



Sustainability Report
2022

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FOREWORD

Dear Readers,

Climate change, resilient supply chains, respect for human rights – these are just some of the major issues of our time. They have one thing in common: they affect all of us and we need to address them. That's why we at Herza Schokolade GmbH & Co. KG have embarked on this journey, making our sustainability-related activities even more systematic, defining them within a sustainability strategy with targets and key figures and thus making them measurable and tangible. This report is the first step in this direction: it summarises what we have already done in concrete terms over the past few years and provides an overview of where we stand.

But this is only the beginning: in light of increasing regulatory requirements, a Group-wide strategic positioning is currently being developed for all sustainability activities of the Stern-Wywiol Gruppe, our parent company. In this context, we at Herza Schokolade GmbH & Co. KG have also appointed a person in charge of our sustainability management. We are currently defining the relevant sustainability topics along our entire supply chain as part of a materiality analysis. This makes our sustainability management and the associated reporting more professional and our contribution to sustainable development more transparent.

We would be delighted if you would join us on our journey and are keen to hear your feedback and suggestions.

We hope you enjoy reading this report.
Kind regards,

Florian Bayerlein, Managing Director



2. ABOUT HERZA SCHOKOLADE GMBH & CO. KG

Herza Schokolade GmbH & Co. KG, based in Norderstedt, Germany, produces small chocolate pieces for the food processing industry as well as protein bars. The predominantly European customers for chocolate pieces use them as inclusions or decorations for baked goods, muesli mixtures, ice cream and dairy products. The protein bars are sold to retail brands and own brands via the sister company SternLife GmbH & Co. KG.

Herza Schokolade GmbH & Co. KG has been based in Norderstedt since 1949. The company has been part of the Stern-Wywiol Group since 2000. Over the past ten years, the operations have been greatly expanded, modernised and adapted to the ever-increasing challenges in the areas of occupational health and safety, quality and energy management. The approach has always been pragmatic. Hence the aspects and developments mentioned in this report are not based on a previously conducted materiality analysis. In view of the new, uniform European reporting standards in accordance with the Corporate Sustainability Reporting Directive, this materiality analysis will be carried out in the upcoming reporting period.



3. ENVIRONMENT

'Along our entire value chain, our business activities are so conceived that they have as little environmental impact as possible. We attach great importance to compliance with national and international legislation and regulations on protection of the environment, and we make sparing use of natural

resources. All employees assume responsibility for ensuring, in their sphere of activity, that their individual conduct contributes to protecting the environment and the climate.'

Code of Conduct, Stern-Wywiol Group

a. Energy

We need sufficient energy to manufacture our products. Energy is used at the production site in the form of electricity and heat. Significant energy users (SEUs) are production technology and peripherals. In particular, the temperature-controlled warehouse and the necessary heating of the raw material and chocolate tanks are energy-intensive.

In order to systematically analyse our consumption and continuously optimise the use of energy, we introduced a holistic energy management system in accordance with DIN EN ISO 50001 in 2015. The central HSE department of the Stern-Wywiol Group is responsible for this. An Energy Officer has been appointed for the Herza Schokolade GmbH & Co. KG site in Norderstedt. All employees receive annual training on ener-

gy-saving options and current energy-saving targets and are made aware of how to use energy responsibly. We currently use electricity consumption (per metric ton) and district heating demand (per metric ton) as a key indicator. The company's electricity consumption per metric ton has increased slightly over the past four years for capacity utilisation reasons. In 2022, it was 384.34 kWh/t, which corresponds to an increase of 11.8 per cent on the previous year. Since 2016, heat has been sourced from a combined heat and power plant operated by Stadtwerke Norderstedt. Viewed overall, the use of district heating has been continuously reduced by 2.8 per cent in a four-year comparison. However, consumption of district heating per metric ton increased by 9.4 per cent due to the lower output in 2022 compared to 2021.

