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WHAT SUSTAINABILITY MEANS FOR THE OTTO GROUP

When the concept of sustainable development was formulated 30 years ago by the World Commission on Environment and Development, the balancing of ecological, social and economic interests was still largely new. Today, the concept of sustainability is an overall social concern and its mission more current than ever.

SUSTAINABILITY AS A BUSINESS STRATEGY

Responsibility for people and nature is rooted in the vision of the Otto Group. To achieve social and environmental objectives for the Group is as much a part of the business strategy as economic success. It wants to reduce the negative impact of its business activities and create value for society. This works with the "impACT" sustainability management process, laying the foundation for sustainable action. Results and findings of the impACT process are directly incorporated into the 2020 CR Strategy (CR = Corporate Responsibility). It is part of the overall company strategy and includes five sub-strategies.

THE VALUE CHAIN AS A KEY CHALLENGE

For the Otto Group as a trading group, the complexity of the value chain is an enormous challenge for systematic activities, geared towards sustainability aspects. The biggest social and ecological impacts of business activities are incurred in the preliminary stages of an extended supply chain. To handle this, the Otto Group fundamentally reoriented its sustainability management in 2013. Since then, it has determined ecological impacts and social risks along the entire value chain and quantified these through external costs and risk-working hours. The Otto Group now has a solid basis for decision-making to promote the sustainable direction of their business models efficiently and effectively.

impACT AS A GUIDE AND BENCHMARK

The impACT sustainability management process involves three steps – from the prioritisation of issues to the development and assessment of measures to the implementation under the umbrella of the CR strategy. This process follows a holistic approach, helping to use financial and human resources specifically where they have the greatest impact on sustainability. The clear focus on effectiveness and efficiency, combined with business opportunities and risks, allows the Otto Group to embed sustainability at the core of its business processes. The topics that will be evaluated by the sustainability management depend largely on external requirements and developments.

IMPACT ESTIMATES THE DAMAGE TO THE ENVIRONMENT IN EUROS

WHAT INFLUENCES SUSTAINABILITY MANAGEMENT

The requirements for sustainability management are constantly changing, for example, through market trends, international politics and digital transformation. The Otto Group addresses these developments early on and considers them in its policies and actions. Systematically, this is done through stakeholder surveys and policy evaluations as part of the impACT process.

DIGITISATION OF THE BUSINESS

Digitisation notably concerns the business activities of the Otto Group and changes its business models radically. By linking and processing large amounts of data – from the demand side to the availability of goods – production, logistics and sales processes can be controlled more precisely and in a more resource-efficient manner.

Connecting a variety of different data sources opens up new opportunities in sustainability management: Purchasing and sales figures can be selectively combined with external databases, for example to ecological impacts in the supply chain, in order to simulate and control external effects of the business model.

New tracking and tracing methods also enable better traceability of products along the entire manufacturing process and create transparency for further improvement measures in the upstream production steps.

Apart from considerable opportunities, digitisation also presents great challenges for retail companies, such as constantly changing competitive conditions and customer preferences. These require a high degree of flexibility and adaptability from companies. Sustainability management is therefore faced with the task of pursuing sustainable progress and long-term goals in an ever more rapidly changing environment.

THE GLOBAL SUSTAINABILITY GOALS

The 17 Sustainable Development Goals (SDGs), decided in autumn 2015 by the United Nations, influence the sustainability agendas of companies worldwide. The

sustainability activities of the Otto Group are aimed at achieving a variety of SDGs. For example, the use of Cotton made in Africa (CmiA)- certified cotton provides amongst other things a contribution to SDGs 1 “No Poverty”, 2 “Zero Hunger” and 15 “Life on Land”. In 2017, the SDGs will be systematically included into the impACT process of the Otto Group.

SUSTAINABILITY AND DEMAND IN THE MARKET

Young people are especially aware of the transformative power of sustainable consumption. In particular,

SUSTAINABLE PRODUCTS CANNOT COST (MUCH) MORE

new sharing concepts are becoming increasingly popular. But the willingness to buy organic or fairly manufactured products is low across the total population, due to their additional costs. Thus, the market for sustainably produced goods still remains a niche. For 2014, the Federal Environment Agency estimated private consumption expenditure on green products in Germany at around EUR 50 billion, representing about 3.4% of total spending. Sustainable product alternatives in textiles, paper and wood products as well as cleaning products, at EUR 1.6 billion, played only a minor role. Sustainable approaches for the mass market need to consider the price sensitivity of customers – therefore a cost-effective increase in the sustainability performance of the entire range is most important for the Otto Group.

POLITICAL AND REGULATORY DEVELOPMENTS

Regulatory developments, policy initiatives and commitments in certain sectors directly influence the Otto Group. These include the Bangladesh Accord and the German Textile Alliance. The Bangladesh Accord was founded in 2013 in response to the collapse of the Rana Plaza building in which more than 1,100 people were killed. The Otto Group is one of the signatories of the agreement, which is intended to improve the health and safety of workers in Bangladesh's garment factories.

In addition, the company Group is a member of the German Textile Alliance initiated by the Federal Development Minister Gerd Müller in 2014, which also aims at better working conditions and more environmental protection in the supply chain.

The German Climate Action Plan 2050 for the implementation of the Paris Agreement within the UN obliges companies to achieve the 2 degree Celsius target: By 2030, greenhouse gas emissions in Germany will have to drop by 55% compared with 1990 and 80 to 95% by 2050. With its previous pro-active and ambitious climate change mitigation activities, the Otto Group is well positioned to respond adequately to future regulatory pressure. Regulatory measures are possible to aim at increased energy efficiency of buildings or alternative vehicle drive systems.

