

# UN GLOBAL COMPACT

## COMMUNICATION ON PROGRESS FOR THE 2017/18 FINANCIAL YEAR

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AR = Otto Group Annual Report 2017/18

**Ladies and gentlemen,  
partners and friends  
of the Otto Group,**

Our company has been a member of the United Nations Global Compact since 2002, promoting its Ten Principles in the areas of human rights, labour standards, environment and anti-corruption. As Chairman of the Otto Group Executive Board and CEO, I renew our company's ongoing commitment to the initiative and its principles.

In the age of digitisation and globalisation, it is our responsibility to engage in sustainable business practices. These are deeply embedded in the Group's organisational structure and are of paramount importance to our success. The Otto Group continues to uphold our long-term sustainability goals through our CR Strategy 2020. Over the past year, we were able to advance all of our key performance indicators – growing the amount of sustainable cotton, expanding FSC-certified furniture products and increasing FSC-certified catalogue paper. We are on track to include more and more suppliers in our Social Programme, while at the same time reducing our CO<sub>2</sub> emissions significantly.

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**OVER THE PAST YEAR, WE  
WERE ABLE TO ADVANCE  
ALL OF OUR CR STRATEGY  
2020 KEY PERFORMANCE  
INDICATORS.**

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These achievements were made possible with the ideas, skills and courage of our colleagues. By addressing our biggest environmental and social challenges through our impACT management process, we continue to make advances in our production and global supply chains for a world worth living in. But we cannot do it alone, as we often exert only indirect influence across our value chain. It is vital to combine ideas and resources within our industry, politics and civil society to jointly contribute to sustainable development.



Therefore, we keep engaging in multi-stakeholder initiatives like the Partnership for Sustainable Textiles and the Carbon Performance Improvement Initiative (CPI2).

As a global retail and services group, we believe that business needs values. We aim to make positive impact and continue our considerable efforts to achieve our goals. We invite you, as partners and friends of the Otto Group, to engage in dialogue with us and help us on our journey to continuously become better – on the market and for society as a whole.

Hamburg, Germany, August 2018

on behalf of the Otto Group  
Executive Board

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**Alexander Birken**  
Chairman of the Executive Board &  
CEO Otto Group

# HOW THE OTTO GROUP LIVES SUSTAINABILITY

For over 30 years, the Otto Group has combined economic goals with responsibility for humans and nature. This fundamental principle is deeply rooted in its corporate culture together with a strong set of values. In a world characterized by great challenges and rapid change, these values assist the Group in staying on target, operating successfully and preserving its sustainability.

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## SUSTAINABLE DEVELOPMENT AS THE MODEL

The belief of former CEO and current Chairman of the Supervisory Board Prof Dr Michael Otto to conduct business in a way that protects the quality of life for current and future generations guides the Otto Group in its day-to-day actions. As an internationally engaged retailer and service provider, the Otto Group strives to achieve sustainable development in all areas of the company. Its business strategy combines economic success with the attainment of ecological and social objectives. It seeks to minimize negative impacts of its business activities while achieving added value for the society. This strategy is driven by the Group's desire to support social responsibility, environmental protection and fair cooperation to the best of its ability. This is achieved through the sustainability management process "impACT", which forms the foundation of its responsibility-minded actions. Results and findings of this process feed into the CR Strategy 2020 (CR = corporate responsibility), which forms an integral part of the Group's strategy.

## impACT AS THE BASIS OF ACTION

The impACT management process fully determines the impact of the Corporate Group's business activities, and targeted actions (act) are derived from it. Crucial factor: Effectiveness of the measures. The process consists of three steps. Once material issues are analysed and priorities

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**PROF DR  
MICHAEL OTTO  
DECLARED ENVIRONMENTAL  
PROTECTION AS  
A CORPORATE  
GOAL IN 1986.**

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set, measures are developed and assessed. In the end, those measures that indicate the most optimal relationship between cost and benefit are implemented. This process follows a holistic approach, helping to use financial and human resources where they are most effective and have the greatest impact on sustainability. The clear focus on effectiveness and efficiency, combined with business opportunities and risks, allows the Otto Group to embed sustainability

at the core of its business processes. With developing the future CR Strategy 2025, the materiality analysis and assessment of measures of the impACT management process are further developed.

## BEARING IN MIND THE VALUE CHAIN

The CR Strategy 2020 encompasses the entire value chain. For the Otto Group as a retailer and service provider, it is especially complex, tied to numerous procedural steps and multiple challenges (see graphic page 58). The greatest ecological and social impact is felt in the preliminary stages of widely branching supply chains. In addition, the issue of data security and how to safeguard it in platform business is becoming increasingly important in the Customer value-adding stage. The impACT management process makes it possible to determine and quantify the effects of external costs and risk-working hours along the entire value chain.

# DEALING WITH GROWING DEMANDS

Technological changes, political and regulatory developments as well as market trends affect sustainability management and business activities. At an early stage, the Otto Group identifies how conditions are changing and adjusts its strategy accordingly.

## CONSEQUENCES OF DIGITALIZATION

The digital transformation has a significant effect on the Otto Group's business activities and resulting business models. It changes consumers' behavior and their means of interaction, exemplified by voice-accessed virtual assistants or augmented reality apps that can create virtual homes, for example. Equipped with smartphones and wearables and driven by innovative technology groups, customers make new demands on both brick-and-mortar and online trade.

By connecting to and processing huge datasets – extending from the demand side to the availability of supply – it becomes possible to analyse and service customer needs in a targeted approach. Linking multiple data sources also offers new perspectives in sustainability management: Utilization of new tracking and tracing methods such as blockchain technologies will allow for an improved traceability of products along the entire value chain, achieving transparency for further improvement measures in upstream production steps.

Besides creating opportunities, this growing digitalization also offers major challenges such as protection against the misuse of data, dynamic online pricing of products, or devices such as digital virtual assistants that are tied exclusively to a single online merchant. Also in the digital world, the Otto Group strives to meet its high requirements to act responsibly. Against this backdrop, the Group is systematically addressing the issue of corporate digital responsibility.

## POLITICAL AND REGULATORY DEVELOPMENTS

Political initiatives and regulatory requirements have a direct impact on business activity, as do the voluntary commitments of individual industries. The Otto Group systematically monitors emerging changes in framework conditions – such as a possible pricing of CO<sub>2</sub> emissions, regulatory steps that target greater energy efficiency in the building sector or alternative drive systems in road transport. With proactive and ambitious environmental and social activities, the Otto Group is well-positioned and prepared to be able to react quickly to future regulations.

## Differentiation of business models

To reposition itself to succeed in swiftly changing markets, the Group is focused on differentiating existing business models and developing new ones. On one hand, acting as an incubator, the corporation is awarding initial capital to startups through its companies Eventures, Project A and Liquid Labs. On the other hand, existing business models like the OTTO online retailer are being enhanced to become platforms open to third-party providers. These combined efforts influence changes in the value chain: Such business models do not involve directly influencing the value-adding stages Raw Materials and Processing or Final Production. For the Otto Group's sustainability activities, business relationships with platform partners and collaboration with customers are moving more into the spotlight.

