

**Policy Statement by the Companies of  
Schwarz Produktion on Respecting  
Human Rights and Environmental  
Standards**

## **Our Basic Position**

The companies of Schwarz Produktion consider social and environmental sustainability to be of great importance. We produce high-quality food products and sustainable materials for the Lidl and Kaufland Groups.

Our common aim is to promote human rights and environmental standards in our businesses and throughout our global supply chains and ensure compliance therewith. Together with our employees, customers, business partners and other stakeholders, we work continuously to protect and advance human rights – and this is expressed in particular in our commitment to fair business practices and good working and living conditions.

This policy statement is an expression of our commitment to the above principles and is based on the following internationally recognized conventions, guidelines and standards:

- UN Universal Declaration of Human Rights
- 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
- Minamata Convention
- Stockholm Convention
- Basel Convention
- The ten principles of the UN Global Compact (UNGC)

These principles provide the framework for the expectations we have of our business partners. It goes without saying that national and other relevant laws and requirements applicable in the countries in which business is conducted must be complied with as well.

## **Our Responsibility**

The companies of Schwarz Produktion respect the rights of their employees and take a proactive approach to complying with environmental standards. This commitment to environmental and social standards does not end at the company's door. We actively promote fair business practices, good working and living conditions and environmentally responsible conduct all along our supply chain. This commitment is rooted in the fact that the companies of Schwarz Produktion obtain some of the raw materials for their food products from global supply chains because certain materials cannot be grown locally.

We expect our business partners to honor and enforce the following principles:

- compliance with the ban on child labor and the protection of minors
- ban on forced labor and modern slavery
- equal treatment of all employees, zero tolerance for discrimination and equal pay
- fair treatment at the workplace free from harsh or inhumane treatment
- protection of personal data
- the right of all employees to establish employee representative bodies and to conduct collective bargaining governing working conditions
- ban on inappropriate disciplinary action
- ensuring health and safety at the workplace
- granting remuneration at least in the amount of the minimum wage guaranteed by law for working hours in accordance with the applicable standards
- protection of land rights and ban on adverse environmental impacts, such as harmful changes to the soil or water pollution

These principles are anchored in our Business Partners' Code of Conduct and are incorporated in contractual agreements with our business partners.

## **Our Approach for Implementing Corporate Due Diligence**

Overall responsibility for our corporate due diligence obligation lies with management. Verifying compliance with human rights and environmental regulations is an integral part of our compliance management system. The requirements under the German Supply Chain Due Diligence Act (*Lieferkettensorgfaltspflichtengesetz*) are implemented on a task- and department-specific basis. Purchasing, Legal & Compliance, Public Relations & Sustainability and Risk Management are particularly involved in these efforts. This broad-based approach allows us to ensure:

- the support and commitment from the organization's leadership;
- the comprehensive identification of risks;
- the development of a human rights and environmental strategy;
- the assignment of roles and responsibilities;
- the embedding thereof in all processes;
- the capability to take preventative action;
- the continuous optimization of the processes and review of the effectiveness of the action taken.

## **Risk Analysis**

Identifying the risks, assessing the potential impacts and developing effective measures to avoid the risks or minimize the impacts is an ongoing corporate due diligence responsibility for the companies of Schwarz Production. We also conduct annual and ad hoc risk analyses as necessary to enable the early identification of human rights and environmental risks in our own business and at our direct and indirect business partners and to enable preventative or remedial action to be taken.

### Risk analysis in relation to direct and indirect business partners

The risk analysis takes into account various criteria, including severity, likelihood of occurrence, ability to influence the party causing the risk, our potential contribution to the cause of the risk and the risk itself. The analysis also considers the activities of business partners according to location, industry, upstream production chains typical in the industry and type and origin of raw materials used/associated with risk.

When prioritizing business partners, both the risks at the direct business partner and those in its supply chain due to raw materials associated with risk or high-risk upstream production chains are taken into account. The findings of the risk analysis undergo plausibility testing and, if necessary, the risk assessment will be modified before preventative action is taken.

In essence, the risk analysis prioritizes each business partner in terms of the "relevance for action". The relevance for action is determined by combining the human rights risk aspects with the ability to influence the party causing the risk and the potential contribution to the cause of the risk. The priority level serves to determine the extent to which preventative action must be taken in the case of the given business partner.

Only a small proportion of our direct business partners are prioritized with high or very high relevance for action. The majority of our direct business partners are based in Germany. Those business partners which are prioritized with high or very high relevance for action stem for example from the group of our suppliers of raw materials and operating supplies, particularly raw materials for chocolate products and fat glaze. The identified raw materials associated with risk, which include in particular cocoa, palm oil and coffee beans, also bear mentioning in this context. The biggest risks we identified lie in the areas of fair wages, freedom of association, occupational health and safety and forced and child labor. Furthermore, an increased risk was identified in relation to fair wages and freedom of association in transport and logistics services and the associated supply chains.