Value-adding and process stages based on textiles



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HOW SUSTAINABILITY IS INTEGRATED INTO MANAGEMENT

CR STRATEGY 2020

Developed in 2012, the CR strategy 2020 is an integral part of the company strategy. It is implemented by all major Group companies (annual external revenue of more than EUR 100 million), based in Germany and Austria. Together they generate 59% of Group revenue and are responsible for about 80% of the environmental

In order to manage its sustainability performance, the Otto Group has established the impACT management process, which is closely oriented to business processes. The goals are set by the CR Strategy 2020.

impact of the Otto Group. The CR Strategy includes five thematic sub-strategies. Due to the decentralised organisation of the Otto Group the managing directors of the individual Group companies are responsible for the implementation of the five sub-strategies.

CR Strategy 2020 with participating Group companies

TEXTILE STRATEGY

CR STRATEGY 2020

<p>TARGET BY 2020 100% sustainable cotton</p> <p>TARGET ACHIEVEMENT 2015–2016 27% → 49%</p>	<p>CRITERIA FOR INCLUSION OF GROUP COMPANIES > EUR 10 million annual textile sales with own and licensed brands</p> <p>PARTICIPATING COMPANIES Bonprix, Frankonia, Heine, OTTO, Schwab, Sportscheck, Witt-Gruppe</p>
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PAPER STRATEGY

<p>CRITERIA FOR INCLUSION OF GROUP COMPANIES > EUR 10 million sales in the product group furniture</p> <p>PARTICIPATING COMPANIES Baumarkt direkt, Bonprix, Heine, OTTO</p>	<p>TARGET BY 2020 100% FSC®-certified furniture products</p> <p>TARGET ACHIEVEMENT 2015–2016 43% → 46%</p>
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CLIMATE STRATEGY

<p>TARGET BY 2020 50% FSC®-certified paper for catalogues</p> <p>TARGET ACHIEVEMENT 2015–2016 28% → 34%</p>	<p>CRITERIA FOR INCLUSION OF GROUP COMPANIES > 1,000 t purchasing volume of catalogue paper</p> <p>PARTICIPATING COMPANIES OTTO coordinates procurement for all 13 strategy companies* (except for Mytoys, Hermes & EOS)</p>
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<p>CRITERIA FOR INCLUSION OF GROUP COMPANIES Procurement of own and licensed brands</p> <p>PARTICIPATING COMPANIES Bonprix, OTTO, Heine, Schwab, Witt-Gruppe, Frankonia**, Mytoys**, Sportscheck**, Unito**</p>	<p>TARGET BY 2020 100% integrated suppliers</p> <p>TARGET ACHIEVEMENT 2015–2016 41% → 80%</p>
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<p>TARGET BY 2020 50% reduction of CO₂ emissions (base year 2006)</p> <p>TARGET ACHIEVEMENT 2015–2016 –28% → –34%</p>	<p>CRITERIA FOR INCLUSION OF GROUP COMPANIES Operating locations and hiring of transport</p> <p>PARTICIPATING COMPANIES All 13 strategy companies*</p>
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FURNITURE STRATEGY

SOCIAL PROGRAMME

* Included in the CR Strategy 2020 are Baumarkt direkt, Baur, Bonprix, EOS, Frankonia, Heine, Hermes, Mytoys, OTTO, Schwab/Sheego, Sportscheck, Unito, Witt-Group. Companies are integrated into the Social Programme, their achievement values, however, are still listed separately and are not included in the target achievement value of the Otto Group.

INCLUSION OF INTERNATIONAL SUBSIDIARIES IN THE CR STRATEGY

Since 2016 Freemans Grattan Holdings (UK), Crate and Barrel (USA and Canada) and the principal foreign enterprises of Bonprix (IT, USA, PL, FR) have been integrated into the CR Strategy. Due to the subsequent integration they pursue separate target paths in the relevant sub-strategies. First concrete targets have been set up for 2017.

RESPONSIBILITIES AND STRUCTURES

The CEO of the Otto Group, Alexander Birken, is directly responsible for sustainability management and, at the same time, chairman of the CR Board, which decides on strategic sustainability issues. The CR Board also includes Hanjo Schneider, Member of the Executive Board, Services Otto Group, and Dr Michael Heller, Member of the OTTO Management Board for Categories. The annual

variable component of the Group's Executive Board is subject to the achievement of the CR Strategy 2020. The Sustainable Supply Chain Management Board (SSCM Board) has been a bridge between the CR Board and the Group's operating divisions since 2014 and looks at the sustainability issues in the supply chain from a holistic perspective and prepares decisions for the CR Board. It consists of managers and directors of selected Group companies and meets four to five times a year.

The Otto Group's Sustainability Management Division manages the Group-wide sustainability activities and advises companies on strategy implementation and innovation. This includes the development of strategies and concepts as well as the provision of suitable measuring instruments. Other tasks include stakeholder management, networking and knowledge transfer among the Group companies.

STAKEHOLDER MANAGEMENT AND DIALOGUE

The Otto Group is in dialogue with its stakeholders to understand their expectations, to ensure a steady transfer of knowledge and to involve them in strategic developments. To do so, it uses a variety of channels. For example, the requirements and assessments of selected stakeholders influence the strategic direction of the company Group through the impACT management process. In addition, the Otto Group promotes external initiatives and involves itself in the public debate on sustainability.

MICHAEL OTTO FOUNDATION FOR ENVIRONMENTAL PROTECTION

For over 20 years, the Michael Otto Foundation has been committed to environmental protection for a variety of conservation issues and to education for sustainable development. In 2016, the Foundation was able to further develop its AQUA AGENTS project for the sustainable education of primary school pupils in a nationwide programme. They also took over responsibility for the Centre of Excellence for Nature Conservation and Energy Policy. In January 2017, the Foundation initiated the nationwide dialogue and demonstration project F.R.A.N.Z. (For resources, agriculture and nature protection with a future).

social impacts of global textile production. Dr Johannes Merck, Otto Group Director for Corporate Responsibility was appointed in 2015 as one of four business representatives in the steering committee of the Textile Alliance. Representatives of the Group Division are involved in the technical working groups of the Alliance.

