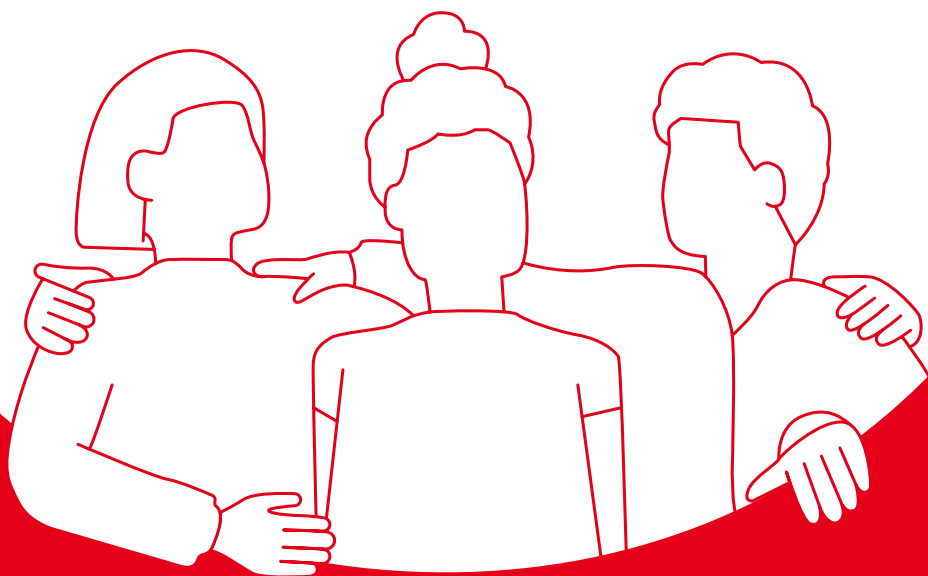


What matters to us now



2022 / 23 Annual Report
otto group



“In my work on corporate responsibility, it is extremely important to strike a positive balance between regulatory requirements, the growing need to take environmental action, and customer-centric communication.”

Miriam Arndt,
CR Manager Materials & Circularity,
Corporate Responsibility Otto Group

Sustainability

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Guiding sustainability

Our corporate responsibility strategy

After the restart in 2021, the past financial year 2022/23 was the second year that the Otto Group successfully worked with the revised corporate responsibility (CR) strategy. Our CR strategy considers the economic, environmental and social dimensions of sustainability in equal measure. It covers a wide range of responsibilities, has ambitious goals and requires a strong commitment by employees and our management. Moreover, we attach tremendous importance to letting Group companies have sufficient leeway to develop solutions matching their own business models within the framework of strategic guidelines.

Topic areas

The seven topic areas in our CR strategy are built on the sustainability issues that were identified as significant in the materiality analysis (p. 32). Based on this, the following strategic fields of action were developed: Climate, Sustainable Materials, Supply Chain, Circularity, Empowered Employees, Conscious Customers and Digital Responsibility. Within these topic areas, we have formulated visionary, long-term goals – the “transformational goals”. These are substantiated in each case by shorter-term goals with clearly defined time horizons – the “core priorities”. The “transformational goals” enable us to align our daily actions to the long-term corporate goals of the Otto Group. The “core priorities” help to measure our progress on the way to long-term change. They are dynamic, regularly reviewed, adjusted, and gradually supplemented to respond to current developments. The CR strategy is a dynamic, learning concept and therefore has no fixed end date.

Sustainability is integrated into the business activities of the Otto Group.

Goals

We achieve the greatest possible positive impact on people and nature by consistently implementing our CR strategy. At the same time, this also reduces any possible negative effects from our business activities along the entire value chain. Moreover, we aim to have a positive impact on society, the environment and the economy. The CR strategy is based on the principles of the Otto Group’s Kulturwandel 4.0 (cultural change) process: It raises awareness for corporate responsibility issues within the Group (“visibility”), enables Group companies to take responsibility for sustainability issues (“empowerment”) and strengthens networks between the Group companies and external stakeholders (“collaboration”). The strategy therefore lays the foundation for anchoring sustainability as a stronger focus throughout the Otto Group and its business processes.

A holistic approach to emissions

This report defines CO₂ equivalents (CO₂e) as all greenhouse gases (CO₂, CH₄, N₂O, SF₆, HFC, PFC) according to their greenhouse effect relative to CO₂.

Sustainability management at the Otto Group

Sustainability is completely integrated into the business activities of the Otto Group and anchored at the highest strategic planning level. The Executive Board bears overall responsibility for the Otto Group’s CR strategy. It is responsible for ensuring that sustainability aspects are given adequate consideration in the Group’s landmark decisions and become integral elements of the Otto Group’s management and processes. Relevant topics feature regularly on the agenda of Executive Board meetings and other Executive Board gatherings. Moreover, the Executive Board members’ variable remuneration has also been linked to the achievement of sustainability goals since financial year 2014/15; this has also applied to the Management Board members of the Group companies OTTO and Bonprix as well as the Witt Group since 2022/23. The incentive targets for the Otto Group Executive Board members refer to all externally audited key performance indicators in the CR strategy, equally weighted. The key performance indicators used as incentives for the managing directors are aligned with the specific profiles of the Group companies.

Organizational anchoring

The CR Board is another decision-making committee that has been tasked by the Executive Board with continuously advancing sustainability management within the Group. It consists of representatives from important companies within the Otto Group. Led by the Chair of the Otto Group Executive Board, the CR Board is mandated with defining overarching “transformational goals” and “core priorities” for the Otto Group within the framework of the CR strategy and adopting individual targets and measures for the Group companies. The CR Board advises the Executive Board on far-reaching decisions that, for example, incur significant investment costs or have a significant influence on the business models of Group companies.

Scope

All Group companies that make a sizable contribution to external revenue of the Otto Group in two consecutive financial years are subject to the CR strategy. One of the challenges inherent to the CR strategy is also a factor in its success: The different business models at the Group companies must be taken into account within an optimized framework. That is why the design of the CR strategy is left to the Group companies themselves. They develop individual priority areas, goals and measures that match their business models within their action framework set by the Otto Group Holding. They are recorded in annual action plans and reported to the CR Board and the Executive Board. This ensures that all Group companies jointly contribute to the Otto Group’s ambitious goals. For implementation, each of the relevant Group companies has an interdisciplinary CR team comprising a Sustainability Officer and experts for the individual topic areas within the CR strategy. The CR teams are tasked with advancing the sustainability topics and establishing synergies within the Group.

Furthermore, the Group-wide exchange of best practices and networks of experts and interested stakeholders in the Otto Group are some of the key success factors underpinning our strategy. Within our seven topic areas, the colleagues responsible for CR at the Group companies and the Otto Group Holding gather regularly in Expert Circles to discuss the achievement of targets within their remits, share thoughts on new ambitions and ideas and develop and implement suitable measures.

Overview of the seven topic areas and their respective Transformational Goals

Business shift: New economy



Supply Chain

We continuously improve the social and ecological performance together with the facilities in our supply chains



Digital Responsibility

We shape a value-oriented digitalization for people and society



Circularity

We incorporate circular principles and ensure circular solutions

Mind shift: New awareness



Empowered Employees

We empower our employees to experience and actively shape sustainability



Conscious Customers

We enable and inspire our customers to make conscious and sustainable decisions

Eco shift: New goals



Sustainable Materials

We apply sustainable raw materials in all our products



Climate

We achieve net zero emissions throughout our whole value chain by 2045.

Group companies within
the scope of the CR strategy:



Bonprix

Freemans Grattan

Venus

Unito

OTTO

Limango

Witt (including Heine)

Frankonia

Sheego

EOS Group

Crate and Barrel

Hermes Fulfilment

Baur

Hermes Einrichtungen Service (HES)

Mytoys

Hermes Germany*

* Hermes Germany GmbH has been included in the consolidated financial statements according to the equity method since financial year 2020/21.

Dialog with our stakeholders

The transformation of the economy and society to embrace greater sustainability is not a communal task that one actor can handle alone. This prompts us to work on a variety of initiatives, to communicate regularly with our stakeholders and to collaborate on strategic, long-term sustainability issues with select partners in the business community, government and civil society. Our most important stakeholders include the following groups:

Customers

With their consumption decisions, our customers have a critical impact on the success and future orientation of our business model. We rely on regular "customer insights" and large-scale trend studies to continuously keep up with our customers' wishes and needs and to provide appropriate incentives for more sustainable consumption.

Employees

Our employees are the cornerstone of the Otto Group and the driving force behind our sustainability activities. We deliberately create spaces for our employees to develop their knowledge and ideas for more sustainability and actively bring them to life.

Business partners

Only in close collaboration with our business partners can we overcome social and environmental challenges and achieve measurable improvements for people and the environment. Our requirements for ethical and ecological production conditions are part of our business relationships, and we communicate them through training. Surveys and (anonymous) whistleblower systems help us better understand production conditions and derive effective measures.

Experts

The Otto Group collaborates with partners and experts in the business and scientific communities as well as government and civil society on strategic, long-term sustainability issues. These include non-governmental organizations as well as innovative startups and universities. Only collectively can we handle the complex, systematic challenges of the sustainability transformation.

Government

Sustainable business models can only be successful in the long term if there is a regulatory "level playing field." In the interests of industry-wide dynamics, we work with international institutions and national governments. For example, we are a member of the UN Fashion Industry Charter for Climate Action and support the development of a circularity roadmap for the German federal government.

Only in close collaboration with our business partners can we overcome social and environmental challenges.

Financial markets

The Otto Group relies on its principal bank for financing and on the issuance of bonds to capital market investors. Financial market stakeholders are showing an increasing interest in using investments to positively influence the sustainability transformation. We are in regular dialog with our banks on sustainability issues and meet the information needs of the financial market through transparent reporting.

