



Sustainable Finance Framework

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Chapter 1: Introduction

1.1. Company overview

The Otto Group is a globally active group of retailers and retail-related service providers with around 51,800 employees and revenues of 13.7 billion euros.¹ It has a presence in more than 30 countries in Europe, North and South America as well as Asia. With online sales of 7.9 billion euros, the Otto Group is one of the world's largest online retailers.

The Otto Group's activities are divided into three business segments, namely (i) Multichannel Retail, (ii) Financial Services and (iii) Services:

- (i) The Multichannel Retail segment comprises the Otto Group's domestic and international retail companies that offer their products via three distribution channels: E-commerce (which is by far the most important distribution channel and the main growth driver for the segment), as well as catalogue and brick-and-mortar retail stores.
- (ii) The Financial Services segment comprises the Otto Group's offering of financial services such as debt collection, receivables management and innovative retail-related financial services.
- (iii) The Services segment comprises the Otto Group's logistics and sourcing companies. They render their services both to third-party customers as well as to companies in the Otto Group's Multichannel Retail segment.

1.2. Corporate Responsibility at the Otto Group

For over 30 years, the Otto Group has combined economic goals with responsibility for humans and nature. Former CEO and current Chairman of the Supervisory Board Prof Dr Michael Otto declared environmental protection part of the Otto Group's corporate strategy as early as in 1986. Corporate responsibility ("CR") has been deeply rooted in the Otto Group's corporate culture ever since and is constantly being expanded to address new issues facing society (e.g. corporate digital responsibility).




The Otto Group pursues a holistic approach to sustainability: It has established a sustainability management process called "impACT", which analyses issues along the entire value chain and prioritises them by materiality, using both quantitative measures and a qualitative assessment of issues by key stakeholders. The results of the impACT process form the basis of the Otto Group's CR strategy.

¹ Unless specified otherwise, all figures as of financial year 2017/18 (ended 28 February 2018).

The impACT analysis shows that the largest challenges, both environmental and social, lie within the initial stages of the Otto Group's value chain, namely the extraction of resources and their processing. For this reason, three of the five major key performance indicators (KPIs) in the Otto Group's CR strategy, as well as the "Use of Proceeds" defined in this Framework, focus on this area.

1.3. Otto Group CR Strategy 2020

As part of the Otto Group's CR Strategy 2020, the following KPIs have been defined:

Stage of the value chain	KPI	Target	Target achievement as of 2018
 Raw Materials and Processing	Textile Strategy: Percentage of sustainable cotton for own and licensed brands	100% until 2020	93%
	Furniture Strategy: Percentage of FSC®-certified furniture	100% until 2025	59%
	Paper Strategy: Percentage of FSC®-certified catalogue paper	60% until 2020	54%
 Final Production	Social Programme: Percentage of suppliers for own and licensed brands integrated into the Social Programme	100% until 2020	96%
 Trade	Climate Strategy: Reduction in CO ₂ emissions compared to 2006	-50% until 2020	-47% ²

² Due to changes in the setup of the logistics network of the Hermes Group, the validation of CO₂ data for calendar year 2018 is still ongoing for Hermes Distribution (1-man-handling). Therefore, for these activities, the CO₂ data for calendar year 2017 has been used.

These KPIs were audited with limited assurance by the independent accounting firm PricewaterhouseCoopers (“PwC”) in accordance with the International Standard on Assurance Engagements (ISAE) 3000. The achievement of the above KPIs directly feeds into the variable compensation of the Otto Group’s Executive Board Members.

The Otto Group is currently working on the preparation of its future CR strategy, which will build on the continuous development of the impACT process and take into account external frameworks such as the Global Reporting Initiative and the Law on Implementing the CSR Guidelines. The future CR strategy will also expand into additional topics, such as digital responsibility and sustainability awareness, which are not yet a formal part of the Otto Group’s sustainability agenda.

