

LUDWIG BECK



SEIT 1861

LUDWIG BECK SEPARATE NON-FINANCIAL GROUP REPORT

PREFACE BY THE EXECUTIVE BOARD

The Group operates under the brand LUDWIG BECK in the medium to premium-priced textile retail segments. The selection of products mainly consists of textile and non-textile products such as cosmetics or sound carriers. The flagship store "Store of the Senses " at Munich's Marienplatz forms the heart of the Group's stationary business, with the annex HAUTNAH in Munich's FÜNF HÖFE providing an additional outlet. In parallel, the online platform ludwigbeck.de offers a wide range of premium cosmetics. The Group's business model also includes the sale of third-party brands, which are supplemented by own brands. As of April 30, 2019, the WORMLAND division was sold as part of a management buyout. Therefore, the reporting was re-adjusted for the LUDWIG BECK division. More detailed information on its business activities can be found in the company's consolidated management report.

The complex process of structural changes in German fashion retail continues unabated. As a result, the relationship between suppliers and customers is being reassessed. The customers' interest in the origin and type of goods production is increasingly becoming a focus of attention, making it a subject even of social relevance. The LUDWIG BECK Group is part of this trend and is assuming social responsibility. Sustainability is of particular importance since acting responsibly always means acting sustainably. In times of industry-wide and oversubscribed competition, a modern company in the fashion trade can consolidate its position in the market by demonstrating that it is sustainability-driven within its own organization towards customers and society.

With this report, we look at specific issues that are essential for understanding the course of business, the development of the business results, and the effects our activities have on the aspects described below. At the same time, we meet the requirements of the CSR guideline implementation law.

In the 2019 annual report, LUDWIG BECK assessed possible risks to the Group in an opportunity and risk report as part of the Group's management report. Serious risks that, if they occur, could very likely have serious negative effects on the aspects of sustainability described below have not been identified.

A framework similar to Section 289 d of the German Commercial Code (HGB) was not used because the Group does not apply it in full.

LUDWIG BECK



ENVIRONMENTAL CONCERNS

LUDWIG BECK's aim is to reduce the negative environmental impact of its business activities to the lowest possible extent. The embedding of the two sales locations in central urban structures in combination with high customer frequency makes it clear to what extent the Group bears responsibility for contributing, through measures of its own, to reduce consumption and to be conscious of the use of energy in a strongly energy-consuming environment.

LUDWIG BECK has commissioned an external energy consultant to continuously monitor the efficiency of energy procurement and energy savings and to submit suggestions for energy optimization to corporate management. As a company reflecting on environmental issues, LUDWIG BECK has been addressing the topic of energy saving for a long time and has therefore been pursuing this consultant concept for several years. This has resulted in continuously reduced energy consumption as the basis for all ecological endeavors. The various measures intended to achieve high energy efficiency are described in detail in the following:

- The conversion of **lighting facilities** at the sales locations to highly efficient LED lighting was intensively pursued in the 2019 reporting year. The sales and administration areas are thus largely illuminated by low-consumption light sources.
- LUDWIG BECK uses **climate-friendly district heating** for its store at Marienplatz in Munich. Combined heat and power generation minimizes negative environmental impacts.
- The use of air curtains prevents **heat loss**.
- Continuous **consumption monitoring** counteracts energy wastage.
- Consumption reporting is carried out regularly and current information on the electricity market and its regulations is evaluated.
- Furthermore, LUDWIG BECK obtains part of its energy from **renewable energy sources**.

According to the requirements of the German Energy Services Act (EDL-G, Section 8 et seq.), **energy audits** pursuant to DIN 16247 standard are carried out every four years. The last one took place in 2019. Energy saving measures were developed for the following years, such as the use of a photovoltaic system, the further changeover to LED, and voltage optimization.

All measures mentioned are intended to reduce energy consumption and thus reduce emissions that are harmful to the climate. The positive results confirm the decisions made. In 2019, electricity consumption was significantly reduced compared to 2018.

The use of **packaging material** is also an environmentally critical issue. Being a commercial enterprise attracting large customer volumes, LUDWIG BECK considers this matter to be of

LUDWIG BECK



particular importance. Therefore, LUDWIG BECK mainly uses reusable paper carrier bags. Gradually, the remaining plastic bags should be fully replaced by paper bags.

The ongoing discussion about air pollution concentrates heavily on the harmful nitrogen oxides, which are mostly emitted by diesel vehicles. Due to its inner-city locations, LUDWIG BECK is aware of its responsibility and contributes to air pollution control. In previous years, two trucks with the latest diesel technology (Euro 6c standard) had already been purchased. The replacement of the last truck with outdated diesel technology is planned.

EMPLOYEE CONCERNS

The great commitment of the LUDWIG BECK employees is the foundation for the economic stability, growth, and business success of the company. Their qualifications, motivation, and willingness to perform, their emotional attachment to the company as well as their strong identification with its goals are exemplary. The well-being of the employees is therefore essential for the long-term success of LUDWIG BECK and is the subject of the "Strategic Leadership Guidelines".

For many years, employees have been at the center of LUDWIG BECK's concerns. The resulting positive effect is expressed in the average length of service of the employees which is approximately 11 years. The low illness rate within the company, which is subject to regular monitoring, is an indication of high employee satisfaction too.

The management promotes the employees' above-average commitment with a variety of permanent measures and thus maintains their high level of commitment. The high employee satisfaction also contributes to a consolidated sustainability in the corporate culture.

LUDWIG BECK applies a **gender-independent in-house wage and salary agreement**. The remuneration is divided into five tariff groups and graded according to years of professional experience. It is important that employees receive fair and appropriate remuneration. The company wants to ensure that employees feel comfortable at LUDWIG BECK and consider themselves a fundamental part of the company.

