

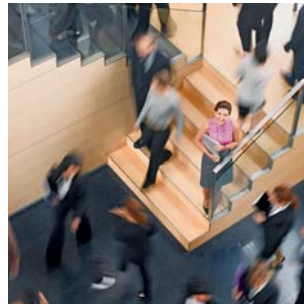


Sustainability Report 2009

RESPONSIBILITY • INNOVATION • TRANSPARENCY

10 members of the
otto group

Contents



C3 About this Report

- 3 Foreword by the Chairman of the Executive Board
- 4 Portrait of the Companies included

8 Strategy and Management

- 10 Strategic Focus
- 11 Corporate Culture
- 13 Corporate Governance
- 14 Sustainability Strategy
- 16 Sustainability Management
- 18 Stakeholder Dialogue
- 21 Excursus: The Future of Ethical Consumption

22 Employees

- 24 Responsible Employer
- 26 Reorganisation
- 26 Training and Further Education
- 28 Diversity and Equal Opportunities
- 30 Health Management

32 Purchasing and Production

- 34 Selecting Raw Materials
- 36 Social Responsibility and Code of Conduct
- 39 Systematic Auditing
- 41 Supplier Development
- 43 Purchasing Logistics
- 45 Overview: The Otto Group's Climate Protection Strategy



46 Facilities and Distribution

- 48 Environmental Management
- 50 Energy Efficiency
- 52 Catalogues, Advertising Materials and Packaging
- 54 Distribution Logistics
- 55 Product Carbon Footprint

56 Customers

- 58 Customer Orientation
- 60 Data Protection
- 61 Product Quality and Safety
- 62 Sustainable Product Worlds

66 Society

- 68 Social Commitment of our Companies
- 70 Foundations
- 72 Interview with Dr. Michael Otto

74 Facts and Figures

- 75 Economy
- 77 Environment
- 82 Employees
- 86 Suppliers


92 Sustainability Programme

94 GRI Content Index/Global Compact Communication on Progress

98 Glossary

C5 Assurance Statement

C7 Publisher's Imprint

 Information on further topics is available in the flip-page Sustainability Report (e-book) at www.ottogroup.com/sustainabilityreport

 Further information is available on external websites

Foreword by the Chairman of the Executive Board

Dear Readers,

the Otto Group is one of the world's leading trading and services groups, Europe's largest online retailer in the business-to-customer area and the world's largest mail-order business group. We have succeeded in setting the right course for the future, even in economically difficult times. But we don't measure the future viability of our company merely by its economic success. We know that we are not operating in a vacuum: our actions affect our environment and the changes in this environment in turn have a long-term impact on our own actions.

The Otto Group is therefore committed to the basic principle of sustainability and to fulfilling its corporate responsibility. In our company we have a fundamental understanding of which I, as Chairman of the Executive Board and Chief Executive Officer, am very proud: we do not intend to conduct business at the expense of people and nature, but rather aim to make a positive contribution. This fundamental understanding is reflected in our numerous directives, initiatives and systems as well as in our projects, collaborative partnerships and memberships. Of particular importance to me is our commitment to the United Nations Global Compact, which aims to make globalisation more environmentally friendly and socially responsible. And this is an initiative which we will continue to support in the future.

True to our Group-wide Guiding Principle of 'Passion for Sustainability' I am particularly pleased that we have succeeded in recent years in embedding the individual company OTTO's system of corporate values more firmly as a unifying element across the Otto Group's various companies. We are united in our venture to incorporate sustainable practices more and more into everything we do, to use intercompany synergies and to take innovative approaches to achieve our objectives. We will also inform the public about this and ensure we maintain transparency. Along with the individual company OTTO, nine additional Group retail companies are reporting here for the first time on what they have achieved in the area of sustainability in both the 2007/08 and 2008/09 financial years, in accordance with the international Global Reporting Initiative standard.



Hans-Otto Schrader
Chairman of the Executive Board and Chief Executive Officer

Above all I would like to highlight two focus areas which we address in detail in this report: firstly, social standards among our suppliers and their subcontractors across the world remains a key area of corporate action for us: we are committed to promoting socially acceptable production conditions in emerging and developing countries. Our Code of Conduct and our Social Management System, within the framework of which we audit and train our suppliers, are integral parts of our efforts in this area. Our second area of corporate action is climate protection. Here we have set ourselves an ambitious target as part of our Climate Protection Strategy: we intend to reduce our CO₂ emissions by 50 percent by 2020 in all Group companies in which we hold a majority stake.

A long road lies ahead of us – and I would like to ask you to walk it with us. This report offers you an insight into the sustainability performance of the ten companies. Support us by giving your feedback! In this way you will be helping us optimise our activities further.

On behalf of the Executive Board,

Yours faithfully,

Hans-Otto Schrader

Portrait of the Companies included

otto group The Otto Group is a globally leading trading and services group comprising 123 main Group companies located in the three major economic areas of Europe, Asia and North America. Around 50,000 employees work in the three strategic business segments of Multichannel Retail, Financial Services and Services, conducting business in a global network which allows the Group to serve its customers as a reliable partner. In the 2008/09 financial year, the Group's net turnover was 10,109 million euros – the driving force behind that being e-commerce once again. The Otto Group was able to increase

online demand among its customers by 12.5 percent to 5.5 billion euros. As a result, the Group was able to affirm its position as the world's second largest, and Germany's biggest, business-to-customer (B2C) online provider.

The Multichannel Retail segment comprises Otto Group companies that sell their goods and products via the three distribution channels of catalogue, e-commerce and over-the-counter retail. In the 2008/09 financial year, this core business generated a turnover of 8,865 million euros. Here, the ten companies covered by this report (see p.75) generated 47.5 percent of this turnover.



The Financial Services segment bundles all the Otto Group companies from across the world that offer commercial financial services along the value chain of retail companies. This segment, which generated a turnover of 486 million euros in the 2008/09 financial year, principally comprises the financial services companies of the 3 Suisses International Group, the German EOS Group and the Hanseatic Bank.

The Otto Group offers a complete global portfolio of trading services through the companies that are grouped in

the Services segment – ranging from sourcing, through the entire logistics chain to all facets of distribution. This segment includes companies such as Hermes Logistik Gruppe Deutschland (HLGD), Hermes Warehousing Solutions (HWS) and Hermes Transport Logistics (HTL). As of July 1st 2009 we intend to group these companies together with other European service providers under the umbrella company of Hermes Europe. Furthermore, our Otto Freizeit und Touristik Group (OFT) bundles all travel service activities. This segment generated turnover of 758 million euros in 2008/09.



Established in 1925, Baur Versand was the first mail-order company for shoes in Germany. Today, as a multichannel provider it offers a wide assortment of fashions, shoes and home-design ideas with a huge range of high-quality external and own brands. Baur is positioned as a home-shopping retailer for customers from value-orientated, established strata of society whose high demands for service are satisfied by the company's excellent customer orientation. Baur now generates over 50 percent of its turnover via the Internet. It also operates Northern Bavaria's largest department store, 'Kaufwelt' in Altenkunstadt.

Company:

Baur Versand (GmbH & Co KG)

Headquarters: Burgkunstadt

Employees*: 1,643

Stake: 49 percent

Stores: 1

Countries: DE

Info: www.baur.de



Founded by the Otto Group in 1986, as a multichannel provider bonprix sells fashions, home textiles and furnishings and offers very good value for money and service. bonprix has also positioned itself successfully in France, Italy and numerous other countries in Central and Eastern Europe. In contrast to many other mail-order companies, bonprix follows the sales strategy of 'alle Größen ein Preis' (All sizes one price). Also active in online retailing right from its inception, bonprix launched the web-based shop jungstil.de in June 2008 as a brand targeting a young, fashion-conscious and Internet-savvy customer group. In the future it plans to expand its over-the-counter retail and international sales activities even further.

Company:

bon prix Handelsgesellschaft mbH

Headquarters: Hamburg

Employees*: 808

Stake: 100 percent

Stores:

46 in Germany and 19 in Italy

Countries: DE, FR, BE, NL, LU, GB, HU, IT, CH, AT, PL, CZ, SK, RU, UA

Info: www.bonprix.de



Founded in 1908, today Frankonia is the European market leader in hunting equipment. The high-end assortment of hunting and outdoor equipment for hunters and sports marks-men includes a sophisticated collection of top-quality, timeless classics in ladies' and men's clothing. Frankonia reaches its customers via catalogue and online home shopping as well as through over-the-counter retail with its current 21 stores. Celebrating its 100th anniversary, Frankonia continued its expansion course in 2008.

Company:

Frankonia Handels GmbH & Co KG

Headquarters: Rottendorf

Employees*: 622

Stake: 100 percent

Stores: 21, which includes 11 retail stores, 2 outlet centres, 8 hunting centres

Countries: Exports to over 100 countries

Info: www.frankonia.de
www.jagdcenter.de



Founded in 1951, Heine offers high-quality fashions and contemporary furnishing ideas to discerning women aged between 35 and 55 – true to its philosophy of 'Immer etwas Besonderes' (Always something special). Its range is presented in numerous main and special catalogues. Since 2002 Heine has also had a strong Internet presence: its online shop offers stylishly presented assortments, extensive service options as well as an infotainment range, and is being continually expanded to consolidate Heine's brand position.

Company:

Heinrich Heine GmbH

Headquarters: Karlsruhe

Employees*: 696

Stake: 100 percent

Stores: DE, CH, AT, NL, FR

Info: www.heine.de

* Employee figures in accordance with IFRS accounting standard for the 2008/09 financial year (converted to Full-Time Equivalent/FTE).



Founded in 1949, the individual company OTTO – the hub of the Otto Group – now operates in eight European countries and enjoys a high degree of recognition as a mail-order business. The catalogue, e-commerce and over-the-counter retail activities are the three tightly coordinated pillars of this multichannel retailer. It produces two main catalogues and around 60 special catalogues each year. The 2008/09 financial year marked the first year that OTTO generated more than 50 percent of its overall turnover from the Internet. As a one-stop shopping platform, the multi-award winning online shop otto.de will be developed further: our existing range of goods from selected brand partners will be expanded and, for the first time, will additionally include external retailers. OTTO plans to further develop its high potential catalogue concepts from its core business – such as Lascana and Yalook – and position them around the company as part of a multi-brand strategy.

Company:
Otto (GmbH & Co KG)
Headquarters: Hamburg
Employees*: 3,932
Stake: 100 percent
Stores:
Around 500 OTTO shops
Countries:
DE, AT, RU, NL, HU, CZ, SK
Info: www.otto.com



OTTO Office has been trading under its own name on the German market since 1997. It specialises in the sale of office supplies, communications technology and office furniture. With around 15,000 articles from over 150 brand manufacturers, in this segment OTTO Office is one of Germany's three largest mail-order retailers in the business-to-business (B2B) area; it also operates in five other countries in Central and Eastern Europe. The company is known for its rapid delivery, efficient purchasing and distribution processes as well as favourably priced products thanks to its streamlined organisation. OTTO Office primarily covers the office requirements of small and medium-sized companies. The company expanded its activities in the business-to-customer area (B2C) in 2008 and opened up its range to private customers, who since then have been able to order products over the Internet from home.otto-office.de.

Company:
OTTO Office GmbH & Co KG
Headquarters: Hamburg
Employees*: 303
Stake: 50 percent
Countries:
DE, CZ, SK, BE, FR
Info: www.otto-office.de



Founded in 1954 by Friedrich Schwab, a majority stake was acquired in Schwab Versand by the Otto Group in 1976. Today, Schwab comprises general and specialised mail-order companies and operates in a total of five countries. Besides the traditional method of catalogue distribution Schwab also uses over-the-counter retail and the Internet as sales channels. Since January 2009, the individual company Schwab Versand has adopted a new retail strategy and introduced a new brand for young, fashion-conscious women of size 40 and above. The 'sheego – unbeschreiblich weiblich' (sheego – indescribably feminine) label represents a variety of in-trend fashions. Through its newly developed online shop sheego.de it offers this target group numerous features, giving advice on cut and styling tips and catwalk styles alongside its complete catalogue range.

Company:
Schwab Versand GmbH
Headquarters: Hanau
Employees*: 950
Stake: 100 percent
Stores: 79
Countries:
DE, GB, FR, AT, CH
Info: www.schwab.de

* Employee figures in accordance with IFRS accounting standard for the 2008/09 financial year (converted to Full-Time Equivalent/FTE).

SportScheck

SportScheck is one of Germany's largest providers of sporting goods and also specialises in equipment and clothing for virtually any kind of sport. Founded in 1946, this multichannel

company offers its customers almost 400 different brands of sports and leisure equipment from all over the world – a total of over 20,000 articles. The quality of its customer-focused advice, repair and other services, as well as numerous accompanying sports events such as the 'OutdoorFestival' covering its climbing, hiking, biking and canyoning assortments, create strong customer loyalty. Its assortment is available to home-shopping customers in Germany, Austria and Switzerland – as well as in the Netherlands since November 2008 and Russia since March 2009.

Company:
SportScheck GmbH
Headquarters: Unterhaching
Employees*: 915
Stake: 100 percent
Stores: 14
Countries:
DE, CH, AT, NL, RU
Info: www.sportscheck.com



Since 2003, Unito has united the brands OTTO and Universal Versand in Austria. OTTO Austria – which was created in 1988 as a result of the Otto Group's acquisition of a Graz-based mail-

order company established in 1894 – is today one of this market's highest-turnover, multichannel home-shopping retailers for fashion and hard goods. The lifestyle mail-order company offers its target group of women aged between 18 and 45 the largest range of brands in Austria. Universal, founded in 1957, carries a wide assortment of fashion, technology and furniture goods under the motto 'Ganz einfach Lebensqualität' (Quality of life – made simple). OTTO has been represented in Austria with an online shop since 1998. It is currently focusing on enhancing the customised online business as well as expanding the company internationally in all relevant markets.

Company:
UNITO Versand & Dienstleistungen GmbH
Headquarters: Salzburg
Employees*: 722
Stake: 67,9 percent
Countries: AT, IT
Info: www.ottoversand.at
www.universal.at



Witt has been part of the Otto Group since 1987 and operates in Germany as well as in many other European countries including France, Great Britain and Russia. Its core

brand WITT WEIDEN celebrated its 100th anniversary in 2007; thanks to various forms of international cooperation, it has also generated an enthusiastic response in new markets, for instance in Switzerland and Austria with the company Sieh an!. Witt aims to become the leading textile-specialised mail-order company for the 50-plus target group in Europe, and is consistently pursuing a course of international expansion in this respect.

Company:
Josef Witt GmbH
Headquarters: Weiden in der Oberpfalz
Employees*: 1.716
Stake: 100 percent
Stores: 76
Countries:
DE, AT, CH, FR, GB, RU, NL
Info: www.witt-gruppe.eu

* Employee figures in accordance with IFRS accounting standard for the 2008/09 financial year (converted to Full-Time Equivalent/FTE).

Climate protection pioneers

In order to counter climate change effectively the Otto Group goes well beyond existing commitments made by German and European political and business leaders. By formally approving its Climate Protection Strategy in December 2007, the Group set itself ambitious targets: it committed all subsidiaries in which it directly or indirectly holds a majority stake, and which have an annual turnover of more than 50 million euros, to continually reduce their transport, mobility and facility-related CO₂ emissions over the long term. In fact, the Group is targeting a 50 percent reduction in its CO₂ emissions by the year 2020. A toolkit with over 70 individual measures is available to Group companies to help them in this effort. Group-wide, almost 40 companies based in ten countries in Europe, the USA and Japan are already assuming a pioneering role in climate protection.





“Climate protection is not only of **fundamental relevance to life on our planet** – in an age of high and increasing energy costs over the long term, it is also directly linked to a company’s business success.”

Andreas Streubig
Division Manager Environmental
and Social Policy, Otto Group



Strategic Focus

E-COMMERCE IS THE ENGINE OF GROWTH

The Otto Group intends to become the most profitable global group of retailers and commercial service providers, based on leading-edge business concepts. The Group has made significant strides towards achieving this aim in the reporting period: in particular, e-commerce once again proved to be the driving force and engine for growth of the whole Group. Compared to the previous year, online demand among customers in 2008/09 grew by 12.5 percent to 5.5 billion euros. As a result, the Group affirmed its position as the world's second biggest online retailer and as Germany's largest online retailer in the business-to-customer (B2C) area. Strategic disinvestments such as the disposal of our stake in Fegro/Selgros and our successful expansion into Central and Eastern Europe represent a part of the strategic decisions we made in the reporting period which underpin the Otto Group's global claim to leadership (see Otto Group Annual Report 2008/09).

The strategic development of the Otto Group is very much geared toward our 'Vision 2020', which the Group developed in 2005. The Vision outlines the four areas in which the Group intends to be a leader in by 2020: 'Profitability' and 'Innovation', but also 'Best in Class' and 'Sustainability'. Our aim of becoming the best in our particular field of business (Best in Class) through a multi-stage, phased process includes our ambition to develop the best ideas and to implement them with the best people to allow us to always offer our customers the best service ('Best Ideas' – 'Best People' – 'Best Service'). Along with Profitability, Innovation and being Best in Class, we are placing equal emphasis on the leading role the Group is playing in the area of Sustainability – an essential element of our future viability over the long term. Our objective is not just to conduct business in a way that brings economic success, but also to act in an environmentally friendly and socially

responsible way. The Group intends to set benchmarks with its ongoing integration of environmental and social sustainability aspects into its business and decision-making processes. We have therefore defined sustainable business practices as being a key concern of the Group and these are to be closely integrated into the individual strategies of the single Group companies.

The aims of the Vision formulated in 2005 relate to all of the Group's business units and therefore apply to the ten single Group companies in this report too. Each company has a broad scope of decision-making freedom to achieve these collective aims. Both the Otto Group as well as the single Group companies see this principle as giving them the opportunity and strength to drive forward strategy and change processes within the Group at a decentralised level – in direct response to change within each company's own particular business environment.

By raising their own profiles as well as developing new business segments and models, the ten companies covered by this report are rising to the future challenges posed by constantly evolving markets in order to benefit directly from new business opportunities (see p.4). These activities are embedded in the overarching strategic developments of the Otto Group's core business, the multichannel retail segment.

In this regard we plan to develop our existing online offering further to make it even more innovative both in terms of concept and technology, as well as expand our e-commerce activities. For example, we made an investment in 2008 in the newly established company eVenture Capital Partners, which looks for start-ups with new business ideas in e-commerce and evaluates a cooperation with them. By following this approach, we intend to develop and implement innovative concepts across the world. In addition, we intend to continue utilising the synergy effects between the growth market of e-commerce and the other two pillars of multichannel retail, that is, traditional catalogue as well as over-the-counter retail.



In the catalogue business we strive to provide customers of Otto Group retailers with fashionable offers and special catalogues in a quick and assortment-specific rhythm, in parallel to the established main catalogues. Another key aim of the Otto Group in the coming years is to expand over-the-counter retail within the multichannel retail segment. Consequently the Group has set itself the aim of further strengthening its presence by building on the more than 300 stores that already exist. To achieve this, the Otto Group is relying both on expanding existing concepts as well as on establishing new companies, joint ventures and acquisitions.

In parallel to its focus on the private retail customer, the Otto Group is continuing to expand its commercial retail service offering for business customers outside the Group. This ranges from purchasing to warehouse management, from customer support to credit checking and from transportation to delivery.

Future opportunities for growth are seen in the ongoing international expansion of the Group as well as in the further market penetration of Eastern Europe in particular. The Group has already further expanded its activities in the growth markets of Central and Eastern Europe in the reporting period: in May 2008, a dedicated warehousing logistics centre was opened in Tver/Russia. This was followed in October 2008, also in Russia, by the acquisition of the Direct Group's three mail-order businesses. This resulted in the Otto Group strategically expanding its existing fashion business in Russia by offering hard goods, and becoming the immediate market leader in the Russian mail-order sector. The Group plans to make further investments in Central and Eastern Europe in the 2009/10 financial year.

Corporate Culture

A COMMUNITY OF VALUES WITH VISION

The Otto Group, with its high number of single companies, considers itself to be a community of values despite these companies' different business fields, business ideas, sales channels and a corporate presence that differs at a regional level. In implementing our Vision 2020, the common approach of working passionately for the success of the respective company and for the Group as a whole lies at the heart of our employees' understanding of their own commitment – which is reflected in our Guiding Principle: Leading through Passion.

Leading through Passion ...

The basic principle of achieving success through passionate dedication means the individual enthusiasm which each employee puts into his daily work. This attitude of achieving success through passion has four levels of performance, which in combination constitute our Group's strength. These four levels are: our Passion for Customers, our Passion for Innovation, our Passion for an Integrated Network where employees' activities are coordinated and interlinked, and our Passion for Sustainability.

... for our Customers

All the Otto Group's activities are motivated by a passion for our customers. Our mission is to impress and convince our customers anew, each and every day! The Otto Group is a by-word for outstanding service, open and honest communication towards customers, compelling value for money and outstanding reliability. Our common and explicit goal of strengthening customers' trust in our companies and working as hard as we can to earn it every day will also remain part of the bedrock of the Otto Group's company culture in the future (see p.58).

... for Innovation

A key element in the success of the Otto Group is recognising tomorrow's demands today. Passion for innovation is the key to success here – and is something the Group has proven over the years. Through continual change processes, we managed to respond at an early stage to the needs of and developments in the market. In 2008, the Otto Group launched an innovation offensive, developed a roadmap to promote our culture of innovation and even created an Innovation Award to honour each year's most innovative business idea or the most creative solution within the Group (see p.59).

... for an Integrated Network

Strength lies in diversity: due in no small part to its decentralised structure, the Otto Group considers itself to be a strong network. Experts from the single companies come together on a regular basis to exchange ideas and experiences in workshops about best practices covering a wide range of topics. The close exchange of experience between the single companies, as well as the human-resources focus on each individual employee's potential, strengthens the success of our entire Group worldwide (see p.24).

... for Sustainability

As far back as 1986, OTTO announced environmental protection as a specific corporate aim. Today, the conviction is firmly embedded in the Otto Group's company culture that we will only achieve our aim and secure our own future if we follow sustainable business practices. The Group therefore makes a concerted effort to honour its responsibility with regard to the social, economic and environmental impact that our business activities have – whether it concerns the manufacturing and sale of products and services, our own employees or stakeholders around the globe.



'Flying Carpets' tapestries of passion

Bringing Group values to life for every single employee of the Otto Group was the aim of 2008's global Flying Carpets initiative, for which the Otto Group simultaneously received two awards: the 'MUWIT Weiterbildungs-Award 2008' (MUWIT Award 2008 for Further Training) for the most innovative human-resources development strategy, and the 'Deutscher Preis für Wirtschaftskommunikation 2008' (German Prize for Business Communication 2008) for the best corporate internal communication strategy. More than 9,000 employees from almost 30 Group companies were invited to create 'passion tapestries' from cotton, textile strips and gold thread. These impressive works of art were stitched together at the Otto Group's Hamburg offices and made into four round tapestries, each measuring over two metres in diameter. They symbolise the Group's four core values of sustainability, innovation, customer orientation and working in integrated networks. Every employee was able to see the results of the Otto Group's living network expressed in the form of the jointly woven tapestries. At the same time, this initiative was a powerful gesture for greater sustainability, with the Otto Group donating three euros to the 'Cotton made in Africa' development project launched by Dr. Michael Otto for each individual contribution of fabric (see p.35, 71).

Corporate Governance

TRANSPARENCY AND FAIRNESS

Strong and responsible corporate governance is a matter of course at the Otto Group. An integrated corporate-governance structure sets out the legal and factual regulatory framework for the entire Group to ensure full compliance with laws, directives as well as our contractual obligations.

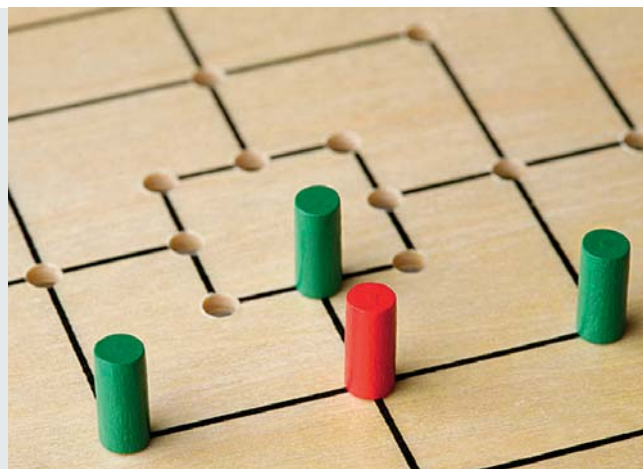
The Otto Group has established numerous Group directives covering a range of topic clusters such as anti-corruption, data protection, embargo measures to fight terrorism, IT security, internal and external auditing, risk and crisis management, safety and donations. They are all aimed at integrating the principles of corporate governance into our business processes. Along with management by means of directives, the Otto Group's corporate governance structure includes specialised decision-making bodies and processes which collectively form the Group's Compliance Management System. Our Compliance Committee was created at the end of 2008 and today represents the heart of our Compliance Management System. The Compliance Committee comprises members from the areas of Security, Group Legal Services and Real Estate, Group Audit, Human Resources and Controlling, Corporate Benefits and Policies as well as from the Executive Board. It is primarily responsible for supporting the Executive Board regarding compliance issues, and secondly for systematically checking all compliance violations within the Group. The Committee meets on a quarterly basis, or more frequently as and when required.

One of the central directives of the Compliance Management System is the Otto Group's Anti-Corruption Directive, which is based on the guideline for tackling and preventing corruption in business activities, which the International Chamber of Commerce issued in 1998. It has been binding since March 2008 across the world at all Otto Group companies where the Group has a holding of over 50 percent, or where it is involved

to a significant extent. The directive is supplemented by our Code of Conduct (see p.36), which among other things aims at eliminating corrupt behaviour among suppliers. The Anti-Corruption Directive is regarded as a binding principle of mutual fairness and honesty towards customers, suppliers, competitors, authorities and the public. It explicitly points out that the granting of advantages of any kind which give rise to a dependency or influence should neither be offered nor accepted anywhere within the Group. In addition, the directive represents a fundamental agreement to uphold corporate ethics and for all managers, especially members of the Executive Board, to set an example. It also provides information on control mechanisms on how to resolve corrupt behaviour and on how employees can report it. In cases of corruption, the directive sets out sanction mechanisms which may even lead to criminal proceedings being taken.

Information regarding the directive and the topic of anti-corruption has been made accessible to all employees via the Otto Group intranet. We have raised awareness of this, particularly among managers, right down to division management level, so that they can take a targeted approach to preparing staff members who because of their function may come into contact with attempts to corrupt, on how to conduct themselves in an appropriate way when unsure. Since April 2008, an external Ombudsman has also been available to the Otto Group. This Ombudsman acts as an external person of trust for all employees worldwide who wish to report corrupt behaviour, or the suspicion of it, at their company. In his function as a lawyer, the Ombudsman is obliged to maintain confidentiality and guarantee the anonymity of the person making the report towards the police, authorities and courts. If the suspicion is founded after detailed investigation, he passes on the case to an internal investigator in the company. If necessary, sanctions

 **Risk Management** in the e-book



are then applied which may even lead to criminal or civil proceedings being taken. To further embed the Anti-Corruption Directive within the companies, we plan to hold training courses in the winter of 2009 for our employees.

Complying with data-protection laws is a key part of our shared corporate culture. For this purpose, various directives exist: the Group's IT Security Directive governs all aspects of data processing and in particular, sets out how data-access protection, data backup and software operation is handled. In addition to this, the Group-internal Cross Listing Directive governs our internal use of addresses of either active or inactive Group customers to guarantee the necessary level of data protection. Furthermore, regular IT security checks are carried out internally as well as by external companies (see p.60). In the event of potential irregularities such as theft and fraud, the new Corporate Investigation Function, which was established in March 2009, is intended to advise, support and create transparency in all Group companies. Where there is a strong suspicion, an Investigations Coordinator in each company helps to handle investigative proceedings.

