

Sustainability report
FY 2020/2021

SCHWARZ



Be a part
of our
sustainable
future



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To simplify readability, the masculine form is used in this report when referring to groups of people (employees, colleagues, etc.). This is intended to include all genders equally.

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The companies of Schwarz Group have created this report as the joint Sustainability report of all companies of Schwarz Group. The words “we”, “us”, “our” or similar expressions are meant to represent all these companies.

Gerd Chrzanowski is a part of our sustainable future.

Sustainability is an attitude. In an interview, Gerd Chrzanowski, General Partner of Schwarz Group, explains why the companies of Schwarz Group have anchored sustainability in their corporate culture right from the beginning and to what extent acting sustainably means respect for future generations.

Which role does sustainability play in your decisions?

› **Gerd Chrzanowski** Our origins lie in retailing. Simultaneously, we are a family-run enterprise from the German State of Baden-Wuerttemberg, and more precisely, from the Swabian City of Heilbronn. Nothing goes to waste there. We have always thought sustainably and in terms of generations. If one builds homes in this region, then it is always for the future of the grandchildren too.

To me, sustainability is connected with generations: That means, respecting what others have built, and taking responsibility for those to come – and that is exactly how the companies of Schwarz Group act!

So, sustainability is more than just a strategy to you?

› Absolutely! Sustainability is an attitude here! We definitely have the right mindset to sustainably design the processes and products in our companies.

We know our responsibility, and adjust big and small levers every day to ensure that the companies of Schwarz Group act more consciously and sustainably in all areas.

The companies of Schwarz Group have fully understood the need to act sustainably and are implementing it. All employees in the corporates of Schwarz Group are working towards fulfilling our responsibility.

GRI 2-22

How does sustainability fit in with the Schwarz Group?

- › To me, sustainability consists of two aspects. The first is regionality. We have been actively pursuing this and working closely with a lot of regional farmers and partners – some indeed for decades – and they can develop sustainably with us, if they like. That brings to mind the cooperations with the Initiative Tierwohl (Animal Welfare Initiative), of which we were a founding member, or with Bioland. We also started to work closely with Fairtrade at a very early stage. These highly-committed partners can rely on us – worldwide.

Secondly, the size of the Schwarz Group does not stand in the way of sustainability. On the contrary: It is what makes real sustainability possible in a lot of areas in the first place. We succeed in enabling a lot of people to buy consciously and to afford sustainability in the first place, such as, with the afore-mentioned organic and Fairtrade products.

The companies of Schwarz Group are therefore bringing sustainability into the center of society.

Do you have some examples?

- › Firstly, there are the many sustainable products, which our retail divisions offer at reasonable prices. But that is not all. We approach the topic on a much larger scale.

We are arguably the only corporate group to cover the complete value cycle, from production and trade to disposal and recycling. That is only possible if you operate on a certain scale; and with the responsibility that keeps up with its size.

Take packaging for instance: Already at the production stage, Schwarz Produktion designs it in a way that it can be both separated and disposed of more easily, making it better suited for recycling. In doing so, high-quality, clean recyclates come back that are fed back into the production process.

Do you also share this knowledge with your suppliers?

- › To me, sustainability also means cooperation based on trust and respect. And, if one really takes that seriously, then it does not stop at customers and employees.

We can only conquer the great challenges if we tackle them together. That is why sustainability in our eyes also includes intensive communication and discussion with our suppliers whom we accompany on the path to greater sustainability.

Yet, we are doing even more. We regularly exchange information with environmental associations as well as other companies and policy makers. Creating a sustainable world is not possible if everyone only thinks about themselves. Sustainability becomes more successful when cooperating openly and constructively with each other. And that's what we always actively pursue.

You also repeatedly link sustainability with digitalization. Does one not exclude the other: green nature here, hi-tech IT there?

- › I am absolutely convinced, and my experience tells me, that digitalization will, for one, create a transparency which allows us to act even more sustainably. That is particularly the case with regard to the control of supply chains. And secondly, we can also use IT to make our processes much more sustainable.

IT, for instance, ensures that no truck gets onto the road unless its whole loading surface is optimally used. We are working on that with a clear goal: We do not waste any space which leads to less traffic. The truck tour is also sustainably and optimally planned with the aid of artificial intelligence. We do not travel one meter more than necessary.

So you see, well-deployed IT is a driver for more sustainability at the companies of Schwarz Group.

Why is it so easy for you to take this step forward?

› Well, it is not that easy, but our pacesetter is our deepest conviction: As a big corporate group, we can make a real difference.

In so doing, we do not always look at the costs first. Instead we ask ourselves: What is important? And what is right? And, if we are convinced, then we simply start.

As such, our PreZero colleagues are working on a rapidly growing plant, our Silphium, from which packaging material can be produced. Of course, significant investments need to be made first. But we are doing that. And, if the result is convincing, then our colleagues evaluate how to cover the cost.

For us, sustainability is not primarily a question of costs, but rather a question affecting the future.

Earlier, you mentioned that the people in the Heilbronn region always think about their grandchildren too. Do you have any grandchildren yet?

› No, I do not have any grandchildren. But I do work and take decisions every day as if I had grandchildren. And maybe I will have some at some point. Since I have two children, my prospects do not look bad.

“ To me, sustainability is connected with generations: That means, respecting what others have built, and taking responsibility for those to come – and that is exactly how the companies of Schwarz Group act!”

Gerd Chrzanowski General Partner of Schwarz Group

And I am convinced that the employees in the companies of Schwarz Group work and think sustainably in the same spirit. We at the Schwarz Group live by and shape sustainability out of deep conviction.

We not only want to provide future generations with a healthy and future-proof Schwarz Group, but also an equally healthy planet Earth.

› 01 COMPANY

The Schwarz Group in profile

Over
13,300
stores

Active in over
30
countries

Around
6.1
billion store customers
at Lidl and Kaufland

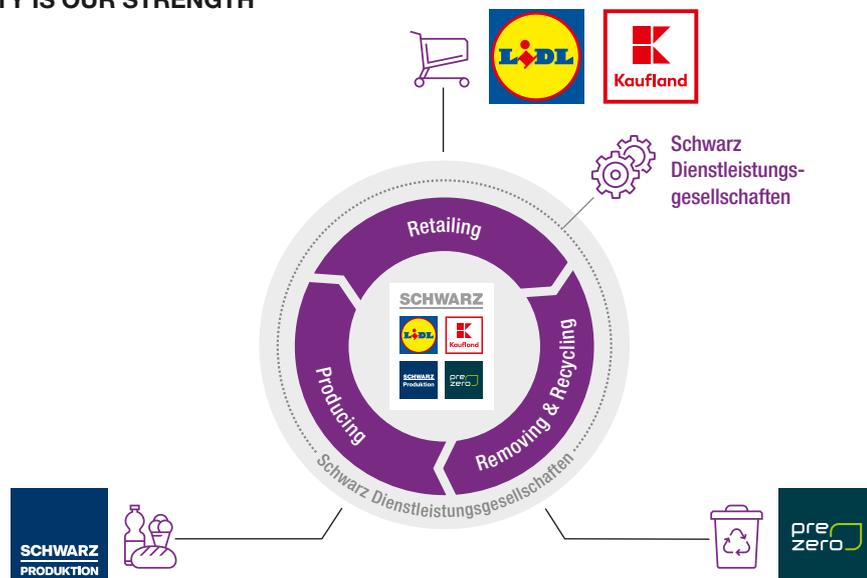
Over
530
thousand employees
worldwide¹

The international Schwarz Group is one of the leading retail groups in the world. Based in Neckarsulm, Baden-Wuerttemberg, the two retail divisions Lidl and Kaufland form our pillars in food retailing. We are also active in food manufacturing and PET recycling with Schwarz Produktion, and in environmental services with PreZero. As such, the companies of Schwarz Group cover almost the entire value cycle. All of the Schwarz Group companies receive support from various service companies at home and abroad. In addition to the provision of administrative services, these also include, for instance, the procurement of non-salable goods or the management of the vehicle fleet. On February 28, 2022, 1,062 companies belonged

to the Schwarz Group. We want to make a positive contribution to sustainable development across all areas of the company.

Operationally, the divisions of Schwarz Group are managed by their executive boards. Chief Executive Officers of the Schwarz Group divisions are Kenneth McGrath (Lidl), Frank Schumann (Kaufland), Jörg Aldenkott (Schwarz Produktion), Thomas Kyriakis (PreZero), Carsten Theurer (Schwarz Dienstleistung), Christian Müller (Schwarz IT) and Rolf Schumann (Schwarz Digital). This structure is supplemented by the Schwarz Unternehmens-treuhand KG, whose General Partner is Gerd Chrzanowski. This company assumes the role of a supervisory committee and also has external members.

DIVERSITY IS OUR STRENGTH



¹ The number of employees varies from those published on the website. The key performance indicator listed here shows the internal control figure, based on another definition of employee to that of the annual financial statement.

Divisions

Retail (Lidl/Kaufland)

The national companies in the Lidl Group are food retailers in the discount sector. The fresh food dis-counter has more than 372,000 employees in total and currently operates around 11,900 stores and over 200 goods distribution and logistics centers in 31 countries. Furthermore, Lidl also employs staff in Asia. The Lidl assortment comprises an average 3,600 items. In the 2021 fiscal year, Lidl generated sales of 100.8 billion euros.

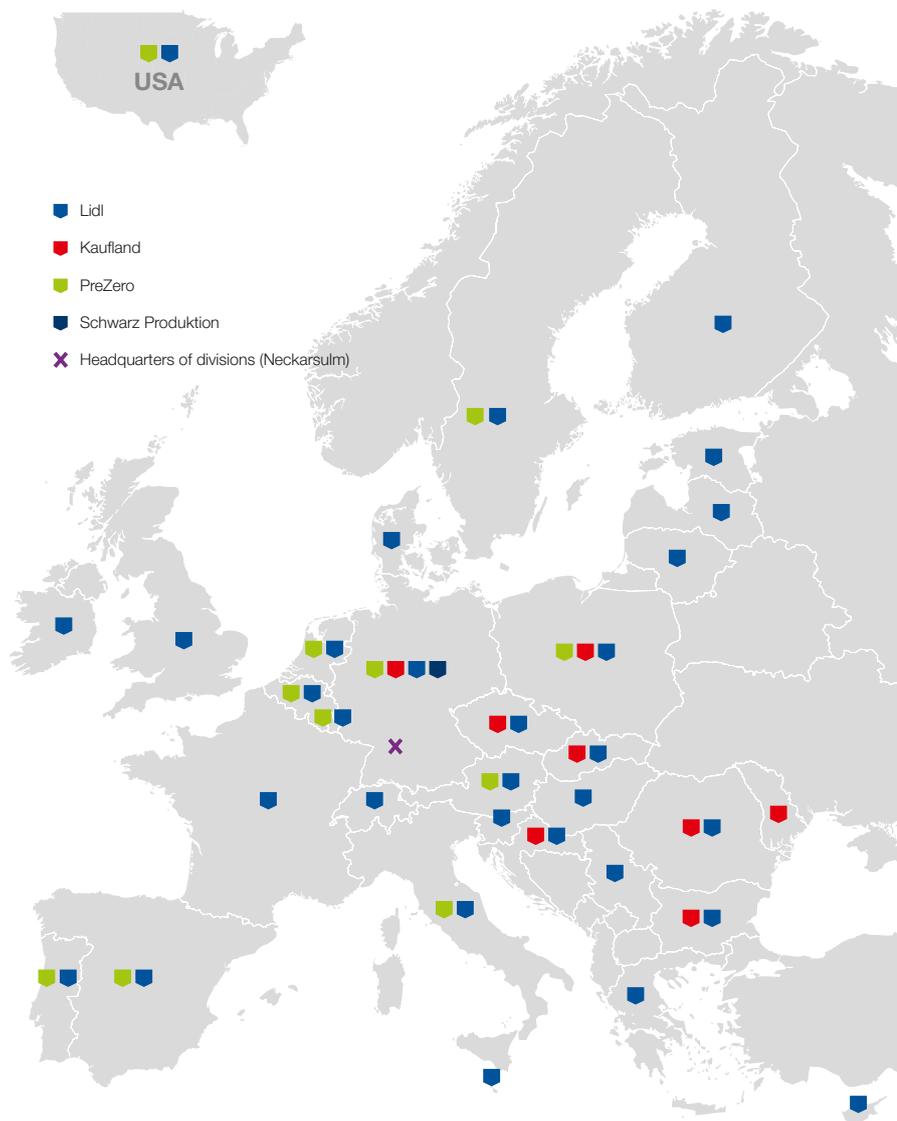
GRI 2-1 | 2-6

› Lidl changes for the better

Acting responsibly is Lidl's way of fulfilling its commitment to quality each day anew, thereby ensuring its best possible future. Lidl is putting this understanding into practice in the context of six strategic focus areas: "Protecting Climate", "Conserving Resources", "Respecting Biodiversity", "Acting fairly", "Promoting Health," and "Engaging in Dialog."

The national companies in the Kaufland Group are large-scale food retailers – having over 1,400 hypermarkets as well as 143,000 employees in eight European countries. With on average 30,000 items in Germany and 17,000 in other countries, the company offers a wide assortment of food and everyday products. Kaufland also has five meat processing plants, which produce the meat and sausage products for the stores. In the 2021 fiscal year, the range of products available was expanded with the introduction of the "Kaufland.de" online marketplace. On this site, customers can find more than 40 million products available from over 8,000 online sellers. In the 2021 fiscal year, Kaufland generated sales of 27.3 billion euros.

SCHWARZ GROUP LOCATIONS WORLDWIDE



Our corporate due diligence process applies in particular to locations in countries with authoritarian regimes or in conflict regions (see p. 34).

Last updated: June 2022

› Our actions do the talking!

Kaufland, the full-range retailer, strives to ensure its assortment is sustainable, and is committed to responsible production conditions as well as the ethical husbandry of animals. Kaufland also fully supports comprehensive environmental protection, climate protection, and species conservation.

Around
15
million tons
of recyclables are dis-
posed of and recycled
every year.

› Recycling (PreZero)

The PreZero Group is an international environmental services provider in Europe and North America. Across more than 475 locations with over 30,000 employees¹ and 53 sorting and recycling plants, PreZero handles the disposal of waste and the sorting, treatment, and recycling of some 15 million tons of recyclables annually. The portfolio is supplemented by recycled material and environmental management within the companies of Schwarz Group by the GreenCycle brand, as well as sustainable fiber and paper products from OutNature, and digital pallet solutions from PreTurn. In the 2021 fiscal year, PreZero generated sales of 2.1 billion euros.

› New thinking for a cleaner tomorrow

PreZero is committed to a clean future, one in which an efficient and completely closed recycling loop protects our environment and sustainably creates value. The company's aspiration is: We want to conserve resources and reduce the amount of waste that cannot be recycled to zero.

› Production (Schwarz Produktion)

Schwarz Produktion companies have over 4,000 employees at 16 production, administration, and service locations across Germany, and produce high-quality food and beverages for the retail companies, Lidl and Kaufland. Beverages, chocolate, ice cream, baked goods, nuts, and dried fruits as well as coffee products are produced at a total of ten locations. At another three locations, Schwarz Produktion operates plastic and recycling plants. These are a core part of a unique and sustainable PET recycling loop.

¹ The figure relates to all PreZero employees at the end of the 2021 fiscal year. Unlike the personnel figures on p. 65, it also includes the employees who have joined PreZero this fiscal year as a result of the company's growth.

› Delivering today, thinking of tomorrow

The companies of Schwarz Produktion operate on the conviction that sustainable business and company success go hand in hand. To fulfill their responsibility, they have defined sustainability as one of their seven company values, thus firmly anchoring it in their corporate philosophy.

› Our service providers for the divisions

All Group divisions are supported by administrative services (controlling, finance, HR, etc.) and operational services (procurement, real estate, IT, etc.) provided by the Schwarz Dienstleistungsgesellschaften. This approach enables us to combine forces, take advantage of synergies, and operate efficiently and sustainably.

› Living global responsibility with diversity

As an international corporate group, the Schwarz Group has the ability to influence society and the environment in many areas. Hardly any other corporate group is more diverse than we are, since our companies cover the entire value cycle. We take the responsibility that comes with this position very seriously and align all our actions with our sustainability vision, based on the four focus areas of People, Product Quality, Circular Systems, and Ecosystems.

Performance

The companies of Schwarz Group are constantly developing their business, and thus setting the course for future success. Accordingly, we were able to continue our growth course in all business areas, and in over 30 countries, during the reporting period. As such, at the end of the 2021 fiscal year, the corporates of Schwarz Group generated total sales of 133.6 billion euros with over 530,000 employees (+6.6 percent compared to 2020). Despite the challenges caused by the COVID-19 pandemic with all of its limitations, the Lidl and Kaufland retail divisions with their 13,300 stores (2020: 12,900) were able to keep the population supplied throughout. This was thanks to highly motivated employees as well as to stable business and supply processes.

AN OVERVIEW OF THE SCHWARZ GROUP CORPORATE STRUCTURE

 Lidl Group PreZero Stiftung & Co. KG (international) National Companies <ul style="list-style-type: none"> Lidl Dienstleistung GmbH & Co. KG (DE) Lidl Sverige Komanditbolag (SE) Lidl ITALIA S.r.l. (IT) Lidl US, LLC (USA) Lidl Great Britain Limited (GB) Lidl Supermercados S.A.U. (ES) Lidl SNC (FR) Lidl sp. z o.o. sp.k. (PL) Lidl Discount S.R.L. (RO) ... <hr/> Regional/Logistics, Sales Companies Lidl Digital (Online) ...	 Kaufland Group Kaufland Stiftung & Co. KG (international) National Companies <ul style="list-style-type: none"> Kaufland Dienstleistung GmbH & Co. KG (DE) Kaufland Bulgaria EOOD & Co KD Kaufland Polska Markety sp. z o. o. sp. k. (PL) Kaufland Ceska republika v.o.s. (CZ) KAUFLAND HRVATSKA k.d. (HR) Kaufland Romania Societate in Comandita (RO) Kaufland Slovenska republika v.o.s. (SI) ... <hr/> Regional/Logistics, Sales Companies Meat processing plants (DE, CZ) Kaufland E-Commerce (Online) ...	 PreZero Group PreZero Stiftung & Co. KG (international) <ul style="list-style-type: none"> GreenCycle GmbH OutNature GmbH PreTurn GmbH PreZero Dual GmbH <hr/> National Companies <ul style="list-style-type: none"> PreZero Deutschland KG (DE) PreZero US, Inc. (US) PreZero Polska sp. z o.o. (PL) PreZero España, S.A.U. (ES) PreZero Portugal, S.A. (PT) PreZero Recycling AB (SE) LAMESCH Exploitation s.a. (LUX) ... 	 Schwarz Produktion Schwarz Produktion Stiftung & Co. KG MEG (Mineral Water and Beverages) ¹ Solent GmbH & Co. KG (Chocolate, Dried Fruits, Nuts) Bonback GmbH & Co. KG (Baked Goods) Bon Gelati Übach-Palenberg GmbH & Co. KG Bon Gelati Haaren (Ice-Cream) Bon Presso GmbH & Co. KG (Coffee Products) ...	Schwarz Dienstleistungsgesellschaften Schwarz Dienstleistung KG <ul style="list-style-type: none"> Schwarz Beschaffung GmbH Schwarz Mobility Solutions GmbH (Vehicle Fleet) Schwarz Immobilien Service GmbH & Co. KG Schwarz Versicherungsvermittlung GmbH & Co. KG ... <hr/> Schwarz Digital <ul style="list-style-type: none"> Schwarz Digital GmbH & Co. KG Schwarz Media (Digital Advertising Spaces) ... <hr/> Schwarz IT <ul style="list-style-type: none"> STACKIT (Cloud und Colocation) XM Cyber (Cyber Security) Camao (Development) Schwarz IT Hubs (BG, RO, ES) ...
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GRI 2-1 | 2-6

¹ Production and recycling at eight locations in Germany by MEG Leifling GmbH, MEG Jessen GmbH, MEG Löningen GmbH, MEG Kirkel GmbH, MEG Wörth GmbH, MEG Roßbach GmbH, MEG Neuensalz GmbH, MEG Übach-Palenberg GmbH.

Investments in fixed assets for the core business totaled around 8 billion euros in 2021. During the reporting period, a large part of this went toward expansion and store modernization, as well as the digitalization of the corporate group. In this way, we are ensuring that we meet the requirements of contemporary store design, securing a sustainable local supply in the regions where we operate, and making our business models future-proof.

The retail divisions Lidl and Kaufland are aiming to further increase the number of stores from currently over 13,300, and to consistently build upon the Schwarz Group's market position as being the largest retail group in Europe.

Digitalization is a crucial factor in the success of the companies of Schwarz Group. An important aspect of this is our comprehensive omnichannel strategy: The retail divisions Lidl and Kaufland effectively link the in-store business to the online world. The Lidl online shop, Kaufland online marketplace, and the Lidl Plus and K-Card loyalty programs are key components of this strategy. In the Kaufland online marketplace, more than 8,000 sellers offer more than 40 million products. Lidl online shops are already available in seven countries – in Belgium, Germany, the Netherlands, Poland, Slovakia, Spain and the Czech Republic. As such, our retail divisions are substantially expanding beyond the shelves of the in-store business and creating future-viable synergies between in-store and online retail. The companies of Schwarz Group generated total online sales of 1.7 billion euros in 2021.

Around
133.6
 billion euros in
 annual sales¹ in the
 2021 fiscal year

¹ Net sales in 2021 fiscal year (includes all sales under commercial law incl. other revenues)

FIGURES AT A GLANCE



Our companies are also developing new trends and business areas in a digital world in order to ensure the future viability of the Schwarz Group companies' position and consistently expand it. We are focusing in particular on the cloud as a fundamental technology in this respect. With STACKIT, Schwarz IT's digital brand, we now also offer our cloud and colocation services to customers outside of the Schwarz Group and have been doing so since March 2022. The scope of services of the STACKIT cloud is demand-oriented, may be customized and is equally easy to implement in organizations without prior digital solutions as well as in those with established, yet isolated IT landscapes. The services offered therefore enable individual and direct entry into the cloud. Since the establishment of the cloud platform in 2018, STACKIT has been consistently developed and is now an attractive business model. Here, Schwarz IT, as the operator of STACKIT, attaches great importance to data security and data privacy. Schwarz IT's data centers in Germany and Austria are fully subject to European law and the General Data Protection Regulation (GDPR).

A particular focus is on the stages of the value chain from disposal to recycling. In the 2021 fiscal year, PreZero generated sales of 2.1 billion euros

in waste and recycling management (2020: 700 million euros), thus tripling these sales year on year. Through organic and inorganic growth, the PreZero Group will further consolidate its position as an internationally active provider of environmental services. PreZero has grown steadily, establishing itself as the environmental division of the Schwarz Group. A uniform brand identity was also established in 2020: GreenCycle Stiftung & Co. KG became PreZero Stiftung & Co. KG. GreenCycle GmbH continues to take care of the management of recyclables from the retail divisions and Schwarz Produktion, and is responsible for environmental services within the Schwarz Group. Alongside PreZero, PreTurn and OutNature were also established as two new brands. In 2020, PreZero also launched its own dual system in Germany, PreZero Dual, which has been active in all federal states in Germany since the beginning of 2021. The planned purchase of the waste and recycling business of the French SUEZ Group in the Netherlands, Luxembourg, Germany, Poland, and Sweden was announced in September 2020. The successful acquisition of SUEZ Sweden with 1,200 employees and 50 locations then followed in December. Through the acquisition of SUEZ in Germany, Poland, the Netherlands, and Luxembourg, PreZero gained a total of 7,200 new employees and 140 locations in June 2021. In December 2021 the acquisition of Ferrovia, the environmental services provider, followed with about 16,000 new employees and 140 locations. As a result, PreZero now has a presence in Spain and Portugal for the first time.

Turning to food production, Schwarz Produktion advanced the construction of the coffee roastery in Rheine, North Rhine-Westphalia in the fiscal year 2021. Schwarz Produktion erected a state-of-the-art plant in just 18 months which starts supplying the European stores of Lidl and Kaufland with coffee products in the 2022 calendar year. More than 80 employees based in the German city of Rheine will produce over 50,000 tons of filter coffee and whole beans for the Bellarom (Lidl) and K-Classic (Kaufland) brands each year. With the successful integration of the ice-cream factory in Waldfeucht-Haaren (District of Heinsberg in North Rhine-Westphalia), Schwarz Produktion also expanded its own ice-cream production in the



The CEOs of the divisions of Schwarz Group with the General Partner of Schwarz Group from left to right: Jörg Aldenkott (Schwarz Produktion), Frank Schumann (Kaufland), Thomas Kyriakis (PreZero), Kenneth McGrath (Lidl), Gerd Chrzanowski (General Partner), Christian Müller (Schwarz IT), Carsten Theurer (Schwarz Dienstleistung), Rolf Schumann (Schwarz Digital)

year 2021. In the neighboring Übach-Palenberg, Bon Gelati, which is also part of Schwarz Produktion, has been producing ice-cream of the highest quality for Lidl stores in Europe with 340 employees already since 2017. Under the name “Bon Gelati Haaren”, a further 200 employees now produce high-quality ice cream products for Lidl and Kaufland.

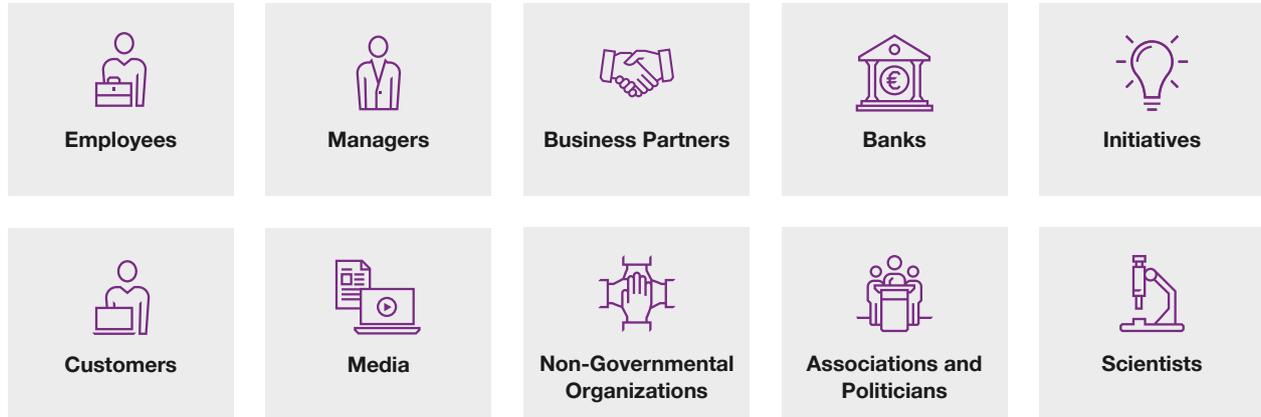
Values-based corporate management

Our society, the economy, and the retail industry are facing a period of profound change. As one of the largest retail groups worldwide, we as the companies of Schwarz Group have the opportunity and responsibility to shape the transformation that is taking place in a sustainable manner and keep the global challenges firmly in view while doing so. Our day-to-day work frequently brings us into contact with the most pressing issues of our time. In order to tackle climate change, resource scarcity, or human rights violations, cooperation is essential. Only by working together, across all companies and levels – from employees to top management – will we succeed in achieving long-term, effective change and thus do our bit to help facilitate sustainable development.

Trust-based cooperation is based upon listening to other opinions, sharing ideas and experiences, and striving to find the best solution. That is why our values-based corporate management includes maintaining a genuine dialog with stakeholders. Yet, our sustainable actions are also shaped by shared values. For, only those who do the right thing out of conviction will be perceived as a fair partner. This is why we consider it to be essential that management's actions are transparent. We have a responsibility toward society to act with integrity and to actively fight corruption and unfair business practices. We involve our stakeholders in monitoring and complaint mechanisms to comply with statutory general conditions and internal policies. The topic of responsible business practices also includes the digitalization of business processes and compliance with data privacy and data security specifications. Fair, longstanding business relationships, cooperations in production countries, and funding infrastructure projects also fall under the umbrella of social commitment.

GRI 2-25 | 2-29

SCHWARZ GROUP STAKEHOLDERS



Stakeholder management

Due to their global reach, the corporates of Schwarz Group connect and interact with their numerous stakeholders in a variety of ways. In the first instance, this includes customer contact which occurs daily in our stores, but equally the cooperation with banks, direct and indirect business partners, non-governmental organizations (NGOs), policy makers as well as our commitment in associations and initiatives. Key stakeholders also include representatives from the field of science, the public, and organizations that are affected by the activities of the companies of Schwarz Group or those which may themselves affect the activities of the group's corporates.

The ongoing communication with our stakeholders through various forms of dialog is an important part of the day-to-day work of the Sustainability and Communications departments in the companies of Schwarz Group. They regularly analyze the relevant stakeholders and their interests and focus areas, for example, by conducting surveys and monitoring topics. Other departments may sometimes have direct contact to stakeholders too, if this is considered expedient on the grounds of

thematically targeted reference points. This dialog also gives us the inspiration to successfully and sustainably develop our business.

In addition to the division-specific dialog with stakeholders, Schwarz Unternehmenskommunikation has also spoken to key stakeholders from the field of science, industry associations, banks, and civil society, as well as to employees from the divisions internationally as part of a materiality analysis (see p. 37) in the course of group-wide sustainability reporting.

Dialog formats at a glance

The companies of Schwarz Group actively inform their stakeholders using different formats, such as, sustainability reports, letters to stakeholders, press releases or via corporate websites. They also reach customers and employees through customer brochures, social media, and company intranet portals. Online surveys – for example, following seminars and training sessions – are also actively used as a feedback and exchange format for employees. Furthermore, the companies of Schwarz Group facilitate and encourage communication through various events and personal meetings and exchange, and depending on the topic, also involve company management and experts from the individual departments in the dialog with the stakeholders.

Another example of personal exchange with stakeholders are the neighborhood and resident dialogs that are held concomitant to larger construction projects. Moreover, the companies of Schwarz Group also get involved in various cooperations and networks, and participate in dialogs and exchanges initiated by third parties. For instance, the divisions regularly engage in constructive dialog with non-governmental organizations (NGOs), which not only gives them inspiration for the sustainable development of their assortment, but also enables them to establish a position on a range of issues that are relevant to society. In November 2021, for example, the discussion event “Lidl im Dialog – Gemeinsam für mehr Tierwohl” (Lidl in Dialog – Working Together to Improve Animal Welfare) took place in Berlin. At this event, stakeholders from the industry discussed a transition toward greater animal welfare in German agriculture. Representatives from Lidl, animal welfare organizations, consumer protection organizations, the agricultural industry, and the meat processing industry met to discuss the issue together. The results of the dialog were documented and company representatives then presented them to political stakeholders at subsequent meetings as a means of contributing to the discussion surrounding the political decision-making process.

In 2021, PreZero supported the study “Verpackungswende jetzt! Systemwandel zur Kreislaufwirtschaft” (Packaging turnaround now! system change toward a circular economy) by WWF Germany in which the authors designed and calculated a system change scenario for plastic packaging. As part of a dialog event in Berlin in February 2022, PreZero and WWF Germany spoke to politicians with specialist expertise from the German Federal Parliament on how a potential system change toward a circular economy in the packaging industry could be achieved. At the event, the WWF and PreZero presented a joint food-for-thought paper setting out the central requirements needed from politicians to achieve the packaging transition.

During this reporting period, the “PULS survey” was also conducted in order to systematically collate the employees’ opinions within the companies of Schwarz Group.

In the survey, employees were asked how satisfied they were. Moreover, employee relations consultants also act as a mouthpiece for the general mood and opinions of the employees: They create reports for top management based on conversations with employees and standardized exit interviews, among other things.

Political representation of interests

As a leading retail group in Europe, the companies of Schwarz Group regard themselves as partners of the state and politics. The companies provide their expert knowledge to governmental and political decision-makers and, in this way, contribute to the decision-making process. When it comes to the political representation of interests at a national and international level, the focus of the corporates of Schwarz Group is always on promoting sustainable development. That demonstrates, for example, in relation to the energy and green mobility transition, where in the dialog with politicians suggestions for improvement are being offered continually and constructively, or obstacles to progress are being high lighted.

In order to coordinate public affairs work in the 30 plus countries in which the companies of Schwarz Group operate, work began in the reporting period to establish the Public Affairs Countries team. This team has been working out of Neckarsulm since the start of 2022. At the time of writing this report, specific details regarding target attainment are not yet available. The team is managed by the Public Affairs department within Schwarz Unternehmenskommunikation (Schwarz Corporate Communications), which has offices in Neckarsulm, Brussels, and Berlin.

Various companies of the group are registered in the lobby register for the representation of interests toward the German Bundestag and the Federal Government, and are therefore subject to the Code of Conduct for lobbyists within the scope of the German Lobbying Register Act (Lobbyregistergesetz). On account of its Brussels office, Schwarz Unternehmenskommunikation GmbH & Co. KG (SUK) is also registered in the European Union transparency register and is subject to a corresponding Code of Conduct there.

GRI 415-1 | 2-29

SUK represents the interests of its clients – Lidl Stiftung & Co. KG, Kaufland Stiftung & Co. KG, PreZero Stiftung & Co. KG, and Schwarz Produktion Stiftung & Co. KG – in the political arena and plays an active role in this respect. In addition, SUK establishes positions on topics that are relevant to politics or society. The companies of Schwarz Group participate in political debates purely on a content-related basis; they do not make donations to political parties.

› Focus areas for the political representation of interests

- Renewable Energies
- E-Mobility
- Circular Economy
- Recycling and Packaging
- Single-use/Multi-use
- Beverage Deposit
- Plastics Levy
- Battery Fund/Deposit
- Agriculture
- Nutrition
- Digital Administration
- IT and IT Security
- Platforms/E-Commerce
- Work and Social Affairs

As part of the SCHWARZBrotzeit dialog series organized by the Schwarz Unternehmenskommunikation representative office in the capital, politicians with specialist expertise in the field were invited to a discussion in Berlin during the reporting period. Dialog took place in October 2020 on the subject of “How [un]fair actually is the retail market?”, and another in April 2021 on the subject of “Due Diligence duties: How much legislation is necessary, how much legislation is possible?”. With input and presentations, colleagues with specialist expertise from the operational departments provided insight into the practices and commitments of the companies of Schwarz Group. In the lively discussions that followed, questions were raised on the practical challenges involved.

Memberships and commitments

The companies of Schwarz Group are actively involved in various industry associations, initiatives, and organizations, and contribute actively by either providing specialist expertise or by supporting them with a membership fee. A selection of these is set out below. The sustainability reports of the different divisions or their national companies provide insight into their additional memberships at an international and national level. Further information can also be found in the chapter on “product quality” (see p. 71 ff.).

The **Foreign Trade Association of German Retailers (AVE)** is the central organization for German retailers who import goods. It represents the foreign interests of the German retail sector which is reliant on the trouble-free import of consumer goods of all types within the framework of its global purchasing policies. The AVE is also committed to ensuring strict compliance with social and environmental standards in supply countries.

The **BDE** is the **Bundesverband der deutschen Entsorgungs-, Wasser- und Kreislaufwirtschaft e.V. (BDE; The Association of German Waste Management, Water and Circular Economy)**. The approx. 750 member companies of the BDE cover the entire value chain in recycling and resource management.

The Federation of German Industries (BDI): PreZero is a member of the **BDI Circular Economy** initiative: This BDI circular economy initiative, which was launched in April 2021, currently comprises a network of around 60 stakeholders covering the entire breadth of industry. As well as being a political mouthpiece for Berlin and Brussels, it is also driving the circular economy forward at every stage, from product development to recycling.

To promote tax law in the field of science, research, and education, **Berliner Steuergespräche e. V. (Berlin Tax Consultations)** supports expert dialog and discussion on tax law.

The **Federal Association of German Food Retailers (BVLH)** is a trade association representing the interests of food retailers in Germany. Its purpose is to represent the interests of companies in the food retail market when dealing with politicians, authorities, and other stakeholders.

The aim of the **Deutscher Institut für Compliance e.V. (DICO; German Institute for Compliance)**, is to set and further develop standards for compliance practice. The institute acts as a point of contact for all parties interested in compliance from industry, associations, authorities, and legislators.

The **European Movement Germany** is a cross-party coalition of interest groups from industry and civil society that is committed to a clearly pro-European agenda.

The **German Association for Data Protection and Data Security (GDD)** is an association for data protection and data protection officers. As a non-profit association, it is committed to sensible, reasonable, and technically feasible data protection.

The **gfo – gesellschaft für organisation e.V. (Community for Organization)** is developing itself as a think tank on the subject of “organization” in the German-speaking world. The community connects people who are dedicated to, and interested in, issues of organization. They contribute their extremely diverse experiences and perspectives on these matters. Organizers benefit from this diversity as they strive to develop efficient, optimized work processes.

The companies of Schwarz Group joined the **United Nations Global Compact (UNGC)** in 2020, thus committing themselves to compliance with and promoting the ten principles of the UNGC. The companies of Schwarz Group consider it to be their corporate responsibility to stand up for the strengthening of human right, fair remuneration and safe working conditions in all areas of their business activities worldwide. They oppose all forms of corruption and are committed to environmental and climate protection.

The **Handelsverband Deutschland e.V. (HDE; The Retail Association of Germany)** as the central association of the German Retail sector, represents the interests of its members when dealing with politicians at national and EU level, other industry sectors, the media and the general public.

The **International Fiscal Association Germany (IFA)** pursues solely non-profit purposes. One of its tasks is to promote the study of international and foreign financial and tax law among its members through academic events.

The aim of the **Institute for the Digitalization in Tax Law (IDSt)** is to promote education (including of the public), vocational training, and student support. Its purpose is also to promote science and research in digitalization as one of Germany’s main tasks for the future. The institute concentrates on the area of tax and duty law, without being limited to this area of legislation.

The aim of the **Institut Finanzen und Steuern e.V. (Institute for Finance and Tax)** is to promote science and research in finance and taxation.

The **Food Federation Germany** is the central association for the German food industry. As well as interest groups, companies from across the whole food chain are part of this federation.

The **Science Based Targets initiative (SBTi)** is a partnership between the Carbon Disclosure Project (CDP), United Nations Global Compact (UNGC), World Resources Institute (WRI), and the World Wide Fund for Nature (WWF). The SBTi has developed its own standard based on the GHG Protocol for setting CO₂ reduction targets.

The aim of the **We Mean Business Coalition** is to halve global emissions by 2030 and accelerate a complete transition to a net-zero economy. To this end, the non-profit organization – as a coalition of seven non-profit alliances, including the CDP and the World Business Council for Sustainable Development – cooperates with companies around the world.

COOPERATION WITH THE ELLEN MACARTHUR FOUNDATION



**ELLEN MACARTHUR
FOUNDATION**
Member

The Ellen MacArthur Foundation is a non-profit organization founded in 2010. Its aim is to accelerate the transition to a circular economy. To underscore their ambitions when it comes to the circular economy, the companies of Schwarz Group signed the New Plastics Global Commitment back in 2018. This initiative is being led by the Ellen MacArthur Foundation in cooperation with the UN Environment Programme. They have thus made a commitment as part of the comprehensive REset Plastic strategy to actively participate in endeavors to use plastic in a more sustainable way and work toward specific targets (see p. 102). To this end, the companies of Schwarz Group are working in both a European and international context as well as at national level within the global Plastics Pact Network of the Ellen MacArthur Foundation with all participating companies, governments, NGOs, initiatives, and local organizations to develop new strategies and solutions that are tailored to the relevant market in order to promote a circular economy for plastics.

The Ellen MacArthur Foundation is a non-profit organization founded in 2010. Its aim

Key goals in the context of the Ellen MacArthur New Plastics Economy include:

- Abolishing unnecessary and problematic plastic packaging through redesign and innovation.
- Ensuring that all plastic packaging is reusable, recyclable, or compostable.
- Increasing the proportion of recycled material in plastic packaging.

The Ellen MacArthur Foundation Plastics Pact Network includes national plastics pacts in countries like Great Britain, the USA, and Poland, as well as regional pacts like the European plastics pact. The companies of Schwarz Group participate globally and support national implementation wherever possible on a division-specific or division-wide basis. Lidl Portugal (Steering Committee), Lidl UK, Lidl Netherlands, PreZero in the USA, and Lidl, Kaufland, and PreZero in Poland are involved in this initiatives.

The **advisory board of the Bündnis 90/The Green Party parliamentary group** provides a platform for direct, perpetual dialog between Green Party members of the German Bundestag from the area of economic policy, and high-ranking industry representatives from diverse sectors.

The **Wirtschaftsforum der SPD e. V. (SPD Economic Forum)** is an independent professional association that first and foremost organizes dialog between industry representatives and social democratic decision-makers in the executive and legislative sectors.

The **Wirtschaftsrat der CDU e. V. (CDU Economic Council)** is an independent, nationwide professional association that represents the interests of its members when dealing with politicians, administrative bodies, and the public.

Cooperations

To drive forward sustainable innovation, including on an industry-wide basis, the companies of Schwarz Group collaborate worldwide with various partners in cooperations and projects. In the process, the focus is on topics such as recycling solutions or decarbonization.

For example, during the reporting period, close cooperation with Recycla occurred. The startup has developed a web-based tool for assessing the recyclability of packaging in any material on a country-specific basis. We have also provided support to various accelerator and incubator programs like Futury and Soulincubator with the aim of nurturing entrepreneurs and startups with sustainable ideas. With regard to innovative packaging solutions in particular, as part of the REsearch action area in the REset Plastic strategy, the companies of Schwarz Group are in close contact with various funding programs and innovation networks which supply valuable ideas.

The companies of Schwarz Group are also actively helping to shape the transformation through cooperations with scientific partners, such as their work with the Fraunhofer Institute for Environment, Safety and Energy Technology (UMSICHT) on microplastics (see also p. 110) or our work with the independent NOVA Institute on the use of renewable sources of raw materials. Furthermore, in cooperation with other partners, the establishment of the FUTURE Institute for Sustainable Transformation (based at the ESMT Berlin) was facilitated in January 2022. This way, more complex challenges can be solved successfully and sustainably, in particular in working closely with scientists.

Partnerships with initiatives such as “Holy Grail 2.0 – Digitale Wasserzeichen für genaue Sortierung und hochwertiges Recycling” (Holy Grail 2.0 – Digital Watermark for Accurate Sorting and Quality Recycling) or “Circular Economy Initiative Deutschland CEID – Roadmap für eine zukunftsfähige Kreislaufwirtschaft” (Circular Economy Initiative Germany CEID – Roadmap for a Future-Oriented Circular Economy) complete the cooperations of companies of Schwarz Group in the field of sustainability.

Compliance

For the companies of Schwarz Group, economic success is directly related to responsible corporate management. The compliance management systems established in all divisions, which ensure conduct with integrity across the Group, are a key part of this. Widely launched training concepts ensure that our employees are systematically sensitized to rules of conduct and prevailing policies.

Key corporate principle

The companies of Schwarz Group strive to act with integrity and to do so in an exemplary fashion. The companies and their employees conduct themselves in accordance with the company principle: “We comply with the applicable laws and with internal policies.” This key company principle is binding for all employees of the group’s companies.

The corporates of Schwarz Group place great value on compliance with laws and other legislation

and see it as their social responsibility to act with integrity. Violations of the law can lead to financial damage and loss of reputation for the companies of Schwarz Group. Moreover, they can lead to personal compensation claims and have criminal consequences for individual employees or members of the institutional organs of the companies of Schwarz Group. The companies of Schwarz Group and their board members are therefore expressly committed to complying with and ensuring implementation of this company principle.

Group-wide human rights policy statement

Whether as customers, employees, or business partners, people are at the heart of what the companies of Schwarz Group do. They are therefore committed to ensuring that human rights are respected and strengthened in all areas of business activities around the world. By means of this human rights policy statement, valid for all companies of Schwarz Group, the corporates of Schwarz Group are emphasizing their responsibility as a leading retail group. Due to the complex value chain structure in retail and food production, the greatest human rights and environmental challenges lie in increasingly globalized supply chains. Legal requirements at German level (Act on Corporate Due Diligence in Supply Chains – Lieferkettensorgfaltspflichtengesetz) and, in the future, at European level add to these challenges. The companies of Schwarz Group therefore strive to meet their responsibility toward people and the environment, not only within the scope of their own activities, but also jointly with direct and indirect business partners along the supply chains and service sectors.

The publication of the group-wide policy statement in May 2020 was a logical step as part of the long-standing commitment of the companies of Schwarz Group to the issue, and is based on our commitment to respect human rights as laid down in internationally recognized frameworks. The companies of Schwarz Group are thus committed to ensuring that respectful conduct undertaken with integrity will continue to shape their philosophy in the future.

Since November 2020, business partners of the companies of Schwarz Group have also been required to adhere to a group-wide Code of

May
2020
publication of the
group-wide
policy statement



Code of Conduct

Conduct which sets out our expectations regarding compliance with human rights and environmental standards and also reserves the right to audit business partners' compliance with them (see p. 34).

The companies of Schwarz Group also establish the processes required for the adequate protection of their employees' human rights in their corporate principles, policies, and procedural instructions.

Compliance management systems as a basis

In the view of the jointly held key corporate principle, the companies of Schwarz Group have implemented compliance management systems (CMS) containing binding specifications in all divisions. These systems define specific requirements and elements to ensure an appropriate level of compliance is maintained. The key aim of CMS is to avoid and identify any violations against current legislation and internal policies, and to resolutely pursue and prosecute, if violations are identified (zero-tolerance principle). In terms of content, the CMS focus on areas such as anti-corruption, anti-fraud, antitrust law, data privacy, product compliance, and business partners.

In order to fulfill our financial responsibility too, tax and accounting compliance were also identified as focus areas (see p. 19 too). This ensures that the companies of Schwarz Group adhere to their tax and other financial duties in the countries where they operate.

The compliance measures include in particular the adoption and communication of regulations (for example, on handling benefits and data privacy regulations), the implementation of training measures, and the investigation and follow-up of all material internal and external tips regarding potential compliance-related legal violations. As well as the support of all employees and managers, the implementation of each CMS requires a compliance organization tailored to the respective part of the company. The departments and roles responsible for compliance in the divisions regularly review the effectiveness of the measures and check for potential for optimization.

The joint Schwarz Compliance working group of the companies of Schwarz Group provides a platform for regular discussions on compliance issues relevant to the Group as a whole and develops the CMS further. For example, the processes relating to the review of business partners were examined again in the wake of sanctions against Russia to ensure that all legal requirements continue to be met. The working group consists of the compliance officers from the divisions or their deputies. The CMS are inspected on a regular basis by the Audit department based in Schwarz Dienstleistungen.

Training and whistleblower systems for prevention

In order to avoid compliance violations, a key topic is the sensitization of employees and management by means of training courses in addition to the continuous identification of compliance risks. These training sessions cover the potential compliance risks that may be encountered at work and the correct and appropriate way to behave should they arise. Employees are given training on the compliance issues that are relevant to them based on their responsibilities. The divisions conduct both mandatory attendance and online training courses for this purpose. As a rule, business partners and suppliers are also obliged to comply with statutory requirements pursuant to a corresponding contractual clause.