Society

The conviction that the economy should serve society has been shaping the Otto Group for decades. In our core business and beyond, we want to have a positive impact on the communities around our locations and along our value chain. We regularly exchange views with key stakeholders in events, training, surveys and background discussions, and contribute to addressing social challenges with numerous initiatives (see right).

We are careful to address current challenges such as climate change or the protection of human rights. To this end, we also draw on the extensive expertise of our partners.

Among the key initiatives by our shareholder Prof Dr Michael Otto are the Michael Otto Foundation for Environmental Protection (founded in 1993), the Aid by Trade Foundation with its initiatives Cotton made in Africa and The Good Cashmere Standard® or Stiftung KlimaWirtschaft. The pioneering initiatives by the Michael Otto Foundation for Environmental Protection include the Hamburg Forum for Nature Conservation, the AQUA-AGENTEN educational program for primary school pupils, the F.R.A.N.Z. initiative for connecting agriculture and nature conservation – implemented in cooperation with the German Farmers' Association – and the moorland climate protection project toMOORow. In addition, the Otto Group is a signatory of the International Accord for Health and Safety in the Textile and Garment Industry, which has adopted a workplace safety agreement for both Bangladesh and Pakistan. The Otto Group is one of the first signatories of the Pakistan Accord on Health and Safety in the Textile and Garment Industry (Pakistan Accord).

The conviction
that the economy
should serve society
has been shaping
the Otto Group for
decades.

Selected memberships, initiatives and partnerships		
B.A.U.M. – Network for Sustainable Business (member since 1987)	Michael Otto Foundation for Environmental Protection (foundation in 1993)	Sustainability
amfori, incl. amfori BSCI, Business Social Compliance Initiative) (founding member since 2004)	Aid by Trade Foundation with its initiatives Cotton made in Africa and The Good Cashmere Standard® (founded in 2005)	
Textile Exchange (member since 2006)	Forest Stewardship Council Germany, FSC® (member since 2006)	Group Management Report
German Retail Federation, HDE (member since 2009)	Stiftung KlimaWirtschaft [Foundation Climate Economy] (formerly Foundation 2 Degrees, initiated and joined by Prof Dr Michael Otto since 2011)	
International Accord for Health and Safety in the Textile and Garment Industry (Bangladesh & Pakistan) (signatory since 2013 and 2023)	Fur Free Retailer, program run by the organization Vier Pfoten (member since 2014)	
Partnership for Sustainable Textiles (member since 2015)	Corporate Digital Responsibility (CDR) Initiative by the German Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection, BMUV (founding member since 2018)	Consolidated Financial Statements
Fashion for Good (member since 2018)	Sustainable Apparel Coalition, SAC (member since 2018)	
UN Fashion Industry Charter for Climate Action (member since 2018)	Finlit Foundation (founded in 2019)	
ZukunftsWerte initiative (initiation and member since 2020)	Save the Children (partner since 2020)	Notes
Value Balancing Alliance (member since 2021)	toMOORow (partner since 2021)	
Leather Working Group (member since 2022)	Science Based Targets initiative, SBTi (committed since 2022)	

Our materiality analysis

Our CR strategy is based on the materiality analysis and was last updated in 2021. The seven topic areas in our new CR strategy were derived from the sustainability topics that were identified as material. Our materiality analysis is part of the impACT management process. In this way, we identify all the environmental and social effects of our business activities on people and nature. It forms the foundation for the strategic further development of corporate sustainability in the Otto Group.

Analysis and prioritization

The findings of the materiality analysis are visualized in the materiality matrix. The vertical axis in the matrix maps how the topic areas impact people and nature. These impacts are obtained from assessments by external stakeholders and the quantitative survey of environmental repercussions and social risks. We use a software-assisted tool to select and prioritize the topics. The method enables us to draw on an international dataset to identify economic, environmental and social effects of our corporate actions. The horizontal axis – relevance of action for the Otto Group – indicates the internal assessment of material topics in regard to their controllability, reputational risk and business relevance.

Material topics

As in previous years, social and environmental aspects in the supply chain continue to be critical topics that are rated “highly material.” Human rights aspects such as discrimination, working hours, occupational safety and child and forced labor in particular are again rated as significant in terms of risks and therefore their relevance for action as well. These topics have even acquired greater significance due to the COVID-19 pandemic: The negative ramifications of the pandemic on the economic front led to increasing poverty in the producing countries, which in most cases will also exacerbate the human rights risks. Environmental aspects such as greenhouse gas emissions in the supply chains have also become more relevant. The findings of our materiality analysis thus reflect the growing expectations among lawmakers and the general public in matters relating to climate protection. This is confirmed by the higher assessment of the harmful effects of greenhouse gases in the supply chain as well as the increased sensitivity of customers in this area.

Management approach

In 2021 we therefore began to link the Climate and Supply Chain areas even more closely in our CR strategy. The Otto Group is actively aligning its climate protection activities with the Paris Climate Agreement and the 1.5-degree target formulated in it, officially committing itself to the Science Based Targets Initiative in May 2022 and the goal of developing a science-based climate target (Science-Based Target, SBT) for the Otto Group within the next two

years. Science-based targets are targets for reducing emissions in line with the degree of decarbonization required by the Intergovernmental Panel on Climate Change (IPCC) to limit global warming to 1.5 degrees. The Otto Group has developed a medium-term, science-based climate target (near-term SBT) with a target year of 2031, which is currently being validated by the Science Based Target Initiative. Our long-term perspective is a net zero emissions target, which we aim to achieve in 2045 at the latest in accordance with the German Climate Protection Act (see Climate chapter).

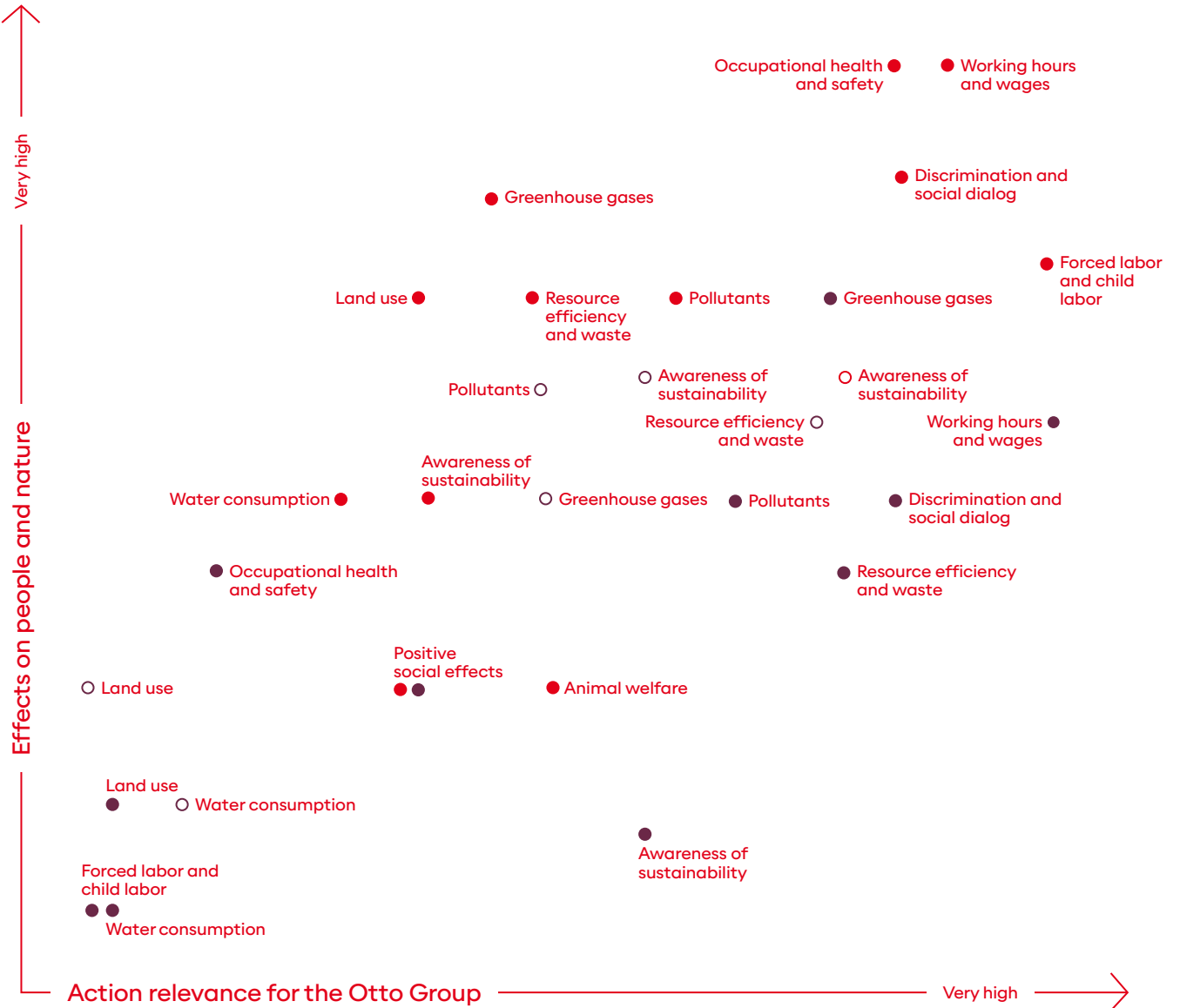
We are investing increasingly in circularity as a means of further minimizing the negative environmental impact of our business activities, especially in terms of the emission of greenhouse gases and the use of natural resources. The growing demand among our customers for products with sustainable features and the management of pollutants and environmental impacts that arise during the entire service life of a product have gained in importance as well in recent years. In response, the Otto Group has defined “Conscious Customers” as a strategic area and is determined to enable its consumers to make decisions with greater awareness of their effects.