Errors can never be totally ruled out. The number of cases of legal action for anti-competitive behaviour brought against the ten companies covered by this report amounted to 17 in the 2007/08 financial year and 15 in the 2008/09 financial year. For both financial years combined, the amount of fines arising from violations of legislation came to 8,880 euros (see p.76). On the whole, however, the Otto Group's corporate governance structures and approach to guaranteeing compliance have continued to prove their worth, as there were no serious incidents in this area in the reporting period.

Sustainability Strategy

STRATEGIC FIELDS OF ACTION IN OUR CORE BUSINESS

The Otto Group brings together the advantages of an international corporate group with the traditional approach of a value-based family company. To secure our own future viability and to maintain a healthy, sustainable business environment and economy, the Otto Group therefore does not take economic values alone into consideration in its strategic focus, but feels committed to managing its organisation in a socially acceptable and environmentally friendly way. This is why in its Guiding Principles (see p.11) the Group states its unequivocal commitment to a 'Passion for Sustainability'.

And this passion has a tradition: first initiated by the hub of the Otto Group, the single company OTTO (formerly 'Otto Versand'), the Group has been committed to its economic, social and environmental responsibilities for over 20 years now. It is something we are still aware of today: assuming our responsibility as retailers means meeting our responsibility by considering the entire value chain. With this all-encompassing objective, the Otto Group today incorporates environmental and social sustainability activities into its core business processes, develops tailored individual strategies and establishes effective management systems to implement them. We have identified the following strategic areas of corporate action:

- **Recruiting, retaining and promoting the best employees:** Promoting the motivation, health and performance of our employees and retaining high-potential staff for the long term are the overriding aims of human-resources work at the Otto Group companies, especially against the background of impending demographic change. In addition to this, the Otto Group as well as the single companies have launched numerous individual strategies and programmes covering various fields



including: managerial development and human-resources marketing, further training and life-long learning, working hours models, work-life balance and health promotion (see p.26).

- **Environmental and climate protection at facilities and in sales and distribution:** To reduce and minimise negative environmental effects we continually optimise the environmental sustainability of our own business processes, for instance by reducing water and energy consumption at our facilities, the ecological optimisation of catalogues and advertising materials as well as using more environmentally friendly packaging materials in the distribution of our goods. We are also focusing on reducing carbon dioxide emissions in our purchasing and distribution logistics processes. Whereas we had initially pursued these aims as part of our Environmental Management Systems, in December 2007 the Group set ambitious new targets in the area of reducing CO₂ emissions within our own Climate Protection Strategy (see p.45).
- **Protection of species and resources in the creation of assortments/Biodiversity:** Not only transportation has an impact on global natural habitats – the manufacturing of products from raw materials such as cotton, leather and wood does too. A genuine sustainability viewpoint includes the protection of habitats and the diversity of species. For this reason, the timber sourcing activities of Otto Group companies are governed by the Timber Sourcing Policy approved in 2007. A Group-wide Textiles Guideline sets out our requirements relating to the purchasing of materials, the protection of animals and species and compliance with thresholds for harmful substances which satisfy the Group's own 'Hautfreundlich, weil schadstoffgeprüft' (Skin-friendly, tested for harmful substances) quality standard

(see p.61). We plan to continually expand the range of sustainable products in our assortment and keep our customers informed about them. These products include organic cotton textiles with the PURE WEAR quality seal, 'Cotton made in Africa' fashions, Forest Stewardship Council (FSC) furniture and energy-saving household appliances.

The Otto Group was a founding member of the international 'Business & Biodiversity' initiative launched in February 2008 by the 'Bundesumweltministerium (BMU)' (German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety). By signing the Leadership Declaration, the Group committed itself, among other things, to studying the impact of its business activities on biodiversity, incorporating the protection and sustainability of biodiversity into our own Environmental Management System and to setting measurable aims with regard to the continual improvement of the protection of species.

- **Upholding social standards/Production conditions in the purchasing markets:** Within the framework of globalisation, the internationalisation of their purchasing functions means retail companies face a specific challenge in ensuring social and environmental standards are upheld in their supply chain – particularly in countries where strict labour legislation exists, but which is not always implemented or complied with. To meet this challenge, the Otto Group integrated a Code of Conduct into its supplier framework agreements. Compliance with this is checked regularly by independent external auditors on behalf of the Group (see p.37), while training courses support suppliers in improving their social standards. A sophisticated Social Management System



steers and controls these processes, and is continually being developed further with the strategic aim of integrating an ever-increasing number of suppliers, assortments, Group companies and process steps (see p.42).

To manage the numerous individual strategies under the umbrella of a general overall strategy and to develop it further from there, a new strategy process was initiated in the 2008/09 financial year under the name of 'Innovation und Verantwortung' (Innovation and Responsibility): at the end of 2008, over 30 interviews had been conducted with internal as well as external experts and stakeholders, based on the Global Reporting Initiative's selection of topics in order to gather the opinions and wishes of these key stakeholder groups. In parallel, the individual processes associated with sustainability management were also looked into. With regard to efficiency, potentials for improvement were highlighted in the areas of management and systematisation of the topic of sustainability in our decentralised Group structure. Consequently, greater incorporation of key performance indicators relevant to sustainability into the Group's management systems will allow greater control over our sustainability-orientated activities and will at the same time strengthen the local assumption of responsibility. The creation of a Management Committee is planned for 2009 to develop the CR Strategy of the Group further and to work out a roadmap for the implementation of the recommendations.

Sustainability Management

SUSTAINABLE ORGANISATIONAL MANAGEMENT

The long-standing experience that the individual company OTTO has in the area of sustainability still forms the basis for the Otto Group's Sustainability Management System.

The topic is being institutionally anchored within the Group too, through clearly defined process steps. With Group-wide management and information platforms as well as reporting structures, the Group is developing a locally implementable set of regulations to achieve our common goals in the area of sustainability. Overall responsibility for the topic of corporate responsibility lies with the Executive Board – in particular with our Chairman of the Executive Board and Chief Executive Officer. They are kept up-to-date by means of regular reports on developments within the Group and the single companies in the area of sustainability.

Reporting directly to our Chairman of the Executive Board and Chief Executive Officer, the Corporate Responsibility area (VV-CR) fulfils a central function for the entire Otto Group and is the point of contact for all Group companies. This area comprises two units: the Environmental and Social Policy department (VV-CR-UG), which as a Group head office department is responsible for sustainability management. This means responsibility for developing strategies, advising Group companies and functional areas, controlling (and to some extent management) as well as communicating sustainability-related issues. Besides this, the Corporate Responsibility area is also responsible for the administration of the 'Michael Otto Stiftung für Umweltschutz' (Michael Otto Foundation for Environmental Protection) and the 'Aid by Trade Foundation' (VV-CR-ST) (see p.70). The Otto Group's sustainability organisation is supplemented by the Compliance Committee (see p.13) which is responsible for the areas of Business Ethics and the Code of Conduct (see p.36), and by Group Audit, which audits the relevant management systems.

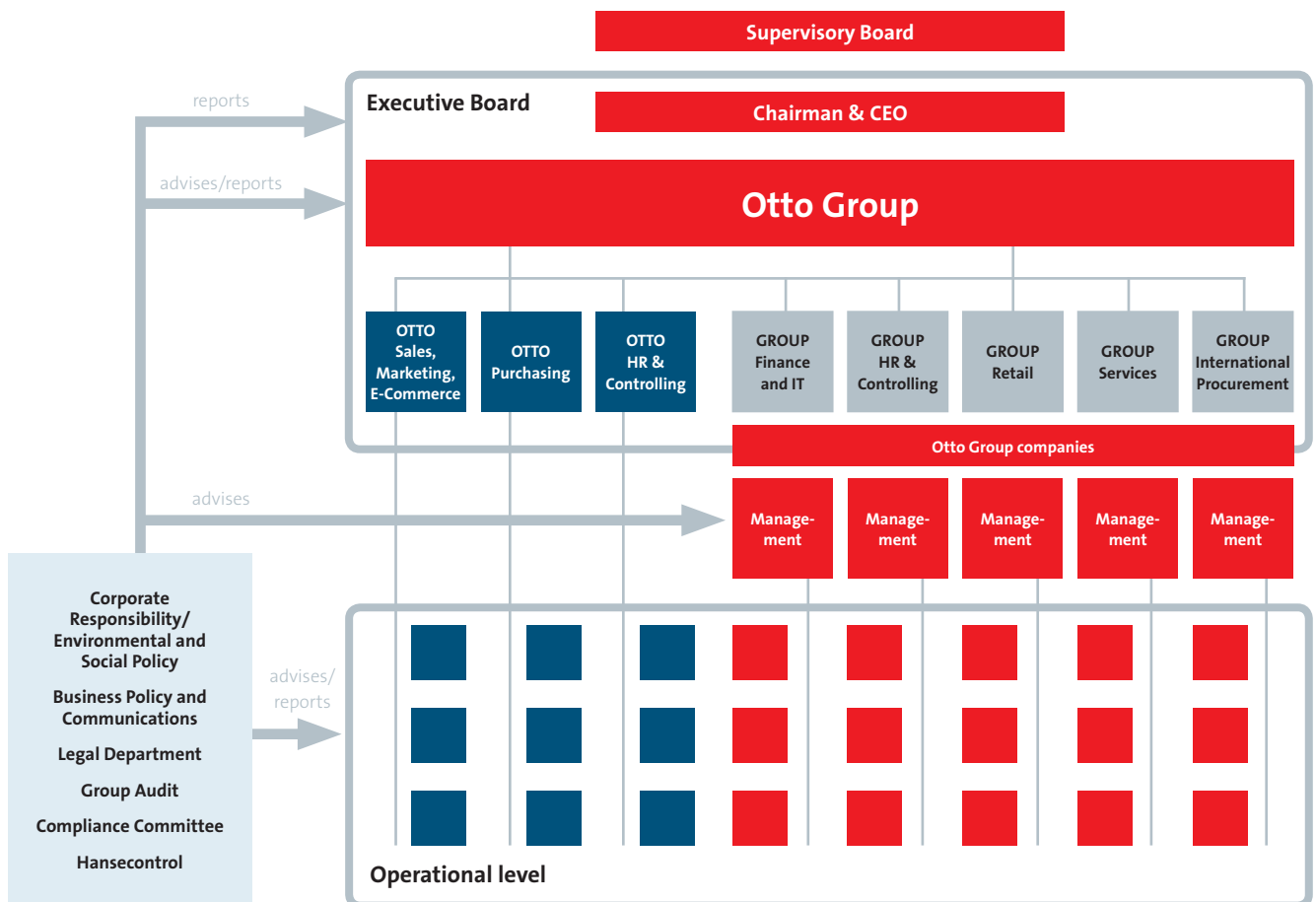
The Corporate Responsibility area defines obligatory topics for all companies, insofar as these topics are relevant for their particular field of business. These topics are derived from the areas of corporate action defined as strategic (see p.14). In this regard, the area has the authority to formulate guidelines –

which generally become binding in the form of Executive Board resolutions – and a mandate to steer their implementation. On the one hand it is responsible for ensuring compliance with environmental and social standards with regard to all obligatory topics, and on the other hand it has a consultancy role: it encourages Group companies to integrate the topic of sustainability ever more closely into their respective business

models and activities and to define their own special sustainability focus areas – whether these lie in creating particularly sustainable assortments, or are concerned with the ecological optimisation of catalogues and advertising materials.

When carrying out its responsibilities, the area utilises, for instance, its Social Management System (see p.36) which was recently audited in spring 2009 by Group Audit.

CORPORATE RESPONSIBILITY ORGANISATION OF THE OTTO GROUP



It relies on its Social Database which contains all audit data relating to Group company suppliers and which can be used by everyone involved in the purchasing process. In Hamburg, the Environmental Management System, which was first certified in accordance with ISO 14001 back in 1997, logs and checks the ongoing improvement of all environment-related functional areas for the Group's head office and the single company OTTO. The same applies to a growing number of locations and facilities of the other companies covered by this report (see p.48).

Moreover, Group-wide implementation of the strategic obligatory topics and aims is ensured by means of strategy handbooks – a central, internal management tool of the Group which is used for planning and Group-internal reporting. The handbooks document the initial situation, the stages of development, subsequent implementation and planning as well as accompanying cost control. The Group Development area is responsible for the strategy handbooks tool. It works together with the other specialist areas, e. g. with Corporate Responsibility, in relation to all sustainability issues. Besides this, we are planning to set up an extensive CR Data Management System by the end of the 2009/10 financial year for controlling and reporting purposes.

Along with direct control by means of management systems, guidelines and other binding specifications covering the range of obligatory topics, there are numerous information platforms such as Group network meetings and working groups on the individual specialised topics, which ensure that experts, staff with operational authority and multipliers exchange ideas and experiences on the topic of sustainability within the Group. This ensures that new ideas on sustainability issues and strategies from the various single companies are also incorporated into the Group.

Stakeholder Dialogue

A MANY-SIDED EXCHANGE OF VIEWS

As an international trading and services group, the Otto Group maintains active dialogue with numerous actors and practices a culture of dialogue. The Otto Group conducts dialogue in an open and engaging way with its stakeholders in order to reconcile their expectations with our own aims, and to develop and implement solutions to pending challenges together. By doing this, the Group gains vital impetus and proposals for its own sustainability performance, but also in return provides stimuli for and exerts a positive influence on the development of society. The Otto Group's primary aim is credibility – in other words, strengthening our stakeholders' trust in the sincere and persistent way the Group has been following the path it chose many years ago, largely independently of trends and societal factors, to continually improve its sustainability performance in as many different topic areas and business units as possible. To achieve this, the Group communicates in an open and transparent way with all target groups and uses a very wide range of different approaches and channels, such as memberships, active participation in initiatives and expert dialogues, setting up multi-stakeholder forums or issuing publications.

The Otto Group fosters dialogue with non-governmental organisations (NGOs) such as the World Wildlife Fund (WWF), Forest Stewardship Council (FSC), Greenpeace, the German Nature and Biodiversity Conservation Union (NABU), Friends of the Earth Germany (BUND), the German Environmental Aid Association (DUH) as well as terre des hommes and Welthungerhilfe. We also cooperate and exchange views with representatives from politics and governmental organisations, which primarily include the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU), the German Federal Environment Agency (UBA), the German Federal Ministry for Economic Cooperation and Development (BMZ) as well as the



German Society for Technical Cooperation (GTZ) and the German Society for Investment and Development (DEG). We have also intensified our contact in the reporting period with the German Federal Ministry of Labour and Social Affairs (BMAS): the Otto Group is involved in BMAS' Corporate Social Responsibility (CSR) forum which was founded in January 2009 and which comprises 40 members from the business community, civil society, trade unions, science and politics. Its purpose is to strengthen and expand sustainable corporate responsibility, as well as to advise and support the German Federal Government in developing a national CSR strategy.


In addition, the Otto Group regularly holds multi-stakeholder forums on socially relevant topics:

- At the beginning of 2009, 50 political, business and local-authority representatives were invited by the Otto Group to participate in two open discussions held at the Otto Group's head office in Hamburg and at Hamburg's Federal State Office in Berlin, on the reforming of the German Data Privacy Act and its anticipated consequences for the retail sector.
- The 'Michael Otto Stiftung für Umweltschutz' (Michael Otto Foundation for Environmental Protection) sets benchmarks in its regular dialogue events 'Hamburger Gespräche für Naturschutz' (Hamburg Forum on Nature Conservation). These are part of a constructive and solution-based approach to the exchange of ideas and information between representatives from different interest groups such as politics, the business community, science and environmental associations. The following subjects have been discussed in the Forum: in 2007 the ecological, economic and social consequences of overfishing of the oceans, and in 2008 the extinction of species caused by the increasing exploitation of natural and agricultural resources (see p.70).
- In March 2009, the Otto Group held a workshop with experts from a diverse range of interest groups on 'The

Future of Ethical Consumption – Survival Strategies in the Recession' (see p.21). Ethical Consumption also takes into consideration the environmental friendliness and social sustainability of selected products and services when they are purchased – considerations which are today gaining in importance and are of great relevance for the Otto Group's retail companies too. The discussion formed the prelude to the production of a Trend Study on the same topic which is to be carried out by the Trendbüro under the supervision of Professor Peter Wippermann and published at the same time as this Sustainability Report (see p.37).

During this reporting period, the Corporate Responsibility area created a Stakeholder Management System which has the twin aims of further developing contact with the numerous stakeholders in the area of environmental and social responsibility, but also enabling the implementation and expansion of the many media and event formats chosen to establish contact in an even more targeted way. Its objective is to systematise the existing stakeholder engagement measures also on the Group level from the end of 2009 onwards; it is also intended to improve both our risk management and our innovation management processes further.

The undisputed centrepiece of our communication with the majority of stakeholders is and remains Sustainability Reporting, which provides a regular account of the development of our sustainability performance and represents the starting point for further exchanges on the topic. The last Corporate Responsibility Report published in September 2007, which still concentrated solely on the individual company OTTO, was ranked first place in November 2007 for its

 **CR Teams within the Group** in the e-book

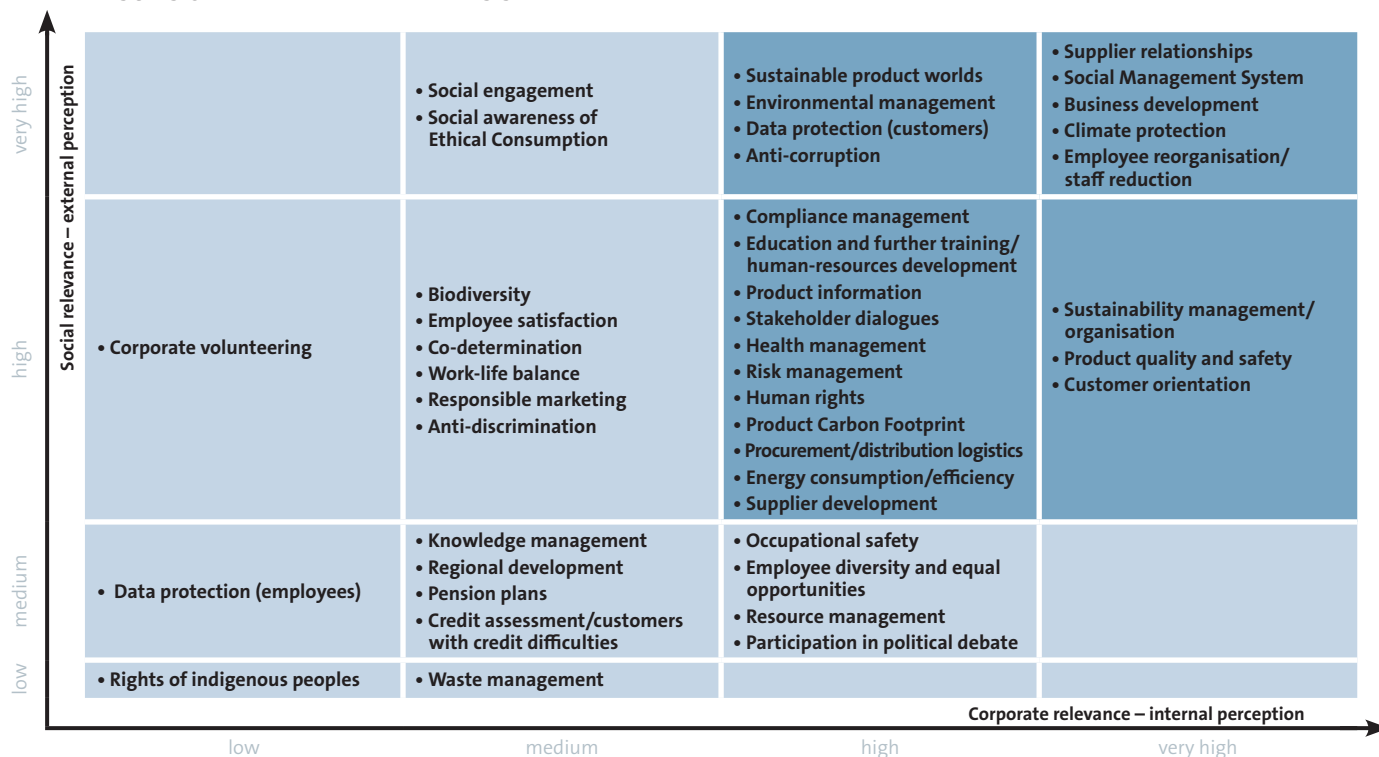
 **Memberships** in the e-book

 **Cooperative Projects** in the e-book

transparency and credibility by the German Institute for Ecological Economy Research (IÖW) and the German association of entrepreneurs 'future e. V'. The report earned particular praise for its presentation of the topic of social responsibility in the purchasing markets. As part of a moderated discussion held in November 2008, the Otto Group invited representatives from external stakeholder groups to analyse the strengths and weaknesses of OTTO's 2007 Corporate Responsibility Report, as well as to make proposals for improvement with regard to its content and structure, in order to assure the ongoing development of the Group's future sustainability reporting. The main goal of the discussion was to establish the relevance of the different topic areas for the reporting process. At the same time, the results of the analysis formed a solid basis for further

dialogue with all stakeholders involved. In parallel to the process of identifying topics carried out by external experts, internal experts – the subject specialists from the Corporate Responsibility area – were also surveyed in January 2009. Comparing the internal company viewpoint with the external stakeholders' perspective gave specific indications of which topics were important to everyone involved, thus allowing content foci to be derived for this Sustainability Report. The results of this so-called 'materiality process', which identified the most material (most relevant) issues for this report, are illustrated in a Materiality Matrix. Based on this matrix we defined the level of detail to which the individual topics are reported, as well as deciding whether to report on a given topic in the print report or the online e-book.

RESULTS OF THE MATERIALITY ANALYSIS





Excursus: The Future of Ethical Consumption

ETHICAL CONSUMPTION – MORE THAN A TEMPORARY PHENOMENON

The boom in organic products, fair trade and green energies are part of a phenomenon that has continually grown in importance in recent years: the phenomenon of Ethical Consumption. A growing number of critical consumers are interested in knowing what impact their consumption habits are having on people and the environment – and want to shop with a clear conscience. Since the onset of the global financial and economic crisis, the question has arisen as to whether and under what conditions Ethical Consumption can continue its successful path in the future. In the current global recession, what opportunities still exist for ethical products on the mass market – and what needs to be done to strengthen ethical factors as a driver for consumption, even during economically difficult times?

To address these questions and to stimulate critical discourse on these issues, on March 19th 2009 the Otto Group invited twelve opinion leaders to Hamburg for an all-day workshop, not least because the success of Ethical Consumption across our society as a whole is dependent on a diverse range of actors. That's why our participants included experts from the fields of business, science, consumer research as well as from state and non-governmental organisations. The discussion covered topics ranging from the status quo, through opportunities and limits in the further development of Ethical Consumption, to its future drivers. Four of the experts invited each threw light on different aspects of the topic area in keynote speeches which approached the following issues: consumers' need for information, consumers' power through strategic consumption, the value change that is needed in society, and sustainable cost-benefit strategies.

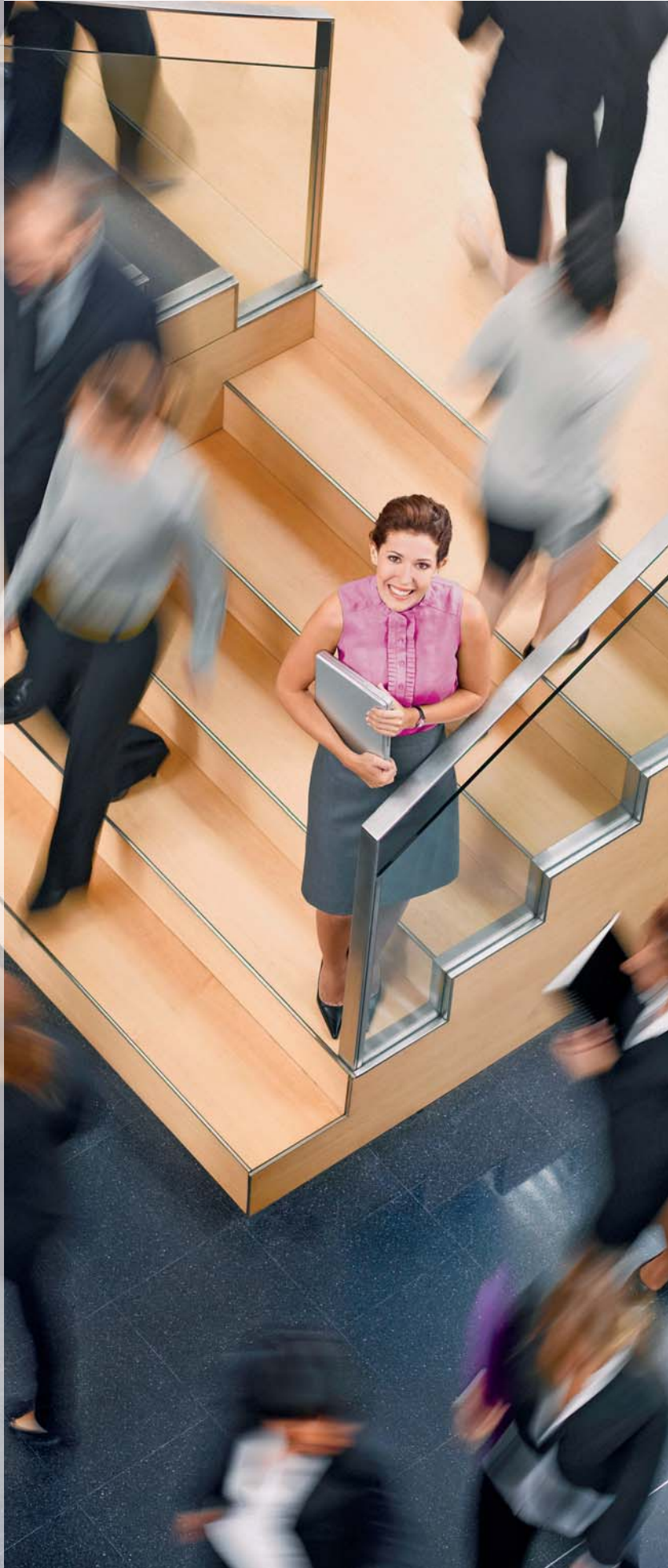
How can Ethical Consumption survive the global crisis? It should be 'sexy' – but that alone will not be enough to drive it significantly further forward. To give Ethical Consumption the best possible chance to flourish, what is required are new developments in the form of Web 2.0, greater product-information transparency, technical innovations, the ongoing expansion of green industries, politicians deliberately establishing a supportive framework, an opinion sea-change among the economic elite – and inspirational role models. Paradoxically, at the same time social tensions and even the financial crisis are seen as opportunities to further embed Ethical Consumption in the mainstream of society. Every participant agreed that Germany and Europe need to take long-term decisions with a lasting impact.

IDEAS AND OPINIONS IN THE 'SECOND LEVEL' OF THIS REPORT

The views, ideas and controversies surrounding this discourse are highlighted in the so-called 'second level' of this Sustainability Report, from page 24 onwards. They are intended to reflect the many facets of the topic of Ethical Consumption, and although their order is independent from the structure of the report on the ten Group companies, they also indirectly mirror the social context within which our companies operate. These sections are presented in the form of personal statements made by workshop participants or in a short summary of the contributions to the discussion, and are devoted to the following questions discussed in the workshop: 'What current challenges does our society face in spreading Ethical Consumption?', 'How can awareness of this be created and raised?' and 'Who and what are the key future drivers of Ethical Consumption?'

A creative break with lunch & learn

The secret of 'lunch & learn's success is simple: enjoy a tasty midday dish while joining in a stimulating discussion of OTTO-related hot topics. This innovative learning event was created by the OTTO Human Resources area in June 2008 and has met with an impressive response. Every two months, any and all OTTO employees – from interns all the way to senior management – are invited to a 'lunch & learn' event from 12.30 to 13.30. An expert gives a 20-minute talk on a current topic, which then becomes the subject of lively discussion for the participants over the following 20 minutes, whilst they enjoy a stand-up snack buffet. The final 20 minutes are devoted to a plenary discussion. Examples from the topical menu are issues and projects related to recommendation rates, online searches and reliable delivery information. With over 300 participants at each event, 'lunch & learn' has proven to be an informative as well as a culinary success!