Employees are given unrestricted access to internal employee relations consultants as well as fair and transparent complaints procedures. Often the supervisor is the first contact person. They contact the compliance officer so that the necessary action may be taken. The compliance officer may also be contacted directly. Moreover, in the divisions, attorneys of trust have been appointed, and online reporting systems set up which may be used to lodge notifications. Any significant findings resulting from complaints are used to identify risks and further develop compliance measures. If real, adverse impacts are identified, which may directly or indirectly be associated with the business activities of a company of Schwarz Group, the respective company endeavors to rectify and use its powers of influence by means of appropriate measures to ensure that affected parties may receive appropriate redress.

GRI 205-2 | 2-25 | 2-26

Data protection

The protection and security of customers', business partners', and employees' data is of the highest priority. Digitalization and networking lead to more efficient processes and resource-saving planning and thus contribute to sustainability. Simultaneously, data-based solutions also demand particular care. As well as fulfilling the applicable regulatory requirements, the companies of Schwarz Group also want their customers, business partners, and employees to be able to trust them with the protection of their personal data. In so doing, it is, at all times, the aim of the corporates of Schwarz Group to protect personal data optimally incorporating state-of-the-art standards while consistently fulfilling data privacy specifications. This is an ongoing process.

Data privacy forms part of the CMS at the companies of Schwarz Group and is covered by the measures defined in these systems. In addition to binding specifications in the form of policies and processes, this includes training measures and the offer of advisory services from the Data Protection departments. In this way, the Schwarz Group ensures that the relevance of the issue is communicated and that personal data is processed in a legally-compliant manner.

In line with legal requirements, the information obligations under data protection law are fulfilled and data subject rights are respected. In the event of personal data breaches, the breaches are analyzed and corrective action taken. Any reporting obligations with respect to supervisory authorities and/or notification obligations with respect to data subjects are fulfilled.

Tax

The companies of Schwarz Group comply with all valid laws, policies and regulations in the countries and communities in which we operate. The joint tax principles of the companies of Schwarz Group not only include complete compliance with all relevant tax laws, but also timely fulfillment of all tax obligations and the submission of correct tax declarations.

GRI 207-1 | 207-2 |
207-3

The companies of Schwarz Group are conscious of the fact that the taxes paid represent a significant source of income for the countries and communities and are thus a prerequisite for every functioning society. Based on the "good corporate citizen" principle, we operate active, legal tax planning for the business activities of the companies of Schwarz Group. The companies of Schwarz Group do not perform aggressive tax planning based on artificial structures employed solely for tax-saving purposes. The same applies to transactions which lack economic substance and which only serve the purpose of obtaining undue tax advantages.

A cooperative, open, and trusting relationship with all tax authorities is being strived at. In this vein, efforts are made to avoid the risk of uncertainty or even disputes. When dealing with financial authorities, our interests are protected and our legal positions are defended where we consider this to be the correct approach in accordance with the prevailing opinion in case law and literature.

The companies of Schwarz Group have multiple Tax departments, which are responsible for compliance with tax obligations. The Tax department of Schwarz Dienstleistung KG is the central contact for tax matters for the companies of Schwarz Group. The companies outside Germany in the divisions generally have their own Tax departments, which coordinate with the Schwarz Dienstleistung KG Tax department on key issues.

The Tax departments develop policies, instructions, and to-be processes as required in which the relevant responsibilities are clearly defined too. The Tax department at Schwarz Dienstleistung KG also informs the employees affected about any relevant tax changes and arranges training if required.

To ensure that tax processes are legally correct, the companies of Schwarz Group have established tax compliance as a focus area in our CMS. This is intended to ensure that all tax obligations are fulfilled and any legal violations are avoided or identified at an early stage.

Social commitment

As part of a corporate group operating internationally, the companies of Schwarz Group are committed to sustainable development beyond the bounds of their core business. They devote themselves to ecological and social concerns, and together with their employees, customers and partner organizations, provide assistance locally – principally in the vicinity of the locations and stores of the companies of Schwarz Group. In the course of this, activities and funding priorities are individually adapted to the needs of the individual regions and countries, in order to do justice to the particular needs of the people living there and to improve the ecological and social development in a targeted manner.

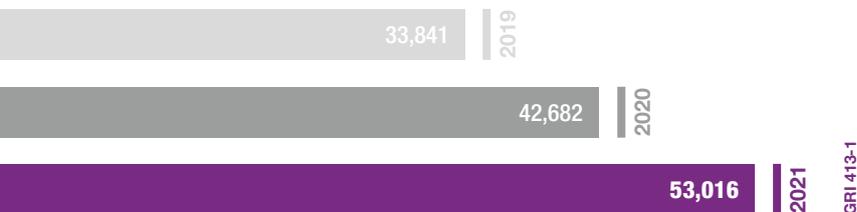
The Schwarz Group divisions support not-for-profit causes predominantly by monetary donations, donations in kind, sponsoring and cooperations with schools, NGOs and other organizations. We consider all projects, measures and donations with CR reference, which are undertaken voluntarily, and which are not directly connected to the core business, as corporate citizen commitment. According to the understanding of the companies of Schwarz Group, sponsorship activities can also be based on the support of social or environmental issues. Based on these principles, the companies of Schwarz Group developed a group-wide policy in 2019 on how to handle donations and sponsorship; this policy is applicable in all countries. It ensures that any associated benefits are handled in a responsible and transparent manner and forms the basis for their commitment. Any necessary additions are made independently by the divisions.

The implementation of the applicable regulations and individual projects is overseen by various departments in the divisions. In the retail divisions Lidl and Kaufland, the Corporate Social Responsibility (CSR) departments, or Corporate Responsibility (CR) at an international level, are responsible for the fundamental strategic specifications pertaining to donation activities. At Kaufland, the CR department is also responsible for sponsorship activities relating to sustainability; all other sponsorship activities are managed by the Marketing department – the same as at Lidl. The national companies have a large degree of leeway within the scope of the set guidelines, which allows them to take local requirements into account. The international department at the respective company only needs to be involved in decisions concerning larger-scale commitments, or in the case of Lidl, only for international donation recipients. At Kaufland, the decisions in these cases are made at Executive Board level. At Schwarz Produktion, donation requests can be submitted locally at all locations or directly to the Schwarz Produktion head office. The requests are reviewed to determine whether the donation complies with the requirements of the applicable policy before being approved by the Senior Management Board. PreZero has launched its donation and sponsoring policies in the countries too. The national companies are very active in supporting local, social and ecological projects, and international activities, such as, cooperation with the WWF, are taken care of by the CSR department.

The companies of Schwarz Group have adopted a special regulation in regards to all donation and sponsorship activities involving the greater Heilbronn/ Neckarsulm area. As the divisions have their international administrative sites here, the number of requests is very high. These requests are coordinated centrally by the CR department at Schwarz Unternehmenskommunikation, as are all cooperations and donations that come about via the group-wide REset Plastic strategy. The HR departments are responsible for cooperations with universities.

DONATIONS MADE BY THE COMPANIES OF SCHWARZ GROUP

in thousands of euros



Opportunities for evaluation and feedback

Our social commitment is evaluated in a number of ways. Kaufland, for example, collates feedback on the measures taken via standardized feedback forms or by speaking to the project partner. Where possible, or where internal policies provide specific requirements, quantified results are also obtained and evaluated, for instance, for waste collection initiatives (e.g., kilogram of collected waste) or corporate volunteering initiatives (e.g., number of participants). In the retail divisions, depending on the goals set, the effect of a sponsorship activity can be measured via predefined marketing key performance indicators and systems. The international Marketing department provides support in these cases. Individual sponsorship activities are measured at national company level.

Acute support in crisis situations

To support people in Ukraine in their current crisis in the best way they can, the retail divisions Lidl and Kaufland have been working with various on-site aid organizations right from the word go and without any red tape. Consequently, monetary and material donations have been made to begin with. This support was increased to 10 million euros in March 2022: With non-perishable foods, home textiles, hygiene products, and other urgently needed products worth 7 million euros, a substantial contribution to the care of refugees in the areas bordering Ukraine should be provided.

In July 2021, the companies of Schwarz Group supported those affected by the catastrophic floods in Rhineland-Palatinate and North Rhine-Westphalia with a coordinated donation of 10 million euros to provide emergency aid in the affected regions. The donation was given to Germany's relief coalition, ("Aktion Deutschland Hilft"). Some of the divisions also made additional donations. Locally, colleagues also helped with cleanup efforts on-site at various locations in the affected regions. PreZero assisted the clearances by means of vehicles, containers and logistics systems (e.g., pallets) in cooperation with the municipal authorities. A truck was also

organized to transport non-perishable foods from Möckmühl to the Nürburgring in cooperation with Kaufland as food donations were running low there.

Working with partners to avoid food waste

The retail divisions in the Schwarz Group are actively committed to avoiding food waste – as one of the measures they are taking to implement their reduction target (see p. 31) in this area. The stores and logistics centers worldwide also give food that is no longer fit for sale but is still consumable to not-for-profit organizations and support them in a variety of ways.

For example, there has been a partnership in place between Lidl in Germany and local Tafel food banks since 2008. Since 2020, the food banks have also been receiving goods from the logistics centers. Similarly, the Kaufland stores and logistics centers in Germany also donate goods that have almost reached their best-before date to the Tafel food banks and other not-for-profit organizations. There are similar commitments in place in other countries. As such, Lidl Austria has been donating food which can no longer be sold, but is nonetheless still edible, to local and regional charitable bodies for distribution to people in need already since 2009.

The Tafel food bank Future Fund, launched in 2018, is supported by Lidl in Germany with an annual donation of 500,000 euros. With this donation, Lidl enabled funding measures to be put in place for volunteers in the reporting period. For example, the Tafel food bank volunteers can participate in seminars, projects, and conferences as part of the "Tafel Academy" to gain valuable knowledge to support them in their volunteering activities. Since 2020, Lidl and Kaufland in Germany have also been communicating measures and guides on how to avoid food waste to help raise awareness of the issue among consumers. As part of these efforts, Kaufland Germany runs extensive campaigns in which national influencers also call on their communities to reduce food waste.

10

million euros in monetary and material donations to Ukraine



Lidl – Focus Area on Saving Food (German website)



Kaufland – Focus Area Food Waste (German website)

In December 2020, Kaufland donated 250,000 euros to the Tafel food banks so that the organization could continue to do its vital work during the pandemic. This money was used to purchase items such as hygiene equipment like air purifiers. In addition to working together with the Tafel food banks, Kaufland in Germany also cooperates in the “food-sharing” initiative at 80 locations, making leftover food available for collection. There are similar initiatives and concepts for food donations at Kaufland in Croatia, the Czech Republic, and Romania, for example. In Bucharest, Kaufland also runs a “social canteen” which provides 1,000 meals each day to people in need.

Donating deposits

Since 2008, Lidl customers in Germany have been able to donate part or all of the deposit amount to Tafel food banks when returning their empties simply by pressing a donation button. This option is now available at some 6,400 bottle deposit machines in around 3,200 stores. In this way, more than 24 million euros were collected by the end of the fiscal year 2021 (2019: 18 million euros), which enabled the Tafel food bank to not only finance refrigerated trucks, hygiene items and new furnishings, but also to provide cookery courses for Tafel food bank customers. In 2020 some of the donations were used to support the COVID-19 emergency aid fund. This helped ensure that the Tafel food banks were able to keep running and could open again after being forced to close during the pandemic. 150,000 euros from the Lidl deposit donations also went toward the 2021 emergency aid fund for the Tafel food banks affected by flooding. By the end of 2021, support had been given to over 3,100 projects (2019: 2,500). Other countries also have initiatives based on deposit donations: Lidl Lithuania doubles the amount donated each month, and has been using these funds to support a Lithuania-wide fundraising project for day-care centers since December 2017, for example.

More than
24
million euros
given to Tafel food
banks since 2008
from deposit donations

Since 2020, Kaufland in Germany has also introduced deposit slip donation boxes in around 750 stores nationwide, with the donations going toward local not-for-profit organizations. The donation boxes for the deposit slips are positioned next to the reverse vending machines. 1.8 million euros were collected through this scheme in the first two years alone. The majority of the donations go to organizations that support children/young people and families. Almost a quarter of the supermarkets give the donations to animal welfare charities, while 20 percent goes to organizations that help care for the sick and 10 percent goes to the local Tafel food banks. The rest is donated to organizations that care for people with disabilities and to general aid organizations.

Supporting and encouraging children

It is important for school children in particular to start the day right: To make sure this happens, Lidl in Germany has been supporting brotZeit e. V. since 2009. This organization provides children in schools with a balanced breakfast before they start class. An annual donation of over 340 tons of food ensures that about 12,500 school children in 286 schools are provided for. By 2021, a total of 11.3 million breakfasts had been provided – a significant milestone for the cooperation.

Since 2004, Kaufland has been involved in the educational program that it helped develop – “Machen macht Schule” (Taking action in the classroom) – which organizes environment, nature, and nutrition action days. The concept was developed in collaboration with partners including the Verband deutscher Naturparke (Association of German Nature Parks) or the Ernährungs-Therapie.net (Nutrition Therapy) which also implement the program. The target groups are educational institutions and kindergartens. Many of the initiatives took place digitally in 2020 and 2021. Environmental action days focused on topics such as water, plastic, the climate, and bees during the reporting period. Kaufland also supports these topics in numerous international projects: For instance, the Akademia Kinderland project in Romania (Children’s Nursery Academy)

has been teaching nutrition in a fun and playful way since 2018 through activities organized right outside the stores.

Fresh fruit and vegetables for schools and kindergartens

As part of the EU school program, Kaufland supplies fresh fruit and vegetables to schools and kindergartens in Europe once a week. In Germany, in the greater Heilbronn area alone, more than 4,000 children have enjoyed healthier and more varied nutrition since 2010 thanks to this initiative. In Croatia, around 40 stores each provide regional fruit and vegetables for a nearby school every week. As such, some 94 tons of fruit and vegetables were donated to around 19,000 students in the 2019/20 academic year. In 2019, Slovakia joined in for the first time too. Since the start of the new school year, the over 70 Kaufland hypermarkets in the country have been donating more than 4.5 tons of fruit and vegetables each week to local elementary schools. In 2019, Kaufland Poland linked a painting competition on healthy food to renovation aid for school canteens. Ten schools received financial support totaling 600,000 Złoty (approx. 133,000 euros) from Kaufland.

Employees get involved

Many employees of the companies of Schwarz Group in Germany are personally involved in initiatives that support the environment and their communities. For example, once a year, they take part in a cleanup campaign at the administrative locations in Neckarsulm and Heilbronn. This campaign took place for the first time in September 2020 as part of the group-wide REset Plastic strategy on occasion of the World Cleanup Day. More than 300 employees from Lidl, Kaufland, PreZero, and Schwarz Dienstleistungsgesellschaften collected and correctly separated carelessly discarded waste so that it could then be properly disposed of. In 2021, some 1,000 employees took part in the campaign under the motto "Less Pollution – More Solidarity." They collected 2.4 tons of waste, which was then recovered and recycled by the environmental

division PreZero. PreZero set up a dedicated recycling facility on site in Neckarsulm for this purpose on the day. Every year at Christmas, employees are offered a platform that enables them to get involved in the community through a coordinated wish-tree campaign.

Supporting a sustainable fan culture

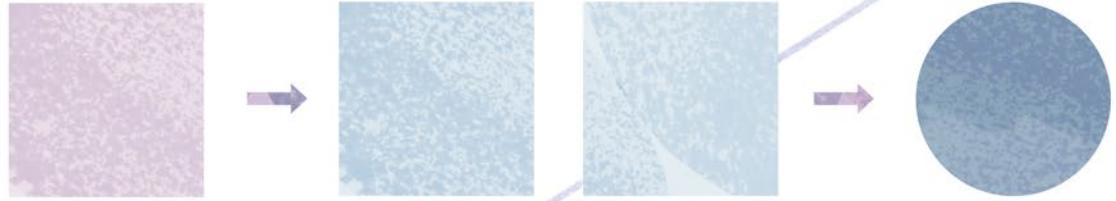
German Bundesliga club TSG Hoffenheim (TSG) and PreZero agreed on a wide-ranging cooperation in 2019. PreZero is providing the soccer club with substantial support in the area of resource-efficient waste management, and, as a widely visible symbol of the partnership, the TSG soccer stadium has been renamed the PreZero Arena. But the sustainability cooperation between the two partners goes much further than stadium sponsorship: As the official sustainability partner, PreZero is helping the club to transform the PreZero Arena into a symbol for resource efficiency. The goal is to make the PreZero Arena the first independently certified zero-waste arena in the German Bundesliga. PreZero supports and advises TSG on all environment-related issues in this context. This includes analyzing material flows and optimizing them through separation concepts and waste avoidance measures as well as designing and producing grass paper and other products (e.g., autograph cards) using grass clippings from the PreZero Arena. This also includes the implementation of a returnable cup system: The new returnable cups are made from robust polyethylene and can be washed up to 400 times. They were used for the first time in January 2020. The aim is to also raise fans' awareness of sustainability issues through this initiative with PreZero. A waste disposal and recycling partnership was also agreed with the operator of the Allianz Arena in Munich in 2020. In this context, a joint project was launched at the end of 2021 in which the grass clippings are not just disposed of as waste, but are processed into paper for the fan shop bags instead.

Around
1,000
employees of Lidl,
Kaufland, PreZero,
and the Schwarz
Dienstleistungsgesell-
schaften collected and
correctly separated
carelessly discarded
trash in 2021.



› 02

Florian Schütze (46) is the Vice President of Corporate Responsibility at Schwarz Unternehmenskommunikation GmbH & Co. KG. Ambitious goals? For him and his team, they are par for the course if we want to create a sustainable future.



Florian Schütze is a part of our sustainability efforts.

The fact that sustainability is firmly anchored in the companies of Schwarz Group is also the merit of Florian Schütze. In this interview, he talks about the topics on which the companies of Schwarz Group focus their sustainability efforts and just how much transparency is possible along supply chains today.

Mr. Schütze, when did you start to deal with the topic of sustainability in the professionally?

› **Florian Schütze** That was in the mid 2000s, and that is now more than 16 years ago. At the time, I was responsible for this topic in Purchasing at Lidl International. Sustainability had not yet been ascribed the level of professionalism and importance it carries today. Organic and Fairtrade certified products were only available in specific stores, but we were one of the first food retailers back then to add them to our assortment under our own brands, making them accessible to mainstream society. It has been an exciting journey, particularly if you think about what you can achieve. And thanks to our excellent group-wide collaboration, today we not only have world-wide specialist departments, established processes and qualified employees in the area of sustainability, but also completely changed supply chains and products.

As Vice President, you are responsible for the topic of sustainability at Schwarz Unternehmenskommunikation GmbH & Co. KG. Since taking on this role, you have supported the sustainability efforts of the companies of Schwarz Group. Why?

› We are currently going through stormy times and facing many challenges. Climate protection, human rights, resources, disrupted supply chains – those are the key issues that concern us and force us to act quickly. Unfortunately, we cannot tackle all the challenges in the world at once. That is why we focus on what we consider to be the most essential. A sustainability strategy coordinated between the companies of Schwarz Group gives us a clear direction, while simultaneously providing enough scope to respond quickly to changes.



So what is the most essential to you?

› Essentially, there are four areas. First of all: The people. People are always the priority, everywhere – whether they be employees, customers, or key partners in the supply chain. Secondly: The product quality. Here, we focus primarily on our private label products and our digital services. Thirdly: The circular economy, because natural resources are finite and a purely linear economy no longer has a future in today's world. And fourthly: The ecosystems. We only have one planet, and we want to preserve and protect it for future generations. Those are the four focus areas that we address in our sustainability strategy.

Do you have a specific example that illustrates what you are doing in these focus areas?

› One example is the topic of empowerment. We are convinced that education is the most valuable commodity. How do we manage to engage our more than 530,000 employees worldwide as sustainability ambassadors? The transfer of knowledge plays a key role in this, but remuneration is also important. Fair and attractive remuneration is a basic human right. And that applies not only to our own employees, but to all people along our supply chains. The only way that the raw materials throughout the supply chain can and will meet our high quality standards is if we pay particular attention to this issue and, in doing so, have a positive influence on production conditions. That is why the companies of Schwarz Group are so keen on certification standards like Fairtrade. With their help, we can make sure that the cultivation of our raw materials is genuinely sustainable.

Does your joint sustainability strategy apply internationally? Or just in Germany?

› The sustainability strategy agreed upon by the companies of Schwarz Group applies to all the companies' locations around the world. This is a big challenge because the on-site conditions can vary greatly. But ultimately, looking into the future, the companies of Schwarz Group want to act responsibly, make smart business decisions, and take customers along on this journey. That is why the companies of Schwarz Group have agreed to well-defined standards globally; otherwise the market will lose trust in us.

Speaking of trust: How much transparency is actually possible in the food retail market?

› When it comes to transparency, we have to look at the entire value chain from the field to the customer. At the retail divisions Lidl and Kaufland, there are approximately 3,500 items and over 30,000 items respectively in the in-store assortments. Plus there are more than 40 million items in the Kaufland marketplace and around 24,500 non-food items in the Lidl online shops. Each of these items has its own supply chain, each very dynamic, complex, and widespread. Maintaining an overview of these supply chains is a challenge and requires digital support. This is particularly important because the customers increasingly want to know where products come from and how they are produced.

Does your work influence your personal consumer behavior?

› Definitely. I got to see a lot of what goes on behind the scenes over the past few years. Over the course of this, I have seen that not all agriculture is alike, not all fields are alike, and not all apples are alike. Every day anew I learn about what is needed to get a high-quality product onto the shelves. As a result, I now shop more consciously and question what is really needed. After all, it's not just about our food, but about everything that we consume. I always think: If everyone could see and experience what goes on in the background in terms of production, we would probably see some big changes. But to make that happen, we need transparency and digitalization.

› 02 SUSTAINABILITY IN THE SCHWARZ GROUP

CR strategy

The companies of Schwarz Group want to use their influence to set the benchmark for respectful cooperation and an environment worth living in. The joint, group-wide corporate responsibility (CR) strategy of the companies of Schwarz Group with its four focus areas of People, Product Quality, Circular Systems, and Ecosystems, which was developed based on a solid materiality analysis, provides the framework for this work. This strategy is based on the solid foundation of the long-standing commitment to sustainability across all divisions and countries and gives them enough scope to be able to respond effectively to the pressing challenges of sustainable development.

Global challenges

Industrial development and globalization of the economy offer mankind a variety of opportunities – and at the same time are accompanied by complex economic, environmental, and social challenges. These include a scarcity of resources, climate change, the loss of biodiversity, the improper disposal and recycling of waste, deforestation, and the overburdening of land and water as well as poverty, violations of human rights or limited access to education. Moreover, the world's population continues to grow, which is further increasing our use of resources and intensifying competition for access to raw materials. At the same time, lots of existing social norms and values are changing. Coupled with advances in digitalization, the very basis of our lives and economy is going through a period of profound change. Simply “carrying on” as we always have done will no longer work in this situation.

Vision

As an international corporate group, the companies of Schwarz Group have the ability to influence society and the environment in many areas. There is hardly any other corporate group around that is as diverse and covers the entire value cycle. But despite the differences in the divisions and their diverse business areas, they focus on a common direction. That is because: We are convinced that as a big corporate group we can make a big difference. The companies of Schwarz Group take responsibility and set the course for the future. They take this responsibility very seriously and focus their actions on achieving a vision of sustainability:



Acting Globally Responsible with Diversity

› The companies of Schwarz Group want to use their corporate strength to set the benchmark for respectful cooperation and an environment worth living in. By doing this, it is ensured that business activities are aligned with the responsibility toward the environment and society in the long term, and that quality of life is preserved for future generations. The companies of Schwarz Group want to resolutely tackle the complex, often closely interwoven, challenges of the coming years; they are striving to ensure sustainable development in all areas of the business. To achieve this, a common understanding of sustainability within the companies of Schwarz Group is absolutely essential.

THE JOINT CR STRATEGY OF THE COMPANIES OF SCHWARZ GROUP



Foundation

The joint CR strategy of the companies of Schwarz Group and all associated activities are based on the solid foundation of our longstanding commitment to sustainability across all divisions and countries. With its four focus areas of People, Product Quality, Circular Systems, and Ecosystems, the cross-divisional strategy provides direction and clarity. It provides a guideline on how to optimally position ourselves for the future and tackle the profound changes we are seeing in the world and in society.

Simultaneously, it also leaves enough leeway to deal with changing challenges. For example, we see ourselves faced with a scarcity of resources and limited availability of goods that is affecting our business activities. In our materiality analysis (see p. 37), we therefore regularly and comprehensively assess the opportunities and risks that such developments involve. Based on this analysis, we are continually developing the content of our strategic sustainability agenda. Because the fact is: As far as we are concerned, there is no alternative to sustainable action.

Four focus areas

People: We believe in cooperation based on respect, appreciation and trust.

As a responsible employer, the companies of Schwarz Group want to offer an attractive and healthy work environment founded on diversity and equal opportunities. We consider education to be the most valuable commodity and through targeted empowerment and support, promote employees' development both professionally and personally. It is important to us that people receive fair, attractive remuneration and good working and living conditions – and that includes the supply chain. We therefore adhere to social and environmental standards. We want to be a reliable partner for our social environment and promote social and environmental issues around the world.

Product quality: We leave no stone unturned when it comes to quality – sustainable, safe and healthy.

The wide range of products and services of the companies of Schwarz Group are characterized by transparency and trust. This includes sustainable product design and quality with certified raw materials for the business operations and the core business: retail. Resource conservation and fair working conditions go hand in hand with this. In the product communication, we inform our customers in a transparent manner about how we implement this. The same applies to ingredients. In so doing, we can contribute to the conscious nutrition of the customers – and by reducing the sugar and salt in our private label products, to their health too.

Recycling systems: We are resource-efficient and embrace the circular economy.

The companies of Schwarz Group are constantly working to ensure the sustainable use and conservation of resources and circular solutions. In this pursuit, the conscious deployment of materials and maximum recyclability are essential. Thanks to the diverse divisions, ranging from production to recycling, the Schwarz Group has substantial leverage in this area. Waste is tomorrow's recyclable material: It is collected, sorted, and recycled. With the REset Plastic strategy, the companies of Schwarz Group demonstrate how the use of substances and materials is rethought – and a circular economy is implemented. The companies of Schwarz Group want to keep reducing food waste at the various stages of the value chain. To do this, we are also raising awareness of the issue among consumers and showing them how they can help achieving zero waste.

Ecosystems: We are committed to protecting the climate and environment.

The companies of Schwarz Group want to actively contribute to climate and environmental protection. However, adapting to climate change is also of great importance. That is why we are constantly striving to reduce the operational emissions. As part of these efforts, we are ensuring that the stores are optimized from an energy perspective and use 100 percent electricity from renewable energy sources – some of which is selfgenerated. This commitment to efficiency and sustainability also includes the use and protection of water resources, so as to preserve the precious, vital fresh water reserves.

CR targets

In order to tackle the global challenges of the future, the companies of Schwarz Group are continually setting binding, group-wide targets within the four focus areas. As such, we want to ensure that our business activities are aligned with our responsibility toward the environment and society in the long term, and to support the preservation of quality of life for future generations – as well as to ensure the company’s long-term success. All of these targets count towards our sustainability vision: “Acting globally responsible with diversity.”

All divisions in every country support the efforts to achieve these jointly agreed, group-wide targets through their business activities. The four focus areas provide a common, higher-level framework for action. These take the individual corporate units in the divisional sustainability strategies into consideration, set themselves additional divisional and country-specific targets, and implement various measures and projects. As such, the group-wide sustainability strategy provides clarity and direction, but at the same time offers leeway to deal with the different challenges.

OVERVIEW AND STATUS OF THE CR TARGETS

Focus area: People

Target	KPI	Status	Target attainment
By 2022, the companies of Schwarz Group will empower and support each employee to act sustainably in their respective areas of responsibility, and continue to do so on an ongoing basis thereafter.	KPI being defined	🔍	Indicators not yet collected. Collection of indicators planned in FY 22.
By the end of 2025, the companies of Schwarz Group will provide their customers with transparency on the social, ecological, and health impacts of their offerings in order to allow them to make conscious choices. We will set the prerequisites for this by 2022.	KPI being defined	➔	Indicators not yet collected. Collection of indicators planned in FY 23.

Focus area: Product quality

Target	KPI	Status	Target attainment						
By the end of 2022, Lidl and Kaufland will strive to achieve 100 percent raw material certification for procured cocoa by means of selected sustainability seals* – for private label products containing cocoa with the claim “Chocolate content > 5 percent”. <small>*Organic, Fairtrade, Rainforest Alliance, UTZ</small>	Proportion of certified cocoa in cocoa assortment (own brands)	🔍	<table border="0"> <tr> <td>Lidl</td> <td><div style="width: 90%;"><div style="width: 90%;"></div></div> 90 %</td> <td>100 %</td> </tr> <tr> <td>Kaufland</td> <td><div style="width: 73%;"><div style="width: 73%;"></div></div> 73 %</td> <td>100 %</td> </tr> </table>	Lidl	<div style="width: 90%;"><div style="width: 90%;"></div></div> 90 %	100 %	Kaufland	<div style="width: 73%;"><div style="width: 73%;"></div></div> 73 %	100 %
Lidl	<div style="width: 90%;"><div style="width: 90%;"></div></div> 90 %	100 %							
Kaufland	<div style="width: 73%;"><div style="width: 73%;"></div></div> 73 %	100 %							
Raw material targets for the strategically relevant raw materials of coffee, soy, fish, cotton, and palm (kernel) oil are being developed									
By 2025, Lidl will reduce the sales-weighted, average added sugar and salt content in its private label assortment by 20 percent (based on 2015).	Weighted average content of added sugar and salt* based on sales <small>*KPI applies to the calculation of Lidl's disclosed sugar and salt reduction targets.</small>	🔍	Example: Lidl – sugar <div style="width: 13%;"><div style="width: 13%;"></div></div> -13 %						
By 2025, Kaufland in Germany will reduce the sugar, salt, and/or fat content in 500 private label items by 20 percent on average (based on 2015).			Example: Lidl – salt <div style="width: 6%;"><div style="width: 6%;"></div></div> -6 %						
By 2025, Schwarz Produktion will reduce the average sugar content per liter of beverages sold by approx. 30 percent (based on 2015). By 2025, Schwarz Produktion will reduce the average salt content per kilogram of baked goods sold by approx. 30 percent (based on 2015).			-20 %						

Focus area: Recycling systems

Target	KPI	Status	Target attainment
By 2025, Lidl and Kaufland will use on average 25 percent recycled material in their private label packaging made of plastic.	Proportion of weight of recycled materials deployed compared to total plastic weight	🟢	14 % 25 %
By 2025, Lidl and Kaufland will maximize the recyclability of 100 percent of their private label packaging made of plastic.	Proportion of weight of plastic classed as recyclable compared to total plastic weight	🟢	50 % 100 %
By 2025, Lidl and Kaufland will use 20 percent less plastic in their private label packaging and transport aids made of plastic compared to 2017.	Weight of plastic volume used compared to sales that Lidl and Kaufland achieve with their own brands	🟢	-18 % -20 %
From the end of 2021, Lidl and Kaufland will no longer use microplastics in the formulas for their own brand laundry, cleaning and household, and cosmetic products.	Proportion of microplastic-free items	🔴	90 % 100 %
By the end of 2030, the companies of Schwarz Group will reduce their food waste by 50 percent at Group level compared to 2018.	Target and measurement methods under development		
By the end of 2025, the companies of Schwarz Group will recover, recycle, or reuse a significant proportion of the waste generated by them.	Proportion of recyclables that have been recovered, recycled, composted, or fermented	🟢	87 % 100 %
By the end of 2022, Lidl and Kaufland will strive to limit the non-recoverable waste that accumulates within the companies themselves in pilot countries to a maximum of 5 percent.	Proportion of recyclables that have not been recovered, recycled, composted, or fermented	🟢	Indicators not yet collected. Collection of indicators planned in FY 22.

Focus area: Ecosystems

Target	KPI	Status	Target attainment
In total, the companies of Schwarz Group will reduce their operational emissions (Scope 1 and 2) by 55 percent by 2030 compared to 2019.	Greenhouse gas emissions in scope 1 and 2	🟢	13 % 55 %
Schwarz Group also commits that 78 percent of its suppliers by emissions covering purchased goods and services will have science-based targets by FY 2026.	Proportion of suppliers with validated SBT	🟢	Indicators not yet collected. Rollout of platform for collection in FY 22.
From FY 22, the companies of Schwarz Group will procure 100 percent* of their electricity from renewable energies. * Excluding any purchase agreements that they cannot influence, such as those for individual leased properties with a binding electricity procurement clause. Further information at https://gruppe.schwarz/verantwortung/oekosysteme .	Proportion of electricity from renewable energies	🟢	60 % 100 %
Conserve fresh water → Target under development	KPI being defined	🟢	Indicators not yet collected.



“ The sustainability report is extremely helpful in obtaining an overall picture of the business activities of major companies and their sustainability performance. We have found that sustainability reporting is becoming an increasingly important means of tracking a company’s progress.”

Markus Patzke, Head of Corporate Banking, Rabobank Deutschland

CR governance

The different fields of activity in the companies of Schwarz Group, ranging from production and retail to recycling, mirror the manifold requirements of effective CR management. The divisions therefore manage their sustainability activities in close cooperation with one another, as well as in accordance with their specific business model and environment. Through a joint advisory board, in which the responsible Heads of CR/CSR of all divisions are represented, we ensure group-wide exchange and the development of a mutual understanding as well as a coordinated approach.

Organizational integration and responsibilities

The overall responsibility for sustainability lies with the respective Chief Executive Officers of the Schwarz Group companies. The CR department of Schwarz Unternehmenskommunikation coordinates the strategic direction of the companies of Schwarz Group. It supports the divisions with their sustainability activities and facilitates cross-divisional collaboration on global issues.

Consequently, the issue of sustainability is also embedded in each division thanks to the organizational structure of the companies of Schwarz Group, with CR/CSR heads responsible for the departments in each division and national company. They act as a driving force and catalyst for CR issues within their own business unit and coordinate implementation.

The CR Round Table, which includes the responsible CR/CSR Managers from all divisions, forms the basis for the overall coordination of content relating to sustainability matters. Together, group-wide guiding principles and general conditions are developed and constantly refined. The advisory board meets on a weekly basis and is also involved in constant exchange on cross-divisional topics with the established work structures. Expert management and coordination is provided by the CR department of Schwarz Unternehmenskommunikation.

The members of the CR Round Table report directly to the Chief Executive Officer of their division. This keeps the lines of communication short and means knowledge can be shared quickly and directly.

The results of the materiality analysis have also been presented to this group and officially released (see p. 37). All members of the Executive Board as well as the International Management Boards of the companies of Schwarz Group regularly receive management circulars in which CR topics are reported on as they arise. Members of the Executive Board and Management Board are also assigned appropriate roles on management committees within the structure of CR projects, which means that they play an active part in reaching targets and implementing measures.

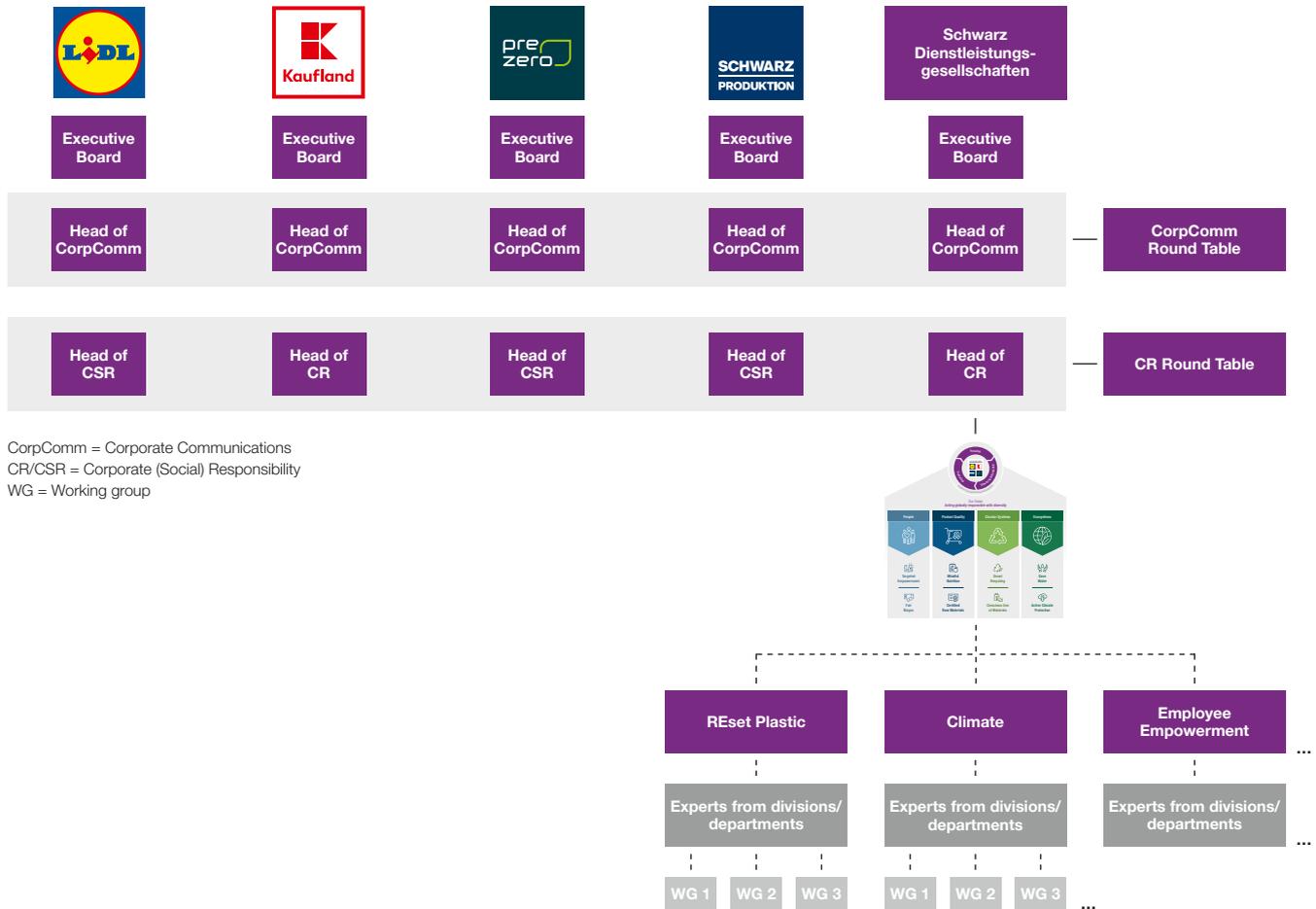
In order to define and achieve the group-wide goals, cross-divisional working and management groups are deployed. As a result, the relevant departments in the divisions for the subject areas concerned are identified and representatives are integrated in the various boards with clear roles and tasks.

A key element of corporate due diligence is transparent communication about human rights issues and environmental protection aspects. The companies of Schwarz Group regularly report on significant risks, the measures, and the progress made as well as on remaining challenges.

Effectively managing sustainability

Depending on the level of maturity of the particular area, each of the focus areas in the sustainability strategy has specific milestones and measurable targets. The measurement of progress forms part of our annual planning and strategy cycle. In the future, the companies of Schwarz Group shall regularly report on our progress toward target attainment and closely track the sustainability targets with great vigor. Solid data management provides the basis for this. In the Schwarz Group, internal processes are defined within the scope of IT-based business process management and modeled in almost all divisions using the “ARIS” software. ARIS is used for the process documentation, process design, and process publication.

CR COOPERATION STRUCTURE IN THE SCHWARZ GROUP



The companies of Schwarz Group have also introduced a common software solution for sustainability management in order to provide more transparency regarding CR measures and key performance indicators. The software is used to record and aggregate all CR measures from all divisions, countries, and departments. They form the central elements of reports to internal and external stakeholders. As such, best practices may be adopted by CR/CSR Managers and other employees in line with the specific divisions and adapted to their particular country. Over the reporting period, the Schwarz Group has developed the database extensively. As part of this work, the joint targets of the companies of Schwarz Group developed on a group-wide basis have been added to the

database. With the division-related and country-related targets and measures linked, they form a comprehensive, group-wide pyramid of targets. The database thereby enables the future management and ongoing monitoring of strategic activities in the CR area.

The companies of Schwarz Group also monitor the continuous development of the key performance indicators for sustainability. Based on a group-wide set of CR key performance indicators, which is adapted and updated annually, the figures are collected in a coordinated manner in accordance with standardized definitions and parameters across all countries and divisions. An extensive range of control measures at all levels and the integration

of established controlling structures ensure comprehensive quality assurance of the more than 900 key performance indicators for sustainability that were collected.¹

Consolidating sustainability consciousness

In order to fulfill statutory and company obligations, employees in HR departments in particular, as well as all members of management, are informed about any relevant content and changes on an ongoing basis. From a sustainable business perspective, the companies of Schwarz Group are also committed to involving their employees in sustainable management.

By 2022, the companies of Schwarz Group will empower and support their employees to act sustainably in their respective areas of responsibility, and continue to do so on an ongoing basis thereafter. This is the crossdivisional target defined by the companies of Schwarz Group for the entire Schwarz Group. Appropriate concepts that empower employees to act in a sustainable manner are currently being developed in all divisions. The programs, which supplement existing training concepts, provide information on the background and measures already implemented for relevant issues, such as climate and resource protection, the circular economy, and human rights. They also help employees to take sustainable action in their relevant area of responsibility, for example, through internal information and communication campaigns and training on avoiding waste (including food waste) as well as on energy management (see also p. 50).

Management of corporate due diligence duties

The companies of Schwarz Group are committed to observing and strengthening social and environmental standards in the global value chains, preventing the violation of these standards, and taking appropriate remedial measures, if required. The elaboration of a group-wide Human Rights Policy Statement and the Code of Conduct for business partners forms the basis of the activities to fulfill the corporate due diligence duty (see p. 17 ff. too). In order to implement this, the companies of Schwarz Group have established a five-stage process together where they are in communication with their stakeholders at every stage, as necessary.

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Identifying risks and opportunities

The divisions of Schwarz Group regularly perform risk and opportunity analyses in order to identify and assess the social and environmental effects of their business activities. However, due to their different business activities, the divisions use the same methodology but individual risk classifications for business partners and products, for example, based on the analysis of recognized indices and studies concerning the risk assessment of countries of origin, raw materials, and products. Likewise, they also perform assortment-based analyses.

Defining specifications and processes

Using the findings from the preceding analyses, the companies of Schwarz Group can manage sustainability effectively, i.e., determine focus areas, define targets and key performance indicators, and identify suitable measures – and, as such, define concrete specifications and processes for risk avoidance or mitigation. In so doing, they follow the precautionary principle. They design and establish the processes in such a way as to ensure that they are audit-proof and that the results are also measurable. In this process step it is essential to define clear responsibilities.

¹ These are the basic parameters collected, including all versions.

CORPORATE DUE DILIGENCE PROCESS



Implementation and monitoring

The next step is the consistent implementation of the specifications and processes. This is done across the supply chain, by all participants, and the implementation is monitored and evaluated accordingly. The tools that the companies of Schwarz Group use to do this include training sessions, external controls and audits, certifications, and cooperation with standard-setters, as well as industry initiatives.

Improvement

By monitoring and evaluating the specifications and processes, the identified hot spots can continually be improved and any negative side effects can systematically be rectified, avoided, or reduced. In this context, it is important to ensure that all parties involved have access to effective complaint mechanisms. To this end, the companies of Schwarz Group have implemented online reporting systems in about 30 languages (see p. 18). They also use complaints to identify risks and further develop processes. Furthermore, they endeavor to implement appropriate corrective measures in the event of violations.

Communication

The companies of Schwarz Group report on progress and failures on an ongoing basis, thus creating the basis for honest, clear, traceable and

therefore transparent communication with internal and external target groups. They do this via the sustainability report, for example, as well as publications such as purchasing policies, position papers, and the websites of divisions and their national companies.

**Focus on risks and opportunities:
CR risk management in the Schwarz Group**

As an international corporate group, the Schwarz Group is exposed to numerous internal and external developments and events that can significantly affect the ability to reach the financial and non-financial targets. For the companies of Schwarz Group, risk management of CR topics is therefore an integral part of corporate management. In the course of the materiality analysis, we also pay particular attention every two years to sustainability risks and opportunities in consideration of the joint sustainability strategy. These are then also discussed and validated by the CR Round Table and the Executive Boards of the divisions. In addition, the companies of Schwarz Group completed an ESG rating assessment in spring 2022. As such, the corporate group, in partnership with Sustainalytics, underwent an independent assessment of all potential sustainability risks and the corresponding internal risk management for the first time. The result of this first ESG rating with a score of 21.7, and the corresponding classification into the low medium risk area, honors both the strategic focus, as well as the varied sustainability activities

GRI 2-25

GRI 2-12

of the companies of Schwarz Group in their thematic breadth. Moreover, the result of the assessment also provides valuable guidance for the further development of the Group's policies and programs.

Among other items, focus was placed on the following areas during the reporting period:

The companies of Schwarz Group take their corporate due diligence duty very seriously. In view of their **"People" focus area**, they therefore welcome the Act on Corporate Due Diligence in Supply Chains (Lieferkettensorgfaltspflichtengesetz – LkSG), in which companies with more than 3,000 employees will be held accountable from January 2023 onwards. They want to give more consideration to social and environmental issues in the supply chain and further integrate them in their processes. That is because better social standards promote improved resilience and the quality of suppliers. They consider it important to ensure optimum working and living conditions – for their employees too. The COVID-19 pandemic has shown that the food retail market, in particular, is of systemic importance. However, this scenario was also characterized by high workloads and long shifts – which contributes as a whole to high employee turnover and staff shortages, as well as a shortage of new employees. The companies of Schwarz Group want to combat these issues and, as a first measure and a demonstration that they have recognized the difficulties related to COVID-19, they have paid out bonuses totaling around 100 million euros. They want to support a healthy and attractive work environment and to be an employer who helps its employees to achieve their goals and develop professionally. Topics such as flexible working or diversity and equal opportunities are integral parts of modern corporate management these days. Only in this way can high productivity rates be achieved and employees be retained to the companies of Schwarz Group.

The subject of climate protection and climate adaption is not just enormously relevant from the social and regulatory perspective: The consequences of climate change have enormous influence on all areas of the companies of Schwarz Group – from the reduced availability of raw materials to the high energy prices and increasing insurance

premiums too. With Schwarz Group companies' contribution towards achieving the climate targets of the Paris Agreement, which they perform as part of the targets and measures of their group-wide sustainability strategy as well as the group-wide climate strategy (see also p. 122), the economic future of the Group is also secured. In this regard, the decarbonization of the scope 3 emissions are viewed as a particular challenge due to the complex supply chains in the divisions of Schwarz Group. Our **focus area "Ecosystems"** is dedicated to the conservation and adaptation to loss of biodiversity as well as the protection of our water resources – to maintain agricultural yields and thus food production. One solution is to use more sustainable cultivation methods, which are not only crucial to the assortment diversity itself but are also becoming increasingly relevant as a purchase criterion for consumers. If the companies of Schwarz Group act innovatively, they can position themselves positively: The same applies to the commitment in relation to waste management.