The department and division heads of LUDWIG BECK are also entitled to bonus agreements reflecting the success of the company, of their area of responsibility, and their specific department.

LUDWIG BECK favors **diversity in the employee structure**. Employees from a total of 34 nations currently work for the company. The nationalities of the employees are distributed

LUDWIG BECK



across all hierarchical levels. At LUDWIG BECK, discrimination against certain nationalities is not a critical issue.

The **General Equal Treatment Act (AGG)** is implemented proactively and is an integral part of the training for new employees, especially for trainees.

A specialist for **occupational safety** and **fire protection** as well as two safety officers sensitize employees and company management on risk factors and develop appropriate solutions for their elimination. Any problem areas and suggestions for their elimination are discussed in regular occupational safety committee meetings with the management and the works council.

LUDWIG BECK had 17 work accidents in the year under review. In the 2018 financial year, there were 12.

LUDWIG BECK established an **occupational health management system (BGM)** in its parent company at Marienplatz in 2011. It serves, among other things, for health promotion over long periods of time. Against the backdrop of demographic development, management is doing everything possible to maintain employee health. Fixed components of the BGM are:

- Regular **health days** to raise awareness among employees in dealing with their own health,
- Courses for business yoga, Nordic walking, running school, brain jogging, and stress management,
- Individual measures such as payment for computer work glasses, height-adjustable desks and worktables, special chairs and much more.

The **staff restaurant** in the parent company provides high-quality catering.

LUDWIG BECK's **corporate integration management (BEM)** takes a very practical approach. Among other things, this includes contacting and inviting, via the personnel office, all employees who are absent for more than 6 weeks in a row or cumulatively per year due to illness. The focus of the discussion is to bring these employees back to their original work capacity and to clarify whether reintegration appears reasonable and what would be required from the company's perspective to achieve that end.

LUDWIG BECK regularly offers **training courses, development programs**, and individual **advanced training**. Apprentices are trained in parallel to the vocational school in the company, both subject-specific and in their **personal development**. To provide enough flexibility to relieve the strain on the core employees at peak times, the company continues to rely on temporary help. Nevertheless, customers should continue to be offered a high-quality service, which is why new employees and temporary staff receive appropriate onboarding with goods

LUDWIG BECK



SEIT 1861

and trends training. General and individual **training of the sales staff** also serves to maintain and optimize the known **high-quality standards** of LUDWIG BECK. Questions of attitude and the further development of personality traits are of particular importance.

RESPECT FOR HUMAN RIGHTS

LUDWIG BECK sells a wide range of products in its headquarters at Marienplatz in Munich and in the FÜNF HÖFE annex, which is manufactured by a large number of suppliers. The company attaches great importance to long-term stable relationships with its suppliers. This is intended to achieve a high level of information at all stages of the manufacturing process.

The trust and cooperation of our key suppliers require our mutual understanding as a matter of course that legal requirements and standards are complied with (**legal conformity**). LUDWIG BECK also requires its own brand suppliers to comply with the **BSCI (Business Social Compliance Initiative)** code of conduct.

As the company is not involved in manufacturing and consequently has no direct influence on manufacturing procedures and countries of manufacture, no further concept is currently pursued on this point.

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

COMBATING CORRUPTION AND BRIBERY

LUDWIG BECK addresses a wide range of customers in the stationary fashion trade and e-commerce, establishing extensive partnerships and gaining the attention of numerous investors. LUDWIG BECK also interacts with many stakeholders. Various measures have been initiated to counter corruption and bribery.

As a stock corporation, the company feels obliged to comply with the **German Corporate Governance Code**, which sets out the regulations for the management and supervision of German listed companies and which contains the standards of good and responsible corporate governance.

The Executive Board has also appointed an external compliance officer to report directly to the Executive Board about incidents relating to money laundering and corruption, which are reported to him by members of the staff. The compliance officer is supported by an internal coordination office. The contact details of the compliance officer are known to LUDWIG BECK

LUDWIG BECK



SEIT 1861

employees; therefore, they can contact him at any time.

No significant compliance incidents were reported in the 2019 reporting year.

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

Gift policy

In everyday dealings with colleagues, customers, and business partners, LUDWIG BECK employees represent the values of cosmopolitanism, tradition, zeitgeist, individuality, legal compliance, and transparency. Employees are not permitted to offer or accept donations that may serve to influence business decisions in an inadmissible manner or to gain a personal advantage. The gift policy is communicated at regular intervals in training courses.

Wear test guideline

The handling of wearing samples is a special case within the gift directive. At LUDWIG BECK, wearing samples are only given to the company and then made available to selected employees on loan for six months. If they are worn in the sales area, wearing samples serve as a vital presentation of complete outfits of the goods to be sold to the customer. Wearing samples are also used to test fit or material qualities. After the six months, the products are returned to LUDWIG BECK and, if necessary, destroyed. Alternatively, the used or tested products can be purchased by the employees.

Money Laundering Prevention Policy

To prevent money laundering, the company uses control mechanisms at the cash registers that automatically take effect when payment amounts reach or exceed 10,000 Euro.

EPILOGUE

LUDWIG BECK's self-image includes the continuous optimization of operational processes. Therefore, the company continues to strive to use sparingly all the resources it needs. The company gets a great deal of public attention and will continue to do everything possible to win, maintain, and enhance the trust of its employees, customers, partners, and investors. To meet this requirement, the measures already taken to achieve sustainable standards are subject to constant critical review and are necessarily optimized or supplemented by new ones.

Munich, March 2020

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