Regular updates

We conduct regular reviews to ascertain whether there have been changes to our material areas in terms of our impact and the relevance for action by the Otto Group and set the right priorities with our CR strategy. We are now updating our materiality analysis to meet future non-financial reporting requirements (especially the Corporate Sustainability Reporting Directive, CSRD).

As in previous years, social and environmental aspects in the supply chains continue to be critical topics that are rated “highly material”.

Materiality matrix



Impact categories

Ecological

Pollutants
Greenhouse gases
Land use
Water consumption
Resource efficiency and waste
Animal welfare

Social and Corporate

Forced labor and child labor
Occupational health and safety
Working hours and wages
Discrimination and social dialog
Awareness of sustainability
Positive social effects

Value-adding stages

- Supply chain (own and licensed brands)
- Supply chain (third-party brands and platform partners)
- Locations and transports
- Customer

Sustainability

Group Management Report

Consolidated Financial Statements

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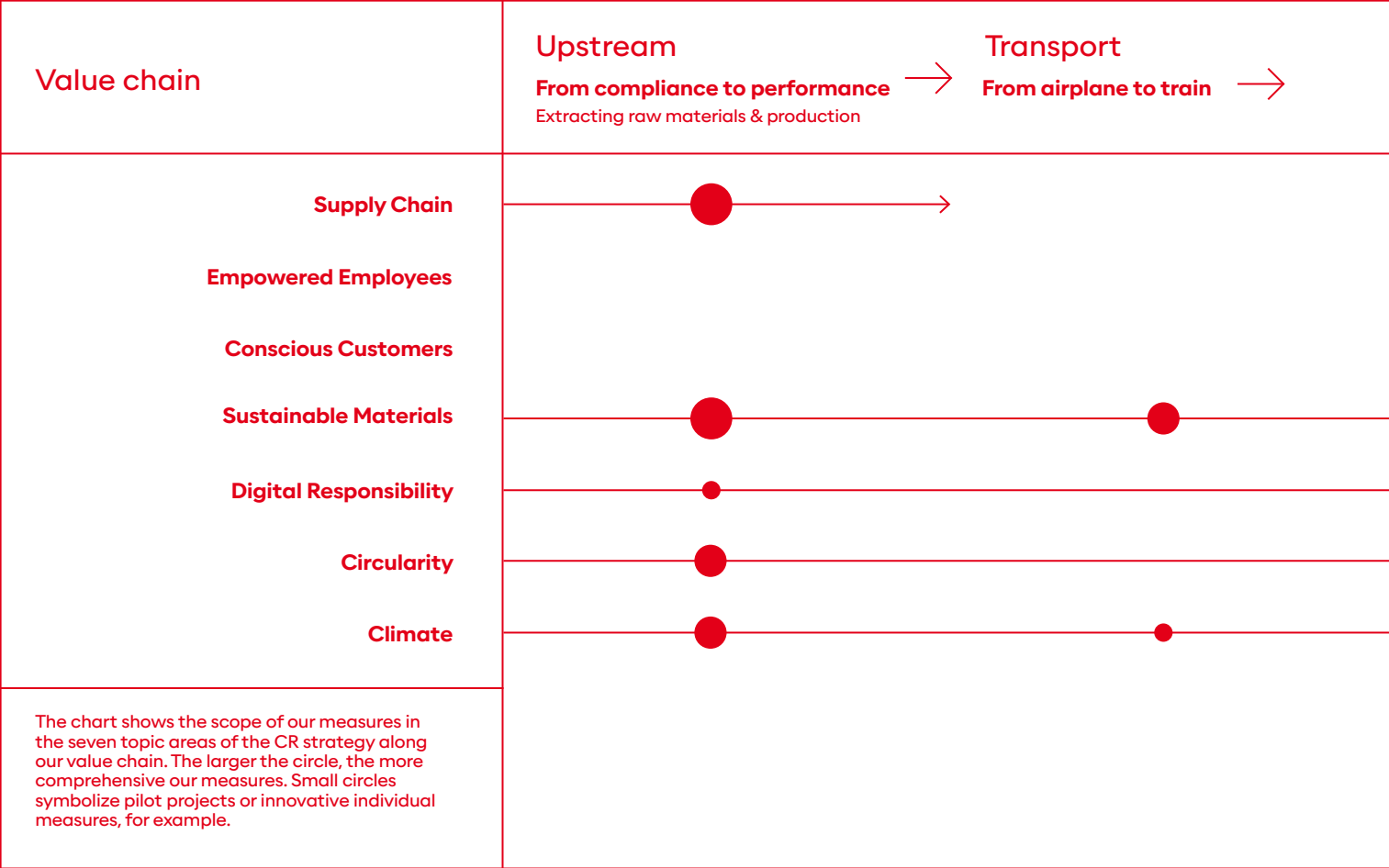
Holistic thinking on sustainability

Our ambition

The economy is there to benefit people – not the other way round. This mindset and the strong awareness it engenders for social responsibility are among the hallmarks of the Otto Group. Prof Dr Michael Otto recognized at an early stage that the future would be built on sustainable practices, inspiring customers, employees, business partners and like-minded people from other companies with this vision. Climate protection and corporate social responsibility were incorporated within our business strategy as early as 1986, giving rise to numerous initiatives for people, nature and society. Sustainability and corporate responsibility have been integral to our identity for more than thirty years and are intrinsic elements in the Otto Group's success. Our CR strategy is firmly enshrined in our corporate strategy, the Otto Group Path, and the shareholder vision of "Responsible commerce that inspires". Our ambition is to reconcile sustainability and economic success and to evaluate business decisions with regard to possible effects on the economy, environment and society.

Sustainability along the entire value chain

As a corporate group with a focus on commerce, the key to success for the sustainability strategy lies in the value chain. Our CR strategy with its seven topic areas considers both our own operations and the upstream and downstream value chain of our own and licensed brands. In the upstream value chain, our environmental impact and social risks are the greatest, covering the extraction and processing of natural resources needed to produce our goods. In the "Supply Chain" area, we work beyond the legal minimum requirements to improve social and environmental performance in supply chains. The upstream supply chain is also highly relevant for our goals in the "Circularity," "Sustainable Materials" and "Climate" areas. In particular, the supply chain plays a special role in our climate protection activities, so we will fully include it in our future science-based target (SBT, see Climate chapter). Our responsible colleagues work closely together to develop measures that are ideally interlocked for the future achievement of the SBT.



The social and environmental impact of our business activities is relatively low at our locations. At the same time, this is where the heart of our sustainability efforts lies: The "Empowered Employees" area establishes the conditions for our employees to make an active contribution to the sustainability transformation at the Otto Group with their ideas, skills and enthusiasm. An increasingly important facet is to address how we can shape digitization and its effects on our work environment in a responsible and value-based manner ("Digital Responsibility").

The downstream value chain is also an important lever for us to achieve our sustainability goals. Key points of reference include the topic areas of "Climate," for example, with regard to product delivery, and "Circularity," because the right course must also be set for the circulation of products and raw materials with a view to the use, disposal and recycling of our products. Since our customers play a key role here, we strive to inspire their interest in the topic of sustainability throughout the customer journey and to enable conscious consumption decisions in the "Conscious Customers" area.

Climate protection and corporate social responsibility were incorporated within our business strategy as early as 1986.

Internal operations

From management to design
Strategy and development of measures



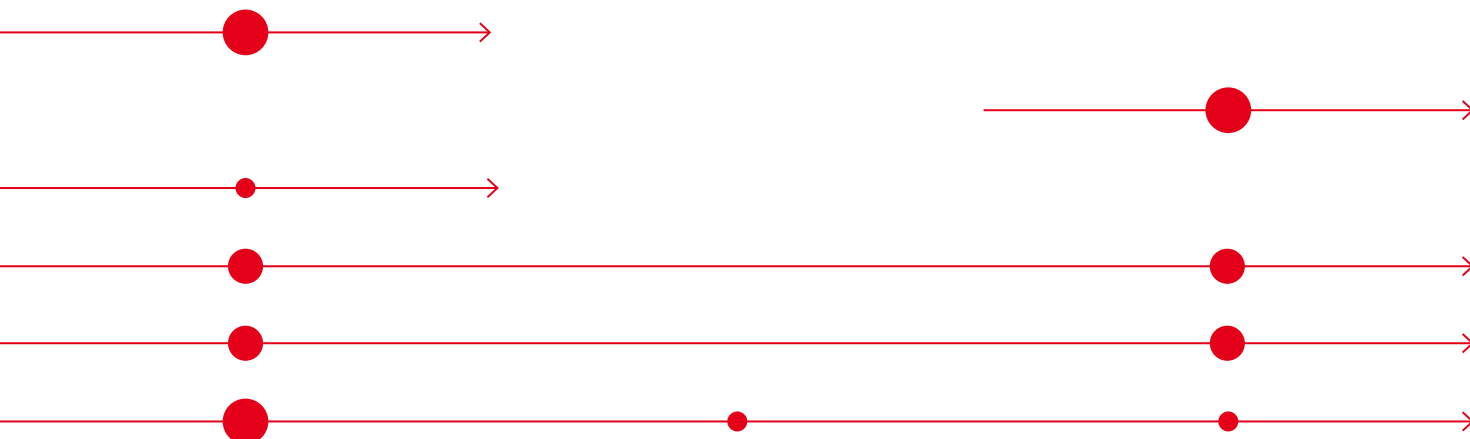
Transport

From combustion to electric



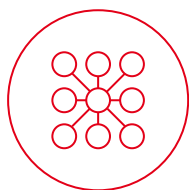
Downstream

From linear to circular
Use & end-of-life



Business shift: New economy

The Otto Group is committed to taking responsibility for people and the environment – that goes for our own locations and the upstream and downstream supply chain. Respecting human rights is a core part of our business practices. We are aware that natural resources are finite – and hence approach these topics with a due sense of care. Cooperating with business partners and supply chain facilities, we are determined to consistently align the business models of the Otto Group with aspects of social responsibility, environmental compatibility and the circular economy and to achieve measurable improvements in these areas. This includes actively shaping the digital transformation and the associated opportunities and challenges for society.