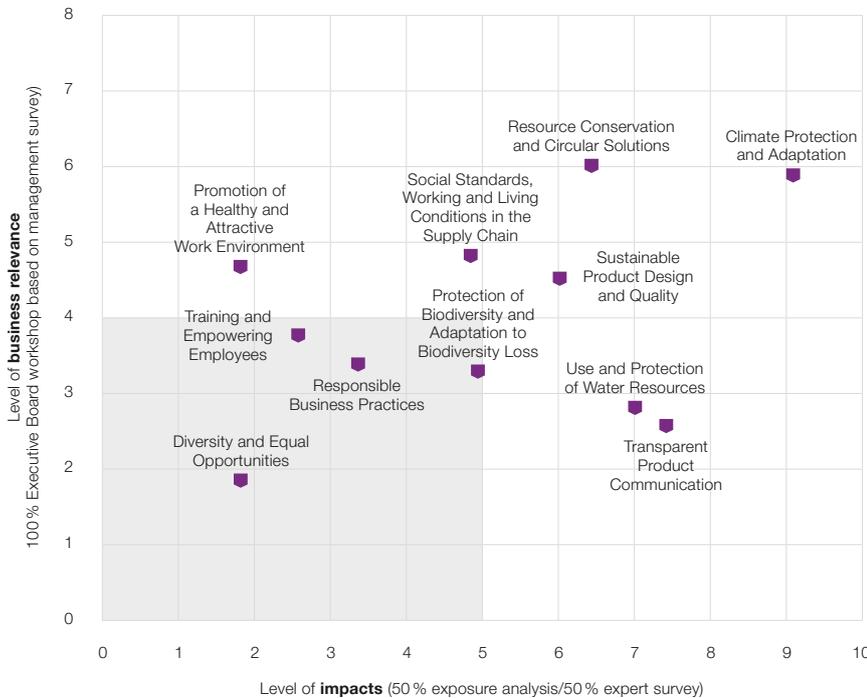
The use and conservation of resources and circular solutions play a major role in terms of the sustainable design of the economy. Thanks to the way that the divisions work together, the companies of Schwarz Group have the relevant loops directly under our control – that gives them not just a USP, but huge leverage for greater sustainability. The circular economy also pays off financially: The Ellen MacArthur Foundation estimates that a largely successful transition away from the linear economy will add 900 billion euros to the European economy by 2030. The companies of Schwarz Group are already on the right track here with their REset Plastic strategy. Topics such as too few competitively-priced secondary materials or additional costs due to technical equipment as well as deviating regulations and recycling structures in the different European markets present challenges in the **focus area "Circular Systems"**. The topic of food waste is also coming increasingly to the fore. With limited production space and capacity, and therefore also raw material availability, it is important to reduce waste here too. In the individual steps of the value chain (including the consumer), the most diverse efforts can be made – we therefore advocate waste prevention consciousness at all levels.

The sustainable design of the product and service portfolio is an area of innovation that is covered in the **focus area “Product Quality.”** Transparency and trust are central factors that can quickly be associated with the risk of image loss these days. Enlightened consumers demand compliance with environmental and social standards, and transparent traceability. These new patterns of consumption can enable companies to tap into new consumption segments and increase customer loyalty: According to a study by the consulting firm, Deloitte, in 2021, 67 percent of German consumers state that sustainability is a factor in their purchase decisions. But when it comes to sustainable product quality, it is not just environment and social topics that are important: Health is also on the agenda. The “Reduction and Innovation Strategy” of the German Federal Ministry of Food and Agriculture is a contribution to the minimization of nutrition-based illnesses which the companies of Schwarz Group are supporting (see p. 84 too). The background is that on a European average, 46 percent of women and 60 percent of men are overweight (2019).

Materiality analysis: validation of the CR strategy and determination of report contents

– During the reporting period, the Schwarz Unternehmenskommunikation GmbH & Co. KG performed a comprehensive, substantiated materiality analysis in order to validate and further develop the CR strategy of the companies of Schwarz Group and determine the relevant report contents. On the basis of the two dimensions, “Impact on People and the Environment” as well as “Business Relevance”, a list of systematically and carefully chosen sustainability topics was assessed.

MATERIALITY ANALYSIS



Key Findings

- Top issues are **climate protection and adaptation** as well as **conservation of resources and circular solutions**.
- Also particularly important in terms of impact relevance: transparent product communication.
- Also particularly important in terms of business relevance: social standards, working and living conditions in the supply chain.

GRI 3-1

Materiality analysis methodology

The eleven topics assessed are derived from a comprehensive analysis of the sustainability frameworks relevant to the companies of Schwarz Group such

as the Global Reporting Initiative, the central political frameworks, such as the EU Green Deal, a competitor analysis, and the divisions' sustainability strategies.

The two materiality dimensions "Impact on People and the Environment" and "Business Relevance" were each assessed in two analysis steps. The analysis was designed based on stakeholder mapping and the desire to link qualitative and quantitative assessment methods to each other as effectively as possible.

In order to identify the Schwarz Group companies' **impact** in the eleven topics, we firstly examined them by means of an exposure analysis – statistically modeling the Schwarz Group companies' impact on people and the environment. As part of this process, the hotspot shortlist was drawn up for the eleven defined topics. They show the level of sustainability attained for the different topics in a country compared to other countries. If the sustainability indicators selected for a particular topic and country depict a high-risk picture, that country is classified as a hot spot for this topic. The countries where the companies of Schwarz Group are active, according to statistical modeling, were determined based on an analysis of the divisions' sales data. Using this method, the Schwarz Group companies' global value chains and links were drafted and the potential impacts localized. Secondly, we also spoke to experts from the field of science, civil society, associations, and the finance industry in the course of an expert survey. We held semi-standardized, qualitative interviews with them on the biggest environmental and social impacts of the companies of Schwarz Group.

To determine **business relevance**, first of all a representative sample survey was conducted among managers and employees of companies of Schwarz Group focusing on the influence of CR issues on business success. The results of the employee survey

were then qualitatively discussed and validated in Executive Board workshops involving all the divisions. The focus in these workshops was on the opportunity and risk perspective.

The outcome of this process is the materiality matrix illustrated on page 37, which identifies seven of the eleven topics as being material. The material topics cover all four focus areas in the joint CR strategy of the companies of Schwarz Group and simultaneously provide new inspiration. For example, the analysis made clear that the greatest expectations, both externally and internally, relate to the topics of climate protection and adaptation, as well as the use and conservation of resources and circular solutions. The topic of transparent product communication, for instance, is driven above all by the significant influence that the companies of Schwarz Group have thanks to their numerous touchpoints with consumers. The topic of promoting a healthy and attractive work environment, on the other hand, reflects the key role that the staff of Schwarz Group play in the sustainable success of the business.

The material topics in detail

To avoid any overlap between the topics in the materiality analysis as far as possible, concise guiding principles for each topic were formulated, bearing in mind the stages of the value chain. That is because only a uniform understanding of the relevant aspects within each topic will ensure a valid analysis. Specific management mechanisms and measures that are followed concerning the material topics are illustrated in the management approaches in this report. The seven material topics are briefly explained below:



Climate protection and adaptation:

These include all activities that contribute to fighting climate change, such as the avoidance of CO₂ emissions and other greenhouse gas (GHG) emissions, renewable energy generation, and the creation of new opportunities by transitioning to a GHG-neutral economy. Moreover, this includes preventive measures to manage current climate risks and those to be expected

so as to adapt the regions in which the companies of Schwarz Group operate to the effects of climate change. Examples include dealing with crop failures as a result of extreme weather events and the provision of smart mobility concepts.

Circular Systems



Resource conservation and circular solutions: Relevant aspects relating to the sparing and efficient use of natural resources as well as the promotion of

material cycles both in internal processes and in the supply chain. This includes food waste, sustainable building materials, environmentally and health-friendly waste and chemical management, efficient recycling, and recyclable materials management as well as the use of material and environmentally-friendly packaging.

Product Quality



Sustainable product design and quality: The offer of sustainably produced and safe products from controlled cultivation implies, among other

things, ecologic and/or regional cultivation, and the use and procurement of raw materials in consideration of high social and environmental standards. This also includes quality assurance, ensuring product safety and the further development of our own products under ecological and social aspects.

Product Quality



Transparent product communication: In order to promote conscious consumer decisions and to support customers' health and safety, the companies of Schwarz Group inform customers by

means of measures, such as, product labeling which is as transparent as possible on the likes of ingredients or production but also by means of labeling with sustainability seals and labels which increasingly offer digital traceability of the raw materials as well as information concerning the ecological aspects.

Ecosystems



Use and protection of water

resources: Important aspects of the sustainable use of water resources and the avoidance of water risks within

the companies of Schwarz Group are the reuse of water and the reduction of consumption. Equally

important is conscientious wastewater management that prevents or minimizes pollutant input. In terms of the supply chain, this topic involves the protection and conscientious use of fresh water when cultivating raw materials and producing goods, particularly in regions with water-related risks owing to water shortages. Another vital aspect is the protection of the oceans as a natural ecosystem, for example by preventing overfishing and pollution.

People



Social standards, working and living conditions in the supply chain: Ensuring

decent employment with good working conditions for people in the supply chains and complying with our own due diligence duty are relevant aspects here. This includes, in particular, employment-related human rights, such as, the avoidance of modern slavery, child labor, and forced labor as well as other human rights violations. Fair remuneration in this context primarily mean living wages and the principle of equal pay. Certain civil rights and liberties must also be respected, such as, freedom of association, freedom of opinion, and freedom of religion. It is also important to ensure that social and working standards are observed by direct and indirect suppliers.

People



Promotion of a healthy and attractive work environment: Relevant aspects

are an attractive work environment with fair remuneration, the opportunity of working flexible hours, part-time employment, family leave, sabbaticals as well as a good work-life balance. Measures that improve safety in the workplace are also important, so too as the protection and support of employees' mental and physical health. Such measures include occupational health management and the appointment of Employee Relations Consultants. The latter have access to an extensive external network, which includes psychological support. ♣ –



› 03

Abdulahi Aliyu (40) coordinates the international program “Coffee and Cocoa” at Rikolto, where he works closely together with Lidl and Fairtrade as part of the “Way to Go” project.

Abdulahi Aliyu is a part of our transparent supply chain.

Abdulahi Aliyu has a dream: That all cocoa farmers worldwide will be able to make a living from their work in the future. In our interview, he tells us how he is working with international partners to make his dream a reality, and the conditions needed to make this happen.

Mr. Aliyu, you are the International Cocoa And Coffee Program Coordinator at Rikolto – what are your tasks?

› **Abdulahi Aliyu** We at Rikolto have a declared target: To help smallholder farmers secure a sustainable income by producing affordable and nutritious food for people around the world. To turn this vision into reality, I collaborate daily with colleagues from eleven different countries. We develop and implement strategies, offer coaching, work with relevant partners, and run networking and fundraising initiatives.

How do you manage to combine all of the different requirements that you face?

› That is a real challenge. I am in contact with people representing different interests and cultures. All of them have their own views and goals. In my experience, the only way to harmonize them is if we engage in close dialog right from the start. That is exactly what we did at the start of our collaboration with Lidl and Fairtrade. In the end, we agreed

that we wanted a cocoa production setup that ensured a living wage for the cocoa farmers but also protected the environment and used resources efficiently. We are working on this in Ghana in collaboration with a cocoa farmer cooperative and Fairtrade, promoting sustainable cultivation and supporting the members of the cooperative as they work to achieve a living wage.

Why do you think that the “Way to Go” initiative works so well?

› Because – as the name says – it’s the right way to go. The initiative is different to others – because it has been designed from the bottom up. I have always advocated that the beneficiaries should be involved in the project design process. Because, in this way, we promote individual responsibility and ensure that the defined measures also continue to work long after the project has ended. You have to get an overview of the situation on the ground and understand the needs of the people involved in order to work together to solve the

issues. That was our approach when working with Lidl, Fairtrade, and the cooperative. We got together with the farmers and discussed the challenges they are facing. Afterwards, we all agreed on measures that could help to solve these problems – that’s how the “Way to Go” project came about.

What measures did you come up with?

› One of the most important measures in the project is the consistent fight against child labor. We monitor this – and help parents with bonuses to cover school fees, for example. We also offer a literacy program. The second measure that we take is to distribute seedlings to the farmers in order to increase the forest heritage in the cocoa communities. The third measure is to map the farms. This has two backgrounds: Firstly, it enables us to transparently trace where the cocoa actually comes from, and secondly, it allows us to monitor and prevent farming-related deforestation in the project regions. The fourth measure is to improve productivity. In order to improve yields in the existing areas, we help local young people there to establish companies that specialize in pruning cocoa trees, for example. As a fifth measure, we make it easier for the farmers to access financial resources with the aid of local microfinance systems. And finally, we have introduced income diversification. Our cocoa farmers now not only grow cocoa, but also yams or rice, for example, depending on what the local community wants.

Why is that important?

› It enables families to be self-sufficient. Over 50 percent of the smallholder farmers’ income goes toward feeding their families. By growing food for their own consumption as well as selling it, the farmers can ultimately stand on their own two feet and provide their families with solid accommodation and a proper education. Two financial premiums that are linked to the program also help them with this. One from Fairtrade for the sustainable cultivation of cocoa and for the cooperative’s social and environmental projects. And an additional premium from Lidl for the measures undertaken as part of the project and for the transfer of money to farmers to enable them to invest in their farm and improve their living standards.

How do you make sure that the participants adhere to the specifications of the program?

› Firstly, we conduct annual audits. That means that we review all the social and environmental factors that are relevant to us. Secondly, employees from the cooperative, Rikolto, and Fairtrade are on site working with the cocoa farmers every single day, giving them the support they need and making sure that we always keep an eye on the outcome of the program. I also go over to Ghana several times a year to speak to the farmers to see how they are getting on with the project. That way I can tell if anything is going awry. Finally, participation in the program is always voluntary. If anyone wants to stop, they can just end the cooperation.

What needs to change in the market for us to have genuinely sustainable cocoa production?

› For me, it all comes down to securing a living wage for smallholder farmers. Why do some of them cut forests down? Because they need more land to increase their income. Why do some of them think child labor is justifiable? Because they need extra hands to secure their income. Ultimately, the fact is that: If they had an income that covered all their living and accommodation expenses, most of the problems would not exist. To facilitate change, retailers and consumers also need to play their part. At the end of the day, it is their purchasing power that decides the conditions under which cocoa is grown there. For my part, I am doing everything I can do to reach even more farmers with my work. My dream is that, in the future, every single cocoa farmer should be able to make a good living from their work.

Our mission: We believe in cooperation based on respect, appreciation and trust.

Our commitment to respectful cooperation



2022

By 2022, the **companies of Schwarz Group will empower and support each employee** to act sustainably in their respective areas of responsibility, and continue to do so on an ongoing basis thereafter.



2025

By the end of 2025, the companies of Schwarz Group will provide their customers with **transparency on the social, environmental, and health impacts** of their offerings in order to allow them to make conscious choices. The companies of Schwarz Group will set the prerequisites for this by 2022.



“ People are at the heart of everything we do. That is why it is particularly important to us to get the employees and customers of Schwarz Group companies on board and involved in the topic of sustainability. Cooperation with one another, the supply chains, and interactions with the customers are all based on the principle of fairness.”

Andrea Breyer, CR Focus Area Supervisor – People

› 03 PEOPLE

Promotion of a healthy and attractive work environment

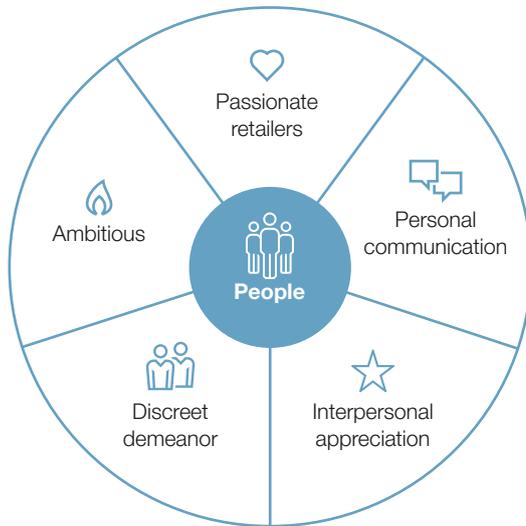
The employees of Schwarz Group companies are the most important success factor. That's why their health and safety is the top priority as well as establishing general conditions that promote a healthy way of living. It goes without saying that the companies of Schwarz Group want to provide fair remuneration and offer a pension scheme. And last but not least, maintaining a work-life balance is crucial in order to stay fit and motivated.

The companies of Schwarz Group believe that providing an attractive and safe work environment for every single employee is vital to their business success. After all, employees need to be happy and healthy to be able to perform their tasks with motivation and commitment every day. Besides making sure that remuneration is attractive, it is important to the companies of Schwarz Group that it is equal. Employees also benefit from a range of other company benefits, and companies of the Group offer flexible working hours to help employees maintain a work-life balance. The companies of Schwarz Group want to support their employees' wellbeing and prevent extended absences – that is why a range of offers promoting workplace health was made and targeted measures to avoid accidents at work were implemented.

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To ensure adequate protection of employees of Schwarz Group companies, from production, stores, and warehouses to waste disposal and recycling, the level of protection at the locations is regularly monitored and adapted where required. For example, the companies of Schwarz Group take out (supplementary) insurance to ensure optimal health care provision (depending on the location) and support employee health with options such as health checks, cooperations with fitness centers, and themed health days and talks. At certain locations, fully equipped fitness centers are also available to employees. Further, the employees can enjoy attractive discounts and special terms with a wide range of cooperation partners, as well as mobility subsidies and benefits depending on the location. In addition, the companies of Schwarz Group insure certain groups of employees against unforeseeable events caused by accidents, both at and outside of work, worldwide. To promote health consciousness among employees and foster appropriate behavior, all divisions have established an occupational health management program. After all, the companies of Schwarz Group agree that physical and mental health is the most important asset. That is why they have appointed Employee Relations Consultants as additional Contact Persons and also the first point of contact for sensitive issues. Employees at Schwarz Dienstleistungsgesellschaften can also access online psychological support that is free of charge.

FOCUS ON PEOPLE



The Schwarz Group companies' attitude is also derived from a corporate philosophy, which places people at the heart of everything that is done. Cooperation is based on respect, appreciation and trust. The right to co-determination is respected. We are passionate retailers, ambitious in pursuing our goals, yet discreet. Personal appreciation and respectful communication characterize the spirit of social and business interactions both internally and in dealing with customers.

Attractive work environment

Improving work-life balance

The reconciliation of work and family life is not only a key component of an attractive working environment, but is also vital if we want to ensure equal opportunities. In order to support a healthy work-life balance, the divisions and national companies of the Schwarz Group are seizing the initiative. For example, since 2014 and 2016, respectively, Lidl Slovenia and Lidl Austria have been certified as family-friendly companies based on the "berufund-familie" audit. Their family-friendly corporate culture is regularly re-certified through subsequent audits.

The facilitation of a work-life balance is important at Kaufland as well, with options such as part-time work. Kaufland also supports its employees in case of personal events, such as the birth of a child. Lidl, Schwarz Produktion, PreZero, and the Schwarz Dienstleistungsgesellschaften also welcome a new addition to the family with a congratulatory gift.

Parent/child offices are available at administrative locations of Lidl, Kaufland, Schwarz Produktion, and Schwarz Dienstleistungsgesellschaften, as well as in some Lidl, Kaufland, and PreZero countries, to support parents needing to bridge short-term lack of access to childcare. In these office spaces, employees can look after their children while carrying out their daily work duties. In addition, all divisions help their employees to maintain a healthy work-life balance with flexible working models and sabbatical policies. To facilitate working from home, a new policy on mobile working has also been adopted for administrative locations. Since face-to-face contact and on-site interaction are important elements of teamwork and collaboration, the office is a central location in our working environment. But it is also important to take advantage of the benefits of flexible working. With this in mind, the companies of Schwarz Group facilitate mobile working for up to five days per working week.

Some of the Lidl national companies set their own goals and focal points for improving work-life balance as well. Lidl Switzerland, for example, has set itself the target of improving employees' subjective view of their work-life balance by 10 percent by 2025 compared to 2020. The data is collected by conducting an employee survey.

Ensuring fair wages

The success as a globally operating corporate group is owed to the work of the employees. Each division in the Schwarz Group has established uniform salary structures based on objective criteria such as professional experience, expertise, skills, and area of responsibility. In Germany, an internal minimum wage was introduced at Lidl, Kaufland, Schwarz Produktion, and Schwarz Dienstleistungsgesellschaften back in 2010,

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100
million euros
bonuses paid out to
employees of Schwarz
Group companies
during the COVID-19
pandemic.

and this rate is continually adapted in line with the labor market situation at the relevant divisions. For example, Lidl Germany increased the minimum entry-level salary for its employees to 14 euros gross per hour from June 2022. PreZero meanwhile bases its salaries on the collectively-agreed industry minimum wage. In most countries where we operate and where there is a statutory minimum wage, the companies of Schwarz Group significantly exceed this minimum wage – for store and production employees as well as warehouse employees. As it took a lot out of the employees to keep operations going during the COVID-pandemic, the companies of Schwarz Group want to acknowledge that financially. One of the measures was to pay bonuses totaling around 100 million euros, with over 170,000 employees benefiting from these bonuses.

The work of managers in the companies of Schwarz Group is compensated in a transparent manner in accordance with the same principles. For this purpose, the companies of Schwarz Group developed and defined general conditions and minimum standards together. The amount of remuneration is determined based in particular on the tasks assigned and the associated responsibility involved, but is also aligned with the relevant industry and the local conditions. Data analyses and benchmarks are used in order to ensure that the remuneration structure for our managers is just as attractive and competitive as the one used for our employees. It is generally refrained from using variable or performance-based remuneration components and company shares, and instead predictable and reliable remuneration is offered with a focus on attractive fixed salaries. Compliance with these principles is regularly monitored in the companies of Schwarz Group by the Internal Auditing department.

Offering a pension scheme

The company pension scheme of the Schwarz Group companies is based principally on the statutory and, where applicable, collectively-agreed framework conditions. For example, the company pension scheme in Germany is based on an insurance-based model and comprises various employer, and in part, employee-funded components.

Occupational health and safety

– Responsibility for occupational health and safety and health promotion at the companies of Schwarz Group is extensively regulated – from employees to managers, every single individual is responsible for adhering to and implementing the relevant requirements. At Kaufland, the Occupational Safety department is based in Corporate Security at both the international and national level. It supports the organization in an advisory capacity in order to define occupational safety-specific system requirements for all departments. Lidl manages occupational health and safety at an international level through the Occupational Safety department.

Health promotion and occupational health management are managed by the respective HR department at Lidl and Kaufland. At the two retail divisions, the Head of HR is responsible at a national level with the support of the corresponding HR department. In addition, an Employee Relations Consultant is appointed for the national headquarters and regional distribution centers at Lidl. This Employee Relations Consultant acts as the point of contact for health issues and is available to all employees. Kaufland also has dedicated Employee Relations Consultants in its stores, logistics centers, and meat processing plants, as well as in its national headquarters area, acting as a point of contact for personal issues and HR matters. This includes health-related matters and issues such as bullying, stress, addiction, or discrimination in the workplace.

At production facilities, the respective plant managers or directors at the locations are responsible for occupational health and safety and environmental protection in cooperation with the local Environment, Health, and Safety (EHS) Coordinators. In a specialist capacity, the central EHS department manages the aforementioned aspects and provides support and advice to the relevant facilities. Both Lidl and Kaufland at an international level, as well as PreZero and Schwarz Produktion, have continued to expand and strengthen their occupational safety and occupational health management measures during the reporting period.

For example, Kaufland meat processing plants are investing in intelligent occupational health and safety systems for particularly high-risk individual work stations, and to this end, have introduced the BladeStop bandsaw during the reporting period. PreZero has also improved its accident prevention measures. It has established an international accident reporting process which enables lessons to be learned from one another and preventive measures to be derived in order to protect employees' safety in the field. The national companies are working together on this program. The aim is to use their many years of experience to anticipate potential accidents. These issues are managed at PreZero Stiftung by the Health & Safety Officers in the Central Operational department for Business Systems.

At Schwarz Produktion, an internal Health Expert supports the implementation, coordination, and control of occupational health management (OHM) at the individual locations, as well as the occupational health promotion (OHP) measures. The central Health Steering Committee manages all strategic health issues centrally. In addition, local health teams are set up at the locations to implement the health promotion measures required locally with the support of the central OHM. The locations are each supported by two health insurance companies. The Occupational Safety and Fire Protection department is responsible for occupational health and safety at Schwarz Dienstleistungsgesellschaften. The department's main tasks include performing risk assessments of the workplaces and providing training on occupational health and safety. Sports and prevention measures, which also serve to improve employee retention fall under the scope of the HR department.

Processes, risk assessments, and audits

All processes related to occupational health and safety are defined by almost all divisions in the IT-based business process management tool and in the "ARIS" software. These processes are based predominantly on the main content of recognized occupational health and safety management systems, such as ISO 45001. All of the Kaufland meat processing plants in Germany have been awarded the "Sicher mit System"

(Safe with a system) quality seal by the employer's liability insurance, which is based on ISO 45001, since 2012. At Schwarz Produktion, each location has an occupational health and safety management system based on ISO 45001, which defines the occupational health and safety standard within the Group through policies and procedural instructions. There is also an IT-based EHS tool for the Schwarz Produktion production facilities, which enables all materials such as risk assessments, operating instructions, and registers of hazardous materials to be created, updated, and made available to all production facilities in digital form.

At all divisions, activity-related risk assessments are conducted, which are adapted in the event of changes to the relevant activities or the procurement of new equipment and are regularly updated. The responsible occupational health and safety specialist of the respective division – the EHS Coordinator at Schwarz Produktion, for example – supports and advises managers on the creation and regular updating of the assessments. The individual divisions use the results of the risk assessments to define and implement the necessary technical/structural, organizational, and/or personal occupational health and safety measures. This includes the training and instruction of employees as well as occupational health examinations and consultations. Safety inspections are performed at regular intervals at the production sites of all divisions in order to identify risks and hazards at an early stage and to avoid them. Applicable policies and processes and their implementation are audited regularly. For the occupational health and safety systems, this is done down to country level by the Internal Auditing department at Schwarz Dienstleistungen; at Kaufland, these audits are supplemented by the company's internal corporate security audits, for example. These audits could not be performed during the reporting period due to the COVID-19 pandemic. Internal and external audits are also performed on a regular basis at the production facilities. The external audits are performed every two years by an external service provider. Internal evaluations are performed by means of a monthly EHS report on the relevant key performance indicators.

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The audits performed in 2020 and 2021 focused predominantly on infection protection matters on account of the COVID-19 pandemic. In order to keep the essential business operations running, a range of infection protection measures were taken, such as the creation and implementation of group-wide COVID-19 e-learning courses, the setup of testing stations, and the provision of a wide range of protective equipment.

Occupational health and safety committees

In accordance with country-specific laws and regulations, occupational health and safety committees are set up by the companies of Schwarz Group across the Group, with the composition of these committees defined according to national laws. At Schwarz Produktion, for example, the occupational health and safety committee meets on a quarterly basis and comprises the Production Manager, the Works Council, the Company Physician, an occupational Health and Safety Specialist, and the Safety Officer. The meetings are also attended by a representative from the HR department and, where required, other specialists. All committees operate in an advisory capacity in accordance with the statutory regulations. The occupational health and safety committee’s responsibilities include analyzing accidents that have occurred in the company, advising on preventive and corrective measures and the outcome of measures that have been implemented, and coordinating occupational health and safety tasks.

Training and further development

To ensure that there is a functioning occupational health and safety organization in place and in order to actively involve employees, selected employees are trained and deployed as fire protection officers and first responders, among other roles. As a general rule, all employees are given regular training on potential risks in their work environment. For employees in Germany, participation in annual training is mandatory. The training sessions mostly take place online, with in-person sessions held where necessary. For employees at the central administrative locations of Lidl, Kaufland, PreZero, and Schwarz Dienstleistungsgesellschaften, the occupational health and safety training sessions are coordinated centrally by the Occupational Safety and Fire Protection department of the Schwarz Dienstleistungsgesellschaften on behalf of the respective company. The frequency of training at the national companies is determined by the relevant national requirements and the results of risk assessments, respectively. Kaufland, for example, has introduced an online course to provide general training on occupational health and safety for all employees at stores and central locations as standard across all countries.

Reduction of sickness absence rate by **3.2%** from FY 2020 (7.2%) to FY 2021 (6.9%)

SICKNESS RATE

in percent



The Schwarz Group does not have information on employees who have a high sickness rate or risk of sickness on account of their work.

Occupational health service and integration management

To promote employees' health and prevent work-related damage to health, the companies of Schwarz Group provide an occupational health service in all countries and business units in accordance with the statutory regulations. This service includes measures such as risk assessments and compulsory examinations. Many locations also have additional health promotion measures that are coordinated by the HR departments. A cross-divisional occupational health service is provided for the administrative locations of Lidl, Kaufland, PreZero, and Schwarz Dienstleistungsgesellschaften in the Heilbronn/Neckarsulm region. As part of this service, employees can book eye examinations and flu vaccinations – as well as general medical consultations. In addition, employee relations consultants are available to assist with specific questions about inclusion, severe disabilities, and chronic illnesses. Depending on the location, a representative for disabled employees is also available as a point of contact at Kaufland, Schwarz IT, and PreZero Germany.

In Germany, the divisions in the Schwarz Group have established a company integration management program in accordance with statutory obligations. Lidl and Kaufland national companies, as well as some PreZero locations, also have a company integration management program or similar approach in place on an individual basis in line with legal regulations. Essentially, the purpose is to jointly agree on assistance, benefits, and measures to avoid future inability to work, support the affected employees in their integration, and preserve jobs.

Preventing work accidents

Prevention plays a crucial role at for the companies of Schwarz Group and influences all occupational health and safety activities across the Group. If there is an accident or near accident at work, an in-depth analysis of the cause of the accident is performed and the deduction and implementation of appropriate preventive measures is strived for in order to prevent future or potential accidents. – Through a variety of measures,

Schwarz Produktion has reduced the rate of accidents subject to reporting obligations in the period 2017 to 2021 by an average of around 11.3 percent compared to the respective prior year.

NUMBER OF WORK ACCIDENTS

Schwarz Group	2021
Total work accidents	18,450
Work accidents per 1,000 full-time employees	78.2

Preventive health measures

– Depending on the location, the divisions in the Schwarz Group offer their employees a range of health promotion activities such as sports classes and medical check-ups with a focus on both physical and mental health. The measures available vary between divisions and locations and include services such as statutory preventive examinations like skin and breast cancer screening, medical check-ups and care consultations, eye examinations, training on back health, flu vaccinations, psychological support, dietary consultations, and training and advice on office chair setup and the correct way to lift and carry items. Activities such as corporate runs, sports events, and health days complete the offering and, as well as providing an opportunity for physical exercise, help to raise consciousness of how to lead a healthy lifestyle. Due to the COVID-19 pandemic and the restrictions it entailed, the companies of Schwarz Group also focused increasingly on online sports classes as part of their company health management program – and have expanded this range. –

Improving ergonomics

Ergonomic chairs are provided at the registers as standard in new Lidl and Kaufland stores, and in some existing stores chairs are also being upgraded. At Kaufland, the use of ergonomic pallet jacks also makes stocking much easier. Efforts are also taken to reduce the physical burden in sales and logistics distribution centers with measures such as optimized shelf heights and adjustable conveyor belts. At Kaufland, folding pallets are intended to

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optimize entire processes from logistics to sales in the long term. As well as the improved ergonomics they offer when packing and unpacking, the robust side walls enable film savings of at least 15 percent. In addition, the entire loading height of the truck can be utilized. This lowers transportation costs compared to Euro pallets and reduces CO₂ emissions. The measure has also received external recognition: The Kaufland folding pallet was awarded the prevention award by the German employer's liability insurance for trade and goods logistics (Berufsgenossenschaft Handel und Warenlogistik, BGHW) in 2021.

Ergonomic office chairs and height-adjustable desks are also gradually being introduced as standard at all new offices in the retail divisions and Schwarz Dienstleistungsgesellschaften – for a work environment that supports employee health. This measure is accompanied by training on how to make optimum use of these desks and chairs. Digital talks are also provided on ergonomic working in and outside of the workplace.

Healthy diet and exercise

Holistic prevention includes the provision of healthy food and exercise options for employees. Location-specific offers include the following:

- A wide range of balanced dishes is available in the employee restaurants at the administrative locations in Neckarsulm and Heilbronn. Care is taken to ensure that regional ingredients and certified products are used wherever possible. For example, only MSC-certified fish products are used where available. Demand-based order quantities, different portion sizes, takeaway options with reusable boxes, and a cooperation with the Tafel food banks all help to minimize food waste.
- At the administrative locations of the Schwarz Group companies in Neckarsulm and Heilbronn, as well as at Lidl in Finland and Kaufland in Slovakia, employees receive free fruit.
- Employees at the administrative locations of Lidl, Kaufland, PreZero, Schwarz Produktion (only Weißenfels and Düsseldorf) and Schwarz Dienstleistungsgesellschaften in Germany and at Lidl in Great Britain, Italy, Spain, France, Hungary, and Switzerland, as well as at Kaufland in Poland

and Slovakia, among other places, have access to company fitness centers. Several Lidl and Kaufland national companies, including the Czech Republic and Slovakia, provide a MultiSport card to all employees that they can use at selected sport and leisure facilities, fitness centers, tennis courts, and swimming pools. The Schwarz Dienstleistungsgesellschaften, Lidl, and Kaufland in Germany as well as individual national companies also cooperate with various providers and sport centers. Various sports classes, talks about nutrition, and sports events such as running events complete the Schwarz Group companies' health promotion offering. Due to the COVID-19 pandemic, some national companies – like Lidl Italy – have expanded their sports offering to include online classes so that employees can also access them from home.

Training and empowerment of employees

A changing world needs people who can help shape it. And to deliver that, we need to think ahead and evolve constantly. This applies just as much to career development as it does to the dialog on sustainability. From providing education and training on the opportunities of work-study programs to development within the companies of Schwarz Group – all training and development measures of companies of Schwarz Group focus on the needs of their employees and the requirements of the future.

The companies of Schwarz Group consider education to be the most valuable resource, which is why proactive personnel planning is essential.

GRI 404-2 Given the current shortage of skilled workers and demographic change, needs-based training and development is key to recruiting and retaining qualified employees. Holistic employee development also has a positive effect on the companies' reputation as an employer and supports their future viability. Educating the employees on sustainability issues is a key component of these efforts.

Trainee programs, work-study courses, commercial and technical training courses, and programs that provide professional qualifications, such as retraining opportunities, are firmly embedded in the corporate culture at all divisions. With an extensive range of methods, the companies of Schwarz Group support every single employee in their professional and personal development.

› By 2022, they will empower and support each employee to act in a sustainable manner in their respective areas of responsibility and continue to do so on an ongoing basis thereafter.

Concepts that will give employees the skills and expertise they need to act in a sustainable manner are currently being developed in all divisions in the Schwarz Group. In 2021, sustainability training was introduced for all employees and managers, including members of the executive boards, at Schwarz Dienstleistungsgesellschaften and Schwarz Produktion. This training covers the relevant topics from the sustainability strategies, such as waste avoidance, food waste, human rights, the circular economy, and raw materials, and supplements existing training concepts. In the compulsory training sessions, which are assigned to new employees when they join the company and all existing employees every two years, employees learn about selected measures at the companies of Schwarz Group and discover how they can integrate sustainability into their day-to-day work and private lives. The topics covered include waste separation and energy management.

A similar sustainability training course is currently being developed at Kaufland International. The course will be available to all employees in an e-learning format. Other formats for targeted empowerment are being planned. Kaufland also has existing training courses on individual topics, such as energy management, which are being integrated into the concept. The concept not only provides trainings in a course format, but also allows for other formats depending on the target group and content. Lidl International is currently working on a comprehensive activation concept that will empower all employees with the skills and expertise they need to act sustainably. This concept

is based on internal sustainability campaigns, the creation of e-learning courses for all employees on a regular basis, and the establishment of an international CSR community of CSR ambassadors. At PreZero, the international sustainability strategy is currently under development. The plan is to provide sustainability training to employees as part of the rollout, for example on the key strategic topics of the circular economy and climate protection.

In addition to the general sustainability training provided at Lidl, Kaufland, PreZero, and Schwarz Produktion, in-depth training is available for store and logistics employees on topics such as waste separation and energy management. This includes the “Wertstoffe wertschätzen” (Appreciate recyclables) program, which teaches employees about the logistics involved in resource efficiency and how to sort waste correctly. At Kaufland, new logistics employees attend the “Recycling macht den Unterschied” (Recycling makes a difference) online training course and receive a checklist, which they go through with a qualified trainer to help them learn about correct waste separation and practice how to do it. Training on energy management is also mandatory for store employees in all Lidl and Kaufland countries.

As well as equipping the employees with the relevant skills and expertise, it is also important to the companies of Schwarz Group that the same is done for their customers. Further information can be found in the section on “product quality” from page 70 onward.

Strategically integrated and needs-based training and development

The division-specific development and implementation of training and development concepts is also reflected in the organizational structure. The subject is managed in a decentralized manner at all divisions in the Schwarz Group by the respective HR department. Responsibility for the development of individual employees lies first and foremost with the line manager and the employee themselves – they agree on the employee’s individual further development needs and appropriate measures based on their current and future responsibilities. Managers’ responsibilities

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are clearly specified in this context – in each of the companies of Schwarz Group, there are defined skills and leadership models that are based on shared corporate values and the company's principles, and are adapted to the relevant division's requirements.

Employee development

At Lidl and Kaufland, the HR departments in the countries and at the regional distribution centers support managers and departments with targeted processes, programs, and seminars. At the two retail divisions, the countries receive additional, central support from the Talent Management department established in recent years. For the purposes of sustainable talent management, individual development plans are created in cooperation with employees as part of this approach. This same approach is taken at Schwarz Dienstleistungsgesellschaften as part of a systematic process with the support of the HR department.

A structured talent management process ensures year-round employee development at all Schwarz Group companies. Individual development opportunities are defined for each employee in a targeted manner. A clear, transparent assessment system ensures fairness in relation to performance throughout the company. As part of the annual talent management process, employees receive feedback on their performance over the past twelve months. The employee and manager also work together to define a development plan for the year ahead. The aim of this process is to identify talent from within the company's ranks, highlight career opportunities, and create transparent career paths.

At the companies of Schwarz Group, the training and development opportunities available are tailored to each individual. We therefore offer a wide range of opportunities for all employees in all divisions in order to accommodate individual requirements and support the workforce in its breadth and diversity. In addition to in-person events, Lidl, Kaufland, Schwarz Produktion, and Schwarz Dienstleistungsgesellschaften also offer e-learning concepts for their employees, covering topics such as occupational health and safety, and data protection.

Some national companies set their own goals and focal points for the training and development of their employees. Lidl Switzerland, for example, has set itself the target of improving employees' subjective view of their work-life balance by 10 percent by 2025 compared to 2020. The data is collected by conducting an employee survey.

At the Kaufland Frischeakademie (Freshness Academy), employees who work at the fresh food counters are given training on various product areas and the special requirements that apply to the fresh food counters over the course of six modules. They learn independently in self-learning phases with interactive online training sessions before attending an in-person training session where they have the opportunity to build on their knowledge, practice specific tasks and skills, and discuss the topics within the team. Supplementary material and discussions help participants put their new knowledge and skills into practice in their day-to-day work. The program is overseen by a freshness trainer.

Schwarz IT (SIT) is also committed to the targeted training and development of employees. The company offers various learning formats on IT-related topics through its dedicated Empowerment and Education department. It has also launched an initiative, the Future IT Skills initiative, which is designed to help SIT employees develop the skills they need to tackle future challenges in IT. This includes skills in the fields of data and security and risk, with the aim of meeting future market requirements.

The Group also focuses on the development of managers. Kaufland offers a modular qualification that teaches young talents about its company values and management tools and ensures that they fully understand the new role. In addition to this, there are transnational development programs for all levels – from junior managers to directors. Lidl also offers standardized development programs that support employees in leadership roles with their new tasks. At Schwarz Dienstleistungsgesellschaften, new managers attend a leadership program called "Fit für Führung" (Fit for leadership) during their first year in the role. The program

combines practical workshops with training courses. Schwarz Produktion also offers various opportunities for managers, designed to help them train for the role and support them in the performance of their new leadership function. In addition, there are modular training options for different target groups and needs.

Training young talents

The professional development of young talents is also important at the companies of Schwarz Group and is therefore embedded in all divisions. Various apprenticeship programs are offered depending on the requirements and focus of the business activity. With around 20 different specialisms, from retail salesperson and operational logistics specialist to food technology specialist, all divisions offer a wide range of entry-level jobs along their value chain. Where local conditions allow, work-study programs are also offered in the countries. Lidl, for example, offers such programs in nine countries. Schwarz Produktion offered nine apprenticeship programs during the reporting period, as did the Schwarz Dienstleistungsgesellschaften. Schwarz IT and Schwarz Dienstleistungsgesellschaften also offer a joint Turbo IT program designed to recruit and support apprentices in the relevant jobs and thus meet the growing demand in this field. PreZero trains young talents in 13 different roles at its German locations.

Work-study

To offer students an attractive way into the companies as well, all divisions provide the opportunity to complete a work-study degree program, in some cases supplemented with programs for external students. The number and types of degree courses vary depending on need and, at Lidl and Kaufland, also depending on the availability of a corresponding system in a particular country. All divisions offer over 20 degree courses in total. There is a particular focus on Germany, although Lidl also offers corresponding programs in seven other countries. From the 2023 academic year onwards, our students in Germany can choose the sustainability focus in the Food Management degree course. All apprentices and students receive a lot of support in the companies of Schwarz Group and, in some cases, are also given the opportunity

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to attend in-house training at the company's training workshops. The extensive exam preparation provided and the relevant responsibilities can be defined on a division- and country-specific basis. Like all other employees, apprentices and students can contact their responsible HR department, Works Council (where available), or designated Employee Relations Consultants with queries or complaints at any time. At Kaufland in Germany, PreZero Germany, and Schwarz IT, there are also Youth Training Representatives available in some locations.

Gaining insights across the Group

As part of the efforts to provide comprehensive training, the companies in the Schwarz Group offer a group-wide job rotation program. This program gives employees the opportunity to take on a role with specialist or management responsibility in a different division for a period of up to two years in order to gain experience across different divisions or departments and then use this experience upon return from their job rotation. New employees also receive in-depth onboarding when they join the companies of Schwarz Group. For employees in the Dienstleistungsgesellschaften, this includes the opportunity to experience working in a Lidl or Kaufland store when they start their job in order to gain a practical insight into the store business.

Raising awareness for the conservation of resources

Of the approximately 3 million tons of waste that are generated within the companies of Schwarz Group every year, 87 percent can be made usable again or converted into other products. Taking advantage of the ecological and economic potential of these valuable resources, not only requires putting appropriate infrastructure in place, but also raising employees' awareness of the issue.

With this in mind, to mark World Cleanup Day on September 17, 2021, a clean-up campaign was organized for the second time by companies of Schwarz Group. The aim of the campaign was to get employees actively involved in environmental protection as part of the group-wide REset Plastic strategy and to work together to clear waste from public places. Around one thousand employees

7,955
 apprentices in the
 Schwarz Group
 (FY 2021)

took part in Neckarsulm and Heilbronn, as well as at Schwarz Produktion locations. The theme was “Weniger Umweltverschmutzung – mehr Zusammenhalt” (Less pollution – more solidarity), and employees from all group companies and across all levels came together to lend a helping hand in over a hundred small teams in various public places.

In addition to setting up uniform collection stations for the stores, warehouses, and administrative buildings in the companies of Schwarz Group, PreZero has also developed a training program called “Wertstoffe Wertschätzen” (Appreciate recyclables), which teaches employees of the companies of Schwarz Group about how to correctly separate waste and its recycling potential through training sessions, pamphlets, and explanatory videos. These efforts have substantially increased the recycling rate at the retail divisions’ stores and logistics centers in recent years. Training on how to be resource-efficient is also an integral part of onboarding for all store employees worldwide at Kaufland. The focus is on the conscious use of energy in the workplace and the correct disposal of waste. Employees are taught this information as needed through store tours, online training sessions, and explanatory videos.

Individual national companies also organize independent campaigns to raise employees’ and customers’ awareness of how to use resources responsibly. For example, Kaufland in the Czech Republic organized a waste separation competition in its stores during the reporting period. The campaign focused on the sorting rate. The aim was to sort as much paper, foil, and residual waste as possible. At Lidl Italy, meanwhile, the focus was on energy: Between October 2019 and March 2020, the company organized an online training campaign for store employees on the subject of energy efficiency. Some 12,000 employees at store level completed the training module and subsequent test.

Diversity and equal opportunities

The companies of Schwarz Group value the diversity of their employees. This helps us grow and makes us better. Their aim is to create a motivating and diverse work environment that offers equal opportunities. The leadership culture focuses on cooperation and encourages employees to use their diverse skills, knowledge, experience, and perspectives in their work. After all, that is the only way to embed diversity as a value in day-to-day work.

As an international group, the companies of Schwarz Group employ people with the most diverse backgrounds. They seek to provide their employees with a respectful working environment – regardless of gender, age, skin color, ethnic origin, intellectual and physical capabilities, sexual orientation or religious affiliation. As a fair employer, they want to use objective selection criteria to create the framework conditions for equality even before reaching the recruitment stage. Every employee has the same opportunities to develop themselves personally and professionally. The companies of Schwarz Group also use the continuous development of a holistic approach to diversity and equal opportunity as a tool to strengthen employee loyalty to the companies and support the performance of the teams. Diversity is therefore of great importance to all companies of Schwarz Group and the aspects of fairness as well as mutual respect and appreciation are entrenched in the Schwarz Group companies’ corporate principles and values. To support this commitment to the implementation of diversity in practice, Lidl, Kaufland, PreZero, and Schwarz Dienstleistungsgesellschaften have signed the “Charta der Vielfalt” diversity charter – a voluntary corporate agreement that supports diversity.

We intend to define quantifiable goals for equal opportunities. The 2021 fiscal year ended with 42.2 percent of management positions being occupied by women. Schwarz Produktion has defined a two-stage approach to improving equal opportunities. As a first step, Schwarz Produktion has performed the German Federal Anti-Discrimination Agency's equal treatment check and received a corresponding certificate of completion in March 2020 (see also p. 56).

Diversity and equal opportunities are extremely important to the companies of Schwarz Group, and this is reflected by the organizational integration of these issues within the corporate structure. At Lidl, responsibility for the topic rests with the HR Concepts Executive Management unit, while at Kaufland and Schwarz Dienstleistungsgesellschaften it is the direct responsibility of the Chief HR Officer. At PreZero, the Executive Board Member for HR is responsible for diversity and equal opportunities. The HR department is in charge of operational implementation in cooperation with management. At national level, responsibility for the topic lies with the individual national Chief Executive Officer and HR director. International HR departments take care of general governance, while the national companies implement the defined framework conditions and – where applicable – additional country-specific measures in line with defined focus areas. They also collect key performance indicators to enable them to manage and evaluate the measures taken to support diversity and equal opportunities. At Schwarz Produktion, the Management Board, the HR department, and management are responsible for diversity.

Respect for diversity and the fair and considerate treatment of one another are issues that affect every single employee, regardless of their division and level. In order to put the company principles and company values into practice, but also to emphasize the

importance of respectful leadership, Lidl, Kaufland, PreZero, Schwarz Produktion, and Schwarz Dienstleistungsgesellschaften have also incorporated these topics in their leadership models.

42.2%

Women in management positions (FY 2021)

Contacts and complaint mechanisms

All divisions have clear structures and contacts in place for employees for any questions or complaints about diversity and equal opportunities.

