



# UN Global Compact

Communication on Progress for the 2015/16 financial year

**Dear Readers,**

In recent years, the Otto Group has invested in the digital transformation of its ongoing activities and in establishing new business models. We focused on our strengths, triggered change processes and gained new momentum. With our initiated “Kulturwandel 4.0”, we encourage a new openness and communication to our customers as well as within our company.

In this rapidly changing business environment, we continue to uphold our values and long-term sustainability goals. As a signatory to the UN Global Compact we actively support its principles for responsible business. Responsible and sustainable business practice is deeply embedded within our Group’s organisational structures and is of paramount importance for our success. With our award-winning ‘impACT’ management process we are putting the spotlight on those topics which pose the biggest environmental and social challenges leading our way for positive impact. In the past year we progressed on each of our key indicators of our CR Strategy 2020 – while being aware that considerable effort is still needed to achieve our defined goals.

As a globally active retail and services group, many of our existing sustainability challenges lie in complex supply chains. It is with such complexity that individual solutions often lack long-term effectiveness. This is why, since 2015, we are actively involved in the multi-stakeholder Partnership for Sustainable Textiles. In various working groups, Otto Group representatives are collaboratively focusing on issues such as social responsibility or the use of chemicals.

The digital transformation not only leads to a reflection of one’s own values but opens up new forms of transparency, accountability and collaboration. It is in this regard that we have set the compass for a successful and sustainable future.



Hamburg, August 2016

on behalf of the Otto Group Executive Board

Hans-Otto Schrader

Chairman of the Executive Board and  
Chief Executive Officer Otto Group (CEO)

**otto group**

## Progress made by the Otto Group in the implementation of the Ten Principles of the UN Global Compact in the 2015/16 financial year

Founded in Germany in 1949, today the Otto Group's companies and approximately 50,000 employees are present in over 20 countries in Europe, North and South America and Asia. The business activities of the globally active retail and services group comprise the three segments of Multichannel Retail, Services and Financial Services. In the 2015/16 financial year the Otto Group increased its sales by 5.4% compared to the previous year to reach approximately 12 billion euros. The

Multichannel Retail segment contributed a share of 79.2% to Group sales in the 2015/16 financial year. The share in sales from the Financial Services and Services sectors were 5.6% and 15.2% respectively.

Taking responsibility towards people and nature has been a guiding principle for the Otto Group in all its business activities since 1986. This self-understanding is anchored in the Group through systematic and data-driven sustainability management. This 'impACT' sustainability management process of the Otto Group is based on a quantitative and qualitative evaluation of the ecological and social impacts of the company's business

activities along the whole value chain. It forms the basis of the CR Strategy 2020 comprising five sub-strategies, each with a priority objective to be achieved by 2020: Only sustainably produced cotton is to be used in the textile assortment of own and licenced brands, while under the Furniture Strategy only FSC® -certified wood types will be used. The objective of the Climate Strategy is to halve location, shipment and mobility-related CO<sub>2</sub> emissions, while the Paper Strategy aims to increase the share of FSC®-certified paper in catalogues and advertising materials to 50%. The Social Programme targets the complete integration of all suppliers for own and licenced brands. A supplier is con-

sidered to be integrated if all its factories in risk countries which produce goods for the Otto Group can provide a valid and recognized assessment, certificate or audit result.

To secure the implementation of the CR Strategy, the CR Board headed by the Chairman of the Executive Board was established in 2012. Since the 2014/15 financial year the degree of achievement of the CR Strategy objectives is an integral factor in the calculation of Group Executive Board Members' performance-related bonus. The most important non-financial key figures are also published in Otto Group's Annual Report since the 2013/14 financial year.

Principles	Systems <sup>1</sup>	Measures	Results <sup>2</sup>
<b>Human rights and labour standards</b>			
Principle 1 Supporting human rights	<ul style="list-style-type: none"> <li>• Otto Group Vision and Mission</li> <li>• Code of Conduct (Merchandise, and Services and Non-Merchandising Goods)</li> <li>• Code of Conduct of Hermes Germany</li> </ul>	<ul style="list-style-type: none"> <li>• Execution of the modelling and management method impACT to capture and evaluate the environmental impacts and social risks caused by the business activities of the Otto Group along the value chain</li> </ul>	<ul style="list-style-type: none"> <li>• Training of employees active in purchasing</li> <li>• Supplier-qualification processes for compliance with Social Programme standards implemented</li> <li>• 62% of suppliers are integrated in the Social Programme<sup>3</sup></li> </ul>
Principle 2 Exclusion of any human rights abuses	<ul style="list-style-type: none"> <li>• A Social Programme for checking compliance with and improving labour standards and human rights in factories in risk countries</li> <li>• A uniform Group Guideline Sustainability in Procurement</li> </ul>	<ul style="list-style-type: none"> <li>• Active role in the management of the Partnership for Sustainable Textiles as one of four business representatives from the textile industry to be elected to the Steering Committee as well as participation in all working groups</li> <li>• Implementation of qualification measures in factories to achieve compliance with the Code of Conduct</li> <li>• Training to create internal employee awareness for the implementation of the Social Programme</li> </ul>	<ul style="list-style-type: none"> <li>• Approximately 400 factories took part in the Qualification Programme training</li> </ul>