“lunch & learn has helped our company culture evolve. Employees learn from one another, being able to ‘cut to the chase’ has become a transferable success factor – and a **positively critical, inspirational discussion culture** has become established.”

Sirka Laudon

Division Manager Human Resources
Development at OTTO



What does 'Ethical Consumption' actually mean?

Responsible Employer

A RANGE OF HUMAN-RESOURCES STRATEGIES – ONE SHARED VISION

The realisation of strategic goals, not least in the area of sustainability, requires in the first instance responsible action from the Otto Group companies' own employees. They bring the joint vision and the resulting strategies, structures and measures to life. Nurturing employees' motivation, health and performance and retaining high-potential employees are the overarching goals of our human resources-related work in the Otto Group companies. Market-driven salaries which also reward individual effort are characteristic of the Group's remuneration policy. In addition, the Group companies also offer their employees a whole range of voluntary social benefits adapted to suit the particular company's requirements – from staff discounts and Christmas and holiday money, through healthcare schemes and fitness packages, to occupational pension schemes. Added to this we offer flexible working arrangements and a range of schemes to balance work and family life.

Because of its heterogeneous structure, the Otto Group pursues an approach in which the individual companies' Executive Boards and Human Resources departments can decide and act autonomously to a great extent, although certain human-resources policy rules such as the Anti-Corruption Directive are anchored in the Group's set of regulations. We also regularly evaluate the salary scales for managers at Group level using a specific procedure. The Group Board Area for Human Resources carries out an annual evaluation of the individual companies' strategy handbooks, an internal management tool, with regard to those items affecting employees, identifies synergy potentials and derives recommendations applicable to all companies (see p.18). On request, the Board Area can also assist the single Group companies in

formulating their human-resources strategy and putting it into practice.

Besides this, the Group Board Area for Human Resources coordinates the Group-wide human-resources strategy process and supports cooperation on human-resources policy topics within the Group. Aside from making expertise and consultancy available to Group companies, it creates regular opportunities for exchanging and transmitting best-practice examples within the Group. Within this reporting period, the Group Board Area for Human Resources arranged its biannual conference for Vice Presidents of Human Resources and organised events, for instance a workshop on developing human-resources strategies. An information platform for the Human Resources departments has also been created on the Group-wide intranet.

In setting priorities for human-resources strategy, the Group Board Area for Human Resources surveyed Executive Directors and senior managers of Group companies, the results of which highlighted both local and Group-wide priorities. At a local level, employees' motivation and skills, development and retention of top performers as well as responsible leadership are the key topics. Across the Group, recruitment and internationalisation are the issues being pushed forward and there is potential here for links and synergy effects between the single companies. In future, the continued cooperation on topics such as corporate policies, labour and salary-scale law and equal opportunities will deepen the exchange and make even better use of synergy potentials.

IN DIALOGUE WITH OUR EMPLOYEES

One important tool for dialogue used by many of the ten Group companies is employee surveys. For example, during an employee survey in 2006, a majority of employees at OTTO expressed the wish that processes within the company should be defined more clearly, and solutions implemented

Ethical Consumption means that consumers do not base their purchasing decisions solely on value for money. Customers take into consideration additional criteria concerning the entire production and service process. They ask whether companies operate in accordance with laws, treat their workers and suppliers fairly and use natural resources in a responsible way. They want to know about the social and environmental impact that manufacturing, processing and using the products has. These and similar questions influence the purchasing decision when it comes to Ethical Consumption.

more consistently. To respond to these needs, in this reporting period OTTO established a better flow of information and created the Working Group on Innovation Culture, amongst other responses. At Schwab, employee surveys take place every two years. During the 2008/09 financial year, the company-internal Working Atmosphere Index showed a slight decline due to insecurity regarding potential job losses in warehouse management as part of the 'Neue marktorientierte Lagerlogistik' (New Market-driven Warehousing) project (see p.26). Employee satisfaction in administration, however, showed a slight increase over the same period and remained at a high level.

At Heine, around 75 percent of all employees and management took part in appraisal meetings during the financial year 2007/08 as part of the 'Leistungsorientierte Strukturen' (Performance-orientated Structures) restructuring programme and gave feedback on the process of change and the related job restructuring within the company. In parallel to this, Heine discussed these change processes in 20 dialogue events with a total of around 1,000 participants, and the Chairman of Heine's Executive Board of Directors started an intranet blog on this topic. At Unito, eight to ten employees are randomly selected for regular lunches with members of the Executive Board, which enables informal dialogue and better mutual understanding. Employees at bonprix are regularly encouraged and invited to seek constructive dialogue with colleagues and supervisors, for instance by posters and table displays in meeting rooms and canteens. Open doors, transparency and short communication and decision paths lead to very efficient and successful teamwork here.

EVERY IDEA COUNTS

Through systematic ideas management, Otto Group companies aim to boost creativity and knowledge transfer across the company and to use this for the benefit of joint business

activities. At bonprix, employees are invited to communicate their ideas on various topics, most recently in 2008 for a project where employees were asked to submit their ideas for lowering article-return rates. 109 participants from five countries took part in this project and generated 439 ideas. At Baur, every employee who submits a suggestion as part of the 'Denk' mal – Ich bewege was!' (Just think – I'm making a difference!) project receives a bonus of 10 percent of the savings made by implementing the idea.

Since September 2008, every Witt employee can use 'Wittipedia', the internal online encyclopaedia, to explain to colleagues any company-specific terms and abbreviations typical of mail order. In December 2008, an Advent Calendar event took place in which employees were invited to submit further entries to Wittipedia. Every new entry generated a 50 cent donation from Witt to the organisation 'Kinderkrebshilfe Oberpfalz Nord' (Children's Cancer Charity Upper Palatinate/Germany). If there were more than 25 entries from one company area, this amount was raised to one euro per entry. This call for the expansion of Wittipedia was met with great success: during the campaign, employees entered 1,800 new terms, which aside from spreading valuable knowledge also made possible the donation of 2,000 euros to the children's cancer charity.

 **Market-Driven Remuneration** in the e-book

 **Pension Plans** in the e-book



“The main question isn’t about ‘more or less’. It’s about what is being consumed and to what extent can the prevalent general conditions be adapted – politically, commercially or privately – so that consumption becomes more resource-friendly in the future.”

Dr. Michael Bilharz, ‘Umweltbundesamt’ (German Federal Environment Agency)

Reorganisation

SETTING THE COURSE FOR WAREHOUSE LOGISTICS

In 2007 some single companies within the Otto Group were obliged to adjust capacities to market requirements; at Baur, Heine and Schwab around 3 percent of jobs were cut in total. These reorganisation efforts were aimed at the re-orientation of these Group companies, on the one hand due to adjusting to new business models and on the other hand due to structural shifts within the markets. However, interventions in the Otto Group’s logistics companies were also necessary. Logistics providers worldwide today strive to outdo each other in delivering even the smallest quantities of goods at short notice and at attractive rates, and rely on ever higher-performing logistics networks. To be able to set the right course for the future in this growth industry and thus create a competitive basis for its further expansion, the Otto Group’s Executive Board decided in 2008 to modernise its location and facility structures, which had grown over many years, and to adjust employee conditions. Under the heading of ‘New Market-driven Warehousing’, the Otto Group passed a package of measures at the beginning of 2009 to adjust its logistics network in Germany and neighbouring countries in Europe to the new conditions, while retaining the greatest possible number of jobs.

BUNDLING CAPACITIES FOR A SOLID FUTURE

We plan to bundle the delivery logistics of assortments with small volumes at those facilities that are geographically central, i. e. Burgkunstadt and Haldensleben, and returns processing in Hamburg, Pilsen/Czech Republic and Hanau. While an Austrian facility which employs 270 people in Kalsdorf near Graz will be closed, around 750 jobs in Germany are

to be transferred or cut. That said, all German facilities will be retained. Net, there will be a reduction of a maximum of 410 jobs out of a total of 8,250, most of which are part time. Whereas Hamburg will lose around 630 jobs due to the closure of order-delivery and reserve warehouses, with an additional estimated 90 jobs cut in returns processing in Hanau and around 30 in Rottendorf near Würzburg around 340 new jobs will be created in Haldensleben in Saxony-Anhalt. Moreover, we will carry out these measures in accordance with our redundancy scheme, which was agreed in June 2009 to both cushion the social hardships for the remaining job cuts that need to be carried out and to keep the number of business-related redundancies from mid-2010 to as low a level as possible.

Prior to this decision, there had been intensive discussions between representatives of the Group Executive Board, the Works Council and the Services Trade Union, ver.di. The Otto Group’s Chairman of the Executive Board and Chief Executive Officer, Hans-Otto Schrader, described the solution as a “compromise between the necessities of the market and the highest possible job preservation.” The reorganisation efforts will create sustainable structures for the Group’s further expansion drive and will avoid job relocations to Eastern Europe, which were previously under consideration.

Training and Further Education

JOINT HUMAN-RESOURCES MARKETING ACTIVITIES

Demographic developments and the resulting lack of skilled employees will make it harder and harder in future for trading and service companies operating worldwide to find suitably qualified employees. The Otto Group is responding to this



What opportunities are open to Ethical Consumption in economically difficult times?

Does Ethical Consumption still serve a purpose and have a chance of survival in the current global recession? Or is it now **more important than ever?**

challenge across all companies and is using the synergy potential between its single companies to make recruitment, qualification and career paths increasingly more international and flexible. For example, a Group-wide applicant pool was created in 2008. For presentation in the media, we launched a multimedia image campaign at the Hamburg head office called 'Karriere machen – Zeichen setzen' (Make a career – leave your mark), which places the principle of responsibility very much in focus. In order to recruit new and promising talents, the Group companies pool their human-resources marketing activities through a Group-wide online 'Appointments' section, which will be deployed internationally in 2009. In future, the hire of specialists and senior management is to be undertaken worldwide. Individual companies such as OTTO also rely on their own employees' social networks: OTTO rewards its employees with up to 2,000 euros for the successful introduction of a new skilled employee for advertised positions that cannot be filled internally.

ON-THE-JOB LEARNING FOR TRAINEES

Vocational training is not just far-sighted human-resources management for the Otto Group, but also our obligation to society as a whole. In the 2007/08 financial year, a total of 561 young people took up one of the 30 types of traineeships within the ten companies in this report; for 2008/09, it was a total of 567 (see p.84). Besides transmitting technical knowledge, the main elements of their training are boosting their own initiative, building their soft skills and social competencies and introducing them to complex business ideas. In many companies, trainees can prove themselves in ambitious projects. Examples from SportScheck include eleven trainees running a 'hot spot store' independently for two weeks in 2007. The following year the six best trainees organised a campaign week

in which SportScheck was presented to its customers as a multichannel company. At OTTO, in a training project entitled 'Zeig', was Du hast' (Show what you've got) prospective media designers developed a catalogue that helps disguise problem areas and emphasises good points for each figure type. 300,000 of these catalogues were sent to households all over Germany. At Schwab, trainees were given the opportunity to make their own short film about the mail-order sector. While junior employees at Baur helped create an Internet presence in 2008/09, at Heine the trainees presented their own fashion show several times to the 'Industrie- und Handelskammer (IHK)' (Chamber of Industry and Commerce) in 2008.

PROMOTING TALENT ACROSS THE GROUP

Talent management is integrated Group-wide and was driven by a cross-company project team during 2008. As part of this project, the Otto Group defined minimum requirements for certain key positions and so created the conditions for a system of performance and potential evaluation that is uniformly applicable across the worldwide Group. Also, work began at the end of 2008 on developing a new IT talent-management tool for all companies and countries, which makes it possible to evaluate employees Group-wide on comparable criteria, identify their potential and support them optimally on this basis. Senior management and employees at all levels have also had the opportunity for many years to widen their technical and social skills through the varied programme of ongoing training and further education. Founded in 1999, the Otto Group Academy offers Group-wide courses, lectures, coaching and since the start of 2009, even a web-based 'Innovation TV' channel for members of the Executive Board, current and future Executive Directors and the Vice Presidents of functional areas at head office. Future Executive Directors

A moral rate of return

Ethical Consumption can also offer a range of attractive options, particularly in economically challenging periods: companies minimise risks and strengthen customer loyalty during these times. Options open up to redefine prosperity with the focus on long-term strategies and acting sustainably, instead of on shorter-term return-on-equity targets. Customers also benefit: ethically driven decisions and assuming responsibility give them the feeling of belonging and strength – and in so doing, provide them with a ‘moral rate of return’.

also receive support from this Academy within the ‘Top Executive Development Programme’ – which helps them form further networks and contacts with other decision-makers.

The numerous further education programmes within the single Group companies are aimed at all employees (see p.84). The OTTO Academy, for example, offered 253 courses in the 2008/09 financial year, including negotiation skills workshops in German and English, project management courses or training in new creative techniques. Other companies such as Baur, bonprix, Heine and Witt also make use of the courses offered at the OTTO Academy. OTTO also introduced a new Mentoring Programme in 2008, in which experienced leaders personally assist aspiring young employees with their knowledge and experience in planning their careers. OTTO Office developed an e-learning system for quality assurance in 2008, which allows employees to work independently on their personal goals. The same year, Witt founded the Service Management Academy together with external partners. This academy’s central function is to train and qualify employees and team managers in preparation for the modern call-centre market within the region by providing them with thorough industry knowledge through a two-year certified training course for Senior Agents or Call Centre Team Leaders, among other measures. SportScheck, on the other hand, appeals to its employees’ competitive instincts by giving each employee a ‘Player’s License’ and rewarding participation in training events with training points.

TAILOR-MADE DEGREE PROGRAMMES

As part of our cooperation with universities and colleges, the Otto Group develops degree programmes that allow students and young professionals to learn extensive management capabilities that are tailored to the specific requirements of the mail-order sector. Together with the ‘Hochschule für Angewandte Wissenschaften Hamburg’ (Hamburg University of Applied Sciences), in 2007 the Otto Group developed the

multidisciplinary Master in Multichannel Trade Management in Textile Business and endowed the corresponding Chair in Marketing and Strategic Buying for Trade. This course combines elements from the economic sciences with clothing management. The first twelve students took up the course in 2008 and completed different placements in selected Otto Group departments during their studies. The course has been very popular and started its second year in March 2009 with 33 students. Since the Winter Semester 2008/09, future leaders from our own ranks can study for the Master in Business Administration at the Leuphana Universität Lüneburg (Leuphana University in Lüneburg/Germany), for which the Group created a Chair in Strategic Management. Up to 24 employees per year can start a part-time postgraduate degree tailored specifically to the needs and requirements of the Otto Group.

Diversity and Equal Opportunities

FOSTERING EQUAL OPPORTUNITIES

Within the Otto Group we support employees with different talents, abilities and cultural backgrounds equally. “The diversity of our employees benefits our daily work,” emphasises OTTO Vice President of Human Resources, Michael Picard, “and we have to safeguard this diversity.” The ‘Allgemeines Gleichbehandlungsgesetz’ (Equal Opportunities Act) that came into effect in August 2006 was used as an opportunity for the Group to highlight the issue of diversity in its companies. In particular, the permeability of all management levels for employees of different sexes, cultural and ethnic backgrounds continues to be an important area for action in the eyes of the Works Council.

Our Group-wide understanding of which behaviours are considered discriminatory and what consequences can follow is laid down in the Group Agreement on the Promotion of



“The best way to overcome the economic crisis is building trust. A new form of trust needs to be forged between companies, their employees, suppliers and consumers. Trust, particularly in liberal societies and capitalist economic systems, is essential. The greater the mutual trust, the greater the liberty – and thus freedom and responsibility go hand-in-hand.”

Yvonne Zwick, ‘Rat für Nachhaltige Entwicklung’ (German Council for Sustainable Development)

Keynote speech: ‘Is Ethical Consumption only for good times? How we can attain prosperity through responsible consumer behaviour’

Diversity and Protection from Discrimination, of December 2006. This contains information about the contents of the Equal Opportunities Act as well as related rights and responsibilities, illustrates possible sanctions and clarifies the complaints procedure. In addition, all employees received a memo on the contents of the relevant law. In 2007 an e-learning tool was developed for the employees of Baur, bonprix, OTTO and SportScheck to show in an easily understandable way how to avoid discrimination in everyday work. In particular, Senior Managers are continuously sensitised to the relevance of this topic and reminded to transmit this understanding further within their own company. bonprix’s international exchange programmes with employees’ foreign counterparts, Heine’s intercultural management training course on ‘Asia’ from Autumn 2009 and the many opportunities for learning foreign languages all demonstrate the many ways we seek to promote the understanding of other cultures within the Otto Group.

BALANCING WORK AND FAMILY LIFE

Proportions of female employees at 65 percent or above are no rarity in the ten Otto Group companies included in this report (see p.83). That said, women are still not correspondingly represented in the upper and middle management levels of the Group companies. However, on a positive note the proportion of female managers in these ten companies rose by almost 4 percentage points to 20 percent during the 2008/09 financial year compared to the previous year. At Heine, the proportion of women in leadership positions is already higher: 40 percent of Division Managers are women. Affirmative action for women starts early at Unito: for its Daughters’ Day, held for the first time in June 2008, Unito introduced girls and young women to potential jobs, especially technical ones.

An important focus in all ten companies is supporting our employees in balancing family and job. The companies pursue

different strategies here: bonprix, Schwab and SportScheck offer their employees individual childcare arrangements; OTTO gives an additional childcare subsidy of around 30 euros per month per child, and plans various ways to team up with kindergartens in the region to provide employees with childcare near their homes or workplaces. To determine demand, an employee survey was carried out at the end of 2008 at the Hamburg facility. The results of the survey showed that there is an immediate demand for ad-hoc and holiday childcare. OTTO plans to create more regular childcare places in the next two to three years.

 **Balancing Family and Job** in the e-book

 **Intercultural Programmes** in the e-book

 **Handicapped Employees** in the e-book



Plurality of lifestyles

“A liberal society is necessarily based on the plurality of lifestyles, which provides different thematic and motivational reference points in mapping sustainable models of consumption. In the gradual realisation of such models, individual actors’ willingness to embrace change and end-user considerations are all brought to bear as different driving factors.”

Postulate 5 of the ‘Tutzinger Erklärung zum nachhaltigen Konsum’ (Tutzing Declaration on Sustainable Consumption)

Health Management

OUTSTANDING PERFORMANCE

Health promotion, in the sense of strengthening the physical, mental and social wellbeing of our employees, is an important building block of sustainable human-resources management within the Otto Group. With their outstanding management systems and award-winning programmes, the ten Group companies are setting an excellent example in this field. Several of the Otto Group companies regularly undergo external certification of their health and occupational safety management and use this to drive the continuous improvement process. One example is the integrated environmental, occupational safety and health management systems at Baur and Unito, which are audited annually and certified every three years according to the DIN EN ISO 14001 norm. Another is Witt’s introduction of its Occupational Health and Risk Management System (OHRIS) in 2008, developed jointly with the Bavarian government and industry as a proven tool to ensure that occupational health and safety systems for employees are integrated in the structures and processes of the company.

HEALTHIER WITH ‘AKTIV.NET’

aktiv.net ensures healthcare for a total of 16,000 employees in 23 single Otto Group companies. The network was created in 2000 by OTTO; aside from the occupational health and safety services required by law, it also offers an extensive counselling service for employees with addiction problems and financial difficulties. Furthermore, employees have access to a wide programme of preventative measures, which includes occupational medicine, therapy and rehabilitation (see p.85). In 2008, a total of 3,000 employees used one of the many preventative measures on offer, from the early detection of bowel cancer to thyroid screening. As the first company nationally, OTTO started a venture with the

‘Techniker Krankenkasse (TK)’ (Technicians’ Health Insurance Company) and set new standards in occupational health management. The first joint project was the modernisation of the company’s fitness studio: amongst others, the employees of bonprix, OTTO and OTTO Office now have more than 600 square metres full of the latest training apparatus, with an extensive fitness programme and relaxation in the newly designed lounge. And to encourage even couch potatoes to take part in health promotion, OTTO stages motivational events: for instance, together with TK, OTTO offered 40 employees the opportunity to prepare for the ‘Hamburg City Man 2008’ triathlon over the course of nine months. With intensive support from sports science and medicine, and lots of encouragement from their colleagues who were able to follow their progress on the intranet, 38 entrants competed successfully in the triathlon.

GROUP-WIDE PREVENTION AND FITNESS

SportScheck lives up to its slogan ‘Wir machen Sport’ (We’re into sports) within the company as well. In 2008, the company’s fitness studio was refurbished, which employees can use for free. In the same year, the first ‘Outdoor Socca Five’ mini-soccer tournament took place. A no-smoking campaign supported by the Works Council has been running since 2008, and very well-attended yoga classes have been running at SportScheck’s head office since 2009. At Baur, the no-smoking campaign was even a central topic in 2007. What is more, in 2009 all workstations at Baur’s freight centre will be checked for smoke nuisance as a preventative measure, in cooperation with the ‘Berufsforschungs- und Beratungsinstitut für interdisziplinäre Technikgestaltung’ (German Institute for Occupational Research and Advice on Interdisciplinary Technical Design). Unito organised a three-day fitness check at its Graz facility at the beginning of 2009, during

Successful health management at Schwab

As part of the Integrated Occupational Health Management model project from the health-insurance company AOK in Hesse and the 'Institut für Technologie und Arbeit an der Universität Kaiserslautern' (Institute for Technology and Work at the University of Kaiserslautern/Germany), in 2008 Schwab won an award for its outstanding health management for the fourth year in a row. The prize was a refund of one month's contribution for all employees insured through AOK. Taking part in the project was worthwhile for everyone involved – the number of sick days at Schwab has fallen by a third since the company implemented its health-management system. Additionally, the company has been able to lower its annual sick pay expenditure by 250,000 euros.



which 114 employees were tested extensively and received advice on nutrition and health. Since 2004, Witt's Health Steering Committee has initiated special measures such as campaign days, workshops and lectures as part of its 'Gesund und Fit mit Witt' (Healthy and fit at Witt) programme, which also takes into account suggestions and feedback from employees. Witt's Customer Service area started a pilot project in 2008 entitled 'Gesundheitszirkel' (Health Circle) with the intention of analysing work-related health risks and developing solutions through targeted group work.

Happily, the ten Group companies' commitment to health has not gone unnoticed. Witt was rewarded in 2007 for its contribution within the framework of the competition 'Gesunde Mitarbeiter – Gesundes Unternehmen' (Healthy employees – healthy company). Baur received the 2007 award for 'Innovation in der Prävention' (Innovation in Prevention) from the 'Berufsgenossenschaft Handel und Warendistribution' (Trade and Logistics Guild). The following year, the company won the 'Award für betriebliche Gesundheitsförderung' (Award for Occupational Health Promotion) from the AOK (a major German health insurance company) Bavaria. OTTO was honoured in December 2007 by the 'Verband der Betriebskrankenkassen' (Association of Company Health Insurers) for its outstanding commitment to occupational health management, winning the 'Move Europe Partner Excellence' award. In research on health management carried out in 2007 by the market research institute EuPD Research, OTTO achieved a very creditable third place out of 121 companies.

Sustainable production

//////

In April 2008 Heine started a pilot project for sustainable furniture sourcing in Latvia; within this the company encouraged its business partner, a large Latvian furniture factory, to undergo an environmental audit. First, Heine held exploratory discussions with its Purchasing area and the Otto Group Purchasing office for the Baltic region, as well as with furniture producers in Latvia. What is more, in these meetings Heine emphasized the positive value of the FSC certification of production plants to the supplier selected for the pilot project, and made the business potential associated with this clear. The FSC certification of this supplier was able to be carried out in 2009 and the first Latvia-produced FSC-certified furniture articles are scheduled for inclusion in Heine's 2010 assortment. It will then be possible for other Otto Group retail subsidiaries to order FSC-certified furniture from this Latvian supplier too.





“For Heine, Latvia has been one of our key purchasing markets for 15 years. **Thanks to our intensive, partnership-orientated cooperation,** our largest furniture supplier’s entire solid-wood furniture production will be FSC-certified from 2010 onwards.”

Dr. Heike Holschuh
Hard Goods Purchasing Management
at Heine

How do I free myself from the social compulsion to consume?

How do I live my life without making unnecessary sacrifices and at the same time far from immeasurable excess?

What will allow me to act according to my own personal values?

Selecting Raw Materials

IT'S THE SELECTION THAT MATTERS

As the interface between producers and consumers, the Otto Group's retail companies are also responsible for the products they sell – for the raw materials they are made from, and the working conditions under which they are produced. To ensure environmental and social standards are upheld in our supply chain, we rely on the strong network that exists within the Otto Group's purchasing and procurement processes: from coordinating and managing the Purchasing Policy at our head office in Hamburg to supporting our suppliers through the Otto Group's international offices in the purchasing markets, including training the suppliers. When it comes to transporting the goods from the international markets to our goods distribution centres in Central Europe, we are ultimately concerned about one major factor from the viewpoint of sustainability: reducing carbon-dioxide emissions, to help protect the Earth's climate.

Purchasing decisions always incorporate an ethical dimension for Otto Group companies. As such, our guidelines ensure that fundamental environmental and social standards are complied with when it comes to both the selection of raw materials and the manufacturing process. The core assortment of the ten companies covered by this report – with the exception of OTTO Office – is textile-based. The Group-wide Textiles Guideline, which also defines the thresholds for harmful substances for the finished product (see p.61), sets out, among other points, our requirements regarding the purchasing of materials and the protection of animals and species. For instance, the ten Group companies are prohibited from using real fur; the only exception is leather and fur products from cows, pigs, sheep or goats, as these are by-products of the food industry. Feathers may only come from humanely

reared birds which are then processed for food production, thereby ruling out the risk of live-plucking purely for their feathers.

SUSTAINABLE COTTON CULTIVATION

With our two beacon projects PURE WEAR and 'Cotton made in Africa', the Otto Group is leading the way in the area of sustainable textiles. While the primary aim of organic cotton textiles bearing the PURE WEAR quality seal is protecting nature and the environment, our Cotton made in Africa initiative follows a development-policy approach. As early as the mid-1990s, OTTO launched the first organic cotton project in Western Turkey – and in the years following that it was one of the first retail companies to offer organic cotton textiles to the mass market. Since 2003, the PURE WEAR quality seal has identified textile goods containing cotton produced through controlled organic cultivation and carried by OTTO, Uniqlo and H&M in their ranges (see p.63). The cotton used in these products grows exclusively on fields where farmers apply soil-friendly annual crop-rotation practices. To reduce the impact not only on the soil but also on the water and the farmers who cultivate the cotton, the seal ensures that only natural pesticides and fertilisers are used. At the spinning company, the organic cotton is stored and processed separately from conventional cotton to avoid any mixing. Only yarn from organic cotton approved by the international certification organisation Skal (also known as Control Union Certifications) may be used as a PURE WEAR raw material. Other certificates may only be considered following discussions with the Otto Group's Corporate Responsibility area in Hamburg and extensive testing. In addition, all PURE WEAR textiles are subject to particularly strict laboratory checks for harmful substances (see p.63).

The development-policy initiative Cotton made in Africa was launched by the Aid by Trade Foundation (see p.71) established in 2005 by Dr. Michael Otto, and has set itself



the aim of contributing towards the fight against poverty as well as to the protection of the environment, especially in Africa. The background is that around 20 million people depend on cotton cultivation for their livelihood in sub-Saharan Africa. On the one hand, despite the good quality of their cotton, smallholder farmers are faced with low global market prices, delayed payment and low productivity. And on the other, improper use of agricultural chemicals (for which they frequently have to run up debt) also damages their own health, the soil, drinking water supplies and the environment. The project focuses on addressing these two issues and is guided by the principle of 'aid by trade': pushing demand among as many textile companies as possible, including various Otto Group retailers, as well as providing training to improve the sustainable cultivation of cotton. This approach is aimed at helping tackle social inequality and environmental damage in sub-Saharan Africa, while at the same time promoting the economic development of the regions affected. To date, Cotton made in Africa countries include Benin, Burkina Faso, Zambia and Mozambique. While Cotton made in Africa is not organic cotton, the project places great value on reducing the use of pesticides, and its procedures are subject to fixed environmental and social quality standards, which are audited by an independent auditing firm within the framework of a strict verification system.

