



LUDWIG BECK SEPARATE NON-FINANCIAL GROUP REPORT

FOREWORD BY THE EXECUTIVE BOARD

Under the brand name LUDWIG BECK, the Group operates a textile retail business in the medium and premium price segments. The selection of products comprises mostly textiles but also non-textile goods like cosmetics and sound carriers. The flagship store at Marienplatz in Munich forms the core of the Group's stationary business, with the annex HAUTNAH in FÜNF HÖFE, Munich, providing an additional outlet. In parallel, the Group offers a wide selection of exclusive cosmetics, available throughout the German-speaking areas, via its online platform ludwigbeck.de. In May 2015, the branch network of WORMLAND was integrated into the Group. The WORMLAND brand stands for stylish fashion for fashion-conscious men and forms the second pillar of the Group's brick-and-mortar business. All in all, mostly external brands are marketed, with own brands completing the offer. More detailed information on the Group's business model can be found in the Group fundamentals section of the consolidated management report.

Currently, the German fashion trade is undergoing a phase of radical change and comprehensive reorientation, and the relationship between provider and customer is being redefined. The customers' interest in the origins and modes of production of goods is getting more and more into the focus of individuals and of the society as a whole. The LUDWIG BECK Group is involved in this process as well, a process basically shaped by an awareness of social responsibility. Sustainability is the vital factor driving this development, as sustainable corporate action also means responsible action. In times of zero-sum competition pervading the entire branch, an awareness of responsibility with all relating aspects of corporate organization as well as vis-à-vis customers and the society can be seen as the very virtue enabling a company to define its position in the market.

This report deals with certain factual features that will help to comprehend our business procedures and business results as well as the effects our actions might have on the aspects described in the following. It is also meant to comply with the requirements of the CSR Directive Implementation Act.

In its risk and opportunity report in the management report section of the 2017 Annual Report, LUDWIG BECK assessed, among other, the risks that may affect the Group. No major risks that, should they come to pass, would potentially have serious negative consequences for the sustainability aspects described in the following, could not be found.



The company did not utilize a framework within the meaning of section 289 d Commercial Code, as the available frameworks are not fully applied.

ENVIRONMENTAL ASPECTS

LUDWIG BECK has set itself the goal to minimize any negative environmental impacts emanating from its business activities. The embedding of the Group's sales locations into cosmopolitan structures as well as the high levels of customer traffic clearly show to what extent the Group bears responsibility for contributing, through measures of its own, to consumption reduction and to the conscious use of energy in a strongly energy-consuming environment.

LUDWIG BECK appointed an external advisor to attend to the optimization of the efficiency of energy procurement and energy saving. This concept has already been applied for several years. LUDWIG BECK has reflected upon environmental issues for a long time and has tackled the subject of energy saving head-on. Therefore, the fashion company has consequently pursued the continuous optimization of its energy consumption and is constantly striving to achieve energetically impeccable facilities as the basis for all its ecological ambitions. The multifaceted measures intended to achieve high energy efficiency are described in the following:

- In the fiscal year 2017 our **logistics center in Haar near Munich** switched from fuel oil to environment-friendly natural gas.
- **Lighting facilities** at the Group's sales locations are gradually converted to highly efficient LED lighting. Only low-consumption light sources are used for sales and background areas.
- LUDWIG BECK uses **climate-friendly, long-distance heating** for its store at Marienplatz in Munich. The combined generation of heat and power helps keep negative environmental impacts at bay.
- **Heat losses** are prevented by the use of air curtains.
- Continuous **consumption monitoring** helps to prevent energy wastage.
- The Group has already started to purchase electricity from renewable energy sources.
- In line with the German Energy Services Act (EDL-G, sections 8 et seq.) **energy audits** pursuant to DIN standard 16247 are carried out every four years.

Ultimately, all these measures are meant to further reduce energy consumption and to curb climate-damaging emissions.