1.4. The Sustainable Finance Framework

This Sustainable Finance Framework (the “Framework”) is aligned with the 2018 version of the ICMA Green Bond Principles³, the Social Bond Principles⁴ and the Sustainability Bond Guidelines⁵ as well as the LMA Green Loan Principles⁶. These guidelines recommend transparency and disclosure and promote integrity in the development of green, sustainable and social financing instruments.

The Framework is divided in four core components:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting

³ <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

⁴ <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

⁵ <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

⁶ <https://www.lma.eu.com/news-publications/press-releases?id=146>

Chapter 2: Use of Proceeds

This Framework aims to be fully aligned with the Otto Group's CR strategy. The funds raised under the Framework will be used to invest in projects that have a direct impact on the KPIs as defined above.

Specifically, the Otto Group intends to allocate an amount at least equal to the proceeds of financing instruments (which may include, *inter alia*, bonds, loans and *Schuldscheindarlehen*) issued under this Framework to finance and/or refinance a portfolio (the "Sustainable Investment Portfolio") of investments and expenditures ("Eligible Projects") in the following categories (the "Eligible Categories"):

a) Purchasing costs for textiles with "Cotton made in Africa" label

Cotton made in Africa (CmiA) is an initiative of the Aid by Trade Foundation, which was founded in 2005 by Prof Dr Michael Otto as an independent foundation outside the Otto Group. CmiA's mission is to promote decent work for cotton farmers and cotton ginnery workers in Sub-Saharan Africa, to protect the environment and to create transparency in the textile supply chain.

Demand for CmiA-certified cotton comes from an international alliance of textile companies and brands. These companies integrate CmiA into their global supply chains and pay a license fee to the initiative. CmiA pursues a "mass-balance approach", whereby the supplier commits to purchasing an amount of cotton yarn from a CmiA-certified spinning mill that is equal to the amount needed for the textiles ordered by the retailer (e.g. the relevant Otto Group company). All actors in the value chain have to provide regular reports on their purchase and selling volumes to the Aid by Trade Foundation in order to document compliance. This approach, which takes into account the complexity of the cotton supply chain, does not require traceability of the cotton fibres contained in individual products, but instead focusses on achieving maximum market impact by creating demand for sustainably produced cotton.

CmiA is operated by the Hamburg-based Aid by Trade Foundation (AbTF). The AbTF's Board of Trustees, its main decision-making body, is staffed with leading international figures from NGOs (such as WWF and Welthungerhilfe), the public sector, and private businesses. Companies and brands cooperating with CmiA include Asos, Rewe, Jack & Jones, Tchibo, Ernstings Family, s.Oliver, Aldi Süd, as well as Otto Group companies such as OTTO, Bonprix and Witt.

CmiA is an essential element of the Otto Group's CR Strategy. In 2018, the Otto Group purchased an equivalent of 30,077 tons of CmiA-labelled cotton, a share of 91% of its entire quantity of cotton. A further 2% of the total cotton volume stems from certified organic producers. The Otto Group aims to achieve a ratio of 100% sustainable cotton (defined as including CmiA, organic cotton and recycled cotton (since 2018)) for its own and licensed brands by 2020.

b) Purchasing costs for furniture with FSC® certification

The Forest Stewardship Council® (FSC®) is a global non-profit organisation focussed on promoting sustainable forestry management. FSC® is the most trusted certification for sustainable forestry products. FSC® defines strict forestry management criteria to avoid uncontrolled deforestation, prevent violations of human rights and minimise environmental pollution.



FSC® certifies the entire value chain, from forestry businesses to manufacturers and retailers, and issues so-called "chain of custody certificates", which allows full traceability of any product bearing the FSC® label.

Members of FSC® are leading environmental groups such as WWF, social organisations, businesses, forest managers and private individuals.