Initial studies affirm the effectiveness of the project: while the harvest yields of several cooperatives in Zambia more than doubled in 2008, farmers in Benin were able to considerably improve the quality of their cotton. In the meantime, around 85,000 tonnes of sustainably cultivated raw cotton is being produced under this initiative each year, on an area of land covering a good 160,000 hectares. Around 130,000 smallholder farmers and their families – on average between seven and eight people – were able to live off this

harvest in 2008. Today, eight out of the ten Otto Group companies covered by this report offer their customers Cotton made in Africa textiles (see p.63).

Since the summer of 2007, a Group-wide Timber Sourcing Policy has governed our timber sourcing process. It replaces our former Tropical Wood Policy and aims to ensure that no illegal timber is sourced from the plundering or raze-felling of woodland. The former policy only applied to timber from tropical forests that were originally considered to be particularly at risk, whereas our new policy applies to all forests worldwide, including boreal coniferous forests. It therefore represents an integrated response by our companies in tackling the challenges posed by the global sourcing of timber, and the dramatic decline in global forest stocks. Otto Group suppliers now need to produce a certificate of origin for all timber, and submit an additional certificate for timber either from critical regions or of critical types. Working with a renowned timber expert, our Group accepts widely recognised certifications such as 'Naturland', the Tropical Forest Trust (TFT) or the Forest Stewardship Council (FSC). Regional certificates are accepted in well-justified cases if their criteria meet Otto Group requirements. It became clear during the implementation phase that the stipulated certificates of origin were frequently difficult to obtain, purely for the reason that suppliers in many countries had hardly ever looked into the issue up until that point. In the first stage, our Timber Sourcing Policy governs the purchase of furniture and decorative accessories made from solid wood. In the next stage, we intend to expand it over the medium term to apply to all articles that contain wooden components or even materials that are similar to timber, such as bamboo and rattan. In addition, the Otto Group remains committed to its aim of expanding its range of furniture which has been certified according to the best-practice standard of the internationally renowned FSC organisation.

“The problem in times of crisis is that people think on a very, very short-term basis, which prevents wise decisions with a long-term outlook from being taken.”

Prof. Peter Wippermann, Trendbüro
Keynote speech: ‘Do good and save money’

Social Responsibility and Code of Conduct

RAISING AWARENESS, IMPROVING WORKING CONDITIONS

The Otto Group’s retail companies see themselves as the interface between manufacturers and customers. Their goal is to offer their customers products which have been produced under socially acceptable conditions in all cases – regardless of whether in Germany, Europe or anywhere else in the world. This is why they promote the upholding of social standards among their suppliers, particularly in markets where statutory regulations are not implemented as a matter of course. To achieve this, the Otto Group integrated a fundamental Code of Conduct into its framework agreements with suppliers. To ensure the principles of this Code are applied, we have developed and implemented our own Social Management System based on the twin pillars of auditing and training. We are continually expanding this system and are also involved in both multi-stakeholder initiatives and industry associations.

A COMMON CODE OF CONDUCT FOR FAIR COOPERATION

The Otto Group’s Social Management System is based on our Group-wide Code of Conduct, an integral part of all supplier framework agreements at OTTO since 1997 and which today applies to all Otto Group companies. The Code of Conduct commits every retail partner of the Group to uphold certain social standards when it comes to production and to make a binding commitment to ensuring that working conditions among their subcontractors also meet minimum standards. The stipulated standards are in harmony with the International Labour Organisation’s (ILO) rules, the United Nations Convention on the Rights of the Child and Convention on the Elimination of All Forms of Discrimination against Women, the Business Social Compliance Initiative (BSCI) as well as the OECD Guidelines for Multinational Enterprises. Correspondingly, the Code of Conduct places clear requirements

on the Otto Group’s business partners: the Group tolerates neither child labour nor forced labour at its suppliers nor their subcontractors. Working days are limited to a maximum of six days a week and regular working hours are restricted to a maximum of 48 hours (which may extend up to 60 hours including paid overtime). Furthermore, wages must meet the minimum national statutory or industry standard, whichever is the higher.

The Code of Conduct also sets out minimum standards such as in the areas of freedom of association (unionisation), anti-discrimination, occupational health and safety as well as environmental protection. In the case of the latter, it focuses on reducing or preventing environmental pollution, along with upholding compliance with the relevant applicable environmental standards. As of 2006, the Code of Conduct has contained a passage on fighting corruption and optimising management processes in suppliers’ business practices: we had established that most of the violations of the Code of Conduct are in the areas of working hours, compensation and occupational safety – which are frequently down to poor management. Since March 2009, our Code of Conduct has also applied to suppliers of non-merchandising goods. Several revisions were made for this purpose, and the passage on anti-corruption has been significantly expanded.

A WELL-EMBEDDED SOCIAL MANAGEMENT SYSTEM

Although signing the Code of Conduct is a condition for establishing a business relationship with our Group companies, in most purchasing markets there is often still a long way to go until the standards stipulated in it are consistently implemented. We therefore look carefully at the conditions under which the goods are actually produced: at the end of the 1990s we began to develop our own management system to assess the social performance of our suppliers and to take a partnership-based approach to supporting them in their



Further information on the study 'Otto Group Trendstudie 2009: Die Zukunft des ethischen Konsums' (Otto Group Trend Study 2009: The Future of Ethical Consumption) www.ottogroup.com/nachhaltigkeitsbericht

development. To achieve this, the Otto Group sought to work with other large German retail companies that were faced with the same challenges. On OTTO's initiative a common social standard was developed in 1999 under the umbrella of the 'Außenhandelsverband des deutschen Einzelhandels (AVE)' (Foreign Trade Association of the German Retail Trade) – a standard which all retail companies required their suppliers to uphold. Ultimately, both parties benefited: suppliers no longer had to fulfil different social standard requirements for each client, and the retail companies could rest assured that competition for the best price was not at the expense of the suppliers' workers.

In 2004, the Otto Group became a founder member of the Business Social Compliance Initiative (BSCI), an initiative of the European Foreign Trade Association (FTA). The BSCI developed from the German AVE model due to increasing demand, also from non-German companies. Today, around 350 retail companies from across Europe are members, have made a binding commitment to enforce a uniform social standard among their suppliers – and in doing so are supporting a common Code of Conduct. On the basis of its Code of Conduct, the BSCI pursues a development-policy approach and stipulates two packages of measures: on the one hand, it insists on the auditing of suppliers in the relevant purchasing markets – in other words, local auditing by independent external assessors from accredited auditing firms based on the standardised BSCI questionnaire. On the other hand, it carries out targeted training of suppliers with the aim of improving social standards in the purchasing markets. In the reporting period, this approach applied to suppliers from the clothing, home textiles, shoes and toys product groups, from a total of ten countries: India, China, Turkey, Vietnam, Mauritius, Pakistan, Bangladesh, the United Arab Emirates, Thailand and Indonesia. These represent the Otto Group's main production markets where there is a particularly

high risk that social standards in manufacturing the aforementioned products do not comply with the Code of Conduct. Generally, strict labour legislation does exist in those countries too, but laws are not complied with as a matter of course – and neither is compliance checked on a regular basis by the respective state.

The Otto Group's Social Management System applies to all Group companies in Germany, Austria and the United Kingdom that purchase centrally via in-market organisations. Here, the Group's most important partner in the market is Otto International, a 100 percent subsidiary of the Group and a service company specialising in purchasing and procurement. Along with Alba Moda, Apart, Eddie Bauer Deutschland, Freemans, Grattan and Sieh An!, the system also includes eight of the ten retail companies covered by this report: Baur, bonprix, Heine, OTTO, Schwab, SportScheck, Unito and Witt. Frankonia and OTTO Office were not included as part of the Otto Group's Social Management System up until 2009. At Frankonia, this was because of its decentralised purchasing structure, as the majority of branded products and articles the company offers are mainly produced in Europe. OTTO Office, being an office-equipment provider, didn't carry any articles which were within the scope of application of the Otto Group's Social Management System. Furthermore, around 95 percent of the branded products and own-name brands that OTTO Office sells come from traditional German manufacturers, which means the articles are considered to be comparatively lower-risk.

 **Code of Conduct** in the e-book

 **Otto International** www.ottoint.com



COOPERATIVE IMPLEMENTATION

The Environmental and Social Policy department within the Otto Group Corporate Responsibility area is responsible for the topic of social compliance within our Group. Its key responsibility is for the ongoing strategic development of the Social Management System. To help with this, the former has been supported since 2006 by representatives from the Purchasing areas and from Otto International, within the framework of a joint working group: during the strategy-development process, these practitioners contribute their experiences and therefore help to identify potential challenges in advance. Along with strategy development, the Environmental and Social Policy department is also responsible for defining aims for Purchasing and the market organisations. Its Social Compliance Team advises the Group companies and the market organisations on implementing these strategic aims, and manages the controlling of all the data generated in the social area. On this basis, a status report highlighting the current status and key areas of corporate action is produced every quarter for the Executive Board, market organisations and Group companies.

Furthermore, the Environmental and Social Policy department is also the point of contact for the different interest groups, such as non-governmental organisations involved in the field of social standards and human rights. As a founding member of the BSCI, the Otto Group actively shapes the ongoing development of this initiative and is involved in various BSCI Working Groups. Since the start of 2009, Dr. Johannes Merck, Vice President Corporate Responsibility at the Otto Group, has been representing the German members of the initiative on the BSCI's Steering Committee. Memberships of the German multi-stakeholder forum 'Runder Tisch Verhaltenskodizes' (Round Table on Codes of Conduct) and the non-governmental organisation Social Accountability International (SAI) complete our activities in this area.

LOCAL POINTS OF CONTACT

Otto International is the main bridge between Purchasing and suppliers. In the few purchasing markets where it is not represented (such as in Mauritius or Pakistan), Purchasing works closely with external agents. It goes without saying that the same requirements apply here as for the Otto Group's own market organisation, Otto International.

Since 2007, each market organisation in each key purchasing market has been assigned at least one Social Officer. Globally, the number of Social Officers had already grown to 18 by January 2009. They are the local point of contact for suppliers, and they keep the Environmental and Social Policy department updated on the implementation status of the Social Programme and the suppliers' audit results by means of a joint database. Acting as a permanent eye on the market and bridge to the suppliers, the Social Officers play a key role in our Social Programme: they deliver important feedback on the challenges and constraints, but also on possible solutions in the operational implementation of the programme. For this purpose they meet at least once a year at a three-day training seminar at one of the Otto Group's global locations. In 2007, the Social Officers met in Shanghai to be given training on the topic of pre-scanning. In 2008 they met in Hamburg and completed a practical course on training suppliers. And in February 2009, the focus of the course in Bangkok was 'The Otto Group Social Programme 2009-2011: New Objectives and Requirements'. At these Train the Trainer seminars, besides receiving specialist training, our Social Officers are able to exchange experiences, act out case studies and establish important contacts.

The Environmental and Social Policy department is given support and strategic advice during the training of the Social Officers, as well as when training the suppliers themselves, by the consultancy company Systain Consulting GmbH. Established in 1998 as a spin-off of the Environmental and Social Policy head office department, the firm is based in

**20 percent of the world's population consumes
over 80 percent of the Earth's natural resources**

13 million hectares of forest are disappearing each year

**Globally there could be approximately
200 million climate refugees by 2050**

Hamburg and is a 100 percent Group company. Today it has an international presence with offices in Istanbul, Hong Kong and Dhaka. Systain offers its customers the full spectrum of consultancy services on the topic of sustainability management, from climate protection in Germany to round tables in Bangladesh's textiles industry. It focuses in particular on developing programmes to improve working and production conditions in goods manufacturing.

The Otto Group's 'CR Representative Asia' works at a strategic level rather than an operational one, primarily in the South-East Asian region to represent the sustainability interests of the Group at a higher political level. In this function since 2007, Mrs. Maren Böhm has maintained very close contact with governments, economic organisations and non-governmental organisations, and is also the point of contact for the Otto Group's Market Offices. In recent years, the Otto Group has intensified its strategic communication activities in the largest purchasing-market countries, and in doing so has established good relationships with export associations, ministries and trade unions, among other key stakeholders. This includes in particular dialogue with the most important textile associations in Bangladesh and China, which have a very strong influence on their respective national governments. The clothing industry accounts for up to 80 percent of total export volumes there, and has a correspondingly high lobbying influence – for instance, the Bangladesh Garments and Exporters Association currently represents around 4,500 clothing manufacturers in Bangladesh alone. This association has set itself the aim of driving implementation of statutory social standards further forward at its members' production facilities, an aim the Otto Group warmly welcomes and supports.

Systematic Auditing

PRE-SCANS AND AUDITS

Well before any initial order is placed, the Otto Group makes sure that a potential supplier upholds key social standards. As part of a pre-scan, our Social Officers audit suppliers and inform them what minimum social standards must be met when entering into a business relationship with the Group. In new markets, the Social Officer is supported in this and trained by Systain. If the supplier passes the pre-scan, it is allowed to initially supply the Group for two seasons. Experience has shown that it becomes apparent to both parties over this period whether this will result in a longer-term business relationship. By the start of the third season at the latest, the supplier is obliged to have its production facility audited by an independent, SAI-accredited auditing firm in accordance with the BSCI's social standard.

Here, three different outcomes are possible: if the supplier is awarded a 'Good' score, it may enter into a three-year business relationship with Otto Group companies without further auditing. However, as part of an internal audit conducted every six months the Social Officers also make sure that social standards have not slipped. Suppliers that achieve a very high score are encouraged to implement the internationally recognised SA8000 best-practice standard, developed in 1997 by SAI in a multi-stakeholder process. Among other things, it also calls for the systematic monitoring of sub-suppliers, subcontractors and home workers. However, if the audit results in a score meaning 'Improvements needed' or even 'Critical/Non-compliant', a corrective action plan is devised and a timeframe defined within which the corrective measures have to be implemented before a re-audit can take place, usually no longer than six months. If a supplier appears

PURCHASING AND PRODUCTION



“In the coming years, demands on politics, the economy and society may be expressed with a completely different vehemence and with much greater force. The question is, will we need to carry out **‘system re-engineering’**? Are we actually still on the right track in this world – or is it time to make a few fundamental changes?”

Georg Abel, ‘Die VERBRAUCHER INITIATIVE’

(German Consumer Initiative Organisation)

Keynote speech: ‘(Over) challenging consumers – why we need to assume a change in the information needs of consumers in times of loss of confidence’

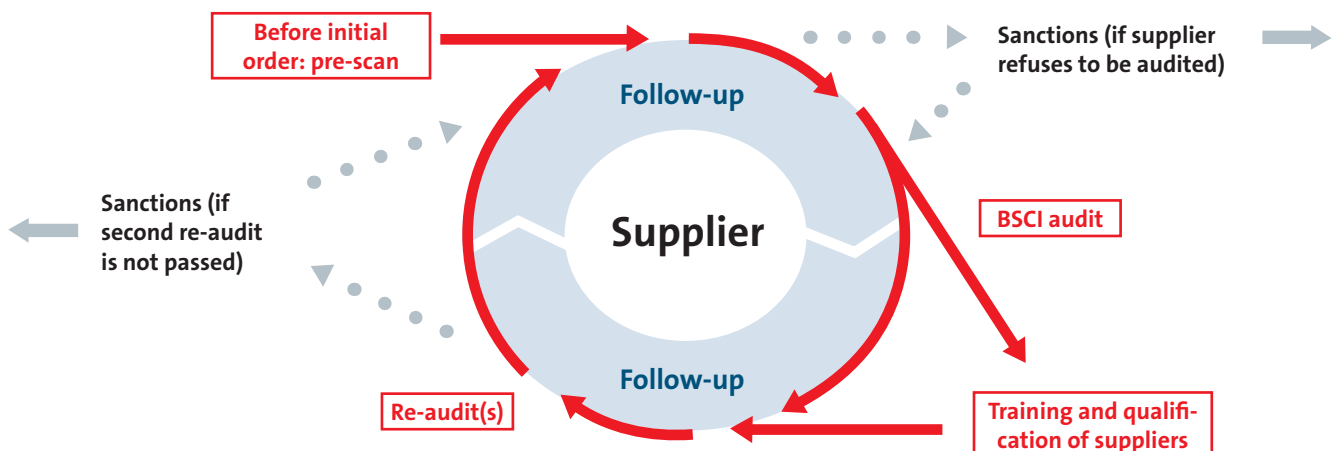
to be uncooperative – in other words it refuses to allow a BSCI audit to take place, or it shows no actual improvement in the second re-audit – sanctions are initiated based on a two-stage reminder procedure. In the meantime, however, an increasing number of suppliers have recognised for themselves the benefits that sound management of the social aspects of production bring, meaning this step has only needed to be considered on very few occasions.

It is still apparent that initial audits in particular generally result in a ‘Critical/Non-compliant’ score, with an improvement only being reported in the re-audit. These findings are also reflected for instance in the results from China (see p.89), the largest market within our Social Programme’s area of application. Here, the number of audits also rose with the increased number of new suppliers, by 38. As a result, the percentage of ‘Critical/Non-compliant’ suppliers increased from 18 to 20 percent; similarly, the percentage of audits with an ‘Improvements

needed’ score rose from at least 5 to over 14 percent, while the percentage of suppliers with a ‘Good’ score decreased.

By the end of 2008 over 82 percent of all suppliers in the markets concerned had either been audited in accordance with BSCI standards or were able to achieve SA8000 certification – these suppliers covered 97.2 percent of our order volume in these countries. Of the audited suppliers, 86.7 percent in turn were able to attest through a BSCI audit that they were not violating human rights (scoring ‘Improvements needed’ or better). This corresponded to around 90 percent of the order value placed. Most deviations remain due to poor management, a point addressed here above in connection with the Code of Conduct. This concerns both wages and working hours, as well as occupational health and safety regulations which do not meet applicable standards. This is where the numerous training measures come into play which the Group offers its suppliers to help them improve their social standards.

CORE PROCESSES OF THE OTTO GROUP SOCIAL PROGRAMME



The current financial and economic crisis increases the risk that the gap between rich and poor will continue to widen in the future – it is self-evident that this could result in the emergence of social tensions. These tensions could, however, also trigger a fresh political debate.

Supplier Development

TARGETED TRAINING AND QUALIFICATION

When it comes to implementing the social standards we stipulate, the Otto Group supports its suppliers in achieving this effectively with extensive training schemes that are individually tailored to their needs. With our Market Development Programme, which the Otto Group initiated in 2003 specifically for this purpose, we are pursuing a development-policy approach intended to contribute towards making globalisation a positive force.

The BSCI initially organises awareness-raising workshops for new suppliers which prepare them for the monitoring processes and requirements of the BSCI programme; these workshops are held together with suppliers of all BSCI member companies. The Otto Group's programme comes into play when suppliers fail to pass their first BSCI audit, in other words when they are given a 'Critical/Non-compliant' score. Sustain employees then carry out factory visits and audit the working conditions and management systems locally on the basis of a joint factory-inspection tour; individual solutions are subsequently developed and specific advice on implementation is given to the supplier on this basis. In the event of serious problems, such as those regarding capacity planning, Sustain pays a second or even third visit if necessary. While suppliers pay for the costs of the audit and for implementing the necessary corrective measures themselves, the Otto Group bears the cost of the qualifications. In the calendar years 2007 and 2008, the Otto Group invested around 5.4 million euros in implementing its Market Development Programme, basing the number of qualifications on its suppliers' needs.

In 2007 we focused on India, Bangladesh and Turkey where we ran targeted courses to train suppliers in how to conduct business with their subcontractors. In addition, suppliers were provided with tools and guidelines which they

need to bear in mind when selecting and conducting business with their subcontractors. In the following year 2008, the results of this awareness-raising approach showed that the approach of involving suppliers in this way was a step in the right direction. How this approach might be integrated into our Social Management System processes in the long term is being discussed together with market managers. In 2008, we therefore no longer needed to carry out any additional qualifications in these markets thanks to the processes that had been introduced among our suppliers, so our focus turned to the growth market of China.

In 2007 and 2008 the Otto Group held a total of 305 training courses in eight countries: this also includes the training measures held in markets such as Egypt that were newly included in 2008 and where the BSCI previously had not offered any awareness-raising workshops. Here, Sustain carried out the courses and factory inspection visits together with Social Officers, who had also been newly appointed in these markets. While suppliers were familiarised with the requirements of the Code of Conduct and the Otto Group's Social Programme, the Social Officers learned about the systematic structure of the pre-scan procedure.

EVALUATION AND NEXT STEPS

In May 2007 the Otto Group subjected its Social Management System to a Social Accountability International (SAI) audit. SAI is dedicated to ensuring that ethical and humane labour standards are upheld throughout the entire supply chain. In the audit of the Otto Group's Social Management System as part of the Corporate Involvement Programme offered by the SAI, the auditors considered the system's deep-seated integration into the Group's business processes, as well as the creation of our social database, as being particularly positive aspects. All details on our global suppliers and their audit results are entered into the Otto Group's social database

How can companies optimise their processes in both a social and environmental regard in order to remain successful in the long term?

To what extent has the belief already taken hold that **ethics and efficiency gains** go together?

locally by the Social Officers, and managed centrally in Hamburg by the Social Compliance Team. Every Buyer has access to it, and can find out about a particular supplier's social performance before placing an order.

SAI saw room for improvement in the Social Management System in that until that point, only direct suppliers had been incorporated in the auditing process, not importers. This finding fell on fertile ground, as the Environmental and Social Policy department was already working on a strategy to incorporate importers at that precise time. The first joint workshop with importers was held in the autumn of 2007 and was at the same time the starting point for a pilot project in which 86 German importers were involved. The results are promising: the stipulated requirements have already been met for 78 percent of the order value placed by the Otto Group with these importers. Where production takes place in the higher-risk countries, importers can provide proof that BSCI audits have been conducted among their suppliers, or that they are BSCI members themselves. After the conclusion of the pilot phase, the successive integration of all importers into the Social Management System is now planned from 2009.

In addition to that, at the Otto Group we are continually working towards generally improving our Social Management System. In January 2009, the strategic direction was set and the planned measures within the framework of the Market Development Programme for years 2009 to 2011 were approved by our Executive Board.

The three-year plan to 2011 calls for the Social Management System's area of application to be expanded. Six countries comprising Romania, Bulgaria, Brazil, Egypt, Morocco and Israel were defined as additional new markets in which compliance with standards by means of audits will also be checked from the financial year 2009/10 onwards. From March 2009 we also intend to audit – and as part of our training and qualification measures, improve – compliance

with social standards in the production of hard goods such as furniture, decorative articles and household electrical items in all BSCI countries from which the Otto Group purchases. We plan to include suppliers of these articles progressively, which will result in all product groups traded by the Otto Group being covered by the start of the financial year 2009/10. As part of our objective agreed by the Executive Board to expand our Social Management System to include all assortments as well as additional production countries, we are currently also planning to include Frankonia and OTTO Office in the system.

In order to allow us to coordinate the measures for this enlarged area of application, our social database will also be further expanded and enhanced to include new functions. For instance, action indicators will show the current implementation status of standards among individual suppliers and at production facilities. Here, the system automatically calculates when a new audit is due, and shows the status of all production facilities and suppliers at the click of a mouse, thus ensuring a greater level of transparency for all areas involved in the process.



United against child labour

Together with the human-rights organisation terre des hommes and local project partners in India, the Otto Group launched the innovative project 'Zukunft durch Bildung' (A Future through Education) in March 2008. The goal of the project is to combat child labour at a structural level; here, education is seen as the key to breaking the vicious circle of poverty. The project follows two complementary aims: on the one hand it focuses on children in three New Delhi slums who work in factories or at home. On the other hand it aims to help children and their parents from the poverty-stricken northern state of Bihar where many child labourers come from, eliminating the need in the first place for them to migrate to the labour markets of the major conurbations of New Delhi, Mumbai and Kolkata. The project supports these children in the process of reintegrating into the state-school system, or helps them to find alternative forms of employment to the unskilled work they do in factories and restaurants. Furthermore, their parents receive support in establishing small businesses. In parallel to this, the project provides financing to improve state-school facilities and offers teacher-training courses. Since the start of the project, over 1,300 children have already been integrated into education institutes (schools or centres for learning) and 38 self-help groups have been organised.

Purchasing Logistics

CO₂ REDUCTION IN PURCHASING LOGISTICS

Whereas in the production of goods we place the focus of our sustainability activities on the social standards at our suppliers, the main challenge we face in transporting these goods from the purchasing to the sales markets is primarily an environmental one. For over 15 years, the Otto Group has been committed to successfully balancing environmentally friendly and climate-conscious transportation with the prompt availability of goods. Most of our goods are already being transported in an environmentally friendly way by sea (80 percent on the calculation basis for transportation [tkm]). That said, the roughly 15 percent share of goods transported by air freight has a disproportionate impact on the climate: it alone accounts for more than 80 percent of our purchasing logistics' CO₂ emissions, as well as around a quarter of the overall CO₂ footprint of the nine German companies of the ten covered by this report (see p.81). This makes purchasing logistics one of the main starting points for achieving the targets set out in the Otto Group's Climate Protection Strategy (see p.45) which was approved in the reporting period.

In accordance with its requirement calling for CO₂ emissions to be halved by 2020, the German companies covered by this report have also been committed since March 2008 to reducing the use of air freight in their purchasing activities in order to use the significant saving in CO₂ emissions to achieve their climate targets. The positive side effect is that a reduction in the use of air freight can also contribute towards reducing the emissions of nitrogen oxides and other harmful substances, as well as reducing potential noise pollution. Last but not least, these measures also contribute significantly towards reducing our transport costs.



In 2008, Witt launched its CO₂PERATION project: the aim is to reduce the level of CO₂ emissions caused by direct imports from Turkey and Thailand by 20 percent by 2013. In collaboration with the consultancy company Systain, Witt assessed the amount of energy consumed by suppliers in Thailand and initiated the use of gas-powered trucks for pickup and delivery to the cargo terminal. In addition, it has been developing new solutions to optimising the needs-driven use of freight since early 2009. The use of trucks that meet the Euro 5 emissions standard for deliveries from Turkey was already implemented in the reporting period. CO₂PERATION is to be gradually expanded from 2009 to cover Witt's other import-market countries.

bonprix – pioneer on the high seas

bonprix is playing a leading role when it comes to reducing the level of CO₂ emissions caused by air freight. To achieve this, the company is focusing on transferring the way it transports goods to the more environmentally friendly method – by sea. As part of very intensive project work, transport modes from the supplier to the warehouse were analysed in minute detail and the existing purchasing strategies optimised. Faster production times, achieved for instance through preallocating standard materials, accelerating product development processes as well as optimally timing shipments, have made it possible to achieve a significant reduction in the company's use of air freight. As a result, bonprix was able to reduce its CO₂ emissions between 2006/07 and 2008/09 by around 13 percent, adjusted for tonnage.



“The rise in awareness in companies runs in parallel to the rise in awareness in society. In this regard, companies mostly have no considerable knowledge advantage. In this respect I believe that it is important to inform companies to be able to deliberately motivate them to operate in a sustainable way. Just as we are advising factory owners in India on the topic of labour conditions, there is a need for information in Europe on the topic of resource efficiency. As with raising social awareness in general, the media play a key role here, as well as the areas of research and education.”

Andreas Streubig, Otto Group

Overview: The Otto Group's Climate Protection Strategy

THE OTTO GROUP'S CLIMATE PROTECTION STRATEGY: AMBITIOUS TARGETS TO REDUCE CO₂ EMISSIONS

With the approval of our Climate Protection Strategy in December 2007, the Otto Group set itself ambitious targets to counter the challenge posed by climate change. It commits all single companies in which the Otto Group either has a direct or indirect majority stake, and which generate an annual turnover of more than 50 million euros, to reduce their transport, mobility and facility-related CO₂ emissions continually and over the long term. We are aiming to achieve a reduction in CO₂ emissions of 50 percent by 2020 on the basis of the 2006/07 financial year (adjusted for tonnage, shipments and store surface area). In doing so, the Group is going significantly beyond existing German and European voluntary commitments made by politics and commercial enterprises.