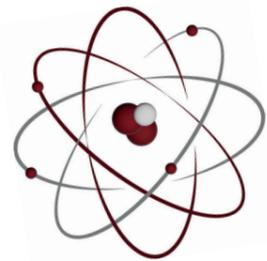
	2019	2020	2021	2022
Electricity in kWh/t	301.99	354.54	343.64	384.34
Electricity in kWh	2,274,607	2,226,185	2,279,352	2,270,308
District heating in kWh/t	154.93	177.95	165.34	180.95
District heating in kWh	1,166,911	1,117,325	1,096,726	1,068,862

Table 1: Development of electricity and district heating consumption (2019–2022)

Our aim is to return to electricity consumption of < 300 kWh/t and district heating consumption of < 150 kWh/t by 2026. To this end, we have already invested in various measures in recent years.

Time frame	Measure	Calculated saving
2019	Steel belt reconditioning in roller area	2,000 kWh
2020	Measuring point system (detailed representation and documentation of energy consumption)	5,320 kWh
	Converting line 1 to cold water	4,000 kWh
2021	Additional split air conditioning system in maintenance workshop	2,000 kWh
	Replacement of air compressor technology	30,000 kWh
	Optimisation of air conditioning circuit Production/hall	3,000 kWh
2022	External localisation of leaks in the air compression system	10,000 kWh
	Lighting switched to LED, incl. intelligent use of light in warehouse	13,000 kWh

Table 2: Overview of energy-saving measures (2019–2022)



In order to achieve our energy-saving targets by 2026, the following measures are planned for 2023.

- Ongoing expansion of the network of measuring points/ meters in order to identify further SEUs and define corresponding measures.
- Expansion of heat recovery (compressed air system/ cooling unit) and use of a dry cooler system for particularly environmentally friendly and energy-efficient cooling when the new facility goes into operation.
- Optimisation and streamlining of heat distribution at the company by replacing pumps and distributors.
- In addition, a new building section will go into operation at the Norderstedt site in 2023 that meets the KfW 55 standard (maximum primary energy requirement of 55 kWh/m²).

b. Water

Against the backdrop of climate change, water is becoming an increasingly valuable resource. We are aware of this situation and are therefore making every effort to use water as efficiently as possible and to constantly reduce our waste water production. The responsible use of water is monitored as part of our energy management system (see also our management approach to energy under 3.a); employees are regularly made aware of the importance of using this resource sparingly.

Water is needed for a variety of purposes at the Norderstedt site. This includes the heating of production infrastructure such as tanks, pipes, kneaders and tempering machines; cooling the rolling mill; cleaning work materials; using it as domestic water in the communal rooms and drinking water for the manufacture of products.

The heating circuits are closed systems. Only the cooling circuit is an open system in which the water seeps away on the property after use.

Water is drawn exclusively from the company's own well. We ensure high water quality through continuous checks. As our site is located in a water conservation area, we set exceptionally high standards to ensure that groundwater is not contaminated by our production activities.

In 2022, our water consumption per metric ton increased slightly compared to the previous year for capacity utilisation reasons, from 0.71 m³/t in 2021 to 0.76 m³/t in 2022. Total water consumption fell by 4.4 per cent compared to the previous year.

	2019	2020	2021	2022
Water in m³/t	0.84	0.75	0.71	0.76
Water in m³	6,346	4,704	4,694	4,486

Table 3: Development of water consumption (2019–2022)

c. Waste

Various types of waste are generated at our site; this waste is separated wherever possible and sent for recycling. Our employees receive annual training and are made aware of how to avoid waste.



	2019	2020	2021	2022
Cardboard in kg/t	12.51	16.02	11.25	16.48
Film in kg/t	0.57	1.95	1.15	1.41
General waste in kg/t	22.07	21.36	17.38	18.41
Packaged goods in kg/t	6.40	11.99	10.94	9.13
Unpackaged goods kg/t	12.78	28.51	26.14	31.50

Table 4: Development of waste by type (2019–2022)

The increase in waste per metric ton is mainly due to more stringent quality management. In the foreseeable future, this should be reflected in a reduction in defective products/raw ingredients and thus also in a reduction in the quantities of waste. Measures are continuously being taken to avoid waste wherever possible and to recycle it in an optimal way. Production waste is used to produce animal feed, whereas rejects of packaged

goods (B-goods) are donated and handed over to employees. Single-use pallets are not accepted. Waste is also separated and recycled in the administration and communal areas. With regard to end-of-life packaging (for end consumers), regular checks are carried out to determine which new sustainable packaging materials are available on the market. To this end, we are in close contact with our customers (private labels).

d. Packaging

At our site, cardboard and film are the main packaging materials used. A distinction is made here between the packaging of semi-finished products (chocolate in small pieces) and consumer products (bars/powder).