Furniture is a highly strategic product segment for the Otto Group. OTTO is the clear market leader in German e-commerce in the home & living product segment and aims to further expand its market position in this sector. In 2018, the Otto Group's furniture offering included 67,497 items bearing the FSC® label, a share of 59% of the total assortment. The Otto Group aims to achieve 100% FSC®-certification in its furniture assortments by 2025.

c) Overview of Eligible Categories

The following table provides an overview of the Eligible Categories and their alignment with the ICMA GBP / SBP and the UN SDGs:

ICMA GBP / SBP category	The Otto Group CR objectives	Examples of eligible expenditures	Potential KPIs	Alignment with UN Sustainable Development Goals (Otto Group assessment)
Socio-economic advancement and empowerment & Environmentally sustainable management of living natural resources and land use	<ul style="list-style-type: none"> Improve the social and economic living conditions of cotton farmers in Sub-Saharan Africa while protecting the environment 	<ul style="list-style-type: none"> Purchasing costs for textiles with the “Cotton made in Africa - CmiA” label⁷ 	<ul style="list-style-type: none"> Volume (tonnes) of CmiA cotton / cost (€) of purchases for CmiA-labelled textiles for own and licensed brands Number of small farmers benefitting from the initiative⁸ Number of CmiA-labelled textiles kg CO₂-eq saved per 1 kg CmiA lint cotton (vs conventional cotton)⁹ Percentage of sustainable cotton for own and licensed brands 	
	<ul style="list-style-type: none"> Provide access to responsibly sourced products 	<ul style="list-style-type: none"> Purchasing costs of products with “Forest Stewardship Council® - FSC®” certification⁸ 	<ul style="list-style-type: none"> Number of articles / cost (€) of purchases that are FSC®-certified Percentage of FSC®-certified articles 	

As with all its CR initiatives, the Otto Group sees its commitment to sustainable finance as a long-term, continuous process. Therefore, further categories and eligible investments may be added to this Framework in the future. In doing so, the Otto Group would seek to consult with a reputable second-party opinion provider in order to ensure continued compliance with the ICMA GBP / SBP and/or subsequent market standards for sustainable finance.

⁷ See appendix for further details on Cotton made in Africa and FSC® labels.

⁸ Calculated for the Otto Group based on the proportion of the amount of CmiA cotton received.

⁹ In assessing the social and environmental performance of the CmiA certification, the Otto Group intends to make use of existing and / or future research commissioned by the Aid by Trade Foundation. Interested parties can review the 2014 Life Cycle Assessment of CmiA at the following link: <https://cottonmadein africa.org/en/deutsch-docs/cmia-standard/wirkungsmessung/61-cmia-life-cycle-assessment-2014/file>

Chapter 3: Process for Project Evaluation and Selection

Projects to be financed or refinanced through instruments issued under the Framework will be selected from the Eligible Categories as set out under Chapter 2. A core team (the “Sustainable Finance Committee”) will assess project eligibility and allocation of proceeds to Eligible Projects. The Sustainable Finance Committee comprises representatives of Group Corporate Finance, Group Corporate Responsibility as well as subject matter experts at the relevant Otto Group subsidiaries where the expenditures are incurred.

The Sustainable Finance Committee is responsible for:

- Allocating the proceeds of the instruments issued under the Framework to the Sustainable Investment Portfolio in accordance with the Eligible Categories set out in Chapter 2;
- Adding new Eligible Projects to the Sustainable Investment Portfolio;
- Monitoring the Sustainable Investment Portfolio; and
- Excluding projects that no longer comply with the Eligible Categories.

The Sustainability Finance Committee meets at least once per year.

The Otto Group will use its best efforts to ensure that all selected investments comply with official national and international environmental and social standards and local laws and regulations. The Otto Group applies core minimum environmental and social (ESG) requirements for many of its activities, including those financed with the proceeds of the instruments issued under this Framework. The Otto Group also applies risk management measures in its capital allocation decisions, which are supported by a company-wide planning, reporting and controlling system. The Otto Group’s environmental, social and sustainability policies can be found in the Otto Group Sustainability Report¹⁰.

¹⁰ The Sustainability Report is an integral part of the Otto Group’s Annual Report, see https://www.ottogroup.com/media/docs/en/geschaeftsbericht/Otto_Group_Annual_Report_2017_18_EN.pdf (page 55 - 74).

Chapter 4: Management of Proceeds

The net proceeds of the instruments issued under this Framework will be managed by the Otto Group using a portfolio approach. To ensure that proceeds are allocated in accordance with the Framework, Otto Group will track investments in eligible projects.