## NATIONAL ACTION PLAN ON BUSINESS AND HUMAN RIGHTS

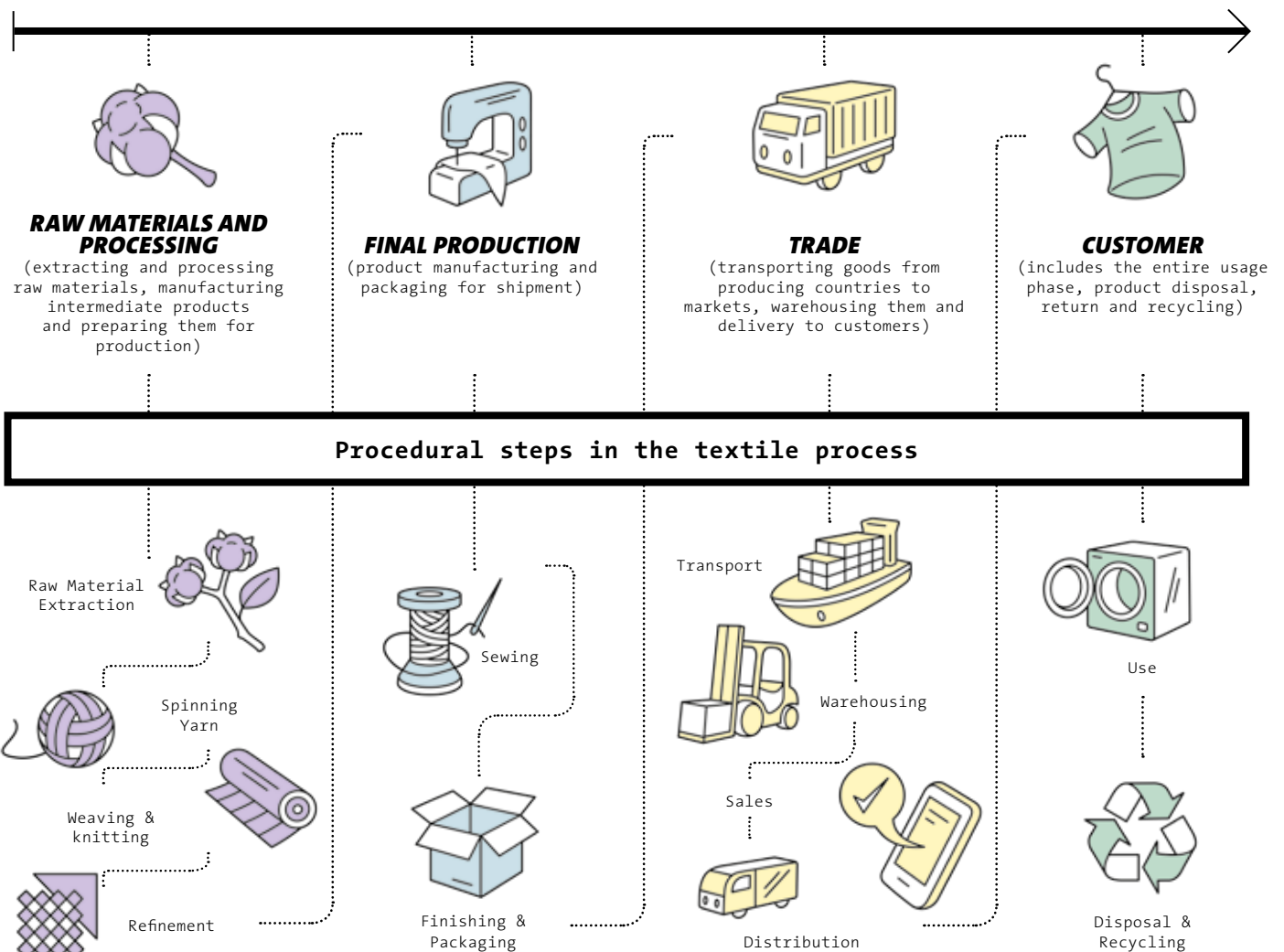
At the end of 2016, the German Federal Government voted to implement the Guiding Principles of the United Nations National Action Plan (NAP) on Business and Human Rights. The implementation extends over a four-year period and envisions that one half of German companies with 500 employers or more will meet their corporate due diligence responsibilities by 2020. In accordance with applicable laws, conventions and provisions, the Otto Group commits itself to adhere to human rights around the world and to take appropriate corrective measures where these are violated.

## SUSTAINABLE DEVELOPMENT GOALS

The Otto Group is committed to the global Sustainable Development Goals (SDGs) of the United Nations and supports these without restriction. With the CR Strategy 2020 and other sustainability programs and the commitment to initiatives and alliances, the Group is already contributing to the achievement of numerous SDGs as exemplified by its involvement in the "Cotton made in Africa" (CmiA) initiative. CmiA promotes actions to combat poverty and protect the environment, advocates for women's rights in Africa and invests in formal education.

The goal of the Otto Group is the systematic involvement of SDGs into the sustainability management process currently taking place. Especially for the CR Strategy 2025 the SDGs will play an important role for measuring positive effects within the impACT process.

## FOUR VALUE STAGES



# FOCUSING ON WHAT IS MATERIAL

In the context of sustainability management, the Otto Group determines and assesses its impact along the value chain – and develops targeted measures. The results of the impACT process serve as the basis of decisions that efficiently and effectively orient business processes in the direction of sustainability.

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The impACT management process developed by the Otto Group employs the triad: analyse, assess, act. In its materiality analysis, the impact of the business activity on humans and nature is determined and the material topic areas are identified. In the second step, this priority setting serves to develop the objectives and measures and assess these according to their cost and benefit. In this way, the Otto Group can allocate financial and human resources precisely where they will have the greatest impact – and can act sustainably.

## **impACT STEP 1: ANALYSE**

In its materiality analysis, the Otto Group combines the quantitative valuation of the ecological and social impacts of its business activities with the assessment of these challenges from the point of view of stakeholders, integrating these in the materiality matrix (page 62).

### **Impact categories and topic areas**

Ecological and social impacts across the four value-adding stages are initially determined. Ecological impact is segmented into the impact categories of greenhouse gases, pollutants, water usage and land use. Social impact is illustrated using the fifth impact category social risks. The Otto Group refers to the effects in the respective impact category/value-adding stage intersections as topic areas. Nineteen topic areas are examined using quantitative analysis (for ex., greenhouse gases within the Raw Materials and Processing value-adding stage).

### **Quantitative assessment of external costs and risks**

In its calculation of ecological impact, the Otto Group combines its procurement and distribution statistics with figures from external databases regarding effects on ecosystems and human health. This results in quantitative values that are converted into “caused” external costs.

Social effects are measured using risk-working hours. This quantification enables the Otto Group to form a realistic picture of its ecological and social footprint (see graphic on page 62, y-axis).