The small pieces of chocolate are packaged in PE foil bags and a corrugated cardboard box. The foil bag has been optimised to be as light as possible and is 100 per cent recyclable. The corrugated cardboard is made from up to 100 per cent recycled material and is FSC Mix-certified.

As we produce the end consumer products as private labels, the decision on packaging is left to the customer. We primarily offer materials that are already made from recycled material and/or are 100 per cent recyclable. Films made of biodegradable material are also available.

We always strive to reduce packaging material wherever possible, to use recyclable materials and to avoid rejects. The following measures have already been taken in this regard since 2022.

- Production of chocolate pieces: saving of PE bags/cardboard boxes thanks to direct reprocessing of rejects instead of storing them as reworks
- Purchasing of composite foil for bars: optimised collaboration with film suppliers and reduction of faulty deliveries (right first time)
- Production of bars: optimisation of production planning, reduction of unsaleable surpluses

e. Logistics

In terms of logistics, too, we strive to keep our environmental impact as low as possible. We have therefore entrusted the management of our external warehouse to a warehouse keeper who has been working in this area for many years and has been certified according to Green Logistics since 2014. This means that the quality management system has been expanded to include environmental measures in accordance with ISO 14001. Organic certification is also held. In the area of logistics, we also work with large forwarding companies that have a proven commitment to sustainability and have implemented an energy management system.



	2019	2020	2021	2022
Total number of employees	173	189	203	228
Fixed-term vs. permanent employment contracts	41/132	16/173	18/185	25/203
Men/women	93/80	105/84	116/87	130/98
Percentage of women	46%	44%	43%	43%
Share of women in management positions	22%	11%	22%	29%
Number of people with severe disabilities	4	6	6	5
Number of nationalities	23	29	29	37
Number of employees on parental leave	3	7	6	2
Part-time/full-time	9/164	10/179	12/191	12/216

Table 5: Development of key employee figures (2019–2022)

As we are not subject to collective bargaining agreements as an employer, we have introduced our own wage and salary matrix for industrial positions. This matrix creates transparency and comparability for employees and highlights development prospects.

4. SOCIAL ISSUES

a. Employees in the company's own business area

Long-term relationships and working conditions based on respect and trust are the most important factor for us when it comes to a successful and sustainable future. We continuously seek to provide our employees with a socially acceptable, safe and motivating working environment. As a company based in Germany, it goes without saying that we uphold human and employee rights in accordance with the stringent legal requirements. We treat all people with respect and uphold the principle of equal opportunities. We have enshrined these principles in our corporate philosophy and the Group's Code of Conduct. Our employees receive regular training in these areas. Internal pro-

cedures are regularly reviewed by means of self-audits. SMETA auditing of the site is being planned and is in preparation.

The central HR department of the Stern-Wywiol Group is responsible for managing all personnel matters. Employees are able to contact HR representatives on-site in Norderstedt. There is currently no overarching strategic target for employees, but this is being developed as part of the drawing up of the Group-wide sustainability strategy. Table 5 summarises the current HR indicators and provides an overview of development over the past four years.

b. Employee health and safety

A safe working environment and active health protection are a matter of course for us. Only with healthy employees can we be and remain a successful company. We focus on prevention and take all necessary measures to prevent accidents and damage to health in the working environment. This is ensured by our occupational safety plan, which is put into practice at the site.

Health and safety management is anchored in the Group's central HSE department. Two occupational health and safety specialists have been appointed at the Norderstedt site and a wide range of occupational health services are offered by a company medical service. In addition, comprehensive external advice is available for employees and relatives on numerous topics. This advice is anonymous and confidential.