Besides the relevant managers, this includes the HR departments and, where applicable in accordance with national regulations and local conditions, employee representative bodies, for example – depending on the location – at Lidl, Kaufland, PreZero, and Schwarz Produktion, parts of Schwarz Dienstleistungsgesellschaften, and certain national Lidl, Kaufland, and PreZero companies. There are also designated Employee Relations Consultants at all divisions who act as neutral and independent contact persons. They are available in addition to HR and compliance departments to assist all employees with any concerns or questions they may have on general HR topics but also with complaints regarding diversity and equal opportunity. This includes information about potential cases of discrimination in the work environment. Kaufland employees in Germany can also submit complaints and express criticism via the internal “K Stimme” portal. The provisions of the German General Act on Equal Treatment (Allgemeines Gleichbehandlungsgesetz, AGG), which require the establishment of a complaints office for employees at the employer, apply – as do the provisions of the Transparency in Wage Structures Act (Entgelttransparenzgesetz), which stipulate that every single employee must have access to information on remuneration. Works Councils are also involved in these matters in the companies of Schwarz Group where applicable.

Employees are permitted to form representative bodies in all divisions within the companies of Schwarz Group, depending on the location, in accordance with the applicable national regulations. It is important to us that we maintain a trusting relationship with the elected employee representatives in our companies at the relevant locations. Employee representative bodies participate in accordance with the national regulations of the respective country. We also support collective bargaining and adhere to the agreements. We comply with the obligations set out in collective agreements just as strictly as we do our legal obligations and intra-company agreements – such as works agreements with Works Councils in Germany.

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Raising awareness among employees and managers

To meet the internal and legal obligations, managers and employees in the HR departments of the companies of Schwarz Group in particular are constantly informed of relevant aspects and changes. Lidl and Kaufland offer intercultural training to promote internationality and cultural understanding for specific groups, for example for those going on secondment or job rotation. At Lidl, this training is also offered to trainees. Since 2021, training on diversity and inclusion has been offered to senior management as part of their international development program; since 2022, this training has been extended to senior executive management as part of their international development program. In addition, an e-learning course on culture, diversity, and inclusion is currently being rolled out across all Lidl countries for office-based managers and employees. Kaufland, for example, offers training courses with a diversity focus for managers; employees at Lidl and Kaufland and managers across the Group are regularly instructed on the General Equal Treatment Act (AGG).

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100%

of senior managers at Lidl are trained on diversity and inclusion.

Delivering more equal opportunities with the support of strong partners

More women in management positions – that is Lidl’s aim as a partner of the international network LEAD (Leading Executives Advancing Diversity).

The network, which Lidl has been part of since 2020, champions diversity and advocates for a higher proportion of women in management positions in retail and the consumer goods industry. Lidl emphasizes its commitment to this issue by signing the United Nations Women’s Empowerment Principles (WEP). WEP is the first global initiative intended to systematically promote and empower women in business – based on a leadership culture that advocates equal opportunities. In order to promote equality, a mentoring program available to all genders has also been introduced in the Lidl Stiftung. Kaufland also strives to maintain balance in its management structure. For example, half of the management positions across all countries are held by women. In addition, in 2019, Kaufland introduced a mentoring program to support women.

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Schwarz Produktion is also actively committed to the equal treatment of all employees at the company. To exclude any disadvantages, the company carried out the Federal Anti-Discrimination Agency’s equal opportunities check in 2019 and received a certificate for completing it at the start of 2020. The analysis confirms that Schwarz Produktion has a high level of gender equality. Based on the results of the analysis, Schwarz Produktion has developed a comprehensive action plan covering aspects such as job advertisements, the recruitment and promotion processes, family friendliness, and working time models in particular. The aim of this plan is to help the division further improve its equal opportunities performance. As of the start of the 2022 fiscal year, implementation of the action plan was already at 73 percent. Lidl took part in the pilot project for the equal opportunities check back in 2016/2017 and was awarded the seal for its efforts.

Integrating people with disabilities

The divisions and national companies in the Schwarz Group have launched numerous initiatives designed to make it easier for people with disabilities to integrate into working life.

Lidl France runs various campaigns to raise awareness of the subject, including a try-out week for prospective applicants with a disability. During the try-out week, participants have the opportunity to shadow Lidl colleagues for a day as they go about their work. Lidl Ireland has signed the “Valuable 500” – a global movement that strives to improve accessibility and support the inclusion of people with disabilities around the world. Lidl Ireland also offers autism-friendly opening hours and has introduced a card that customers can use to indicate to store staff and other customers that their condition may mean that they need a little extra time at the register.

Since 2019, Kaufland in Romania has also had a program in place to make it easier to hire people with disabilities. Taking into account the various employment requirements, Kaufland has developed a range of workplaces that are available at every location in Romania and are also suitable for people with disabilities. Since June 2019, Kaufland Croatia has been working with the Ozalj association, which supports people with intellectual disabilities. Members of the association are employed in logistics at Kaufland Croatia. Kaufland in the Czech Republic also supports several non-profit organizations that offer educational work, including DEBRA CR, which helps people with certain skin diseases, and the aid organization Svetlusk which supports blind people.

The “Grünfinkpfad” (Greenfinch Trail) was launched as a social project in 2018 as part of the partnership between PreZero and the Evangelische Stiftung Lichtenstern foundation. The aim of the project was to create an accessible place that teaches people about nature and also allows them to experience it. It is aimed in particular at children and people who have difficulty reading.

Social standards, working and living conditions in the supply chain

The retail divisions Lidl and Kaufland trade products from around the world. This means that the supply chains involve people from many different countries. The companies of Schwarz Group are aware that they therefore have a particular responsibility to ensure compliance with human rights. Our standards for fair and safe working and living conditions, that were jointly developed by the companies of Schwarz Group, also apply to the supply chains. The companies of Schwarz Group advocate employment-related human rights and living wages. These goals are predominantly pursued through the Purchasing departments – with appropriate structures and criteria – as well as by working closely with the suppliers.

The retail divisions, Lidl and Kaufland, sell food, non-food, and near-food products that are produced in complex supply chains spanning the entire world. Some of these products are also produced by production facilities of Schwarz Group. At the end of the products’ life cycle, the Schwarz Group is also actively involved globally through the environmental division, PreZero. Due to these complex, dynamic, wide-spread value chains in retail and food production, the greatest human rights challenges for the companies of Schwarz Group lie in increasingly globalized supply chains. They therefore have a joint responsibility to ensure that labor law standards and humane conditions are implemented across the entire value chain.

At the heart of the Schwarz Group companies’ human rights due diligence duty is a jointly developed, risk-based approach that enables them to identify the relevant stages of the value chain, determine the main human rights risks, take measures to effectively avoid these risks, and – where necessary – provide access to redress. They are

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committed to ensuring a level playing field in Europe and equal competition in international markets. They consider a pan-European or even global solution to be the best way to have a systemic impact on environmental and human rights aspects in increasingly globalized supply chains. That is why the companies of Schwarz Group are in favor of binding supply chain regulations at a European and international level (see also p. 34).

The companies of Schwarz Group are committed to respecting and strengthening social and environmental standards in their global supply chains and to preventing their violation. They have also laid down this commitment in the human rights policy statement. They share the responsibility for properly addressing the actions and their impacts along the supply chains with their business partners and actively hold them accountable within the legal framework. Sustainability requirements are a top priority for them. Since November 2020, business partners of the companies of Schwarz Group need to comply with our Code of Conduct, in which the requirement to comply with established standards to reduce negative environmental and social impacts along the supply chain as well as the requirement for business partners to observe environmental standards are set out.



Code of Conduct

Focus on employment-related human rights

The human rights due diligence obligations of the companies of Schwarz Group generally focus on so-called employment-related human rights. The aim of these rights is to protect people from adverse effects during employment, for which the fundamental principles of the International Labour Organization (ILO) serve as the framework. Accordingly, the companies of Schwarz Group focus on the following six employment-related human rights in the fulfillment of their human rights due diligence obligations:

■ No child labor

Children require special protection. We have a zero-tolerance strategy in cases of child labor. Child labor is forbidden in any form. National laws and international standards on the protection of minors must be complied with.

■ No forced labor

Forcing people to work violates a fundamental human right. There are many forms of forced labor, including coercion, threats, and the withholding of pay.

■ No discrimination

Any distinction, exclusion, or preference on account of age, gender, sexual orientation, pregnancy, disability, nationality, ethnic origin, skin color, religion or ideology, political opinion, social background, or marital status, which results in unequal treatment or disadvantage is prohibited.

■ Fair wages

Fair wages ensure a humane living standard that enables people to meet their basic needs and those of their family.

■ Freedom of association

The freedom to join employee representative bodies and participate in collective negotiations must be ensured.

■ Occupational health and safety

Occupational health and safety must be ensured so that employees' health is not endangered or compromised in the workplace.

The overall responsibility for human rights due diligence lies with the Chairs and Chief Executive Officers of the Schwarz Group companies. The responsibility for implementing the human rights due diligence lies with the respective management of the functional departments of the Schwarz Group companies involved and is implemented on a task-specific basis. Each division exercises its responsibility in line with its business model and has integrated suitable approaches into its business practices for this purpose.

Lidl, for example, has created its own human rights strategy for purchasing. The aim of this strategy is to ensure that human rights measures are implemented in a structured manner and that standards are consistently met. When developing its supply chain strategy, Lidl Purchasing focused on supply chains, which are particularly relevant based on an assortment-specific risk analysis. The company has also taken into account the expectations of its customers and society and the priorities of NGOs, as well as legal developments and scientific findings. This approach is based on clear responsibilities: The implementation of the strategy is monitored by

the Senior Management Board. The Board is regularly updated on any incidents and progress relating to human rights issues in the supply chains. In addition, routine decision-making processes take place at Executive Board level to align the human rights strategy. As an example, special targets for living wages and incomes were addressed in 2021. The CSR Purchasing Manual published in 2021 also provides important guidance when it comes to assigning clear responsibilities and targets within Lidl. It is an internal document aimed at all Purchasing departments in the company. It addresses topics such as potential negative effects in supply chains, and sets out requirements and tips for how Lidl Purchasing Managers can have a positive influence on these effects. Scope for action arises for instance in adopting principles for responsible purchasing practice, enhanced transparency requirements for suppliers with standards and certification partners, or by inviting suppliers to take part in specialized development programs. Kaufland has also published its own position on human rights on its website, explaining how it deals with this issue, from performing a risk analysis and creating an action plan to implementing a continuous improvement process.

In order to quickly identify and counter human rights violations, together, the companies of Schwarz Group have put in place a coordinated complaint mechanism. This mechanism enables those who are affected by or observe potential human rights violations to report them confidentially. The online system is available in almost 30 languages, and reports can be submitted by email, telephone, or via the website. Since the complaint system was introduced in November 2019, one complaint has been received relating to a labor law and human rights violation. This complaint was subsequently investigated and is being resolved in court. To improve the effectiveness of reporting systems in general, including across the industry as a whole, Kaufland is involved in various multi-stakeholder formats. The Kaufland complaint system is constantly being refined and improved. In 2020, training was provided for Kaufland employees and business partners and for employees in the production countries.

The central role of purchasing: ensuring human rights are observed across the entire supplier life cycle

Purchasing departments of the companies of Schwarz Group have the opportunity to play a part in ensuring compliance with human rights across the supply chains. One way they do this is by adding certified products to the portfolio. Even though seals do not guarantee that no human right violations are being committed, they are a step toward transparency and establishing minimum standards – and therefore support one aspect of the due diligence duty. The Purchasing departments follow well-defined purchasing and supplier management processes. Long-term contracts and active supplier management are important elements of these processes when it comes to strategically important goods and services. They help to minimize purchasing-specific risks such as supply bottlenecks and significant price fluctuations while also ensuring competitiveness.

The companies of Schwarz Group therefore strive to meet their responsibility toward people and the environment not only within the scope of their own activities, but also jointly with direct and indirect business partners along the supply chains and service sectors. Clear sustainability criteria and standards apply to supply chains on a global and regional level. In the divisions of Schwarz Group, criteria and measures for improving sustainability practices in the supply chain in the context of the German Act on Corporate Due Diligence in Supply Chains (Lieferkettensorgfaltspflichtengesetz – LkSG) are currently under development. As part of this process, going forward, the divisions of Schwarz Group want to carry out an annual risk analysis of all direct business partners based on the analysis of priority product groups and countries, as well as additional risk analyses during the year as required. Based on the respective outcomes, specific measures are to be derived to effectively counter, prevent, and mitigate the negative impact of the business activity (see also p. 35).

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Our purchasing structures

Schwarz Beschaffung (SBES) supports the companies of Schwarz Group with the strategic purchasing of non-merchandise goods (i.e., capital goods required internally to carry out their business activities) and service companies. It is based within Schwarz Dienstleistungen and works with numerous suppliers from all over the world. Besides the Code of Conduct for business partners which was defined and established by the companies of Schwarz Group on a group-wide basis, SBES has its own procurement principles, which contain production standards that also apply to suppliers. These procurement principles focus on compliance with cost-effectiveness, environmental sustainability, energy efficiency, social acceptability, innovation, and quality standards of goods and services. The requirements are reviewed by the Internal Auditing department on a regular basis.

In the retail divisions Lidl and Kaufland, the Purchasing departments have the overall responsibility for supplier management and work in close cooperation with the relevant specialist departments in the national companies. A large number of private label products fall under the responsibility of Purchasing International, which is also the department to conduct quality assurance in these cases. For other private label products, the Purchasing department in the relevant national company is the one in charge.

At Lidl, the Chief Purchasing Officer is responsible for sustainability in purchasing. CSR Purchasing is responsible for the strategic and operational implementation of all sustainability issues in Purchasing International and Purchasing National in cooperation with the national companies. In terms of content, the routine risk analyses form the central basis for the definition of sustainability requirements and publication of corresponding purchasing policies. The sustainability requirements are binding for all Purchasing Managers. Implementation is constantly monitored and the findings regularly reported to the Chief Purchasing Officer. This process is used to systematically determine the potential risks that exist or could arise in relation to human rights violations and environmental impact in the business

processes and in the manufacture of private label products. For instance, in 2020, Lidl became the first German retailer to perform a Human Rights Impact Assessment in the berry supply chains from Huelva in Spain. The findings from this assessment were then evaluated in terms of relevance and opportunities to effect change. This process focused not only on Lidl's own business area, but also – importantly – on the direct and indirect suppliers. The companies of Schwarz Group are constantly striving to improve and systematically expand these processes for identifying risks and opportunities.

At Kaufland, the CR international Sustainability department – as the central department – is responsible for the strategic sustainability management. The strategic and company-wide significance of the topic is emphasized by the fact that the department reports directly to the Chief Executive Officer. The CR international department is a driving force and provides advice to all national organizations and international specialist departments through the joint definition of strategic objectives. Consistent international standards and policies for all sustainability issues affecting the company support the implementation of the objectives. Meanwhile, close cooperation with the Purchasing International department ensures that the measures taken have the greatest possible leverage so that the company can meet its responsibility as a food retailer. For this reason, the CR Purchasing International Sustainability for Goods department has been established as a strategic and expert point of contact for purchasing-related CR issues.

Purchasing is also responsible for procurement at Schwarz Produktion. Lidl Purchasing is in charge as part of the procurement process regarding selected strategic product groups. Suppliers of raw materials and packaging have to go through a supplier approval process including the provision of a detailed self-disclosure, in order to successfully complete the approval process to become a business partner. Audits may also be performed. This is independent of any risk assessment performed by Quality Management in relation to quality risks. These processes are part of internal supplier

management practices. As part of the supplier approval process, Schwarz Produktion also requires suppliers of raw materials and packaging to make a commitment to improve social standards in global supply chains through membership of amfori-BSCI or SEDEX, for example. If they do not commit to this undertaking, suppliers will not be approved.

PreZero realigned its business with the Waste Disposal Network department in 2019. As well as handling the procurement of waste disposal services, this department is also responsible for the development of a central supplier and service management system – among other things. When procuring waste disposal services, in addition to compliance with legal requirements, the company also attaches great importance to sustainable aspects such as shortening transport distances by ensuring optimal utilization of recyclables containers.

Selecting suppliers: setting standards and raising consciousness

The companies of Schwarz Group consider social and environmental sustainability to be of great importance when cooperating with business partners and across the entire supply chain. The companies of Schwarz Group share the responsibility for properly addressing their impacts along the supply chains with their contractual partners and actively hold them accountable. Suppliers are required to comply with the group-wide Code of Conduct for business partners, which forms an integral part of the business relationships. The Code of Conduct is based on the international guidelines and principles for the reduction of negative environmental and social impacts throughout the value chain listed below:

- Universal Declaration of Human Rights
- UN Global Compact
- UN Guiding Principles on Business & Human Rights
- UN Convention on the Rights of the Child
- UN Convention on the Elimination of All Forms of Discrimination against Women
- OECD Guidelines for Multinational Enterprises

- International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work
- Paris Climate Agreement

The companies of Schwarz Group regard compliance with human rights as a fundamental requirement for any cooperation. The companies of Schwarz Group categorically reject any form of human rights violations such as child labor, forced labor, and breaches of labor law during the production, processing, and delivery of resources and goods. When entering into a business relationship with them, business partners not only have to comply with the relevant standards in their own business, but also have to ensure that their subcontractors adhere to these standards. In this context, the companies of Schwarz Group also commit their direct suppliers to respect human dignity, comply with legal regulations, and observe the internationally recognized principles of the UN Global Compact and the United Nations Universal Declaration of Human Rights.

In addition, Lidl and Kaufland define their requirements for responsible purchasing of merchandise through topic-specific guidelines, position papers and purchasing policies that respect corporate due diligence (see also p. 78). To further improve transparency with regard to its own supply chain, Lidl published a list of its main suppliers for their private label products in the hard goods sector, as well as its main suppliers of private label and branded products in Lidl's food assortment in Germany, the Netherlands, and Great Britain, at the start of 2020. In 2017, Lidl became the first retailer to publish a list of the textile and shoe manufacturers involved in its private label assortment. What's more, in Germany, the Netherlands, and Great Britain, Lidl published both its direct business partners for tea, bananas, and strawberries as well as the actual producers online in January 2022.

GRI 2-23



Lidl – Responsibility



Kaufland – Responsibility (German website)



“ The majority of products are still cultivated using conventional farming methods. This is one of the biggest impacts that the Schwarz Group has. However, the company started gradually increasing the number of sustainable food products in its portfolio many years ago and now offers a large number of products that are both environmentally friendly and produced in a fair manner.”

Sandra Uwera, CEO Fairtrade International

Supplier evaluation and development: ensuring standards and driving change

To ensure compliance with the applicable social standards since 2010, Lidl has required every single producer who produces non-food goods for Lidl to provide proof that it has undergone a valid social audit conducted by an independent, local expert. There are certain basic requirements that must be met as part of this process. The audits are documented systematically, must be repeated on a regular basis, and – in the event of any complaints, such as breaches of working hours – proof of the relevant corrective measures taken must be provided in a transparent manner. Since 2020, Kaufland has also required its producers

GRI 2-23 | 2-24 | 414-2

to undergo a social audit. Prior to the introduction of the mandatory BSCI audit standard for producers of non-food goods, Kaufland audited high-risk suppliers to verify compliance with minimum social criteria. To ensure cascading, business partners are expected to also fulfill their due diligence duty and to require their suppliers to likewise comply with social and environmental standards. In the first instance, the focus is on the long-term development of suppliers to ensure adherence to minimum environmental and social standards. However, Kaufland terminates supplier relationships if, despite corrective action being taken, there is no demonstrable improvement and the supplier is found to be in breach of fundamental social and environmental standards and the law. Additionally, Lidl uses the supplier platform EcoVadis for selected suppliers in the food and non-food area to evaluate their sustainability performance using a universal scorecard of benchmarks and tools and to work together on improvements.

Also, internationally recognized nonprofit organizations like Fairtrade, Rainforest Alliance, and FSC act as an extension down to the producer level. These organizations ensure regular checks are performed to confirm compliance with the relevant standards. These checks are also performed by independent third parties (see also p. 80).

To actively improve the situation on site in advance, the retail divisions rely on raising awareness and skills development. The NGO Save the Children also trains suppliers on the prevention of child labor in producer countries on behalf of Lidl. Like Lidl, Kaufland, too, is actively involved in this area through its cooperation with the Center for Child Rights and Corporate Social Responsibility.

Access to complaint mechanisms plays an important role for those affected by or observers of potential human rights violations. To ensure that all parties involved in the supply chain have access to a complaints procedure, the divisions have set up a shared, publicly accessible online reporting system that is available in almost 30 languages. Complaints can also be directed to the relevant compliance officers or to an external compliance counsel. In addition, organizations included in the

GRI 2-25 | 2-26

assortment at Lidl and Kaufland such as Fairtrade and FSC as well as initiatives like amfori-BSCI, GLOBALG.A.P. GRASP, ILO BW, and EcoVadis, or standards like SA 8000 have implemented appropriate channels and complaint mechanisms to reveal potential irregularities.

Key findings from complaints are used to refine the mechanisms and to identify risks. In case negative effects are identified, which were caused by companies of Schwarz Group or to which they contributed, they endeavor to implement appropriate compensation measures and use their influence to adequately remedy the situation for those affected.

Identifying and responsibly procuring high-risk raw materials

The companies of Schwarz Group perform risk analyses as part of their business activities. In the process, the divisions use an individual risk classification for business partners and products, for example, based on the analysis of recognized indices and studies concerning the risk assessment of countries of origin, raw materials, and products. In accordance with internationally acknowledged studies, indices and developments – including the Transparency International and Failed State Index among them – an assessment is made for the highest likelihood of human rights violations to occur in production countries around the globe. The risk analyses performed by the divisions of the Schwarz Group point towards a pooled risk in relation to agricultural products such as cocoa, tea, coffee, flowers, and cotton.

As a global corporate group, the issue of raw materials and the production of raw materials is of central importance in all business areas across the companies of Schwarz Group. The retail divisions and Schwarz Produktion have a significant influence on how and under what conditions natural resources and raw materials are processed and consumed. For raw materials associated with high human rights risks, but also environmental risks, the companies of Schwarz Group therefore set themselves specific targets and continually work to implement appropriate measures (see also p. 82). They define clear requirements for their business partners to ensure that their targets are achieved. These requirements

include certification for products and raw materials, participation in the further development of standards, and funding projects. An important tool for us is collaborating with civil society or standard-setting organizations, experts, and other companies – often as part of multi-stakeholder partnerships – in order to achieve improvements and collaboratively resolve complex social problems. For example, as a member of the Partnership for Sustainable Textiles, we work with other companies, standards organizations, NGOs, and the German government to improve conditions in textile production worldwide.

As part of our human rights due diligence obligation in relation to the procurement of raw materials, we focus in particular on child labor and forced labor. As an example, in their risk analyses, Lidl and Kaufland have examined the procurement of products containing raw materials from high-risk sectors where child labor is a concern. By signing the Code of Conduct, the business partners of the companies of Schwarz Group are obligated to ensure that no practices are allowed that involve child or forced labor in any form whatsoever, or that breach legal requirements or restrict human rights.

As with the ban on forced labor, the companies of Schwarz Group adopt a zero-tolerance strategy in instances where suppliers fail to respond to identified cases of child labor. If cases of child labor are identified within the supply chain, they always strive to work closely with their suppliers to remedy the situation in the interest of the child involved. As part of the remediation, affected families receive financial assistance equal to the standard minimum wage in the respective country. This is to prevent children from having to return to employment out of economic hardship. Until the end of 2021, Lidl collaborated with the NGO Save the Children and Germany's Federal Ministry for Economic Cooperation and Development on a project to protect children's rights in the hazelnut supply chain in Turkey. For the first time, the entire supply chain – from hazelnut cultivation to harvesting down to processing – has been audited on site for compliance with children's rights.

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critical materials were identified by Lidl in a risk analysis with regard to social criteria.



Save the Children

In order to fulfill its corporate due diligence duty concerning the prohibition of forced labor on a more systematic level, Lidl is developing a transnational strategy for combating forced labor, including approaches for identifying and addressing forced labor risks in supply chains, which will be completed by the end of 2022.

Striving to ensure living wages in the supply chain

One particular focus of the Schwarz Group is its commitment to employment-related human rights, which includes fair living wages in the supply chain.

GRI 2-6 | 203-2 For the companies of Schwarz Group, fair remuneration is an expression of appreciation, and is accordingly incorporated in the joint Code of Conduct as a goal for business partners. This applies not only to the remuneration of our own employees, but also to partners throughout the global value chain, in particular local suppliers across international procurement markets, for whom living wages are sought. In the global agriculture sector in particular, poverty is a widespread problem and also a driving factor of child labor. Based on this fundamental understanding, retail divisions Lidl and Kaufland signed a voluntary agreement in January 2020 thereby supporting the Initiative for Sustainable Agricultural Supply Chains (INA), which also advocates fair, living wages for farmers and workers in producer countries. Through the voluntary agreement and participation in a working group on the topic, specific approaches for action are to be developed and cooperation with local stakeholders is to be further intensified. In its first joint pilot project, the Lidl and Kaufland working group focuses on achieving living wages in the banana sector.

Lidl joined the Action Collaboration Transformation (ACT) initiative back in November 2019 to demonstrate its commitment to securing living wages for workers in production countries for the textile industry. Kaufland is also committed to fair wages as part of the Partnership for Sustainable Orange Juice (PANAJO).

Another example of our commitment to fair trade and living wages is the “Way to Go” project launched by Lidl. As part of this project, Fairtrade-certified chocolate bars containing cocoa from Ghana were added to Lidl’s assortment in spring 2020 (see also p. 40). The project enables commodity flows of processed food products such as chocolate bars to be separated so that the origin of cocoa from Fairtrade-certified cocoa farms can be traced from the origin to the producing cooperative. In addition to the Fairtrade premiums, the producer community also receives funds from the sale of the “Way to Go” chocolate in Germany, which the cocoa farmers can use for training and diversification, enabling them to secure living wages in the long term. Using cocoa as an example, in a demonstration of the company’s holistic approach, Lidl is a founding member of the German Initiative on Sustainable Cocoa and has been dedicated to the work of this multi-stakeholder initiative since 2012. The issue of wages is a strategic goal in this initiative as well.

KEY PERFORMANCE INDICATORS

TOTAL WORKFORCE

	FY	Lidl	Kaufland	PreZero	Schwarz Produktion	Schwarz Dienstleistungsgesellschaften	Schwarz Group	GRI 2-7
Total Number of Employees ¹	2019	309,435	125,609	3,616	3,469	4,968	447,097	
	2020	341,419	136,445	4,198	3,477	5,684	491,223	✔
	2021	372,255	143,706	11,845	3,831	6,609	538,246	✔
of which full-time ²	2019	–	–	–	–	–	–	
	2020	124,427	62,391	3,834	3,268	4,823	198,743	✔
	2021	149,853	66,355	10,691	3,353	5,763	236,015	✔
of which part-time ^{2,3}	2019	–	–	–	–	–	–	
	2020	216,992	74,054	364	209	861	292,480	✔
	2021	222,402	77,351	1,154	478	846	302,231	✔
Number of apprentices according to annual financial statement	2019	3,656	1,351	138	78	104	5,312	
	2020	4,092	1,399	78	86	121	5,836	
	2021	5,815	1,712	198	89	141	7,955	

¹ Due to technical restrictions affecting the Lidl division, it was not possible to adhere to the definition for the number of employees in FY 2021. In deviation from FY 2019 and 2020, employees on long-term leave are included in FY 2021.

² The collection of this data in accordance with the definition of full-time/part-time employees was only possible from FY 2020 onward.

³ Employees with working hours of less than 100 percent are classed as part-time. Unless there is national regulation on the issue, part-time is considered to be fewer than 163 hours/month.

COLLECTIVE AGREEMENTS

Proportion of employees to whom collective agreements apply¹



¹ The proportion of both tariff and non-tariff employees with a collective agreement is recorded.

² The figure for FY 2019 has been changed retroactively compared to the figure published in the FY 2018/19 Sustainability Report as better data has since become available.

EMPLOYEES BY EMPLOYMENT RELATIONSHIP¹

GRI 2-7	2019		2020 ✓		2021 ✓	
	Permanent ²	Fixed-term ²	Permanent	Fixed-term	Permanent	Fixed-term
Total	407,683	39,299	442,273	48,950	489,693	48,553
By gender						
Female	270,578	23,201	290,937	28,427	326,331	26,496
Male	137,105	16,098	151,336	20,523	163,362	22,057
By region³						
Germany	149,593	6,066	159,240	11,323	177,462	12,424
International	258,090	33,233	283,033	37,627	312,231	36,129

¹ Due to technical restrictions affecting the Lidl division, it was not possible to adhere to the definition for the number of employees in FY 2021. In deviation from FY 2019 and 2020, employees on long-term leave are included in FY 2021.

² Due to a change in the calculation basis, the figure for 2019 has been adapted retroactively.

³ For FY 2019 and FY 2020, for data collection reasons, all PreZero employees were assigned to the Germany region even if individual PreZero business units are located outside of Germany. For FY 2021, only PreZero DE is assigned to "Germany"; the rest of the category is assigned to "International." "Germany" region: Lidl Germany, Kaufland Germany, PreZero Germany, Schwarz Produktion, and Schwarz Dienstleistungsgesellschaften with Zentrale Dienste. The online business is not restricted to a location and is therefore assigned to the "International" region.

NEW HIRES

GRI 401-1	2019		2020		2021	
	Number	Proportion	Number	Proportion	Number	Proportion
Total new employees hired¹	122,109		131,930		141,916	
By age						
Age group < 30 years	79,891	65.4 %	89,098	67.5 %	92,130	64.9 %
Age group 30–50 years	37,410	30.6 %	38,033	28.8 %	43,115	30.4 %
Age group > 50 years	4,808	3.9 %	4,799	3.6 %	6,671	4.7 %
By gender						
Female	70,027	57.4 %	75,810	57.5 %	81,811	57.6 %
Male	52,082	42.7 %	56,120	42.5 %	60,105	42.4 %
By region²						
Germany	31,068	25.4 %	40,643	30.8 %	37,802	26.6 %
International	91,041	74.6 %	91,287	69.2 %	104,114	73.4 %

¹ All new hires in the companies of Schwarz Group in the FY concerned are included irrespective of whether the employees are hired on a fixed-term contract (first entry).

² For FY 2019 and 2020, for data collection reasons, all PreZero employees were assigned to the Germany region even if individual PreZero business units are located outside of Germany. For FY 2021, only PreZero DE is assigned to "Germany"; the rest of the category is assigned to "International." "Germany" region: Lidl Germany, Kaufland Germany, Schwarz Produktion, PreZero Germany, and Schwarz Dienstleistungsgesellschaften with Zentrale Dienste. The online business is not restricted to a location and is therefore assigned to the "International" region.

EMPLOYEE TURNOVER

	2019		2020		2021	
	Number	Proportion ³	Number	Proportion ³	Number	Proportion ³
Total employees who left the company¹	107,848	24.20 %	101,556	21.10 %	134,403	25.90 %
By gender						
Female ²	–	–	56,923	17.80 %	76,228	22.30 %
Male ²	–	–	44,633	27.90 %	58,175	32.80 %

GRI 401-1

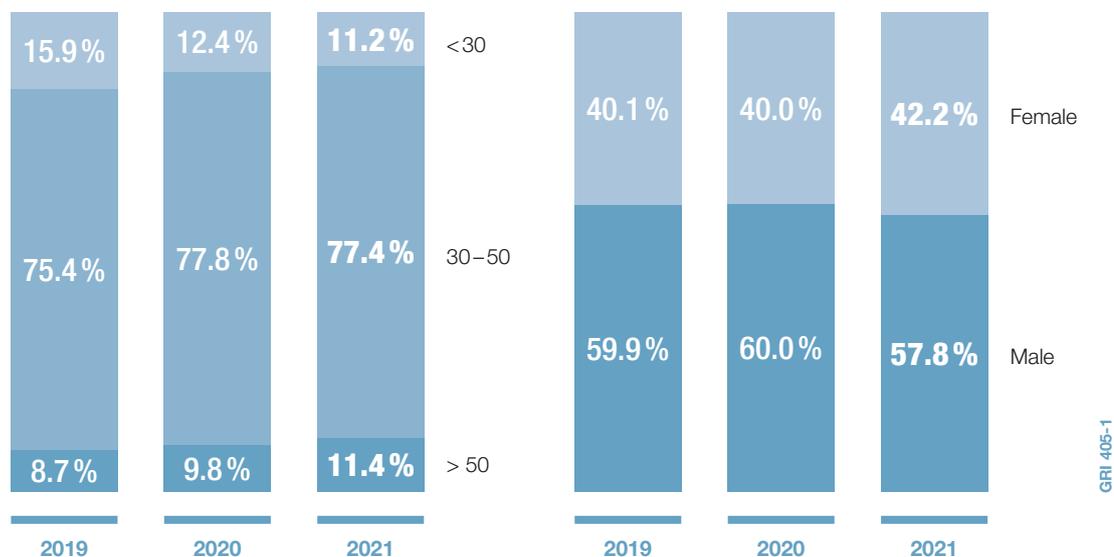
¹ All employees who left Schwarz Group companies in the FY concerned are included, excluding temporary staff, interns, working students, and diploma students. Moves between the companies of Schwarz Group are recorded as departures from the company. Employees who move between the companies of Schwarz Group due to a transfer of operations are not classed as departures. At Lidl, by way of derogation from the above, all employees with a fixed term of less than six months are not included; changes within the Lidl division are also not included.

² Group-wide collection of the key performance indicator since FY 2020.

³ Employee turnover is calculated as the ratio of employees who leave the company compared to the average number of employees.

DIVERSITY IN MANAGEMENT BODIES

Proportion by age group and gender^{1,2}



GRI 405-1

¹ The top management, senior management, and management levels are classed as management bodies in accordance with the definition jointly coordinated by the companies of Schwarz Group. Employee categories are broken down according to the joint definition as follows: Top Management = Management Level I-II, Senior Management = Management Level III, Management = Managers from Management Level IV-VI excluding deputies/no specialist level. The figures represent the status as at the end of FY 2021.

² Information on belonging to a minority is not collected in order to protect personal rights.

EMPLOYEE DIVERSITY

According to employee categories in FY 2021^{1,2,3}

GRI 2-7 | 405-1 b.

	Employees without management role		Management		Senior Management		Top Management		Total	
	Number	Proportion	Number	Proportion	Number	Proportion	Number	Proportion	Number	Proportion
Total workforce	504,760	93.8 %	32,477	6.03 %	681	0.13 %	328	0.06 %	538,246	100 %
By age										
Age group < 30 years	165,607	32.8 %	3,751	11.6 %	3	0.4 %	0	0.0 %	169,361	31.5 %
Age group 30–50 years	261,568	51.8 %	25,114	77.3 %	546	80.2 %	263	80.2 %	287,491	53.4 %
Age group > 50 years	77,585	15.4 %	3,612	11.1 %	132	19.4 %	65	19.8 %	81,394	15.1 %
By gender										
Female	338,705	67.1 %	13,961	43.0 %	114	16.7 %	47	14.3 %	352,827	65.6 %
Male	166,055	32.9 %	18,516	57.0 %	567	83.3 %	281	85.7 %	185,419	34.4 %

¹ Information on belonging to a minority is not collected in order to protect personal rights.

² To ensure controlling relevance, the employee definition used in internal management reports is used as the basis for the collection and reporting of all specified figures here rather than the definition provided in the annual financial statement. This includes full-time/part-time employees, employees in marginal employment, apprentices, dual students, trainees, participants on the Kaufland Management Program, employees on postings from abroad, employees on sabbatical and part-time retirees in their active phase, working students, interns, diploma students, and temporary staff (provided that working hours have been undertaken during the reporting period). For FY 2019 and FY 2020, employees on long-term leave are excluded under the following circumstances (not exhaustive): Illness/incapacity for work/accident outside of work/accident at work/quarantine/caring for family/leave of absence longer than 90 days/maternity leave/family leave incl. employment ban/reintegration following illness. FY 2021 figures include employees on long-term leave.

³ Employee categories are broken down according to the joint definition as follows: Top Management = Management Level I – II, Senior Management = Management Level III, Management = Managers from Management Level IV – VI excluding deputies/no specialist level, employees without management role = other employees.

EMPLOYER AWARDS¹

Lidl

Europe



Belgium



Bulgaria



Cyprus



Finland



France



Greece



Great Britain



Ireland



Italy



Lithuania



Malta



Netherlands



Poland



Romania



Sweden



Switzerland



Serbia



Spain



Kaufland

Europe



Bulgaria



Croatia



Germany



Moldova



Poland



Romania



Slovakia



Czech Republic



Top Employer



Stiftung Goldener Zuckerhut (Golden Sugar Loaf foundation; German website)



Great Place to Work



¹ These are just a selection of our employer awards. Information on other awards is available online at Lidl and Kaufland. Awards for the 2022 calendar year relate to assessments completed in the 2021 calendar year.



› 04

Marianna Pantazi (42) is a native of Greece. As a working mother, she hopes to leave her 11-year-old daughter a world worth living in.



Marianna Pantazi is a part of our quality promise.

Organic? Regional? Or fairly traded? Through her purchasing decisions, Marianna Pantazi, like all customers, has an impact on what products will be present in supermarket shelves in the future. Is she aware of this responsibility? She tells us in this interview.

Ms Pantazi, why do you shop at Lidl?

› **Marianna Pantazi** It is not easy to pinpoint a reason. I believe that everyone has their own preferences when it comes to shopping. And for me, I simply prefer to go to Lidl. I like how tidy and modern the store is. I know that I will find everything I need here. I appreciate the wide range, and my family likes the quality of the products. Plus the store is easy for me to get to. It is centrally located, has a parking lot, and is open until 10 pm, so I can even go after work to pick up whatever things I need – without any stress.

When you are choosing a supermarket, do social aspects play a role?

› As a customer, of course, you don't know about everything that's going on behind the scenes. But what I do know definitely influences my decision. I think that fair wages are really important. I understand that Lidl has recently increased

employees' salaries again, and they are also above the statutory minimum wage in Germany. I think that's great – it shows that the company values its employees. Lidl is also very committed socially. To me, these things show that the company takes its responsibility towards society seriously. That's not the case for a lot of companies – I know this from personal experience.

What do you pay particular attention to when shopping?

› Good value for money is really important to me, so I don't necessarily have to buy branded products. I like to buy Lidl's own brands – the quality and price are spot on. I also really like that there are a lot of organic fruit and vegetables in store. I prefer these as I think you can taste the difference. Organic zucchini, for example, are much sweeter and more flavorsome than conventional ones.

Is there anything else that's important to you in terms of nutrition?

- › I have a daughter, so I make sure that, as a family, we have a healthy and balanced diet. I love to cook fresh food and mainly use regional products that are in season. After all, why does a tomato need to fly halfway around the world to reach our plate? I prefer to support local farmers. They need to be able to make a living from their work – and at Lidl, it's really easy to spot which products are from the region. Aside from that, we don't eat much meat; we tend to eat more fruit and vegetables instead. With all these products, I think it's really important to know what's in them. That's why I mostly stick to organic products, as then I can be sure that they have been produced in accordance with strict ecological criteria.

So are there any products that you steer clear of when shopping?

- › Yes – candy! (laughs) No, seriously. I especially avoid the candy aisle if I'm shopping with my daughter. We want to reduce our sugar consumption. Aside from that, I also avoid fast food. I think it's important to set a good example with these things. After all, I want my daughter to learn what good and, most importantly, healthy nutrition looks like. The range available at Lidl helps me with that, as I know I can find fresh and healthy products here. And when we occasionally treat ourselves, we benefit from the fact that Lidl is reducing the sugar and salt content in its private label products.

Do you learn anything from your daughter too?

- › Absolutely, and not just when shopping, but also at home. My daughter is really passionate about protecting the environment. She tells us off if we leave a light on. We also avoid unnecessary journeys in the car, so if we have a big family celebration then we'll go to Kaufland, for example. That way, we avoid having to go to a second supermarket. And we are really meticulous about separating our trash. Although we only have bins for paper and residual waste, we still separate packaging from the rest of our trash and take it to a recycling center once a week. I think it's the right thing to do. Ultimately, we want to leave a world that is worth living in for our children. That's no easy feat – and it's not getting any easier. We are at a critical point already. But I hope that it's not yet too late and I am doing my best.

On that note, is there anything that you would like to see in the future of food retail?

- › Generally speaking, I would like healthy and sustainable food to be cheaper than fast food and junk food. In my opinion, that would have two benefits: Firstly, more people would be able to afford a healthy, balanced diet. Secondly, the prices would then be appropriate – including in terms of the consequential cost to society and the environment. Because I firmly believe that the consequences of an unhealthy diet are not just restricted to people's health – they are also much more serious for the environment.

Our mission: We leave no stone unturned when it comes to quality – sustainable, safe and healthy.

Our commitment to conscious consumption



By the end of 2022, Lidl and Kaufland are aiming **for 100 percent of the raw cocoa** procured **to be certified** with selected sustainability seals* – for private label products containing cocoa with the claim “Chocolate content > 5 percent”.

*Organic, Fairtrade, Rainforest Alliance, UTZ



By 2025, Lidl will reduce the sales-weighted, average content of added **sugar and salt in its private label assortment by 20 percent** (base year 2015).

By 2025, Kaufland DE will reduce the average sugar and salt content in 500 private label products **by 20 percent** (base year 2015).

By 2025, Schwarz Produktion will reduce the average **sugar content** per liter of beverages sold **by approx. 30 percent** (base year 2015).

By 2025, Schwarz Produktion will reduce the average **salt content** per kilogram of baked goods sold **by approx. 30 percent** (base year 2015).



“ **Conscious purchasing decisions are not only based on a sustainable assortment, but also on clear product information. This ranges from the Schwarz Group companies’ supply chains, which are made more transparent through digital traceability, all the way to the initiatives to make customers more aware of the responsible use of food and resources.**”

Helena Gauerhof, CR Focus Area Supervisor – Product Quality

› 04 PRODUCT QUALITY

Transparent product communication

The companies of Schwarz Group strive to represent transparency and clarity. Consumers can only make conscious consumption decisions if they have the information they need. The companies of Schwarz Group are working to increase transparency all the way into the supply chain and communicate about their products clearly. To do this, they rely on established and new labels that act as anchors when consumers make purchasing decisions. The customers are invited to find out more so they can shop consciously and with foresight, because only together we can create a more sustainable economy.

With over 13,300 stores and the online shops, the companies of Schwarz Group reach a vast number of customers worldwide who purchase their everyday food, drugstore items, and non-food products at Lidl or Kaufland. This means they don't just make a significant contribution to local supply – they also have an impact on the health and sustainable behavior of the customers, both through the products that are offered and the associated communication with consumers. Transparent product communication plays a fundamental role in sustainable, safe, and healthy food. This is true from cultivation in the supply chain, which the companies of Schwarz Group are making more transparent through digital traceability, to initiatives that give both kids and adults an understanding of how to use food and natural resources responsibly. With the aim of providing

their customers with simplified nutritional labeling, Lidl and Kaufland were two of the first companies to introduce the voluntary nutritional label Nutri-Score. Since taking that step, both companies have been gradually extending the label to their entire own-brand portfolio. At Lidl, Nutri-Score has been introduced in all countries where regulations allow. Kaufland is aiming to label all eligible private label products in all German and European stores with Nutri-Score by 2023 (see also p. 76). Lidl is also the first German retailer to test the Eco-Score label in selected Berlin stores. With this five-level product label, customers can identify the level of sustainability of food as it relates to its environmental impact at a glance. The aim is to create a standard European label.

This level of transparency and education is also the foundation of effective action at the end of life of the Schwarz Group companies' products: For example, sorting instructions were gradually introduced on multi-component packaging at the Lidl and Kaufland retail divisions as part of the REset Plastic strategy (see also p. 102). The goal is to motivate customers to properly dispose of packaging and do their part to improve recycling.

In order to always give the customers the most transparent information possible and enable them to make a conscious decision about whether or not to buy a product, the companies of Schwarz Group have collectively set themselves the following goal in the area of product communication:

› The companies of Schwarz Group will provide their customers with more transparency on the social, environmental, and health impacts of the offerings by the end of 2025 in order to allow them to make informed choices. They will lay the groundwork for this by the end of 2022.

Creating transparency through digital traceability

The companies of Schwarz Group strive to further increase the transparency of their products. This is not just a question of traceability for the products and the raw materials they contain. They also want to take greater account of the complex supply chains in food retailing in terms of business relationships, and make them transparent. The aim is to track them digitally. To this end, Lidl has been taking part in a pilot project since the beginning of 2022 and is using the new information platform ftrace by industry organization GS1 for selected products with the aim of increasing transparency around the origin of its products together with partner companies from the supply chain network. Kaufland is also considering testing the software starting autumn 2022.

According to the companies of Schwarz Group, the software also has potential applications in regards to fulfilling the German Act on Corporate Due Diligence in Supply Chains (Lieferkettensorgfaltspflichtengesetz – LkSG). ftrace transparency wants to enable companies to meet the requirements of the LkSG, such as the introduction of data-supported preventive measures, due diligence duty at all preliminary stages, data collection for risk management, or reporting, and documentation. All data is supposed to be transferred via the platform itself, which also offers interfaces to certification databases, among other things. An integrated rights management system will ensure that data sovereignty always remains with the company that entered the data – guaranteeing constant transparency from the producer through to the finished product. The standardization of questionnaires across all product categories aims to also considerably reduce the effort involved within the global supply network.

The cloud-based platform solution is so far being used by Lidl for a small selection of products from the categories coffee, dairy, and non-food during the pilot phase. The hope is to gain valid knowledge about any risks in their supply networks, collect reliable information about the sustainability characteristics and quality assurance of the products, and be able to communicate with authorities, customers, and other stakeholders in a way that can be trusted.

Promoting customer health through transparency

At Kaufland, the communication measures and initiatives to raise consumers' awareness are the responsibility of the CR team, supported by Marketing and the Purchasing and Quality Management departments. Complaint mechanisms like hotlines are based in the Customer Management department. Customers receive an answer within a few days, and if necessary additional departments are involved in the response. If wishes are expressed, Purchasing checks whether they are feasible. At Lidl, the Product Marketing team based in Purchasing as well as the Marketing and Corporate Communications teams are responsible for customer information. Compliance with food regulations, evaluating potential consumer complaints, and in-house specifications for labeling private label products is the responsibility of the Purchasing departments at Kaufland and Lidl, together with Quality Management and Quality Assurance. The national companies of both retail divisions implement their own measures and projects that are suited to local circumstances and meet the needs of local customers.

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The retail divisions also take into account international rules and directives, such as the European Parliament's health claims regulation, in their initiatives and actions. This is particularly relevant for labels concerning claims of reduced sugar, salt, or fat content. Internal purchasing policies, position papers about specific topics, and test criteria, which also include assessments by NGOs, are used as the basis for developing a responsible assortment.

Promoting conscious food choices

Lidl and Kaufland are initiating and supporting projects and initiatives around the world that give children and adults an understanding of how to use food and natural resources responsibly.

Lidl has supported the "5 am Tag" (5 a day) association since 2016 with the "Lidl-Fruchtschule" (Lidl Fruit School). In 2019, until the start of the COVID-19 pandemic some 200 classes and 18,000 students had taken part in Lidl's "Fruchtschule" every year around Germany. Students from the 3rd and 4th elementary school grades learned how to include fruit and vegetables in their meals every day with fun games directed by a qualified nutritionist. Due to the pandemic, the contents of the Lidl Fruit School have been available to elementary schools free of charge since the 2020/21 school year. This enables teachers to flexibly and independently include food education in their classes, even under the changed conditions. For parents of elementary school age children, Lidl also provides a booklet that can be downloaded free of charge containing information and practical tips for conscious nutrition, and recipes. This concept is also being implemented in a similar format in Italy and Spain. In Cyprus, the company is carrying out the program "Lidl Food Academy for Kids".