### **Qualitative assessment by stakeholders**

As a complement to this, the 19 topic areas plus the three additional topics of animal welfare, recycling and resource efficiency are evaluated by the stakeholders (see graphic on page 62, x-axis) so that by now there are 22 topic areas. The qualitative assessment consists of four surveys. To understand the expectations of external stakeholders, a group of experts representing science, politics, non-governmental organisations and research regularly conducts an online survey. Internal stakeholders evaluate the topic areas from three perspectives: reputation-related opportunities and risks, regulation risks and business activity. In this way, the weighted findings from internal and external stakeholders are incorporated into the assessment. Their validity ranges from two to five years.

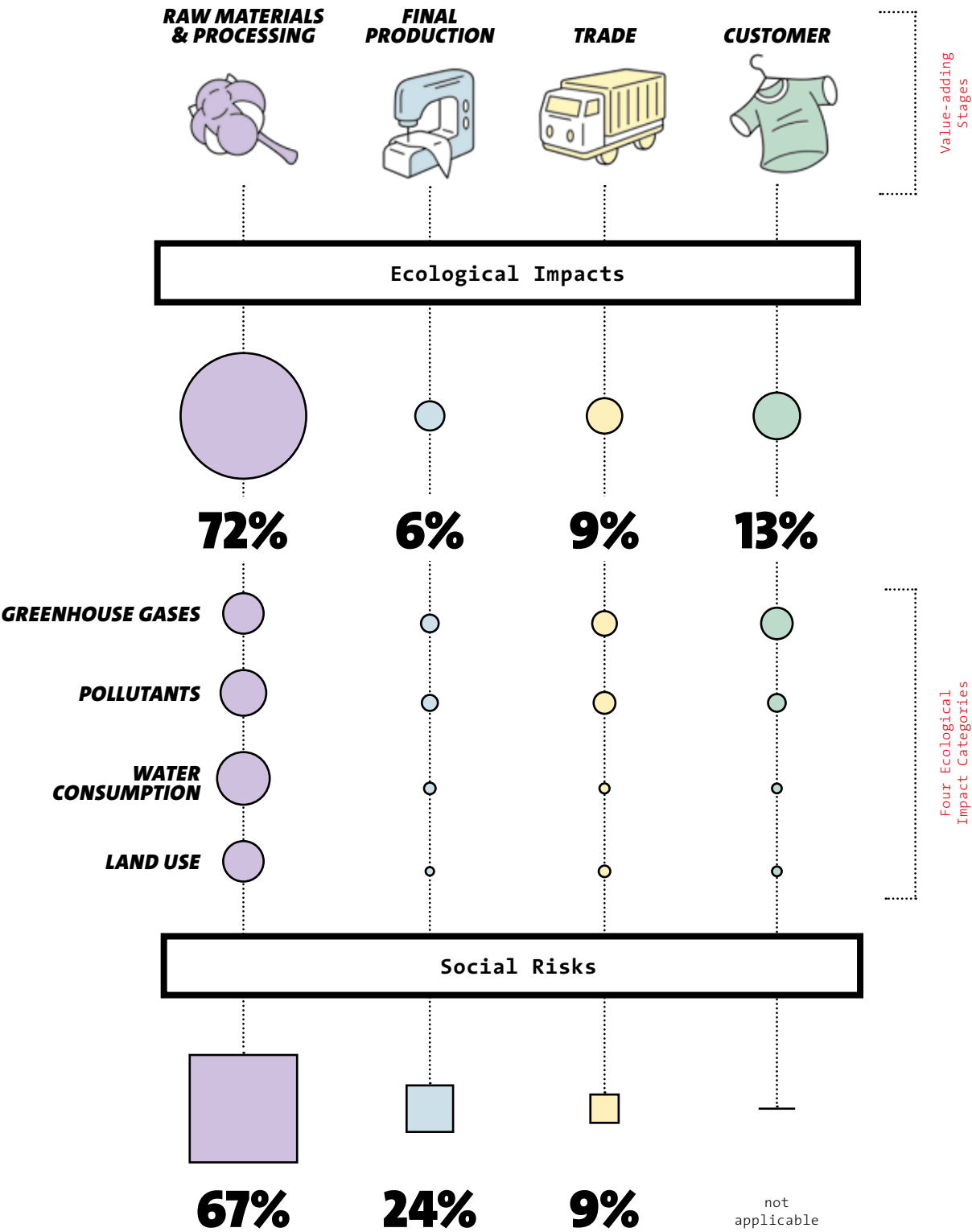
### **Materiality matrix**

The matrix (see graphic page 62) indicates which topics are especially relevant for the Otto Group due to their high external effects and/or their significance as assessed by the various stakeholder groups.

## **impACT STEP 2: ASSESS**

The materiality analysis provides a content-rich foundation for decision-making and indicates the priorities for action. With this well-founded knowledge, the Otto Group is developing potential measures to be able to go into action at precisely the most important and beneficial point in the value chain. To achieve maximum effect, various possible measures are comprehensively assessed with regard to their cost and benefit. The assessment of these measures consists of three components: An initial determination will be made

# IMPACT OF BUSINESS ACTIVITIES



of the extent to which each measure can reduce environmental and social impacts and achieve positive effects. Further, the benefit resulting for the Otto Group, such as whether it meets stakeholder expectations, reduces risks to reputation or expands market opportunities, is incorporated. This is compared to estimated expenses such as investment or personnel costs.

In the context of CR Strategy 2025, the second step of the impACT management process is further developed. For example, the SDGs are included to assess the measures' positive effects on environment and society.

### **impACT STEP 3: ACT**

The measures displaying the most favorable cost-benefit ratio will be discussed and adopted by the CR decision-making bodies. Implementing specific approved measures and monitoring the achievement of targets takes place under the umbrella of the CR Strategy. That way the Otto Group integrates the findings from the previous steps of the impACT management process into its strategic action plan. The centrally monitored measures that are of group-wide relevance will be supplemented by specific activities by individual Group companies.

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**IN 2017 ALL FIVE KPI  
OF THE CR STRATEGY  
2020 HAVE DEVELOPED  
POSITIVELY.**

**For more information see graphic page 64**

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### **The three steps of the impACT process**