Another environment-critical aspect concerns **packing material**. LUDWIG BECK being a commercial enterprise operating throughout Germany and attracting high volumes of customers bears a particular responsibility in this regard. Consequently, the Group mainly uses reusable paper bags. By and by, all remaining plastic bags shall be replaced by paper bags.

Discussions about air pollution have for many years mainly focused on harmful nitrogen oxides to which Diesel vehicles contribute significantly. LUDWIG BECK as an operator of several city-center locations is well aware of its responsibility and therefore makes a contribution to air pollution control. Consequently, a truck was replaced with a vehicle based on state-of-the-art Diesel technology (Euro 6 Standard) long before the end of its company-specific, useful life. As of 2018, LUDWIG BECK will successively replace its remaining vehicles with Euro 6 Standard-compliant vehicles.

EMPLOYEE-RELATED ASPECTS

It's the employees of the LUDWIG BECK Group who ensure the company's economic stability, growth and business success. Their qualification, motivation and zest for achievement, their emotional dedication to the company and their strong identification with corporate objectives are exemplary. Therefore, the well-being of its employees is a main pillar for the long-term success of LUDWIG BECK. This attitude finds expression in LUDWIG BECK's "strategic leadership guidelines".

The concept of placing also the employees of LUDWIG BECK center stage has shown positive results for years. So, it's no coincidence that the average period of employment with the company is approximately 12 years. The Group is also regularly monitoring the sickness rate and uses it as an indication of the employee satisfaction.

The employees' exceptional commitment is being promoted by a number of permanent measures and decisions of the management, which strengthen employee satisfaction and lead to the stable integration of sustainability principles into the corporate culture at the same time:

The Supervisory Board holds regular **management meetings** with all executives to provide insights into the Group's strategic goals. By attending workshops and discussions on corporate matters, executives participate in and influence the company's further development. The results achieved through the relevant processes are shared by the individual teams, so that all employees get well informed about the set goals and the means for their achievement.



The Group operates on a **non-gender-specific in-house wage and salary agreement**. Wages and salaries are subdivided into five wage and salary groups graded according to the years of professional experience. LUDWIG BECK attaches high importance to the fair and appropriate remuneration of its employees. The company wants to ensure that employees enjoy working for LUDWIG BECK and consider themselves important parts of the whole.

Department and division heads of LUDWIG BECK are also entitled to bonus agreements, which honor their success in the respective areas of responsibility and departments.

LUDWIG BECK counts on **diversity in the company**. Currently, the Group employs persons from a total of 46 nations. Nationalities are spread across all hierarchical levels. Thus, discriminations against certain nationalities are virtually impossible.

The **General Equal Treatment Act (AGG)** gets proactively implemented and forms an integral component of training measures for new employees, junior executives and special fields.

Two specialists for **labor protection and occupational safety** as well as WORMLAND's audit department create awareness among employees and managers of risk factors and develop appropriate solutions to remove these risk factors. At regular meetings of the occupational safety committee, problem areas are discussed with the management and the works council, and concepts for combatting them are identified.

The number of work accidents in the reporting year amounted to 15 cases for the Group, while in 2016 there were 16 cases.

LUDWIG BECK established an **occupational health system (BGM)** in 2011. Among other, it serves to promote health over long periods of time. Against the background of the current demographic development, the management has a compelling desire to preserve the employees' health as far as possible. The following components form integral parts of the BGM:

- regular **health days** to increase the employees' awareness in dealing with their own health,
- course offers for business yoga, Nordic walking, running school, brain jogging and stress management,
- individual measures like payment for glasses for computer work, height-adjustable desks and working tables, special chairs and much more,
- offers for smoking cessation.

The **staff restaurant** at the flagship store of LUDWIG BECK provides high-quality catering.