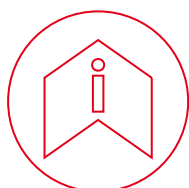
Transformational goal

We continuously improve social and environmental performance together with the facilities in our supply chains.



Core priority

Identification of all facilities in the supply chains of our brands – from raw material to finished products¹.



Core priority

Information about social and environmental performance is shared with us by the facilities in our supply chains.



Core priority

Continuous improvement on identified focus topics among the facilities in our supply chains.

¹ Refers to facilities involved in the production of our products (except for well-known third-party brands).

Supply chain

We at the Otto Group strive to take responsibility for people and the environment in our own operations, towards our customers, and in the supply chains of our own brands. In the supply chains of our own and licensed brands, our greatest influence and the highest risks are related to environmental and human rights issues. At the same time, implementing measures in the upstream value chain is particularly challenging. We regard our approach as a continuous process to improve our environmental and social performance step by step in close collaboration with our business partners. To do this, we continually increase transparency in regards to our complex supply chains to gain a better understanding of the facilities and the working and production conditions there.

We want to systematically align the Otto Group's business model with social responsibility, environmental compatibility and circularity.

Transparency as a basis

In the "Supply Chain" area, we are dedicated to the upstream value chain for our own brands and licensed products, especially where the supply chain involves the production of our products and the extraction of raw materials. Measures in the supply chain are a key lever to achieve not only compliance obligations, but also our social and environmental goals and to ensure that the products we distribute are produced in a socially responsible and resource-efficient manner while respecting human rights. Specifically, our measures are focused on ten social and environmental focus areas that we identified as material in close coordination with our facilities. To make progress more evident, we attach measurable indicators to the requirements.

We look beyond our facilities in final production to increase transparency in our supply chains – the foundation of all our activities. This is how we continuously expand our information about social and environmental production conditions. We know virtually all of our facilities in final production. We were also able to identify around 2,000 previously unknown facilities in the deeper supply chain in 2022.

To obtain specific improvements, we rely on a collaborative approach that includes key facilities in our supply chain. Our social commitment is primarily demonstrated by our membership in the International Accord for Health and Safety in the Textile and Garment Industry (Bangladesh and Pakistan) and the amfori BSCI initiative. Our environmental focal points are addressed by working together with the UN Fashion Industry Charter for Climate Action and the Sustainable Apparel Coalition, among others. This cross-sector and cross-national engagement is used not only so we can improve our own performance, but also to make a contribution to an industry-wide dynamic.

Performance improvement along the supply chain



Social goals



Living Wage

All workers receive a living wage.



Safe Work Environments

All workers are under safe and healthy working conditions.



Freely Chosen Employment

All workers are under free choice of employment.



Child Free Production

Only workers above the minimum age are involved in the production/processing.



Freedom of Association & Collective Bargaining

All workers enjoy the right to freedom of peaceful assembly and association, including the right to form and join trade unions and to bargain collectively.



Decent Working Hours

Excessive overtime is reduced to a minimum.

Ecological goals



Climate & Energy Efficiency

Energy efficiency and the use of renewable energies are increased.



Water Efficiency

The use of incoming water is reduced to a minimum.



Non-Hazardous Chemicals

The use of hazardous chemicals is decreased to a minimum.



Resource Efficiency (Waste)

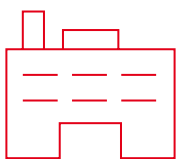
Resource efficiency is increased and waste reduced to a minimum.

From compliance to performance

In 2022 we continued to expand the availability and quality of information about our supply chains. One of our most important instruments is the "Sustainability Questionnaire for Facilities". This questionnaire is used to collect environmental and social data, derive necessary actions and measures, and can measure improvements quantitatively. We also fall back on external sources and use data from the Higg Facility Environmental Module (HIGG-FEM) of the Sustainable Apparel Coalition (SAC) and The BHive® app, for example. Our accredited social audits (see p. 39) also provide us with information. Furthermore, we also work with the children's rights organization Save the Children, which provides us with information on child rights risks in our production countries. The goal is to expand this data base in order to develop tailored measures and improve our impact measurement.

In terms of our social goals, we have achieved a lot, particularly through our cooperation with Save the Children. Together with the children's rights organization and local experts, we are systematically working to combat child labor and promote family-friendly working conditions in the final production facilities. Together with Save the Children and its subsidiary The Centre for Child Rights and Business, we have also initiated training to strengthen children's rights in China. As part of the International Accord for Health and Safety in the Textile and Garment Industry, we also provide occupational safety training to all employees of our final production manufacturers in Bangladesh.

The most effective contribution to our environmental goals in the reporting year was made by The BHive® project. The app with the same name, used by some Group companies, digitizes chemicals management at the facility level, with the aim of gaining an overview of the chemicals used, replacing hazardous substances and contributing to a more conscious, environmentally friendly and resource-saving approach. After a pilot phase with around 35 facilities in 2021, we were able to expand the app to 85 facilities in 2022. We are planning to use The BHive® in at least 100 facilities in 2023.



In 2022 we identified approximately

2,000*

additional facilities in our supply chains.

*1,996 newly identified supply chain facilities in addition to those already known (procedural count)

Working together for improvement

We continue to support our business partners and supply chain facilities in working together to improve local production conditions. Our business partner training is used to communicate the objectives of our CR strategy to our direct business partners. In 2022 we communicated the requirements to our business partners through a revised version of the Business Partner Declaration, including a Code of Conduct.

The supply chain as a key

In the coming years, the environmental aspects in the Supply Chain area will be strongly influenced by the Otto Group's climate targets, which will reach a new level of ambition and commitment with the adoption of a science-based target. In particular, our long-term net zero goal can only be achieved through far-reaching measures in the upstream value chain, which we design, pilot and scale together with our partners. We are continuously developing our actions in the areas of chemicals, water, raw materials and waste.

On social issues, we continue to focus on protecting children's rights and paying fair wages. We see our own procurement processes as the most important lever. Following the success of the Accord in Bangladesh, we also signed the Pakistan Accord on Health and Safety in the Textile and Garment Industry. A comprehensive occupational safety program will be introduced there in 2023, laying the foundation for joint and continuous improvement.

Digression: Human rights in supply chains

Beyond the performance targets of our CR strategy, we are committed to addressing specific human rights risks in our supply chains and required to do so by law. As with our entire sustainability management, our activities in the area of human rights are guided by the principle of materiality (See Materiality Analysis chapter). Similar to addressing where our business models have the greatest potential to harm people and nature, we also identify our potential negative impact on fundamental human rights along our supply chains.

The Supply Chain Due Diligence Act

Our approach to human rights is aligned with the requirements of the German Supply Chain Due Diligence Act (LkSG, Lieferkettengesetz). It has applied to all companies with at least 3,000 employees in Germany from the beginning of 2023. They will be required to reasonably comply with human rights and certain environmental due diligence obligations in their supply chains.

Specifically, the Act requires affected companies to:

- establish a risk management system and conduct a risk analysis
- adopt a policy statement on their human rights strategy
- implement preventive measures
- take immediate remedial action in the event of identified violations
- establish a complaints mechanism

In addition, the law requires companies to document and report on their due diligence obligations in an appropriate manner. Depending on whether it is their own business, a direct contractual or an indirect partner, the legislation imposes different requirements for exercising corporate due diligence.

From voluntary to mandatory

The Supply Chain Act has been binding for the first Otto Group companies since January 1, 2023. Systematically identifying and minimizing human rights risks is no longer a voluntary matter. The Act thus reinforces our long-standing efforts to manage sustainability according to the principle of materiality. In the future, we will continue to ask ourselves the question: "Where do we as the Otto Group have the greatest influence and need for action to reduce risks for people in our supply chains and continuously improve production conditions?"

We strictly adhere to legal regulations (compliance) and go beyond this with the performance approach of our CR strategy from 2021. To identify and respond appropriately to potential violations of human rights in the supply chains, we have participated in external complaint mechanisms such as the amfori initiative or the International Accord for years. We also have our own whistleblowing system, SpeakUp, which is available in 20 languages and can be used to report suspicious cases. An independent ombudsperson offers internal and external stakeholders another opportunity to contact the Otto Group confidentially. In 2022 we received 16 reports through various channels of potential human rights and labor abuses in our supply chains. These are evaluated by our experts and corresponding needs for action or measures are derived.