**1**

#### **ANALYZE: CARRY OUT A MATERIALITY ANALYSIS**

see graphic page 62

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**2**

#### **ASSESS: DEVELOP MEASURES AND PERFORM COST-BENEFIT EVALUATION**

see page 59

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**3**

#### **ACT: IMPLEMENT MEASURES UNDER THE UMBRELLA OF THE CR STRATEGY**

see graphic page 64

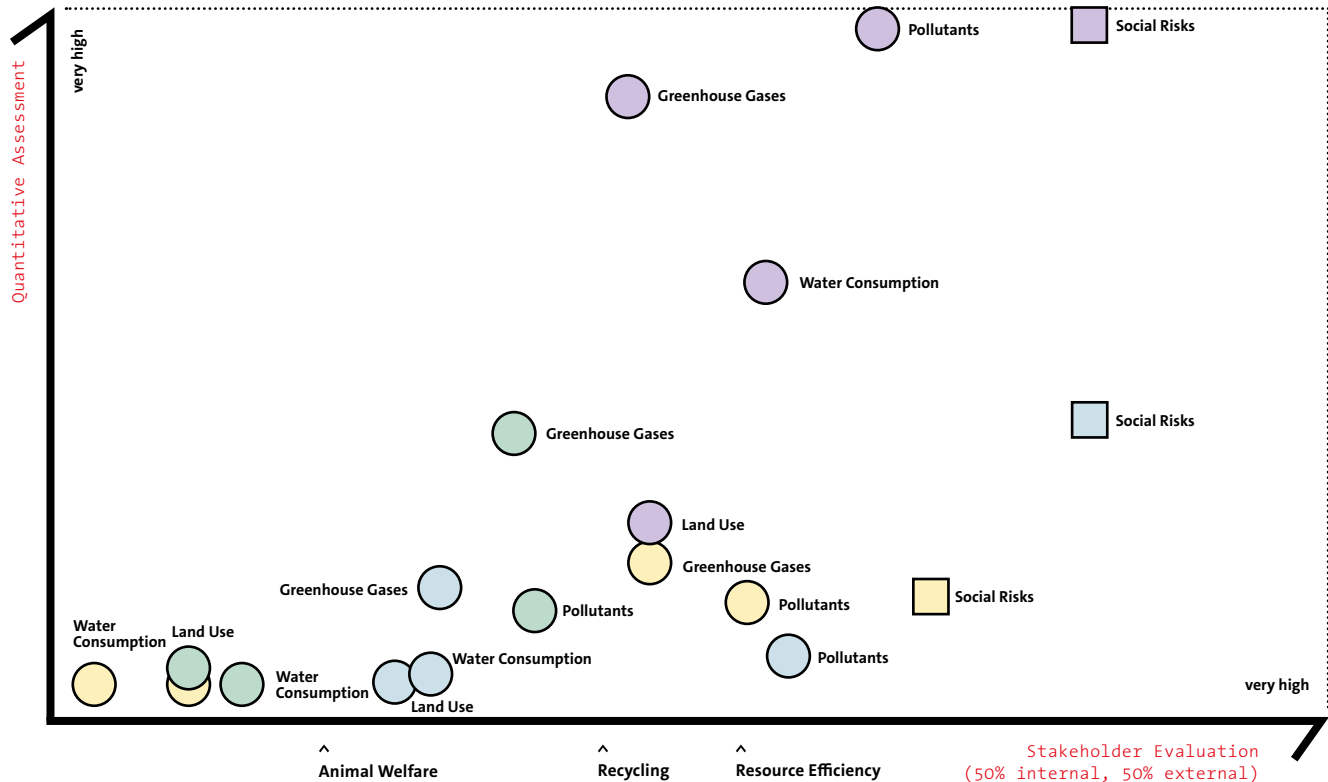
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# MATERIALITY MATRIX 2017

## Relevance of the topic areas to the Otto Group

When considering the whole value chain the biggest social and ecological challenges lay within the extraction of resources and their processing. Also the final production is exposed to high social risks. For the derivation of the materiality matrix see section “impACT step 1: Analyse” on page 59.



### VALUE-ADDING STAGES

Raw Materials & Processing

Final Production

Trade

Customer

### IMPACT CATEGORIES

Greenhouse Gases  
Pollutants  
Water Consumption  
Land Use

Social Risks

### ADDITIONAL TOPIC AREAS

Since 2016 stakeholders have evaluated other topic areas which cannot yet be quantified. In the most recent survey, the stakeholders also estimated the qualitative relevance for these topics.

Animal Welfare  
Recycling  
Resource Efficiency

### CR Strategy 2025 is under preparation

In 2017 external frameworks including the Global Reporting Initiative, German Sustainability Code and Law on Implementing the CSR Guidelines were analyzed. In this light and as a result of the Otto Group's diversification of its business portfolio (see p. 57), the 22 CR topic areas were expanded to include three additional topics: corporate digital responsibility, impact investment and sustainability awareness. Additionally, an internal stakeholder evaluation was performed. The expanded findings are incorporated into the elaboration of CR Strategy 2025.

# ***SUSTAINABLE ACTIONS INTEGRATED STRATEGICALLY***

The impACT management process provides for the implementation of ecological and social criteria in all Otto Group business models and processes. The CR Strategy 2020 is derived from the findings and is an element of the Group's strategy. Its achievement of targets directly relates to the variable remuneration of the Group Executive Board. This is how sustainability is firmly embedded in the corporate group.

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## **CR STRATEGY 2020 AND OUTLOOK**

The CR Strategy 2020, approved in 2012, covers five sub-strategies. Its objectives include careful extraction and processing of raw materials (Textile, Furniture and Paper Strategy), factory conformity with societal standards in Final Production (Social Programme) and reduction of the carbon footprint at its own sites in both procurement and distribution transport (Climate Strategy). In the context of the CR Strategy 2020, strategic targets were modified for paper (55% FSC®-certified catalogue paper by 2019, 60% by 2020) and furniture (100% FSC®-certified furniture by 2025) strategy. Apart from this, CR Strategy 2025 targets will be derived from the continued development of the impACT management process (beginning on page 59).

## **GROUP COMPANY INVOLVEMENT**

CR Strategy 2020 is being carried out by all major Group companies headquartered in Germany and Austria (annual external revenue of more than EUR 100 million). These companies account for 57% of corporate revenues and are responsible for approximately 80% of Otto Group's ecological impact. While Frankonia has not met the requirements of the textile strategy since 2017 and has thus been excluded from it, preparations are currently underway for the integration of new Group companies.

In addition, the principle foreign enterprises of Bonprix (IT, USA, PL, FR) as well as Freemans Grattan Holdings (GBR) and Crate and Barrel (USA and Canada) – have been integrated into CR Strategy 2020 since 2016. Due to their later integration, the individual Group companies are following separate trajectories.

## **RESPONSIBILITIES AND STRUCTURES**

To enable the Otto Group to provide holistic management of sustainability, the responsible individuals from various positions and Group companies have been networked with one another. Under the direction of the CEO, Alexander Birken, the CR Board is the decision-making body of greatest importance. The annual variable remuneration of the Group Executive Board is tied to attainment of the five CR Strategy 2020 goals among other things. Since 2014 the Sustainable Supply Chain Management Board (SSCM Board), consisting of managers and directors of the Group companies generating the highest revenue, has been an important body.

Within the Otto Group, the Corporate Responsibility division monitors sustainability actions across the Group, develops objectives and concepts and advises Group companies. Due to the Otto Group's decentralized organisation structure, the managers of the individual Group companies hold responsibility for implementing the five sub-strategies of the CR Strategy 2020. They receive support from CR coordinators who are in constant contact with the Group's CR division.

A restructuring of sustainability coordination will take effect in financial year 2018/2019: The CR Board and SSCM Board will be merged into a cross-hierarchical decision-making body. Decision-making responsibility will be increasingly transferred to the operational level.