Bangladesh Accord: The Otto Group is a signatory of the Bangladesh Accord (see also page 70), which has been developed together with our global union federations IndustriALL and UniGlobal, the Clean Clothes Campaign (CCC), the Worker Rights Consortium (WRC), national unions and major international companies in the textile sector. When founded in 2013, the Accord was initially intended for a five-year period. The Otto Group, as a member of the Accord Steering Committee, is currently focused on working on the conceptual design of an action plan post 2018.

Forest Stewardship Council® (FSC): This non-profit organisation is committed to preserve forests by promoting responsible forest management (see also page 68). Strict management criteria avoid uncontrolled deforestation and human rights abuses and fosters the preservation of ecosystems and

Textile Alliance: The German Alliance for Sustainable Textiles unites stakeholders from industry, commerce, politics, trade unions and civil society with the aim of systematically reducing the negative environmental and

biodiversity. In summer 2016, the annual FSC General Assembly was held at the Otto Group in Hamburg. On this occasion, the company also celebrated its 10-year membership in the organisation.

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Textile Exchange: The international network promotes sustainability in the textile industry. With Andreas Streubig, head of Division Sustainability Management, the Otto Group is represented on the Governance Board of the organisation. The Annual Conference 2016 was held with the support of the member company Otto Group in Hamburg.

Foundation 2°: Initiated by the Dr Michael Otto, the foundation brings together prominent business leaders who work on climate change mitigation. Foundation 2° has set itself the goal of supporting the policy of establishing an effective enterprise framework for climate change mitigation and to leverage German companies' required competencies. For example in 2016 it published statements for the federal government's Climate Action Plan 2050 as well as on the theme of carbon consensus.

HOW MATERIALITY LEADS TO ACTION

As part of its sustainability management, the Otto Group determines and evaluates the social and environmental impacts throughout the value chain. This enables resources to be allocated where they have the greatest impact.

Developed by the Otto Group, the impACT management process links the effects (impact) with the derived action (act). The impACT process involves three steps: First, the impacts of business activities on people and nature are qualitatively and quantitatively assessed and identified as material topic areas. This prioritisation is used in the second step as a basis for the development of strategic objectives and operational measures that will eventually be implemented in the third step under the umbrella of

the CR Strategy 2020. In 2014, the Otto Group received the German Federal Government's CSR Award for this innovative approach.

impACT STEP 1: MATERIALITY ANALYSIS

The Otto Group Materiality Analysis comprises a quantitative assessment of all environmental and social impacts of operations and an evaluation of these challenges from

THE FOUR VALUE-ADDING STAGES

The Otto Group divides its business activities and its sustainability performance into four stages of the value chain:

- ▶ **Raw Materials & Processing:** In the first stage raw materials are produced and prepared for production.
- ▶ **Final Production:** At this stage, the finished products are produced from the intermediate products and packaged for transport.
- ▶ **Trade:** This stage includes the transport of goods from the production countries to the markets, storage and delivery to customers.
- ▶ **Customer:** This final stage includes the entire usage phase and disposal or recycling of products.



a stakeholder perspective. The quantitative analysis is carried out annually, the stakeholder surveys every two years, most recently in 2016.