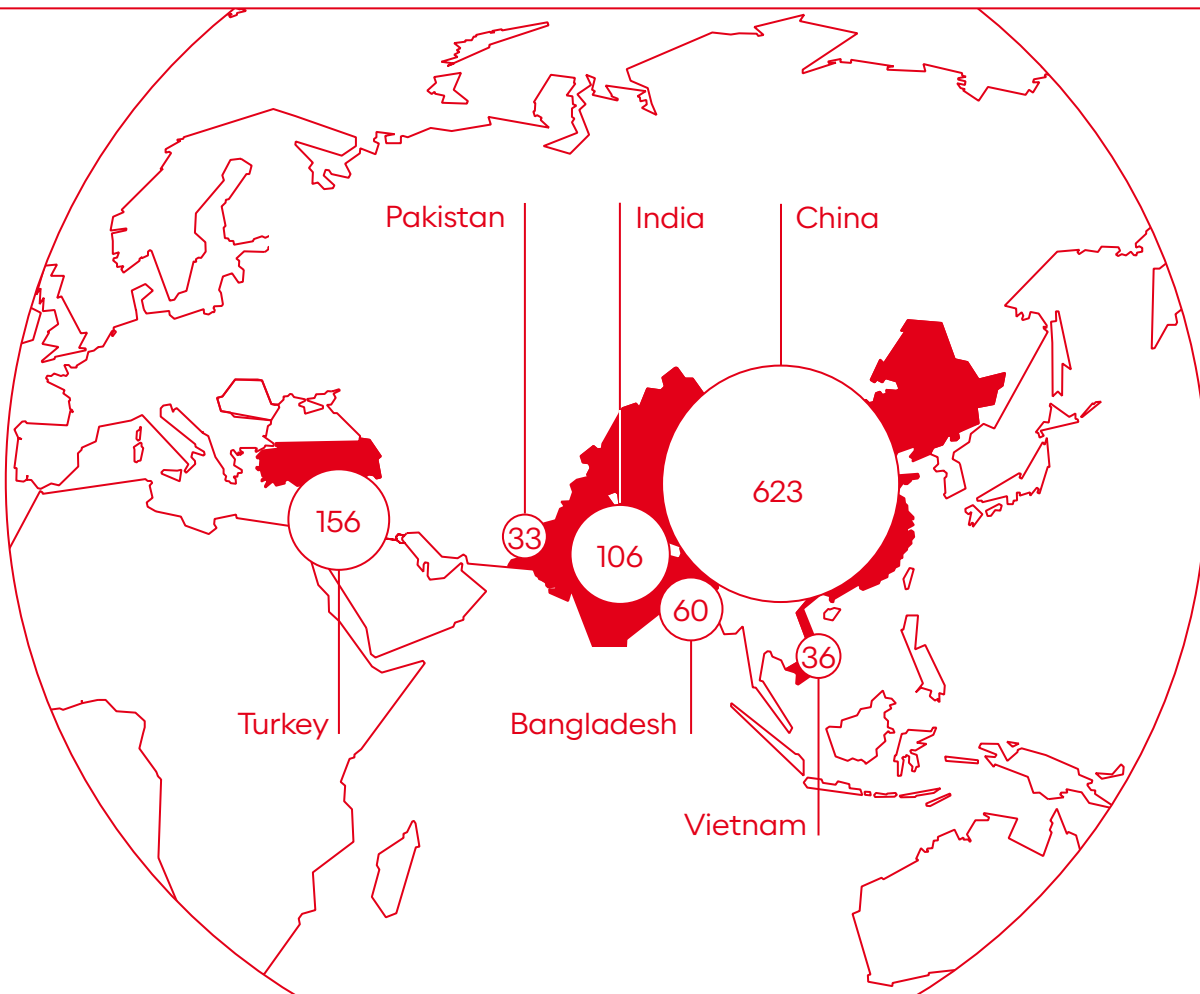
In addition, we gain insight into the conditions at local production sites through social audits. In order to work with a business partner, one of the three following certificates or audits must be presented as a basic requirement for a production facility – the SA8000 certificate, an amfori BSCI audit or our own standard: an Otto Group Assessment.

Building on the foundation

The German Supply Chain Act also poses some challenges, mainly due to the complexity of our business models and their respective supply chains. Because in the context of the law, the supply chain refers to all of a company's products and services. It includes all steps, both domestic and international, that are necessary to produce products or provide services, from extracting raw materials to delivery to customers. The law thus includes business models other than commercial enterprises, such as service companies in the logistics and financial services sectors, which have not previously played a role in the public debate.

Respect for human rights is not up for negotiation, and the protection of our environment has long been a matter of urgency. The Otto Group therefore welcomes the fact that the Supply Chain Act has given both issues new binding obligations in corporate practice. With our long-standing commitment to human rights, we are well prepared for the new requirements of the Supply Chain Act. At the same time, the tightening of the rules is a welcome opportunity for us to take a critical look at our existing processes and measures. Concrete improvements for the people on site can only be achieved if all parties are on the same page. We have produced training videos on human and environmental risks and due diligence obligations, so we can start by improving the basic understanding of risks and effective measures among our employees and business partners.

Our main sourcing countries



Reminder: The final production suppliers are shown according to the categorization of amfori BSCI in so-called risk countries. The Otto Group also produces in low-risk countries, such as EU member states.

* The presentation is a snapshot (from 2. February 2023) that is updated regularly and can be found on our website <https://www.ottogroup.com/en20/verantwortung/supplyChain-map.php>

Circularity

Besides consistent climate protection, circularity is the only plausible answer to the question of how our economic model can function within planetary boundaries while maintaining the stability of ecosystems and human livelihoods. The transition to a circular economy requires the realignment of entire business models and close collaboration with our partners in the upstream and downstream value chain. In collaborative projects, we are testing what will become our new circular reality tomorrow.

Closing the material cycle

To keep materials and products in circulation for as long as possible through circular design, appropriate usage models, repair and recycling options, we look at the entire value chain. In joint pilot projects with our Group companies and partners in the business community, academia and civil society, we are continuously working to test and gradually implement circularity principles and solutions. Quick success cannot be achieved in all areas of the value chain. This makes it all the more important to learn from the challenges and set the necessary course to advance forward-looking ideas.

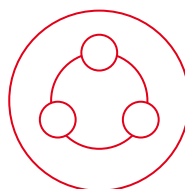
On the path to a circular business model

In 2022 we developed quantitative indicators for the first time to measure the number of circular solutions for our products and set target values that will be validated in the next reporting year. In the future, these KPIs will help us to check the effectiveness of our measures and to clearly document the progress on our way to a circular business model. In order to collect relevant information and data, we started a circularity assessment with the impact organization Circle Economy, which captures our value chain in a data-based approach and supports us in identifying the most promising starting points for circular solutions.

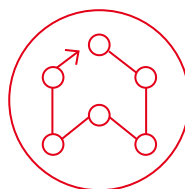
The driving force behind our measures and activities in the Circularity area consists of the Otto Group companies, which are already implementing specific solutions. For example, Bonprix offers Cradle to Cradle Certified® textiles, and OTTO has launched its first "Circular Collection" in cooperation with the start-up circular.fashion. Another is planned for autumn 2023. Since functioning take-back systems are essential in circularity, we are also expanding our initiatives in the textile and electronics sectors. As part of the charitable initiative "Platz schaffen mit Herz"

(Create space with heart), OTTO collects used textiles from customers. The proceeds from selling the second-hand clothes go towards supporting charitable organizations all over the world. It includes a voting system so that customers have a say on where the funding goes. In addition, we recycled more than 45,000 tons of used electronic equipment from customer returns in the calendar year. More than 230,000 refrigerators and freezers were decontaminated by our WEEELABEX-certified disposal partners in Germany and remanufactured into high-quality products. This makes an important contribution to climate protection, as no greenhouse gases such as chlorofluorocarbons (CFCs) and hydrofluorocarbons (HFCs) are released into the environment during the recycling process. This makes the Otto Group one of the few companies in Germany to place such high demands on recycling – a commitment that is also recognized by third parties.

In the future, we want to continue to promote cooperation between our Group companies in order to scale up existing individual solutions and jointly formulate a holistic recycling approach that is even more firmly anchored in our corporate strategy. A concrete example is the "Circular Design Guidelines" for textiles developed in 2022, which can be applied by several of our Group companies.



Transformational goal
We incorporate circular principles and ensure circular solutions.



Core priority
We launch or advance the implementation of projects that integrate circular solutions into our business models.



Core priority
We develop quantitative circularity KPIs at the Otto Group level. To this end, we determine the status quo and set a quantitative target for 2023 on the level of the Group companies.

Progress, step by step

The potential of circularity to reduce resource consumption, waste and CO₂e emissions provides us with an opportunity to effectively link different aspects of our CR strategy. We will also continue to take a learning and collaborative approach in the future. We want to be part of a transformative process and create solutions that work for manufacturers, retailers, customers and recyclers alike. With our experience and established repair, take-back and recycling services, we are able to respond quickly to new regulatory and technological developments. As industry-wide change is necessary for the success of the circularity concept, we also want our actions to have an impact beyond the Otto Group. With this in mind, we are supporting the World Wide Fund for Nature (WWF) as a sponsor of the "Model Germany Circular Economy" project, in which institutes are demonstrating which circular measures are crucial for environmental protection and resource security in nine sectors. The aim is to make a key contribution to the political discourse within the framework of the National Circularity Strategy announced by the German government.

The transition to a circular economy requires the realignment of entire business models.

Digital responsibility

Digitization is fundamentally changing the way we live and work. It creates new opportunities for participation, design and transparency, but the rapid pace of change also brings challenges. Digital technologies have a significant impact on all stages of the value chain. As an employer and market participant, we want to actively shape digitization in line with our values and realize its opportunities for society. In the areas of data and security, the future of work, digital education and environmental protection, we are working with our partners to develop solutions for a value-driven digital transformation.

Living and working in the digital age

Digital technologies and solutions are important along our entire value chain. This applies to the extraction of resources, the recycling of our products, and the daily work of our employees. Our understanding of what it means to be digitally responsible is correspondingly broad: In our own operations and beyond, we want to help shape the future of work in the digital age and promote learning with and about digital technologies. We want to harness the potential of technology to conserve natural resources and promote the ethical use of artificial intelligence (AI). We also look at our own digital footprint and harness the power of cross-sector collaboration: Through initiatives and projects, we foster discourse between business, government, academia, and civil society to create a responsible framework for human-centric digitization.

Digitization in the service of people and the environment

Our Otto Group companies are moving ahead with projects in the areas of data and security, the future of work, digital education and environmental protection. The measures and initiatives are as diverse as our Group companies. The common goal is to put digital technologies and innovations to work for people and the environment – because digitization should not be an end in itself.

Even in the upstream supply chain, data and digital technologies can contribute to climate and environmental protection. For example, if they are used to make processes more resource-efficient, as we do at the Otto Group. The BHive® app has now become an important tool for improving our environmental performance in the supply chain (see also Supply Chain chapter). In the Otto Group Holding's "Cheops" project, artificial intelligence is used to forecast demand for new items based on historical product and customer data, so that purchase quantities can be adjusted and surpluses reduced.