## **COMMUNICATION WITH STAKEHOLDERS**

For many years the Otto Group has engaged in dialogue with other sociopolitical players, and it is actively involved in policy debates on improvement of the environment and the working world. The Group provides transparency and invites

## CR STRATEGY 2020



### TEXTILE STRATEGY

Target until 2020 **100%** *SUSTAINABLE COTTON FOR OWN AND LICENSED BRANDS*

2016 target achievement **49%** 2017 target achievement **78%**



### SOCIAL PROGRAMME\*\*

Target until 2020 **100%** *INTEGRATED SUPPLIERS FOR OWN AND LICENSED BRANDS*

2016 target achievement **80%** 2017 target achievement **91%**

### FURNITURE STRATEGY

Target until 2025\* **100%** *FSC®-CERTIFIED FURNITURE*

2016 target achievement **46%** 2017 target achievement **52%**



### CLIMATE STRATEGY

Target until 2020 **-50%** *REDUCTION IN CO<sub>2</sub> EMISSIONS (compared to 2006)*

2016 target achievement **-36%** 2017 target achievement **-42%**

### PAPER STRATEGY

Target until 2020 **60%** *FSC®-CERTIFIED CATALOGUE PAPER*

2016 target achievement **34%** 2017 target achievement **43%**



### DECENTRALISED MEASURES BY GROUP COMPANIES

Those included in the CR Strategy 2020 since the beginning are Baumarkt Direkt, Baur, Bonprix, EOS, Frankonia, Heine, Hermes, Mytoys, OTTO, Schwab/Sheego, Sportscheck, Unito and Witt-Gruppe. Information regarding criteria for inclusion of Group companies in the sub-strategies is

displayed on page 61 of the 2016/17 Annual Report. The five KPIs of the CR Strategy 2020 were audited by the independent accounting firm Pricewaterhouse Coopers (PwC) in accordance with International Standard on Assurance Engagements (ISAE) 3000.

\* In coordination with the FSC, the relevant NGOs and the accounting firm PwC, the Otto Group has pushed back the target year for 100% FSC-certified furniture from 2020 to 2025. This is due to a short supply of FSC-certified wood materials (particle board/MDF) in the German market.

\*\* Frankonia, Mytoys and Unito are incorporated into the Social Programme, but their statistics on target attainment remain separately recorded and are not integrated into the Otto Group's target achievement figures.

critical feedback to clarify expectations and demands and facilitate a steady transfer of knowledge. Besides involvement by the impACT management process via online surveys and workshops, communication occurs through discussions in the context of events and segment initiatives.

### **Selected memberships and alliances**

- > **Accord on Fire and Building Safety in Bangladesh**  
(since 2013)
- > **amfori**, formerly Foreign Trade Association = FTA  
(since 1985)
- > **amfori BSCI**, Business Social Compliance Initiative  
(founding member since 2004)
- > **Sustainable Textile Alliance**  
(since 2015)
- > **German Environmentally Sensitive Management Working Group (Bundesdeutscher Arbeitskreis für Umweltbewusstes Management - B.A.U.M.)**  
(since 1987)
- > **Carbon Performance Improvement Initiative, CPI<sub>2</sub>**  
(founding member since 2012)
- > **Fur Free Retailer**,  
a program of the Four Paws organisation  
(since 2014)
- > **Forest Stewardship Council Deutschland, FSC®**  
(since 2006)
- > **German Retail Association (Handelsverband Deutschland = HDE)**  
(member since 2009)
- > **Biodiversity in Good Company Initiative**  
(founding member since 2008)
- > **Cotton made in Africa (CmiA) Initiative**  
(founding member since 2005)
- > **Stiftung 2° – German Companies for Climate Protection**  
(initiation and participation by  
Prof Dr Michael Otto since 2007)
- > **Textile Exchange** (member since 2006)
- > **United Nations Global Compact, UNGC** (since 2002)

## **In exchange with stakeholders - three examples**

### **Environmental Foundation**

#### **Michael Otto**

For almost 25 years the Environmental Foundation Michael Otto has paved the way for future-oriented solutions in the areas of environmental protection and nature conservation. Among others, it promotes the project F.R.A.N.Z. (the German acronym 'Für Ressourcen, Agrarwirtschaft & Naturschutz mit Zukunft' – in English, Promoting Resources, Farming and Nature Conservation with a Future) for greater biodiversity in farming. In addition, the Foundation was a key co-founder of the platform Foundations 20, an association of over 30 international foundations devoted to greater climate protection and a global energy revolution.

### **FSC® Vancouver Declaration**

In October 2017 the Otto Group signed the Forest Stewardship Council's® Vancouver Declaration, which seeks to expand wood certification around the world. Among other links, the declaration is tied to the UN's global Sustainable Development Goals (SDGs). Its signatories commit themselves to responsible forest management and a thoughtful handling of natural resources.

### **Partnership between CPI<sub>2</sub> and SAC**

In 2017 the Otto Group's sector-wide initiative CPI<sub>2</sub> formed a partnership with the Sustainable Apparel Coalition (SAC), the most significant international platform for sustainable textile supply chain management. The common goal is to achieve synergies and reduce negative social and ecological impact on the global supply chain. The partnership has succeeded in expanding the use of the CPI<sub>2</sub> tool for manufacturers and companies in the textile and footwear segments.



# RAW MATERIALS AND PROCESSING

The Otto Group also keeps its eye on the initial value-adding stage, and depending on its potential influence, implements targeted measures where they can have greatest effect. With three sub-strategies of the CR Strategy 2020, the company contributes to sustainable extraction and processing of resources.

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Approximately 70 percent of the total ecological impact and social risks of the Otto Group's business activities occur in the first value-adding stage. The stakeholder evaluation also indicate that the greatest relevance is seen in social risks and pollution. In the examples of wood or cotton, chemicals that can be harmful to humans and the environment are introduced in the cultivation state and also used in the subsequent processing of textiles. The Otto Group is working intensively to extract raw materials in a manner that protects the environment and to promote improved management of chemicals in manufacturing operations along the supply chain.

## MANAGEMENT OF CHEMICALS

During the reporting period, the Otto Group developed a holistic approach to handling chemicals that are primarily managed by manufacturers employing wet processing technology in textile production. As a retailer, the corporation has limited options to influence the preliminary stages in the absence of direct contractual relationships. This leads to a focus on a partnership approach in imparting important knowledge and skills for using and managing chemicals. The Otto Group therefore primarily relies on the power of the many, seeking along with others (such as the Partnership for Sustainable Textiles) to promote on-site improvements through a comprehensive training program on chemicals management or the use of CPL<sub>2</sub> tools, to cite two examples. The online tool provides an action-oriented approach to improving use of energy, water and chemicals in factories.

## STATUS TEXTILE STRATEGY

With its Textile Strategy, the Otto Group is pursuing the goal of exclusively using sustainably grown cotton in its own and licensed brands by 2020. In 2017 the use of sustainable cotton rose to 78% (2016: 49%). This positive

development above all is due to the established process of procuring cotton from the "Cotton made in Africa" (CmiA) initiative and the resulting increased use of this cotton by Bonprix, OTTO and the Witt-Group. Beginning in 2018, the proportion of recycled cotton will be included in the textile strategy KPI. In this way, the Otto Group expects a further increase in the proportion of sustainable cotton by pursuing the utilization of recycled cotton and further expanding CmiA procurement quantities for 2018.