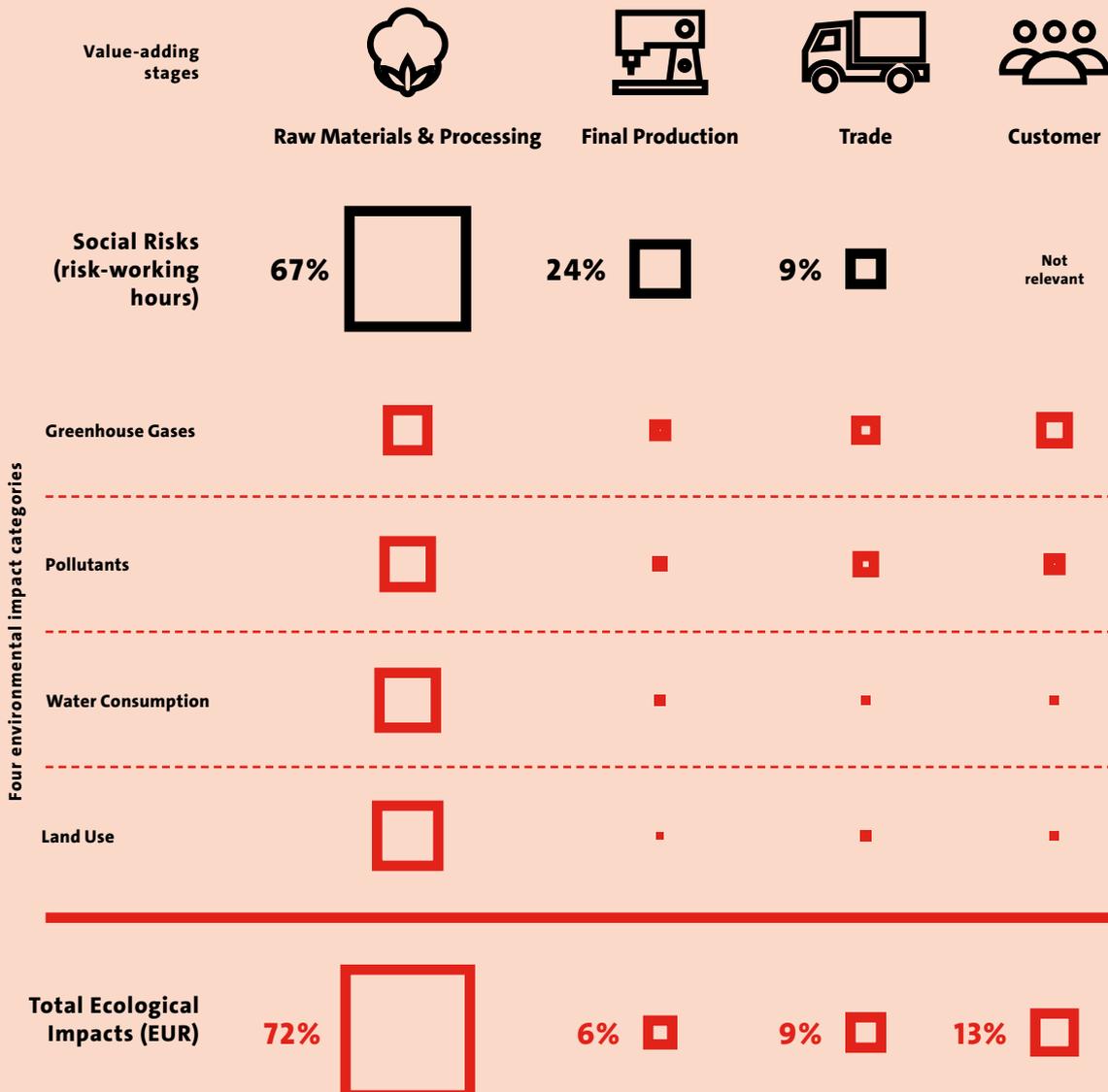
QUANTITATIVE IDENTIFICATION OF EXTERNAL COSTS AND RISKS

For the quantitative assessment (see y-axis of the matrix on page 66) the environmental and social impacts along the four value-adding stages are determined. The ecological effects are allocated to the four impact categories greenhouse gases, pollutants, water consumption and land use. For its calculation, the Otto Group links its purchasing and sales numbers with values from external databases on impacts on ecosystems and human health. This results in quantitative values that are converted into "caused" external environmental costs (in EUR).

The qualitative assessment consists of four surveys:

- ▶ In order to assess the expectations of **external stakeholders**, the Otto Group, in 2016, conducted an on-line survey among experts from science, politics, non-governmental organisations and research (weighting on the overall result of the qualitative assessment: 50%).
- ▶ For an assessment of **reputational risks and opportunities** all topic areas were assessed in internal workshop (weighting: 16.7%).
- ▶ In order to assess **regulatory risks**, the probability of the introduction of regulations was determined internally and linked to the estimated expenses that would arise for the Otto Group if the regulation was introduced (Weighting: 16.7%).
- ▶ The evaluation of the topic areas in terms of their relevance to the **business** of the Otto Group was carried out by means of an on-line survey addressed to directors and board members (Weighting: 16.7%).

Distribution of ecological impacts and social risks along the value chain



HELLO FUTURE

The social consequences are represented by the fifth impact category of social risks and measured by risk-working hours. To do so, the Group determines the country- and industry-specific risk that indicates the chance of working hours performed in violation of minimum social standards. By quantifying environmental and social impacts, the Otto Group receives a realistic picture of the external effects associated with its business activities, i.e. its ecological and social footprint.

QUALITATIVE EVALUATION BY STAKEHOLDERS

In addition, the individual topic areas are assessed by internal and external stakeholders (see the x-axis of the matrix on page 66). Topic areas refer to the effects by impact category and value-adding stage (for example, greenhouse gases in the Trade value-adding stage). In addition to the 20 topic areas, stakeholders in 2016 estimated the relevance of the topics of animal welfare, recycling and resource efficiency for the Otto Group. The evaluation of all issues was performed in view of the next two to five years.

MATERIALITY MATRIX 2017

In the matrix (see chart, page 66) all results of the Materiality Analysis are merged. It shows which topic areas are particularly relevant to the Otto Group because of the high external effects and/or importance of the Otto Group for the various stakeholder groups.

impACT STEP 2: DERIVING TARGETS AND MEASURES

Based on the Materiality Analysis, the Otto Group develops potential measures which then undergo a cost-benefit analysis. Both the benefits for the Otto Group as well as for people and nature are considered. For this purpose, it is determined to what extent the potential measures can reduce the environmental impacts and social risks. The evaluation of the benefits for the Otto Group includes whether these reduce reputational and regulatory risks, increase market opportunities by increasing efficiency and innovation, and meet the expectations of external stakeholders. This is