The objective in the area of occupational health and safety is to further reduce the rate of illnesses and accidents and keep this rate as low as possible. We measure this using the Lost Day Frequency Rate (LDFR) and the Lost Time Injury Frequency Rate (LTIFR) and use the average rate of the employers' liability insurance association (BG) as a benchmark for evaluation within the company.

In 2022, the LDFR was 0.23, which represents a year-on-year increase of 176 per cent. The LTIFR has also more than doubled compared to 2021 (+119 per cent), reaching 23.9 in 2022. Our ambition is to return to the 2020 figures after two years of Covid-related challenges, even after the resumption of normal capacity utilisation in 2023, thus achieving an LDFR of 0.19 and an LTIFR of 16.8 respectively. In any case, we aim to be well below the BG average.

	2019	2020	2021	2022
LDFR (Lost Day Frequency Rate)	0.47	0.19	0.13	0.23
LTIFR (Lost Time Injury Frequency Rate)	31.4	16.8	10.9	23.9

Table 6: Development of the Lost Day Frequency Rate and Lost Time Injury Frequency Rate (2019–2022)



c. Career management and training

All of Herza's career management and training activities are coordinated as part of HR support and organisational development by the central, Group-wide HR department. Our aim is to recruit as many specialists and managers as possible from within our own ranks and to retain qualified and motivated employees in the long term.

As part of our Group-wide 'SternTrainings' training programme, we offer our employees seminars on different topics each year.

We support personal development by offering special, individual training courses (e.g. forklift licence, master craftsman's qualification) and offer apprenticeships in various professional fields.

The definition of specific objectives and the recording of the necessary key figures for strategic action planning, as well as continuous monitoring in the area of career management and training, are currently under development.



5. GOVERNANCE

a. Corruption and integrity

We do business globally, honestly and impeccably – with customers and suppliers alike. Our corporate philosophy and Code of Conduct are based on fair treatment and mutual trust. At Herza Schokolade GmbH & Co. KG, we embrace flat hierarchies and direct communication. We avoid situations in which personal interests conflict or could conflict with those of our company. Critical points in the company's processes are safeguarded by a dual-control principle.

Compliance management is the responsibility of the Group and falls within the remit of the Legal department. Any indications of non-compliant behaviour within the Group can be reported via the established whistle-blowing system. In light of the German Supply Chain Act (LkSG), this system will be further expanded in 2024 so that external parties will also be able to report any suspicions to us in the future.

b. Information security

The protection of personal data, in particular of employees, customers, suppliers and other partners, is of great importance to the Stern-Wywiol Group. We collect and process data only with the consent of the data subject and only for as long as it is necessary to perform the respective work or required by law. A Data Protection Officer has been appointed for the Group and monitors all activities.

c. Customer health and product safety

We produce food and are aware of the great responsibility that comes with it. To ensure that customers and consumers can have confidence in the safety of our products, hygiene and outstanding quality are our top priorities.

Responsibility for ensuring product safety is organised on a decentralised basis within the Group and therefore lies with the Quality department on-site in Norderstedt. The company's certification in accordance with the International Featured Standard (IFS) Food 7 Higher Level is the basis for handling products and production processes responsibly. As part of a comprehensive programme, employees receive regular train-

ing on all relevant topics. We expect the same requirements for products, processes and services from our suppliers. Both raw and finished product batches can be traced back seamlessly at any time.

We have established CPM (Complaints Per Million) as a control parameter for customer health and product safety in respect of bar production, and the percentage of deliveries with complaints for small pieces of chocolate. In 2022, CPM in the bar segment was 0.71 per cent, while the number of justified complaints in the chocolate segment was an unsatisfactory 4.7 per cent. The objectives for 2023 are as follows:

Bar production	0.8 CPM/of which < 25% due to foreign bodies/no critical complaints
Chocolate pieces	Less than 2.5% of shipments subject to complaints/of which < 20% due to product/no critical complaints

Table 7: Targets for 2023 in the area of customer health and safety





6. UPSTREAM VALUE CREATION

a. Service providers and partners

In our day-to-day work, we depend on the support of reliable partners. That is why we attach great importance to our suppliers and service providers acting in our interests.