Since 2022, the Otto Group has been conducting an annual “data cleaning” campaign to draw attention to the environmental impact of storing unused data and to consciously reduce the amount of data during the campaign period. Since 2020, the CO₂e emissions of the Group-wide internal IT provider, including the production of IT equipment,

“Entrepreneurial responsibility is firmly anchored in the DNA of the Otto Group. This includes the fact that digitization must be people-centric and in line with European values.”

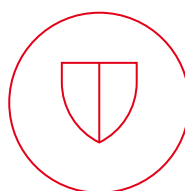
Alexander Birken

have been regularly determined, reduced and offset on a voluntary and high-quality basis as part of the “Carbon Footprint” project. Since October 2022, several thousand employees of OTTO and Otto Group Holding have been able to view their work-related, personally generated CO₂e emissions via a footprint app. In the future, additional data sources will be integrated into the application and rolled out at other Group companies. As an employer, we feel a particular responsibility to shape the digital world of work in the interests of our employees. A new learning culture is a central aspect of the cultural change that the Otto Group has been intensively promoting for years. One of our most important tools is Masterplan, the digital learning platform that we introduced as part of the Group-wide training initiative TechUcation and which reached a special milestone in 2022: Around 10,000 commercial colleagues successfully completed the basic course on digitization developed specifically for logisticians. In around 75 video lessons, more than 55 experts from our Group companies shared their knowledge and established a link to the world of work in logistics. The comprehensive learning content enables and encourages employees to actively shape the digital transformation in the commercial sector.

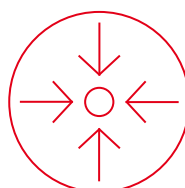
We also use digitization to act more sustainably in the downstream supply chain on the way to our customers. With DigiPac, Hermes Fulfilment is working with Bonprix to digitize the packaging process for customer shipments, so that paper documents such as invoices or delivery notes are no longer included with the shipments. In addition, a project in cooperation with the Fraunhofer Institute for Factory Operation and Automation (IFF) has optimized processes and made workplaces more ergonomic.

Beyond our own business activities, we also contribute our digitization experience and skills to society. The team behind TechUcation@school, our digital continuing education program for teachers, had another successful year: The learning opportunities for teachers were significantly expanded and new cooperations were established beyond Hamburg’s borders. In partnership with the Hamburg Department of Economics and Innovation, the Holistic Foundation, and now also Microsoft, we have been supporting the establishment of the ReDI School of Digital Integration in Hamburg since January 2022. The school supports future IT talents with a refugee or migration background in their education and vocational training. In addition to financial contributions and donations in kind, the support of volunteers with IT skills is crucial to the success of the concept. In the two semesters of 2022, 122 students, 55 percent of whom were women, from 25 nations completed courses in web development, user-centered design, data analytics, and cybersecurity.

In addition to implementing specific projects, we are continuously involved in the social discourse on value-oriented digitization. For the fourth time and for the first time in person, representatives from the business community, academia, government and civil society discussed which values will hold society together in the digital age and what successful solutions exist in the areas of future work and digital education as part of the ZukunftsWerte initiative founded in 2020. The Otto Group is also a founding member of the Corporate Digital Responsibility (CDR) initiative of the German Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection (Bundesministerium für Umwelt, Naturschutz, nukleare Sicherheit und Verbraucherschutz). The aim is to promote the principles laid down in the CDR Code of Conduct in business and society, to make good examples visible and to take joint action. In 2022 the member companies of the CDR initiative – including the Otto Group – published



Transformational goal
We shape value-oriented digitization for people and society.



Core priority
We are gathering internal experience through measures and pilot projects in digital responsibility: data & security, future of work, digital education and environment.

individual reports for the first time. The reports describe examples of specific measures taken by members in the digital space.

Shaping the digital future together

Digital transformation is omnipresent and will penetrate even more deeply into all areas of our business activities as well as our lives and work in the future. It is up to us to shape the changes in the interaction between people and technologies, when they have a significant impact on our employees, through measures and projects. This will be our focus in the coming period – both in our internal activities and in working on solutions for society together with partners in the business community, government, academia and civil society.

Technophilia Week in the Otto Group

In addition to the learning opportunities available at any time on the online platform Masterplan, we are also using the possibilities of digital technologies to learn with and about them. In November 2022, the Otto Group's group-wide IT provider once again organized "Technophilia Week" – a week full of inspiring ideas for all technology enthusiasts in the Group. Sustainability also played a role here. For example, the "Climate Change and Digitization" session highlighted the contribution of information and communication technologies to global CO₂e emissions, as well as the possibilities of "Green IT." The "Sustainability@Otto Group IT" event provided an overview of specific environmental and climate protection measures in the IT sector.

We want to actively shape digitization in line with our values and realize its opportunities for society.

Mind shift: New awareness

The future will be built by human hand. That's why the Otto Group deliberately gives its employees and customers space to come to an appreciation of sustainability in their personal lives and working routines, for example by creating transparency and opportunities for participation in corporate responsibility at the Otto Group Holding and its Group companies. We want to inspire our customers along the customer journey with sustainability and enable them to make more conscious purchasing decisions by providing transparent information about the sustainable features of our products and services.

Empowered employees

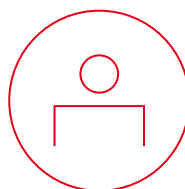
Our employees are the cornerstone of the Otto Group. They are the experts on our products, processes, services and interactions with our customers. With their knowledge and ideas, they play a crucial role in enabling us as a corporate Group to act in a holistic and sustainable way. It is therefore important for us to create transparency, enable participation and support our employees in integrating sustainability into their work and core tasks, so that they can individually contribute to greater sustainability.

Shaping sustainability together

Our employees are a key catalyst for greater sustainability along our entire value chain. That is why we focus on the Empowered Employees area. We provide information and knowledge resources on sustainability and actively communicate our CR activities internally. In addition, we create spaces where sustainability can be actively experienced and shaped, empowering and inspiring our employees to think and shape sustainability – within the Otto Group as well as in the upstream and downstream value chain.

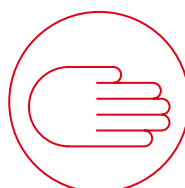
Step by step, we are embedding sustainability more deeply in the Group

The Group companies and the Otto Group Holding organized and continued to expand a variety of measures for employees on the topic of sustainability during the reporting year. For example, sustainability is now an integral part of the onboarding programs for new colleagues in many Group companies. In addition, we offer a wide range of training opportunities: from various specialist lectures to a new learning path for employees in logistics and regular information programs in the cross-company digital GOOD Community. The community is open to all colleagues interested in sustainability and regularly reaches several hundred colleagues throughout the Group.



Transformational goal

We empower our employees to experience and actively shape sustainability.



Core priority

We communicate our CR commitment and activities to our employees through various services and touch points, and create opportunities for them to experience and actively shape sustainability.

One highlight was the Sustainability Days, which took place both digitally and on site at several Group companies and was met with great interest among employees. Information stands, lectures and interactive activities were offered. In addition, other sustainability activities took place, often with a regional focus or addressing issues of local concern to employees, such as a zero-waste challenge, clothing exchange parties, corporate volunteering opportunities, and clean-up campaigns.

The future shaping the future

Our trainees in the reporting year carried out various sustainability projects and thus contributed more to sustainability in the Otto Group and beyond, including:

- organizing a stream clean-up at Baur
- building a bee hotel at the Franconia site
- establishing the "Greenfluencer" trainee initiative, which implements sustainability projects at the Witt Group
- supporting the organization of the Sustainability Days by Bonprix trainees and the "GOOD Project" trainee initiative at OTTO

Our long-term view of sustainability

In order to continue and expand our success in the Empowered Employees area, we are focusing in particular on scaling up, professionalizing and continuously creating transparency and participation opportunities for measures that have already been successfully implemented. In addition to transparency and participation, we will start strengthening the further integration of sustainability into the core processes and daily work of Otto Group employees in 2023. To achieve our goals, we also rely on a regular exchange of knowledge between the Group companies in order to make the best possible use of synergies and to embed sustainability even more deeply throughout the Group.

Conscious customers

Our customers' decisions to buy our products and services have an important impact on the success and future direction of our business models, and thus on the role that sustainability plays from raw material extraction to product shipping and recycling or disposal. By educating our customers about sustainability along the entire customer journey, we aim to inspire them to adopt more sustainable lifestyles and make more informed purchasing decisions.

Shaping the value chain together

In line with our CR strategy, we proactively create incentives for more conscious consumption and continuously improve the transparency of the sustainability characteristics of our products. The success of our approach depends on our understanding of our customers' wishes and needs. Do they want to know what raw materials we use? And how do we present information about the sustainability aspects of our products in a way that is clear, informative and easy to understand? We regularly gather customer insights to understand what matters to our customers about our products, services and their experience throughout the customer journey. We try to ensure that our approach is best aligned with our customers' wishes and requirements. In the downstream value chain, we are particularly dependent on the actions of our customers. Once a product is purchased, we no longer have direct control over its use and return to the cycle. By informing our customers about proper disposal methods and providing take-back systems, we make it easier for them to live more sustainably in their daily lives.

Inspiring customers through various touch points

This is the sixth time that the Otto Group has examined the role of sustainability in purchasing decisions in its trend study on ethical consumption. The latest results show that, despite difficult framework conditions, ethical consumption is still in the mainstream and the long-term goal of combating the climate crisis is not being pushed aside. In addition, circular approaches are increasingly seen as a solution on the way to achieving this goal. People are ready to move from a throwaway society to a circular society.

Our Group company OTTO conducted a large-scale market study to determine the importance of sustainability in 2022 and asked more than 1,600 consumers about their purchasing habits. The results not only form the basis for further studies, but also provide important insights into measures, priorities and the communication of sustainability content. On this basis, OTTO presented its sustainability goals to a broad audience as well as media, industry experts and marketplace partners at a one-day conference in the autumn of 2022. Various stakeholders such as Stephan Ramesohl (Wuppertal Institute), Anne Lamp (traceless) and Tim Janßen (Cradle to Cradle NGO) discussed topics such as circularity and packaging in a transparent and solution-oriented manner.