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**IN 2017 THE OTTO GROUP  
PURCHASED NEARLY  
28,000 TONNES OF  
SUSTAINABLE COTTON.**

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## STATUS FURNITURE STRATEGY

The goal is the complete switch of own and licensed brands and strategically relevant third-party brands to articles coming from responsible forest management that have been certified under the standards of the Forest Stewardship Council® (FSC®). Due to the short supply of FSC®-certified wood-based materials (especially particle board) in Germany, the target year was pushed back from 2020 to 2025. In addition, the 10% proportion of FSC®-certified forest lands in Germany is relatively small. The Otto Group has therefore expanded its contact to FSC®, collaborating at various levels of the organisation. For example, the Otto Group has joined representatives of FSC® and other furniture traders in a working group that promotes increased supply of and demand for FSC®-certified wood-based materials in

Germany. In 2017 the proportion of FSC®-certified wood used by the Otto Group was 52% (2016: 46%). The slight increase resulted from the expanded offering of FSC®-certified furniture products by Heine and OTTO.

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## **IN 2017 THE OTTO GROUP REDUCED ITS PAPER CONSUMPTION FOR CATALOGUES AND ADVERTISING MATERIAL BY APPROXIMATELY 10%.**

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### **STATUS PAPER STRATEGY**

With its Paper Strategy, the Otto Group intends to expand the use of FSC®-certified paper for gravure and offset printing of its catalogues and promotional materials. In the reporting period, the increased target figure was reviewed and approved: By 2019 the proportion of FSC®-certified paper is targeted to reach 55%, by 2020 60% (previously 50%). In 2017 the FSC® proportion amounted to 43% (2016: 34%). The significant increase is attributed to the long-term agreements worked out with suppliers by the OTTO Group company, which accounts for the bulk of catalogue paper procurement within the Otto Group.

### **Cotton made in Africa**

Cotton made in Africa (CmiA) is an initiative of the Aid by Trade Foundation, founded in 2005 by Prof Dr Michael Otto. Its goal: By building an alliance of textile companies that choose CmiA-certified cotton for their manufacturing, it supports self-help for African cotton farmers while protecting the environment. CmiA provides instruction for small farmers, training them in sustainable and efficient cotton production; it stands up for children's rights, promotes improved working conditions for small farmers and those who work in the cotton-processing industry in Africa, and supports female small farmers in their quest for greater independence. It rejects genetically altered seeds, pesticides labelled as dangerous by international conventions, and the deforestation of primary forest lands. In comparison to conventional cotton, CmiA-certified cotton produces up to 40% lower greenhouse gas emissions and saves around 2,100 litres of water per kilo by global comparison through the elimination of artificial irrigation. In Tanzania and Zambia, on-site cooperation with local cotton enterprises made it possible to develop accessible and inexpensive options for effective organic crop protection. In 2017 over one million small farmers in nine African countries benefited from the initiative. They produced over 496,000 tonnes of sustainable cotton. From that quantity, the Otto Group received an amount equivalent to 27,156 tonnes.

### **Example from practice**

#### **BONPRIX: SUSTAINABLE RAW MATERIALS**

In its product portfolio, Bonprix emphasizes FSC®-certified wood, CmiA and organic cotton, recycled cotton, recycled polyester and TENCEL®. CmiA cotton accounts for the largest share, currently meeting almost 80% of the total cotton need. Besides its increased utilization of sustainable materials, Bonprix also promotes transparent operations, collaborative approaches and technological innovations – with a focus on the manufacturing process area.

**Example from practice****BONPRIX: CleanDye**

In the context of the “CleanDye” joint venture founded in 2017, Bonprix is collaborating in the development of a factory in Vietnam. The plant will employ a revolutionary method to dye products with CO<sub>2</sub> instead of water. The carbon dioxide will be 95% recycled, the methodology yields a water saving of around 25 litres per T-shirt, and the project uses no process chemicals. The first CleanDye products will reach the market by the end of 2018.

**Forest Stewardship Council®**

The Forest Stewardship Council (FSC®) seeks to preserve woodlands. It acts to achieve this by protecting forests and promoting responsible forest management. The FSC® defines uniform basic principles throughout the world. For example, long-term ownership claims and usage rights regarding land and forest resources must be resolved. To be respected as well are the legal and traditional rights of indigenous groups concerning ownership, usage and cultivation of land, territories and resources. Stringent criteria governing cultivation will prevent deforestation, human rights violations and excessive environmental degradation. Meanwhile, forest capacity remains unaffected. Through certification of the timber processing and trade chain from the forest to the retail market, more transparency for the consumer is assured.

**Sustainable cotton\***  
(in tonnes)

	2014	2015	2016	2017
Entire quantity of cotton	35,599	35,941	33,664	35,943
Organic cotton quantity	478	504	639	750
CmiA cotton quantity	3,405	9,225	15,913	27,156
<b>Sustainable cotton proportion</b>	<b>11%</b>	<b>27%</b>	<b>49%</b>	<b>78%</b>

\* Based on raw cotton procurement quantity.

**FSC®-certified furniture\*\***  
(articles)

	2014	2015	2016	2017
Total furniture articles	56,350	49,694	58,527	62,270
Of those, number of FSC®-certified articles in product portfolio	18,688	21,281	26,829	32,229
<b>Proportion of FSC®-certified articles in full product portfolio</b>	<b>33%</b>	<b>43%</b>	<b>46%</b>	<b>52%</b>

\*\* Since 2015 without OTTO Office.

**Paper consumption for catalogues and promotional materials\*\*\***  
(in tonnes)

	2014	2015	2016	2017
Entire quantity	264,189	239,560	221,497	200,559
FSC® paper quantity	51,172	67,833	75,047	85,821
<b>Proportion of FSC® paper</b>	<b>19%</b>	<b>28%</b>	<b>34%</b>	<b>43%</b>

\*\*\* Since 2015 without OTTO Office.



# FINAL PRODUCTION

In the Final Production value-adding stage, products are finished and packaged for transport. The focus is on production facility working conditions in risk countries, where the Otto Group directs its attention to its Social Programme and forming collaborations.

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Through its Group companies, the Otto Group offers a wide range of articles and works with a variety of direct and indirect suppliers. In addition, approximately half the traded goods are foreign brands – responsibility for monitoring and complying with human rights in such cases falls to the brand manufacturers: In these collaborative arrangements, manufacturers are required to comply with the Otto Group Code of Conduct (CoC). Own and licensed brands work through their own procurement agencies or importers. Due to complex procurement structures, the Otto Group frequently has only minimal influence on conditions of production, electing for this reason to collaborate closely with suppliers. The Social Programme, under continuous development, aims to ensure acceptable working conditions and robust social management systems at the production sites. In addition, the Otto Group stresses the power of such cooperative associations as the Business Social Compliance Initiative (amfori BSCI).

## CODES OF CONDUCT

According to its procurement structure, besides its Code of Conduct for merchandising goods, the Otto Group has also introduced similar codes for services and non-merchandising

goods, each of which defines social standards. Beginning in mid-2018, to contribute to greater consistency within the segment, the Otto Group will adopt the amfori BSCI Code of Conduct.