Students attend the Lidl Food Academy, where they have a chance to cook and in the process are made aware of the importance of a balanced diet. In Greece and Cyprus, Lidl is also supporting the subject "Nutrition: Highway to Health," as part of a partnership with the Center for Talented Youth. In these lessons, children learn about the chemistry of food and the benefits of a healthy diet.

To show nutritional values at a glance, Lidl and Kaufland have also successfully tested the introduction of the simplified nutritional label Nutri-Score for their private labels. Since 2020, Kaufland has gradually implemented the Nutri-Score label on its private label products. Lidl began implementing the nutritional label for the own brands "Trattoria Alfredo" and "Crownfield" in 2021, and is rolling out the Nutri-Score in all countries where it is legally possible. At Kaufland, by 2023 all eligible private label products from the brands K-Classic, K-Bio, K-take it veggie, K-Favourites, K-Wertschätze, K-free, and K-to go will carry the Nutri-Score label.

In Poland too, Kaufland provided support for the campaign "Nutri-Score for conscious nutritional decisions." This was a joint initiative of the Children's Memorial Health Institute, the Institute of Mother and Child, the Polish Society of Dietetics, the consumer association, and Danone, Kaufland, and other retail chains. The goal of all these organizations was to increase consumer awareness about healthy nutrition by promoting the Nutri-Score scale. In Germany too, Kaufland promotes conscious food choices, with the retail division hosting campaign days on nutrition for students as part of the program "Machen macht Schule" (Taking action in the classroom) (see also p. 22). These are based on an nutritional education concept and are conducted in schools by certified nutritional experts.

18,000

students take part in the "Lidl-Fruchtschule" (Lidl Fruit School) every year.

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Sustainable product design and quality

In many countries the companies of Schwarz Group contribute meaningfully to local supply and enable all their customers to have a safe supply of food and availability of goods. This means they bear great responsibility for the quality and safety of their offer and for developing futureproof products. They are setting a new course together with strong partners. The companies of Schwarz Group are always offering more products that are produced sustainably. They are including both producers and consumers to make a difference together. They are labeling regional and GM-free food, and are reducing the proportion of sugar, salt, and fat in their products. As a principle, the companies of Schwarz Group purchase particularly strategic raw materials more sustainably and pay considerable attention to animal welfare.

The companies of Schwarz Group leave no stone unturned when it comes to quality. This includes sustainable product development with raw materials that are certified by third parties. The increase in the nutritional value of food also contributes to product quality – for example reduced sugar, salt, and fat in the private label products. As a fundamental building block, safety also plays a central role in our product quality. This ranges from food safety to data protection and secure, digital services like the cloud service of Schwarz IT (see also p. 10). As part of developing sustainable products, the companies of Schwarz Group are also focusing on the topic of sustainable packaging. Information about this can be found in the “circular systems” chapter (see also p. 92 ff.).

The retail companies Lidl and Kaufland have an impact on the environment and the health and well-being of their customers through the selection and composition of the offered groceries. The development of their assortment increasingly incorporates social and ecological criteria and focuses on the responsible use of resources. This is how the companies of Schwarz Group are driving the development

of retail and consequently consumption towards sustainability. The companies of Schwarz Group particularly focus on providing organic and fairly traded products. The Lidl and Kaufland divisions in particular have a significant impact here. Especially with their own brands, the companies have a direct responsibility, and therefore also the biggest scope for action when it comes to creating a sustainable product portfolio. For brand products, the companies are committed to sustainability and fairness for both people and the environment within their own capacities. Overall, Lidl and Kaufland are gradually expanding the proportion of organic and fairly traded products, and, where possible, ensuring these products are certified by credible, transparent partners (see also p. 79). The cultivation and husbandry conditions form a significant element of the quality and sustainability of the products, alongside the production and manufacturing processes that the companies of Schwarz Group are developing further, to some extent internally. To this end, they remain in close contact with their suppliers and business partners.

Whether in the food or non-food area, product safety and quality are vital for the health and well-being of the customers – and therefore deeply anchored in the corporate identity of the companies of Schwarz Group. They also constitute fundamental conditions for the economic success of the companies of Schwarz Group. After all, the quality of the products offered is an essential purchase criterion for the customers and has a considerable influence on the reputation. The retail divisions Lidl and Kaufland and the production plants therefore pay an appropriately high level of attention to holistic quality management. This is the foundation for meeting hygiene and quality requirements that are placed on the companies of Schwarz Group by the legislature, the customers, through recommendations from the German Federal Institute for Risk Assessment (BfR) and the European Food Safety Authority, and tests of goods by independent third parties. The primary goal here is to reduce risks to a minimum and constantly improve and develop testing and monitoring systems, with the result of preserving and strengthening customer trust.

ADDITIONAL INFORMATION

A selection of policies, position papers, and reports about developing a sustainable assortment at Lidl and Kaufland

			
	Policies on Responsibility		Policy on the Responsible Sourcing of Fruit and Vegetables
	Human Rights & Environmental Due Diligence Policy		Buying Policy Cocoa
	Buying Policy Raw Materials		Policy on the Sustainable Sourcing of Palm Oil
	Policies on Responsibility (German version)		Transparency Report on Fresh Fruit and Vegetables (German version)
	Transparency Report on Flowers and Plants (German version)		Detox Report
	Policy on the Sustainable Sourcing of Fish (German version)		Policy on Animal Welfare (German version)
	Policy on the Sustainable Sourcing of Soy as Animal Feed (German version)		Policy on Living Wages and Income (German version)

The companies of Schwarz Group can have the biggest impact on the continuous improvement of quality in their private label products, which is why they are specifically targeting the topic of ingredients in this area: On the one hand, our goal is to reduce undesirable ingredients such as possible residues or contaminants, and on the other hand, to also increase the proportion of selected ingredients from certified, sustainable production. How the divisions are implementing this primary goal in practice is explained in greater detail on page 82.

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Offering more sustainable products

At Lidl and Kaufland, the relevant Purchasing departments are responsible for developing the assortment and ensuring that policies and principles are implemented. For both divisions, expanding regional offers and the local connection of products is predominantly the domain of the national companies. Schwarz Beschaffung, in its role as service provider, is responsible for procuring non-merchandising goods such as employee clothing (see also p. 81).

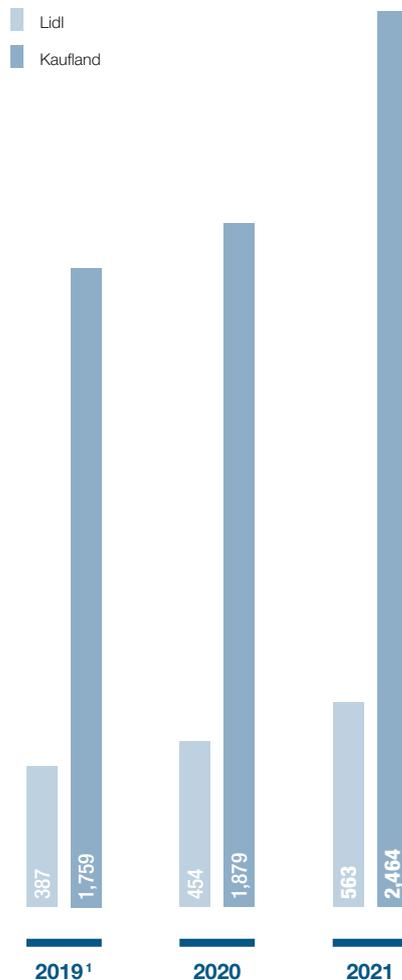
GRI 2-23

Lidl and Kaufland define their expectations for the responsible purchasing of merchandise with topic-specific policies and position papers, supported by CR contact persons in Purchasing. This applies, for example, to relevant raw materials such as

palm oil, coffee, fruit and vegetables, or fish and shellfish, and the principles of responsible animal husbandry or corporate due diligence duty. This also includes the topic “living wages and income” (see also p. 59 ff.). The scope of the two divisions’ policies and position papers is always clearly defined, and can vary at the national level depending to the topic. Furthermore, both retail divisions are setting targets for themselves in raw materials programs. For example, one aim is to prohibit illegal deforestation and land conversion in the value chains, such as in the cultivation of soy as animal feed (see also p. 130). Both retail divisions are also realizing programs and projects to continuously reduce the use of pesticides beyond what is required by law. The merchandise produced according to ecological and social standards is clearly identified at Lidl and Kaufland with the respective product label. To highlight the benefits, consumers are informed about the sustainability of the products in leaflets and on packaging. For example, Kaufland gives the respective products from its own-brand assortment the logo “Machen macht den Unterschied” (Our actions do the talking!), in connection with the relevant and current sustainability labels like Fairtrade.

Additionally, the divisions Lidl and Kaufland are committed partners in various raw materials initiatives at both national and international level: for example the Roundtable on Sustainable Palm Oil (RSPO), the Forum for Sustainable Palm Oil, the German Action Alliance for Sustainable Bananas, the Initiative for Sustainable Agricultural Supply Chains, the Roundtable on Responsible Soy, or the German Initiative on Sustainable Cocoa. The goal of these multi-stakeholder platforms is to work together with players in the supply chain to identify and establish suitable measures and solutions. More details about initiatives and memberships are provided on page 14. Schwarz Produktion is leading the way here with a great example: 100 percent of their raw materials containing cocoa are certified according to recognized sustainability standards. In addition, all companies in Schwarz Produktion that process raw materials containing palm oil are certified according to the RSPO standard.

CERTIFIED ORGANIC ITEMS ON AVERAGE IN THE ASSORTMENT



¹ Due to a change in the calculation basis, the figure for 2019 has been adapted retroactively.

Taking sustainable action with strong partners in the food industry

Strong partners and their certification systems play a key role, both in view of the strategic commitment of the companies of Schwarz Group to procure more sustainable raw materials, and for the general expansion of a sustainable assortment. In the food industry, the retail divisions rely on recognized standards such as Fairtrade, organic, and the Rainforest Alliance to promote the social and environmentally sustainable production of food. A comprehensive overview of the certifications used at Lidl and Kaufland can be found online.



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“ Sustainable supply chains play a significant role in climate protection, particularly in the food and textile industries. The Schwarz Group with Lidl and Kaufland doesn’t just support sustainable clothing production with the ‘Green Button.’ It is also committed to implementing essential ecological standards in the production of food in developing countries.”

Dr. Gerd Müller, CDU/CSU, former German Federal Minister for Economic Cooperation and Development



Kaufland’s development of a sustainable assortment (German version)

In collaboration with well-respected associations, Lidl and Kaufland are increasingly offering their customers local and organic food produced in line with high standards. Since November 2018, Lidl in Germany has cooperated with Bioland, the leading organization for organic agriculture in Germany and South Tirol. In total, some 110 permanently listed items from the food area are already produced according to Bioland’s rigorous criteria, including numerous flour and dairy products, fruit and vegetables, eggs, and potato snacks. By 2025, Lidl in Germany wants 10 percent of the permanent assortment to be organic or Bioland food, with the aim of promoting sustainable agriculture. Since January 2020, Lidl has also supported the Bioland foundation. Here, innovative projects that measurably secure the foundations of green agriculture in the long term are promoted. The first step is a further

education initiative for farmers. They are supported in boosting the richness of their soils by developing humus, which effectively binds CO₂ in the soil. The project BODEN.KLIMA (SOIL.CLIMATE) actively uses this method to combat climate change and has developed a tool which farmers can use to create a report of the overall carbon footprint of their business, including the soil used for agriculture. In 2022, the partnership with Bioland will also be expanded to include Kaufland. The private label K-Bio will also include products with Bioland certification in the future.

Kaufland offers numerous food items in Demeter quality. By now, the assortment has grown to over 250 products and includes juices, dairy products, spreads, baked goods, baby food, and fruit and vegetables. This year, seedfast seeds were added, which are offered according to seasonal availability. These seeds can be used to grow plants that are robust and more resistant to changes in climate. They can be cultivated successfully without the need for synthetic chemical fertilizers or pesticides. Members of Demeter comply with particularly strict standards in the field of biodynamic agriculture, which go far beyond the minimum standards of the EU organic label. The offer will be gradually extended, as the collaboration with Demeter is planned to be long term.

Taking sustainable action with strong partners in the textile industry

The retail companies are also focusing on sustainable and recyclable products in the textile industry. Lidl and Kaufland are therefore integrating different social and/or environmentally-relevant certifications for their products:

Both retail divisions have committed to the Global Organic Textile Standard (GOTS), the Organic Content Standard (OCS), and the Global Recycled Standard (GRS), and have been certified accordingly. Their textile goods made from organic cotton are certified – insofar as possible given goods availability, qualities, and economic factors – according to the ambitious criteria of the GOTS, OCS, or GRS standards. On top of this, Lidl and Kaufland are partners of the “Cotton made in Africa” initiative. Through this cooperation, they are actively advocating for socially and ecologically sustainable

cotton production in Africa right at the start of the textile supply chain, and ensure that the raw materials that they procure for their own brands can be cultivated and purchased under more responsible conditions.

What is more, in 2019 Lidl and Kaufland were among the first German retailers to have themselves and their merchandise certified according to the social and environmental criteria of the German government's seal for sustainably produced textiles, the "Grüner Knopf" (Green Button).

In September 2009, for the first time Lidl in Germany offered Fairtrade-certified textiles whose origin customers could trace all the way back to the producer using the Fairtrade code. As a special campaign, in autumn of 2019 Lidl temporarily included textile collections certified according to GOTS and the Cradle to Cradle Standard (C2C) in the assortment in all German stores. Currently, Lidl is working on new C2C-certified products. When manufacturing products that are Cradle to Cradle Certified™, all aspects are evaluated for resource efficiency and recyclability by independent experts.

Employee clothing is also subjected to the highest sustainability standards. The employee clothing of all store employees at Lidl and Kaufland worldwide is made from organic cotton according to the stringent GOTS criteria, and has been awarded the Grüner Knopf. Our store clothing at Lidl and Kaufland is also made from cotton that is 100 percent Fairtrade certified.

Promoting and improving the visibility of regional products

The companies of Schwarz Group are committed to short transport routes, fresh products, and supporting local businesses, which is why Lidl and Kaufland have initiated programs to promote and improve the visibility of regional or locally produced food.

Furthermore, with the 5D initiative for pigs, they are backing production in Germany. This means that the animals are born, raised, fattened, slaughtered, and processed in Germany. Lidl in Germany now only sells fresh milk from Germany.

Lidl in Germany has also launched the program "Ein gutes Stück Bayern" (A good piece of Bavaria). The aim is to promote regional and sustainable cultivation by family-run farms. Some of these farms also take part in an added value program. In this program, Lidl compensates farms that do not only produce locally but have also switched to higher animal welfare standards in their production, and implemented biodiversity measures, for the additional expenses incurred. Other countries have implemented comparable initiatives, for example Lidl Austria with "Ein gutes Stück Heimat" (A good piece of home). The regional origin of the products is made transparent for consumers with the label "Geprüfte Qualität Bayern" (Verified Bavaria quality) and "Regionalfenster" (Window to the region). The label of the German Animal Welfare Federation also indicates production in line with higher animal welfare standards. Regional fruit and vegetable growers are also strengthened by Lidl and Kaufland's partnerships with Bioland and Demeter (see also p. 80).

In its German stores, Kaufland too offers regionally produced food. These are labeled accordingly with the "Regio-Herz" (Regional heart). At Kaufland in Germany, products that were produced or harvested in the respective region within a radius of 30 kilometers of the store are deemed as regional. Other Kaufland countries in Central and Eastern Europe also label their own brands from national production with the corresponding country hearts. In the reporting year, Kaufland Germany has also introduced the label "Qualität aus Deutschland" (Quality from Germany) for fruit, vegetables, and meat. It is used to identify local agricultural produce, promotes the targeted purchase of German produce, and therefore also indirectly supports farmers in Germany. Only fruit and vegetables that were harvested, processed, and packaged in Germany are given this label. Overall, Kaufland offers over 200 different kinds of fruit and vegetables that meet these criteria throughout the year. For meat produce, the animals are born, raised, and slaughtered in Germany. In addition to fruit and vegetables and meat, the logo "Qualität aus Deutschland" (Quality from Germany) has also been extended to other product groups, so long as the main ingredient comes from Germany, for example sauerkraut or gherkins. Other Kaufland countries in Central and Eastern



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Europe also label their own brands from national production with corresponding country hearts. The assortment additionally contains regional products whose sale is to some extent promoted through respective programs. For example, Kaufland Slovakia is supporting small and medium-sized food manufacturers from the region as part of a sponsorship project. At the end of the fiscal year 2021, 127 regional suppliers supplied, among other things, milk products or baked goods to the Kaufland stores in Slovakia.

Purchasing strategically relevant raw materials in a more sustainable way

For this reason, as part of their joint CR strategy, one of the areas of focus for the companies of Schwarz Group is the responsible use of raw materials, as significant quantities are needed to produce the products sold and used by the retail divisions. The selection of strategically relevant raw materials was made as part of a raw materials analysis carried out in 2019. During this analysis, the first step was for the companies of Schwarz Group to create a list based on all division position papers and raw materials targets in the Purchasing departments. The team then checked which raw materials have the biggest impacts socially and environmentally using an input-output model. As an example, the commitment is illustrated below using the example of bananas and cocoa.

by the Rainforest Alliance. In future, Lidl in Germany is also aiming to only offer bananas from plantations for which an additional surcharge is paid as a contribution to living wages – at the same retail price. By taking this step, Lidl is contributing to ensuring that plantation workers in the producing countries can also make a living and can secure prospects for their families.

In 2014, Kaufland became the first food retailer to be involved in the German Action Alliance for Sustainable Bananas (ABNB). The goal of the ABNB is to promote climate-adapted banana cultivation, to produce the fruit in a more sustainable way throughout the entire value chain, and thus drive ecological and social improvements in banana cultivation. As a member of the ABNB, Kaufland exclusively purchases bananas from farmers that have taken climate-relevant measures. Kaufland also provides financial support to producers to enable them to convert their production. Kaufland’s commitment is directly reflected in its assortment. It offers many certified products, such as fairly traded organic bananas, which customers can recognize by the Fairtrade or organic label. Another focus in the responsible use of strategically relevant raw materials is the certification of raw materials containing cocoa which are used by Schwarz Produktion for the production of various finished products. Certification is in line with the specifications of the retail divisions Lidl and Kaufland. In each of the production units, certifications by the Rainforest Alliance and/or the Fairtrade Cocoa Program are implemented depending on customer specifications. All chocolate bars and cocoa in the entire ice cream assortment have the corresponding labels. Lidl is also setting its own standards here. As part of the project “Way to Go,” since spring 2020 Lidl has extended its assortment with Fairtrade-certified chocolate bars with cocoa from Ghana in its German stores (see also p. 40).

Average figures from sustainable cocoa in private label products

90%
at Lidl

73%
at Kaufland

100%
at Schwarz Produktion

As part of the Initiative for Sustainable Agricultural Supply Chains (INA), since 2020 Lidl and Kaufland have been committed to a cross-industry project for living wages and income in the banana sector in Ecuador and other countries. At Lidl in Germany, in addition to organic Fairtrade bananas, it has also been possible to buy conventional Fairtrade bananas since 2019 in all 3,200 stores. Using different information materials, Lidl has been actively working to convince its customers of the benefits of Fairtrade-certified bananas, with the focus on fair wages for growers, for example. Lidl is also extending the fair banana assortment with bananas certified

The companies of Schwarz Group have set themselves ambitious targets in relation to the strategically relevant raw materials.

› **Sustainable raw materials:** The companies of Schwarz Group will organize procurement so it is even more sustainable in the future – and use relevant raw materials from growers certified by third parties for private label products. This applies to soy, coffee, cocoa, palm (kernel) oil, cotton, fish, and fish products. Except for cocoa, the targets and associated KPIs are currently being revised. For other raw materials, detailed analyses are continuously carried out and possible implementations are reviewed. With the corresponding strategic targets in purchasing, both Lidl and Kaufland are accelerating the implementation of concrete division-specific raw material targets that are incorporated into the raw materials strategy of the companies of Schwarz Group.

Commitment to more responsible animal husbandry and sustainable fish purchasing

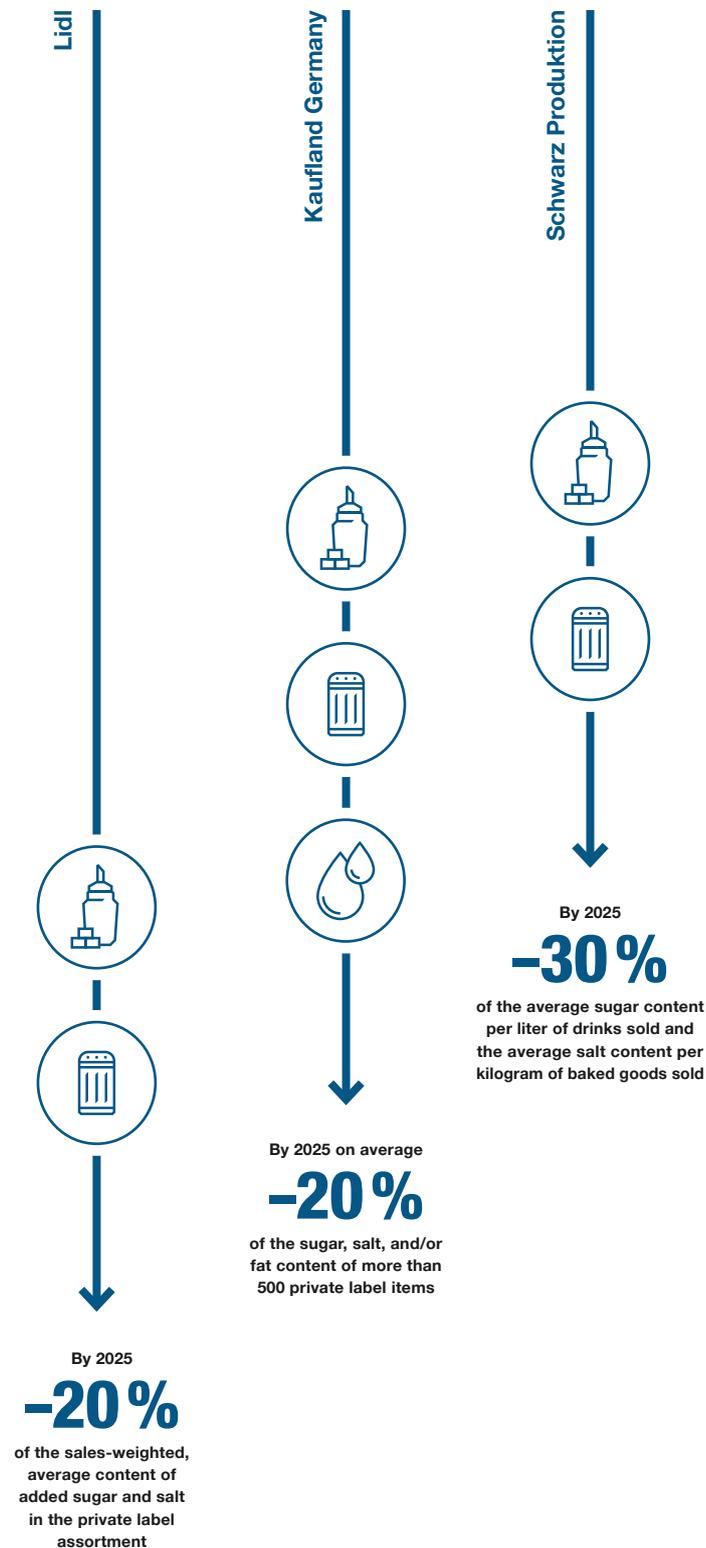
Compliance with and promotion of more responsible husbandry conditions for livestock on land and in water plays an important role for the retail divisions Lidl and Kaufland. The specific circumstances and characteristics of each country need to be considered – which is why the national companies of the retail divisions have set corresponding targets. Focus here is on the identification of products of animal origin in order to show husbandry conditions transparently, giving consumers the information they need to make a conscious purchasing decision. In Germany, for example, since 2018 Lidl and Kaufland have adopted a 4-level model to transparently label husbandry methods for all fresh meat products (1 = Indoor husbandry through 4 = Premium). By the end of 2025, they want to establish husbandry method level 2 as the permanent minimum standard for animal primary products. With its own brand K-Wertschätze, Kaufland promotes humane animal husbandry in Germany – in the form of more space,

feed that is GM-free, and larger runs for the animals, for example. All K-Wertschätze products are certified according to recognized animal welfare standards and programs. Since June 2019, at Kaufland in Germany meat from pigs, turkeys, and chickens at the fresh food counters has been available exclusively at the husbandry method level 3 “Outdoor environment,” which has particularly high animal welfare standards. Beef was also switched to the husbandry method level 3 “Outdoor environment” in October 2021. And for own-brand K-Classic too, the proportions of sausage goods are to be continuously moved from husbandry method 1 “Indoor husbandry” to husbandry method level 3 “Outdoor environment” depending on the availability of raw materials. The retail division also wants to double the number of participating farmers in its internal pork program in the husbandry method level 3 “Outdoor environment” by 2023. In the self-service area at Kaufland Germany, pork from husbandry method level 3 has been offered throughout Germany since 2019. For fresh poultry, the poultry farmers that supply Kaufland Germany already use 100 percent GM-free soy as feed. By 2023, the offer of husbandry method level 3 is to be doubled in the fresh poultry area, and by 2026 husbandry method level 3 and husbandry method level 4 expanded to 20 percent of produce offered. The criteria for husbandry method levels 3 and 4 include GM-free feed.

The retail divisions are also focusing on sustainable purchasing for fish. At Lidl in Germany, almost all wild-caught fish and shellfish in the frozen, fresh, canned, and specialty foods areas are labeled with the MSC label, while fish and shellfish from aquaculture are 100 percent ASC, organic, or GLOBALG.A.P. certified. In the future, Lidl wants to expand its offer to own-brand certified fish products in the promotion assortment and switch to certified raw ingredients in the long term. Since 2018, Kaufland has offered exclusively ASC and MSC-certified fish and prawns in its entire frozen own-brand assortment in all its German stores – and was the first food retailer to do so in Germany.



REDUCTION TARGETS FOR SUGAR, SALT AND FAT



Offering healthier products

In addition to empowering customers, product safety and quality are key aspects for healthy nutrition, as are the selection and composition of the food on offer.

Salt, fat, and sugar reduction targets

The companies of Schwarz Group are focusing on reducing sugar, salt, and fat. To bring this about, the retail divisions and Schwarz Produktion have adopted appropriate reduction strategies that considerably reduce the proportion of the named ingredients.

Lidl is continuously pursuing the goal of reducing the sales-weighted, average content of added sugar and salt in its private label assortment by 20 percent from 2015 through 2025 in all its national companies. In the calendar year 2020, Lidl succeeded in cutting the sugar content by 12.9 percent and the salt content by 6 percent. To achieve this, the company has initially defined focus groups like yogurt and sweet pastries for a reduction in sugar, or bread, rolls, and pizza for a reduction in salt in which there is potential to improve the nutritional profile and/or additives can be avoided. All relevant private label items that belong to these focus groups and where there are opportunities for reduction are reviewed. Where possible, one policy for each product family defines the targets for improving the nutritional profile and reducing undesirable additives. The reduction strategy was incrementally expanded to all food product groups.

In Germany, Kaufland had set itself the goal of reducing the sugar, salt, and/or fat content in more than 300 private label items by 2021. Kaufland achieved this goal. For its next goal, by the end of 2025 Kaufland is aiming to reduce the proportion of sugar, salt, and/or fat in another 200 private

label products. We will also continue to check for other reduction opportunities in items where the content has already been reduced. The focus is also on products that are frequently consumed by children, like soft drinks or cereals.

In 2015, Schwarz Produktion set itself the goal of cutting the sugar content per liter of the total drinks sold by 20 percent by 2025, and the salt content per kilogram of total baked goods sold by 20 percent by 2025. These targets were achieved by 2019. Schwarz Produktion therefore set itself two new targets in 2020: Firstly, Schwarz Produktion wants to reduce the average sugar content per liter of drinks sold by approx. 30 percent by 2025. Secondly, it wants to reduce the average salt content per kilogram of baked goods sold by approx. 30 percent by 2025.

The organization of the reduction strategies of the retail divisions Lidl and Kaufland are anchored in their respective Purchasing departments. They are implemented in close collaboration with the own-brand suppliers of Lidl and Kaufland as well as the production plants of Schwarz Produktion and Kaufland meat processing plants.

GM-free products

Almost 90 percent of the dairy products sold by Lidl in Germany are produced without using genetically modified feed. Lidl has now switched to GM-free feed for almost the entire assortment of dairy products. Exceptions include compound products or specialties whose milk ingredients do not come from Germany. Lidl also sells 100 percent fresh poultry without using genetically modified feed. In another step, since 2017 Lidl has been extending its regional and “GM-free” certified fresh meat assortment of pork and beef with the goal of a national expansion.

Offering safe products

The topic of Product and food safety is a central point of focus for all companies of Schwarz Group concerned. In the retail divisions Lidl and Kaufland, the Purchasing department is responsible for the purchase of safe products at national or international level, depending on the scope of negotiations – in close collaboration with Quality Management or Quality Assurance, respectively. Their core processes and strategic developments are in turn defined together with Purchasing by the Quality Management department at Kaufland and Quality Assurance at Lidl. At Schwarz Produktion, the Quality department is responsible for food safety. The Marketing department is responsible for the topic of product labeling. It is supported by the Quality department as relating to responsibility regarding food law. To ensure the quality of non-merchandising goods, there is a separate department in Schwarz Beschaffung.

To systematically manage product safety, legality, and high quality, Lidl works according to a recognized quality management system certified according to ISO 9001. Product safety is its top priority. At Lidl, all corresponding processes are carried out according to this management system, which governs the quality targets and principles as well as clear process specifications and responsibilities. All processes are checked by a law office that specializes in food law, and also subjected to an annual internal audit. Lidl employees are regularly trained in the processes. A CR manual with internal specifications for selected raw materials offers the buyers and quality managers the necessary guidance and support to implement sustainability requirements for specific product groups. There is also a CR measure database which was jointly created by all companies of Schwarz Group. It acts as a communication tool, where all divisions from all countries and departments can digitally record their CR measures and share them with each other (see also p. 33).

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For own brands in the food and drugstore area, Kaufland has also defined quality standards for ingredients, pollutants, and sustainable raw materials that, to some extent, go beyond legal requirements. For own brands and own imports in the non-food area, there are also sweeping quality specifications that are continuously developed.

Both retail divisions have defined and anchored central steps for compliance with food safety:

- Certification according to the International Featured Standard (IFS) or the British Retail Consortium (BRC) of all production sites that supply the divisions with food and drugstore products in the own-brand assortment¹
- Regular, risk-oriented, unannounced production site audits by selected external certification bodies
- Risk-oriented inspection of all private label items in the food and drugstore area by accredited institutes (e.g. Fresenius, Eurofins) to test their marketability
- Compliance with specification values that go beyond legal requirements and also consider the requirements of NGOs and test magazines, including corresponding checks by independent accredited institutes

All potentially critical results that are determined through the abovementioned processes are forwarded to the division departments responsible for product safety to be processed as a priority, resolved, and if necessary for suitable measures to be initiated.

¹ At Kaufland the certifications are included in the supplier requirements. If corresponding evidence cannot be produced, a risk assessment and auditing take place, which are then used to decide whether or not to start a supplier relationship.

Customer, supplier, and stakeholder communication

A complaint management system is established and anchored in the customer management at both Lidl and Kaufland. Customer concerns and complaints can be submitted by phone or using an online form on the Lidl and Kaufland websites. To enable a complaint process for all participants in the supply chain, both divisions have also established a publicly accessible online reporting system (see also p. 62). There are also emergency numbers that are available to all suppliers – at Lidl this is organized internationally, Kaufland has country-specific contacts. Quality complaints about products and product-related crises are also managed, assessed, and processed by the person or persons responsible for quality management in Purchasing. Beyond their own extensive activities, Lidl and Kaufland are also involved in various organizations responsible for food safety. A comprehensive overview can be found in the chapter Stakeholder management on page 12.

PreZero provides an online contact form, a customer phone number, and an online reporting system for compliance violations. At Schwarz Produktion, a complaint and queries management system has been established for years, including reporting to general management and the management board. All consumer inquiries or complaints (by phone, post, email, or via the home page) are processed and analyzed in the Quality department, and effective corrective measures are defined together with the departments/plants.

GRI 2-25 | 12-29

Quality management for production plants of Schwarz Group

The companies of Schwarz Group have high quality standards for their private label products in the retail divisions and in our own production plants. All Schwarz Produktion plants and the Kaufland meat processing plants in which food is produced meet the requirements of the IFS Food Standards and are regularly audited for compliance by an external certification body accordingly. All of the Kaufland meat processing plants are classified at the “Higher Level.” There are also internal audits. The quality systems of the producing companies of Schwarz Group each cover a large spectrum of specifications, standards, and quality assurance processes that are implemented and lived accordingly in the relevant plants. The key aspects here are:

- Implemented HACCP² concepts
- Compliance with good production practice with, for example, appropriate cleaning plans or faultless, up-to-date system technology
- Analytical and microbiological finished product checks using clear specifications by internal and accredited external laboratories
- Clear approval procedures for suppliers and materials taking account of the specification that the suppliers have established a recognized quality management system according to the GFSI (Global Food Safety Initiative)

A comprehensive complaint and inquiry management system is established at all producing companies of Schwarz Group. All consumer complaints and inquiries are recorded in the respective Quality department, processed, analyzed, and effective corrective measures are defined with the departments/plants. Furthermore, at each producing company of Schwarz Group, there are clear processes for corresponding reporting to the relevant general management and the management board.

² HACCP = hazard analysis and critical control points for identifying and mitigating risks to ensure proper food safety.

Country-specific quality management

The national companies of Lidl and Kaufland consistently track the quality and safety of products. For example, at Lidl in Spain quality management is certified according to ISO 9001:2015 by the standardization and certification bodies AENOR and iQNET. Additionally, regular supplier audits and comprehensive laboratory checks are carried out on the private label assortment as well as fruit and vegetables – this is also the case for the nationally procured private label items in all Kaufland countries. Lidl Romania also carries out its own audits in the production units in which food is manufactured for the own-brand assortment. 76 audits were carried out in the reporting period. These supplement the audits that are carried out by external organizations in order to obtain the IFS or BRC certifications for production sites of food private label items that are required as standard by Lidl and Kaufland.

For many years, Lidl Austria has used the AMA quality seal (Agrarmarkt Austria) and its associated standards for its fresh meat assortment. The goal of AMA certification is to promote food quality and quality assurance across all production, processing, and marketing stages. Regular evaluations are part of the concept. Already since 2017, Lidl Austria has sold fresh pork with the AMA add-ons “Mehr Tierwohl!” (More animal welfare), “Besondere Fütterung” (Special feed), and “Regionale Herkunft” (Regional origin).

To be able to provide customers with regional products of outstanding and assured quality, and also enable smaller producers to sell their products, Kaufland Germany also audits its regional suppliers to some extent. The audits are carried out when products are first listed and repeated at regular intervals. Additional laboratory tests enable frequent checks.

159,861

product analyses carried out for own brands (FY 2021)





Policy on the Responsible Sourcing of Fruit and Vegetables



Transparency Report on Fresh Fruit and Vegetables by Kaufland (German version)



Policy on Health and Nutrition by Lidl

Fresh fruit and vegetables

Every day, hundreds of tons of fresh fruit and vegetables are delivered to over 13,300 Lidl and Kaufland stores around the world. In order to come to a joint high standard in relation to substances, Lidl and Kaufland have drawn up the Schwarz Banned Substances List for fresh fruit and vegetables together. The defined list has 203 active substances on it and is implemented by both retail divisions in all countries. To ensure consistent high quality, all deliveries are closely scrutinized according to standardized processes. The pesticide management strategy is underpinned by approximately 100,000 independent chemical production tests annually. Many tests are carried out even before harvest, or before the goods are loaded. In addition to results from the test reports of neutral samplers and external accredited laboratories, evaluations of the conditions in the growing regions are incorporated into our findings. Other examples of quality assurance by the Lidl and Kaufland retail divisions:

- Definition of own specification values for pesticides that go beyond the legal requirements
- Insistence on certification of all agricultural suppliers of Lidl and Kaufland according to the GLOBALG.A.P. or QS quality standards
- Insistence on completion of the GLOBALG.A.P. add-on GRASP – for social concerns of workers – for all producers of fruit and vegetables at Lidl and Kaufland
- To consider the topic of biodiversity, in April 2022, Lidl and GLOBALG.A.P. released the first industry-wide add-on for biodiversity with the BioDiversity add-on (see also p. 130).

GRI 204-1 | 416-1 | 417-1

More information about each division's approaches and measures can be found in Lidl's Policy on the Responsible Sourcing of Fruit and Vegetables and in Kaufland's Transparency Report on Fresh Fruit and Vegetables.

Avoiding misuse of fertilizer and pesticides

In many places, the production of goods releases pollutants into the environment. This is the case, for example, for misuse of fertilizer and pesticides in agriculture.

The companies of Schwarz Group have repeatedly intensified their pesticide guidelines. As a result of these jointly developed measures, they have had the strictest policies in the industry for pesticide residues on fruit and vegetables and flowers and plants since the fiscal year 2019. This means they achieve residue levels many times below the legally defined maximum in several aspects. Since 2016, they have been working on identifying and excluding undesirable active substances and contaminants in agricultural production, together with independent experts and scientific institutes. In addition, within the framework of these ambitious limits, residues of a maximum of five active substances are permitted to be detectable. The result is the strategic list of active substances which the companies of Schwarz Group are using to establish a clear framework for safe use of pesticides and for the protection of the environment and species when growing fresh fruit and vegetables.

GRI 304-2

Corresponding regulations are further expanded by the divisions in close collaboration with the suppliers. Lidl provides information about its pesticide reduction measures in its position paper “Respecting Biodiversity”. The concrete requirements and specific measures that Kaufland is currently developing were released in 2019 in a transparency report on fruit and vegetables and at the start of 2020 in an initial transparency report on flowers and plants. Furthermore, in the Valencia region, the most important citrus fruits-growing area in Europe, Kaufland is conducting a project to test alternatives for the use of glyphosate. The initiative is embedded in the more comprehensive, joint approach of the companies of Schwarz Group for finding ways to effectively reduce and/or avoid glyphosate, together with their suppliers.

Quality assurance through focus on high-quality ingredients

To reduce or replace criticized ingredients, Lidl and Kaufland are implementing a wide range of measures for their private label products. To this end, **GRI 417-1** for example, Lidl in Germany and other countries have set concrete targets for reducing colorants and preservatives (can be viewed in the Policy on Health and Nutrition). Lidl in Germany is also pursuing the goal of reducing the use of preservatives as much as possible, or even outright avoiding them, so long as this does not impact food safety. For example, Lidl and Kaufland exclude certain colorants from their own brands in the food area. In addition, recognized standards and labels ensure products have a higher ecological and social quality, in response to increasing demand from customers. In the food area, for example these are Bioland and

Demeter, in the textiles area the standards GOTS and OCS. The GOTS standard guarantees the sustainable production of textiles throughout the supply chain – from the harvesting of organically produced, natural raw materials, through environmentally and socially responsible manufacturing, to transparent labeling. The OCS standard makes it possible to record the precise proportion of organic material in a product and track it through the manufacturing chain. It means that organic wool was used.

Furthermore, in the textile area holistic quality management is implemented through compliance with the STANDARD 100 by OEKOTEX®, which assures various quality checks for textiles.

As manufacturers for the retail divisions Lidl and Kaufland, the production plants of Schwarz Produktion and the Kaufland meat processing plants **GRI 416-2** have a direct impact on the product quality of own brands. The topic of quality is therefore reflected over again in their corporate values. The raw materials and production conditions used are subject to the highest requirements, like those of the IFS, and undergo countless quality checks. The jointly defined maxim is to only bring safe food onto the market, ensure consistently high quality, and avoid potential dangers to health. In the reporting period, no product recalls occurred in the plants owned by Schwarz Produktion and the Kaufland meat processing plants.

KEY PERFORMANCE INDICATORS

NUMBER OF ITEMS WITH SUSTAINABILITY LABEL ^{1, 2}

GRI 417-1	Lidl ³			Kaufland		
	FY	Average	Max. number per year	FY	Average	Max. number per year
Organic						
	2019	387	642	2019	1,759	3,069
	2020	454	753	2020	1,879	3,304
	2021	563	1,126	2021	2,464	4,301
Fairtrade⁴						
	2019	89	156	2019	182	294
	2020	286	476	2020	156	236
	2021	391	967	2021	255	401
Rainforest Alliance⁴						
 www.rainforestalliance.org	2019	32	192	2019	20	35
	2020	101	532	2020	104	160
	2021	431	949	2021	208	326
UTZ⁴						
	2019	286	472	2019	118	197
	2020	474	849	2020	290	517
	2021	379	1,014	2021	281	484
FSC						
	2019	58	192	2019	49	91
	2020	158	544	2020	61	104
	2021	203	741	2021	85	132
MSC						
	2019	119	207	2019	235	437
	2020	130	208	2020	251	467
	2021	147	235	2021	264	475
ASC						
	2019	67	162	2019	35	67
	2020	83	182	2020	37	69
	2021	97	206	2021	52	94

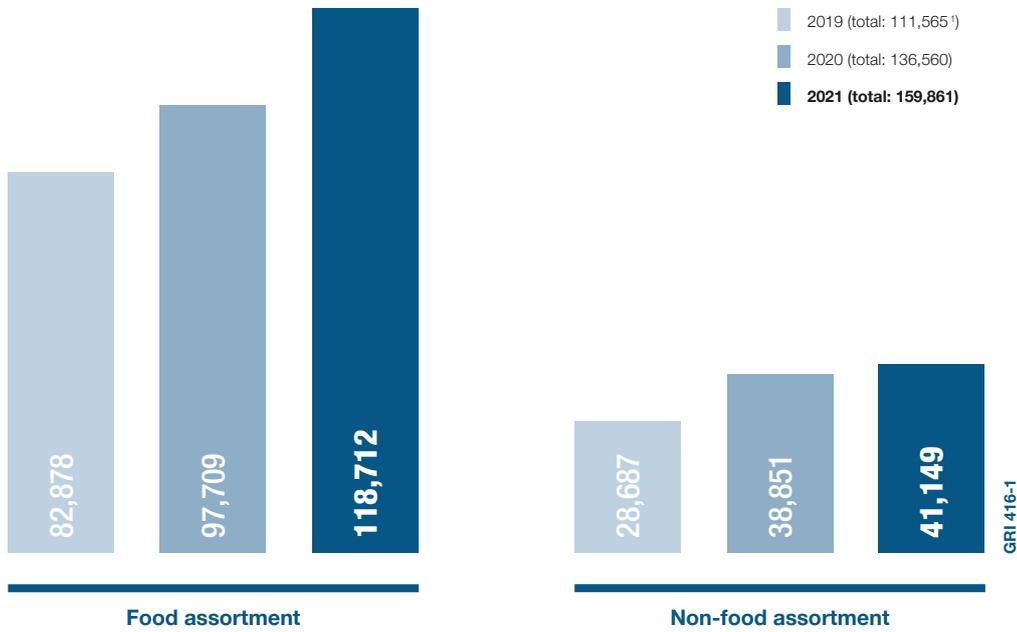
¹ Number of all sales items excluding promotional/seasonal items and non-food, which were designated for sale to customers of stationary trade. At Kaufland items are counted on the FY end cut-off date, at Lidl all private label items are included that were available for sale to customers over the entire FY.

² In order to indicate an average number of items for the entire Lidl or Kaufland division, the figures of each country were weighted using the number of stores per country. In addition, for each label the figure of a country from each division is reported. This figure represents the highest number of items with this label in the respective division.

³ For Lidl, private label items from promotions are also included.

⁴ Due to a change in the calculation basis, the figure for 2019 has been adapted retroactively. The merger of UTZ and Rainforest Alliance means the UTZ certification program is expiring. For this reason, the number of UTZ-certified items for 2021 is regressive. UTZ now belongs to Rainforest Alliance and will in the future fall under it and also bear its logo; <https://www.rainforestalliance.org/de/utz/>

PRODUCT ANALYSES IN THE FOOD AND NON-FOOD ASSORTMENT, OWN BRANDS



¹ Due to a change in the calculation basis, the figure for 2019 has been adapted retroactively.

NUMBER OF RECALLED OWN-BRAND ITEMS¹

	2019	2020	2021	2020/21 discrepancy
Total	164	233	214	-19
Of which food²	161	227	207	-20
Lidl	140	221	193	-28
Kaufland	21	6	14	8
Of which non-food	3	6	7	1
Lidl	2	5	5	0
Kaufland	1	1	2	1

GRI 416-2

¹ The number of different recalled sales items for public product/goods recalls for own brands is reported. Goods taken back are not considered. At Lidl, a sales item is deemed to be any individual item with an EAN; at Kaufland it is any item with a DIS-listed item number (orderable goods in the stores). If an identical item was recalled multiple times in the year, this is recorded multiple times. If an item was recalled for different reasons, this is recorded multiple times accordingly.

² For the category food, all foods are counted, as are items from the near-food area, e.g. cosmetics, detergents/cleaning agents/cleaning products, flowers and plants.



› 05

Steffen Schott (on the left, 42) has been Head of PreZero Recycling Süd GmbH operations since 2019 and is also responsible for the Ölbronn site. **René Witter** (on the right, 39) has been Head of the Plastics and Recycling department since 2019.

Steffen Schott and René Witter are a part of our circular system.

The companies of Schwarz Group are pursuing ambitious recycling and reduction targets as part of their plastics strategy REset Plastic. How will they be achieved by 2025? René Witter and Steffen Schott give us the answer in this interview.

You work with plastics every day. Does the material deserve its bad reputation?

› **René Witter** No. As a material, plastic has many advantages over other materials. This includes its light weight, versatility, and high protective function, especially as a material for food packaging. The criticism directed at plastic packaging often does not take the big picture into account. You have to look at the entire lifecycle assessment to be able to come to a conclusive judgment. And this depends on many different factors. For example, the results of the lifecycle assessment of our PET bottles in Germany are excellent when compared with bottles made from other materials and reusable bottles, due to the proportion of recycled material being at 100 percent and their particularly low weight. The Institut für Energie- und Umweltforschung Heidelberg (ifeu; Institute for Energy and Environmental Research Heidelberg) comes to the conclusion that the lifecycle assessment of optimized disposable PET beverage bottles is on

a par with the customary reusable systems in many cases. The basis for this success is our unique recycling loop which we have established in recent years.

What does a recycling loop look like?

› **René Witter** Our goal has been and still is to create an integrated recycling loop for PET bottles from production through stores and all the way to recycling. We have achieved this goal in Germany, not least through the single-use deposit system. The disposable PET bottles returned via the bottle deposit machines in Lidl and Kaufland become part of our loop. So old bottles are turned into new bottles again and again. Our optimized bottles are therefore a cheap and ecologically sustainable alternative for customers of Lidl and Kaufland.