The three steps of the impACT process

1. Carry out a Materiality Analysis

see graphic page 66

2. Develop measures and assess their costs & benefits

see text below

3. Implement measures under the umbrella of the CR Strategy

see graphic page 61

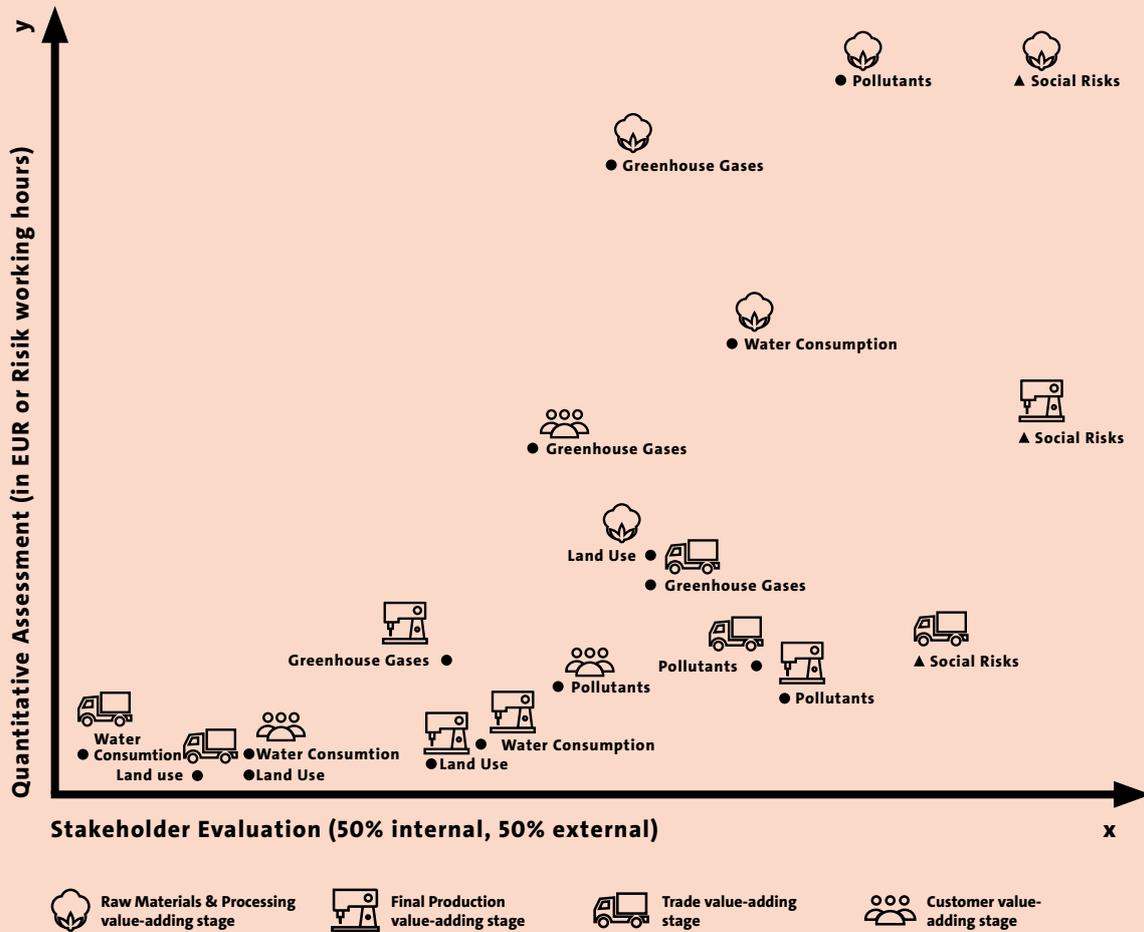
compared with the estimated expenses, for example, investment or personnel costs.

impACT STEP 3: IMPLEMENTING THE CR STRATEGY

The measures with the best cost-benefit ratio are presented to the SSCM Board, adjusted if necessary and then submitted to the CR Board for decision. Any measure adopted is then managed under the umbrella of the CR Strategy 2020. In the third step of the impACT process, the Otto Group thus implements the insights gained from the Materiality Analysis and the cost-benefit assessment. The centrally controlled measures with Group-wide relevance are supplemented by specific activities of the individual Group companies.

DETERMINE THE FOOTPRINT OF THE OTTO GROUP

Materiality Matrix 2017: Relevance of the topic areas for the Otto Group



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MATERIALITY ANALYSIS 2017

A comparison of the results with the 2015 analysis shows the following changes:

- ▶ Social risks in trade were rated higher, mainly due to possible adjustment (adjustment of the minimum wage in Germany and corresponding cost effects).
- ▶ The impact category of greenhouse gases was rated less relevant in the entire value chain. This could result from the perception that the Paris Agreement will enforce climate regulations effectively.
- ▶ From the point of view of external stakeholders, the additional topics of recycling and resource efficiency have a medium relevance for the Otto Group across the entire value chain. The issue of animal welfare has little relevance (little need for action) for the business model of the Otto Group.

RAW MATERIALS AND PROCESSING VALUE-ADDING STAGE

The first stage of the value chain comprises the assembly and exploitation of raw materials and their further processing. The share of environmental impacts and social risks is greatest here at around 70 percent. With three sub-strategies, the company contributes to more sustainable usage of raw materials.

The Otto Group is working intensively to achieve more sustainable extraction of raw materials and to work towards a better management of chemicals in the production facilities along the supply chain. Already in the cultivation of cotton and the subsequent refinement of textiles many chemicals are used, which can be harmful for humans and nature. The sub-strategies for textiles, furniture and paper promote more sustainable cotton production and a responsible use of wood, the raw materials most widely used in the Otto Group.

STATUS TEXTILE STRATEGY

In the year 2020, only cotton from sustainable cultivation will be used for the company's own and licensed

brands. **In 2016 the use of sustainable cotton rose to 49% (2015: 27%).** This positive development is mainly due to the increasingly well-established cotton sourcing processes from the Cotton made in Africa (CmiA) initiative and the associated significant increase in use at OTTO, Bonprix and the Witt Group. As a result of higher CmiA sourcing volumes, the share of sustainable cotton is expected to continue to grow significantly in 2017.

COTTON MADE IN AFRICA

“Cotton made in Africa” (CmiA) is an initiative of the Aid by Trade Foundation, founded in 2005 by Dr Michael Otto. Compared to conventional cotton, CmiA-certified cotton causes up to 40% less greenhouse gas emissions, saves around 2,100 litres of water per kilogram through the exclusive use of rainwater and excludes the use of certain pesticides. In addition, smallholders benefit from agricultural and business training as well as dependable payment. Cost-effective sourcing allows companies to use CmiA cotton in the mass market. The underlying “mass balance approach” is similar to the green electricity model: CmiA cotton does not have to be detected in individual products. The decisive factor is that a corresponding quantity flows into the value chain and thus demand is created. In 2016, 690,000 smallholders in nine African countries benefited from the CmiA initiative. More than 280,000 tonnes of CmiA cotton were produced – the Otto Group procured an equivalent quantity of almost 16,000 tonnes.