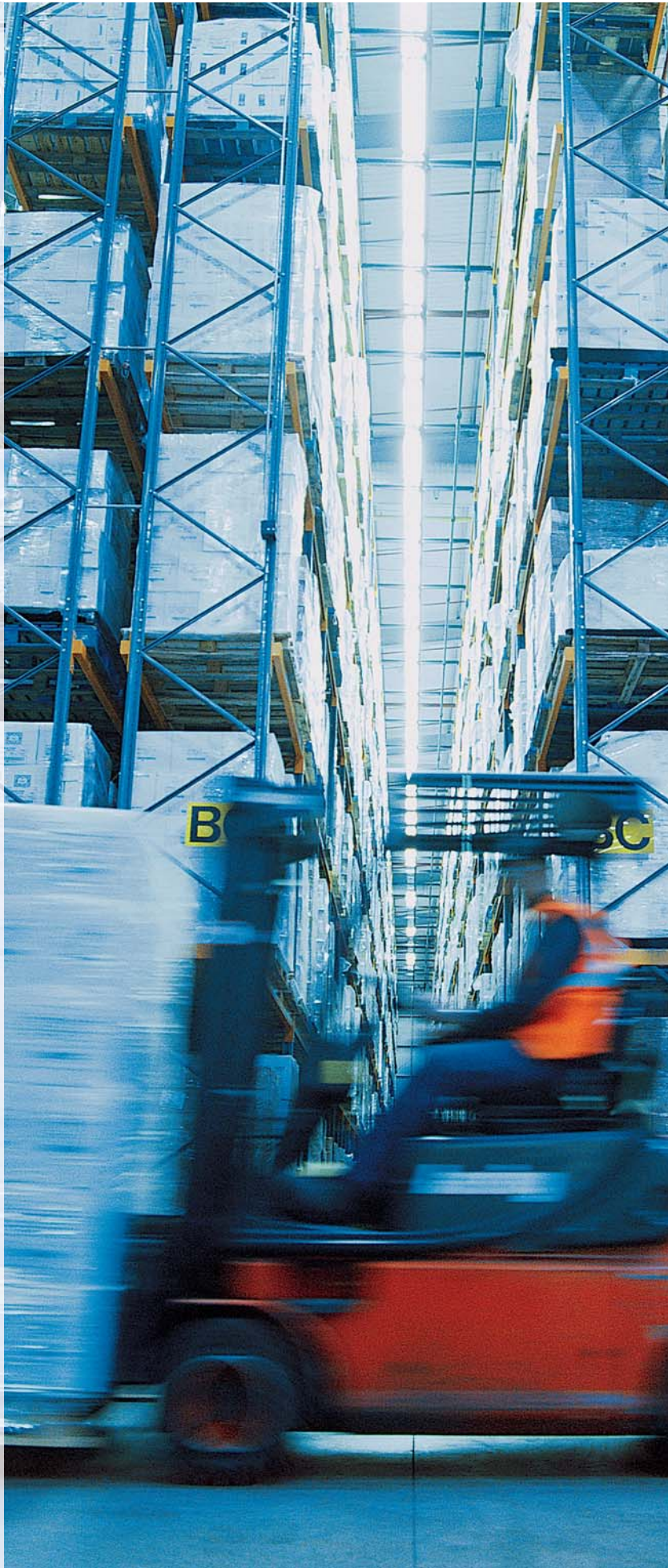
Initially, 17 German Group companies started to implement this target in 2008, including nine of the ten retailers covered by this report. As of the 2009/10 financial year, additional international subsidiaries will also be included; Group-wide this will mean around 40 companies from ten countries in Europe, the US and Japan will be forging ahead as climate-protection pioneers. Our Climate Protection Strategy process is coordinated centrally by the Environmental and Social Policy department from the Otto Group Corporate Responsibility area. In contrast, implementation within the Group companies is being carried out locally and independently at company level. By autumn 2008, a toolbox containing over 70 customised measures had been developed: this is intended to assist the companies in selecting more effective approaches and tools to

implement their CO₂ emissions-reduction measures. Emissions of carbon dioxide – and with it the level of success of implementing the measures – are audited by means of annual assessments. From the 2011/12 financial year, a comparison of reduction targets and actual CO₂ emissions will be carried out every three years by the single Group companies, in order to allow corrective measures to be implemented in good time.

Figures from the last two financial years show that the path to achieving the ambitious targets envisaged will not be an easy one: whereas transport-related CO₂ emissions from the purchasing and distribution logistics activities of the nine German companies of the ten covered by this report totalled 181,294 tonnes in the base year 2006/07, it had declined only slightly to 179,846 tonnes by 2008/09 adjusted for tonnage and shipments (see p.80). Facility-related CO₂ emissions of 60,137 tonnes were also only slightly below the base year's value of 61,361 tonnes. This trend, however, should be considered as still largely unaffected by the emissions-reduction measures and tools which were developed in the reporting period in parallel to business activities – and which, as might be expected, will only take effect after a certain amount of time. In facilities in particular, high amounts of investment and the correspondingly longer periods of time needed to implement more energy-efficient and environmentally friendly measures should be taken into account. Nonetheless, we have been able to initiate many effective smaller steps and initiatives in the reporting period – and to some extent already complete their implementation (see p.44, 50).

Turning over a new leaf

The Otto Group is the European leader in producing printed matter that meets the Forest Stewardship Council (FSC) standard. The FSC logo was printed more than 180 million times between August 2007 and June 2009 on the Otto Group's paper products. The Group's objective is to use as many FSC paper products as possible, for instance in catalogues, invoices, envelopes, Annual Reports and employee newsletters. OTTO itself has been FSC-certified since 2007. In 2008, together with OTTO two further Group companies, Baur and Schwab carried out a so-called FSC Multi-Site Audit on their own facilities. In the following step in 2009 bonprix also joined the group of companies carrying out FSC certification. The decisive element in this process is that all direct partners, such as printers and paper suppliers, also hold FSC certification. The Group head office in Hamburg is responsible for the correct implementation of FSC certification guidelines.





“As a Buyer my remit is to combine **quality, commercial viability and sustainability**. Our activities regarding FSC paper are now already a matter of course.”

Britta Plümke

Senior Buyer

Purchasing Non-Merchandise at OTTO



“I believe the topic of the ‘green economic miracle’ is quite simply the opportunity to maintain economic strength in Germany in a sustainable way.”

Prof. Dr. Jutta Roosen, Technische Universität München (Munich Technical University)

Environmental Management

A HISTORY OF ENVIRONMENTAL PROTECTION

The commitment of the Otto Group to sustainability in the areas of raw materials, production conditions and purchasing logistics is continued through the administrative, logistics and retail locations and facilities of the single Group companies. Operational environmental protection is made possible not least through the environmentally and climate-aware behaviour of our employees.

As part of our Climate Protection Strategy we seek to drastically reduce our energy consumption and CO₂ emissions at our facilities as well as in mobility. At our facilities we are also putting in place measures for the ecological optimisation of our goods-distribution activities. For mail-order operators, who need to maintain a relationship with and deliver goods to distant customers, this makes it imperative on the one hand to design catalogues and advertising materials using as few resources as possible – as well as using the Internet wherever possible to contact customers – and on the other hand, to utilise environmentally friendly packaging materials and reduce the amount used. In the environmentally friendly distribution of goods to the end customer, our climate protection goals once again play a key role.

Protecting the environment has been a corporate goal at OTTO since 1986, an impetus that has since become part of our company culture and identification within the Otto Group. The ten companies aim for continuous improvement in their facility-specific environmental protection measures. Today, several Group companies have their environmental management audited annually and are certified to the DIN EN ISO 14001:2005 standard every three years. Once again, OTTO successfully completed the certification process in May 2008; Baur did likewise in July 2008. The Group company Hermes Warehousing Solutions

(HWS), whose services our Group retailers use, was also re-certified in May 2008. Unito achieved certification to this international environmental management standard for its logistics facility in Bergheim for the first time in December 2007. At Schwab, the first audit of its environmental management to ISO 14001 is currently in preparation. Until the projected completion of this certification at the end of 2009, OTTO's Waste Management Officer will continue to carry out his annual appraisal, which was first introduced in the mid-1990s. Heine's Environmental Coordination Manager has also been using the ISO 14001 standard in his internal audits of the company's environmental management. While SportScheck introduced its environmental management in 1999 and had it certified to ISO 14001 every year until 2004, the company now plans to restart external audits from 2010.

Despite existing management systems, environmental incidents cannot be avoided altogether. For example, three oil-pollution incidents occurred in connection with the use of HGVs on the premises of Baur, OTTO and Schwab. During shunting manoeuvres on Baur's premises, the diesel tank on an external freight-forwarder's vehicle ripped open in February 2009. 500 litres of diesel escaped and a quantity entered the drainage system; the Fire Brigade, police and the Office for Water Management were contacted immediately. There was a similar incident at Schwab in August 2008, where an HGV oil sump tore open, causing the Facility Security team and the Fire Brigade to be called out on emergency. In March 2008, a swap-body truck lost around 50 to 100 litres of hydraulic oil on the premises at OTTO. The company took this incident as motivation to have all swap-body trucks on its premises converted to biodegradable hydraulic oil by the end of 2008. Prompt action prevented subsequent damage to the environment in all three cases.

Unito – certified environmental protectors

As part of its Company Policy on the Environment, Occupational Health and Safety issued in October 2007, Unito laid out its responsibility for the conservation of nature as well as a safe and healthy workplace. As part of its company-specific action principles, the company commits to considering environmental perspectives in all its business decisions. In addition, it carries out an audit of its integrated Management System for the Environment, Occupational Health and Safety on an annual basis. In December 2007, Unito's logistics facility in Bergheim underwent its first certification to the DIN EN ISO 14001:2005 standard – and passed with flying colours, thanks to its clearly structured and effectively implemented management system.



The principle of sustainability still has not been able to sell itself yet – German companies being no exception. However in times of global financial and economic crisis, a whole economic system is under review, and to a certain degree even the state, with its framework for action and leadership. **How can we learn from the wrong decisions of the past and avoid repeating them in the future?** What innovations will it take to put sustainable business practices on the agenda?

INCREASING EMPLOYEES' AWARENESS OF ENVIRONMENTAL AND CLIMATE ISSUES

Not least within these management systems, environmental protection in the workplace is an important issue. Here, the single company OTTO has particularly distinguished itself, as it has a long tradition in this area. In August 2008, the company received an award in the 'Businesses with more than 500 employees' category from the 'Bundesdeutscher Arbeitskreis für Umweltbewusstes Management (B.A.U.M.)' (German Environmental Management Association) in its 'Büro & Umwelt' (Office & Environment) competition. Among other things, the award honoured the fact that the company uses recycled or FSC paper internally more than 99 percent of the time, separates types of office waste in the workplace as a matter of course throughout its facilities, and ensures that all its computers, printers and photocopiers carry the 'Blauer Engel' (Blue Angel) seal for energy efficiency.

Over and above management systems, the ten Otto Group companies included in this report consider responsible action by their employees on the issue of environmental protection to be the decisive factor in the successful implementation of their environmental policies. These Group companies therefore offer numerous opportunities and formats for sensitising staff to the responsible and appropriate use of natural resources. Along with providing regular training in the specialist departments of environmental relevance, companies such as Frankonia and OTTO give additional information on environmentally friendly behaviour in their welcome packs for new employees. As part of the 'Zukunftsnetzwerk' (Future Network) – the successor to the former Environmental Network, which met from 1991 to 2004 – OTTO informs its staff three to four times a year about relevant topics and current developments in sustainability. Baur has been emphasising environmental protection for years through measures such as



“The state – itself an important consumer – could set an example: with the right criteria, public sector procurement could provide motivation to drive corporate behaviour and product development more strongly in the direction of sustainability. A potential which is not fully exploited yet.”

Constanze Helmchen, Gesellschaft für Technische Zusammenarbeit (GTZ, German Society for Technical Cooperation)

appointing an Environment Officer in every department and coordinating all its environmental issues and actions through this internal group. Within the reporting period, the company trained its entire Customer Service Centre staff with a special e-learning tool focusing on environmental issues. In addition, the assessment within the company of improvement suggestions from employees was strengthened with regard to environmental concerns.

Energy Efficiency

CLIMATE-FRIENDLY FACILITY POLICY

In the implementation of the Group's Climate Protection Strategy with regard to its buildings and facilities, the main emphasis for the ten companies is on the improvement in energy efficiency in their consumption of power, gas, fuel oil and district heating – as well as on the increased production and use of renewable energies. As part of the jointly created toolbox (see p.45), a wide range of approaches has been developed: at OTTO's and Schwab's main administrative facilities as well as at the HWS storage and staging facility in Haldensleben, analysis was carried out in 2008 as to what measures could be put in place to save electricity while lowering CO₂ emissions and energy costs. The result was 50 mostly technical solutions, with which it should be possible in theory to eliminate well over 50 percent of CO₂ emissions at these facilities – albeit requiring investments in high double-digit million euros. In the course of 2009, we plan to check their transferability to other companies, facilities and sites within the Otto Group.

Even though CO₂ emissions – adjusted for facility area – only declined slightly in the reporting period compared to the base year 2006/07 (see p.82), many measures have already been set in motion. During this reporting period,

individual companies have started to implement varied measures, each tailored to their own company, in order to drive forward the reduction of CO₂ emissions at their facilities. Frankonia celebrated its first measurable success by completely changing over its in-store lighting to energy-saving light bulbs, using 40 percent less electricity in 2007 compared to the previous year. The company achieved further savings on heating in 2008 by installing environmentally friendly roof cladding. Unito is currently in the process of refitting all of its lighting systems at its logistics facility in Bergheim with energy-saving light bulbs by March 2010. SportScheck achieved energy savings of 40 percent in its IT area in 2008 through a variety of measures such as the use of energy-saving server technology. The company also plans to install a photovoltaic power plant at its Unterhaching facility by 2011 and harness geothermal technology by 2010.

By fitting high-quality, photo-absorbent aluminium-framed windows as well as upgraded integral building and roof insulation, Witt has been making an important contribution to climate protection at its facility over the last few years. In 2009, it also plans to introduce professional energy management to reduce CO₂ emissions on-site. Since its move to the new distribution centre at the Weiden facility in August 2008, Witt has had access to a latest-generation sorter system for its goods commissioning which enables a significant reduction in energy consumption compared to the previous model. What's more, the company uses a modern, woodchip-fired heating system in its distribution centre; compared to using gas as fuel, the CO₂ emissions can be reduced to a fifth in this way.

While Unito has been running an electronic control system for the heating supply at its Graz facility since January 2005 in order to avoid excessive use of heating, bonprix avoided installing a climate control system altogether when it finished construction of its Hamburg head office in



Franconian cooperation on energy at Baur

The very close collaboration between Baur and the 'Energieagentur Oberfranken' (Upper Franconia Energy Agency) which has existed since 2006, once again achieved considerable success in this reporting period: the reactive-current compensation plant, which was installed in 2008 and adjusts the voltage to correspond to actual demand, has allowed the company to achieve an annual saving of 480,000 kilowatt hours of electricity – and an annual reduction of 260 tonnes of CO₂ at the same time. From 2007 to 2009, Baur further encouraged energy-saving behaviour amongst its employees with twelve training sessions attended by a total of more than 280 people. An external engineering company carried out an audit of facility-specific measures for the development of an alternative energy concept. On this basis, the company started its 'Energiekonzept Baur Versand' (Energy Concept Baur Mail Order) in March 2008, which is set to be a cornerstone for further positive developments in facility-specific climate protection.

What basic conditions can and should policy makers establish to promote Ethical Consumption?

1996 – automatically controlled blinds prevent the building from overheating. None of the bonprix stores have air-conditioning systems installed, either. Schwab managed a significant energy saving of 5.3 percent at its facility, which was achieved amongst other measures through the use of an eco energy-management system to regulate electricity voltage, optimising the water network in the heating cycle and modern controls for its boiler heating system.

GREEN LIGHT FOR MOBILITY

Aside from the climate protection measures with regard to transport and facility management, the issue of mobility is a factor – albeit a small one – in reducing the Otto Group's overall CO₂ emissions too. The reform of the Otto Group's Company Car Directive contributes more than just symbolically to the continued environmental improvement process within the Group: as of January 2010, the CO₂ emissions of all leased vehicles in the Otto Group will be fixed at an upper limit of 200 g/km.

Using environmentally and climate-friendly vehicles in the fleet is already everyday practice in many of our Group companies: Frankonia uses only low-emission cars that comply with the strictest-possible exhaust standards in each vehicle category, and the company intends to expand its fleet by ten vehicles running on natural gas in 2009. Unito also introduced the first natural-gas vehicle at its Bergheim facility in 2008 and currently uses 21 vehicle models whose CO₂ emissions are capped at 200 g/km. Schwab has also been running a further three natural-gas vehicles as well as its own natural-gas fuelling station since 2002.

The majority of the ten single companies offer their employees a so-called 'Job-Ticket' (company-specific, local-transport pass) which allows them to purchase tickets for public transport at a reduced price, with regionally differing subsidisation models. As a healthy alternative to cars and

Politics as a driving force

Politics plays a decisive role in pushing through sustainable consumption strategies. It sets out the framework for action, can actively mediate between actors from the business community and civil society, and can initiate measures at an international level. Politics can also promote the subject by improving information policy, investing in sustainable business models or setting an example, such as in state procurement.



busses, Baur and Witt take part every year in a joint event organised by the AOK health insurance company and the 'Allgemeiner Deutscher Fahrrad-Club (ADFC)' (the German Cyclists' Federation) entitled 'Mit dem Rad zur Arbeit' (Take the bike to work). While 40 Baur employees took part in the 2008 event, at Witt there were 156 staff members who all cycled to work on at least 20 days during the event period.

Catalogue, Advertising Materials and Packaging

USING PAPER RESPONSIBLY

Catalogues, the traditional 'shop windows' of any mail-order retailer, have always been indispensable communication media for direct contact with the customer – and this has not changed with the advent of the Internet age. However, the single companies in the Otto Group are aware that their carefully targeted, but overall considerable use of print materials requires an intensive use of natural resources, particularly wood. Against this background, the ten companies have been committed for years to the environmental optimisation of their catalogues and other advertising materials. Important measures in this area are, for example, the reduction of the catalogue grammage and the use of up to 25 percent recycled paper. Furthermore, the Otto Group is a leader in Europe in the use of print products manufactured according to the standards of the Forest Stewardship Council (FSC): in fact, the 'Markenguide' (Brand Guide) special catalogue published by OTTO in August 2007 was the first gravure-printed catalogue in Europe made completely according to FSC standards. In this case the entire value chain is certified – from the owner of the forest to the printer. Even OTTO itself also had to be certified for this. While OTTO passed its repeat audit successfully in August 2008, two further Group companies, Baur and

Schwab, also achieved this for the first time as part of an FSC Multi-Site Audit. In total, the FSC logo has been printed more than 180 million times on paper products of the Group since 2007, whether on special catalogues, invoices or employee newsletters.

ECOLOGICAL OPTIMISATION FROM PRINTING TO CATALOGUE MAILING

Witt has been working on the ecological optimisation of its advertising materials with various tools since 2008. In order to lower its demand for paper, for example, the company reduced the formats in its main and special catalogues by between 3 and 6 percent. SportScheck also achieved a reduction of its paper volume to 7,970 tonnes in the 2008/09 financial year, 0.4 percent lower than in the previous year. Since 2007 Unito has also been making significant savings in the production of its advertising materials: by decreasing the grammage and reducing catalogue wrapping, it managed to lower both its paper volume and material consumption by 14 percent in 2008 compared to the previous year. By focusing on its online business, Unito's paper use is set to decrease by a further 25 percent by 2010. Frankonia has been committed to the exclusive use of 100 percent recycled paper for both mail-order and over-the-counter retail since 2009. This and a raft of other measures in the ten companies could not, however, achieve a lower total demand in paper for catalogues and advertising materials. During the 2008/09 financial year, this rose to 301,296 tonnes, which is almost 0.8 percent above the amount from 2007/08 (see p.78).

bonprix pays particular attention to the environmental impact of distributing its fashion catalogues. Its foreign subsidiaries print their catalogues in each respective country and mail them from there, meaning transport from Germany is not needed. For its domestic catalogue distribution, bonprix started using 'GoGreen', a climate-friendly service from

In accordance with European Union (EU) guidelines, by 2020 Germany has to reduce its emissions of climate-damaging carbon dioxide by at least 14 percent compared to 2005 levels. In absolute terms, commerce, transportation, households and the agricultural sector will have to reduce CO₂ emissions by an overall 72 million tonnes over the coming years to comply with these guidelines.

Deutsche Post, for part of its deliveries from December 2008 onwards. Using this service means that all delivery-generated CO₂ emissions are recorded, and compensated by investments in climate protection projects. For every million deliveries, around 21 tonnes of CO₂ are offset. bonprix plans to deliver around 55 million catalogues with 'GoGreen' in 2009.

PACKAGING IS GOOD – AVOIDING IT IS BETTER

For mail-order retailers, packaging is essential in getting goods delivered to customers without damage. At the same time, packaging is an essential target in the optimisation of business processes according to environmental perspectives. For the ten Otto Group retailers this means using as much packaging as necessary, but as little as possible. Our companies are particularly keen on decreasing packaging by reducing its weight, using cardboard and recycled materials instead of polystyrene, and replacing single-use packaging with reusable types. All suppliers to the Group are also required to follow these guidelines as part of their contracts. To ensure implementation, OTTO's Textile and Hard Goods Purchasing areas carry out spot checks, which in many cases also benefits other Otto Group retail companies. Furthermore, these checks are part of Quality Assurance within the Group and are supported by Hansecontrol, another Group company. In the 2008/09 financial year, the total demand for proprietary packaging brought into circulation by the ten Group companies covered by this report amounted to 9,516 tonnes (see p.78). Where cardboard is used as packaging material, it is almost exclusively from recycled material.

Numerous customised measures within the Group companies have contributed to this positive development. For example, OTTO Office has been using packaging made of recycled materials exclusively since 2000. The company uses biodegradable Flopack as filler material for the dispatch of breakable products. bonprix has managed to keep its transport volume low for the

delivery of shoes by eliminating shoeboxes: instead, the company sends 95 percent of its shoes in polybags, which reduces the transport volume by at least 20 percent compared with shoeboxes. Frankonia and Unito use cardboard boxes and recycled materials as packaging for their goods. SportScheck carries out its delivery to retail stores entirely with reusable transport containers that can be combined and stacked, which saved the company 178 tonnes of packaging material in the 2008/09 financial year. At OTTO, more than 3,100 tonnes of packaging materials are saved annually through the implementation of reusable trays in goods distribution. Besides this, through the decreased use of new packaging, the reduction of film thickness and the optimisation of package sizes, the company has achieved significant savings since 2003 – and in 2008 alone, a total of 370 tonnes.



Waste Management in the e-book



Hansecontrol www.hansecontrol.de

“Politicians do not feel sufficiently pressured, as ultimately they are not being reminded of their duty by those shaping market events – in other words, companies on the supply side and consumers on the demand side. We, meaning citizens and consumers, must spell it out in clear terms to politicians and demand action so that they establish essential conditions which support the ethical conduct of market participants, but do not force it.”

Dr. Johannes Merck, Otto Group

Distribution Logistics

PROTECTING THE ENVIRONMENT ON THE ‘LAST MILE’ TO THE CUSTOMER

In the mail-order sector, both the distribution of goods to different depots as part of the purchasing process and the delivery of commissioned articles to individual customers as part of distribution are logistical challenges. As in supply logistics, distribution logistics is a central area for action in the realisation of our Group-wide Climate Protection Strategy. Order delivery for the ten Group retail companies is carried out by Hermes Logistik Gruppe Deutschland (HLGD), another Group company whose climate protection goal it is to halve its CO₂ emissions by 2020. Together with HLGD, within the Otto Group we are therefore constantly working on the improvement of our location structures and commodity flows – from goods entry in Europe, through the customer-ready preparation of goods, to delivery and returns processing.

It is only through logistical and technical optimisation in close cooperation with their transport partners – for instance, the freight forwarders commissioned by Hermes – that the Group companies will be able to achieve significant reductions in their CO₂ emissions over the coming years. On the distribution routes from the goods-distribution centres to the HLGD branches, the so-called ‘long-haul distances’, HLGD places far-reaching demands on its transport partners. For example, since January 2008 HLGD has made it an obligation to only use low-emission vehicles that conform to EU Emission Standards 4 and 5. Since 1999 HLGD has had its own ISO 14001-compliant Environmental Management System, and also carries out environmental audits on its transport partners every two years for long-distance routes. The number of certified partners rose from 37 percent to 50 percent in the 2007 financial year. By the end of 2009, HLGD plans to certify almost all its transport partners in

accordance with this international environmental standard. HLGD’s own fleet consists of vehicles that comply with current environmental standards, which it ensures through three-year leasing terms. Furthermore, HLGD utilised almost 80 micro hybrid vehicles with automatic eco-stop engines and 20 dual-fuel natural-gas trucks in this reporting period. The company also offers its contract partners relatively low-emission new vehicles as part of its transfer agreement.

On the ‘last mile’ to the customer, absolute CO₂ emissions rose slightly in the 2007 financial year, due to the higher mileage delivered by HLGD. However, the company achieved a reduction per delivery unit to 0.28 kilogrammes of CO₂ over the same period, thanks to the use of more efficient vehicles and improved route planning – in 1997, this value came to 0.39 kilogrammes, and 0.35 kilogrammes in 2005. Overall, the distribution logistics activities of the nine German companies covered by this report achieved a reduction of around 5,000 tonnes of CO₂ between 2006/07 and 2008/09 (see p.81).



Product Carbon Footprint

JOINT EFFORTS FOR A SMALLER CO₂ FOOTPRINT

Together with the 'Öko-Institut' (Eco Institute) in Freiburg/Germany and the consultancy Systain, the Otto Group realised an innovative cooperation project between March 2008 and April 2009. As commissioned by the 'Bundesumweltministerium' (German Federal Environment Ministry) and the 'Umweltbundesamt' (German Federal Environment Agency), the project partners carried out sample surveys of CO₂ emissions for selected textile articles from Baur and OTTO – along the entire supply and value chain.

The focus was not just on production and transport of the articles, but on the whole lifecycle of the textile, starting from the cultivation and production of the raw materials, through the utilisation phase by the customer, to final disposal. The goal of this pilot project on the Product Carbon Footprint was as a first step to create transparency concerning the climate impact of textile products and also to make a contribution to the development of a consistent methodology to determine articles' carbon footprints. In addition, the project aimed to identify options for action to lower the associated CO₂ emissions.

The central result of the research was that the carbon footprint of a white, long-sleeved t-shirt made of 100 percent cotton over its entire lifecycle comes to around 10.5 kilogrammes of so-called carbon dioxide-equivalent emissions (CO_{2e}). This indicator establishes the 'greenhouse potential' of different climate-damaging gases converted to carbon dioxide-equivalent units. The value of 10.5 kilogrammes is about 50 times the weight of the fabric itself.

Cotton cultivation (1.3 kilogrammes of CO_{2e}) and the proportion of catalogue production (1.5 kilogrammes of CO_{2e}) do play an important role in this. Relatively unimportant is

the portion accruing from freight from cotton-cultivating countries to the production countries, and from there to the end customer: when combined, this amounts to just 1.0 kilogrammes of CO_{2e}. The really decisive emission sources turn out to be in the multi-stage spinnery-to-sewing production process, with around 3.0 kilogrammes of CO_{2e}, and the use by the customer through laundry, drying and ironing with around 3.3 kilogrammes of CO_{2e}. Any future measures should be targeted at these two areas, not least through raising awareness in order to decrease the carbon footprint in the textile chain.

PURE WEAR quality and responsibility

Witt stands out thanks to its extensive offer of fashion articles bearing the PURE WEAR quality seal. The cotton for these textile goods is produced under controlled organic conditions and the entire textile chain is constantly monitored by Systain, making Witt a pioneer within the Otto Group. The company's accompanying sustainability communication strategy is also exemplary, as in 2008 Witt ran PURE WEAR campaigns across all sales channels. On the one hand the company has raised customer awareness of its PURE WEAR assortment by inserting special information leaflets in its catalogues, and by referring to the assortment on its order forms. On the other, Witt has established its own PURE WEAR online shop through which customers can order these organic cotton textiles. What's more, in its over-the-counter retail activity the company also ran its own PURE WEAR campaign with separate racks for PURE WEAR textiles. In 2008 Witt carried some 1,000 PURE WEAR articles in the assortment areas of Ladieswear, Men's Fashion and Nightwear.