All new suppliers complete a supplier questionnaire. As part of our Group-wide Code of Conduct for the Stern-Wywiol Group, we also require our business partners to assume responsibility along the supply chain and, in particular, to respect internationally applicable labour and human rights and to guarantee these within their own business activities (see also

Section 6.c. 'Human rights in the supply chain'). Our Code of Conduct is an approval-relevant parameter for every new and existing supplier.

Against the backdrop of the German Supply Chain Act (LkSG), a Group-wide project team from Corporate Sustainability, Legal, Quality and Compliance is currently reviewing the existing processes with regard to supplier management and evaluation in order to be able to react to any risks in an even more targeted manner and eliminate them in the future.

b. Use of certified raw ingredients

The supply chain has become the main component of corporate social responsibility, because as a food-producing company in Germany, we are often at the end of complex supply chains. However, social and environmental deficits often arise at the outset, especially in relation to cocoa, one of our main raw ingredients. By using certified raw ingredients for our products, we aim to implement higher standards at the start of the supply chain.

Procurement is currently organised on a decentralised basis within the Group in order to manage purchasing processes

in a targeted manner and continuously optimise the supply chain. Back in 2008, we made a conscious decision to offer organic and Fairtrade-certified products. In recent years, more and more certifications have been added to ensure that cocoa, palm oil and sugar are grown sustainably and that the people in the growing countries can live and work under fair conditions (see also 'Overview of cocoa certifications used', p. 13). Almost 50 per cent of the chocolate pieces we sell are now certified organic. In 2022, only four per cent of the cocoa mass was sourced conventionally, i.e. without certification.

	2019	2020	2021	2022
Conventional cocoa mass	2%	17%	24%	4%
Cocoa mass, Rainforest Alliance	61%	33%	18%	38%
Organic cocoa mass	23%	28%	28%	21%
Cocoa mass, organic, Rainforest Alliance	2%	8%	11%	14%
Cocoa mass, organic, Fairtrade	12%	14%	19%	22%

Table 8: Development of cocoa mass purchasing (2019–2022)



As a customer-oriented company, we focus on the needs of our customers. This sometimes determines the split between conventional and sustainably certified goods. Whenever possible, we endeavour to sell certified organic or sustainable products. The company's strategy aims to establish organic as the standard in the long term.

Cocoa agroforestry programme – Sierra Leone

Since 2020, we have also been involved in a cooperative of cocoa farmers in Sierra Leone. Here, the education of farmers is promoted with financial support. More knowledge about the cultivation of cocoa leads to an increase in yield and thus, all things being equal, improves the livelihood of farmers. This in turn reduces the burden on children, who thus gain more access to education. Biodiversity is also promoted through targeted training of farmers. The initiative is committed to stopping deforestation and planting new trees.

c. Human rights in the supply chain

As a company that produces and processes chocolate, respect for human rights is an ever-present issue for us in general and especially in the cocoa-growing countries. As part of an internationally operating group of companies with global supply chains, we are aware of our responsibility to respect human rights. We believe it is the duty of all companies to uphold human rights and environmental protection in their value chains – at all levels. Human rights are non-negotiable; they apply equally to every human being. It is our aspiration and goal to prevent and mitigate adverse effects on human rights in the course of our global business activities wherever possible. This obligation extends beyond the boundaries of our company and also applies to our business partners, especially direct suppliers.

The cornerstone in this regard is our globally applicable Code of Conduct. It has formed the basis for our internal processes since 2016. We require our suppliers to take appropriate measures in their upstream supply chains and to enforce the Code of Conduct vis-à-vis their suppliers. In order to find out how well our business partners' actions are in line with our objectives and guidelines, we conduct regular supplier evaluations. In addition to participating in industry-standard global certification programmes such as the Rainforest Alliance and Fairtrade, another key component of our approach is controls,

for example in the form of independent certifications or on-site audits of our partners. We understand that these checks, as a sole means of improving working conditions or detecting hidden violations, have limited potential. Nevertheless, these controls are an important means of uncovering possible risk indicators and checking the situation in the supply chain in a targeted manner.