CMI-A COTTON HAS
 MORE THAN
33 BILLION
 LITRES OF WATER
 IN COTTON GROWING
 IN 2016

Sustainable cotton* (in t)

	2013	2014	2015	2016
Total quantity of cotton	39,453	35,599	35,941	33,664
Quantity of organic cotton	607	478	504	639
Quantity of CmiA cotton	2,164	3,405	9,225	15,913
Share of sustainable cotton	7%	11%	27%	49%

* Based on the sourcing volume of raw cotton.

STATUS FURNITURE STRATEGY

The goal is the complete conversion of the wood furniture series to items from responsible forestry, certified according to the Forest Stewardship Council's (FSC) standard. **In 2016, FSC-certified wood accounted for 46% (2015: 43%)** of the total wood furniture range. The slight increase resulted from agreements between subsidiaries and the major furniture suppliers. In 2017, the FSC-share is expected to significantly increase in the wood furniture range.

An obstacle to the complete FSC certification of the wood furniture range is the low availability of FSC-certified wood materials (especially fibre board) on the German market, since so far only the Otto Group has been a major consumer. In addition, the proportion of FSC-certified forest area in Germany at about 10% is relatively low. In a working group formed together with representatives of the FSC and other furniture retailers, the Otto Group advocates for better availability and increased demand for FSC-certified wood materials in Germany.

FSC-certified furniture products (number)

	2013	2014*	2015	2016
Total number of furniture articles	45,485	56,350	49,694	58,527
of which, number of FSC-certified articles in the assortment	11,872	18,688	21,281	26,829
Share of FSC-certified articles in terms of the overall furniture assortment	26%	33%	43%	46%

* Up to 2014, including OTTO Office; from 2015 without OTTO Office.

STATUS PAPER STRATEGY

The Otto Group is one of the largest paper consumers in Germany. By 2018, the proportion of FSC-certified paper from gravure and offset printing processes for catalogues and advertising material should be at least 50%. **In 2016, the FSC proportion was 34% (2015: 28%)**. The reasons for the increase were long-term agreements

with suppliers through the Group company OTTO, which coordinates the sourcing of much of the catalogue paper within the Otto Group. For the same reason, a significant increase in the FSC share is expected for 2017. In addition, an increase of the target value for 2020 will be reviewed in 2017.

Catalogue and advertising-material paper consumption (in t)

	2013	2014	2015	2016*
Total quantity of paper	258,382	264,189	239,560	221,497
of which, quantity of FSC paper	28,306	51,172	67,833	75,047
Share of FSC paper	11%	19%	28%	34%

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

ROADMAP TEXTILE ALLIANCE

As part of the membership of the German Textile Alliance, in early 2017 the first roadmap with objectives for the current year was presented. Thereby, the Otto Group dealt intensively with the classification of its own sustainability activities and objectives in relation to the Alliance's requirements by the end of 2017. The roadmap concentrates on

the issues that the Textile Alliance currently puts into focus: Chemicals management, natural fibres and social

management. The Group will report annually on the target achievements.

PRACTICAL EXAMPLE OF BONPRIX

Sustainable raw materials: In addition to Cotton made in Africa, organic cotton and FSC materials, Bonprix also offers REPREVE®. This recycled polyester fibre is made from PET bottles and registered under the Global Recycled Standard of the non-profit organisation Textile Exchange. From it, new products such as outdoor jackets or jeans are produced.

FINAL PRODUCTION VALUE-ADDING STAGE

At this stage, the final steps in the manufacturing process up to the packaging of goods for transport take place. The ecological impacts of business activities are rather low, whereas risks of inadequate working conditions are high. The Otto Group focuses on these through its social programme and its partnerships.

commitment of the Group is clear: The Otto Group takes its responsibility in the supply chain seriously and with its Social Programme, wants to ensure acceptable working conditions at all production sites and qualify them accordingly.

The actions of the Otto Group in the Final Production value-adding stage depend on the nature of the sourcing of merchandise. Around half of the traded goods are third-party brands – in this case, the brand manufacturers are obligated to sign the Otto Group's Code of Conduct or the Group recognises their codes of conduct in case of agreement. In the case of own and licensed brands, one part is procured directly, the other through importers or external sourcing organisations. The manufacturing factories are rarely direct business partners of the Otto Group, since a contractual relationship usually only exists with the supplier, who often cooperates with different factories. In addition, the range of products at more than 1 million is high and the order quantity per article often low. Together with the complex sourcing structures, this makes it difficult for the Group companies to influence conditions of production. Nevertheless, the

CODES OF CONDUCT

In accordance with its sourcing structure, the Otto Group has introduced two Codes of Conduct with established social standards: one for merchandising goods and one for non-merchandising goods and services. The Code of

FOCUS ON WORKING CONDITIONS IN RISK COUNTRIES

Social Programme: Integration status and supplier performance

	Description	2016
Status: integrated		80%
accepted	Valid and accepted standards or assessments provided for all of a supplier's active factories	51%
advanced achieved	Valid SA8000 certificates or a BSCI audit result of 'good' provided for all of a supplier's active factories	17%
BSCI member	Importer is a BSCI member	12%
Status: not achieved		20%
Not accepted	A supplier does not have valid and accepted standards or assessments for all active factories	10%
No Performance	Integration status still unclear as, for example, transparency has not yet been established concerning active factories	10%

Conduct for merchandise is based, inter alia, on the core labour standards of the International Labour Organization and relevant UN Conventions against Child Labour and Gender Discrimination. Suppliers and business partners commit themselves with their signatures not only to comply within their own company, but also to ensure the standards at their subcontractors.