› **Steffen Schott** In order for the circular economy to work for packaging other than PET bottles, the recyclable materials naturally need to be correctly sorted first. Which is exactly what we are



doing in Ölbronn with our light packaging sorting plant. About 100,000 tons of waste from the collection of recyclables are handled there each year. We transfer the correctly sorted recyclable materials to processing, where they are washed and granulated. This recycled material can be used in production to make new goods, such as laundry baskets.

And what does all that have to do with the plastics strategy REset Plastic?

- › **René Witter** Through REset Plastic, we want to achieve ambitious goals by 2025. This includes, for example, making all own-brand packaging as recyclable as possible, and saving around 20 percent of plastic. We will also use an average of 25 percent recycled material in the production of product packaging. We reached this goal a while back with our PET bottles. They have been produced using 100 percent recycled material since June 2021 – excluding the label and cap. Ultimately a functioning circular economy is the key to achieving our targets, which is why we also keep in mind all business units of Schwarz Group – from production through retail and to disposal and recycling.
- › **Steffen Schott** This is actually a big advantage. Because a functioning recycling loop begins with packaging design. Composite packaging, sleeves, and dark colors look great, but are often difficult to recycle. For the companies of Schwarz Group, to be thinking about recyclability at this point cannot be considered standard practice.

How is that possible?

- › **Steffen Schott** Most manufacturers actively use packaging for marketing purposes. Therefore it has to look great and catch the customers' eye. But in the end, if the consumer cannot properly separate the individual components from each other because of the packaging design, the recyclable materials are often not recycled and just end up at the incineration plant.

So why is the thinking here not changing?

- › **Steffen Schott** A big part of the problem is a lack of knowledge. I see it when we do tours of our plant. When our visitors see how much 22 tons

of plastic per hour actually is for the first time – they're shocked. And that's when they consciously realize that every single one of us can make a difference.

- › **René Witter** Unfortunately, in the public eye negative aspects often weigh heavier than the benefits of plastic packaging. People forget that plastic packaging fulfills an important purpose. Properly collected and recycled it is also ecologically sustainable. In Germany today, 97 percent of disposable deposit bottles are recycled. Despite this, we are often faced with the accusation that our bottles pollute the world's oceans.

Does this require more education – also politically?

- › **René Witter** Yes, absolutely – and not only in Germany, but internationally as well. We need an objective discussion based on the facts without prejudices to be able to make the right decisions. And we're happy to lend our support with advice, given our expertise in recycling loops.
- › **Steffen Schott** I think, in the end, we will have to take it a step further and harmonize recycling loops worldwide. I know that sounds impossible. But in the end it's about the future of humanity – and that concerns all of us.

On that note, what targets are you setting yourself for the future?

- › **René Witter** The companies of Schwarz Group want to further advance the topic of sustainable packaging. How can we make it more recyclable? Where can we maybe even get rid of the packaging entirely? We are already working on the issue across the Group in different working groups.
- › **Steffen Schott** I think what you're saying does not only apply to packaging, but also to consumer goods in general. Ultimately, we need to ask ourselves: What do we really need? That's an international change in mentality, a transformation. And it's happening right in front of our eyes. I really want to act as the link between the younger and older generation. We need to promote a mutual understanding on both sides, and then act in concert – otherwise we won't be able to achieve our goals together.

Our mission: We are resource-efficient and embrace the circular economy.

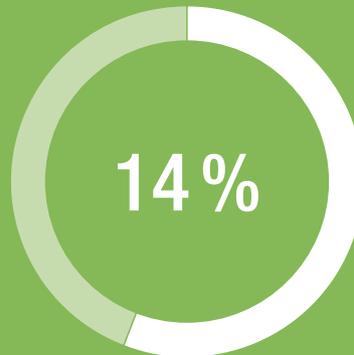
Our contribution to a functioning circular economy



-20 %

By 2025, Lidl and Kaufland will use **20 percent less plastic** in their private label packaging and plastic transport aids compared with 2017.

2021



2025



By 2025, Lidl and Kaufland will **use** an average of **25 percent recycled material** in their private label packaging made of plastic.



“ We all bear responsibility for resources and need to ensure that they are utilized in the best possible way, and then used again. Therefore the companies of Schwarz Group are reducing waste and food waste and setting up recycling loops. This takes the pressure off the environment.”

Anja Köllner, CR Focus Area Supervisor – Circular systems

› 05 CIRCULAR SYSTEMS

Use and conservation of resources, and circular solutions

The companies of Schwarz Group think in loops to consistently avoid waste in the future and use it to make recyclable materials for tomorrow, while drastically minimizing food waste. If customers store food correctly and trust their own senses when it comes to best-before dates, they can also make a big contribution to avoiding food waste. And that is why we are raising customers' awareness of both food waste and waste separation. Furthermore, the companies of Schwarz Group are also offering packaging made from recycled material or products without microplastics and are supporting initiatives to avoid plastic waste in oceans.

– ♻️ The efficient use of resources and promoting material loops – both in our own processes and the supply chains – is part of the business model of the companies of Schwarz Group. By reducing waste and food waste and establishing recycling loops, the environment can be protected, disposal costs can be reduced, and recyclable materials for tomorrow can be gained from today's waste. The basic idea is to avoid wasting resources throughout the entire value chain. As part of their joint sustainability strategy, the companies of Schwarz Group have made a specific commitment to the issues of waste avoidance and food waste, and set themselves the following targets:

GRI 301-3 | 306-2

› **Zero waste:** By the end of 2025, the companies of Schwarz Group will reuse, recycle or recover a significant percentage of the waste generated in the company.¹ Companies in pilot countries will strive to limit their non-recoverable waste¹ to a maximum of 5 percent by the end of 2022.

› **Food waste:** The companies of Schwarz Group will reduce food waste by 50 percent² by the end of 2030.³ In the supply chain, food waste will be reduced for selected raw materials.

The responsible use of materials and packaging is also an important factor for the companies of Schwarz Group in creating a value chain that conserves resources. As a retail company, packaging materials are essential for the companies of Schwarz Group, particularly to keep food fresh and protect it during transport. At the same time, we need resources and energy to manufacture packaging. The Schwarz Group companies' goal is to use as little material as possible and to feed the materials used back into the production cycles. Here there is particular focus on plastic as a recyclable material, as it is key packaging material for food retail, and whoever brings plastic into circulation, also bears responsibility for its further use. Accordingly, the companies of Schwarz Group have been

¹ Excluding communal waste.

² Compared with the base year 2018 for the retail divisions.

³ In our own production, we will cut food waste by 50 percent (solid food) and 25 percent (beverages) by 2025 (compared with the base year 2017; in relation to material quantity sales).

committed to the collection, sorting, and recycling of recyclable materials for several years now. In general, they pay attention to environmental criteria for the packaging and transport aids of their own brands as well as for consumables in the stores, logistics centers, production sites, and administration. This includes recyclability, the proportion of recycled material, and the general saving of resources. As part of the plastics strategy REset Plastic (see also p. 102), corresponding targets have been set that are to be achieved by 2025:

TARGETS



Make **100 percent** of private label packaging recyclable to the greatest extent possible



Use **20 percent** less plastic in our private label packaging and transport aids (compared with 2017)



Use **on average 25 percent** recycled material in private label plastic packaging

Waste and recycling management throughout the recycling loop

As the internationally active environmental division of the Schwarz Group, PreZero is responsible for comprehensive services in the area of waste and recycling management throughout the recycling loop – both for external customers and within the Schwarz Group. The company takes care of the internal waste and recycling management for the retail divisions Lidl and Kaufland, and Schwarz Produktion.

PreZero currently employs some 30,000 employees at over 475 locations worldwide. With its division into the three business areas Dual, Recyclable Materials, and Recycling, PreZero covers key stages along the value chain. The Dual System with its licensing activities is the strategic link between manufacturers and disposal companies. In the area of recyclable

materials, PreZero ensures that waste of all kinds of fractions is separately collected, sorted, and correctly reprocessed. It passes through different recovery steps and is recycled into new materials or energetically recovered, for example. The portfolio is supplemented by various departments and brands. Under the brand PreTurn, smart reusable load carriers and pool services are developed, which can make the supply chain more efficient and transparent. The brand OutNature develops and markets sustainable fiber and paper products made from the silphium plant for packaging solutions in retail and industry (see also p. 105).

Close collaboration with PreZero within the Schwarz Group is organized and anchored in different ways in each of the divisions. Employees and managers in the divisions receive advice and training from PreZero through individually tailored workshops, training measures, information letters, and sorting instructions on the latest issues, such as separating concepts, income and costs, and changes to the law. In addition, PreZero regularly evaluates relevant key performance indicators and discusses them with the departments. Due to the lack of uniformity of recyclables management at an international level, the specifications concerning sorting and recycling rates for example, can vary from country to country. Waste in the stores, logistics, and production should be sorted according to defined specifications and disposed of or prepared for transport. These specifications are established in the ARIS process system of the companies of Schwarz Group.

Schwarz Produktion is responsible for recycling disposable PET bottles from the deposit system. In 2021, around 4,000 total employees in the Schwarz Produktion companies manufactured high-quality food for the retail divisions Lidl and Kaufland. Three plastic and recycling plants are also key components of an integrated PET recycling loop. As a pioneer in implementing a recycling loop for disposable PET deposit bottles in Germany, Schwarz Produktion has already beaten an ambitious path regarding the circular economy and developed an approach for a modern circular economy. Today, all stages of the recycling loop are covered

GRI 306-1

GRI 306-2

by the companies of Schwarz Group: collection of deposit bottles, sorting, recycling, manufacturing of new PET bottles, filling, and sales. During the reporting period, the recycling loop of the companies of Schwarz Group concerned was extensively developed. Since June 2021, all disposable PET deposit bottles produced by Schwarz Produktion for Lidl and Kaufland private label products in Germany are made of 100 percent recycled plastic (rPET), excluding the cap and label.

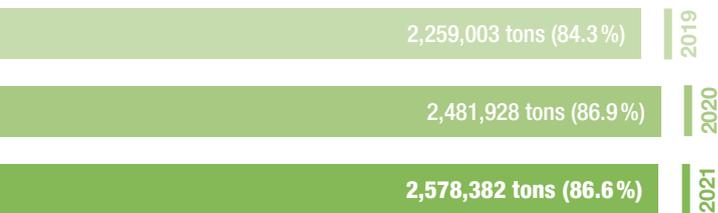
Types and sources of waste

The types and sources of waste generated by the companies of Schwarz Group vary depending on the divisions' business model. For example, at the Lidl and Kaufland retail divisions, the focus is on waste from stores and warehouses, such as packaging and transport aids made from plastic and paper/cardboard/carton, and food waste from write-offs that are no longer suitable for human consumption. In addition, other waste such as scrap or residual waste occur. At the production sites, the focus is on waste from food production and also packaging and transport aids made from plastic and paper/cardboard/carton. Waste from the recycling plants for PET bottles, like impurities, waste from incorrect sorting, and non-recyclable components, is also included in the waste from production sites. At Schwarz Produktion, the types of waste are divided into organic waste, plastic, and metal.

Around **87%** of all waste in the companies of Schwarz Group is recycled, reused, fermented or composted. This equals 2,578,382 tons (FY 2021).

GRI 306-1

TOTAL WASTE THAT IS RECYCLED, REUSED, FERMENTED, OR COMPOSTED



GRI 306-3

At central and administrative locations, conversely, waste is predominantly made up of urban waste from the social departments and paper waste from the offices.

Waste at PreZero is generated at the central and administrative locations as well as the recycling and production sites, and is overwhelmingly made up of urban waste, paper, and other waste that occurs when operating a site.

The environmental impact varies depending on the type of waste. Generally, waste is reused if possible. If this is not feasible, it is recycled according to the specific national laws, and the remnants are fed into other recovery methods. At selected sites there are individual supplementary measures to reduce the volume of waste.

Avoiding food waste

The responsible use of resources is an important factor along the entire value chain. By the end of 2030, the companies of Schwarz Group will reduce^{2, 3} their food waste by 50 percent¹.

The measures taken by the companies of Schwarz Group for avoiding food waste extend from production through transport to sale. Here, passing on food that cannot be sold but can still be consumed to not-for-profit organizations like the Tafel food banks plays a key role. A considerably bigger contribution to avoiding waste can be made by our customers if they store food correctly and trust their own senses when it comes to best-before dates. This is why Lidl and Kaufland in Germany have joined the initiative "Oft länger gut" (Often good for longer) by the organization "Too Good To Go,"

¹ Compared with the base year 2018 for the retail divisions.
² In our own production, we will cut food waste by 50 percent (solid food) and 25 percent (beverages) by 2025 (compared with the base year 2017; in relation to material quantity sales).
³ In Kaufland meat processing plants, we will reduce food waste by 50 percent by 2030 (compared with the base year 2018; in relation to material quantity sales).

among numerous other measures, and firmly anchored the avoidance of food waste into their strategy. A note on suitable products informs consumers that they should use their own senses to assess the shelf life of food. The initiative “Ich bin noch gut” (I’m still good) has the same direction, with food at Lidl and Kaufland offered for sale with a significant discount a few days before it reaches the best-before date. The goal is to avoid disposing of food that is often still edible beyond the best-before date. In this way, the retail divisions of the Schwarz Group contribute to improving consumer awareness for the shelf life of food.

Residue trapped in machines and waste due to errors in handling raw materials are minimized by optimized production processes at the production sites of Schwarz Produktion and Kaufland meat processing plants. Risk-optimized contamination detection systems improve product safety and thereby avoid recalls and product disposal.

Despite predictive quantity planning, occasionally the retail divisions have to write-off food and dispose of it. If this food cannot be donated to social institutions or otherwise processed, the food waste of the retail divisions in Germany and some other countries is partly utilized in biogas plants. Another part is used as fertilizer in agriculture and as animal feed, and therefore contributes to producing new food.

Currently we are working to collect key performance indicators which we can use to measure our progress in the area of food waste in order to present them in detail in the next report.

Raising awareness for waste separation among consumers

Correct waste separation is the prerequisite for a successful recycling process, as sorting facilities do not sort as effectively and correctly as people can at home. Consumers therefore play a crucial role here: The more effectively the waste is separated,

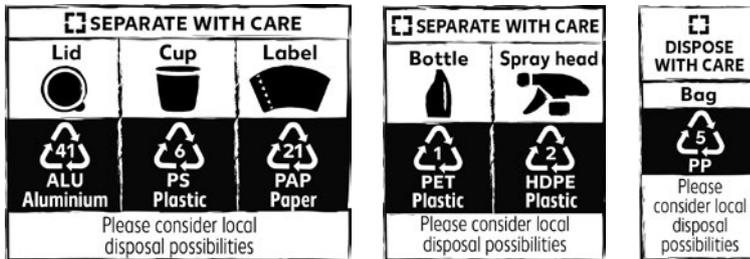


“ **More than half of Europe’s food waste comes from private households. That means that it is on each of us to make a change and avoid food waste. We need to appreciate food more and be more considerate in how we use it – starting at its purchase. Plan your shopping trips, purchase only what you need, preserve leftover food or use recipes that incorporate leftovers.**”

Saliha Özcan, Business-owner and successful cooking and baking expert

the easier it is to produce new high-quality recycled materials from it. To increase awareness of this in society as a whole, PreZero and Kaufland have been committed to the initiative “Mülltrennung wirkt!” (Separating waste works!) since 2021 – a campaign of the Dual Systems in Germany. PreZero makes advertising space on a total of 20 collecting and transport vehicles available to the initiative to spread their imagery and messages. Kaufland supports educating consumers with posters in its stores and radio spots about the right way to dispose of packaging and residual waste.

SEPARATION INSTRUCTIONS ON PACKAGING AT LIDL AND KAUFLAND



Furthermore, since 2019 PreZero has been a member of the initiative alliance Gelbe Tonne (geTon), to educate consumers in Germany about good separating quality in the Gelbe Tonne (yellow waste bin) together with the initiative.

Another important element for consumer education are the separation and disposal instructions on own-brand packaging at Lidl and Kaufland. The separation instructions located directly on the packaging provide information about the materials which make up the individual packaging components, and therefore make it easier for consumers to dispose of

them correctly. In the summer of 2020, the companies of Schwarz Group carried out a representative online survey of over 1,000 people on the topic of waste separation in Germany. According to the survey, over 80 percent of those surveyed wanted easily accessible information on separating packaging, ideally right on the product itself. This is exactly the approach we have taken regarding the separation instructions. The goal is to motivate customers to properly dispose of their packaging and do their part to improve recycling. The separation and disposal instructions were designed so that they can also be implemented internationally in all Lidl and Kaufland countries. Instead of specifying the disposal methods, which differ across Europe when it comes to collections from households, the material used and the corresponding recycling symbol are indicated in the instructions from the companies of Schwarz Group. This has the advantage that the separation and disposal instructions do not have to be redesigned for every country. The exceptions are country-specific legal regulations and market circumstances that conflict with this. Currently the separation and disposal instructions are gradually being rolled out in other European countries.

RECOVERY TYPES

GRI 306-3	Data in tons			
	2019	2020	2021	
	2,678,169	2,855,295	2,978,172	
Total waste ¹				
Recycling	1,949,956	2,110,531	2,120,258	
Reusing	6,222	9,697	69,098	
Fermenting	287,364	347,771	374,476	
Composting	15,462	13,930	14,550	
Thermal recovery with energy recovery	204,837	137,449	155,413	
Combustion	22,536	17,475	15,871	
Disposal	129,180	184,744	192,675	
Miscellaneous ²	62,614	33,699	35,831	

¹ Due to improved data availability, among other things, the figure for 2019 has been retroactively adapted.

² The category "Miscellaneous" includes compound items which also include volumes that cannot be assigned clearly to the above mentioned categories.

Recycling recyclable materials

The companies of Schwarz Group are promoting the circular economy approach – from fully recyclable products, through retail and waste disposal, to sustainable recycling and reprocessing into new products. Working with other experts, PreZero has launched the new standard DIN SPEC 91436 Zero Waste for developing a sustainable waste and recyclable materials management system that minimizes internal non-recyclable waste and ensures optimal recovery and waste disposal.

By the end of 2025, we will reuse, recycle or recover a significant percentage of the waste generated in the companies of Schwarz Group. Companies of Schwarz Group in pilot countries will

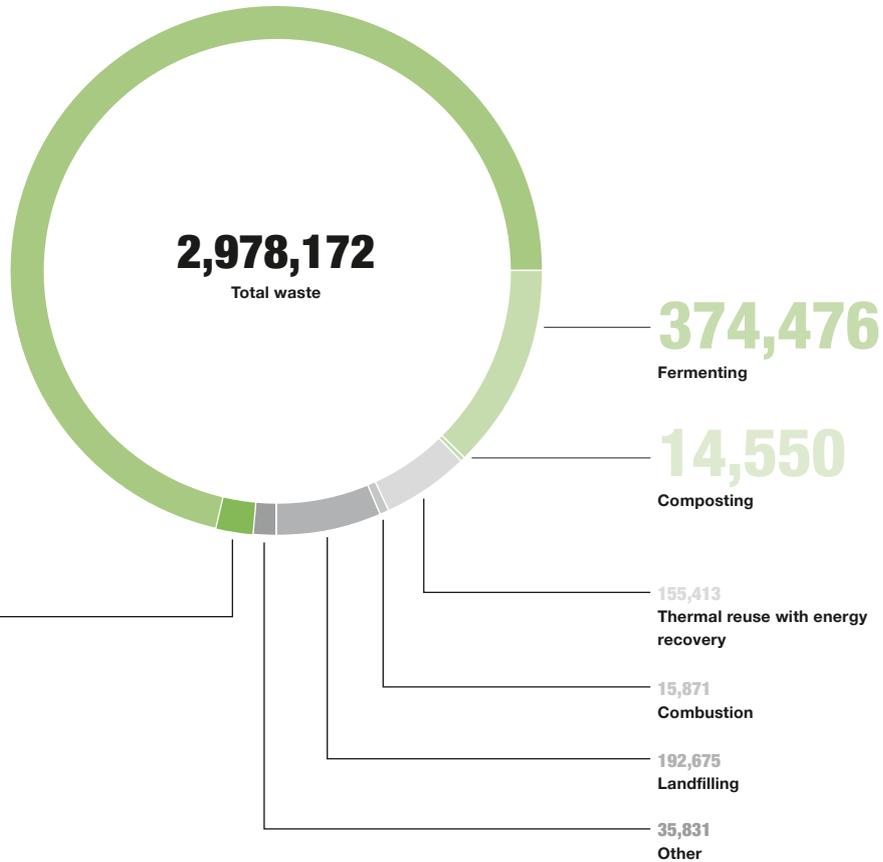
RECOVERY TYPES

in tons (FY 2021) ♻️

2,120,258

Recycling

GRI 306-3



strive to limit their non-recoverable waste¹ to a maximum of 5 percent by the end of 2022. For Lidl, the Netherlands and the Czech Republic were chosen; for Kaufland, Slovakia and Romania. In these pilot countries, the DIN SPEC 91436 Zero Waste is used to gain experiences and derive measures for the companies of the Group. On successful completion with corresponding proof of success regarding waste reduction, a group-wide rollout to

all other countries will be evaluated. In principle, all waste that occurs within the companies is included. Communal waste that is generated by customers in the store parking lots, for example, is excluded from consideration. In addition, waste can be excluded if there are specific legal requirements regarding the way it is recovered. This is the case particularly for waste that may only be incinerated. However, such exclusions must be still be documented and justified. ♻️ -

¹ Excluding communal waste

REset Plastic: Plastics strategy of the companies of Schwarz Group

The goal of resource conservation also particularly applies to packaging materials. The most important tasks of packaging include guaranteeing the quality and hygiene of food and preventing food losses. That's because it protects sensitive goods from environmental influences and ensures that

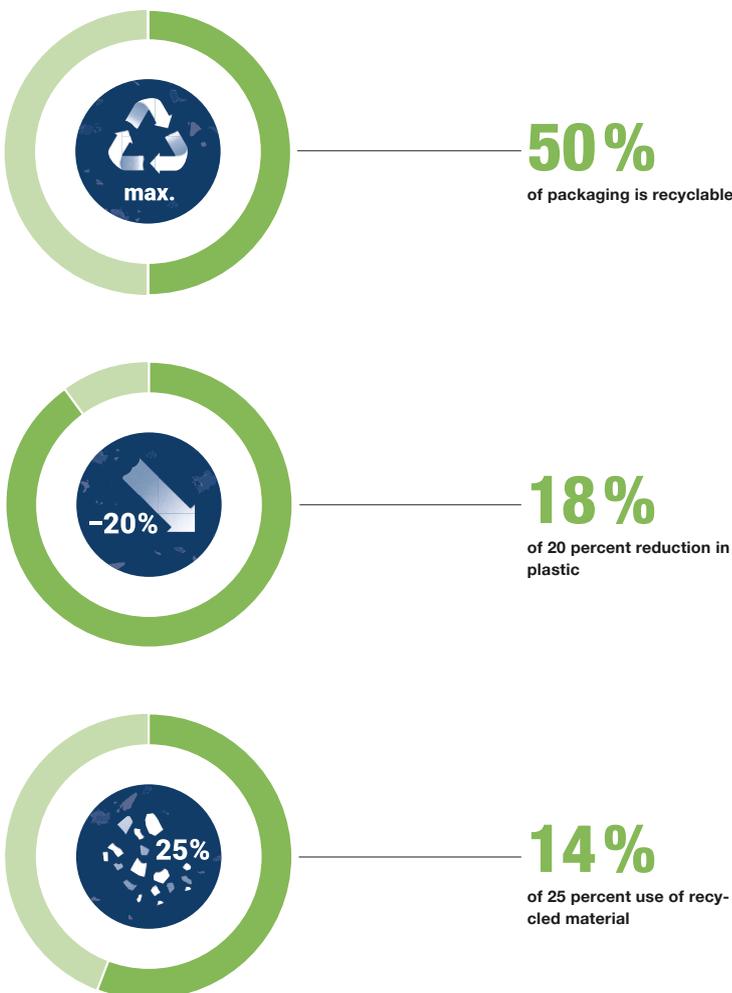
they reach the consumers intact. In the case of food, packaging can serve to preserve food and improve the carbon footprint. At the same time, resources and energy are required to manufacture packaging, which places a burden on the environment and the climate. Plastic packaging is a particular challenge, as the longevity of the material can become a problem once it enters the environment. In response, we have been committed to collecting, sorting, and reusing plastics – since 2018 we have managed our initiatives with REset Plastic. REset Plastic is the Schwarz Group companies' joint international, holistic plastics strategy for all company divisions and countries. The strategy not only aims at reducing the use of plastic and closing loops in the future, but also at creating greater awareness and fundamentally changing the handling of plastic.

GRI 301-2 | 301-3 | 306-2

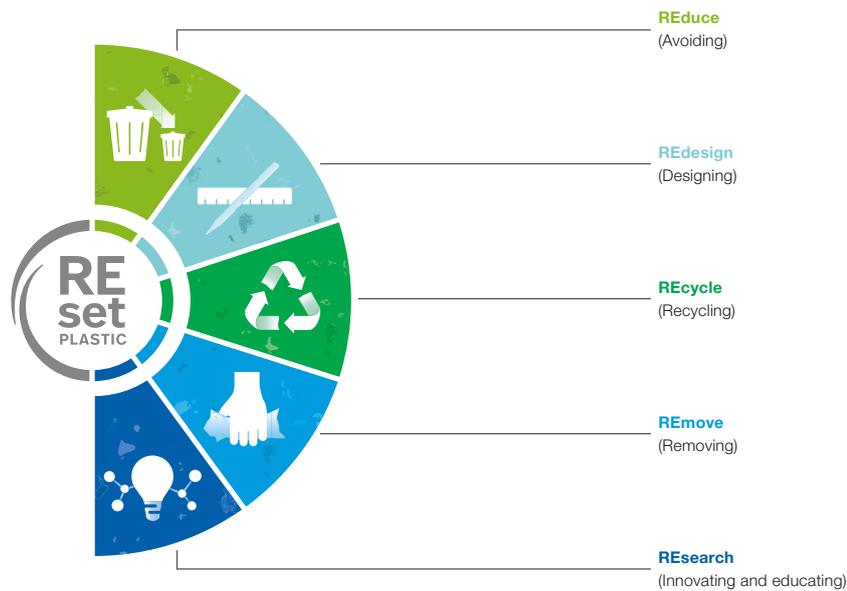
The companies of Schwarz Group are aiming at a cross-division approach to handling plastic recyclables – and have set up an organizational structure to this end that involves all relevant company divisions and also defines clear responsibilities for implementation and target achievement. REset Plastic is part of the joint CR strategy of the companies of Schwarz Group and part of the circular systems focus area. As part of five defined action areas, cross-division teams collaborate together, each with a responsible action area manager. The respective team members are brought together from a wide range of company divisions according to their expert backgrounds and knowledge, and act as multipliers within their division. Both they and the mandated office holders from the cross-division management groups of the plastics strategy are responsible for raising awareness among employees, drawing up and implementing measures, and ensuring targets are achieved even in the countries.

In principle, the topic of materials and packaging is managed by each division. The use of materials in product packaging is the responsibility of Purchasing, supported by the departments Quality Assurance, Supplier Management (Lidl), or Packaging

RESET PLASTIC – CURRENT STATE OF ACHIEVING THE TARGETS



OUR FIVE RESET PLASTIC ACTION AREAS



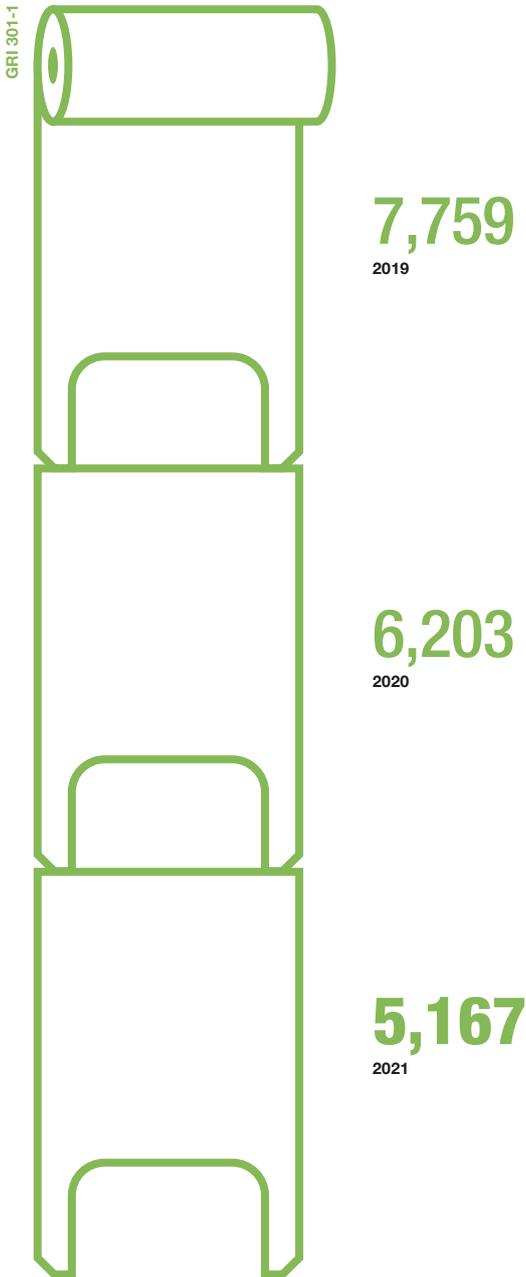
Management (Kaufland), and the responsible CR experts of the divisions. PreZero's experts from the Sustainable Packaging department and the PreZero Polymers business unit also operationally complement their colleagues with expertise and services. Other uses of materials, for example in store and warehouse operations, are the responsibility of the Real Estate/Construction, Logistics, and Sales departments in the retail divisions. They are supported by Schwarz Beschaffung and PreZero. In the production plants of Schwarz Produktion and the Kaufland meat processing plants, the topic of materials is assigned to different positions within the organization, depending on the material type or use. At Schwarz Produktion, for example, the departments of Plastics Production, Quality, the central Product and Packaging Development, Marketing, and Public Relations and Sustainability are responsible for the packaging aspect. As part of a joint working group, the different departments regularly discuss the relevant aspects around the issue of sustainable packaging.

In the Kaufland meat processing plants, the Product Development, Consumables Purchasing (Packaging), and the central Quality Assurance departments have been working for several years now to reduce the amount of plastic film and trays while maintaining the same level of product quality and process performance. Furthermore, packaging has been developed with a higher proportion of cardboard while maintaining good recyclability. Currently, various optimization projects for sausage and meat packaging are being carried out to continuously increase recyclability.

Due to PreZero's business model, materials play a central role in its packaging management (see also p. 100).

DEVELOPING CONSUMPTION OF THE PRODUCE BAG

Plastic weight of flat bag/produce bag HDPE in tons



The companies of Schwarz Group reduce plastic wherever sustainably possible

The companies of Schwarz Group have set themselves the goal to scrutinize how plastic is used in all company divisions and to reduce its use wherever it makes sense. For example, a large amount of materials is needed for packaging and securing loads en route – not just in the stores themselves. Plastic wrap, for instance, is used to secure vehicle cargo on its way from the central warehouse to the stores. REduce puts this transport packaging to the test in order to optimize it in terms of sustainability. The same applies to packaging and products available to customers for carrying home their purchases. Furthermore, the companies of Schwarz Group regularly examine the equipment and consumables used in the stores and logistics centers to reveal any potential for savings and optimization early on. In so doing, the companies of Schwarz Group focus on reducing the volume of materials, on increasing recyclability, and on using recycled materials – similar to the approach to private label packaging of Lidl and Kaufland products.



Sustainable transport aids and transport packaging

The plastics strategy REset Plastic includes measures to reduce plastic as well as activities in furtherance of the circular economy – for example through the use of recycled materials. With reusable nets for transporting loose fruit and vegetables, the companies of Schwarz Group meet both objectives in equal measure: The durable, reusable nets reduce the consumption of produce bags each time they are used again. At the same time, the new nets will in future be made 100 percent from recycled material. The companies of Schwarz Group have introduced the reusable nets in almost all countries since 2019, and since 2021 have gradually rolled out the optimized version. The offer of these alternatives to single-use solutions and other measures led to a reduction in the consumption of flat/produce bags in the fruit and vegetables area at Lidl and Kaufland of approx. 17 percent across the Group in fiscal year 2021.

Resource-saving technology is also used in the area of logistics. For example, since 2020 Kaufland has used its internally developed folding pallet between the distribution centers and stores for transporting and storing goods. They offer ergonomic advantages for employees in logistics and the stores when packing and unpacking, and at the same time, save at least 20 percent of film annually thanks to their stable side walls. At Kaufland they are currently used in the area of food in Germany, Slovakia, and Bulgaria. Their use is being gradually extended to other countries.



The companies of Schwarz Group design recyclable packaging

The motto in the REdesign action area is: Do without packaging wherever it's not strictly necessary. Nevertheless, we still need to take the entire life cycle assessment into consideration. When all is said and done, packaging protects perishable, sensitive food, prolongs its shelf life and thereby prevents food losses, fulfills hygienic requirements, and also helps customers to carry home their purchases. For example, packaging can increase the shelf lives of some fruits and vegetables many times over. Using plastic as a packaging material and dispensing with its use consequently leads to a constant balancing act between plastic reduction and food loss.

As part of REdesign, the companies of Schwarz Group are also intensively dealing with the redesign of existing packaging. The goal is to optimize packaging, for example, by reducing the thickness and weight, redesigning the material structure to increase recyclability, and using alternative materials. To that end, our Purchasing departments are analyzing the entire assortment of Lidl and Kaufland private label packaging in order to determine where packaging is necessary and how it can be optimized without detracting from either its technical functionality or the quality of the products packaged.



Developing innovative packaging materials

With its brand OutNature, PreZero develops sustainable fiber and paper products based on the Silphium plant for packaging solutions in trade and industry. After a successful pilot phase, since the end of 2021 the two retail divisions, Lidl and Kaufland, have been gradually introducing the innovative paper packaging in the fruit and vegetable area, starting with organic cress. At Lidl, organic cress will initially be available in Silphium packaging in southern Germany. The offer will gradually be extended to other items in the assortment, like organic apples, and to additional regions. At Kaufland, it will be available to buy across the board in all stores in Germany in the near future. This marks the start of several other product changes: By 2022, organic tomatoes, apples and mushrooms, for example, will follow at Kaufland, and this is expected to expand to other national companies. Since 2021, Stremel salmon of the K-Bio private label at Kaufland Germany has been offered in new packaging with outer packaging made from the Silphium plant.

Silphium paper is particularly resource-efficient and can be used in a variety of ways in the food and non-food sectors. With a proportion of at least 35 percent, the fibers of the energy crop form the basis for the novel packaging. Regional Silphium cultivation reduces transport distances and associated CO₂ emissions. In addition, the processing of the plant requires little water and energy, and the fibers are obtained without the use of chemicals. OutNature has succeeded in separating the plant fibers using a biothermal process prior to bioenergy generation. In this way, the PreZero brand is harnessing Silphium as a new raw material produced in Germany that is revolutionizing the paper and packaging industry. At the end of 2020, OutNature received the German packaging award in the category "New Material" for this achievement. This was followed at the start of 2021 by the prestigious World-Star Award from the World Packaging Organization (WPO) in the category "Packaging Materials & Components".



OutNature

Further research is expected to provide Silphium paper with additional properties as a barrier, for example against water or fat. This means that the innovative paper could possibly also be used as a replacement material for plastic in packaging in the future.



Identifying sustainable packaging

To enable the customers of the retail divisions of Schwarz Group to consciously choose sustainable packaging, they use labels: At Kaufland this is the logo “Bewusster verpackt” (Consciously packed), Lidl uses the logo “Verantwortlicher verpackt” (Responsibly packed). Both labels must satisfy at least one of the following criteria:

- Recyclability of at least 80 percent
- Recyclate content of at least 30 percent
- Packaging material volume or weight savings of at least 10 percent
- Use of alternative materials



The companies of Schwarz Group collect, sort, and recycle

As part of the REcycle action area, the companies of Schwarz Group are working on plastic collection, sorting, and recovery. They examine the entire plastic packaging and products value chain, starting with production, through retail and all the way to disposal and recycling. In so doing, the companies of Schwarz Group enjoy the benefits of their own know-how. However, they don't just make use of internal expertise, but also work closely with external partners from science and industry in order to bring about further innovations in recycling. The REcycle action area thus makes a key contribution to reducing the use of new material and instead reuses those plastics which already exist. The aspiration is to recycle used materials in order to produce recycled products from them.

Whenever possible, recyclable materials are kept in the recycling loop, such as Schwarz Produktion's disposable PET beverage bottles. However, there are instances in which a recycling loop is not yet

feasible. In those cases, an attempt is nonetheless made to give those materials a new life through recycling. Because of statutory requirements, recycled food packaging which was collected without prior sorting can only be turned into new food packaging to a limited extent. However, it may be processed into new applications, such as household products.



Disposable PET bottles made from recycled material

Schwarz Produktion is a pioneer in implementing the recycling loop for disposable PET deposit bottles in Germany. Since June 2021, all disposable PET deposit bottles produced by the Schwarz Produktion companies for Lidl and Kaufland private labels in Germany have been made of 100 percent recycled plastic (recyclate), with the exception of the lid and label. In the fiscal year 2021, the recycling proportion of all disposable PET bottles brought into circulation in Europe by the companies of Schwarz Produktion was 91 percent. This illustrates on the one hand, the strength of the deposit system in Germany and, on the other, the high ambitions of Schwarz Produktion that go far beyond the legally required proportion of recycled material of 25 percent from 2025, and 30 percent from 2030. What makes the difference here is our integrated loop from production through sale all the way to recycling: Every new bottle is produced entirely from old bottles and is particularly resource-friendly due to its low weight. Schwarz Produktion achieved this major development step in PET recycling by investing heavily in the recycling loop, developing some of its own solutions, and building up expertise over many years.

By increasing the use of recycled materials to 100 percent for disposable PET bottles, we were able to save a total of 54,000 tons of new plastic and 90,000 tons of CO₂ in 2021 – compared to PET bottles without recycled materials. Together we are tackling the next goal of REset Plastic: By 2025 we want to use 25 percent recycled materials on average in all Lidl and Kaufland private label packaging.

GRI 301-2

USE OF RECYCLED MATERIAL IN DISPOSABLE PET DEPOSIT BOTTLES FOR OWN BRANDS AT LIDL AND KAUFLAND IN GERMANY



100%

Recycling PET¹ in all PET bottles of Lidl and Kaufland private label, which are made by Schwarz Produktion, in Germany



approx.

54,000

tons of new PET saved in fiscal year 2021



approx.

90,000

tons of CO₂ saved in fiscal year 2021

¹ Excluding lid and label



Establishing deposit systems

The companies of Schwarz Group believe that deposit systems for disposable PET beverage bottles and beverage cans are an elementary component of a functioning circular economy. Countries like Germany with deposit systems for disposable beverage packaging that are organized based on market economic principles achieve return rates of close to 100 percent and, as such, contribute to effectively reducing the amount of plastic entering the environment. At the same time, they help set up a market for high-quality recycled materials that is necessary for an effective circular economy. Deposit systems support the sorted collection of recyclable materials, which can then be further processed in high-quality recycling processes. As part of the group-wide deposit strategy, the companies of Schwarz Group are thus committed to

introducing collection and deposit systems for disposable PET beverage bottles and beverage cans throughout Europe. In this context, we support national administrations and system providers in the development and introduction of deposit systems.

In Romania, in 2018 Kaufland began to install deposit machines in its parking lots and has now installed them at all stores. Customers can insert plastic bottles, glass containers, and aluminum cans for recycling, and receive discount vouchers at the self-service machine that they can redeem when shopping. This offer was developed long before a draft law to that effect, and was able to demonstrate that this type of return system works and is accepted by customers.



Household products from the recycling loop of the companies of Schwarz Group

Together with PreZero, Lidl and Kaufland offer promotional private label household goods with plastic components made entirely from recycled material¹. What is special about the products made of recycled material: A large part of the entire process is covered by the companies of Schwarz Group themselves. The recycled material originates from plastic packaging that is disposed of in private households and subsequently collected, sorted, cleaned, and reprocessed as regranulate by PreZero. The material recovered is used to produce new, high-quality household goods. These sustainable products, including organizers, waste bins and cleaning buckets, laundry baskets, as well as transport and storage boxes are then occasionally sold at Lidl and Kaufland. The companies of Schwarz Group were chosen as one of the finalists in the household and leisure products category of the Plastics Recycling Awards Europe 2021 with the “regranulate bucket.” These awards assess the functionality of the product as well as its ability to effectively replace conventional materials, together with its aesthetics and recyclability. In the future, the companies of Schwarz Group will continue to extend the offer of recycled products.

world’s oceans – and unfortunately, this trend continues to rise, since the EU alone increases this amount by 500,000 tons each year. Large quantities of these unused recyclable materials are transported into seas through rivers. The companies of Schwarz Group support the removal of existing plastic waste from rivers, lakes, the sea and on land. In addition, they want to actively prevent plastic waste from entering the environment in the first place. Here they focus in particular on the main source of marine pollution: ocean-bound plastic. Ocean-bound plastic is plastic waste which is disposed of directly in the natural environment as a result of lacking infrastructures for collection and recycling, and ends up in the sea through rain, wind, and tides. To protect the oceans, the companies of Schwarz Group are thus helping to set up waste management systems, especially in coastal areas and on waterways. They support the removal, collection, and recycling of recyclables already in the environment – especially plastics. In the hotspot regions in Asia they are relying on global collaboration with different partners from NGOs to local governments. In addition, the national companies are engaged locally through a wide variety of REmove activities.



Across the Group, we are not just reducing the use of new plastic; we are using recycled materials and ensuring the best possible recyclability. The companies of Schwarz Group are thus positioning themselves as a pioneer in the field of circular economy and show how recyclable materials can be recycled in the best possible way and how the need for new plastic can be reduced.

Comprehensive removal measures

The companies of Schwarz Group organize their overarching commitment together with their global partners. For example, they have joined forces with the environmental organization One Earth – One Ocean e.V. and a local specialist for waste management and circular economy, PT Wasteforchange Alam Indonesia, to launch a river cleanup project in Bekasi, Indonesia. The goal of this cooperation is the sustainable cleaning of the river at the megacity, even before the waste can reach the seas. In addition to the removal of waste from the river, here a particular focus is on building recycling infrastructure for the river waste and operating the project in the most climate-friendly manner possible, for example by using self-generated electricity from photovoltaic systems. The entire project is scheduled to run from 2019 to 2022 and will then be handed over to local stakeholders so that it can continue on a self-sustaining basis.



The companies of Schwarz Group support the removal of plastic waste from the environment

Through our REmove initiative, the companies of Schwarz Group assume responsibility for plastic which already exists in the environment and is therefore outside of recycling loops. Already today, here are about 700 plastic parts for every person in the



Video “River cleanup project BRIC”

¹ By recycled materials, we mean 100 percent PCR (Post-Consumer Recycled Materials, i.e., recycled plastic from household waste), color (color pigment), and filler for the referenced product category.

By participating in the “Project STOP,” the companies of Schwarz Group have also supported the leading initiative for avoiding plastic waste in oceans since March 2019. “Project STOP” is developing effective recycled material management systems and supports their implementation with funding and expertise. The aim of this project is to establish an effective waste management system in Indonesia. As part of Project STOP, in 2021 in Indonesia 260,000 households were connected to waste systems, with 20,000 tons of waste (including 2,400 tons of plastic) recycled, and 226 full-time jobs created.

PreZero also champions the protection of the international oceans and supports projects that avoid plastic waste reaching the ocean, in collaboration with the WWF. As part of this partnership, PreZero encourages so-called ghost nets to be salvaged from the Baltic Sea. PreZero also supports the WWF sea protection program for avoiding and disposing of plastic waste in South-East Asia. PreZero does not just provide financial support for the WWF projects; it also supports them with technical expertise. As the environmental division of the Schwarz Group, PreZero contributes its long-standing expertise in the avoidance of waste, the circular economy, recycling, and waste management to the partnership to achieve the joint goal of stopping the flood of plastic in the oceans. In 2020, the collaboration with the WWF was expanded internationally, and extended until 2025, to spread the word of the collaboration in the project regions to countries other than Germany. This partnership is active in all countries in which PreZero operates, except for the US.



Recycling ocean-bound plastic

Products from ocean-bound plastic can also be found in the assortment of Lidl and Kaufland. In 2021 Kaufland brought a sports collection made from recycled polyester onto the market for the second time. The products were manufactured from PET bottles, fishing nets, or plastic waste and were certified according to the Global Recycling Standard (GRS). Additionally, several Lidl national companies carried a private label shoe in their

assortment with a textile outer material made from recycled plastic. 25 percent of the recycled plastic came from old plastic bottles collected in coastal regions in Asia.



The companies of Schwarz Group invest in research and development of innovative solutions, and educate on recycling and resource conservation

In doing so, the companies of Schwarz Group focus on issues such as alternative packaging materials, more efficient recycling and recovery processes and consumer behavior. In addition, raising awareness and enhancing transparency on resource conservation and responsible use of plastics among customers is one of their key concerns. The action area REsearch arises from the constant desire to shape the plastics strategy of the companies of Schwarz Group to meet the challenges of the future. The basis for this is the constant, qualified screening of innovations as well as the active contribution of the own expertise in various innovation ecosystems. There the companies of Schwarz Group establish connections to economic, scientific and social actors along the entire value chain in order to strengthen the holistic approach even further.



Digital watermarks on packaging

As part of the “Holy Grail 2.0” initiative, the companies of Schwarz Group tested a digital watermark on packaging with the aim of optimizing the sorting of light packaging waste. The primary goal is to keep materials in circulation for as long as possible, and reuse recycled material from packaging waste again in packaging. Clear identification of the type of packaging and material used is critical here – and this is where the digital watermark can help. It also offers the chance of providing consumers with additional information about the packaging and the product, for example sorting and disposal instructions in a digital format. “Holy Grail 2.0” has over 160 member organizations along the retail value chain, is coordinated by AIM (European Brands Association), and supported by the Alliance To End Plastic Waste (AEPW). All divisions of Schwarz Group are committed and contribute actively to the initiative as a part of the steering committee.



260,000

households in Indonesia are newly connected to waste systems.

20,000

tons of waste, of which 2,400 tons of plastic, recycled.

226

full-time jobs created.

PreZero is working with WWF to stop plastics from entering the oceans





Avoiding microplastics

Microplastics are used in particular in cosmetics, laundry, care, or cleaning products, where they are intended to achieve abrasive and cleaning effects, for example. In addition, microplastics are formed as a result of the breakdown of larger plastic waste, for example due to weathering, wave action and solar radiation. From the environment, the plastic particles can also enter the human body via the food chain.¹

Therefore as part of the plastics strategy REset Plastic, the companies of Schwarz Group are avoiding the use of microplastics wherever possible, so long as this does not significantly impact product performance and/or safety, and have already adapted large parts of the recipes of their private label laundry, care, or cleaning products, and cosmetic products where possible. Due to challenges with recipes, the connected properties, and the

availability of the respective raw materials it was not possible to fully launch all the new products in both retail divisions and all countries by the end of 2021. The companies of Schwarz Group are also working together closely with their suppliers on other adaptations which require solutions to be partly developed for the market first. They receive competent scientific support from Fraunhofer UMSICHT in this project. The label "Rezeptur ohne Mikroplastik" (Recipe without microplastics) indicates products whose recipes do not contain microplastics.