## STATUS SOCIAL PROGRAMME

Integrated into the program are all suppliers for own and licensed brands of the Group companies, that produce these goods in risk countries (as defined in the amfori BSCI classification\*). This includes all suppliers that submit valid and acceptable social audits or certifications for all production facilities where goods are manufactured on behalf of the Otto Group. In 2017 the Group Company Sportscheck was added into the KPI. The share of suppliers integrated into the Social Programme was 91% for the reporting period (2016: 80%). Collaboration is terminated with suppliers that do not guarantee the required transparency and do not apply the corresponding standards.

In 2017, 50 production facilities in the principal procurement countries of China, Turkey, India and Bangladesh participated in the Otto Group's qualification program. Over a period of eight months, selected factory representatives were trained in changes

in legal regulations – for example, in the workplace safety and options for improving social management systems were developed.

## GROUP DIRECTIVE “SUSTAINABILITY IN PROCUREMENT”

The internal “sustainability in procurement” guideline specifies minimum social and ecological requirements for overall sourcing of goods by Group companies. Among other stipulations, it contains provisions for the use of animal-based and textile materials, transparency and worker protection at production sites and chemical standards for final products.

## SIGNING THE “BANGLADESH ACCORD”

The Otto Group is a signatory to the Accord on Fire and Building Safety in Bangladesh, which regulates textile factories. The accord contains mandatory regulations regarding independent inspections with publicly accessible reports and mandatory repair measures. It was signed in 2013 and was written to expire after five years. During the reporting period the Otto Group signed the 2018 accord – containing an extension of the agreement until 2021.

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\* Amfori BSCI, Country Risk Classification: ([http://www.amfori.org/sites/default/files/amfori%20BSCI%20CRC%20V2018\\_HM\\_AD.pdf](http://www.amfori.org/sites/default/files/amfori%20BSCI%20CRC%20V2018_HM_AD.pdf))



## PARTNERSHIPS

### Partnership for Sustainable Textiles

The Textile Partnership was founded in October 2014 as an initiative of the German Federal Ministry for Economic Cooperation and Development. It is a response to several accidents in textile factories in Bangladesh and Pakistan aimed at improving worldwide conditions for the textile industry – from raw materials production to waste disposal and recycling. Since 2015 the Otto Group is a member of the Textile Partnership; at the start of 2017, in the context of its participation in the Alliance, it distributed a road map laying out objectives. The focus is on the areas of social and chemicals management as well as natural fibres. A yearly report charts its attainment of these objectives. Dr Johannes Merck, the Otto Group's Vice President Corporate Responsibility, is one of four business representatives sitting on the Textile Partnership Steering Committee.

### amfori BSCI (Business Social Compliance Initiative)

In 2004 the Otto Group helped to found the Business Social Compliance Initiative (BSCI), known today as amfori BSCI. It brings together retailers and producers with the goal of improving working conditions in the supply chain. In March 2017 amfori BSCI and the Otto Group initiated the multi-stakeholder forum "Protection of Syrian Labor Rights in Turkey – A Business-Led Call for Supply Chain Action". Syrian citizens in Turkey are regarded as 'temporary' refugees with no legal access to work, education or health care. As a result, many Syrians work illegally. The group's objectives included developing solutions to integration, strengthening legal protection and improving working conditions in the Turkish apparel industry.

### Social Programme: Integration status and supplier performance

	Description	2017
<b>Status: integrated</b>		<b>91%</b>
accepted	All of a supplier's active factories have valid accepted standards and assessments in place or they are participating in the qualification program	57%
advanced	There are valid SA8000 certificates or amfori BSCI audits with A or B scores in place for all of a supplier's active factories	21%
BSCI member	Importer is a member of amfori BSCI	13%
<b>Status: not integrated</b>		<b>9%</b>
not accepted	Not all of a supplier's active factories have valid standards or assessments in place or the factory information is not up-to-date	5%
no performance	Integration status still unclear since, for example, there is still no transparency regarding active factories	4%

### Social Programme: Integration status and factory performance

	Description	2017
<b>Status: integrated</b>		<b>95%</b>
accepted	There are valid accepted standards and assessments in place	70%
advanced	There are valid SA8000 certificates or amfori BSCI audits with A or B scores in place	25%
<b>Status: not integrated</b>		<b>5%</b>
not accepted	There are no valid accepted standards and assessments in place	5%



# TRADE

Elements of the value-adding stage Trade include procurement transport, warehousing and goods shipment. The social risks and ecological impacts are assessed by the stakeholders as significant. The main causes include transport-related emissions of greenhouse gases and particulate matter. In its Climate Strategy, the Otto Group is pursuing a reduction in CO<sub>2</sub> exhaust gases. Compliance with legal working conditions is being reviewed by the Group company Hermes Germany through the use of a certification system developed by SGS-TÜV Saar.

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Besides procurement and distribution transport systems, the Trade value-adding stage also includes activities taking place at around 400 of its own sites in Germany. The Otto Group's potential influence is especially high at this stage. Legal regulations on the horizon limiting pollutant emissions strengthen the need for action in the transport segment. Provisions such as those restricting central city vehicle access present a challenge for retailers and logistics service providers. The Otto Group has already become involved in the development of alternative

concepts. Especially through its plan to switch its urban vehicle fleet to electric power, Hermes has approved a target of delivering emissions-free in German cities by 2025.

The Otto Group climate strategy aims to reduce CO<sub>2</sub> emissions by its transports and onsite operations. To accomplish this, the Group has defined a clear goal and implementation framework in which Group companies take action on their own. Even the direction and implementation of environmental management at individual sites is decentralized.

## STATUS CLIMATE STRATEGY

In its Climate Strategy, the Otto Group pursues the goal of cutting in half the adjusted CO<sub>2</sub> emissions from its own sites, procurement and distribution transport and business travel by 2020, using 2006 as the benchmark year. In 2017, emissions were reduced to 171,000 tonnes from 189,000 in the previous year. Compared to the benchmark year, this represents a reduction of 42% (2016: 36 %). On one hand, this development is due to increased energy efficiency and the shift from air

### Example from practice

#### **HERMES GERMANY: URBAN BLUE**

With its Urban Blue concept, the Corporation is striving to achieve its strategic objective of emission-free delivery of goods to the city centre areas of the 80 largest cities in Germany by 2025. Reaching this point involves such measures as a gradual changeover of its vehicle fleet to low-emission or emission-free drives, development of small, decentralized distribution centres and the use of eCargobikes. In November 2017 Hermes Germany, through a strategic partnership with Mercedes Benz Vans, launched the pilot phase featuring electric vans. Since spring 2018 a test of five Volkswagen e-Crafter vans is conducted. Following a successful pilot phase, the series production phase in around 40 German large cities will start at the beginning of 2019, until 2020 a total of 1500 electric vehicles should be in use. For its Urban Blue program Hermes Germany was honoured with the 2017 Hanse Globe - Hamburgs Award for sustainable logistics - in February 2018.