The Otto Group's trend study shows that ethical consumption is still in the mainstream despite difficult framework conditions.

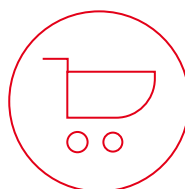
Doing good with your purchase – this has been the motto of the OTTO Up customer loyalty program since March 2022: Customers support the preservation of species diversity with their participation. At two locations in Rhineland-Palatinate (Beilingen) and Saxony-Anhalt (Gröningen), wildflowers are being planted on photovoltaic open spaces. To prevent clothing that no longer fits from ending up in the trash, Sheego has introduced a "Fits Me Guarantee" for its customers. Within one year, customers can exchange their favorite items for a different size free of charge if they no longer fit. The innovative service applies to 24 key styles, with a focus on denim, as well as other selected items such as blouses, T-shirts and trousers. The returned garments will be reused or recycled through the "Platz schaffen mit Herz" (Creating space with heart) project. Sheego also uses upcycling and cooperates with the social business "Stitch by Stitch" in Frankfurt. The tailoring company supports refugee tailors and trains them as tailors for made-to-measure and ready-to-wear clothing. They use fabrics from former Sheego styles to sew products that are targeted at relevant multipliers, influencers and editors.

What does sustainable fashion feel like? Bonprix customers were able to feel and see it in the Spring/Summer 2022 collection. The highlight was new "undyed" styles, i.e., undyed products made of organic cotton, such as natural-colored sweatshirts, nightwear, underwear and socks. The decision not to dye the cotton conserves valuable water resources by significantly reducing the use of chemicals and water consumption. The Witt Group has also focused on materials with sustainable properties. The company ran a promotion for its customers on World Cotton Day, highlighting products made from 100% sustainable cotton.

Making sustainability more visible

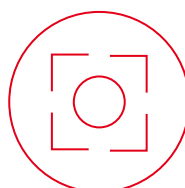
In general, our goal is to continue to increase the proportion of sustainability-related products offered by our Group companies. At the same time, our expectations are rising as both our ambitions and our customers' needs evolve.

We welcome public and political debate on what makes a more sustainable product and how information should be communicated. We are continually working to label products with sustainability attributes that reflect current developments and the needs of our customers.



Transformational goal

We enable and inspire our customers to make conscious and sustainable decisions.

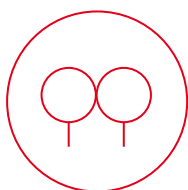


Core priority

We empower our customers to make conscious purchasing decisions throughout the entire customer journey, and ensure the transparency of sustainability-related product features.

Eco shift: New goals

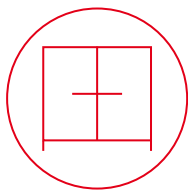
We document the impact of our products on the climate, ecosystems and society over their entire life cycle: from the extraction of raw materials, production conditions, material consumption and shipping to use and finally return to the cycle by customers. According to our materiality analysis, we have the greatest impact on ecosystems in the areas of greenhouse gases, pollutants, land use, water consumption, raw material efficiency and animal welfare – and therefore have the greatest potential for improvement. In the Sustainable Materials area, we are taking steps to reduce the environmental impact of the materials we use. In the Climate area, we are pursuing a science-based, long-term net zero goal for our entire value chain. We cooperate with innovative partners to offer our customers the best solutions and to reach our targets for sustainable materials and climate protection.



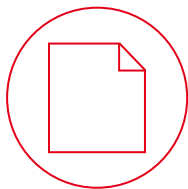
Transformational goal
We apply sustainable raw materials in all our products.



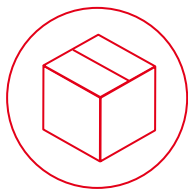
Core priority
65% “preferred fibers” by 2025 while maintaining the 100% sustainable cotton target



Core priority
100% FSC-certified furniture products by 2025



Core priority
100% sustainable catalogue paper, of which at least 70% FSC® by 2025



Core priority
100% sustainable packaging by 2023

Sustainable materials

The range of supposedly more sustainable products has grown steadily in recent years, with terms such as “climate neutral,” “recyclable,” or “plastic-free” becoming more common. However, it is not always clear to what extent the environmental performance of these alternatives is actually better than conventional options. The Otto Group wants to continue to be a trusted source for innovative, more sustainable products. Wherever possible, we evaluate materials based on the results of their Life Cycle Assessment (LCA), i.e. their environmental balance over their entire life cycle, in order to make transparent and data-driven decisions.

Sustainable sourcing

The use of more sustainable materials is the basis for us to increasingly align our business model with resource efficiency. This also contributes to our goals in the areas of circularity and climate protection. In addition to merchandise, non-merchandise, especially packaging and catalogue paper, also play an important role. We achieve the greatest positive impact at the point of raw material extraction, for example in the cultivation of cotton, and in the manufacturing processes in our supply chains. Our strategy therefore starts in the upstream value chain, with targets for textiles, furniture, packaging and catalogue paper.

Through external seals and standards, we ensure that products meet our sustainability standards by using trusted, more sustainable materials. However, their limited availability poses a challenge to our ambitious goals. In particular, the availability of regionally sourced FSC®-certified wood will become more difficult in the future. Therefore, starting in 2023, we will accept other recognized certificates for more sustainable wood furniture – the EU Ecolabel, the Blue Angel (Blauer Engel), the Nordic Swan and eventually the ISO 38200 standard. OTTO actively advises its furniture suppliers on how to adapt their processes and products to meet the requirements of the respective seals.

Materials with more sustainable properties are often more expensive than conventional solutions. In the downstream value chain, we communicate the benefits of more sustainable alternatives and encourage more conscious purchasing decisions in the Conscious Customers area. To this end, we label products in our stores that have sustainability-related features. The assessment is based on strict criteria that demonstrate a significant improvement over conventional products. From 2024 onwards, our own products will reach customers in more sustainable packaging, regardless of their purchasing decision.

Creatively to the goal

Last year, we made progress on reaching our goals, heading down unconventional paths such as finding more sustainable packaging solutions: With the Hamburg-based startup traceless, we are developing bio-based shipping bags that biodegrade completely within a few weeks. The compostable bags are expected to eventually replace traditional shipping bags made from recycled plastic and help reduce environmental impact. In March 2021, we also entered into a cooperation with another Hamburg-based startup, Wildplastic. “Wild plastic” is collected, sorted, cleaned and processed into granules in places without their own recycling structure, such as Haiti, Nigeria or India. It is used, among other things, as a raw material for shipping bags at OTTO, where more than a third of the bags are currently made from wild plastic. The proportion of wild

plastic bags is to be gradually increased. Even conventional bags already consist mainly of recycled material. From 2024 onwards, they will have a recycled content of at least 80 percent. Overall, these and other measures were able to increase the share of more sustainable packaging from 71 percent in 2021 to 78 percent in 2022.

We use so-called “preferred fibers” in our textiles, i.e., fibers with a lower negative impact on the environment compared to conventional alternatives. In the Otto Group, these primarily include organic or recycled cotton and cotton from the Cotton Made in Africa initiative, as well as recycled polyester. We were able to increase the share of preferred fibers from 53 percent in 2021 to 55 percent in 2022, putting us on a good path to reach our goal of 65 percent by 2025. With the adoption of binding and demanding animal welfare standards, we have further specified our goals. By 2028, animal-based materials that pose a particularly high animal welfare risk will only be used if they come from certified sources. This applies to all products sold by the Otto Group. Our Group companies are already leading the way: In 2022, for example, Bonprix offered its customers a premium capsule collection with sustainable cashmere certified according to The Good Cashmere Standard® (GCS) for the first time. Elsewhere, the company is investigating where animal-based materials can be dispensed with. Since 2021, Bonprix has been working with MYCL – Mycotech Lab, a start-up supported by the Fashion for Good innovation platform, on leather alternatives made from mushroom cultures.

We also made progress on our wood furniture and catalogue paper goals for 2025. The percentage of certified wood furniture increased from 78 percent in 2021 to 83 percent in 2022 and sustainable catalogue paper from 77 percent in 2021 to 90 percent in 2022. Our high level of commitment was recognized with a special award in October 2022, when the Otto Group was named “Retailer of the Year” at the European FSC Furniture Award. In addition to expanding certification and supporting our furniture suppliers, we also want to establish cooperation projects to

Sustainable materials: Our goals

	Actual in 2021	Forecast in 2022	Actual in 2022	Target value
“Preferred fibers,” of which 100% sustainable cotton*	53%	Slight increase	55%	65% (by 2025)
FSC-certified furniture products**	78%	Slight reduction	83%	100% (by 2025)
Sustainable catalogue paper	77%	Slight reduction	90%	100% (by 2025)
Sustainable packaging	71%	Slight increase	78%	100% (by 2023)

* Our “preferred fibers portfolio” contains fibers that have a significantly lower environmental impact compared to conventional fibers in the same category (e.g., organic cotton compared to conventional cotton) and recycled materials and animal-based fibers that are produced with careful attention to animal welfare.
 ** From 2023 onwards, the Otto Group will accept the following certifications in addition to FSC®: EU Ecolabel, Blue Angel (Blauer Engel), Nordic Swan and eventually ISO 38200.

ensure even more stable access to more sustainable wood. Since 2022, the Otto Group has been supporting forest owners in the Franconia region in a joint project with FSC® Germany to have their forests certified according to FSC standards. In total, more than 5,000 hectares of forest can be newly certified in this way.