Principles	Systems <sup>1</sup>	Measures	Results <sup>2</sup>
<b>Human rights and labour standards</b>			
<b>Principle 3</b> Upholding freedom of association  <b>Principle 4</b> Elimination of all forms of forced labour  <b>Principle 5</b> Abolition of child labour		<ul style="list-style-type: none"> <li>• Enlargement of the scope (international Group Companies) for the roll-out of the Social Programme with the objective of integrating all suppliers with production facilities for own and licenced brands in risk countries (factory audits) and to expand qualification measures</li> <li>• Implementation of the supply-chain database<sup>3</sup> in order to gain transparency regarding working conditions</li> <li>• Continuous supporter of the Accord on Fire and Building Safety in Bangladesh</li> <li>• Member and vice chair of the Steering Committee of the sector initiative Business Social Compliance Initiative (BSCI)</li> </ul>	<ul style="list-style-type: none"> <li>• Transparency regarding production-facility structures and their status, compliance with social standards (Social Programme), fire-protection and building safety regulations and active support in the implementation of possible corrective-action plans (Accord on Fire and Building Safety in Bangladesh)</li> <li>• 93% of Otto Group employees covered by collective bargaining agreements</li> </ul>
<b>Discrimination</b>			
<b>Principle 6</b> Elimination of discrimination	<ul style="list-style-type: none"> <li>• Group Agreement to strengthen diversity and protection against discrimination</li> <li>• Diversity Charter</li> <li>• In accordance with the German law on equal participation of men and women in managerial roles, the Otto Group has set itself the following goals regarding women in leadership to be met by 30 June 2017: The Group's Supervisory Board is aiming to reach a target quota of 25% and the Executive Board is aiming to reach a target quota of 28%</li> <li>• In terms of top-level management, the Group companies have set themselves the objective of achieving a target quota of 23% and aim not to fall below a quota of 30% for the second management tier</li> <li>• Code of Conduct for Merchandise, and for Services and Non-Merchandising Goods (for specific measures and results see the section 'Human Rights and Labour')</li> <li>• The Social Programme for improving compliance with labour standards and human rights in risk countries (for specific measures and results see the section 'Human Rights and Labour')</li> </ul>	<ul style="list-style-type: none"> <li>• Carrying-out of training on the German General Law on Equal Treatment (Allgemeines Gleichbehandlungsgesetz, AGG)</li> <li>• Group-wide Diversity Controlling</li> <li>• Group-wide Diversity Management under the banner of 'Diversity first!'</li> <li>• Holding of the second Otto Group Diversity Conference in 2016</li> <li>• Presentation of a Diversity Award</li> <li>• Initiative 'Power of Diversity' undertaken by female top managers</li> <li>• Carrying-out of the programme 'Boost your Career' to promote the careers of young female managers</li> <li>• Realization of the "Boost Your Network" event to provide a platform that allows participants of different "women and leadership" initiatives across the individual Otto Group companies to come together</li> <li>• Network meetings of female managers</li> <li>• Project-related integration of former employees in retirement</li> </ul>	<ul style="list-style-type: none"> <li>• Training of all new employees on the AGG</li> <li>• Workplaces individually equipped for handicapped employees</li> <li>• 140 participants at the Diversity Conference (the majority of whom were female executives)</li> <li>• With a current quota of 20% of women in upper management (previous year 19%) the Otto Group is moving towards its self-defined quota target of 23% for June 30<sup>th</sup>, 2017. The goal not to let the share of women in middle management fall below a quota of 30% is preserved with a current quota of 32% (previous year 32%).</li> <li>• Three programme cycles of 'Boost your Career' completed since autumn 2013 and two cycles of "Boost Your Network" event</li> </ul>