STATUS SOCIAL PROGRAMME

The programme integrates all suppliers for own and licensed brands of the Group companies producing in factories in risk countries (according to the BSCI classification¹). Integrated suppliers are suppliers that provide valid and accepted social audits or certificates for all factories producing for Otto Group companies. **In 2016, this was true for 80% of the suppliers (2015: 41%).** The significant increase is mostly due to improved data availability regarding social standards of factories. The Otto Group creates this transparency with the help of a Group-wide database – the Supply Chain Database implemented in 2014. Due to the further improvement of data management and the resulting control possibilities, a slight increase in the integration rate is also expected in 2017. In addition, the consistent termination of cooperation with non-compliant suppliers will contribute to the expected increase.

In 2016, 124 factories in the main sourcing countries of China, Turkey, India and Bangladesh took part in the Otto Group's qualification programme. In small groups, selected factory representatives acquire skills to improve working conditions over several months, in order to be able to implement them permanently.

IMPLEMENTATION OF THE BANGLADESH ACCORD

To implement the Bangladesh Accord, comprehensive corrective measures, informed by independent safety investigations, were taken in the reporting period to improve safety at work in all 32 factories in Bangladesh in which the Otto Group manufactures.

GROUP DIRECTIVE SUSTAINABILITY IN PROCUREMENT

The internal guideline "Sustainability in Procurement" establishes social and ecological minimum requirements for the entire sourcing of goods by the Group companies. Since 1 January 2017, it has been valid in an updated version throughout the Group. The thematic additions include guidelines for the use of recycled materials in textiles and the prevention of chemicals, as well as the ban on the sale of mercury-containing fluorescent lamps

PRACTICAL EXAMPLE OF BONPRIX

Qualification measures: By the end of 2016 Bonprix was able to integrate 92% of its suppliers into the Social Programme. These suppliers provided valid and accepted social audits/ standards for all factories active for Bonprix. In addition, selected factories were trained in small groups over a period of several months within the framework of a qualification programme in order to achieve sustainable improvements in their production plants.

¹ http://www.bsci-intl.org/sites/default/files/countries_risk_classification_final_version_20140109.pdf

and energy-saving lamps. In addition to minimum standards, the revised Directive contains recommendations on the use of sustainable materials.

COMMITMENT AGAINST CHILD LABOUR

For nine years the Otto Group has been working with the human rights organisation Terre des Hommes to combat child labour in India. Since the start, more

than 900 children and young people have been visiting education centres and children’s clubs with the help of the Otto Group, and have been trained or completed an apprenticeship. In addition, about 1,100 children in public schools benefit from improved quality of education. The parents are supported to set up a small business to be able to afford the education of their children. The successful cooperation with Terre des Hommes will be completed as planned in March 2017.

PARTNERSHIPS

The Otto Group has played a key role in establishing the Business Social Compliance Initiative (BSCI), an initiative by traders and producers with the aim of improving working conditions in the supply chain. In 2016 the Otto Group helped, for example, to develop a “Guidance package” with recommendations for action to identify and avoid precarious working conditions for refugees in the Turkish clothing industry.

In order to improve the climate change mitigation of textile manufacturers in the supply chain, the Otto Group set up the Carbon Performance Improvement Initiative (CPI2) together with seven other trading companies. The range of topics has been expanded to water and chemicals. In the CPI2 data tool, more than 400 improvement measures are now available with information on their effort and benefits. In 2016, 168 textile manufacturers producing for the Otto Group followed these recommendations.

TRADE VALUE-ADDING STAGE

In addition to the activities at the approximately 400 locations in Germany, the Trade value-adding stage also comprises the transport from the sourcing countries to the warehouses of the trading companies and the distribution from the warehouses to the customers. Every year, the German Group companies procure around 100,000 tonnes of goods. Both the sourcing and delivery of goods are mostly carried out by the Group company Hermes. Thus, the Otto Group’s room for manoeuvre is high. At the same time foreseeable legal regulations limiting pollutant emissions underline the need for action in the field of transport. Possible restrictions, such as access restrictions for inner cities, would hit trading companies and logistics service providers particularly hard.

At this stage, the environmental impacts and the social risks are relatively low, the influence of the Otto Group is however high. The main effects are the greenhouse gas and pollutant emissions resulting from sourcing transport and the delivery of goods. With its Climate Strategy, the Group aims to reduce CO₂ emissions.

STATUS CLIMATE STRATEGY

By 2020, the adjusted CO₂ emissions from the company’s own sites, as well as sourcing and distribution transports, are to be halved in comparison to the base year 2006. Last year, the adjusted CO₂ emissions decreased from 212,000 to 196,000 tonnes compared to 2015. **Compared to the base year, this means a reduction of 34% (2015: 28%).** The development is mainly due to the shift in airfreight to the lowered CO₂ rates for sea, road and rail transport as well as in distribution logistics to a sharp increase in delivery volumes at Hermes Germany and the associated efficiency increases per delivery. CO₂ emissions

will also drop significantly in 2017, since on 1 January 2017 many Otto Group power supplies were switched to high-quality certified green electricity. Another contribution to target achievement is expected at Hermes Germany: The company is further optimising its location structure and distribution to the customer from the economic as well as the environmental point of view.

ENVIRONMENTAL MANAGEMENT AT ITS OWN SITES

At their locations, the Otto Group pays attention to the careful use of natural resources such as water and the responsible management of waste. At locations with more than 5,000 square meters of usable space, as

**SINCE 2006,
34%
CO₂ REDUCTION**

well as at all of the head offices of the Group companies included in the report, energy and water consumption as well as sewage and waste water are measured. At present, 15 of the sites covered by the reporting have environmental management systems that are certified according to the international standard ISO 14001.