Traceable cotton: From the field to the sweatshirt

In addition to our Group-wide goals, some of our Group companies have their own ambitions: Bonprix and the Witt Group, for example, have set own targets for “traceable cotton”, i.e., cotton that can be traced back to the field. By tracing the supply chain back to the raw material, we can ensure that cotton products actually contain sustainably grown cotton.

Closing the material cycle

In the long term, we are aiming for a circular business model – the choice of our materials sets the course for this ambitious goal. We are reducing the use of virgin materials, such as metals, cotton and plastics that are extracted, grown or manufactured from nature, and increasing the share of recycled materials. For the Otto Group, the use of more sustainable materials is less and less an end in itself. Rather, with our measures in the area of materials, we want to create a valid basis for recycling solutions and climate protection.

Climate

The Otto Group has pursued the goal of reconciling its business activities with climate protection for decades. The climate crisis has worsened and is the most urgent challenge of our time. Stakeholders from society and government rightly expect companies like the Otto Group to contribute to its mitigation. That’s why we committed ourselves to developing a science-based target (SBT) in 2022, i.e., a science-based reduction target for our greenhouse gas emissions in line with the 1.5 degree target in the Paris Agreement. We aim to achieve net zero emissions along the entire value chain by 2045 at the latest. As the majority of the Otto Group’s greenhouse gas emissions are generated in the upstream value chain, it is essential to address this critical area of emissions.

Environmental protection made in the supply chain

In line with our core priorities, the Otto Group’s environmental protection activities have so far focused on our own operations. The greatest leverage for reducing our CO₂e emissions is to move the transport of merchandise from air to sea and rail, continue increasing our energy efficiency and switch completely to green electricity. Our transformational goal sets a net zero target for our entire value chain, which we are refining with the current development of a science-based target. As part of our supply chain strategy, we are taking an even closer look at our upstream value chain, that is, our supply chains. That is because a significant portion of the CO₂e emissions associated with our business activities is generated in the production of our merchandise. Since we can only indirectly influence this area, any reduction poses a much greater challenge than mitigating climate change in our own operations. It can only be achieved in close cooperation with our business partners. We therefore take a collaborative approach to helping our business partners in the upstream supply chain improve their climate performance. For example, we use the Sustainable Apparel Coalition’s Higg FEM tool to track other environmental impacts in our supply chains (see the Supply Chain chapter as well).



Our 2022 CO₂e emissions are

21%

lower than the base year of 2018.

Following the science

In 2022 we committed to developing a science-based target (SBT) that aligns our environmental goals and actions with the 1.5 degree Celsius target in the Paris Agreement on climate change. This science-based target was developed by us and is currently being validated by the Science Based Target Initiative. For the near-term SBT with a target year of 2031, we are already aiming for a long-term net zero target by 2045. In recent years, we have been working with other companies intensively on key aspects of decarbonization – especially in the supply chain – as part of a research project at the University of Hamburg. This exchange of knowledge and experience was an important basis for our internal discussions on tightening our climate targets. During the development of our new climate target system, its transformative power became clear, changing work processes in the Otto Group visibly.

Disclosing climate impact

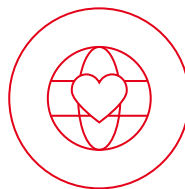
Last year, for the first time, we published our report in accordance with the requirements of the Carbon Disclosure Project (CDP). With an overall score of B, we are above the industry average and in line with the European average. By publishing this report, we are fulfilling our commitment as a member of the “UN Fashion Industry Charter for Climate Action”, in which the Otto Group has been particularly committed to greenhouse gas management in the supply chain in recent years.

This once again underlined the close integration of the Supply Chain and Climate areas in our CR strategy. For its long-term net zero target, the Otto Group will continue to focus primarily on improving the energy efficiency of production processes in the upstream value chain and promoting the use of renewable energies. In pilot projects, we are currently testing various approaches and gathering insights that will be crucial on our path to net zero. Comprehensive measures to address emissions from our customers in the use phase will also be important in the future. Improving the energy efficiency of electrical appliances and the recyclability of products are concrete starting points. In addition, we are striving to shift more and more of our freight from airplanes to ships and trains. As part of a pilot project run by Hermes Germany, for example, the first train transports between our warehouses in Haldensleben, Germany, and Lodz, Poland, started in July 2022. In the future, we will also further integrate our climate activities with the Sustainable Materials and Circularity areas, as decisive contributions to achieving our ambitious climate targets must be made here as well.

According to our current core priorities, we aim to lower our CO₂e emissions by 40% compared to the base year of 2018 for our own locations and transportation, employee mobility (operations), and externally operated data centers and cloud services by 2025, and to achieve climate neutrality by 2030. We will manage the decarbonization of our locations primarily by switching to renewable energy sources. At present, the Otto Group's share of green electricity is 29 percent at its global locations and 49 percent in Germany. Our intention is to switch to 100 percent green electricity at all German and – if available – also international locations by 2025. We have been harnessing the potential of our own locations for a long time already, equipping them with photovoltaic systems or combined heat and power plants and using geothermal energy. Once our SBT is officially validated, the near-term SBT and our long-term net zero goal will completely replace the previous core priorities in our CR strategy.

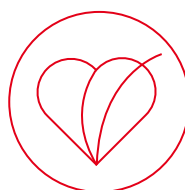
We are chasing net zero

By aligning our entire value chain with a science-based net zero goal, we aim to reduce all avoidable emissions in line with the 1.5 degree goal over the long term. Unavoidable residual emissions must be compensated through carbon removals.



Transformational goal

We achieve net zero emissions throughout our whole value chain until 2045.



Core priorities

Adjusted CO₂e reduction by 40% by 2025 (compared to base year of 2018) and climate neutrality by 2030 for our own locations, transportation, employee mobility (operations), and externally operated data centers and cloud services.

Avoid, reduce... offset?

We want to achieve our climate goals by consistently avoiding and lowering emissions. Offsetting projects do not play a role either in terms of our current core priority (– 40% CO₂e emissions by 2025 compared to 2018) or our long-term net zero goal. In addition, the Science Based Targets initiative (SBTi) does not allow offsets to count toward the achievement of targets. Nevertheless, we continue to use high-quality certificates from Atmosfair to make a meaningful additional contribution to climate protection.

There is also potential for climate action in our downstream supply chain. By delivering to our customers with low or zero emissions, we help reduce particulate pollution in cities, protecting the environment and health. With “Green Delivery Hamburg”, Hermes Germany will supply an entire city with zero emissions for the first time. The logistics company is gradually increasing the volume of shipments it delivers to Hamburg by electric, emission-free means. The groundbreaking ceremony for the new e-mobility hub in Billstedt was held in July 2022, marking the start of a project that is unique in Germany. From 2024, more than 200 vehicles powered with green electricity will be on the road in all of Hamburg’s zip code areas, transporting up to 12 million shipments per year and lowering CO₂e by 1,400 tons per year.

Throughout Germany, offsetting certificates are mainly used for the CO₂e-neutral shipment of parcels from Unito, Bonprix and OTTO, which are delivered by Hermes Germany and Hermes Einrichtungs Service to end customers. We place our trust in high-quality certificates from Atmosfair in this context. These certificates are for voluntary offsetting only and do not count towards our climate targets. We are also committed to natural climate protection. We are developing exclusive certificates according to the

MoorFutures® standard for Germany and the Baltic States as part of the “toMOORow” initiative we are facilitating. They are also intended for use as additional offsetting certificates in the medium term. The Michael Otto Foundation for Environmental Protection is in charge of implementing the initiative in collaboration with the Michael Succow Foundation, a partner in the Greifswald Moor Centrum. The aim is to engage in systematic rewetting to create functional moor landscapes that are capable of permanent carbon sequestration. In addition, the moorlands are to be sustainably cultivated (so-called paludiculture) in order to generate biomass for value chains in the long term. The Otto Group and its Group companies OTTO, Bonprix and the Witt Group as well as Hermes Germany are providing long-term support for the restoration to further the cause of climate and nature protection through more sustainable solutions.

By embracing the science-based targets, the Otto Group is including emissions from the entire value chain and aligning itself with a 1.5 degree target.

Greenhouse gas emissions reduction: Our goals

	Actual in 2021	Forecast in 2022	Actual in 2022	Target value
Percentage of green electricity in total electricity consumption (German and international locations)	28%	Slight increase	29%*	100% (by 2025)
Percentage of green electricity in electricity consumption at German locations	46%	Slight increase	49%*	100% (by 2025)
Reduction of adjusted CO ₂ e emissions compared to the base year of 2018**	– 18%	Slight reduction	– 21%	– 40% (by 2025)

* Due to the billing modalities of the energy suppliers, we have reported the value from the previous year (2021) here.

** Emissions relating to the locations are all based on the previous year’s values due to a lag in data availability. Emissions from data center buildings, from the purchase of cloud services, and from external data centers are collected in absolute values and not relative to their performance units. The emissions by Hermes Germany and Hermes Einrichtungs Service from transports commissioned by Group companies in the scope of the current climate strategy are part of the total emissions of the Otto Group. The emissions by Hermes Germany and Hermes Einrichtungs Service from transports commissioned by third parties outside of the Otto Group are not provided here. Emissions from Crate & Barrel’s transportation data (procurement and distribution) had to be taken from the previous year’s values in 2021 due to missing data for 2022.

Reducing impacts, managing risks

Climate protection has long had an economic significance as well: The Otto Group may face financial climate risks primarily in connection with a potential rise in the cost of raw materials, especially cotton, an increase in the CO₂e price and the risk of our most important suppliers losing their licenses, for instance due to environmental damage caused by extreme weather events. On the other hand, climate protection offers economic potential, for example by attracting new customer groups with sustainable, climate-friendly products and services. Climate-related risks are systematically mapped, assessed and reported to the Supervisory Board in an annual, Group-wide process using the Otto Group Risk Management Tool. In cooperation with the Climate Service Center Germany, an initiative of the Helmholtz Association, we are also addressing the issue of adaptation to climate change.