We conduct risk analyses of indirect suppliers as required by law when we receive relevant information. We have raised awareness among our employees and suppliers so that they are able to identify risks in relation to indirect suppliers at an early stage.

### Risk analysis related to our own business

Risk management related to our own business includes process-based, performance-related and regulatory risks and also covers matters related to corporate due diligence. As part of the risk analysis for our own business area, our business processes are reviewed to determine whether they too contain risks related to corporate due diligence. Not unlike the risk analysis process for business partners, the risk analysis for our own business also prioritizes the identified risks according to severity and likelihood of occurrence. We review whether additional action is required to appropriately avoid a given risk and how the actions taken impact the risk assessment made. For example, a general risk was identified in relation to occupational health and safety. At the same time, by conducting a risk analysis, we were able to confirm that the companies of Schwarz Production do not use any substances containing mercury. To further reduce risk, we have made testing of this substance mandatory in the material approval process. The risks already identified and any actions taken are reviewed annually with the process owners for completeness and effectiveness.

### **Preventative Action**

The findings of the risk analysis form the basis for a series of preventative and remedial actions to avoid potential risks or remedy existing abuses in our own business or at our business partners.

### Preventative action related to our own business

The action related to our own business includes:

- the public commitment to respect human rights and the environment along the entire supply chain in the form of this policy statement and its implementation in our own business
- complying with our Code of Conduct in respect of upholding human rights and environmental standards, and adapting it on an ongoing basis
- raising awareness and providing training to all employees on corporate due diligence issues
- further developing grievance mechanisms via which human rights and environmental violations can be reported anonymously
- adapting purchasing strategies by establishing our supplier management system, including supplier self-disclosures on environmental and sustainability issues and regular meetings with suppliers
- the fact that the Schwarz Produktion sites are predominantly covered by collective bargaining agreements or the wages are based on the collective bargaining agreements
- introducing occupational health and safety management based on ISO 45001 at every Schwarz Produktion site

### Preventative action related to direct business partners

The action related to direct business partners includes:

- conducting compliance checks of our potential business partners prior to working with them
- raising awareness among our business partners about corporate due diligence

- factoring in aspects of sustainability and short supply chains when selecting business partners: the majority of business partners from which companies of Schwarz Produktion source raw materials and operating supplies are based in Germany
- applying risk-based contractual assurance of compliance with human rights and environmental expectations based on the Business Partner Code of Conduct and contractual control mechanisms

The companies of Schwarz Produktion have already taken action related to our identified raw materials associated with risk. All raw materials containing cocoa which are used in manufacturing products are certified according to accepted sustainability standards. We only use palm oil or palm kernel oil if no other plant-based oils can be used for qualitative and/or technological reasons. All companies of Schwarz Produktion which process raw materials containing palm oil are certified according to the Roundtable on Sustainable Palm Oil (RSPO) standard.

We employ various means to continuously review the effectiveness of the actions we take. These include documenting complaints received, extensive media monitoring including with regard to incidents in our (deeper) supply chain, close exchange with various associations, regular direct contact with our business partners and by conducting audits where necessary. Our aim is to always work constructively with our business partners and cooperate in solving challenges.

### **Grievance Management**

Various grievance mechanisms can be used by those affected by or witness to potential violations of human rights or environmental standards to report such violations. Our online reporting system is available in approximately 30 languages to virtually anyone to submit a report, which will be treated as strictly confidential and remain anonymous if so requested. It can be accessed via the link below:

<https://www.bkms-system.net/bkwebanon/report/clientInfo?cin=13meg7&c=1&language=eng>

Grievances may also be reported to the Compliance Officer or external counsel at any time.

Grievances will be handled confidentially and fairly in accordance with our procedural guidelines. According to the procedural guidelines, the Legal & Compliance department reviews the report first to determine whether a relevant human rights or environmental violation has been committed. If relevancy and reasonable suspicion is found, an internal investigation will be initiated to clarify the facts and take remedial action in response if necessary.

Key findings from grievances are used to further develop the mechanisms and identify risks. If adverse impacts are in fact identified that a company of Schwarz Produktion caused or contributed to, we will provide appropriate redress.

## **Remedial Action**

If there are specific indications of potential or actual violations, in particular from raising awareness among staff of complaints or reports, companies of Schwarz Produktion take remedial action without undue delay after identifying a corresponding violation. The specific remedial action is determined on a case-by-case basis for each situation and each direct or indirect business partner. We also apply predefined framework measures that can be activated immediately for particularly effective remedial action and populated with specific content in response to violations.

We define a process, targets and clear internal responsibility for each remedial action, including a specific timetable and intermediate goals.

## **Reporting and Documentation**

Compliance with all due diligence obligations is documented on an ongoing basis. The documentation covers all risk management processes, identified risks and preventative and remedial action taken.

We report annually on key human rights and environmental risks, the actions taken and the progress made, as well as on continuing challenges. The report will be published on our website and accessible to everyone.

## **Contact**

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The management

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