The **corporate integration management** (BEM) of LUDWIG BECK takes a very practical approach. This includes contacting and inviting, via the personnel office, all employees who were on sick leave for more than 6 weeks at a time or cumulatively in a year. Discussions focus on the goal to bring these employees back to their former ability to work and to find out whether their reintegration appears reasonable and what would be required from the company's point of view to achieve that end.

Regular **trainings, development programs** and **individual continuation trainings** are held:

- Alongside their vocational school attendance, apprentices are not only trained on the shop-floor but also regarding their **personal development**.
- All new sales employees receive a basic training in **sales psychology**.
- General and individual trainings for sales employees serve to maintain and further develop the **quality standard**. High importance is attached to attitude questions and the further development of personality features.

RESPECT OF HUMAN RIGHTS

In its flagship store at Marienplatz in Munich, in the Fünf Höfe annex and in the WORMLAND branches the LUDWIG BECK Group markets a wide range of products produced by a large number of suppliers. LUDWIG BECK places great importance on ensuring that its relationships with suppliers are geared to the long term. This is meant to achieve a high level of information at all levels of the manufacturing process.

We cooperate with our key suppliers on a basis of trust, which also implies a mutual basic understanding that legal requirements and standards shall be fulfilled as a matter of course (**legal conformity**).

As the company basically is not involved in manufacturing and consequently has no direct influence on manufacturing procedures and countries of manufacture, no wider concept is being followed for the time being.

Therefore, it is even more important to select suppliers with diligence and to make sure that manufacturer data do not run counter to the values of LUDWIG BECK.

COMBATING CORRUPTION AND BRIBERY

As a company operating throughout Germany LUDWIG BECK attracts a wide range of customers with its brick-and-mortar stores and e-commerce business, establishes far-reaching partnerships and gains the attention of numerous investors. As a broadly positioned and diversified fashion trader LUDWIG BECK interacts with many stakeholders. The company has implemented a number of measures in order to combat corruption and bribery.



The **German Corporate Governance Code** features prominently in this endeavor as it sets out provisions regarding the management and monitoring of publicly listed companies and contains standards of good and responsible corporate management. The stock company LUDWIG BECK feels committed to the Code and applies the standards as described in the corporate governance section of its Annual Report.

The Executive Board also appointed an external compliance commissioner, which directly reports to the Executive Board about occurrences relating to money laundering or corruption, about which the commissioner learns from members of the staff. The compliance commissioner is supported by an internal coordination office. The contact data of the compliance commissioner is available to the employees of LUDWIG BECK; thus, they can contact him at any time.

Compliance as pursued by LUDWIG BECK is reflected in the following important Group policies, which have been communicated to all employees concerned:

Gift policy

The employees of LUDWIG BECK stand for the values of cosmopolitanism, tradition, zeitgeist, individuality, legal compliance and transparency in all dealings with colleagues, customers and business partners. They are not permitted to offer or accept any benefits which might serve the purpose of inappropriately influencing business decisions or achieve any personal gains.

Policy for samples to wear

A special case within the framework of the gift policy concerns the handling of samples for wear. These “samples to wear” are only provided to the company and then handed over to selected employees as items on loan for a period of six months. They may be worn in the sales areas to present customers with complete outfits of the products on sale. Samples to wear are also used in order to test fits and qualities of materials. After expiry of the period of six months, the products have to be returned to LUDWIG BECK and will be destroyed as the case may be. Alternatively, employees may purchase the worn and tested products.

Policy for the prevention of money laundering

The company has introduced control mechanisms for its cash desks, which are automatically triggered when payment amounts reach or exceed Euro 10,000.



EPILOGUE

As a reflection of LUDWIG BECK's self-concept, processes are continuously being optimized. Consequently, LUDWIG BECK will continue to strive for the economical use of resources. The company gets a great deal of public attention and will do everything in its power to maintain and enhance the trust of our employees, customers, partners and investors also in the future. Therefore, measures for the implementation of sustainability standards already taken are constantly critically reviewed and optimized or replaced with better ones where necessary.

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