Principles	Systems <sup>1</sup>	Measures	Results <sup>2</sup>
<b>Environmental protection</b>			
<b>Principle 7</b> Precautionary environmental protection	<ul style="list-style-type: none"> <li>• Code of Conduct</li> <li>• Group Guideline Sustainability in Procurement</li> <li>• Group Risk and Crisis Management Guideline</li> <li>• CR Board Meetings held three times a year for strategic planning and further development of the CR Strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Execution of the modelling and management method impACT to capture the environmental impacts and social risks caused by the business activities of the Otto Group along the entire value chain</li> <li>• Shift from air freight to maritime and rail transport in procurement, which produce fewer CO<sub>2</sub> emission</li> <li>• Increased energy efficiency at the Group's own sites and in goods-distribution transport contributed to the reduction in CO<sub>2</sub> emissions</li> <li>• Use of cotton produced under the initiative Cotton made in Africa, which has significantly lower environmental and social impacts than conventional cotton thanks to resource-conscious smallholder cultivation methods and rainwater irrigation</li> <li>• Extension of the scope of the Paper Strategy to include paper used in catalogues printed using the offset process</li> </ul>	<ul style="list-style-type: none"> <li>• Overall electrical energy consumption at locations reduced in the 2015/16 financial year by 4.5% vs. the previous year to 144,700 MWh</li> <li>• Adjusted<sup>4</sup> CO<sub>2</sub> emissions vs. previous year reduced from 225,000 t to 216.000<sup>5</sup> t</li> <li>• Adjusted CO<sub>2</sub> emissions reduced by 28% vs. the benchmark year 2006/07</li> <li>• Share of sustainable cotton (organic cotton, Cotton made in Africa) in the whole textile assortment increased to 27% (previous year: 11%)</li> <li>• Share of FSC®-certified paper used in catalogues increased to 28% (previous year: 18%)</li> <li>• Share of FSC-certified wood as a percentage of the total wooden furniture product range increased to 43% (previous year: 33%)</li> </ul>
<b>Principle 8</b> Initiatives to promote greater environmental protection	<ul style="list-style-type: none"> <li>• Climate Protection Strategy with the objective of reducing relative CO<sub>2</sub> emissions in the areas of shipping, location and mobility by 50% by 2020</li> <li>• Textile Strategy with the objective of progressively increasing the share of sustainable cotton in the cotton assortment of own brands to 100% by 2020</li> </ul>		
<b>Principle 9</b> Diffusion of environmentally friendly technologies	<ul style="list-style-type: none"> <li>• Paper Strategy with the objective of increasing the share of FSC®-certified paper in catalogues and advertising materials by 50% by 2020</li> <li>• Furniture Strategy with the objective of raising the share of FSC®-certified furniture products to 100% by 2020</li> </ul>		
<b>Anti-corruption measures</b>			
<b>Principle 10</b> Measures to combat corruption	<ul style="list-style-type: none"> <li>• Code of Conduct</li> <li>• Group Anti-Corruption Guideline</li> <li>• Group Gifts Guideline</li> <li>• Group Guideline Sustainability in Procurement</li> <li>• Group Risk and Crisis Management Guideline</li> <li>• Embargo measures</li> <li>• Group IT Security Guideline</li> <li>• Global Compliance Management System</li> </ul>	<ul style="list-style-type: none"> <li>• Standard requirement for all employees to take an e-learning course on handling business gifts</li> <li>• The Group Data Protection Officer has been a permanent member of the Compliance Committee since 2010</li> <li>• Group-wide IT Security Officer network</li> </ul>	<ul style="list-style-type: none"> <li>• E-learning course passed by all employees on how to handle gifts and other benefits</li> <li>• All employees of the German Group companies trained on anti-trust law</li> </ul>

<sup>1</sup> For exact data on the Group companies integrated in the sub-strategies of the CR Strategy 2020 see the CR Report 2015, p. 33–35, 41, 48, 53.

<sup>2</sup> Quantitative figures relate to the 2015/16 financial year and unless otherwise indicated refer to the 13 reporting companies: baumarkt direkt, Baur, bonprix, EOS, Frankonia, Heine, Hermes, myToys, OTTO, Schwab, SportScheck, UNITO and Witt.

<sup>3</sup> Scope: see Otto Group Sustainability Report 2015, p. 41, [www.ottogroup.com/sustainabilityreport](http://www.ottogroup.com/sustainabilityreport).

<sup>4</sup> CO<sub>2</sub>-emissions are performance-unit adjusted, thus enabling comparison with the benchmark year 2006/07. For details on the adjustment method see the CR Report 2015, p. 48.

<sup>5</sup> Key figures relate to the 2015 calendar year.