#### Example from practice

##### **CRATE AND BARREL: COMPLETE CONVERSION TO LED**

An active partner in our climate strategy, the home furnishings and accessories specialty retailer Crate and Barrel has retrofitted all store sales floors with LED lighting. Similarly, the stores of their CB2 brand will be completely retrofitted in 2018. It is projected that energy efficiency from LED lighting at the stores will increase by 66%. Crate and Barrel brands are proactively working to ensure that all future stores are 100% LED – which would include the sales floor, back of the house and office space.

cargo to lower-emission sea, road and rail transport of goods procured from producing countries. On the other hand, purchases of high-quality certified green electricity by Group companies in Germany (approximately 25% of the overall power need at these sites) also contributed to reducing CO<sub>2</sub> emissions.

#### **ENVIRONMENTAL PROTECTION AT THE SITES**

The Otto Group carries out decentralized environmental management through its individual sites. At the current time, 17 of the sites included in this report maintain an ISO 14001-certified environmental management system. Environmental management priorities at Group sites

include the careful use of natural resources like water and packaging materials and responsible handling of waste. What cannot be prevented is recycled or properly disposed of.

#### **DEALING WITH CONTRACTORS FOR PARCEL DELIVERY**

At Hermes Germany parcel shipment is generally contracted to independent partner entrepreneurs. Since 2012 these have been monitored on a regular basis for such issues as workplace security, remuneration, working time, quality and the environment by an internal auditing team as well as the SGS-TÜV Saar certification firm. Hermes Germany thus continues to be the first and only courier

company in the market to maintain an independent third-party-supported auditing system.

During the reporting period, 510 audits were performed on a total of 367 active partners. Contracts were terminated with five partners who were unable to meet auditing requirements. Moreover, the auditing system has evolved to assign SGS-TÜV Saar to conduct more frequent and extensive audits of remuneration, working time and subcontractor management. Since 2017, the established whistleblower system has been broadened to include investigations of any shortcomings by partners, including those revealed in unannounced special audits.

#### **CO<sub>2</sub> emissions (in tonnes)**

	Benchmark year (2006)	2015	2016	2017
Absolute in tonnes	296,200	245,891	231,679	221,732
Adjusted in tonnes	296,200	212,241	189,028	171,077
Reduction of adjusted CO <sub>2</sub> emissions compared to 2006	–	–28 %	–36%*	–42%

\* Updated site data resulted in a revision of this figure from –34% to –36% compared to the 2016/2017 Annual Report.



# CUSTOMER

This value-adding stage includes environmental effects, above all those brought about by the use of power to operate electric devices and by the washing of textiles. Sustainable design and marketing of the product line can reduce these effects. For this reason, Group companies adopt customer-tailored measures to increase their awareness of sustainability when selecting and using their products.

The entire product utilization phase, ending with return, recycling or disposal, falls into the Customer value-adding stage. Internal and external stakeholders assess this area as having a lower impact than the production of goods. Even so, over 10% of overall climate gases and pollutants are present in the utilization phase. By washing textiles, for example, chemicals penetrate into the water and the electricity used by washing machines, dryers and pressing equipment is considerable. To reduce these

effects, the Otto Group focuses on designing its product portfolios in a more sustainable way. Although sustainable consumption addresses social concerns, there is little consumer readiness to pay more for sustainably produced and environmentally friendly products. Since the Corporate companies market to divergent target groups, they differ from one another in the measures they employ to raise awareness concerning sustainable consumption.

## PROFESSIONAL RECYCLING/DISPOSAL OF ELECTRIC APPLIANCES

The Otto Group accepts the return of electric appliances at the end of their product life – if the customer chooses to take advantage of this service – and the Group arranges for these to be professionally recycled or disposed of. Every year the Group collects around 3% of Germany's electrical devices. This way it can play a direct role in reducing harmful ecological effects.

## 69% OF ALL CONSUMERS PAY ATTENTION TO SUSTAINABILITY WHEN MAKING PURCHASES.

Despite this, sustainable products continue to be a niche market, as evidenced by organic foods: The organic foods share of overall retail food revenues only amounted to 5.5% in 2017.

(Facit 2017, Statista 2018)

## Labelling of sustainable products

According to surveys, shoppers frequently feel overwhelmed by the amount of labels and stickers. To simplify customers' familiarization process, various Group companies identify sustainable products in a very clear manner – for example, by attaching the 'GOODproduct' label. This serves as a catch-all to stand in for all seals and certificates that indicate the added value of sustainability. Since the label was introduced by OTTO in July 2015, other Group companies including Baur, Heine, Schwab and Unito have adopted it. In the same way, Bonprix developed the 'sustainable product' label. It indicates products made from materials or in manufacturing processes that meet high standards for protection of humans and the environment.

## Efficient large electrical appliances \*

	2014	2015	2016	2017
Quantity of large electrical appliances offered	2,876	2,030**	2,734***	3058
Share of efficient large electrical appliances in the total range	68.9%	32.3%**	37.7%***	35.9%

\* Electrical appliances are regarded as efficient when they are demonstrated to be more energy-efficient than average energy consumption figures in their product group (for example, cooling-freezing combinations in energy category A+++).

\*\* Criteria were tightened in the second semester of 2015 (for example, from A++ to A+++ ) and only data for the second semester were collected.

\*\*\* Data for 2016 were corrected.

### Practical examples from

#### **OTTO:**

#### **MAKE SPACE – WITH A HEART (IN GERMAN: PLATZ SCHAFFEN MIT HERZ)**

During financial year 2017/18 it was possible to bring new partners into this initiative to take back used clothing: Joining Witt, Baur and Mytoys this year are Lascana, Weight Watchers and Lillestoff. The principle is simple: Well-cared-for clothing articles and shoes can be sent via Hermes Germany at no cost to ‘Make Space – with a heart’. The initiative converts the clothing into cash donations, sending the proceeds to organizations such as Conservation Alliance Germany, World Hunger Assistance or Cotton made in Africa.

#### **OTTO NOW**

The internal startup company is based on the concept of leasing instead of purchasing and has concluded thousands of lease agreements since its founding in 2016. OTTO Now initially focused its business on selected multimedia devices, household electronics and sports equipment. Since then, the product range has been extended to over 100 articles. Lessees usually return the products to OTTO Now in very good condition, allowing them to be leased again.

#### **CLIMATE PROTECTION ON THE DOORSTEP**

OTTO provides regular support for a climate protection project to restore the moors of Jasmund National Park on the Island of Rügen. As a significant carbon reservoir, moors play a major role in protecting the climate. OTTO and its longtime partner, the Mountain Forest Project association (in German: Bergwaldprojekt e.V.), have the goal of restoring the park’s most important moors almost to their natural state by 2020. Through the raising of the moors’ water table, around 33 tonnes of CO<sub>2</sub> can be avoided, amounting to over 1,600 tonnes of CO<sub>2</sub> in the next 50 years. The climate protection effort also impacts OTTO customers. Besides supporting the climate protection project, customers are given incentives through regular promotional campaigns to purchase highly energy-efficient large home appliances. By exchanging older appliances, customers are contributing to an annual savings of over 3,600 tonnes of CO<sub>2</sub>. This creates a two-fold climate protection impact.