“We’re delighted by our customers’ **enthusiastic take-up of our PURE WEAR offer**. At Witt we see this as confirmation of our goal to continually expand our assortment of cotton textiles that are both ecologically optimised and tested for harmful substances.”

Thomas Fischer
Head of Womenswear
Purchasing at Witt

Consumption Signals

What consumption signal moves politicians: cutting consumption, public demands or the intentional purchase of sustainable products?



Customer Orientation

SERVICE OFFENSIVE DRIVEN BY PASSION

Before our goods arrive in Germany or other sales markets, they have already undergone a long journey and a complex process. Their final destination is the end customer, to whom our Group companies are dedicated. With high-quality products and services, outstanding prices and first-class service, the companies within the Otto Group constantly do their utmost to give their customers a positive shopping experience. The multichannel retailers contribute towards this with excellent online shops, new kinds of catalogues and a growing number of attractive stores. So that they can fulfil their customers' wishes even better, single companies have long since evolved from mail-order to dialogue-orientated retailers. In their daily customer contact, the ten retailers covered by this report not only focus on friendliness in their customer approach and the reliability of their order processes, but also on the responsible handling of customers' personal data. Maintaining the highest quality standards for the products that customers order and receive is also naturally a top priority. These ten Otto Group companies aim to promote environmentally and socially responsible consumption and sustainable lifestyles by expanding their range of sustainable products steadily, and to raise customer awareness of them in their communication.

A core element of the Group's Guiding Principle is 'Passion for our Customers' which is realised in the internal guidelines of the single companies. Both OTTO's 'Servis 2012' vision and its 'Zukunftsplan 2012' (Future Plan 2012), for example, aim to inspire employees to make their customer orientation the genuine centre of their work and to give customers a '5-Sterne-Einkaufserlebnis' (5-star shopping experience). Similarly, Witt's motto for the retail shops, 'Verkaufen mit Herz und Leidenschaft' (Selling from the heart and with

passion), reflects its employees' drive. Witt's Customer Service department has its own motto, 'Unsere Kunden begeistern wir durch Herz und Verstand' (Inspiring our customers with hearts and minds). Through regular training, consolidation and knowledge-testing, the company ensures that employees maintain high levels of skills in dealing with customers.

CUSTOMER SATISFACTION IS OUR GOAL, THEIR LOYALTY OUR REWARD

Maintaining customer loyalty over years or even decades is a fine art that is based on respecting one essential principle: customer satisfaction, the highest priority for all companies in the Otto Group. Aside from the range and quality of products, at mail-order retailers the order and delivery processes play a very important role. Providing customers with reliable information about deliveries is part of our 'Best in Class' service goal in the Otto Group. No customer should have to wait an unreasonable amount of time for items they have ordered. Within this reporting period, Baur, Heine, OTTO and Schwab set themselves the goal of delivering ordered goods to the customer on schedule more than 95 percent of the time, regardless of any planning uncertainties, or to at least inform them about the order status and where appropriate offer them an alternative. In addition, the Otto Group issued a new requirement in November 2008 on the avoidance of short-notice shipments (the so-called 'Null-Nali-Steuerung') for all online shops in the German Group companies to optimise their delivery information so that customers no longer have to wait for delayed shipments due to supply constraints. Many of the ten companies, such as Schwab and Unito, have developed attractive customer-loyalty programmes for particularly active and loyal customers, offering these so-called 'VIP' (Very Important Person) customers preferential treatment with a wider range of services and special conditions.

“Through acting responsibly, the strategic customer intends to and can move the business community, as well as society and politicians to act sustainably through his purchasing decisions. How? He researches products and services, demands transparency, tries to get involved and consciously sends out a clear signal through his consumption behaviour.”

Claudia Langer, Utopia

Keynote speech: ‘The power of strategic consumption – how responsible consumers, through their purchasing decisions, move the business community, society and politicians to act sustainably’

The ten companies give regular updates on customer satisfaction developments and set new goals for increasing it in their strategy handbooks, which are used to implement Group-wide strategic decisions. With these measures as well as the execution of the first Group-wide information exchange on customer service in January 2008, the Otto Group ensures that all Group companies live up to the ‘Best in Class’ standard in their customer relationships. In the ‘Leistungsvergleich2008’ (Performance Comparison2008) of telephone and e-mail customer support from larger German retail companies carried out by the independent market researchers ‘Produkt & Markt’ (Product & Market) in 2008, it’s clear these efforts are meeting with success: OTTO took first place, Schwab second and Baur third, with these three companies leaving their direct competitors far behind. Various Group-internal customer satisfaction surveys confirm that the other Group companies are also succeeding in their customer orientation.

VIRTUAL FASHION WORLDS

Using synergies between the growth market e-commerce and both the traditional catalogue and over-the-counter retail business areas means that multichannel retailers in the Otto Group need to coordinate print, high-street and Internet channels intelligently and innovatively with each other. Therefore, the ten companies continue to develop their online shops to improve user friendliness and direct communication with the customer. For example, OTTO has been running the ‘Two for Fashion’ blog since July 2008, which is written by two external fashion experts and OTTO staff as guest authors. The blog lets readers experience OTTO’s fashion expertise more directly, links trends from the international fashion scene with insights into the company and intensifies the personal dialogue with customers and readers. In November 2008, the first ‘BlogParade’ – a network of many blogs – took place

on this platform on the topic of ‘Green Glamour’. The central question here was how to combine ‘looking good’ with ‘doing good’. In autumn 2007, OTTO was a founding partner of the Utopia Internet platform which defines itself as an ‘Internet portal for strategic consumption and sustainable lifestyle’ (see Otto Group Annual Report 2008/09, p.72).

As part of OTTO and Uniqlo’s ‘DAS IST ES!’ (That’s It!) campaign launched in 2009, the actress Cosma Shiva Hagen presented sustainable fashion from the ‘Cotton made in Africa’ brand in both companies’ shared ‘Naturwelt’ (World of Nature) online shop, which is to be relaunched in July 2009 under the name ‘EcoRepublic’. Baur uses the advantages of online media in the depiction of themed furniture-collection worlds on its Internet pages with special functionalities, such as the option of showing day and night atmospheres through different lighting or zooming into photos. 3D product images and interactive advice functions, such as the running-shoe selector, are also available at SportScheck, whose platform SportScheck.tv went live on the Internet in April 2009. Numerous videos with catwalk and 360-degree views of products are what make the online shops at bonprix and Heine stand out. At the beginning of 2009, bonprix presented 10 percent of its articles as web-video content – and this share is rising. By introducing its new ‘Jungstil’ brand in June 2008, bonprix is targeting a young and web-savvy target group with high demands on fashion. bonprix received the Otto Group’s internal Innovation Prize 2008 for this purely Internet-based concept (see p.12).

 **Customer Communication and Responsible Marketing** in the e-book

 **Customer Surveys** in the e-book

 **Barrier-free Internet** in the e-book



Data Protection

RELIABILITY IN DATA PROTECTION

Perhaps less emotional than the shopping experience itself, but no less important to customers, is the protection of their personal data. Adherence to data-protection legislation and safeguarding personal customer data are therefore an important part of the business culture in all Group companies. The Otto Group implements data protection through specific directives that correspond to the 'Bundesdatenschutzgesetz' (German Federal Data Protection Act), and in some cases exceed it considerably. The Group's IT Security Directive encompasses the security of our IT systems themselves, as well as access authorisation and the protection of personal data. The Internal Control System Group Directive also contains a section on the careful handling of customer data. There is further guidance on the internal use of addresses of active or inactive Group customers and complying with the required data protection within the Cross Listing Group Directive of August 2008 (see p.14).

All ten reporting companies are required to implement these Group-wide directives. They have appointed their own Data Protection Officers, whose regular exchange with each other is ensured by the Otto Group's Chief Data Protection Officer. In addition, they take part in continuous training courses. To complement this, the ten Group companies inform their employees about current data-protection rules and carry out needs-based training of employees who are affected directly, such as in the call centre or the IT department. A good example of the protection of customers' personal data is Witt, where the company applies user-driven training to train its employees in data protection. Witt's Customer Service has its own additional e-learning programme which also includes specific data-protection topics.

What's more, Witt has its own Directive on Data Protection in Call Centres and on the use and disposal of storage media containing personal data.

CONTROL SYSTEMS FOR BETTER SECURITY

These measures are supported by internal and external security audits of IT systems. At OTTO there are regular IT security checks by external companies. As a TÜV-certified (German Technical Inspection Association) online shop, otto.de also undergoes a three-stage audit process every year, which includes an on-site audit. Besides this, the company carried out a special audit on the protection of customer data in January 2009. Annual checks of the adherence to data protection take place at Baur and OTTO Office, which are also TÜV-certified. TÜV carried out a data-protection audit at Witt in October 2008 which checked all technical and organisational data-protection measures. Schwab's online shop received the 'Europäische Online-Shopping Gütesiegel für Verbraucher und Händler' (European Online Shopping Quality Seal for Consumers and Retailers) from the EHI Retail Institute and the 'Bundesverband des deutschen Versandhandels' (German E-Commerce and Distance Selling Trade Association) in May 2005, while bonprix was awarded the label 'Trusted Shop' in August 2008.

“A consumer deals with conflicting thoughts and is split in his purchasing behaviour: on the one hand he wants to consume ethically but on the other doesn't want to overburden his wallet. We are caught in a balancing act where 100 percent of consumers are against child labour, but 100 percent are also for bargains. **The latest studies repeatedly assert that despite the recession, 50 percent of those asked are still prepared to pay more for ethical products and services.** We must seize this opportunity and hold both customers as well as retailers responsible.”

Claudia Brück, TransFair



Product Quality and Safety

‘QUALITY-CHECKED’ IS MORE THAN JUST A PROMISE

Otto Group companies are united in their demands for the highest quality and safety in the products they offer. Adherence to quality requirements and the implementation of statutory regulations by suppliers are constantly monitored by our internal Quality Development departments. In order to stay below statutory thresholds, the Group commissions both Hansecontrol, the Group's own institute, and the SGS Group laboratories to carry out quality tests. Wherever necessary, the Group orders environmental and safety tests on textiles, carpets and rugs, furniture, home furnishings and entertainment electronics. Articles are not only tested for safety and environmental standards, but also for suitability for use. Hansecontrol offers training in this area for the Group companies' own Quality Developers too. Deliberately exceeding the Group's guidelines for quality checks in textiles, bonprix stands out in this area: since 2006, the company has been carrying out tighter inspections of colourfastness in its products. Instead of the usual single wash, bonprix carries out three wash runs on its textiles in its aim to ensure longer product life.

Despite our strict quality and safety controls within the Otto Group, there were recall actions for individual products in the reporting period. In each case, the Group initiated measures immediately in order to exclude any danger to the safety and health of its customers as early as possible. Thanks to efficient crisis management, the Otto Group managed to avoid damages or continued complaints in the 23 recalls issued by the ten companies covered by this report in the 2007/08 and 2008/09 financial years (see p.76). For example, a Hanseatic-brand condensation dryer was identified as a possible fire hazard and around 80,000 affected customers were immediately contacted in mid-2007. The appliance, which was sold by Baur,

OTTO, Schwab and Unito, was able to be repaired easily and safely by swapping a plastic grille. A Grundig-manufactured hair-dryer available from the same companies was found in 2007 to have potential damage to its mains lead. To enable Grundig to carry out targeted preventative measures quickly, the four companies assisted it in contacting the 11,000 customers affected in this case.

KIND TO YOUR SKIN – NATURALLY

The core assortments of nine of the ten retail companies in this report are based on fashion textiles, so these are also the main focus of our quality and safety tests. The Group's Textile Guideline applies to all of the German companies within the Group. It aims primarily at adherence to limits for harmful substances, and at health protection. Further, it contains binding rules for testing textiles according to ecological requirements on materials, and also for the process of qualifying suppliers as 'Approved Eco-Suppliers' (AES). Being aware of our environmental responsibility, we pass on our strict requirements for environmental and technical product optimisation to our suppliers and continuously develop these standards further together with them. Suppliers are awarded AES status when, for example, the supplier can produce the 'Öko-Tex Standard 100' certificate for the core goods they supply, and a predefined production sample has passed an ecological requirements-on-materials test. The companies involved succeeded in extending their number of Approved Eco-Suppliers in the reporting period, from 422 at the end of 2007 to 495 suppliers by the end of 2008.

 **Complaints Management** in the e-book

 **Credit Assessment** in the e-book

 **Awards** in the e-book

The emotional positioning of products is of the greatest importance; they also need to be 'sexy'. At the same time it's particularly important not to fritter away consumers' **confidence and trust**. Supporting the advertising message must be relevant facts which are provided to the consumer in a benefit-orientated way.

OTTO's own quality seal 'Hautfreundlich, weil schadstoffgeprüft' (Skin-friendly, tested for harmful substances), introduced in 1995, has bindingly applied to and is being implemented by all German Otto Group companies since 2008. The seal guarantees that all textiles labelled as such have successfully passed the Group's own testing procedures. It follows the requirements for Öko-Tex Standard 100, which exceed legal requirements for significant harmful substances. Our children's clothes undergo even stricter test parameters. At OTTO almost 100 percent of the textile range has been labelled 'Hautfreundlich, weil schadstoffgeprüft' (Skin-friendly, tested for harmful substances) since 2007. In 2008, OTTO and Unito used this quality seal extensively and prominently in its 'Colors For Life' children's fashion catalogue to highlight this standard to customers in Germany and Austria, where it is still by no means universally applied. Across the reporting companies, the proportion of textiles tested for harmful substances in the entire textile range was around 84 percent in the 2008/09 financial year (see p.79).

Sustainable Product Worlds

BEAUTIFUL, SUSTAINABLE PRODUCT WORLDS

The Otto Group's retail companies act at the interface between manufacturers and consumers. Through this, they have a significant degree of influence on how firmly a sustainable lifestyle establishes itself in society. The ten companies in this report can make an important contribution here: on the one hand in production, by initiating environmentally and socially acceptable processes, and on the other hand by supporting more conscious shopping and consumer behaviour. Additionally, these companies can strengthen their own market position – and that of the Otto Group – by offering sustainable products. All ten Group companies now pursue the goal of including an ever-higher percentage of sustainable products in their assortments. Aside from adhering to binding animal protection requirements and increasing the proportion of textiles with the quality seal 'Hautfreundlich, weil schadstoffgeprüft' (Skin-friendly, tested for harmful substances), they can decide their own focus. Both in their catalogues, and increasingly on the Internet, the ten Group companies supply information about the often 'invisible', but relevant superior quality of sustainable products in their assortments.

For example, OTTO's and Unito's EcoRepublic shop – formerly the 'Naturwelt' (World of Nature) shop – not only supplies sustainable textiles and furniture or energy-saving hard goods, but also offers an energy-consumption calculator, animated quality-seal guides and downloadable information brochures. With its 'bonprix loves quality' offensive, launched internationally in February 2009, bonprix informs its customers about sustainability issues through posters, web films and catalogue pages even more intensively than before. The main theme of this multimedia campaign was chosen to be 'Product Quality' for Spring 2009; 'Organic Cotton' is planned for the middle of the year and 'Social Responsibility in Supply



“Consumption or even an individual product needs to be fun. A dogma only builds barriers. As a company or manufacturer, I need to ensure that my products are really authentic.”

Michael Garvs, BIONADE

Markets’ towards the end of 2009. ‘bonprix loves quality’ also shows that good quality, an attractive price and a responsible approach can be combined very well with one another.

A SUSTAINABLE TREND IN FASHION

Whereas only OTTO carried a few textiles produced with Cotton made in Africa at the start of 2007 – the result of the very first Cotton made in Africa harvest in the project areas – almost all ten companies are now part of the Cotton made in Africa Demand Alliance: Baur, bonprix, Frankonia, Heine, OTTO, Schwab, Unito and Witt now carry many articles made with sustainably produced cotton from this developmental-policy initiative (see p.35, 71). Particularly Heine and Unito make visitors to their online shops very much aware of the availability there of Cotton made in Africa textiles. Together, the eight retail companies offering these sustainably produced cotton textiles have substantially increased the number of Cotton made in Africa products in 2008/09 compared to the previous year. The volume of Cotton made in Africa used in their articles came to 125 tonnes in 2007/08, and increased to 498 tonnes in 2008/09 (see p.79).

Whereas for Cotton made in Africa the developmental policy aspect is the main focus, the Group’s PURE WEAR textiles place the focus on organic cotton (see p.34). OTTO started the first organic cotton project in Western Turkey in the mid-1990s. Since 2003, products made from cotton produced under controlled organic cultivation have carried the PURE WEAR seal. These textiles must be made from at least 50 percent cotton, to which only certain other fibres may be added, such as Modal, silk, Lyocell, elasthane, linen and wool – but under no circumstances conventional cotton. Suppliers are also required to show that they have passed a BSCI Social Audit (see p.36) with a ‘Good’ score. Apart from the above, PURE WEAR products are subjected to stringent testing for harmful substances at levels usually only required for children’s clothing.

In the reporting period, OTTO, Unito and Witt carried PURE WEAR textiles in their ranges. Witt managed to increase its proportion of PURE WEAR articles by round 21 percent in 2008/09 to a total of 1,097 items. OTTO, on the other hand, did not yet achieve the target set by its Executive Board in 2007 to increase the proportion of PURE WEAR articles in its textile assortment to 5 percent by 2008 (excluding branded products). OTTO’s share of PURE WEAR articles increased to around 3 percent in the 2008/09 financial year and comprised 288 articles, using a total of 144 tonnes of organic cotton. Overall, the three single companies used 293 tonnes of organic cotton in 2008/09. Compared to the previous year, this represents an increase of 37 percent – which is the direction they will continue to take in the coming years (see p.79).

SOCIALLY AND ENVIRONMENTALLY SUSTAINABLE FROM HEAD TO TOE

Not only textiles but also shoes can fulfil the demands of ethically and environmentally acceptable production: for example, Baur introduced its own shoe brand ‘I’m Walking El Naturalista’ in January 2009. These products are manufactured in an environmentally conscious and socially sustainable way, for example using soles made from completely natural or recycled rubber, and vegetable-tanned leather. With the name of the hunting-goods supplier Frankonia, customers associate a strong connection with nature. The company responds to this in its accessories, for example with wellington boots made from natural rubber, LED torches and lead-free ammunition. In its textile range the company also commits to natural fibres: around 95 percent of the clothes offered by Frankonia are made with these.

 Quality Seals in the e-book



OTTO Office has been supplying a wide range of environmentally friendly own-brand products since 2006. The total assortment of around 2,000 articles is made in Germany by suppliers who are actively committed to sustainable production. The products are of the same quality as conventional articles, and often less expensive. In recent years, OTTO Office has expanded its range into hygiene products, in line with market requirements. Since 2007, the company has carried various biodegradable hygiene and cleaning products bearing the 'Blauer Engel' (Blue Angel) environmental seal. OTTO Office stands out for its innovative methods of winning customers over to environmentally friendly products: for instance, when they order 'pure white' (non-recycled) office paper, the company also sends them a promotional pack of recycled office paper and tries to convince its customers of the alternative in this way.

SUSTAINABLE HOME FURNISHINGS

Many handmade carpets for the European and North American markets, particularly those originating from the South-East Asian carpet industry, are made by children. Therefore mail-order generalists such as Baur, Heine, OTTO, Schwab and Unito offer their customers carpets with the RugMark seal. These hand-knotted and hand-tufted carpets from India or Nepal have been manufactured without illegal child labour. As the first German mail-order company to do so, OTTO already included RugMark carpets in its catalogue in 1996. In June 2008, there was a special promotion for RugMark at otto.de, in which 10 percent of the sale of each RugMark carpet bought from OTTO's online shop was donated to a school in Nepal. This money bought computers for the children's education, thus clearly improving their chances of a better future. The number of carpets with the RugMark seal available from the five Group companies came to 1,103 articles in 2008/09 (see p.79).

Easier navigation to sustainable products

To better inform its customers, OTTO Office started in 2006 to list its environmentally friendly and healthy products in their own category within its online shop. The range runs from environmentally friendly folders and paper products, through desk accessories, inks and toners, to office furniture. In the 2008/09 financial year, the company offered more than 2,000 articles through its sustainable product range. OTTO Office is therefore the only company among its direct competitors to give such easy and convenient access to an assortment of sustainable products. What's more, in OTTO Office's online shop customers also receive further, easily understandable information about the environmental characteristics of its products.



Effecting a change in consumer habits

According to a study in 2007 by the 'Umweltbundesamt' (German Federal Environment Agency), 40 percent of climate-related emissions in Germany are a result of citizens' consumption of food and goods. Any change in consumer habits requires a profound change in the consumer's own values and lifestyle. Here, key trendsetters in this development are the elites and opinion leaders, role models and testimonials. They set an example for the general public and facilitate identification by personalising and personifying the subject.

For home and garden furniture, the internationally recognised Forest Stewardship Council (FSC) seal guarantees the use of wood from sustainable forestry and considers both established environmental as well as social and economic aspects. The Group companies Baur, Heine, OTTO, Schwab and Unito carried 65 articles with the FSC seal in their home and garden furniture ranges in 2008/09 (see p.80), with bonprix planning to offer such products in 2010 too.

The single companies in the Otto Group also aim to expand their range of household electrical appliances with ecologically optimised products. For fridges and freezers, washing machines, electric hobs and dishwashers, the main issue is the improvement of environmental characteristics during the appliance's useful life, allowing users to save not just water and electricity but also money. Most of the Group companies operating in German-speaking markets and offering this range of products rely on the central Purchasing area at the retail company OTTO for the supply of home appliances. Only Frankonia and Unito have their own Purchasing department for these goods. The number of ecologically optimised home appliances from all companies under consideration came to 491 appliances in 2007/08 and 550 in 2008/09, which represents a share of around 64 and 69 percent respectively (see p.80).

Since 2007, OTTO has only carried A, A+ and A++ energy-efficiency class fridges and freezers in its range. Of the fridges and freezers sold by the Group's retailers in 2008/09, almost 57 percent were from the particularly energy-efficient classes A+ and A++, an increase of 7 percent on the previous year (see p.80). Since 2007, these retailers have also carried an 'Ökoline' (EcoLine) for household electrical appliances produced by the Group-owned Hanseatic brand.

LONG LIVE THE PRODUCT

Since 2008, SportScheck has been taking part in a unique concept to promote the recycling of textiles, together with the manufacturers of the Christ.Rose brand. As part of the Eco Circle Project, customers can give back worn articles of clothing made from polyester, which the company PYUA in Oberschleißheim/Germany then processes and returns to production as the equivalent raw material. The environmental benefits of this recycling process lie both in conserving crude oil as a raw material and decreasing energy use and CO₂ emissions, which come to just a fifth of the amounts used in the first production of polyester. In the 2008/09 financial year, SportScheck introduced four textile articles in its winter sports range that were produced as part of the Eco Circle Project: a ladies' ski jacket and trousers, and a ski jacket and trousers for men.

Getting the next generation moving

////////////////////////////////////

A lack of physical activity and the wrong diet is increasingly affecting children and adolescents; according to a study by the Robert Koch Institute, in 2008 one school-age child in six was obese. SportScheck is taking a targeted approach to countering this trend: in 2008 and in cooperation with the 'Technische Universität München' (Munich Technical University), SportScheck launched its 'Sport im Hort' (After-School Club Sports) programme, which initially supports three after-school clubs in Munich with 5,000 euros each for the development of a sports programme. No less than 20 Munich after-school clubs applied with specific sports programme concepts for funding approval; the winners were selected by a jury consisting of representatives from SportScheck, Technische Universität München and the City of Munich itself. The goal of this sponsorship is to help kids enjoy physical activity more and get them used to regular physical training by taking a playful approach. In the long term 'Sport im Hort' is to be rolled out across all German federal states.





“By supporting the range of sports activities at after-school clubs we aim to move kids gently towards an active and healthy lifestyle, and thus to combat the growing tendency towards primary-school age obesity.”

Jens Steffen Galster
Head of Marketing
at SportScheck

Study by the 2° Initiative on climate-friendly purchasing behaviour

The study 'Klimaschutz für Alle!' (Climate protection for everyone!) published in 2008 by the initiative '2° – Deutsche Unternehmer für Klimaschutz' (2° – German CEOs for Climate Protection) is the first representative, cross-industry study on climate-friendly purchasing behaviour and on the consumption attitude of consumers. One of its central findings is:

“Consumers would like better guidance through the provision of clearer labelling and a larger range of climate-friendly products. Consumers do, however, reject the idea of cutting consumption, limiting the variety of products on offer or implementing significant price increases in aid of climate protection.”

Social Commitment of our Companies

MORE THAN JUST 'GOOD NEIGHBOURS'

The Otto Group designs its business processes consistently in line with its core principle of 'Passion for Sustainability'. Furthermore, in this arena we also see our Group as an agent for good in society. Our conviction that we have a social responsibility and a task as a corporate citizen is deeply anchored in our Group's philosophy. The Group's single companies take responsibility for tailoring their social activities to the current needs in their region. In their roles as responsible citizens, the Otto Group and the ten companies in this report are committed beyond their actual business activities. Whether in social and cultural issues within civil society, or the protection of natural resources, their activities cover a whole spectrum of topics: from supporting the World Future Council and the construction of the 'Elbphilharmonie' (Elbe Philharmonic Concert Hall) in Hamburg, giving donations for education projects and for the resettlement of the wolf, right through to our employees' engagement in getting fundraising campaigns up and running to help ill or disadvantaged children. Frequently, it is our companies' own employees' initiative that gives the impetus for our involvement in projects. All ten Group companies support the principle of charitable commitment from their staff – and in some cases release them from work for this.

THE 'HAMBURG SECONDARY SCHOOL MODEL' CATCHES ON

Dr. Michael Otto, the former Chairman of the Otto Group's Executive Board and current Chairman of the Supervisory Board, has always led by example. As Chairman and founding member of the Hamburg network of the 'Initiative für Beschäftigung' (German Initiative for Employment), he helped create the 'Hamburger Hauptschulmodell' (Hamburg Secondary School Model) in 2000 – a successful

model project for the improved integration of school-leavers from secondary schools into vocational training. 91 schools and 75 companies from Hamburg as well as the Hamburg Senate and the 'Agentur für Arbeit' (Employment Agency) currently take part in this cooperative project. And they can be proud of its success: since the start of the project, the ratio of successful participants who were taken on into unsponsored traineeships straight after school has tripled. Meanwhile, 18 regions across Germany have adopted this award-winning model. In 2009, a charitable foundation connected to the project has honoured three schools in Hamburg for their outstanding results and successful cooperation for the first time. First prize with a value of 3,000 euros went to the 'Gesamtschule Fischbek' (Fischbek Comprehensive School), where pupils can learn about the world of work early on in different workshops. In future, the project will be promoted across Germany, and work on successor projects will be supported.

MULTI-FACETED COMMITMENT

Like OTTO in Hamburg, other Otto Group companies take part in numerous regional activities in communities near their facilities. In 2007, Witt's 100th anniversary, the company donated 100,000 euros to educational projects, of which 60,000 euros went to the 'Hochschule Amberg-Weiden' (University of Applied Sciences in Amberg-Weiden), and 40,000 euros to the 'Initiative Pro Ausbildung' (Pro Training Initiative). Witt also initiated a number of smaller projects: for example, customers were invited to decorate Christmas trees in Witt stores in 2007. For the ten most beautiful trees, the company donated 500 euros each to community projects in the region, such as 'Lebenshilfe' (A helping hand), a childcare facility and a soup kitchen. In Burgkunstadt, Baur supports the 'Regens-Wagner-Förderzentrum' (Regens-Wagner Support Centre) for the handicapped – this engagement was initiated by the company founders, Dr. Friedrich and Kathi Baur.