The Otto Group intends to review the Sustainable Investment Portfolio annually and add new Eligible Projects to the portfolio each year as part of this review process. In doing so, the following expenditures will be considered eligible:

- Expenditures incurred in the calendar year prior to the issuance date of the oldest outstanding Instrument issued under this Framework;
- Any subsequent expenditures incurred in line with the eligibility criteria set out above.

Expenditures will be removed from the Sustainable Investment Portfolio when instruments mature, such that, at any time, the oldest expenditures included in the Sustainable Investment Portfolio will be those incurred in the calendar year antecedent to the issuance date of the oldest outstanding Instrument. For clarity purposes, the Otto Group expects Instruments issued under this Framework to be fully allocated at the moment of issuance.

The Otto Group will strive, over time, to achieve a level of allocation for the Sustainable Investment Portfolio which matches or exceeds the balance of net proceeds from its outstanding instruments issued under this Framework. Additional Eligible Projects will be added to the Sustainable Investment Portfolio until the net proceeds from outstanding instruments are fully allocated.

Pending full allocation, the Otto Group may temporarily invest the proceeds from any instruments issued under this Framework in its treasury liquidity portfolio (in cash or cash equivalents), or use such proceeds to pay back outstanding indebtedness.

Chapter 5: Reporting

The Otto Group intends to make, and keep readily available, reporting covering the allocation of an amount equal to the net proceeds for instruments issued under this Framework to the Sustainable Investment Portfolio. The Otto Group intends to report on the Sustainable Investment Portfolio on an aggregate basis at least at category level, subject to confidentiality obligations. Any material developments, such as modification of the Framework or the Sustainable Investment Portfolio, will be reported in a timely manner.

The Otto Group intends to report to investors on both allocation and impact within one year from the date of issuance and annually thereafter, until full allocation.

The Otto Group will align, on a best effort basis and where feasible, the reporting with the portfolio approach described in "Green Bonds - working towards a Harmonized Framework for Impact Reporting (December 2015)" and in the "Harmonized Framework for Social Bond Impact Reporting (June 2018)".

5.1. Allocation Reporting

The allocation report will provide:

- The total amount of expenditures selected for the Sustainable Investment Portfolio;
- A breakdown of these expenditures by Eligible Category and by calendar year of incurrence;
- The amount of expenses by calendar year;
- The balance of unallocated proceeds, if any.

The allocation report will be made available on the Otto Group's [creditor relations website](#).

5.2. Impact Reporting

The Otto Group intends to continue to report annually on the progress achieved with regards to its sustainability goals, including through the impact reporting and KPIs set out above. This reporting will be included in the Otto Group's Sustainability Report, which is published annually as part of the Otto Group's Annual Report on www.ottogroup.com.

Impact reporting indicators may be supplemented by qualitative and/or case-study reports on outcomes and impacts of the projects funded. Where relevant, information may be provided on data reporting and impact assessment methodologies, to increase transparency.

As described above, the Otto Group is currently working on its future CR strategy. As part of this process, the current KPIs may be further expanded, refined or re-defined in order to match the issues and priorities identified in the CR strategy process.

Chapter 6: External Review

Second party opinion

This Framework has been reviewed by Sustainalytics, who has issued an independent second party opinion (the “SPO”).¹¹ The SPO as well as this Framework will be published on the Otto Group’s [creditor relations website](#).

Verification



The Otto Group intends to request a limited assurance report by an independent auditor regarding the allocation of proceeds from any instruments issued under the Framework (the “Auditors’ Report”).

The Auditors’ Report is expected to be made available to the Otto Group one year after the initial issuance under the Framework, at the latest. Pending full allocation of proceeds, the Otto Group expects to request an updated Auditors’ Report on an annual basis until all Instruments issued under the Framework have matured.

Given the large amount of expenditure associated with Eligible Categories in the field of sustainable sourcing, the Otto Group expects proceeds to be fully allocated at the time of issuance in most cases. In this case, the Otto Group will only request the Auditors’ Report once per issuance, whereas the Otto Group intends to produce impact and allocation reporting on an ongoing basis over the life of the Instruments.