¹ Leslie et al., 2022: <https://www.sciencedirect.com/science/article/pii/S0160412022001258>

KEY PERFORMANCE INDICATORS

MATERIALS USED BY WEIGHT AND VOLUME

Consumables in tons ¹	2019 ³	2020	2021
Total promotional materials	559,795	534,586	542,905
from fresh fibers ²	249,873	222,317	248,768
from recycled material ^{2,3}	309,922	312,270	294,137
Total printing paper	4,961	5,074	5,147
from fresh fibers ^{2,4}	2,141	1,963	2,251
from recycled material ²	2,820	3,111	2,896
Total bread bags	15,834	15,730	16,886
from fresh fibers ^{2,4}	15,834	15,408	16,538
from recycled material ²	0	321	348
Waste bags	6,608	7,911	8,445
Plastic bag/produce bag	7,759	6,203	5,167
Stretch film (packaging material)	11,803	13,129	13,105
Reusable nets for fruits & vegetables sold (in units)	9,824,158	10,105,147	6,994,470

GRI 301-1

¹ The calendar year was used.

² For consumables made from paper, we differentiate between fresh fiber and recycled paper types. If the consumables are made from both fresh fibers and recycled paper, the larger proportion is key to assigning a paper type.

³ Due to an improvement in data availability, the figures for 2019 have been retroactively adapted.

⁴ Due to a new calculation basis, the figures for 2019 have been retroactively adapted.

RECYCLABLE MATERIALS AND WASTE BY TYPE AND REUSE PROCESS

GRI 306-3 306-4 306-5	Recyclable materials and waste in tons ¹	FY ²	Reuse	Recycling	Fermenting	Composting	Thermal recovery with energy recovery	Combustion	Landfilling	Miscellaneous ³	Total
Total weight of recyclable material	2019		6,222	1,949,956	287,364	15,462	204,837	22,536	129,180	62,614	2,678,169
	2020 ✓		9,697	2,110,531	347,771	13,930	137,449	17,475	184,744	33,699	2,855,295
	2021 ✓		69,098	2,120,258	374,476	14,550	155,413	15,871	192,675	35,831	2,978,172
Of which harmless waste	2019		6,161	1,942,666	287,364	15,462	204,249	22,466	129,146	61,792	2,669,305
	2020 ✓		9,625	2,099,994	347,771	13,930	137,096	17,254	184,628	31,335	2,841,632
	2021 ✓		69,007	2,112,590	374,476	14,550	154,711	15,638	192,547	33,568	2,967,087
Paper/cardboard/carton	2019		0	1,518,211	0	0	790	5	0	4	1,519,010
	2020 ✓		31	1,645,729	0	0	1,904	405	0	35	1,648,103
	2021 ✓		30	1,696,649	0	0	1,229	797	0	14	1,698,719
Organic waste	2019		0	72,387	287,364	15,462	42,406	8,376	16,585	231	442,810
	2020 ✓		0	61,884	347,771	13,930	4,166	6,651	19,055	11,136	464,592
	2021 ✓		29,704	58,435	374,476	13,812	2,972	7,374	17,929	13,926	518,627
Residual waste	2019		0	0	0	0	150,777	13,149	106,296	47,654	317,876
	2020 ✓		0	0	0	0	119,696	9,159	161,342	19,778	309,976
	2021 ✓		0	0	0	0	128,457	7,049	168,306	19,294	323,106
PET	2019		0	158,067	0	0	0	0	0	0	158,067
	2020 ✓		0	165,323	0	0	0	0	0	0	165,323
	2021 ✓		0	155,006	0	0	0	0	0	1	155,007
Plastics	2019		0	70,878	0	0	2,679	0	637	102	74,296
	2020 ✓		0	70,606	0	0	4,461	0	821	20	75,908
	2021 ✓		0	70,209	0	0	8,650	6	845	233	79,943
Wood	2019		0	61,503	0	0	5,924	84	2,344	4,907	74,762
	2020 ✓		0	88,961	0	0	5,159	486	851	3	95,462
	2021 ✓		32,037	55,991	0	738	5,811	2	997	4	95,580
Scrap	2019		0	29,184	0	0	0	0	1,296	2,508	32,988
	2020 ✓		0	36,261	0	0	0	0	58	0	36,319
	2021 ✓		0	44,112	0	0	0	0	15	0	44,127
Glass	2019		0	24,992	0	0	0	0	0	0	24,992
	2020 ✓		0	23,782	0	0	0	0	0	0	23,782
	2021 ✓		0	23,484	0	0	0	0	0	0	23,484
Textiles	2019		3,956	84	0	0	460	0	69	0	4,569
	2020 ✓		4,069	49	0	0	33	24	9	1	4,185
	2021 ✓		2,893	6	0	0	9	5	41	1	2,954
Other	2019		2,205	7,362	0	0	1,212	852	1,918	6,385	19,934
	2020 ✓		5,525	7,398	0	0	1,677	528	2,492	362	17,983
	2021 ✓		4,344	8,698	0	0	7,583	405	4,414	96	25,539
Of which hazardous waste ⁴	2019		61	7,290	0	0	588	70	34	822	8,865
	2020 ✓		72	10,537	0	0	353	221	116	2,364	13,663
	2021 ✓		91	7,668	0	0	702	233	128	2,263	11,086

¹ This table only contains recyclables of the companies of Schwarz Group. Recyclables that PreZero collects from its customers and processes are not included.

² Due to improved data availability, among other things, the figure for 2019 has been retroactively adapted.

³ The category "Miscellaneous" includes compound items which also include volumes that cannot be assigned uniquely to the abovementioned categories.

⁴ This includes for example, old paints/varnishes, household/industrial batteries, energy-saving bulbs, electrical waste, fluorescent tubes, (neon) toner, cleaning products, acids and lye, solvents, spray bottles.

RECYCLING RATES OF RECYCLABLE MATERIALS ACCUMULATED INTERNALLY

	Unit	2019	2020	2021
Recycling	t	1,949,956	2,110,531	2,120,258
Total	t	2,678,169	2,855,295	2,978,172
Recycling rate	%	72.8	73.9	71.2

RECYCLABILITY OF PLASTIC PACKAGING

	Unit	2019	2020	2021
Recyclability	%	19.8	33.8	49.5

RECYCLED MATERIALS IN OWN-BRAND PRIMARY PLASTIC PACKAGING

	Unit	2019	2020	2021	2020/21 discrepancy
Recycled materials content ²	%	5.9	10.2	14.0	37 %
Recycled materials weight of laundry, cleaning and household products/cosmetics ³	t	–	–	5,998	–
Plastic weight of recycled material at Schwarz Produktion ⁴	t	–	39,059	54,265	39 %
Plastic weight of recycled materials at PreZero ³	t	–	–	87,594	–

GRI 301-2

REDUCTION OF PLASTIC IN PRIVATE LABELS

	Unit	2019	2020	2021	2017/21 ¹ discrepancy
Plastic use	g/€ sales	8.5	8	7.5	–18 %

¹ The base year corresponds to the calendar year 2017.

² It is our goal to achieve a proportion of 25 percent recycled materials in relation to the plastic weight of own-brand packaging by 2025.

³ Data first collected in CY 2021.

⁴ Data first collected in CY 2020.

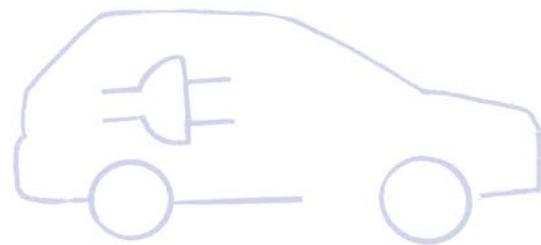
REDUCTION IN MICROPLASTICS

	2020	2021	2020/21 discrepancy
Proportion of microplastic-free items (%)	22 %	90 %	68 %P



› 06

Marina Fischer (34) is a team lead for Innovations at Kaufland. She is all about real estate and sustainable construction trends.



Marina Fischer is a part of our green architecture.

Renewable construction materials, electricity from solar power, and insect hotels to promote biodiversity: When it comes to the more than 1,400 Kaufland stores in eight European countries, Marina Fischer will not compromise. In the interview, she explains what she focuses on in new buildings and renovations.

Ms Fischer, you are working as an architect at Kaufland, a company of Schwarz Group. What exactly does your work involve?

› **Marina Fischer** I like to put it that way: My team and I work together to make our real estate a bit better every day. Standing still is not an option for us, which is why we constantly scrutinize what we are doing for its validity and necessity. Ultimately, we aim to provide the best stores possible for our customers.

And how exactly is that connected to sustainability?

› More than you would think at first. Sustainability plays a key role at all Kaufland sites. That is why we are always looking for potential areas to optimize, for example in regard to technical building fittings. At our stores, refrigeration systems with natural refrigerants or our innovative LED lighting concept are already standard equipment. In addition, we also implement photovoltaic

systems, wood as a construction material, insect hotels, or wildflower strips, for example. We consider sustainability right from the start of our real estate projects.

How and where do you apply these measures?

› The procedure is actually the same for all our tasks: We act as a sparring partner for a range of different departments. If we are building a store from scratch, this starts with planning – with the choice of plot, the building requirements, or the construction materials. We are also involved with designing the retail space and the further development of offers, like our in-house bakery. In principle, we consider every single aspect of a building, and then look at what can be optimized and how. Sometimes no optimizations are necessary. But that is also part of sustainability.



What approaches and technology do you use when building new stores?

› In principle, we equip all new sites with the very latest and most efficient technology on the market. This includes a photovoltaic system, for example, which ensures that we can produce our own electricity. If the electricity generated on the roof is not sufficient, we use certified renewable energy. This means that our hypermarkets are exclusively operated using electricity from renewable sources. We are also increasingly using the waste heat from our cooling systems for heating. This measure alone has enabled us to achieve almost climate-neutral consumption at the site. But we don't just focus on our own ecological footprint – we want to help our customers with theirs, which is why all our newly built hypermarkets have fast-charging points for electric cars.

Does that apply to existing buildings too?

› Existing buildings are also a fixed part of our sustainability concept – but these obviously require sensibility and feasibility checks in light of optimization. Only recently, we finished equipping the last 650 Kaufland stores with LED lighting. By 2030, we also want to run the refrigeration systems in all stores with natural refrigerants. We routinely check buildings for their sustainability status every eight to ten years. This gives us an overview of the situation and means we can fine-tune our actions to the individual circumstances on site. For example, it would not be sensible to lay new, more environmentally-friendly flooring in every store – depending on its condition, a comprehensive treatment of existing floor would be better than an immediate replacement. Such decisions are made by our project teams depending on the individual location to ensure that at the end of the day only necessary and sustainable measures are taken.

If you look to the future: How will buildings develop in the future?

› I think there will be four different focuses in the future: Digitalization, building redevelopment, recycling, and mixed use. Digitalization is certainly rather an obvious issue. Back in 2016, we introduced a smart building energy management system in our stores as standard. This means we can keep an eye on all energy flows in order to locate/identify and rectify excess consumption. We are realizing other potentials – such as interconnectivity and process automation – with our Internet of Things strategy. Building redevelopment means that we use existing buildings and resources in such a way that they can be reused in different applications. We have been doing this at Kaufland for a long time, because it is naturally smarter to modernize rather than tearing existing buildings down. In Germany alone, 55 percent of waste can be traced back to the construction industry. That is not okay! So, we prefer to use existing resources, and turn to recycling wherever possible. For the new Lidl store with a timber construction in Albstadt, Germany, we used ecological construction materials with a high capacity for dismantling. No composite materials were used, and even the curtain panels can be recycled at the end of the store's lifecycle. That is a really great innovation. The final point is mixed use. Today our stores already act as an attraction for trade, service providers, and the food service industry at their sites. We want to extend this offer in the future. One example is Erfurt. Here, the Kaufland store has a hockey pitch on its roof.

And if you personally could have one wish?

› I would like to build a store that is made from 100 percent recycled materials. I believe that not doing something is the most sustainable thing we can do in architecture. Ultimately, every single construction element has an ecological footprint. So, I think it is unbelievably important that we use them consciously and utilize existing resources instead of always using new ones.



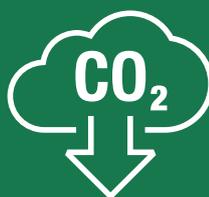
Our mission: The companies of Schwarz Group are committed to protecting the climate and environment.

Our contribution to a healthy environment



78%

Schwarz Group commits that **78 percent of its suppliers** by emissions covering purchased goods and services will have science-based targets by fiscal year 2026.



55%

In total, the companies of Schwarz Group will reduce their **operational emissions** (Scope 1 and 2) by **55 percent** by 2030 compared to 2019.



“ The companies of Schwarz Group contribute to the Paris Agreement by efficiently reducing their greenhouse gas emissions and pursuing long-term goals. To do this, they are focusing on four areas: energy, mobility, the construction of buildings, and the development of their assortment.”

Sabrina Wohlfeil, CR Focus Area Supervisor – Ecosystems

› 06 ECOSYSTEMS

Climate protection and adaptation

We are all responsible for the climate. Consequently the companies of Schwarz Group avoid CO₂ and other greenhouse gas emissions by focusing on energy efficiency and renewable energies in their climate strategy. They place great value on the climate-friendly construction of stores, administration buildings and logistics centers, actively work on mobility concepts and on developing a climate-friendly assortment. Science-based climate targets put their commitment on a solid foundation and show the way to the future.

– ♣ The advancing climate change has far-reaching impacts on the living and working conditions of people around the world. Even the companies of Schwarz Group themselves are exposed to significant risks: In agriculture, where extreme weather events can lead to crop failures and the restricted availability of goods, lower planning security, and increasing prices for goods and raw materials. As a group of companies active worldwide, the divisions want to do their part to fight climate change. The companies of Schwarz Group aim to minimize the impact of climate change and steadily reduce greenhouse gas emissions. To achieve this, they have entrenched a joint, systematic climate strategy across the Group. To ensure our targets are based on solid foundations, in August 2020, the Schwarz Group joined the Science Based Targets Initiative (SBTi) and defined its climate targets based on

the methodology of the SBTi. These science-based targets were validated and released by the SBTi in September 2021.

Since August 2020, the company departments from all divisions relevant for our joint climate strategy have been involved, such as Corporate Responsibility (CR), Purchasing, Procurement, Sales, Logistics, Real Estate, and Controlling. The parties involved have defined clear tasks and responsibilities for themselves. The overall project management is also responsible for the ecosystems focus area and reports to the CR Manager of the Schwarz Unternehmenskommunikation in this role. In the four projects energy, climate-friendly building, mobility, and climate-friendly assortment, work is being done on the objectives of the climate strategy and its successful implementation. The project groups are made up of experts from all divisions and are managed by a mandated project manager for each topic area.

The climate strategy of the Schwarz Group companies

Climate change poses enormous challenges for our society and demands action at all levels of society. The companies of Schwarz Group aim to minimize their own contribution to climate change and steadily reduce greenhouse gas emissions¹. To achieve this, the companies of Schwarz Group are committed to the following three principles:



GRI 302-4 |
302-5 | 305-5

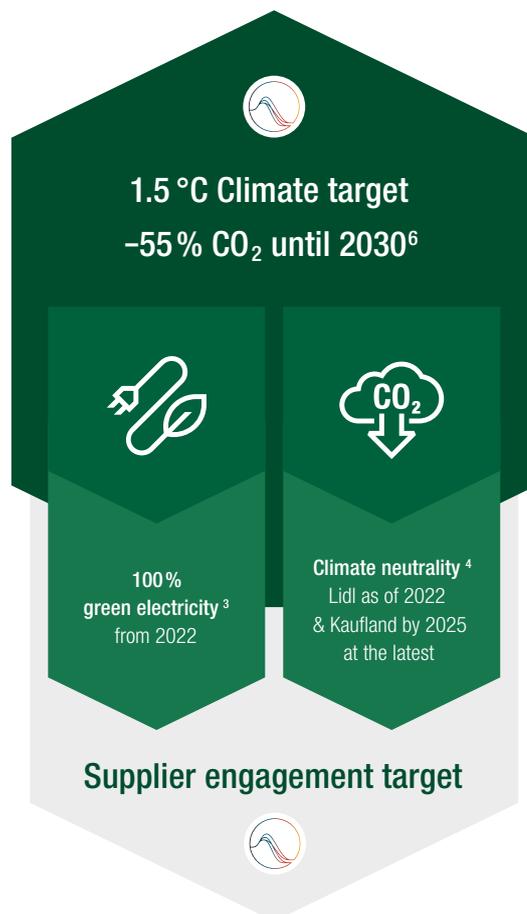
¹ The terms greenhouse gas emissions and CO₂ emissions are used as synonyms throughout the chapter. For greater readability, the text also refers to CO₂ instead of CO₂e/CO₂ equivalents.

- › 1. We prevent the generation of greenhouse gas emissions wherever possible.
- 2. We reduce those greenhouse gas emissions which are unavoidable.
- 3. We offset operational greenhouse gas emissions (scope 1 and 2) that we can currently neither prevent nor reduce based on internationally recognized standards.

Once a complete carbon footprint¹ and the analysis of the CO₂ footprint were established, the companies of Schwarz Group defined climate protection targets according to the SBTi methodology, and integrated them into measures to reduce, avoid, or offset CO₂ emissions in operations and the supply chain. The companies of Schwarz Group will reduce their operational greenhouse gas emissions (scope 1 and 2) in total by 55 percent by 2030 compared to 2019.² As part of this initiative, Lidl and Kaufland have set themselves the target of reducing their operational greenhouse gas emissions by 80 percent over the same period. To achieve this target, the companies of Schwarz Group will purchase 100 percent of their electricity³ from renewable sources from fiscal year 2022. Lidl and Kaufland are going one step further, and aiming for climate neutrality in relation to operational scope 1 and scope 2 emissions⁴. Kaufland plans to meet this target by 2025 at the latest, Lidl by 2022.⁵

Schwarz Group also commits that 78 percent of its suppliers by emissions covering purchased goods and services will have science-based targets by fiscal year 2026. In addition, the companies of Schwarz Group are committed to reducing their absolute scope 3 emissions, which relate to

THE CLIMATE TARGETS OF THE COMPANIES OF SCHWARZ GROUP



the use of sold fuels, by 27.5 percent by 2030 compared with 2019 levels. A variety of measures to reduce, avoid, or offset CO₂ emissions in operations and along the supply chain serve to achieve these targets.

Reduction: Measures to increase energy efficiency

Reducing emissions with energy efficiency – there is a varied spectrum of appropriate measures. At Schwarz Produktion, local energy teams are taking a range of measures to increase energy efficiency. This includes, for example, optimizing pressurized air or effectiveness, reducing idle time, and heat recovery. One milestone in reducing energy consumption was achieved by the MEG Roßbach site, for example. Since 2019, it has invested in modernizing its refrigeration system.

¹ Discrepancies in the 2019 carbon footprint for the 2018/19 Sustainability Report are the result of changing the survey methodology.

² The target for scope 1 and 2 also includes biogenic emissions and the removal of biogenic raw materials.

³ Excluding any purchase agreements that the companies of Schwarz Group cannot influence, such as those for individual leased properties with a binding electricity procurement clause. You can find more information here: <https://gruppe.schwarz/en/responsibility/ecosystems>

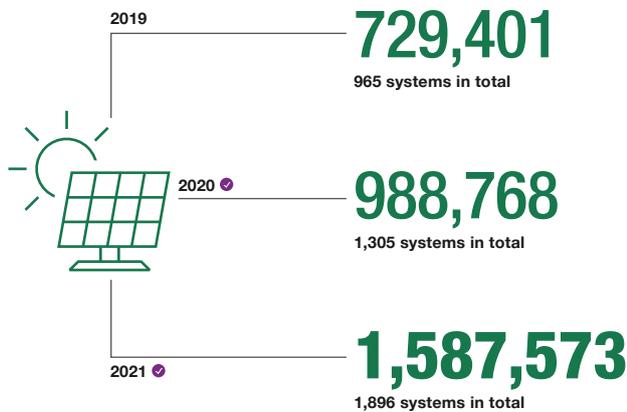
⁴ Remaining operational greenhouse gas emissions (scope 1 and 2) are offset by certified climate protection projects.

⁵ You can find more information about the climate protection projects here: https://fpm.climatepartner.com/project/1321/en?utm_source=, <https://fpm.climatepartner.com/project/1358/en>, <https://fpm.climatepartner.com/project/1322/en>

⁶ Reducing operational emissions (scope 1 and 2) compared with 2019.

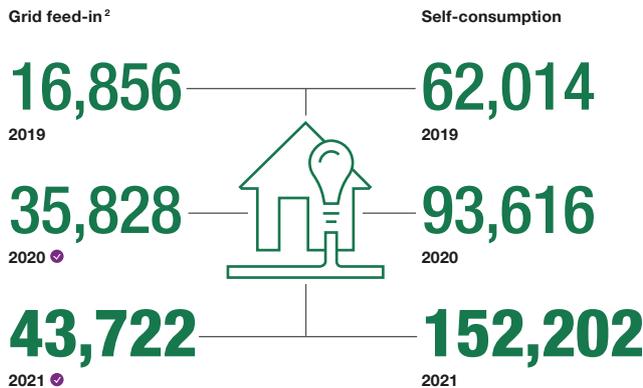
SURFACE AREA OF PHOTOVOLTAIC SYSTEMS¹

in m²



SELF-GENERATION AND USE OF ELECTRICITY¹

in MWh

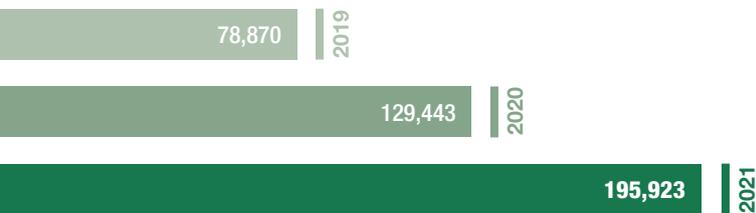


¹ Due to an improved data basis, the figure for 2019 has been retroactively adapted.

² No sale of heating, cooling, and steam, since the companies of Schwarz Group self-generate electricity only, which is fed into the grid.

SELF-GENERATION OF RENEWABLE ENERGIES

in Mwh (2020/21 discrepancy: 51.2%)



The new system went into operation in autumn 2020, and achieved savings of several gigawatt-hours of energy annually.

In the store concepts of the retail divisions, energy efficiency also plays an important role, for example using the waste heat from refrigeration systems. At Lidl and Kaufland, the waste heat from chiller equipment and refrigeration systems is used to some extent for heating the buildings, thus enabling fossil fuels to be avoided. The implementation of our long-standing commitment is reflected at Lidl and Kaufland in the total number of 1,838 international buildings with so-called compound refrigeration systems (KKV). Currently, over 1,700 of Lidl and Kaufland's stores and over 100 warehouses are equipped with corresponding technology. To further reduce CO₂ emissions, the chiller equipment in over 4,500 stores, warehouses, and production sites of the companies of Schwarz Group is operated with natural refrigerants like propane or with CO₂.

Generating renewable energy ourselves

With the companies of Schwarz Group joining the Science Based Targets initiative and setting ambitious targets as part of our group-wide climate strategy, they are setting a strong example for climate protection. A key role is played here by the own generation of electricity from renewable sources – particularly photovoltaics. In the fiscal year 2021, the companies of Schwarz Group have generated some 196 million kilowatt-hours in this way – an increase of around 51 percent compared with the previous year. The power we generated could supply over 8,700 households. The surface area of photovoltaic systems is around 1.6 million square meters (as at: fiscal year 2021). That is equivalent to around 222 soccer pitches – and represents an increase of approx. 598,000 square meters in comparison to the previous year.

By the fiscal year 2025, the companies of Schwarz Group will install more photovoltaic systems on or at buildings.

GRI 302-1

Driving the energy and mobility transition forward

The companies of Schwarz Group are making considerable progress with the expansion of their charging infrastructure. Across the Group, at the end of fiscal year 2021, there were approx. 6,700 electric charging points at some 2,500 sites. And they are continuing to expand the infrastructure. This means they are enabling every single person to make a valuable contribution to mitigating climate change by forgoing fossil fuels, and therefore actively driving forward the mobility transition.

Building in a climate-friendly way

In their expansion too, the companies of Schwarz Group place great value on an energy-efficient and sustainable building strategy for their stores, administration buildings, and logistics centers, and include corresponding national and international renowned standards for sustainable building – such as BREEAM (Building Research Establishment Environmental Assessment Method), EDGE (Excellence in Design for Greater Efficiencies), LEED (Leadership in Energy and Environmental Design), or the DGNB's standard (German Sustainable Building Council – Deutsche Gesellschaft für Nachhaltiges Bauen). At Lidl, this already involves over 2,500 stores and warehouses in over 18 countries. Lidl Germany is currently starting to certify existing stores according to EDGE. At Kaufland, 49 stores in Bulgaria and one store in Romania have the certification.

For newly built stores in Germany, Lidl considers the requirements for the Gold certificate of the DGNB as much as possible. The Lidl store with a timber construction in Albstadt Ebingen, which was completed in 2021, even received the Platinum DGNB certificate in 2022. With that innovation project, Lidl obtained the highest level of the renowned certification for sustainable construction for the first time. The logistics center in Erlensee is also targeting the Platinum DGNB certificate.

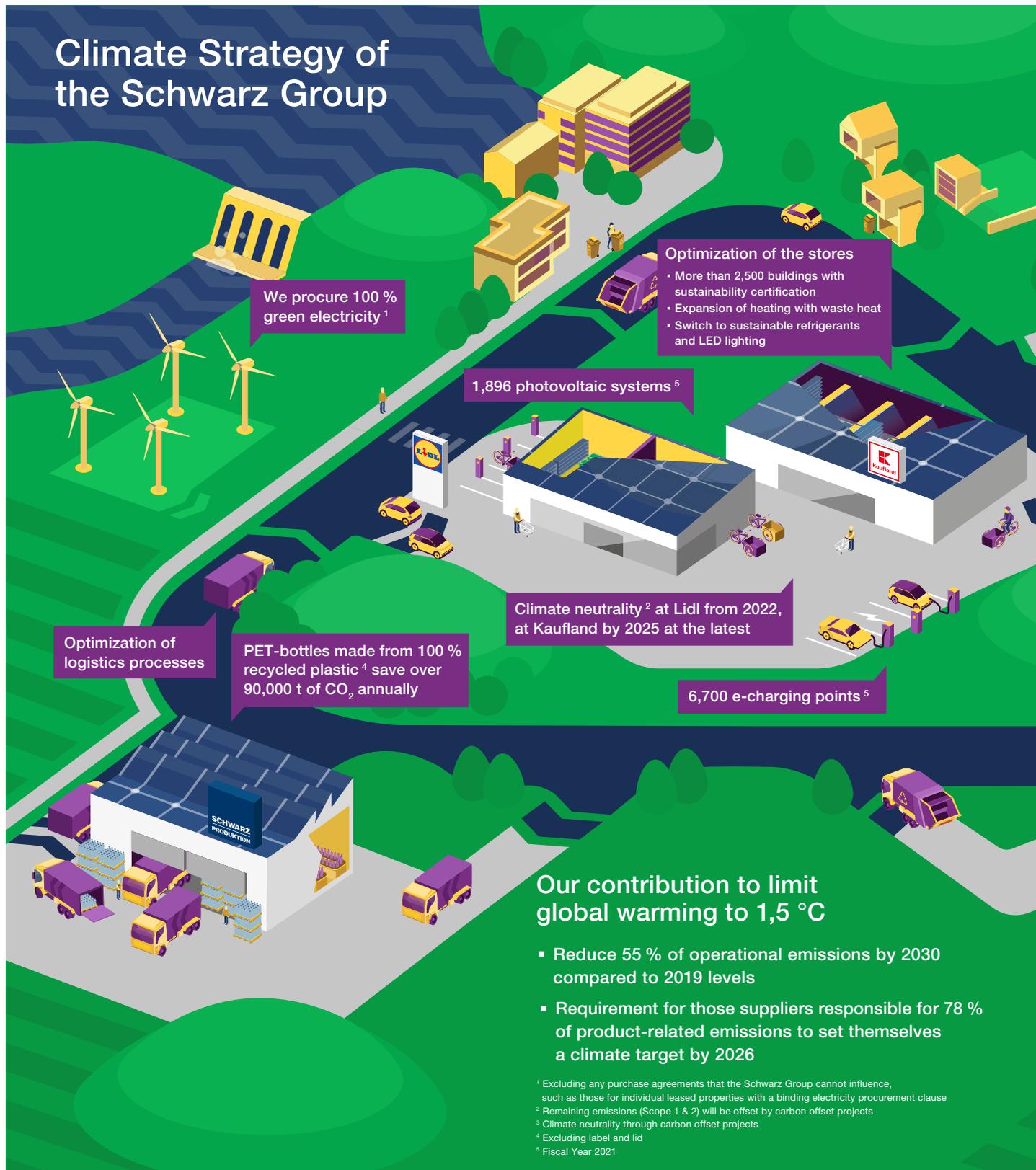


“ After 30 years of climate research, I ask myself today: How could I have been so blind, and overlooked building and construction as a critical factor in the climate equation for such a long time? It’s a fact: The building, use, removal, and demolition of buildings and infrastructure means the built environment is responsible for some 40 percent of global greenhouse emissions. Concrete production is directly responsible for some 11 percent of worldwide emissions. It is therefore the right thing that the Schwarz Group is focusing on maximum energy efficiency and climate-friendly construction of their stores, administration building, and logistics centers today for their future development. In the future, we need consistent, organic architecture that obtains its construction materials from sustainable forestry.”

Prof. Hans Joachim Schellnhuber, founder and Director Emeritus of the Potsdam Institute for Climate Impact Research (PIK) and founder and Co-Managing Director of Bauhaus Erde gGmbH



Climate Strategy of the Schwarz Group



We procure 100 % green electricity ¹

Optimization of the stores

- More than 2,500 buildings with sustainability certification
- Expansion of heating with waste heat
- Switch to sustainable refrigerants and LED lighting

1,896 photovoltaic systems ⁵

Optimization of logistics processes

PET-bottles made from 100 % recycled plastic ⁴ save over 90,000 t of CO₂ annually

Climate neutrality ² at Lidl from 2022, at Kaufland by 2025 at the latest

6,700 e-charging points ⁵

Our contribution to limit global warming to 1,5 °C

- Reduce 55 % of operational emissions by 2030 compared to 2019 levels
- Requirement for those suppliers responsible for 78 % of product-related emissions to set themselves a climate target by 2026

¹ Excluding any purchase agreements that the Schwarz Group cannot influence, such as those for individual leased properties with a binding electricity procurement clause
² Remaining emissions (Scope 1 & 2) will be offset by carbon offset projects
³ Climate neutrality through carbon offset projects
⁴ Excluding label and lid
⁵ Fiscal Year 2021



In addition to the focus on expansion, the improvement of energy efficiency at Lidl and Kaufland when renovating existing buildings is also considered, and is actively and continuously pursued as part of the energy project in the climate strategy.

Ensuring transparency with energy and climate accounting

A central tool for illustrating and monitoring consumption and emissions is the carbon footprint.

Since the 2019 fiscal year, all divisions and countries have created a comprehensive carbon footprint based on the Greenhouse Gas Protocol and have aggregated them on Group level. In this way, we can develop and evaluate meaningful measures to avoid and reduce emissions.

13.2%

Reduction in operational emissions in FY 2021 compared with the base year 2019 (scope 1 and 2)

OVERVIEW OF GREENHOUSE GAS EMISSIONS IN THE COMPANIES OF SCHWARZ GROUP

	2019	2020 ✓	2021 ✓	2019 – 2021 discrepancy
Gross volume of GHG emissions in tons of CO₂ equivalent	141,110,152	157,620,575	160,784,629	13.9%
Direct GHG emissions in tons of CO ₂ equivalent (scope 1)	1,080,536	1,160,404	1,284,977	18.9%
Indirect GHG emissions in tons of CO ₂ equivalent (scope 2) – market-based approach	1,831,862	1,433,531	1,243,725	-32.1%
Direct & indirect GHG emissions in tons of CO ₂ equivalent (scope 1 and 2)	2,912,398	2,593,935	2,528,702	-13.2%
Indirect GHG emissions in tons of CO ₂ equivalent (scope 3)	138,197,754	155,026,640	158,255,927	14.5%

The extensive greenhouse-gas balance of the companies of Schwarz Group can be viewed on p. 134 ff.

The total energy consumption of the companies of Schwarz Group in the reporting period has increased by 8.4 percent, due to the companies of Schwarz Group growing and the additional acquisitions of PreZero. The absolute energy consumption from renewable sources has increased by 41.7 percent while the energy consumption from non-renewable sources has decreased by 10.1 percent (see also p. 132).

Managing with certified energy and environmental management systems

Holistic energy management in line with the international norm ISO 50001 enables the companies of Schwarz Group to improve their energy efficiency and cut the associated CO₂ emissions. All divisions of the Schwarz Group manage their measures to increase energy efficiency using energy management systems. At Kaufland, all countries are certified according to the energy management system ISO 50001; at Lidl currently 28 of 31 countries are. The goal is to certify all 30 European Lidl countries by the end of 2022. As at the reporting cut-off date, all production sites of Schwarz Produktion and Kaufland meat processing plants, and all administration sites of the companies of Schwarz Group in the greater Heilbronn area are also certified according to ISO 50001.

In addition, the majority of PreZero sites implemented a certified environment and quality management system – for instance, according to ISO 14001 and ISO 9001. The goal is to certify all operative PreZero sites in line with ISO 14001 and ISO 9001 by the end of 2023. Two companies in Schwarz Produktion and all companies in Kaufland meat processing plants are also certified according to ISO 14001. Sites in PreZero Germany and PreZero Polymers Austria also run energy and environmental management systems according to ISO 50001 and ISO 14001.

Furthermore, Schwarz Produktion has set itself the target of saving at least 33 million kilowatt-hours (kWh) of energy by taking appropriate measures in the period of fiscal years 2018 through

2025. This strategic target was met by the end of fiscal year 2021. In fiscal year 2020 alone, Schwarz Produktion achieved an increase in efficiency of more than 10 million kilowatt-hours by taking energy efficiency measures, and more than 8 million kilowatt-hours again in the fiscal year 2021. In total, more than 36 million kilowatt-hours have been saved through energy-efficiency measures since we started in fiscal year 2018 through to today.

Kaufland meat processing plants have also set themselves the target of continually monitoring and systematically cutting energy consumption in their own plants using energy management software. The Kaufland meat processing plants have defined the key performance indicator “Improvement in energy efficiency” for their sites. Each year an ambitious target is determined for the sites involved, and every improvement must be safeguarded with concrete measures.

The Kaufland meat processing plants are pursuing electricity and gas savings across all sites of 7.8 million kilowatt-hours from the total energy requirement by 2022 (base year 2018). Approx. 70 percent of planned savings were already achieved by the start of 2020.

However, this positive development could not be maintained as a result of increased hygiene and cleaning requirements caused by the pandemic, as well as the reconstruction work that was necessary for technical and organizational reasons. Increased excess consumption of hot water to meet these requirements led to an excess consumption of gas. Therefore, no savings could be made in the fiscal year 2021. Instead, the result was a total energy excess consumption of 3 million kilowatt-hours compared with the base year 2018.

The energy-efficiency measures at the Schwarz Produktion and Kaufland meat processing plants range from the modernization of cooling systems and the avoidance of pressurized air leaks to the optimization of energy monitoring of refrigeration systems at the site Bonback GmbH & Co. KG.

Lidl and Kaufland regularly carry out internal and external audits to evaluate the energy management in the national companies. To identify other suitable measures to reduce consumption, they also use suggestions from employees as part of idea management. Schwarz Produktion draws on the energy controlling software EnEffCo for cross-plant recording and processing of the over 3,000 measuring and data points. Furthermore, the Energy Management department draws up management reviews and a central monitoring of key performance indicators of individual plants and energy consumption on an annual basis.

Sustainable transport logistics

The companies of Schwarz Group want to make their logistics processes more sustainable, efficient, and low-emission. With this end in mind, they are working to develop forward-looking solutions as part of the Mobility project in the climate strategy. The warehouse sites are already operated as sustainably as possible thanks to the use of energy-efficient technologies and renewable energies. In the course of continuous modernization of the refrigeration systems, they are also gradually transitioning to natural refrigerants. The companies of Schwarz Group are also promoting developments toward CO₂-reduced logistics with their transport service providers, by empowering them to calculate and reduce their CO₂ emissions. In the reporting period, the companies of Schwarz Group have developed a roadmap for this project to support the national organizations of Schwarz Group with the implementation. The measures described here range from simple technical changes, like the impact of tire pressure and aerodynamics, to the use of alternative drive technologies and fuels.

The basis for all measures are the comprehensive data that are part of the carbon footprint. For instance, in the fiscal year 2021 at Lidl, transport caused some 6.97 million tons of CO₂ emissions, some 88 percent of which were caused by trucks. Accordingly, one of the focuses of the divisions is the use of low-emission trucks.

Lidl has already agreed partnerships for climate-friendly transport of merchandise using alternative drive technologies in a number of countries as part of existing collaborations. For example, Lidl Sweden has already switched over 80 percent of its trucks to electric, HVO, or biomethane, and has set itself the target of ensuring that 100 percent of store deliveries are fossil-free by 2025. By switching to gas as a fuel for DHL maritime freight, Kaufland succeeded in saving 4,369 tons of CO₂ in the reporting period (switch took place in July 2020). PreZero has also carried out initial tests in Germany with electric trucks, with hydrogen fuel cell vehicles used for a greater range, for example. ♡ –

Use and protection of water resources

All life on our planet depends on water. To reduce the “water footprint” of the companies of Schwarz Group, they are focusing on the sustainable use of freshwater resources and the protection of the seas. Wherever possible, they want to reuse water, cut consumption, and implement wastewater management without adding pollutants. This applies to both the companies and the supply chain – from the manufacture of resources through the production of merchandise to own operations.

Fresh water is one of earth's most important resources. As a renewable resource, it is continually available to us, but at the same time it is constantly and directly affected by several pressures, among them unequal distribution and (mis)use. Agriculture and industrial production would be inconceivable unless there is enough clean water. Without clean oceans, fishery would be impossible, and the entire ecology of the Earth would be massively disrupted. Given these challenges, the companies of Schwarz Group want to avoid water risks at all sites and in all countries.

GRI 303-1 | 303-2 | 306-2

The biggest lever in this context is in the supply chain and the production of private labels – whether through the construction of recycling systems, consequent waste and chemicals management, or the implementation of various efficiency measures. In textile and shoe production, Lidl and Kaufland decided in 2014 and 2015, respectively, to support the Detox campaign launched by Greenpeace and publicly commit to the Detox Commitments. The goal of this obligation was to eliminate eleven dangerous groups of substances from the production of textiles and shoes for Lidl and Kaufland.

Lidl and Kaufland have undertaken significant efforts to achieve the targets together with suppliers, and have made huge progress. The companies of Schwarz Group will also work intensively on improvements in this area in the future, and have laid down the continuation of their own detox commitments as part of a joint strategic target on the use of chemicals that are harmless to environment and health for the production of their own brands.

› **Chemicals in the non-food area:** By the end of 2030, the companies of Schwarz Group want to target the use of chemicals that are harmless to environment and health to produce their own brands. To achieve this, they will continue to work on compliance with their detox commitments based on a standard restricted substances list (MRSL) to produce their textiles and shoes.

The REset Plastics strategy is also part of this topic (see also p. 102). In this framework, plastic in packaging and the corresponding waste is reduced, packaging is made more recyclable, and valuable resources are kept in circulation to a greater extent. In this way, we contribute to ensuring that plastic waste does not end up in the environment and through various ways in the world's seas and bodies of water. Projects and collaborations in the REmove action area mean the companies of Schwarz Group are also helping to deal with the plastic waste that is already in the environment (see also p. 108).

Avoiding microplastics is also critically important for protecting ecosystems and bodies of water. As a retail company with a variety of products in the washing, laundry detergent, and cleaning products and cosmetics product groups, Lidl and Kaufland are relying on using microplastic-free recipes. Back in 2013, Kaufland decided to completely stop using solid microplastics particles in all its internationally available private label products from then on, and recorded this in a corresponding voluntary agreement (see also p. 110).

In addition to protecting bodies of water from pollution and contamination by waste and chemicals, the companies of Schwarz Group are focusing on efficient use of the water resource. At their own sites, they place great importance on using water-saving systems in production processes and in construction measures. Kaufland meat processing plants, and to some extent Schwarz Produktion, have also set themselves the target of continually monitoring and cutting specific water consumption in their own plants. With this aim in mind, Kaufland meat processing plants are working on a reduction of 20 percent of the average water consumption across all sites by 2022. At the end of the fiscal year 2019, they had already achieved a water saving of 11 percent compared with the base year 2017. However, this positive development was thwarted by the high hygiene and thus cleaning requirements during the COVID-19 pandemic, along with different renovation projects in the meat processing plants. Therefore, by the end of the fiscal year 2021, there was an excess consumption of approx. 6 percent compared with the base year 2017.

Schwarz Produktion has defined the key performance indicator “Specific water consumption” for its five beverage plants. Each year an ambitious target is determined for the sites involved, and every improvement must be safeguarded with concrete measures.

Management of water risks

The Construction department is responsible for water issues in operative management at Kaufland; at Lidl responsibility is spread across several departments. For example, the Real Estate/Construction department is responsible for designing the water supply and disposal systems. At Schwarz Produktion, responsibility for implementing efficiency measures and investigating water consumption is held by central Technology and the relevant companies. At the Kaufland meat processing plants, this is the responsibility of the Environmental Management department. Here, the plant managers and the local water protection officers are responsible for compliance with the requirements in the waste water regulations. All activities related to the subjects of microplastics and protecting water and seas from pollution by waste are part of the group-wide REset Plastics strategy (see also p. 102). In both retail divisions and the Schwarz Dienstleistungsgesellschaften, the Purchasing or Procurement departments are responsible for compliance with the specifications in the supply chain. In the future, a group-wide water strategy will bring together the expertise and activities of the divisions.

Requirements for and audits of suppliers

In the Lidl and Kaufland supply chain, companies who are commissioned to produce textiles for promotional merchandise and the permanent assortment of the retail divisions have to undergo a detailed audit. Textiles are checked for substances hazardous to health, on the basis of various legal specifications and voluntary agreements. All textile suppliers must comply with the targets as part of the Detox Commitment.

In principle, the respective Codes of Conduct for business partners apply to all suppliers of Lidl and Kaufland as well as Schwarz Produktion. They also call for compliance with environmental standards in the supply chain. Additional information regarding the topics of environmental and social standards, as well as our Code of Conduct can be found in chapter Compliance on p. 17.

Resource conservation in textile production

The retail divisions and Schwarz Beschaffung are particularly committed to using water, waste, and chemicals responsibly in the textile production plants in Asia. We provide on-site training to ensure that our suppliers and producers are accordingly trained and to raise awareness. In 2019, Kaufland started a project where waste water was investigated for specific chemicals and solutions were developed to optimize chemical management in production plants. Due to the COVID-19 pandemic, the project was not continued in the reporting period. The Kaufland Textile sustainability initiative was carried out in close cooperation with a university in Bangladesh, suppliers, and testing institutes, and is also aimed at students.

Water policy in the retail divisions

A lack of water availability represents a risk for the retail divisions Lidl and Kaufland, particularly for the upstream supply chain. This applies particularly to agricultural primary production, which is responsible in general for 70 percent of the total water consumption worldwide. Agriculture also uses pesticides and fertilizer, which can have a negative impact on water quality. Here, the retail divisions are following appropriate pesticide reduction programs (see also p. 128 ff.).

Kaufland is constantly working on optimizing its production processes and saving as much water as possible with new procedures that conserve resources. All products for which the water consumption was reduced are labeled with the logo “Wasser gespart” (Water saved). For example, in the production of textiles, coloring processes that protect the environment are used, like the dope dyed technique.

To investigate the water risks in more detail, in 2020 Kaufland carried out a hotspot analysis, which also took water pollution and scarcity into account. For this, Lidl uses the Water Stress Index developed for the agricultural sector by the World Resources Institute (WRI) at country level. In addition, product-specific water key performance indicators are used, based on the data of the Water Footprint (WFN).

The combination of these two approaches enables the water risks to be assessed for different country-product combinations. The results act as a basis for a ranking of the water risk in the supply chain of a product.

To address water risks, Lidl is currently assessing the introduction of the risk-based GLOBALG.A.P. SPRING certification together with farmers, which is specially focused on water aspects. With mandatory participation in the standard GLOBALG.A.P., all agricultural partner companies of Lidl and Kaufland document their skills in view of good agricultural practices. Aspects of water use are also considered here.



Lidl – Policy on the Responsible Sourcing and Consumption of Water

You can find more information about water management at Lidl in the Policy on the Responsible Sourcing and Consumption of Water.

Use of water and springs in Schwarz Produktion

Currently, Schwarz Produktion exclusively uses mineral water from its own mineral water springs for the production of its mineral waters. Product-related mineral water is used from internal springs for the production of beverages. To this end, in each of the five beverage plants, several deep wells are operated. None of the springs is located in a nature reserve. Our mineral springs also meet all specifications of the Mineral and Table Water Ordinance (MTVO) in principle. Compliance with all legal provisions and the approved extraction volume defined by the authorities for each spring ensures that there is no excessive extraction of the renewable groundwater and there is no imbalance between groundwater extraction and regeneration. Schwarz Produktion informs the competent environmental agencies about all relevant data in an annual report.

Worldwide involvement for protecting seas and rivers

In addition to our commitment to the REmove action area in South-East Asia, the national companies of the divisions are also taking a range of actions against marine and land-based plastic pollution (see also p. 108 f.). The national companies are supported, and empowered to create transparency, to foster an overarching exchange of ideas, and to create synergies. For this, a sorting and recycling concept, a best practice catalog, and exchange formats such as workshops have been provided, for example. In 2021 alone, 19 national companies realized 236 REmove actions, which involved 162,000 people, and collected 1,750 tons of waste.

As an example, as part of the project TransforMAR, Lidl Portugal is committed to cleaner Atlantic beaches and raising awareness among the population about reducing and recycling plastic. Using collection containers made from recycled plastic on the beaches and increased incentives for environmentally conscious behavior, in 2021 around 33 tons of plastic waste were collected and recycled. In 2021, for the third year running Kaufland Bulgaria supported the environment initiative Books for Waste, an exchange meeting where every kilo of plastic waste collected could be swapped for a book. Some 14,000 people took part in this event and exchanged around 13 tons of plastic waste for a book.

Protection of biodiversity and adaptation to loss of biodiversity

Stable and healthy ecosystems are the basis of our existence. The companies of Schwarz Group play their part to protect the variety of living creatures and habitats. They are working to counteract the negative consequences of land use for ecosystems today, together with strong partners. At the same time, they are adapting their processes to changing environmental conditions, particularly with regard to the availability of raw materials and resources.

Biodiversity is a requirement for functioning and stable ecosystems – and also makes them more resilient. By promoting biological diversity, the companies of Schwarz Group are having a positive impact on the basis of their existence and their business. In this context, they are not just taking measures at company level to maintain biological diversity; they are also initiating activities and projects throughout their supply chain.

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First and foremost, direct impacts on biodiversity and land use come from the goods sold and their supply chains. Lidl and Kaufland are actively working to ensure they have deforestation-free supply chains (see also p. 130 f.). The use of pesticides and fertilizer in agriculture also has a big impact on biodiversity. In the topic area sustainable raw materials, they deal in detail with growing, harvesting, and production methods and want to reduce their potentially negative impacts on biodiversity (see also p. 82).