Vocational orientation at Frankonia

Frankonia has participated since 2008 in the campaign 'Fit für die Bewerbung' (Fit for application), an initiative of the 'Goinger Kreis' (a German employment think-tank) in partnership with the 'Initiative für Beschäftigung' (Federal Initiative for Employment) of the German economy. The company staged an event on the topic of vocational orientation and application for school-leavers at its Würzburg offices in November 2008. The following questions were of particular interest to participants: "How do I write an analysis of my strengths and weaknesses?", "How do I research the right entry-level job?" and "How do I succeed in telephone interviews?" Six members of staff assisted five teenagers each as mentors. Employees from Baur, Heine, Schwab, SportScheck and Witt also took part in this event at their facilities and helped young people at the start of their careers with valuable tips.



Every year, Baur's Executive Board organises a Christmas party for the children who live at the Centre. Frankonia, on the other hand, is committed to protecting the environment. On the occasion of its 100th anniversary in 2008, the company held an auction through its online portal, the proceeds of which were donated to the 'Naturschutzbund Deutschland (NABU)' (German Nature and Biodiversity Conservation Union) for its 'Willkommen Wolf' (Welcome Wolf) project. A total of 10,000 euros went to the project, which protects wolves living wild and thus at risk in Germany.

CREATIVE FUNDRAISING

bonprix's employees are themselves very active in raising funds for communal purposes. In 2008, committed employees from the Customer Service department auctioned customer presents, surplus items from attics and cellars as well as scrapped computers from the office, and made a total of 4,700 euros. The pleasure of doing good in gathering and auctioning articles for fundraising was just as strong in the following year, too, when similar events generated 6,300 euros. These donations were given to the 'Sternenbrücke' (Star Bridge) children's hospice in Hamburg. bonprix staff also support a school for deaf children in Tirupur/Southern India: in 2007/08, they collected the proceeds from an Advent Gift event and a mass auction at the bonprix anniversary party to make a significant contribution towards the construction of an urgently needed building for the school's now 255 pupils. In total, 12,000 euros were donated to the school. What's more, for 110 euros per year per child individual bonprix employees and even whole departments have taken on sponsorship for 24 pupils at the school.



“For the most part, people do not shop to satisfy basic needs; they do it for the shopping experience. This shopping experience is additionally heightened when they buy a product with a history they know: ‘selling by telling’ is highly effective. Here we see a particular opportunity to inject more transparency into the product history.”

Mathias Ahrberg, FAIRLIEBT

Foundations

FUTURE-ORIENTATED EDUCATION AND DIALOGUE CULTURE

The two large charitable foundations closely related to the Otto Group devote themselves to topic areas to which the Group companies are also committed, as part of their sustainable business: protecting the environment on the one hand and civil society development through trade on the other hand. Both also pursue the goal of getting others to participate and triggering further exemplary initiatives. The founder of both foundations, Dr. Michael Otto, was honoured for his forward-looking and sustainable commitment in June 2008 by the ‘Bundesverband Deutscher Stiftungen’ (Association of German Foundations) with its highest award, the ‘Medaille für Verdienste um das Stiftungswesen’ (Medal for Merits in the German Philanthropic Sector).

The ‘Michael Otto Stiftung für Umweltschutz’ (Michael Otto Foundation for Environmental Protection), founded in 1993, develops strategies and supports projects for future-orientated initiatives in the conservation of nature and the environment. It supports large projects for the protection of nature, is engaged in education and initiates broad-based debates in society.

The Foundation supports innovative environmental projects by funding large nature-conservation projects which have a long-term impact. Its current funding focus is on the protection of flowing waters and sustainable treatment of river ecosystems – in Germany and in Eastern Europe as well as Northern and Central Asia. As part of its activities it supports Europe’s largest natural-habitat restoration initiative on Eastern Germany’s lower River Havel, for example. Furthermore, the Foundation also offers children, youths and young adults the opportunity to implement their own projects to conserve water resources. The Federal President of Germany, Horst Köhler, has taken on patronage for these ‘aqua projects’.

In terms of education, the Foundation gives financial support to research and educational establishments and develops its own projects. It initiated several innovative and interdisciplinary university chairs, such as the ‘Foundation Professorship of the Economics of Climate Change’, established in 2008 together with the ‘Potsdam-Institut für Klimafolgenforschung’ (Potsdam Institute for Climate Effect Research) and the ‘Technische Universität Berlin’ (Berlin Technical University). This is the first professorship of its kind in the world and provides impetus for the development of a sustainable climate policy, particularly under Prof. Ottmar Edenhofer who holds this Chair. In the spring of 2010, the Foundation launched its own educational project, ‘Aqua Agents’, aimed at primary schools in Hamburg. This innovative cooperation project leads pupils towards an integrated understanding of the importance of water in their own environment.

As far as dialogue activities are concerned, the series of events entitled the ‘Hamburger Gespräche für Naturschutz’ (Hamburg Forum on Nature Conservation) received a very positive public response. Since 2004, decision-makers and experts from politics, industry, science and nature conservation have met once a year to debate pragmatic solutions to current environmental challenges. While the main topics in 2007 and 2008 were overfishing in the oceans and the loss of biodiversity through growing pressure on nature and agriculture, in 2009 these events will deal with the opportunities and limitations for businesses and consumers to enhance biodiversity.

An initiative which has developed from this series of forums is ‘2° – Deutsche Unternehmer für Klimaschutz’ (2° – German CEOs for Climate Protection). The stated aim of the members is limiting global warming to 2° Celsius compared to pre-industrial levels. Through the initiative, entrepreneurs from the wide range of companies involved support the German government and political decision-makers at a national and international level in developing a successful policy to protect the Earth’s

The Future of Ethical Consumption?

The strongest driving factors to open up new opportunities for Ethical Consumption will come from the clear commitment of everyone involved to behave in a socially responsible and environmentally friendly way in their respective area of activity and responsibility.

Ethical Consumption only has a chance of survival, however, when commitments are followed up by actions. Everyone responsible must play their part to drive Ethical Consumption forward in the future – by making the right political decisions, by companies offering the relevant range of products and information, by media and research institutes raising awareness, as well as by individual consumers taking well-considered purchasing decisions.


climate, and work towards establishing market-economy conditions for effective climate protection. In spring 2009 the initiative presented the first representative, cross-industry study 'Klimaschutz für Alle!' (Climate protection for everyone!), looking into climate-friendly purchasing behaviour and the consumption attitude of consumers.

AID BY TRADE

In 2005, Dr. Michael Otto founded the 'Aid by Trade Foundation', with the goal of supporting regional sustainable cultivation of agricultural and forestry products to combat poverty and protect the environment in developing countries. The Aid by Trade Foundation's central approach focuses on enabling local people to help themselves, which is to be achieved through the basic principle of 'aid by trade'. The Aid by Trade Foundation's first major initiative is 'Cotton made in Africa' (see p.35). Commonly supported by partners from industry, the public sector and NGOs, it aims to create long-term development perspectives for smallholder farmers in the cotton-cultivation regions of the project countries Benin, Burkina Faso, Mozambique and Zambia. Local farmers learn environmentally friendly methods of integrated plant protection and practices that help them to achieve significant improvements in their cotton's quality – and therefore make it more attractive on the global market. A verification system guides and monitors adherence to the social and environmental minimum standards laid down by the Cotton made in Africa initiative. Definitely excluded from the production process are the felling of primary forests, forced displacement of workers, exploitative child labour, genetically modified cotton and the use of certain internationally outlawed pesticides.

The decisive factor that will ensure the sustained success of developmental cooperation lies elsewhere, however – in the global marketplace. The Aid by Trade Foundation has managed to win over various large textile companies in

Europe and the USA for its Demand Alliance in the last few years, which buy this specific cotton and process it further. Aside from various companies in the Otto Group, the Alliance includes major companies such as Tchibo, Puma, Celio, s.Oliver, Tom Tailor and 1888 Mills. The 'demand pull' the Alliance creates has the potential to trigger significant and lasting market change through its sheer size. And this is a development that's sure to continue: through a support agreement between the project partner 'Deutsche Entwicklungs- und Investitionsgesellschaft mbH (DEG)' (German Society for Investment and Development) and the Bill & Melinda Gates Foundation established by Microsoft founder Bill Gates, the latter is now also a sponsor of Cotton made in Africa and is financing the project's roll-out to more African countries. At the same time, the Aid by Trade Foundation is developing the image of the Cotton made in Africa raw-material brand. "There's no doubt that Cotton made in Africa represents a highly attractive quality seal," says Dr. Johannes Merck, Managing Director of the Aid by Trade Foundation; "it stands for a contemporary way to help, and offers companies and brands real added value. The Cotton made in Africa label makes African products visible, which enables targeted marketing and demand. And at the same time, Cotton made in Africa combines ecological and social criteria with the price-sensitive requirements of the mass market."

 **Michael Otto Stiftung für Umweltschutz**
www.michaelottostiftung.de

 **Aid by Trade Foundation**
www.cotton-made-in-africa.com

 **Initiative 2° – Deutsche Unternehmer für Klimaschutz**
www.initiative2grad.de



Interview with Dr. Michael Otto

Chairman of the Otto Group
Supervisory Board

On the roof top of Hamburg's most spectacular construction project, the Elbe Philharmonie Concert Hall, Dr. Michael Otto supports the development of the city's new landmark.

Dr. Otto, in June 2008 you were awarded the ‘Medaille für Verdienste um das Stiftungswesen’ (Medal for Merits in the German Philanthropic Sector) by the ‘Bundesverband Deutscher Stiftungen’ (Association of German Foundations). In the opinion of the awarding panel you represent a new type of philanthropist who establishes smaller but distinguished foundations and initiatives in the true spirit of entrepreneurialism, and who ensures that they find long-term, wide-ranging support. Personally, which of these initiatives lies closest to your heart?

Dr. Michael Otto: All our initiatives are filled with passion, and each one makes an important contribution – which makes it impossible for me to highlight any one in particular. Ultimately I’m pleased about every initiative which sets an example and has a multiplicative character. It doesn’t matter whether it was launched by one of my foundations, as was the initiative ‘2° – Deutsche Unternehmer für Klimaschutz’ (2° – German CEOs for Climate Protection), or my company, as in the case of the ‘Hamburger Hauptschulmodell’ (Hamburg Secondary School Model).

Alongside promoting nature conservation projects and its engagement in the area of education, the ‘Michael Otto Stiftung für Umweltschutz’ (Michael Otto Foundation for Environmental Protection) regularly holds dialogue events, such as the ‘Hamburger Gespräche für Naturschutz’ (Hamburg Forum on Nature Conservation). Here you encourage exchange among influential actors from the areas of business, nature conservation, politics and science, and provide active support yourself. What are your experiences from this? And what is your recipe for successfully staging these dialogue events?

Dr. Michael Otto: You need to get everyone who is involved in the topic around the table to approach the issues together. Furthermore, you need to be absolutely convinced yourself of the overall shape of the best solution – then you can also win others over to your cause. For me, three things come together here: firstly, a deep-seated belief in thinking in terms of values; secondly the willingness to acquire the necessary expert know-how, and thirdly adopting an entrepre-

“To me, a product only has genuine value when not only its visible quality is right, but also its invisible quality.”

Dr. Michael Otto,
Chairman of the Otto Group
Supervisory Board

neurial approach – which means taking action. You know, as a philanthropist I always feel like an entrepreneur too.

The Cotton made in Africa initiative is supported by the Aid by Trade Foundation, which you established in 2005. By improving cotton cultivation in the sub-Saharan region, and establishing a Demand Alliance of large textile companies, an important contribution has been made in recent years to increasing the competitiveness of African cotton. Where do you see Cotton made in Africa in ten years’ time?

Dr. Michael Otto: It would be a complete success if we were to have involved around 500,000 smallholder farmers in ten years’ time. Thanks to the support of the Bill & Melinda Gates Foundation and the associated expan-

sion of our activities in Malawi and Ivory Coast, we want to reach a total of 225,000 smallholder farmers and their families in the next step – which means noticeably improving the living conditions of around two million people. In addition, the long-term aim of the initiative is to help the smallholder farmers participate in the success of Cotton made in Africa.

“Participate in the success” – what does that mean, exactly? Do you intend to pay bonuses?

Dr. Michael Otto: No, the Aid by Trade Foundation intends to adopt a new approach in this regard too. Firstly, Cotton made in Africa co-finances agricultural training courses to raise crop yields and smallholder farmers’ incomes. Secondly, we will pay dividends directly to the farmers involved. And thirdly, in parallel to this additional income we are launching projects to promote education and literacy among these farmers and their families.

The phenomenon of Ethical Consumption, which also boosts demand for Cotton made in Africa textiles, has gained significantly in importance in recent years – a trend that appears to be continuing despite the financial crisis. How do you see this topic developing further, also regarding your own Group?

Dr. Michael Otto: Sustainable products have played a role at OTTO for a long time now, even before the topic achieved mainstream acceptance – and these products will continue to form a permanent part of our Group companies’ assortments. To me, a product only has genuine value when not only its visible quality is right, but also its invisible quality. That means when its production, its route to the end customer and its use have as little negative impact upon people and the environment as possible.

Facts and Figures



Performance Report of the
ten Companies included

Economy

- 75 Operating Figures
- 76 Corporate Governance

Environment

- 77 Facilities
- 78 Catalogues and Advertising
Materials
- 78 Packaging
- 79 Assortment
- 80 Climate Protection/
CO₂ Emissions

Employees

- 82 Employee Structure
- 84 Further Education
and Training
- 84 Occupational Health
Management
- 85 Occupational Pension
Provision and
Stock Ownership Programme

Suppliers

- 86 Social Responsibility in the
Purchasing Markets
- 86 Supplier Structure
- 87 Distribution of Order Volume
- 88 Audit Results
- 91 Violations of Standards
- 91 Qualification Measures

Performance Report of the ten Companies included

The performance report of the ten Otto Group companies included here – Baur, bonprix, Frankonia, Heine, OTTO, OTTO Office, Schwab, SportScheck, Unito und Witt – forms an essential basis of this Sustainability Report. For this purpose, the Otto Group developed a set of key figures which – where appropriate – follows the Global Reporting Initiative (GRI) Guidelines and which is also intended to act as a control measure for our Group-wide Sustainability Management System. We have prepared the figures according to the four topic areas ‘Economy’, ‘Environment’, ‘Employees’ and ‘Suppliers’. They offer both internal as well as external stakeholders the opportunity to understand at a glance how the companies covered by this report are performing, as well as to track their development in the area of sustainability over the years. We will start at this point with the past two years; our long-term aim is to expand the long list of figures to cover the standard basis of comparison which is five years. Some key information regarding the figures’ scope of validity:

- The figures have been fully consolidated for all ten companies covered by this report. Where we have as yet been unable to fully record all figures from all companies, we have indicated the relevant scope of validity.
- Unless explicitly stated otherwise, figures relate to the 2007/08 and 2008/09 financial years (period from March 1st 2007 to February 28th 2009). Exception: as OTTO Office’s financial year is identical to the calendar year, we have consistently used the figures for 2007 and 2008 for this company.

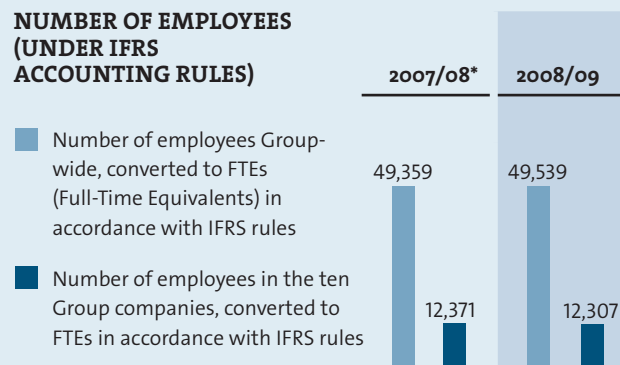
The carrying out of Assurance on this report in accordance with the AA1000AS standard by the audit and assurance firm PricewaterhouseCoopers also takes into consideration compliance with the principles of the Global Reporting Initiative (GRI) to assure the quality of the data for selected key figures. The Independent Assurance Report can be found in the foldout inside back cover of this report.

Economy Operating Figures

OPERATING FIGURES	2007/08*	2008/09
Net turnover for the whole Group in millions of €	10,058.3	10,109.4
Net turnover for the ten companies covered by this report in millions of € (summarised values)	4,312.0	4,214.5
Capital of the whole Group in millions of €	2,671.9	2,300.5
Capital of the ten companies covered by this report in millions of €	1,477.6	1,458.8
Liabilities of the whole Group in millions of €	10,786.2	4,515.8
Liabilities of the ten companies covered by this report in millions of €	3,303.4	3,617.6

In the financial year 2008/09 the net turnover of the ten retailers covered by this report was 4,214.5 million euros and thus accounted for over 40 percent of the Otto Group’s overall turnover; it also remained relatively stable despite difficult economic conditions. E-commerce proved to be the driving force behind this for the ten companies covered by this report: here, online demand increased to 3.5 billion euros, that is, by 12.8 percent compared to the previous year. This result means the ten Group companies are making a key contribution towards strengthening the Otto Group’s position as the world’s second largest online retailer, and Germany’s largest online retailer in the business-to-customer (B2C) area. With approximately 12,300 employees, the companies covered by this report account for around a quarter of the Otto Group’s total workforce in the 2008/09 financial year.

NUMBER OF EMPLOYEES (UNDER IFRS ACCOUNTING RULES)

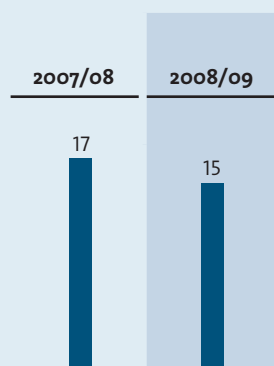


* Figures for 2007/08 are based on adjustments made in the 2008/09 Annual Report.

Corporate Governance

LEGAL DISPUTES DUE TO ANTI-COMPETITIVE BEHAVIOUR

■ Number of cases of legal action taken due to anti-competitive behaviour



In the reporting period, legal action was taken against the ten Otto Group companies in a total of 32 cases due to anti-competitive behaviour. In 2007/08, these cases predominantly concerned claims arising from trademark and decency infringements, previously committed by suppliers in the majority of cases. In addition to the above-mentioned infringements, in 2008/09 action was brought against us by 'Stiftung Warentest' (German product testing institute) because of confusing advertising due to incorrect information regarding an electrical appliance's energy-efficiency class.

VIOLATIONS AND SANCTIONS

	2007/08	2008/09
Violations of environmental standards	0	0
Violations of health or safety standards	8	15
Violations of product information standards	0	6
Violations of marketing standards	34	18
Fines due to violations of legislation in €	2,280	6,600

Of the 23 incidents where individual products of the companies covered by this report violated health or safety standards, none lead to a fine or warning. All faults were able to be rectified as part of recall actions (see p.61). In 2008/09 there were six violations of standards in relation to the labelling of product information. These concerned violations of the 'Telemedienge-

setz' (German law governing information and communication services) where incorrect call-charge information was given for a telephone number. The 34 violations of marketing standards in 2007/08 related to such issues as incorrect energy-efficiency class claims or confusing price information.

In 2007/08 the ten Otto Group companies were required to pay 2,280 euros in fines due to violations of legislation. This was attributable to a lack of special usage approval in the distribution of advertising, as well as to a technical glitch at Unito which led to temporary problems with the newsletter and meant that customers were temporarily unable to unsubscribe from it. The penalty of 6,600 euros in 2008/09 relates to the employment of individual temporary agency employees without valid work permits, to one incident where a trademark was violated and to the sending of several e-mails to customers who had already withdrawn their consent to receive them. In both financial years, no non-monetary sanctions were imposed on the companies, and no case was put forward which needed to be dealt with within the framework of dispute-resolution mechanisms.

BREACH OF CUSTOMER-DATA PROTECTION LAWS

	2007/08	2008/09
Total number of complaints	46	43
of which complaints from supervisory authorities	8	4

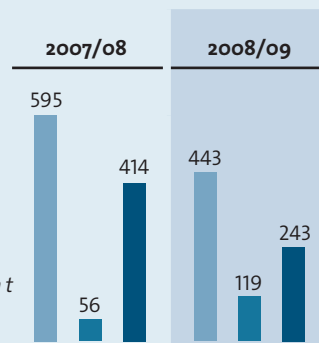
During the reporting period, a slight drop in complaints due to the infringement or loss of customer data took place, the number of complaints in both cases being noticeably less than one in a thousand in relation to the overall number of products sold. Of the 43 complaints in the 2008/09 financial year, 34 related to the unrequested sending of advertising materials.

Environment

Facilities

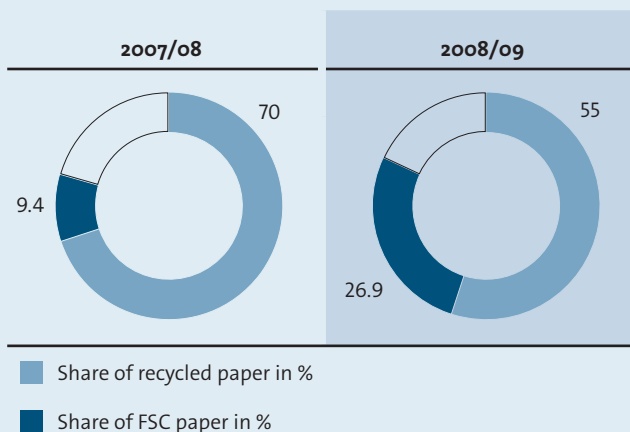
OFFICE PAPER CONSUMPTION

- Total quantity of A4 and A3 paper consumed in t
- of which was FSC paper in t
- of which was recycled paper in t



The ten Otto Group companies achieved a positive result when it came to using paper in an environmentally friendly way: within one financial year they reduced their consumption of A4 and A3 paper by 26 percent, bringing the total down to just 443 tonnes in the 2008/09 financial year. That said, this reduction is also partially due to the fact that a planned bulk order of recycled paper (100 tonnes) by OTTO was only placed shortly after the conclusion of the 2008/09 financial year and as such was no longer included in the statistics for the reporting period. For this reason, the percentage of recycled paper as a proportion of the total amount correspondingly also fell by 15 percent in 2008/09 (see graphic 'Share of FSC and recycled paper as a proportion of the total office paper amount'); however, it still accounted for over 50 percent.

SHARE OF FSC AND RECYCLED PAPER AS A PROPORTION OF THE TOTAL OFFICE PAPER AMOUNT



While reducing our total office paper consumption, we managed to more than double the share of sustainably produced paper we use bearing the Forest Stewardship Council (FSC) label in the 2008/09 financial year. All ten Group companies were at least able to maintain a stable level of FSC paper consumption, and even noticeably increase consumption of it in the majority of cases.

WATER CONSUMPTION AT OUR FACILITIES*

	2007/08	2008/09
Water consumption in m³	188,476	181,950
of which was rain water in m³	10,638	10,420
Share of rain water in %	5.6	5.7

* Unito 2008/09 excluding the facility in Kalsdorf

In the reporting period, the water consumption level of the ten Group companies fell by 3 percent to approximately 182,000 cubic metres, whereby the share of rain water utilised – such as for flushing toilets – remained stable at around 6 percent in the 2008/09 financial year compared to the same period in the previous year.

USE OF SPACE*

	2007/08	2008/09
Total area of property spaces in m²	1,207,483	1,270,521
Share of built-up spaces** in m²	396,954	404,970
Share of sealed spaces** in m²	489,386	516,155
Share of green, not sealed/ built-up spaces** in m²	255,716	284,609

* Excluding OTTO Office and the Unito facility in Salzburg

** Excluded from the total: rented spaces, the breakdown of which is unavailable

The Otto Group companies covered by this report acquired around 60,000 square metres of new property space in the reporting period, thereby increasing their total holding in the 2008/09 financial year by 5 percent. The share of green, not-sealed and built-up spaces increased by around 30,000 square metres in the same period, meaning an increase of 10 percent. The reasons for this were demolition measures as the spaces were prepared for further construction.

FACTS AND FIGURES

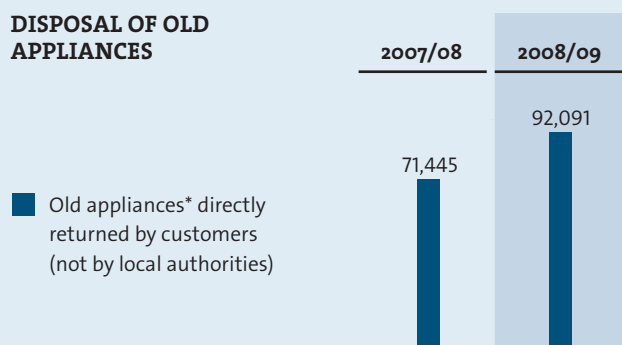
AMOUNT OF WASTE GENERATED BY CATEGORY*

	2007/08	2008/09
Total amount of waste generated in t	20,666	17,505
Share of hazardous waste in t	162	180
Share of hazardous waste in %	0.8	1.0
Share of non-hazardous waste in t	20,504	17,325
Share of non-hazardous waste in %	99.2	99.0
Waste removal amount in t	2,460	2,441
Waste removal rate in %	12.0	14.0
Recycled amount in t	18,208	15,066
Recycling rate in %	88.0	86.0

* OTTO Office excludes Hamburg facility

The total amount of waste produced by the ten Group companies in the 2008/09 financial year was approximately 17,500 tonnes – which equates to a significant drop of 17 per cent compared to the previous year. The declining trend in this instance was due to the individual company OTTO transferring part of its disposal processing, amounting to 3,310 tonnes, in 2008/09 to Hermes Warehousing Solutions (HWS).

DISPOSAL OF OLD APPLIANCES



* Refrigerators, televisions, washing machines, dishwashers

Offering a special incentive with various products (a flat-rate offer including coverage of transport costs for the return of old appliances) led to a strong increase in the number of old appliances returned by customers. At around 92,000 appliances in the 2008/09 financial year, this figure was almost a third higher than in the previous year.

Catalogues and Advertising Materials

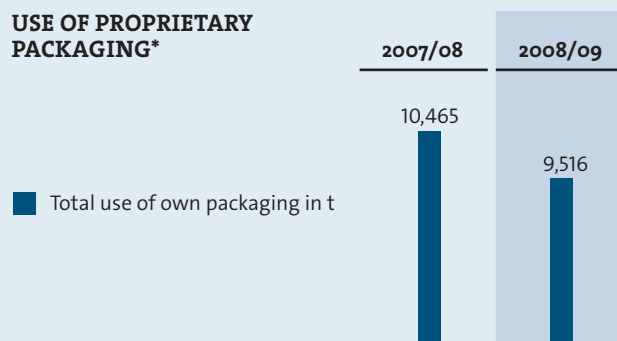
PAPER CONSUMPTION FOR CATALOGUES AND ADVERTISING MATERIALS

	2007/08	2008/09
Total consumption in t	298,971	301,296
of which FSC paper in t	15,339	16,814
of which FSC paper in %	5.1	5.6

In the 2008/09 financial year, total consumption of paper in the area of catalogues and advertising materials by the ten companies covered by this report increased slightly, amounting to just over 300,000 tonnes. At the same time we were able to slightly increase the share of FSC paper, amounting to around 6 percent.

Packaging

USE OF PROPRIETARY PACKAGING*

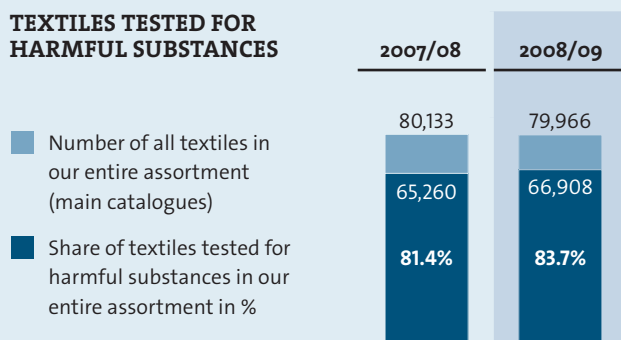


* Excluding Frankonia

There are numerous reasons for the 9 percent drop in the use of our proprietary packaging in 2008/09 compared to the previous year. These include successes in making proprietary packaging more environmentally friendly (see p.53) as well as other aspects that are not, strictly speaking, environment-related.

