-31, 38-39, 43, 46-47, 49, 60-61	–	7, 8, 9
G4-EN3 Energy consumption within the organization	50	–	7, 8
G4-EN7 Reductions in energy requirements of products and services	61-63	–	8, 9
Aspect: Water – Management approach	30-33	–	–
G4-EN8 Total water withdrawal by source	33	–	7, 8
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G4-EN12 Impacts on protected areas or areas of high biodiversity value	31, 34	–	8
Aspect: Emissions – Management approach	30-33, 38-39, 43, 46-48, 60-61	–	7, 8, 9
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G4-EN16 Energy indirect greenhouse gas (GHG) emissions (Scope 2)	48-50	✓ 48-50, 64-65	7, 8
G4-EN17 Other indirect greenhouse gas (GHG) emissions (Scope 3)	48, 50	✓ 48, 50, 64-65	7, 8
G4-EN19 Reduction of greenhouse gas (GHG) emissions	48-50	–	8, 9
G4-EN21 NOx, SOx and other significant air emissions	33	–	7, 8
Aspect: Transport – Management approach	46-48	–	8
G4-EN30 Significant environmental impacts of transporting products	48-50	✓ 48-50, 64-65	8
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Aspect: Supplier assessment for labor practices – Management approach	38-43	–	1, 6
G4-LA14 Percentage of new suppliers that were screened using labor practices criteria	41-43	✓ 42, 64-65	–
G4-LA15 Significant impacts for labor practices in the supply chain	41-43	✓ 42, 64-65	–
Human Rights			
Aspect: Supplier assessment for human rights – Management approach	38-43	–	–
G4-HR10 Percentage of new suppliers that were screened using human rights criteria	41-43	✓ 42, 64-65	2
G4-HR11 Significant human rights impacts in the supply chain	41-43	✓ 42, 64-65	2

OTHER G4 INDICATORS REPORTED

G4 Indicator			
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G4-EC3 Coverage of benefit plan obligation	GB 151-154	✓ GB 151-154, GB 198-199	–
G4-EN23 Total weight of waste by type and disposal method	52	–	8
G4-EN27 Mitigation of environmental impacts of products and services	33-34, 61-63	✓ 33-34, 64-65	7, 8, 9
G4-EN29 Fines and sanctions for non-compliance with environmental regulations	25	–	8
G4-LA1 New employee hires and employee turnover	54	–	6
G4-LA6 Injuries, occupational diseases, lost days, and work-related fatalities	58	–	–
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G4-HR6 Operations and suppliers having significant risk for incidents of forced or compulsory labor, and measures taken	41-43	–	4
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G4-PR1 Percentage of significant product and service categories for which health and safety impacts are assessed	62	–	–
G4-PR2 Incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services	25	–	–
G4-PR3 Principles/ procedures for product and service information and labelling	61-62	–	–
G4-PR4 Incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling	25	–	–
G4-PR7 Incidents of non-compliance with regulations and voluntary codes concerning marketing communications	25	–	–

Glossary

Business Social Compliance Initiative (BSCI)	The goal of this market alliance is to improve working conditions in international value chains through audits and qualifications in factories (see p. 40 et seq.).
Carbon Performance Improvement Initiative (CPI₂)	An initiative by several companies, this has developed a management tool for managing CO ₂ , chemicals and water in the supply chain. The Otto Group is a founding member (see p. 43).
Code of Conduct	Establishes social standards for suppliers and their subcontractors. It is a basis for business relationships with the Otto Group (see pp. 32, 40).
Cotton made in Africa (CmiA)	An initiative promoting the cultivation of sustainable cotton in Africa (see p. 33).
CR Board	The central committee for preparing strategic CR decisions, led by the Chairman of the Executive Board (see p. 23). → SSCM Board
Entry Assessment	The Otto Group's own standard for reviewing factories in risk countries (see p. 41 et seq.). → Progress Assessment
Forest Stewardship Council® (FSC®)	An international, charitable and independent organisation for promoting responsible forestry (see p. 34).
Global Reporting Initiative (GRI)	An international organisation that has developed guidelines for producing sustainability reports (see p. 68 et seq.).
Gravure print	A print technique in which the elements to be printed are first engraved onto the image carrier as depressions. Gravure printing is generally used for high-volume printing, e.g. catalogues. Other typical printing processes are offset and digital print (see p. 35).
imPACT	A sustainability management process through which the ecological and social impacts of the Otto Group's business activities are calculated and managed (see p. 12 et seq.).
Impact category	The ecological and social impacts of the Otto Group's business activity are calculated in the five impact categories Greenhouse Gases, Pollutants, Water Consumption, Land Use and Social Risks (see p. 14).
Materiality Analysis	For all topic areas (→) the ecological impacts (in EUR) or the social risks (in Risk working hours) are determined. In addition, internal and external stakeholders assess their materiality (see p. 14 et seq.).
Materiality Matrix	Presents the results of the materiality analysis (→) as a bi-axial diagram. The x-axis shows stakeholder assessments (on a scale of 1-10) of the individual topic areas (→), the y-axis shows their ecological impact (in EUR) or the Social Risks (in Risk working hours) (see diagram, p. 18).
Merchandising goods	All products that are sold to end-customers, e.g. textiles and furniture. Non-merchandising goods include e.g. catalogue paper, office materials and cleaning services at company facilities (see p. 39).
Multichannel Retail	The third business segment in the Otto Group, alongside Financial Services and Services. It includes the business of the distribution channels e-commerce, catalogues and over-the-counter retail (see p. 6 et seq.).
Own and licensed brands	The Otto Group is in possession of the brand rights. The manufacture of these merchandising goods is commissioned by the Otto Group. The Group has a particular responsibility here and has a comparatively large scope of influence (see p. 39). → Third-party brands
Progress Assessment	The Otto Group's own standard for reviewing factories in risk countries, carried out annually after factories pass an Entry Assessment (→) (see p. 41).
Reporting companies	Group companies in the Otto Group which are integrated in the sustainability reporting (see p. 6 et seq.).
Risk country	A country in which there is a higher risk of non-compliance with work standards. The Otto Group uses the risk classification defined by the Business Social Compliance Initiative (see p. 40). → BSCI
Risk working hours	A unit for measuring Social Risks along the value chain. The risk that working hours have been performed under violation of minimum standards depends on country and sector (see p. 15).
Social Programme	This applies to all suppliers of own and licensed brands with factories in risk countries. It is intended to create acceptable working conditions for workers in the factories, as well as transparency in the supply chain (see p. 40).
SSCM Board	This is composed of managers from Group companies with responsibility for implementation. It decides on topics in the value chain and prepares decisions for the CR Board (see p. 23). → CR Board
Sourcing organisation	Organise goods procurement in sourcing countries for companies and traders. The Otto Group works with the Hermes-OTTO International (H-OI) subsidiary, as well as external sourcing organisations (see p. 39 et seq.).
Third-party brands	In this case, the brand rights – and therefore the responsibility for compliance with social and environmental standards in production – lie with third parties (see p. 39). → Own and licensed brands
Topic area	This describes an impact category on a particular value-adding stage, e.g. Greenhouse Gases in the Trade stage (see p. 18).
Value-adding stage	This describes one of the four sections of the Otto Group's value chain: Raw Materials & Processing, Final Production, Trade and Customer (see p. 10).

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