The protection of the environment is also inscribed in the joint Code of Conduct of the companies of Schwarz Group, which the divisions require their business partners to sign. In the non-food area, Kaufland carries out its own random audits with its suppliers, which include specific environmental aspects as well as social elements. The divisions also rely on recognized product seals and labels (see also p. 80 f.).

Furthermore, Lidl and Kaufland are Fairtrade partners in the food area. The label covers ecological as well as social requirements, such as in relation to the use of pesticides. Within the framework of strategic partnerships with Bioland (Lidl) and Demeter (Kaufland), the retail divisions also promote ecological agriculture. The goal is to bring high-quality local premium organic products to the center of society and force the expansion of ecologically farmed cultivation areas (see also p. 79).

The presence of impervious surfaces when building new stores, logistics centers, and production plants is also a strain on the environment and biodiversity. At Lidl and Kaufland, there are building specifications that govern details of planting aspects in principle and are considered with new buildings. Here we are currently working on concepts that will systematically strengthen the topic of biodiversity at our real estate sites.

Group-wide management of biodiversity risks

The Purchasing and Real Estate/Construction departments at Lidl and Kaufland are responsible for the topics of land use and biodiversity and their implementation. Here, Purchasing is responsible for compliance with and implementation of ecological standards in the supply chain. At Lidl and Kaufland it is also responsible for managing raw materials targets and pesticide management, together with Quality Assurance. The CSR departments of the divisions support this process and act as both drivers and internal consultants. The Real Estate/Construction department is in turn responsible for environmental protection when building stores, logistics centers, and administration buildings.

In the Schwarz Dienstleistungsgesellschaften, Schwarz Beschaffung is responsible for communication and enforcement of the Code of Conduct with business partners.¹ All topics related to constructing new buildings and the accompanying spread of impervious surfaces are supervised by the Real Estate/Construction department at Schwarz Immobilien Services.

Lidl and Kaufland pay particular attention to comprehensive pesticide management for fruit and vegetables and flower and plants when it comes to protecting biodiversity in cultivation and agriculture. Schwarz Produktion is also particularly assessing its upstream supply chain. In addition to raw materials certifications, which also cover the topic of biodiversity, it requires new suppliers to make a voluntary disclosure about essential sustainability topics. These processes are part of Schwarz Produktion's internal supplier management and defined in an internal policy that is accessible to all employees. Within the framework of the Kaufland quality meat program, for example, regional farmers are supported in growing their own feed with local forage crops and using natural crop rotation.

¹ Defined exceptions to this are transport services for merchandise, financial services, plots, and real estate.

For PreZero, the downstream value chain is particularly relevant. Here, appropriate measures are taken to counteract what is known as environmental dumping and thus pollution of the environment and destruction of biodiversity. In the whole value and recycling chain, waste producers, retailers and agents are obligated to be able to fully disclose the whereabouts of waste materials at all times.

Setting standards for greater biodiversity

To systematically promote the preservation of ecosystems, Lidl and GLOBALG.A.P. released the first industry-wide additional module for biodiversity with the BioDiversity add-on in April 2022. As the first European food retailer, Lidl will work with the standard and initially apply the standard within their cooperation with over 250 growers from different European countries. The add-on contributes to protecting biodiversity as it, for example, requires a management plan for biodiversity as well as effective criteria for soil protection including pest control.

Kaufland is also committed to the topic: Together with the Leibniz Institute of Vegetable and Ornamental Crops (IGZ) e. V. and Gemüsering Stuttgart GmbH, Kaufland launched a scientific project to promote sustainable agricultural measures in 2020. By working with almost 20 businesses from the three culture groups “vegetables,” “fruit,” and “potatoes” from five countries, biodiversity, humus content, and soil fertility will be analyzed and improved by applying scientific findings. The results will then be translated into practical actions.

In addition, Lidl and Kaufland are founding members of Food for Biodiversity e.V., a registered association in which representatives from companies, societies and standards from the food industry contribute to maintaining biological diversity through various projects. To date, these are pilot projects, in which a jointly developed basic set of biodiversity criteria is implemented and checked.

Taking active action against deforestation

Lidl and Kaufland’s commitment to deforestation-free supply chains is also honored externally. In the WWF Deforestation Scorecard¹ 2022 Lidl was named the best company. Particularly for the raw material palm oil, Lidl achieved good results through measures such as use of palm oil certified according to the Round Table on Sustainable Palm Oil (RSPO) in its private label products. Lidl is seeking to implement supply chains that are free from deforestation, conversion and exploitation by the end of 2025. Raw materials that are particularly relevant in this context are soy, palm oil, cocoa, beef, and cellulose or timber. Kaufland is one of five companies that are participating in a pilot project to establish deforestation- and conversion-free soy supply chains. The goal is to implement the Deforestation and Conversion Free (DCF) toolkit and to work on transforming one or more supply chains according to the Accountability Framework (AFI). With this aim in mind, companies exchange experience in a monthly project group organized by WWF Germany on the implementation of DCF supply chains. With the support of Nextra Consulting, the participating companies apply the DCF toolkit in order to develop a strategy for implementing deforestation- and conversion-free supply chains. To this end, an ambitious voluntary agreement for deforestation-free soy supply chains is published in the project period, by the latest March 2023. The project is supported by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

Lidl in Germany and Kaufland signed the “Cerrado Manifest” initiated by the WWF and other organizations in 2020, through which they commit themselves to protecting habitats in Brazil. The Cerrado is a savanna region with the greatest diversity of species in the world, containing five percent of the

¹ The WWF Deforestation Scorecard investigates whether German companies in the meat and animal feed industry, food retail and food production, consumer goods and chemical industry, and drug stores have integrated protection measures against deforestation into their supply chains for the raw materials palm oil, soy, cocoa, and beef products.

global biodiversity. Lidl, Kaufland, and the other signatory companies are thereby taking a stand against further loss of diversity of species in the region, and will not sell any agricultural products from areas that have been converted since 2020.

For instance, Kaufland and Lidl in Germany do not offer beef from Brazil to ensure that they do not contribute to deforestation of the species-rich Cerrado and Amazon basin ecosystems in the course of animal feed production and grassland development. Even Kaufland's private label sausage products do not contain any Brazilian beef. The retailers increasingly rely on products from local agriculture: The majority of pork and beef at Kaufland are of national origin. Furthermore, in 2021 Lidl signed the WWF's "Industry Statement" against deforestation and the destruction of the environment, underlining its commitment to these issues.

Both retail divisions are also increasingly using European soy. To encourage the cultivation of GM-free soy in Europe, in 2019 Lidl and Kaufland entered into a partnership with not-for-profit organization Donau Soja. The organization supports small and medium-sized producers in the long term with production according to a more sustainable and GM-free standard. To be able to quantify and assess the relevant soy volumes in the indirect supply chain of their private label products with animal origins, Lidl and Kaufland each initiated a soy mapping project in 2021. This gives the retail divisions a precise view of the origin, quantity, and certification status of the soy fed to the animals that are used to make our animal products. Risks can be prioritized here and suppliers can be approached early on in order to jointly derive suitable measures.

Within the quality meat program initiated by Kaufland Germany, already 25 percent of participating companies refrain from using soy from South America for pork from husbandry level 3.

Actively promoting biodiversity in Germany

As part of the 360 degree biodiversity protection program "Lidl Lebensräume" founded in 2018, Lidl in Germany is raising awareness among customers for endangered biodiversity and contributing to protecting wild bees and other beneficial insects. In 2019, the program was granted the status of official project of the UN Decade of Biological Diversity by the United Nations. An example for successful implementation: Between 2018 and 2021, Lidl created a total of more than 170,000 square meters of wildflower meadows at over 30 logistics centers in Germany. Lidl has also supported its suppliers and producers in creating natural wildflower strips since 2013. This has led to the creation of over 3.6 million square meters of wildflower areas.

At Kaufland, trainees are championing more biodiversity by creating a wildflower strip at the Heilbronn meat processing plant. In addition to wild bees, honey bees are settled there, and the trainees are learning how honey is harvested and produced with the help of a beekeeper. That honey is then processed in meat and sausage products and marketed by them.

Schwarz Produktion also promotes biodiversity locally on its plant grounds in Roßbach (Burgenlandkreis). 275,000 square meters in total is either sustainably managed, with concrete measures like wildflower strips and natural grazing, or completely relinquished to nature. 22,000 square meters of this are managed as wild flower patches, on another part of the grounds a permanent habitat for insects has also been created with ideal nesting and feeding sites. Supplementary to this, a small herd of alpacas alternating with ponies care for an additional subarea of 12,000 square meters, thus resulting in permanent natural and climate-friendly grazing. It is currently planned to also turn the nine meter-wide firebreak around the plant into a wildflower patch, thereby creating an additional habitat of approx. 6,300 square meters for insects from 2023.

GRI 304-2

KEY PERFORMANCE INDICATORS

ENERGY CONSUMPTION WITHIN THE COMPANIES OF SCHWARZ GROUP

GRI 302-1		FY	Lidl	Kaufland	PreZero	Schwarz Produktion	Schwarz Dienstleistungsgesellschaften	Schwarz Group
		2019	6,167,299	2,967,601	300,368	470,406	70,326	9,976,000
	Total energy consumption in MWh^{1,2,3}	2020	6,374,615	2,968,013	369,880	468,628	68,046	10,249,182 ✓
		2021	7,006,761	3,102,235	441,254	479,205	77,986	11,107,440 ✓
	from renewable sources	2019	2,249,880	225,185	0	4,699	146	2,479,910
		2020	3,278,802	329,001	39,424	1,285	231	3,648,742 ✓
		2021	4,639,175	453,963	75,121	2,714	117	5,171,091 ✓
	from non-renewable sources	2019	3,917,419	2,742,416	300,368	465,708	70,180	7,496,090
		2020	3,095,813	2,639,012	330,456	467,343	67,815	6,600,440 ✓
		2021	2,367,585	2,648,272	366,132	476,491	77,869	5,936,349 ✓
	Electricity	2019	4,991,233	2,214,349	111,649	297,882	33,806	7,648,918
		2020	5,247,782	2,211,587	166,665	298,165	40,226	7,964,426
		2021	5,792,957	2,269,095	164,612	299,943	46,342	8,572,951
	from renewable sources	2019	2,249,880	225,185	0	4,699	146	2,479,910
		2020	3,278,802	329,001	39,424	1,285	231	3,648,742
		2021	4,639,175	453,963	44,352	2,714	117	5,140,321
	Outsourcing	2019	2,195,581	222,315	0	0	0	2,417,897
		2020	3,190,939	324,764	39,424	0	0	3,555,127
		2021	4,496,118	447,650	44,352	0	0	4,988,120
	Self-consumption from self-generation	2019	54,299	2,870	0	4,699	146	62,014
		2020	87,863	4,237	0	1,285	231	93,616
		2021	143,058	6,313	0	2,714	117	152,202
	from non-renewable sources	2019	2,741,353	1,989,163	111,649	293,183	33,659	5,169,007
		2020	1,968,980	1,882,586	127,242	296,881	39,995	4,315,683
		2021	1,153,782	1,815,132	120,260	297,230	46,225	3,432,629
	Outsourcing	2019	2,741,353	1,989,163	111,649	293,183	33,659	5,169,007
		2020	1,968,980	1,882,586	127,242	293,684	39,995	4,312,487
		2021	1,153,782	1,812,805	120,260	294,751	46,225	3,427,823
	Self-consumption from self-generation	2019	–	–	–	–	–	–
		2020	0	0	0	3,196	0	3,196
		2021	0	2,327	0	2,479	0	4,806
	District heating	2019	64,503	76,834	383	0	1,368	143,088
		2020	76,928	90,192	456	0	1,667	169,243
		2021	80,234	96,018	1,385	0	4,049	181,685
	Natural gas	2019	590,717	526,715	19,272	147,879	6,031	1,290,614
		2020	583,851	527,634	20,703	148,086	5,890	1,286,165
		2021	605,617	579,912	21,670	156,224	2,764	1,366,186

	FY	Lidl	Kaufland	PreZero	Schwarz Produktion	Schwarz Dienstleistungsgesellschaften	Schwarz Group
Other gases ⁴	2019	0	611	324	6,596	0	7,531
	2020	0	659	303	7,426	0	8,387
	2021	0	679	246	6,228	0	7,153
Heating oil ⁵	2019	11,032	29,052	394	988	0	41,466
	2020	11,107	37,454	837	1,790	0	51,188
	2021	3,787	41,267	657	3,001	0	48,712
Wood pellets	2019	0	0	1,200	0	0	1,200
	2020	0	0	974	0	0	974
	2021	0	0	1,440	0	0	1,440
Hard coal	2019	0	0	516	0	0	516
	2020	0	0	550	0	0	550
	2021	0	0	403	0	0	403
Mobile combustion ^{6, 7, 8}	2019	509,813	120,040	166,631	17,061	29,121	842,667
	2020	454,947	100,487	179,392	13,160	20,262	768,250
	2021	524,165	115,264	250,840	13,810	24,831	928,910
from renewable sources	2019	–	–	–	–	–	–
	2020	–	–	–	–	–	–
	2021	0	0	30,769	0	0	30,769
from non-renewable sources	2019	509,813	120,040	166,631	17,061	29,121	842,667
	2020	454,947	100,487	179,392	13,160	20,262	768,250
	2021	524,165	115,264	220,071	13,810	24,831	898,141

TOTAL ENERGY CONSUMPTION PER EMPLOYEE

(in MWh/employee)

	FY	Lidl	Kaufland	PreZero	Schwarz Produktion	Schwarz Dienstleistungsgesellschaften	Schwarz Group
Total energy consumption per employee	2019	20	24	83	136	14	22
	2020	19	22	88	135	12	21
	2021	19	22	37	125	12	21

¹ In principle, for reasons of control relevance, we report all energy key performance figures in the unit megawatt-hour (MWh).

² Discrepancies from the publication in the Sustainability Report FY 2018/19 are a result of retrospective corrections due to additional data availability.

³ Due to values being rounded, slight discrepancies are possible in the totaling.

⁴ Contains propane and LPG.

⁵ Conversion of liters into MWh with combined factor from IPCC 2006 and GHG Protocol Cross Sector Tools (heating oil: 0.010561).

⁶ Fuels for own company cars and internal logistics.

⁷ Conversion of liters into MWh with combined factor from IPCC 2006, GHG Protocol Cross Sector Tools and CDP Technical Note: Conversion of fuel data to MWh (gasoline: 0.009585/diesel: 0.010561/biodiesel: 0.006711).

⁸ Conversion of kg into MWh with combined factor from IPCC 2006, GHG Protocol Cross Sector Tools, CDP Technical Note: Conversion of fuel data to MWh and DEFRA 2021 (CNG/LPG: 0.01481/LPG: 0.014599).

GRI 302-3

VOLUMES OF GREENHOUSE GAS EMISSIONS IN THE COMPANIES OF SCHWARZ GROUP^{1, 2, 3, 4}

GRI 305-1 305-2		FY	Lidl	Kaufland	PreZero	Schwarz Produktion	Schwarz Dienstleistungsgesellschaften	Schwarz Group ⁵
Total	Gross volume of GHG emissions in metric tons of CO ₂ equivalent	2019	108,423,015	31,469,959	882,599	1,623,226	485,914	141,110,152
		2020	122,503,663	33,627,485	958,983	1,620,649	465,310	157,620,575
		2021	125,082,831	33,404,535	2,010,586	1,717,182	388,752	160,784,629
		2019–2021	15.4 %	6.1 %	127.8 %	5.8 %	-20.0 %	13.9 %
Scope 1	Direct GHG emissions in metric tons of CO ₂ equivalent (scope 1)	2019	414,470	405,695	211,200	34,071	15,100	1,080,536
		2020	395,028	401,087	321,905	32,314	10,069	1,160,404
		2021	420,737	402,164	410,716	36,053	15,307	1,284,977
		2019–2021	1.5 %	-0.9 %	94.5 %	5.8 %	1.4 %	18.9 %
	Volatile gases/coolants	2019	173,133	271,390	2,720	946	0	448,189
		2020	169,624	269,590	100,910	133	0	540,257
		2021	174,401	256,490	155,646	2,129	0	588,666
		2019–2021	0.7 %	-5.5 %	0 %	125.2 %	0 %	31.3 %
	Mobile combustion	2019	128,851	30,768	37,272	4,389	14,000	215,280
		2020	113,893	25,642	42,668	3,375	8,996	194,573
		2021	130,858	29,313	55,294	3,543	14,803	233,811
		2019–2021	1.6 %	-4.7 %	48.4 %	-19.3 %	5.7 %	8.6 %
Stationary combustion	2019	112,487	103,538	171,207	28,736	1,099	417,068	
	2020	111,511	105,856	178,327	28,806	1,074	425,574	
	2021	115,478	116,362	199,776	30,380	504	462,500	
	2019–2021	2.7 %	12.4 %	16.7 %	5.7 %	-54.2 %	10.9 %	
Scope 2	Indirect GHG emissions in metric tons of CO ₂ equivalent (scope 2) incl. electricity acc. to market-based approach	2019	882,292	774,722	22,789	142,332	9,727	1,831,862
		2020	563,999	696,116	25,036	138,132	10,249	1,433,531
		2021	485,338	570,217	40,135	137,472	10,564	1,243,725
		2019–2021	-45.0 %	-26.4 %	76.1 %	-3.4 %	8.6 %	-32.1 %
	Indirect GHG emissions in metric tons of CO ₂ equivalent (scope 2) incl. electricity acc. to location-based approach	2019	1,618,942	987,227	26,769	123,602	14,362	2,770,903
		2020	1,623,037	961,760	33,663	117,885	16,464	2,752,808
		2021	1,606,978	892,223	41,898	102,072	17,004	2,660,175
		2019–2021	-0.7 %	-9.6 %	56.5 %	-17.4 %	18.4 %	-4.0 %
	District heating	2019	15,926	18,886	94	0	336	35,242
		2020	19,211	22,169	112	0	410	41,902
		2021	20,041	23,601	340	0	995	44,978
		2019–2021	25.8 %	25.0 %	261.9 %	0 %	195.9 %	27.6 %
Electricity acc. to market-based approach	2019	866,367	755,836	22,695	142,332	9,391	1,796,620	
	2020	544,788	673,947	24,924	138,132	9,839	1,391,629	
	2021	465,297	546,615	39,794	137,472	9,569	1,198,747	
	2019–2021	-46.3 %	-27.7 %	75.3 %	-3.4 %	1.9 %	-33.3 %	
Electricity acc. to location-based approach	2019	1,603,016	968,341	26,675	123,602	14,026	2,735,661	
	2020	1,603,826	939,591	33,551	117,885	16,054	2,710,906	
	2021	1,586,937	868,622	41,557	102,072	16,009	2,615,197	
	2019–2021	-1.0 %	-10.3 %	55.8 %	-17.4 %	14.1 %	-4.4 %	
Scope 1 and 2	Direct & indirect GHG emissions in metric tons of CO ₂ equivalent (scope 1 and 2) ⁶	2019	1,296,763	1,180,417	233,989	176,403	24,827	2,912,398
		2020	959,027	1,097,203	346,941	170,446	20,318	2,593,935
		2021	906,076	972,381	450,851	173,524	25,871	2,528,702
		2019–2021	-30.1 %	-17.6 %	92.7 %	-1.6 %	4.2 %	-13.2 %

	FY	Lidl	Kaufland	PreZero	Schwarz Produktion	Schwarz Dienstleistungsgesellschaften	Schwarz Group ⁵
Indirect GHG emissions in metric tons of CO₂ equivalent (scope 3)	2019	107,126,252	30,289,542	648,610	1,446,823	461,087	138,197,754
	2020	121,544,636	32,530,282	612,042	1,450,203	444,992	155,026,640
	2021	124,176,755	32,432,154	1,559,735	1,543,658	362,881	158,255,927
	2019–2021	15.9%	7.1%	140.5%	6.7%	-21.3%	14.5%
Cat. 3.1 Purchased goods and services	2019	94,587,973	26,105,109	15,997	1,185,621	196,361	120,327,929
	2020	106,510,998	28,049,513	21,208	1,179,892	172,379	134,379,916
	2021	103,310,372	27,989,249	42,563	1,237,528	172,133	130,934,187
	2019–2021	9.2%	7.2%	166.1%	4.4%	-12.3%	8.8%
Cat. 3.2 Capital goods	2019	0	0	91,037	0	0	91,037
	2020	0	0	84,262	0	0	84,262
	2021	0	0	85,066	0	0	85,066
	2019–2021	0%	0%	-6.6%	0%	0%	-6.6%
Cat. 3.3 Fuel and energy-related emissions	2019	543,255	297,331	15,495	41,271	6,342	903,694
	2020	543,624	288,329	18,679	39,738	6,145	896,515
	2021	552,456	280,856	28,119	37,623	7,198	906,252
	2019–2021	1.7%	-5.5%	81.5%	-8.8%	13.5%	0.3%
Cat. 3.4 Upstream transportation and distribution	2019	3,270,766	1,838,204	18,185	206,900	0	5,334,055
	2020	3,519,025	2,081,843	21,454	218,353	0	5,840,674
	2021	6,966,321	1,940,941	29,459	255,098	0	9,191,820
	2019–2021	113.0%	5.6%	62.0%	23.3%	0%	72.3%
Cat. 3.5 Waste generated in operations	2019	247,561	89,398	276,938	5,136	0	619,033
	2020	273,263	85,928	271,469	5,171	0	635,831
	2021	280,534	82,832	1,269,324	5,192	0	1,637,882
	2019–2021	13.3%	-7.3%	358.3%	1.1%	0%	164.6%
Cat. 3.6 Business travel	2019	108,592	24,404	6,012	1,991	19,209	160,209
	2020	43,704	12,772	5,119	1,061	3,555	66,212
	2021	62,957	22,990	5,866	1,921	5,783	99,517
	2019–2021	-42.0%	-5.8%	-2.4%	-3.5%	-69.9%	-37.9%
Cat. 3.7 Employee commuting ⁷	2019	372,212	156,324	6,066	4,325	5,705	544,632
	2020	406,118	163,643	7,595	4,502	6,845	588,703
	2021	424,667	173,770	14,376	4,623	8,152	625,587
	2019–2021	14.1%	11.2%	137.0%	6.9%	42.9%	14.9%
Cat. 3.9 Downstream transportation and distribution	2019	35,158	0	19,299	0	0	54,457
	2020	48,126	0	7,163	0	0	55,289
	2021	59,274	0	237	0	0	59,511
	2019–2021	68.6%	0%	-98.8%	0%	0%	9.3%
Cat. 3.10 Processing of sold products	2019	0	0	68,285	0	0	68,285
	2020	0	0	63,539	0	0	63,539
	2021	0	0	84,443	0	0	84,443
	2019–2021	0%	0%	23.7%	0%	0%	23.7%

GRI 305-3		FY						Schwarz Group ⁵
			Lidl	Kaufland	PreZero	Schwarz Produktion	Schwarz Dienstleistungsgesellschaften	
Scope 3	Cat. 3.11 Use of sold products	2019	7,824,715	1,755,187	68,906	0	233,470	9,882,278
		2020	10,048,568	1,814,475	4	0	256,069	12,119,116
		2021	12,369,050	1,906,628	0	0	169,616	14,445,294
		2019–2021	58.1 %	8.6 %	–100.0%	0%	–27.4 %	46.2 %
		2019	136,019	23,586	62,390	1,578	0	212,145
		2020	151,210	33,779	111,549	1,486	0	296,584
		2021	151,123	34,889	282	1,672	0	186,367
		2019–2021	11.1 %	47.9 %	–99.5 %	5.9 %	0%	–12.2 %
	Cat. 3.12 End-of-life treatment of sold products	2019	136,019	23,586	62,390	1,578	0	212,145
		2020	151,210	33,779	111,549	1,486	0	296,584
2021		151,123	34,889	282	1,672	0	186,367	
	2019–2021	11.1 %	47.9 %	–99.5 %	5.9 %	0%	–12.2 %	

EMISSIONS INTENSITY OF THE COMPANIES OF SCHWARZ GROUP

GRI 305-4	FY						Schwarz Group
		Lidl	Kaufland	PreZero	Schwarz Produktion	Schwarz Dienstleistungsgesellschaften	
Total emissions in t of CO ₂ equivalent per employee	2019	350	251	244	468	98	316
	2020	359	246	228	466	82	321
	2021	336	232	170	448	59	299
Total emissions in t CO ₂ equivalent per m ² sales area	2019	9.3	6.6	–	–	–	–
	2020	9.9	6.9	–	–	–	–
	2021	9.7	6.5	–	–	–	–

¹ Analyzed sources for the emission factors: International organizations (e.g., IEA, IPCC), LCA databases (e.g., Ecoinvent), diff. national institutions (e.g., DBEIS/DEFRA), and industrial associations and organizations (e.g., PlasticsEurope, FEFCO).

² Discrepancies in the 2019 carbon footprint for the 18/19 Sustainability Report are the result of changing the survey methodology. Discrepancies in the 2019 and 2020 carbon footprint for the FY 20 Progress Report are the result of retrospective corrections due to additional data availability.

³ Due to values being rounded, slight discrepancies are possible in the totaling.

⁴ Due to immateriality, the emissions of GHG categories 3.8, 3.13, 3.14, and 3.15 are not accounted.

⁵ In order to avoid duplicate accounting of emissions in the joint carbon footprint of the companies of Schwarz Group, the product emissions for products from Schwarz Produktion that appear both in the Schwarz Produktion carbon footprint and in the retail divisions' carbon footprints are only considered once for aggregation into the Group carbon footprint. This also means that the individual totals of the retail divisions do not correspond to the values of the Schwarz Group in the corresponding categories.

⁶ Scope 2 emissions according to the market-based approach were used for the total calculation of (operational) GHG emissions.

⁷ When calculating emissions in category 3.7 Employee commuting, the number of employees according to the annual accounts were used.

SELF-GENERATION OF RENEWABLE ENERGIES

Schwarz Group	Unit	2019	2020	2021	2020/21 discrepancy
Buildings with photovoltaic systems	Number	965	1,305	1,896	45.3%
Photovoltaic systems area	m ²	729,401	988,768	1,587,573	60.6%
corresponds to... soccer pitches ¹	Number	102	138	222	60.6%
Performance of photovoltaic system ²	kWp	–	–	272,465	–
Buildings with solar power systems for heat generation ³	Number	–	113	121	7.1%
Electricity from own generation of renewable energies ⁴	MWh	78,870	129,443	195,923	51.4%
of which electricity grid feed-in of renewable energies	MWh	16,856	35,828	43,722	22.0%

GRI 302-1

¹ When converting the area into the benchmark of soccer pitches, an average soccer pitch area of 7,150 m² was used for calculation.

² Was collected for the first time for FY 21. Therefore there are no values for FY 19 and FY 20.

³ Was collected for the first time for FY 20. Therefore there are no values for FY 19.

⁴ Incl. generation of electricity from biogas plant.

WATER CONSUMPTION IN THE COMPANIES OF SCHWARZ GROUP

(In m³)

Schwarz Group	2019	2020	2021	2020/21 discrepancy
Total water consumption	11,270,447	11,145,988	12,666,638	13.6%
Water consumption per employee	25.2	22.7	23.5	3.7%

GRI 303-3

About this report

This sustainability report was created by the companies of Schwarz Group as a joint report for all companies of Schwarz Group. Its creation was

coordinated and editing was done by Schwarz Unternehmenskommunikation GmbH & Co. KG on behalf of the companies of Schwarz Group.

The report provides an overview of the strategic basis and management approach to sustainability in the companies of Schwarz Group. With this report, we are providing information on how they organize and implement their financial, ecological, and social responsibility within their day-to-day activities. The Schwarz Group is comprised of the retail divisions Lidl and Kaufland, the environmental services provider PreZero, the production division Schwarz Produktion and the central corporate services division Schwarz Dienstleistungsgesellschaften as well as more associated companies and national organizations (see also p. 6 ff.). To give a comprehensive picture of our activities, the report is extended with information at the level of individual divisions and countries.

The key performance indicators represented also generally refer to the companies of Schwarz Group at aggregate level (and are therefore labeled as key performance indicators of Schwarz Group) or the company units indicated, respectively. Individual divisions contribute to the key performance indicators which concern them due to their business activity or their business model. Purchasing figures, for instance, refer to the retail divisions only. For all divisions, all units that were operational for at least one complete fiscal year (FY) are considered in the figures. The HR topic area is an exception to this. In addition to key performance indicators collected as part of the annual accounts from FY 2021, values of all operationally active units are also included herein for internal controlling reasons. Due to their market entry within the reporting period, the countries Lidl Latvia (market entry FY 2021) and Lidl Estonia (market entry FY 2022) are not included in the report for the retail divisions. For Kaufland, the Republic of Moldova (market entry FY 2019) is considered from FY 2020. The PreZero division is growing due to corporate acquisitions, among

other things. These will be included in the reporting of key performance indicators after successful integration. For example, larger acquisitions from the recent past such as parts of SUEZ and Ferrovial are currently not considered.

This report was compiled in accordance with the GRI standards. In parallel, with this report illustrates what the companies of Schwarz Group contribute to the ten principles of the UN Global Compact (UNGC). Corresponding contents are indicated in the GRI Content Index on p. 142 ff. The report relates to the period between March 1, 2020 and February 28, 2022, and therefore covers two full fiscal years. For reasons of completeness and development demonstration, some key performance indicators are displayed over a three year course. Cut-off dates for data collection were – unless otherwise indicated – February 28, 2021 for FY 2020 and February 28, 2022 for FY 2021. Editorial deadline was December 31, 2022. If information was included that was not in the reporting period, these passages are clearly indicated in the text. We release our extensive sustainability report and an interannual progress report on a two year basis.

This report was reviewed and approved by the Corporate Responsibility (CR) Round Table (see also p. 32). The Chief Executive Officers of Lidl, Kaufland, PreZero and Schwarz Produktion have approved the Sustainability Report. In the summer of 2022, the audit firm, KPMG AG, subjected selected disclosures in this report to an independent assurance engagement in accordance with the International Standard for Assurance Engagements (ISAE 3000 revised) to obtain limited assurance on sustainability information. The focus was on the materiality analysis, selected management approaches and some of the key figures shown. Reviewed contents and key performance indicators are indicated in the text and key performance indicator tables are labeled with “☉”. A dash (–) indicates the start and end of the checked content. The independent public auditor’s note can be found on the pages 139–141.

Independent assurance practitioner's report¹

To the Schwarz Unternehmenskommunikation GmbH & Co. KG, Neckarsulm, Germany

We have performed a limited assurance engagement on selected sustainability performance disclosures and indicators in the Sustainability Report (Annex 1) of Schwarz Unternehmenskommunikation GmbH & Co. KG, Neckarsulm, Germany (hereinafter referred to as "company" or "Schwarz"), for the period from March 1, 2020 to February 28, 2022 (hereinafter referred to as "report").

Selected sustainability performance disclosures that have been subject to our assurance engagement are part of the GRI content index and have been identified in the report with the following symbol: "🔍".

Essentially, the following content and key figures were subjected to the assurance:

- Management approaches in selected material aspects of the report (materiality, list of material topics, energy, emissions, waste, occupational health and safety), including selected key figures and disclosures on these material aspects,
- Total number of employees by employment contract, by gender, and by region,
- Percentage of employees per employee category by gender and age group,
- Fuel consumption within the organization from non-renewable and renewable sources,

- Indirect energy consumption, energy sold, total energy consumption within the organization,
- Direct GHG emissions (Scope 1); Indirect energy-related GHG emissions (Scope 2), other indirect GHG emissions (Scope 3),
- Total weight of hazardous and non-hazardous waste, breakdown by composition and disposal method,
- Product recalls,
- Number of buildings with PV systems and area of PV systems,
- Buildings with sustainability certificate,
- Recyclate content,
- Sustainable cocoa (private label).

Our engagement does not include the verification of references to external sources, expert opinions and forward-looking statements in the Sustainability Report.

Responsibility of the legal representatives

The legal representatives of the company are responsible for the preparation of the report in accordance with the reporting criteria. Schwarz applies the principles and standard disclosures specified in the GRI Sustainability Reporting Standards of the Global Reporting Initiative (GRI) in conjunction with the Corporate Accounting and Reporting Standard (Scope 1 and 2) and the Corporate Value Chain (Scope 3) of the Greenhouse Gas Protocol Initiative of the World Resources Institute (WRI) and the World Business Council for Sustainable Development, as well as definitions developed internally by the company, as described in the "Explanatory Notes on Non-Financial KPIs: Social Performance" and the "Notes to Non-Financial key performance indicators: Environmental Performance", as reporting criteria (hereinafter: "reporting criteria").

¹ Our engagement applied to the German version of the Sustainability Report of Schwarz Unternehmenskommunikation GmbH & Co. KG, Neckarsulm, Germany (for the period from March 1, 2020 to February 28, 2022). This text is a translation of the Independent Assurance Report issued in German, whereas the German text is authoritative.

This responsibility of the company's legal representatives includes the selection and application of appropriate sustainability reporting methods and making assumptions and estimates about individual sustainability performance disclosures and indicators that are reasonable in the circumstances. Furthermore, the legal representatives are responsible for such internal control as they consider necessary to enable the preparation of the Sustainability Report that is free from material misstatement, whether due to premeditated or fraudulent actions (manipulation of the Sustainability Report) or errors.

Independence and Quality Assurance of the Assurance Practitioner's firm

We have complied with the independence and quality assurance requirements set out in the national legal provisions and professional pronouncements, in particular the Professional Code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

Responsibility of the Assurance Practitioner

Our responsibility is to express a conclusion with limited assurance on the non-financial statement based on our assurance engagement.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements ISAE 3000 (Revised) "Assurance Engagements Other Than Audits Or Reviews Of Historical Financial Information", issued by the IAASB,

as a limited assurance engagement. Those standards require that we plan and perform the assurance engagement to obtain limited assurance about whether any matters have come to our attention that cause us to believe that the selected sustainability performance data and indicators in the company's Sustainability Report have not been prepared, in all material respects, in accordance with the reporting criteria. This does not mean that a separate audit opinion is issued for each of the disclosures.

In a limited assurance engagement, the procedures performed are less extensive than in a reasonable assurance engagement, and accordingly, a significantly lower level of assurance is obtained. The selection of the assurance procedures is subject to the professional judgment of the assurance practitioner. This includes an assessment of the risks of material misstatement of the report, taking into account the reporting criteria.

In the course of our assurance engagement, we performed the following assurance procedures and other activities, among others:

- Inquiries of Schwarz personnel responsible for materiality analysis to obtain an understanding of Schwarz's approach to identifying material issues and corresponding reporting boundaries.
- Risk assessment, including a media analysis, of relevant information on Schwarz's sustainability performance during the reporting period.
- Assessing the design and implementation of systems and processes for identifying, processing, and monitoring the selected sustainability metrics, including the consolidation of data.

- Inquiries of Schwarz employees responsible for determining the disclosures on concepts, due diligence processes, results and risks, performing internal control actions and consolidating the disclosures.
- Inspection of selected internal and external documents.
- Analytical assessment of data and trends of quantitative disclosures reported for consolidation at Schwarz level that were reported from all sites.
- Assessment of local data collection, validation and reporting processes and reliability of reported data through a sample survey of four sites/national companies.
- Assessment of the overall presentation of the data.

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our assurance opinion.

Assurance Opinion

Based on the assurance procedures performed and the evidence obtained, no information has come to our attention that causes us to believe that the selected sustainability performance disclosures and indicators marked with the following symbol “🚫” in the Sustainability Report of Schwarz Unternehmenskommunikation GmbH & Co. KG, Neckarsulm, for the period March 1, 2020 to February 28, 2022 are not prepared, in all material respects, in accordance with the reporting criteria.

Restriction of Use/Clause on General Engagement Term

This assurance report is addressed to Schwarz Unternehmenskommunikation GmbH & Co. KG and is intended solely for their use.

Our assignment for Schwarz Unternehmenskommunikation GmbH & Co. KG and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer (German Public Auditors) and Wirtschaftsprüfungsgesellschaften (German Public Audit Firms) (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this assurance report, each recipient confirms to have taken note of the terms and conditions stipulated in the General Engagement Terms (including the liability limitations to EUR 4 Mio for negligence specified in item No. 9 included therein) and acknowledges their validity in relation to us.

Mannheim, January 23, 2023

KPMG AG Wirtschaftsprüfungsgesellschaft
[Original German Version signed by:]

Beyer	Wiegand
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Attachments

Sustainability Report of the Schwarz Group Covering the period from March 1, 2020 to February 28, 2022	Annex 1
General Engagement Terms	Annex 2

GRI content index

The Sustainability Report 2020/21 in German language was submitted to GRI Services for the performance of the “GRI Content Index – Essentials Service”. Their assessment involved verifying that the GRI content index is presented clearly and in accordance with the standards, and that the references

for statements 2-1 to 2-5, 3-1 and 3-2 are consistent with the corresponding content in the report. This index distinguishes between essential standards as per GRI on the basis of the 2021/22 materiality analysis carried out, and additional standards that are reported for reasons of transparency.

Use declaration	In accordance with the GRI standards, the Schwarz Unternehmenskommunikation GmbH & Co. KG reports on the fiscal years 2020 and 2021 of the companies of Schwarz Group, starting from March 1, 2020 and ending on February 28, 2022.
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GRI 1 used	GRI 1: Foundation 2021
Applicable GRI sector standard(s)	None

GRI standards	Page(s)	Omission/Comment
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General disclosures

GRI 2: General disclosures 2021

1. The organization and its reporting practices

2-1:	Organizational details	6 ff., 138	
2-2:	Entities included in the organization's sustainability reporting	138	
2-3:	Reporting period, frequency and contact point	138	
2-4:	Restatements of information		Retrospective corrections of individual key figures are indicated with footnotes on the pages concerned.
2-5:	External assurance	138 ff.	

2. Activities and workers

2-6:	Activities, value chain, and other business relationships	6 ff., 10, 59 f., 64	
2-7:	Employees	6, 65 f., 68	
2-8:	Workers who are not employees		No information available: The data basis for the information is only partly available to the companies of Schwarz Group. A consolidated collection and quality assurance for future reporting will be checked.

3. Governance

2-9:	Governance structure and composition	6	
2-10:	Nomination and selection of the highest governance body	6	
2-11:	Chair of the highest governance body	6	
2-12:	Role of the highest governance body in overseeing the management of impacts	12, 32, 35, 60	
2-13:	Delegation of responsibility for managing impacts	32	
2-14:	Role of the highest governance body in sustainability reporting	6, 32, 138	
2-15:	Conflicts of interest	32, 34	
2-16:	Communication of critical concerns	6, 32	

GRI standards		Page(s)	Omission/Comment
2-17:	Collective knowledge of the highest governance body	6, 32	
2-18:	Evaluation of the performance of the highest governance body	6	
2-19:	Remuneration policies	45	
2-20:	Process to determine remuneration		Restrictions concerning confidentiality: Individual salaries of employees are subject to non-disclosure as confidential information and their forwarding, even for purposes of statistical evaluation, remains limited.
2-21:	Annual total compensation ratio		Restrictions concerning confidentiality: Individual salaries of employees are subject to non-disclosure as confidential information and their forwarding, even for purposes of statistical evaluation, remains limited.
4. Strategy, policies, and practices			
2-22:	Statement on sustainable development strategy	3 ff.	
2-23:	Policy commitments	17, 34, 56 ff., 61 ff., 78, 100	
2-24:	Embedding policy commitments	32, 34, 57 ff., 62 ff.	
2-25:	Processes to remediate negative impacts	11, 18, 35, 59, 62, 86	
2-26:	Mechanisms for seeking advice and raising concerns	18, 59, 62	
2-27:	Compliance with laws and regulations	17	No information available: The data basis for the information is only partly available to the companies of Schwarz Group. A consolidated collection and quality assurance for future reporting will be checked.
2-28:	Membership associations	14 ff.	
5. Stakeholder engagement			
2-29:	Approach to stakeholder engagement	11 ff., 75 f., 86, 130	
2-30:	Collective bargaining agreements	56, 65	
Material topics			
GRI 3: Material topics 2021			
GRI 3-1:	Process to determine material topics	38	
GRI 3-2:	List of material topics	38	
Climate Protection and Adaptation			
3-3:	Management of material topics	29 ff., 38 ff., 118 ff.	
GRI 201: Economic performance 2016			
201-2:	Financial implications and other risks and opportunities due to climate change	36	
GRI 302: Energy 2016			
302-1:	Energy consumption within the organization	120, 123, 132, 137	
302-3:	Energy intensity	133	
302-4:	Reduction of energy consumption	118, 123 f.	
302-5:	Reductions in energy requirements of products and services	118, 123	
GRI 305: Emissions 2016			
305-1:	Direct (scope 1) GHG emissions	123, 134	
305-2:	Energy indirect (scope 2) GHG emissions	123, 134	
305-3:	Other indirect (scope 3) GHG emissions	123, 135, 136	
305-4:	GHG emissions intensity	136	
305-5:	Reduction of GHG emissions	118, 123	

GRI standards	Page(s)	Omission/Comment
Use and conservation of resources, and circular solutions		
3-3: Management of material topics	29 ff., 38 ff., 96 ff.	
GRI 301: Materials 2016		
301-1: Materials used by weight or volume	100, 111	
301-2: Recycled input materials used	102, 106	
301-3: Reclaimed products and their packaging materials	102, 107	
GRI 306: Waste 2020		
306-1: Waste generation and significant waste-related impacts	97 ff.	
306-2: Management of significant waste-related impacts	36, 96, 97, 100, 102	
306-3: Waste generated	98, 100, 112	
Sustainable product design and quality		
3-3: Management of material topics	29 ff., 38 ff., 77 ff.	
GRI 204: Procurement practices 2016		
204-1: Proportion of spending on local suppliers	77, 81, 88	
GRI 301: Materials 2016		
301-1: Materials used by weight or volume	104	
301-2: Recycled input materials used	113	
301-3: Reclaimed products and their packaging materials	96	
GRI 308: Supplier environmental assessment 2016		
308-1: New suppliers that were screened using environmental criteria		No information available: The data basis for the information is only partly available to the companies of Schwarz Group. A consolidated collection and quality assurance for future reporting of the indicator will be checked, particularly for private label suppliers.
308-2: Negative environmental impacts in the supply chain and actions taken	77, 125, 127, 129 f.	
Transparent product communication		
3-3: Management of material topics	29 ff., 38 ff., 74 ff.	
GRI 416: Customer health and safety 2016		
416-1: Assessment of the health and safety impacts of product and service categories	85, 88, 91	
416-2: Incidents of non-compliance concerning the health and safety impacts of products and services	89, 91	Not applicable: For reasons of relevance for internal control, we instead report the number of recalled sales items for public product/goods recalls of own brands.
GRI 417: Marketing and labeling 2016		
417-1: Requirements for product and service information and labeling	74, 76, 78 f., 85, 88 ff.	
Use and protection of water resources		
3-3: Management of material topics	29 ff., 38 ff., 125 ff.	
GRI 303: Water and effluents 2018		
303-1: Interactions with water as a shared resource	125, 127	
303-2: Management of water-discharge related impacts	125	

GRI standards		Page(s)	Omission/Comment
303-3:	Water withdrawal	137	No information available: We report our water consumption without breaking it down by further sources and regions with water risks. We are working on improving our data basis for future reporting.
Social standards, working and living conditions in the supply chain			
3-3:	Management of material topics	29 ff., 38 ff., 57 ff.	
GRI 407: Freedom of association and collective bargaining 2016			
407-1:	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	56, 58	
GRI 414: Supplier social assessment 2016			
414-1:	New suppliers that were screened using social criteria		No information available: The data basis for the information is only partly available to the companies of Schwarz Group. A consolidated collection and quality assurance for future reporting of the indicator will be checked, particularly for private label suppliers.
414-2:	Negative social impacts in the supply chain and actions taken	57, 62 ff., 77, 127, 129	
Promotion of a healthy and attractive work environment			
3-3:	Management of material topics	29 ff., 38 ff., 44 ff.	
GRI 202: Market presence 2016			
202-1:	Ratios of standard entry level wage by gender compared to local minimum wage	45	
GRI 401: Employment 2016			
401-1:	New employee hires and employee turnover	66 f.	
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403-10:	Work-related ill health	48	No information available: The data basis for the information is only partly available to the companies of Schwarz Group. A consolidated collection and quality assurance for future reporting will be checked.

GRI standards		Page(s)	Omission/Comment
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UN Global Compact index

At the beginning of 2020, the companies of Schwarz Group joined the United Nations Global Compact (UNGC) and have thus expressly

committed themselves to the ten principles in the areas of human rights, labor standards, environmental protection and anti-corruption measures.

The Ten Principles of the UN Global Compact	Page(s)
Human rights	
01: Businesses should support and respect the protection of internationally proclaimed human rights.	27–29, 34–39, 57–64
02: Businesses should make sure that they are not complicit in human rights abuses.	34–39, 57–64
Labor	
03: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	27–29, 37–39, 54–64
04: Businesses should uphold the elimination of all forms of forced and compulsory labour.	37–39, 57–64
05: Businesses should uphold the effective abolition of child labour.	57–64
06: Businesses should uphold the elimination of discrimination in respect of employment and occupation.	27–29, 44–50, 54–64
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07: Businesses should support a precautionary approach to environmental challenges.	34–37
08: Businesses should undertake initiatives to promote greater environmental responsibility.	12–16, 20–23, 27–29, 37–39, 50–54, 74–89, 96–110, 128–131
09: Businesses should encourage the development and diffusion of environmentally friendly technologies.	96–110, 118–128
Anti-corruption	
10: Businesses should work against corruption in all its forms, including extortion and bribery.	11–18

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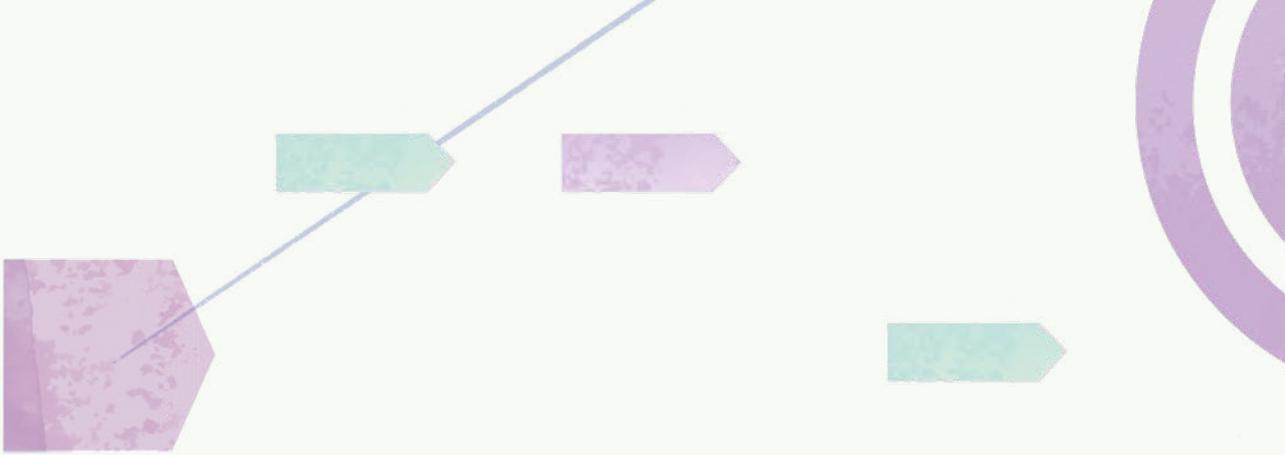


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