¹¹ Sustainalytics, a provider of environmental, social and governance (ESG) research and analysis, evaluated Otto (GmbH & Co KG)’s sustainable finance framework (the “Framework”) and the alignment thereof with relevant industry standards and provided views on the robustness and credibility of the Framework within the meaning of Sustainability Bond Guidelines (“SBG”), 2018, and/or Green Loan Principles, 2018 (“GLP”), which views are intended to inform investors in general, and not for a specific investor.

Appendix: External Labels used in the Otto Group's sustainable Sourcing

Label	Description	Relevance at the Otto Group
	<p>The Forest Stewardship Council® (FSC®) is a global not-for-profit organisation that sets standards for responsibly managed forests, both environmentally and socially. When timber leaves an FSC®-certified forest, FSC® ensures companies along the supply chain meet best practice standards also, so that when a product bears the FSC® logo, consumers can be sure it has been made from responsible sources.</p> <p>FSC® sets these standards in consultation with a global network of environmental, social, and economic members to ensure that forest standards represent everyone's needs, from Indigenous Peoples to endangered animal species.</p> <p>FSC® members include some of the world's leading environment groups (WWF and Greenpeace), social organizations (the National Aboriginal Forestry Association of Canada), businesses (Tetra Pak, Mondi PLC, OTTO) as well as forest owners and managers, processing companies, campaigners, and private individuals. FSC® is also a member of the ISEAL alliance, a global association of social and environmental standards systems that includes Fairtrade, the Marine Stewardship Council (MSC), and Rainforest Alliance.</p> <p>For more information, visit https://ic.fsc.org/en</p>	<p>Furniture: In 2018, the Otto Group's furniture offering included 67,497 items bearing the FSC® label, a share of 59% of the total assortment. The Otto Group aims to achieve 100% FSC®-certification in its furniture assortments by 2025.</p> <p>Paper: In 2018, the Otto Group purchased 106,507 tons of FSC®-certified paper for catalogues and promotional materials, a share of 54% of its total paper consumption volume. The Otto Group aims to achieve a share of 60% by 2020.</p>
	<p>Cotton made in Africa (CmiA) is an initiative of the Aid by Trade Foundation, which was founded in 2005 by Prof Dr Michael Otto as an independent foundation outside the Otto Group. CmiA's mission is to promote decent work for cotton farmers and cotton ginnery workers in Sub-Saharan Africa, to protect the environment and to create transparency in the textile supply chain. Instead of collecting donations, the initiative follows the principle of helping people help themselves through trade.</p> <p>Demand for CmiA-certified cotton comes from an international alliance of textile companies and brands, such as Rewe Group, Tchibo GmbH and the Otto Group. These companies integrate CmiA into their global supply chains and pay a license fee to the initiative. Income from licensing fees is reinvested by CmiA to achieve its mission – enabling smallholder farmers to grow cotton in accordance with CmiA values, improving their living conditions and those of their families, and securing the preservation of natural resources. For consumers, products supporting Cotton made in Africa can be recognized by a small product label.</p> <p>CmiA is operated by the Hamburg-based Aid by Trade Foundation (AbTF). The AbTF's Board of Trustees, its main decision-making body, is staffed with leading international figures from NGOs (such as WWF and Welthungerhilfe), the public sector, and private businesses.</p> <p>For more information, visit https://www.cottonmadeinafrica.org</p>	<p>Textiles: In 2018, the Otto Group purchased an equivalent of 30,077 tons of CmiA-labelled cotton, a share of 91% of its entire quantity of cotton. A further 2% of the total cotton volume stems from certified organic producers.</p> <p>The Otto Group aims to achieve a ratio of 100% sustainable cotton for its own and licensed brands by 2020. Sustainable cotton is defined to include both CmiA and organic cotton. Since 2018, the Otto Group also includes recycled cotton in its Textile Strategy KPI.¹²</p>

¹² Recycled cotton accounts for 0.2% of total cotton as of calendar year 2018.