DEALING WITH CONTRACTORS FOR PARCEL DELIVERY

The package delivery at Hermes Germany usually is taken over by contract partners. Since 2012 these are being reviewed regularly by an internal audit team and the certification company SGS-TÜV Saar, which spot checks aspects of occupational safety, compensation,

PRACTICAL EXAMPLE OF HERMES

Urban Blue 4.0: The delivery quantities of packages to private customers are expected to nearly double from 2015 to 2025. Against the background of increasing urbanisation and the already large impact through noise and pollutants, new ways must be found to maintain urban quality of life. Hermes Germany sees itself as a provider of solutions for sustainable urban logistics and as a partner for municipalities and trade. With the Urban Blue 4.0 concept, Hermes Germany pursues the strategic goal of delivering goods free of emissions in all inner cities of Germany. Steps to this target include, for example, the successive conversion of the vehicle fleet to low-emission engines, the use of parcel shops as urban micro-hubs and the use of electric cargo bikes as well as parcel robots. For this purpose, Hermes Germany cooperates with Starship Technologies and tests the partly automatic delivery in Hamburg.

Distribution of adjusted CO₂ emissions 2016

59% Transport

37% Locations

4% Mobility*

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

Absolute and adjusted CO₂ emissions (in t)

	2006 (base year)	2014	2015	2016
absolute in t	296,200	248,101	245,891	235,873
adjusted in t	296,200	224,149	212,241	196,468
Reduction in adjusted CO ₂ emissions versus 2006	–	–24%	–28%*	–34%

* With respect to the Annual Report 2015/16 value has changed with updated location data from –27% to –28%.

working hours, quality and environment. Since 2013 a consistently high certification rate of 95–99% has been achieved. During the reporting period, 208 of the 403 active contract partners were audited, 205 of which received the certificate. In 2017, SGS-TÜV Saar will audit

all active contract partners and focus on the risk areas of employment conditions and service management. In parallel, the contract partners– continue to be randomly checked in internal audits for the aspects work safety, environment and quality.

Waste by category (in t)

	2013	2014	2015	2016
Total waste	36,602	35,018	30,561	35,855
Quantity of hazardous waste*	73	115	189	905
Share of hazardous waste	0.2%	0.3%	0.6%	2.5%
Quantity of non-hazardous waste	36,529	34,903	30,373	34,950
Share of non-hazardous waste	99.8%	99.7%	99.4%	97.5%

* Hazardous waste is generated mainly by electrical waste at the Otto Group. The rise in 2016 was due to construction work at the location Hamburg-Bramfeld (715 t asphalt containing tar).

CUSTOMER VALUE-ADDING STAGE

During product use, an average of 13% of the total environmental impacts incur across the product range. The Group companies initiate individual measures to sensitise their customers in the selection and use of products for sustainability.

The Customer value-adding stage includes all phases of product usage to disposal and recycling. Relevant from an ecological point of view are the release of greenhouse gases and pollutants, for example by the energy consumption and the discharge of chemicals during the washing of textiles. A sustainable product range and marketing can reduce

these impacts. From a social perspective, sustainable consumption is desirable. However, beyond food and cosmetics the willingness of most consumers to pay for sustainably manufactured products is low.

ORIENTATION FOR CONSUMERS

According to surveys, consumers often feel overwhelmed by the multitude of labels when it comes to sustainable consumption. The GOODproduct label serves as identification and combines all relevant seals and certificates with sustainable added value. Unlike in the case of food shopping, “eco” or “organic” in fashion shopping is more associated with renunciation and a bad conscience. This is why the term GOODproduct is used, which conveys a positive shopping experience that is both socially and environmentally compatible. The GOODproduct label was introduced by the Group company OTTO in July 2015. Meanwhile, it is also used by the Group companies Baur, Heine, Schwab and Unito.

FUR-FREE FASHION

In addition to the long-term exclusion of fur from the product range, the Otto Group has been a member of the international “Fur Free Retailer” programme since 2014, whose signatories assure not to use any real fur. In this way, a clear public sign of animal protection is set beyond the previous self-commitment to the protection of animals.

CUSTOMERS WANT A PERSONAL ADVANTAGE THROUGH SUSTAINABLE PRODUCTS

PRACTICAL EXAMPLES OF OTTO

Campaign on sustainability: For the first time, OTTO broadcasted a TV spot on sustainability in 2016. A 360° communication accompanied the “Cotton made in Africa” campaign. It intended to raise awareness among consumers of responsible cotton farming.

Access to clean drinking water: As part of the “Drop for Life” project, OTTO and the Aid by Trade Foundation, the cotton company Plexus and Deutsche Entwicklungs- und Investitionsgesellschaft (DEG) support drinking water supplies to villages in Mozambique. In the project period from November 2014 to August 2016, more than 50,000 people in 20 villages got access to clean drinking water for the first time. Thus, OTTO draws its customers’ attention to sustainability issues in the value chain and demonstrates the commitment they have made.

Renting instead of buying: With OTTO Now, OTTO is testing a new business model and is approaching customers who just want to use a product temporarily. On the platform they can rent products such as televisions, washing machines and electric bikes.

Efficient large electrical appliances *

	2013	2014	2015	2016
Number of large electrical appliances in total range	2,504	2,876	2,030**	2,597
Share of efficient large electrical appliances in total range	57.8%	68.9%	32.3%	31.7%

* Electrical appliances are considered to be efficient if they are provably more energy-efficient than the average energy consumption values in their product group (for example, refrigerator-freezer combinations in energy class A+++).

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