Responsibility for the company's duty of care with regard to respecting human rights lies with the Executive Board. Within the Stern-Wywiol Group, a cross-Group project team from Corporate Sustainability, Legal, Purchasing and Quality is also responsible for implementing specific measures in accordance with the German Supply Chain Act (LkSG). This team coordinates the implementation of human rights due diligence throughout the supply chain and is currently focusing in particular on examining the existing risk management system, current measures for risk minimisation and prevention and the further improvement of existing protective mechanisms.

For the coming reporting year, we have set ourselves the goal for the Norderstedt location to bring even greater transparency to the supply chain. This includes, amongst other things, carrying out targeted supplier audits in order to examine and, if necessary, eliminate identified risks.

Overview of cocoa certifications used

Cocoa



Rainforest Alliance – the world's largest certification programme for sustainable raw materials

Social, economic and environmental standards are continuously improved and sustainable agriculture is promoted. Additional premiums for farmers create the basis for protecting nature and stopping child labour.



EU organic – state control through the EU Organic Regulation

Organic food must come from ecologically controlled cultivation, may not be genetically modified and must be grown without the use of conventional pesticides, artificial fertilisers or sewage sludge. This protects nature and prevents harmful residues from entering food.



Fairtrade – fair prices for farmers in growing countries

Premiums are used to raise the living standard of farmers in the growing countries. This should also create a basis for the prevention of child and forced labour and the protection of nature.

Sugar

On average, chocolate consists of 50 per cent sugar. The production of sugar is critical in terms of sustainability and, in particular, the conservation of resources. It is therefore important to us that our suppliers continuously strive for future-oriented, environmentally friendly production and the reduction of emissions and are also able to demonstrate this through certifications and corresponding reporting systems. We use organic and Fairtrade-certified goods for our sustainably certified products.

Palm oil



RSPO – Roundtable on Sustainable Palm Oil

We only use RSPO-certified palm oil at our site. Certification ensures that suppliers adhere to RSPO principles. These are aimed at conserving resources and treating the environment responsibly. The focus is on the lawful use of cultivated land, the long-term preservation of soil fertility and biodiversity and the responsible development of new cultivation areas.

7. OUTLOOK

Against the backdrop of increasing regulatory requirements, sustainability activities are being centralised and strategically aligned in the current financial year. Following an initial assessment of the current situation, the focus for 2023 will be on the Group-wide materiality analysis to define our relevant sustainability topics in accordance with current European reporting standards, including for Herza Schokolade GmbH & Co. KG. At the same time, the focus is currently on implementing the requirements of the German Supply Chain Act, which will apply to the Stern-Wywiol Group from the start of 2024. This and the continuously increasing expectations of our stakeholders will determine our actions in the near future. The following objectives have already been defined with the preparation of this report.

Environment

- Return to electricity consumption of < 300 kWh/t and district heating consumption of < 150 kWh/t by 2026
- Continue to reduce our water consumption through careful use of water
- Optimisation of on-site recycling and further reduction of waste
- We are also continuing to work on optimised packaging

Social issues

- Continuously improve indicators and progressively reduce the number of reportable injuries to < 2/a. In any case, we want to be well below the BG average
- A SMETA audit is targeted for 2024

Governance

- Customer health and product safety:
 - Bar production: 0.8 CPM/of which < 25% due to foreign bodies/no critical complaints
 - Production of chocolate pieces: Less than 2.5% of shipments subject to a complaint/of which < 20% due to product defects/no critical complaints

Upstream value creation

- Together with our partners (customers as well as suppliers and service providers), we want to promote sustainability in the supply chain. Where possible, we want to buy locally and work together on a more sustainable future through certification and self-auditing
- The purchase volume of certified cocoa is to be further increased in collaboration with our customers. We want to consolidate and expand our commitment in Sierra Leone

HERZA Schokolade GmbH & Co. KG

Segeberger Chaussee 132
22850 Norderstedt, Germany
Tel.: +49 (0)40 500 1760
info@herza.de
www.herza.de



STERNWYWIOL
Gruppe