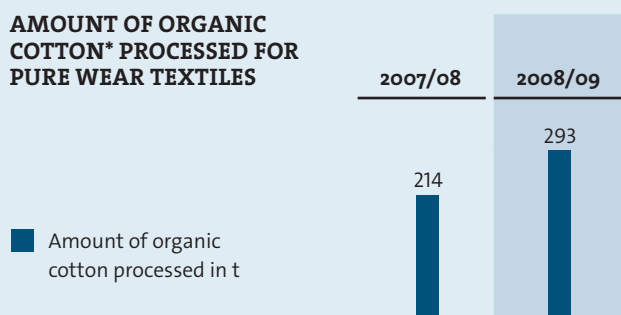
Assortment

TEXTILES TESTED FOR HARMFUL SUBSTANCES



While the number of textile articles (own brands and external brands) in the main catalogues of the nine Group companies concerned (excluding the office equipment provider OTTO Office) remained almost the same, the number of textiles tested for harmful substances increased slightly in the same period. This upward trend is related to the ongoing implementation of our 2007 Group Resolution, which stipulates that it is binding for all Group textile retailers in German-speaking countries to implement testing for harmful substances.

AMOUNT OF ORGANIC COTTON* PROCESSED FOR PURE WEAR TEXTILES



* Cotton produced using controlled organic cultivation methods

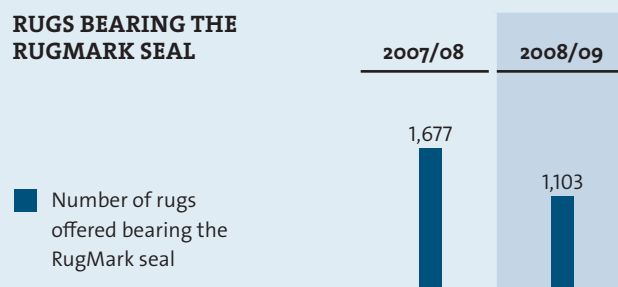
In the 2008/09 financial year, the three Group companies OTTO, Unito and Witt were able to increase the use of organic cotton compared to the previous year by 37 percent to 293 tonnes.

AMOUNT OF 'COTTON MADE IN AFRICA' COTTON PROCESSED



We are happy to report positive news on the use of cotton from the Cotton made in Africa initiative: in the reporting period, sales of Cotton made in Africa textiles by the companies covered by this report were able to be quadrupled, increasing from 125 tonnes to around 500 tonnes in the 2008/09 financial year. This successful development is attributable to the expansion in production in the participating African countries on the one hand, and on the other hand to more Otto Group companies either incorporating Cotton made in Africa textiles into their assortments or expanding their range of these products. In 2008/09, Baur, bonprix, Frankonia, Heine, OTTO, Schwab, Unito und Witt offered textiles made with this raw material.

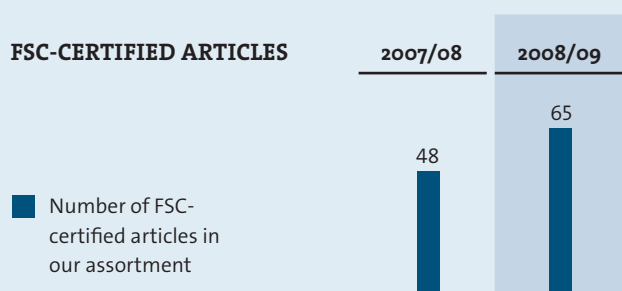
RUGS BEARING THE RUGMARK SEAL



The significant reduction of 34 percent in our range of rugs bearing the RugMark seal in the 2008/09 financial year is directly connected to our reduction of the overall range of rugs at the five Group companies concerned – Baur, Heine, OTTO, Schwab and Unito.

FACTS AND FIGURES

FSC-CERTIFIED ARTICLES



The number of FSC-certified items of furniture in the Group companies Baur, Heine, OTTO, Schwab and Unito increased to a total of 65 in the reporting period. OTTO in particular is planning to expand its range of FSC furniture further in the coming years and bonprix will be incorporating FSC furniture for the first time into its assortment.

ECOLOGICALLY OPTIMISED LARGE HOUSEHOLD ELECTRICAL APPLIANCES*

	2007/08	2008/09
Total of ecologically optimised large household electrical appliances	491	550
Share of ecologically optimised large household electrical appliances in the overall assortment in %	63.5	69.4
Number of refrigerators/freezers (total)	282	344
Share of refrigerators/freezers with an energy efficiency rating of A+ or better in %	49.6	56.7
Number of washing machines (total)	268	271
Number of high-efficiency washing machines (using less than 45 litres of water for a 5 kg wash and having an energy efficiency rating of A or better) in %	75.7	80.4
Number of electric ovens (total)	103	93
Share of electric ovens with an energy efficiency rating of A or better in %	73.8	89.2
Number of dishwashers (total)	120	84
Number of high efficiency dishwashers (using less than 14 litres of water with a standard width and having an energy efficiency rating of A or better) in %	60.0	64.3

* These include refrigerators and freezers, washing machines, dishwashers and electric ovens that meet specific resource-efficiency criteria. Please refer to the individual product category in this table for information on which criteria need to be met in a particular case for a product to be classified as 'ecologically optimised'.

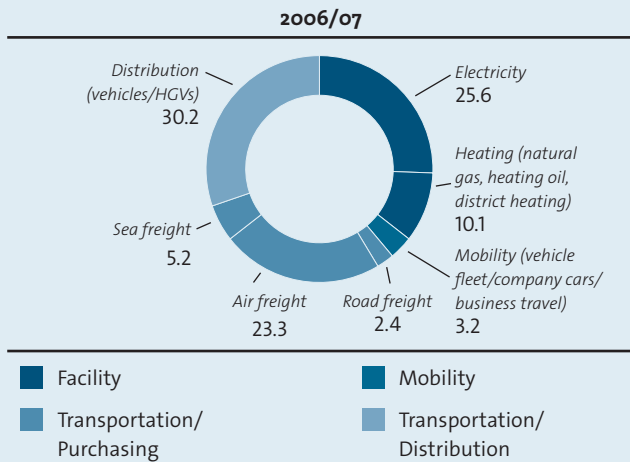
In the reporting period, due to technological developments and the resulting higher potential to save water and power, we adapted our internal list of requirements for ecologically optimised refrigerators and freezers, washing machines, electric ovens and dishwashers. For this reason, the values listed here are not directly comparable with those of previous years (such as in OTTO's last Sustainability Report). The assortment met previous requirements by almost 100 percent. In 2008/09, around 70 percent of the appliance models in the ranges offered by the five individual companies concerned – Baur, Frankonia, OTTO, Schwab and Unito – met the new, more demanding requirements for ecologically optimised large household electrical appliances and in parallel were able to increase this range by around 6 percent compared to the previous year.

Climate Protection/CO₂ Emissions

The Otto Group approved an ambitious Climate Protection Strategy at the end of 2007 which aims to halve the transport, mobility and facility-related CO₂ emissions of the Otto Group by 2020 based on the 2006/07* financial year by committing all Group companies, in which the Otto Group either has a direct or indirect majority stake, and which generate an annual turnover of more than 50 million euros, to implementing the strategy. The 17 German companies which have been implementing our Climate Protection Strategy since the start of 2008 are: 3Pagen, Alba Moda, Baumarkt direkt, Baur, bonprix, EOS DID, Frankonia, Heine, Hermes Logistik Gruppe Deutschland, Hermes Warehousing Solutions, MyToys, OTTO, OTTO Office, Schwab, Sieh an!, SportScheck and Witt. In 2009/10, the international companies belonging to the Otto Group – including Unito – will be included in the implementation process.

* Adjusted for tonnage, shipments, mobility and facilities to ensure data comparability over a long period. Furthermore, third-party business activities are not included, such as in the area of distribution where shipments are carried out by Hermes Logistik Gruppe Deutschland for private customers and companies outside the Otto Group.

CO₂ EMISSIONS OF ALL 17 GERMAN COMPANIES INCLUDED IN OUR CLIMATE PROTECTION STRATEGY BY EMISSION SOURCE (2006/07)*



* Absolute total emissions: 313,000 t of CO₂, terms in %

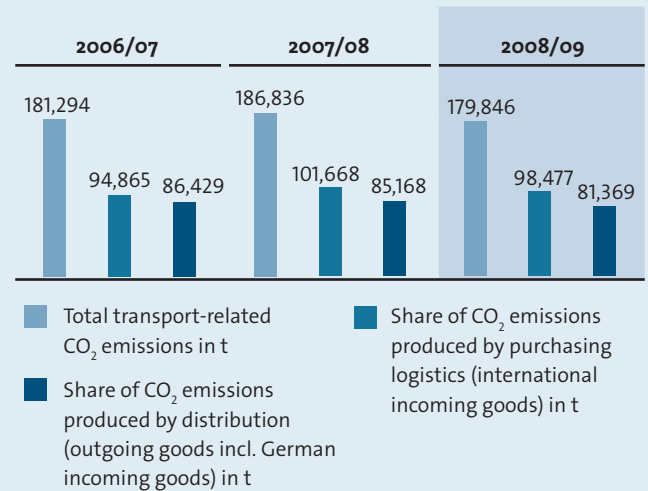
The graphic 'CO₂ emissions of all 17 German companies included in our Climate Protection Strategy by emission source (2006/07)' shows the starting point of our Climate Protection Strategy: the emission values of the German Otto Group companies included in the base year 2006/07. The core areas for taking action to halve our emissions are distribution logistics, air freight as well as power consumption at our facilities.

The data in the following graphics on the topic of climate protection and CO₂ emissions relate to the nine German companies covered by this report, excluding Unito. The figures for 2006/07 are absolute values in each case. The figures for the following reporting years 2007/08 and 2008/09 are given adjusted for tonnage, shipments, mobility and facilities to improve comparability. Please also note that we reviewed our calculation methodology at the time this report was produced, and after the deadline for content submission; it must therefore be assumed that this will result in changes in the methodology (such as that regarding CO₂ emissions factors) and that some figures may need to be adjusted which can only be incorporated in our next Sustainability Report. The figures for the 2008/09 financial year are preliminary in nature too, insofar as the analyses had not been fully concluded at the time of the deadline for content submission (status: June 30th 2009).

Overall the CO₂ emissions of the nine German companies are showing a slightly declining trend with a drop from 249,680 tonnes of CO₂ in 2006/07 to 246,886 tonnes of CO₂

in 2008/09. Despite rising in 2007/08, they have fallen by around 1 percent compared to the base year. The following graphics illustrate this development in the individual areas.

TRANSPORT-RELATED CO₂ EMISSIONS*



* Purchasing logistics only includes shipments (direct imports) that are either carried out directly or commissioned; the calculation excludes shipments made by importers.

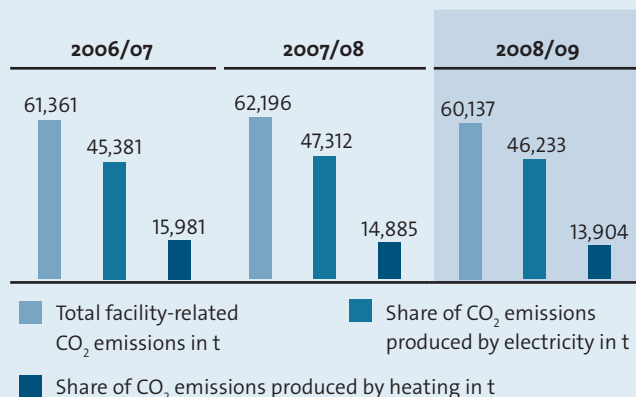
Conversion factors:

- Air freight (source Lufthansa): 538 g CO₂/tkm (2006/07), 526 g CO₂/tkm (2007/08) and 536 g CO₂/tkm (2008/09)
- Sea freight (calculated on the basis of TUI/Hapag Lloyd): 21 g CO₂/tkm (2006/07), 17 g CO₂/tkm (2007/08 and 2008/09)
- HGV (IFEU 2008): 110 g CO₂/tkm

In the area of incoming goods, the greatest potential to reduce CO₂ emissions lies in minimising the use of air freight. Although we only ship around 15 percent of our imported goods by air, this accounts for 80 percent of the emissions of incoming goods and almost a quarter of all emissions (see graphic 'CO₂ emissions of all 17 German companies included in our Climate Protection Strategy by emissions source (2006/07)'); as such, the rise in CO₂ values seen here is also mainly due to the increased use of air freight. Noticeably reducing air freight over the coming years is therefore one of the key challenges we have to meet in order to achieve our ambitious climate targets. Distribution logistics – mainly carried out by our Group company Hermes Logistik Gruppe Deutschland – is by contrast exhibiting a noticeably positive trend, with a decline of around 6 percent. Hermes has set itself the aim of emitting at least 2 percent less CO₂ per shipment each year.

FACTS AND FIGURES

FACILITY-RELATED CO₂ EMISSIONS

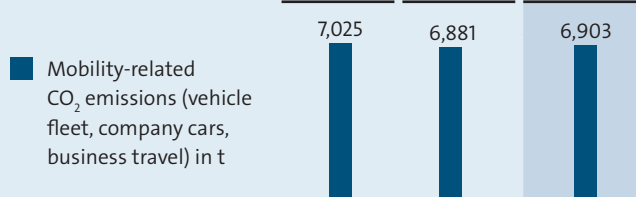


Conversion factors:

- Electricity (German federal supply mix): 520 g CO₂/kWh (2006/07), 541 g CO₂/kWh (2007/08, 2008/09)
- Natural gas: 201 g CO₂/kWh, oil: 266 g CO₂/kWh, district heating: 250 g CO₂/kWh

On the whole, a slightly declining trend can be observed to date in terms of facilities; however, due to naturally longer development and planning phases, as well as the high amount of investment that is required, a delay is to be expected before the measures introduced in this area take effect. For that reason, a more noticeable reduction in CO₂ levels at our facilities can only be anticipated in the coming years, regardless of the initial measures that have already been implemented (e.g. introduction of a woodchip-fired heating system at Witt).

MOBILITY-RELATED CO₂ EMISSIONS



Conversion factors:

- Vehicle fleet/company cars: manufacturers' specifications
- Business travel: aeroplane analogue Lufthansa Sustainability Report 2007, 2008 and 2009 (at konzern.lufthansa.com/en/html/presse/downloads/publikationen/index.html), railway 66 g CO₂/pkm (passenger-kilometres), vehicle 186 g CO₂/pkm

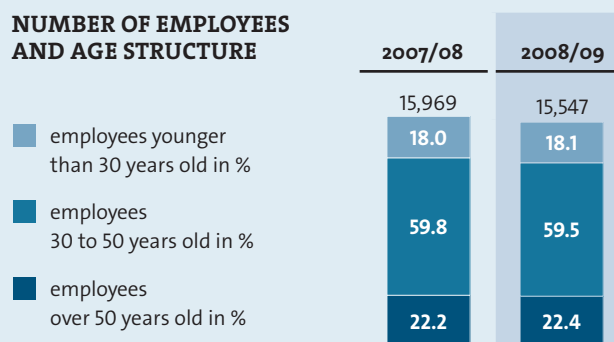
Mobility-related CO₂ emissions have fallen slightly between 2006/07 and 2008/09. Among other factors, this is attributable to our use of more fuel-efficient and lower-emission vehicles in our fleet and for our company cars. The Otto Group's new Company Car Directive, which enters into force from 2010, is intended to provide further positive impetus: in the first phase, a maximum of 200 g CO₂/km will still be allowed, with the limit being continually adjusted in subsequent years.

Employees

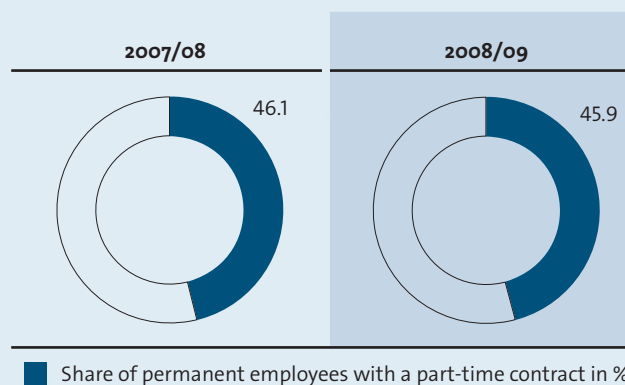
All details relating to employee numbers given in this chapter relate to the headcount determined on the balance-sheet date of the ten companies covered by this report (in contrast to the number of employee positions that were converted to Full-Time Equivalents (FTEs) as established under IFRS accounting rules) (see p.75).

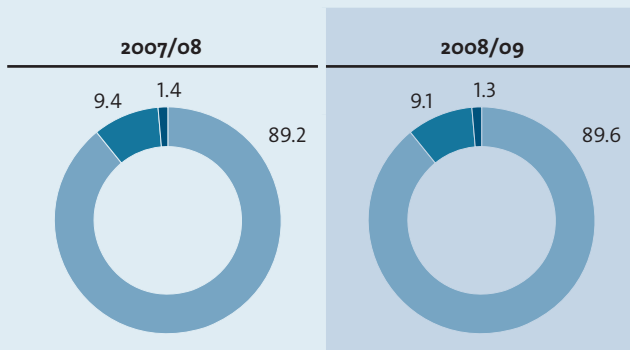
Employee Structure

NUMBER OF EMPLOYEES AND AGE STRUCTURE



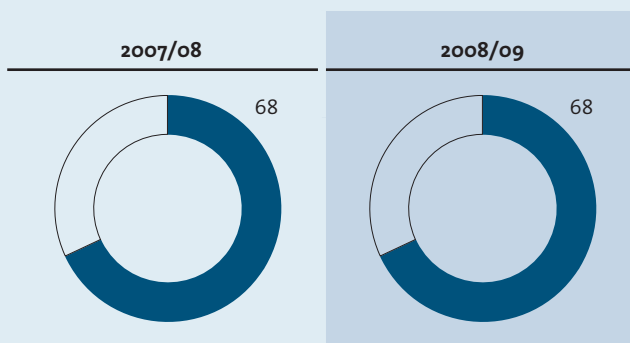
EMPLOYEES BY EMPLOYMENT STATUS (FULL-TIME/PART-TIME)



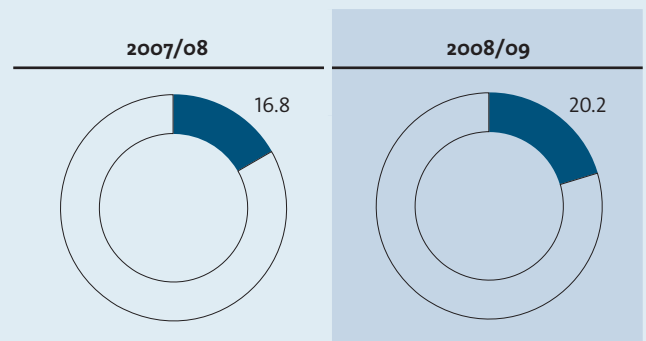
EMPLOYEES BY EMPLOYMENT STATUS (CONTRACT TYPE)

- Share of employees with a permanent contract in %
- Share of employees with a fixed-term contract in %
- Share of employees with a temporary contract in %

Collective wage agreements cover 98 percent of employees in the ten Otto Group companies covered by this report; the remaining 2 percent are Members of the Executive Board, Executive Directors and employees with managerial responsibility. Entry-level salaries are usually either dictated by local collective wage agreements or are based on them.

FEMALE EMPLOYEES

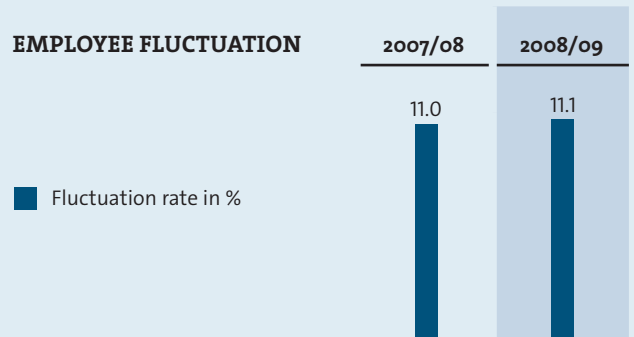
- Share of female employees in relation to the entire workforce in %

FEMALE MANAGERS OCCUPYING MIDDLE OR SENIOR-LEVEL MANAGEMENT POSITIONS

- Share of female managers in %

At 68 percent, the ten Otto Group companies have a consistently high share of women among their employees – a ratio which unfortunately is not yet reflected in the share of female managers. On a positive note, in the 2008/09 financial year we were able to increase the share of female managers occupying middle and senior-level management positions (from division-management level upwards) by almost 4 percentage points versus the previous year, which now takes the share to around 20 percent.

As employee remuneration depends on a variety of factors – from the number of years an employee has been with the company, through their age group to their specific function – a meaningful basis for comparing the wages of individual employees does not exist. In this respect, neither does the data allow a meaningful assessment of the wage differences between men and women. In the interests of standardising the compensation practice across the Group, many Group companies utilise analytical position gradings according to external benchmarks for numerous positions, especially at senior level.

EMPLOYEE FLUCTUATION

- Fluctuation rate in %

Employee fluctuation in the ten Otto Group companies has not changed significantly in the reporting period and remains steady at around 11 percent.

Further Education and Training

APPRENTICES	2007/08	2008/09
Number of apprentices	561	567

At 567 apprentices, the number of apprentices in the 30 apprenticeships that are offered in the ten single Group companies remained almost constant in the 2008/09 financial year compared to the previous year.

The range of apprenticeships we offer is vast – from many different commercial jobs to IT specialists, media designers and photographers as well as chefs, gunsmiths and metal workers, right through to offering Bachelor of Art degrees in Fashion Management and Bachelor of Science degrees in Information Systems.

TRAINING AND FURTHER EDUCATION OFFERING	2007/08	2008/09
NUMBER OF SEMINARS		
Employee training	629	773
Management training	168	249
NUMBER OF PARTICIPANTS		
Employee training	10,750	10,530
Management training	3,298	2,724
NUMBER OF DAYS OF TRAINING		
Employee training	9,511	10,212
Management training	3,069	3,122

The Otto Group companies offer their employees and managers numerous internal and cross-company training opportunities. The ten Group companies covered by this report increased their offering in the 2008/09 financial year compared to the previous year by around 140 employee-training events and around 70 management-training seminars. Despite the overall slight decline observed in participant numbers, in absolute terms participants took advantage of more training days in 2008/09.

Occupational Health Management

WORK-RELATED ACCIDENTS	2007/08	2008/09
Number of work-related accidents and injuries per 100 employees	1.6	1.8
Number of accident-related lost days*	3,606	4,018
Number of work-related fatalities	0	0

* Excluding bonprix

In the reporting period, 100 percent of employees belonging to the ten companies covered by this report were represented by formal health and safety committees. The rate of work-related accidents at the ten companies remains consistently low. At around 4,000 days the number of accident-related lost days in the 2008/09 financial year was around 11 percent higher than in the previous year, but this remains within the normal margin of fluctuation. The majority of the ten Group companies had an absentee rate of below 5 percent in the 2008/09 financial year with only two individual companies having a rate of over 6 percent. Cases of work-related illness are very rare in the ten Group companies, with not a single case being reported by those companies which assessed the number of cases of work-related illness in the reporting period.

Each Group company offers employees its own healthcare provision scheme. The individual schemes may vary from company to company, which means the details given in the following table 'Healthcare provision' on p.85 generally only relate to subgroups of the companies.

HEALTHCARE PROVISION	2007/08	2008/09
PREVENTATIVE SCHEMES		
Number of preventative check-ups	1,332	1,203
Number of flu shots	1,363	1,275
Number of first-aid courses	449	605
Number of presentations on disease-related topics	126	55
Number of seminars on health-related topics	233	203
Number of company sports offers	1,446	2,246
Number of ergonomic consultations	691	504
Number of driver-safety training courses	36	33
Number of safety-training courses at the workplace	43	210
Number of further preventative schemes	898	920

While our offering of preventative check-ups, flu shots and health-related presentations has fallen somewhat in the reporting period, we have noticeably expanded our company sports offering: the number of sports events held in 2008/2009 increased by more than a third compared to the previous year. By contrast, informational events on disease-related topics were suspended at one Group company, as the employees there prefer active events such as heart and circulation check-ups. Despite this, the company intends to offer presentations again in the future and is currently working on a new concept. Ergonomic consultations are held every two years at the majority of the ten Group companies so that the number of courses held differs from year to year.

At OTTO, managers play a key role in occupational health management, not least because they act as catalysts with regard to their staff. That is why OTTO's 'aktiv.net' has been offering the 'aktiv.programm' since 2007: after a preventative check-up, an introductory seminar is held which features theoretical and practical elements whose contents are then transferred into everyday life by means of personal coaching modules. By 2008, approximately 190 of around 400 managers had taken part in the programme.

Occupational Pension Provision and Stock Ownership Programme

COMPANY CONTRIBUTION TOWARDS EMPLOYEES' PENSION PROVISION	2007/08	2008/09
Total of occupational pension provision in €	16,609,804	9,775,141
Employer's contribution as a percentage of wages	2.9	1.8
Participation rate in %	82.3	82.4

In the 2008/09 financial year expenditures for occupational pension provision, and therefore also the employee contribution, fell considerably across the Group, whereas the participation rate remained stable at 82 percent. On the one hand the employer's contribution reduction is due to the strong rise in the technical interest rate. Moreover, in 2007/08 around 1,581,000 euros were used for the amortisation of unrecognised gains and losses which were previously triggered and which therefore cannot be allocated to the financial year.

EMPLOYEE CAPITAL-STOCK OWNERSHIP PROGRAMME	2007/08*	2008/09*
Total participation capital in millions of €	56.3	55.1
Newly subscribed participation capital in millions of €	4.1	3.9
Average subscribed capital contributions in €	985	980
Number of participants	4,131	3,989
Participation rate in %	22.3	21.8

* In each case, after closure of the subscription round on March 31st 2007 and March 31st 2008 respectively

In six of the ten companies covered by this report, employees have the opportunity to participate in the Otto Group capital-stock ownership programme. Here, the slight decline in the number of participants lies within the normal margin of fluctuation.

Suppliers

Social Responsibility in the Purchasing Markets

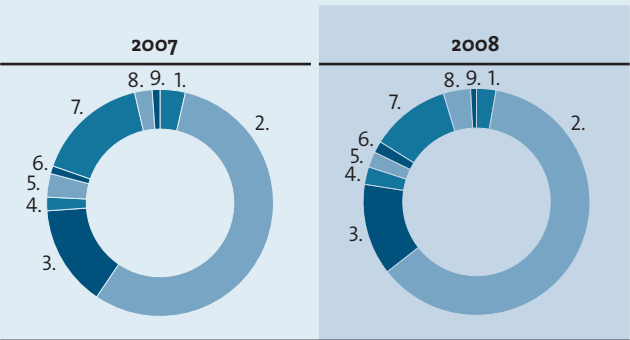
As the Otto Group’s retail companies source the majority of their goods from emerging and developing countries, our aim is to ensure that minimum social standards are also upheld at the production facilities based there. These standards are governed by the Otto Group’s Code of Conduct (see p.36), which sets out guidelines that are in harmony with the conventions of the International Labour Organisation (ILO), the United Nations Universal Declaration of Human Rights, the Business Social Compliance Initiative (BSCI) and national legislation too. We aim to ensure that social standards are upheld by suppliers to our Group companies through a comprehensive Social Management System based on the principles of auditing and qualification. The focus of our system is on markets and product groups where there is a particularly high risk of social standards being breached. In the reporting period, the Otto Group systematically monitored and improved the production conditions of the product groups clothing, home textiles, toys and shoes in China, India, Bangladesh, Thailand, Indonesia, Vietnam, Mauritius, Pakistan, Turkey and in the United Arab Emirates (UAE). Since March 1st 2009, hard-goods production has also been included in our Social Management System. Furthermore, we defined six new risk markets for our Social Management System: Brazil, Morocco, Egypt, Israel, Romania and Bulgaria.

The figures in this report on the topic of social responsibility relate to calendar years 2007 and 2008. They give a consolidated overview of the results and measures of all companies included in the Otto Group’s Social Management System. These companies are: Alba Moda, Apart, Baur, bonprix, Eddie Bauer Deutschland*, Freemans, Grattan, Heine, OTTO, Schwab, Sieh An!, SportScheck, Unito and Witt.

* As of 2009, Eddie Bauer Deutschland is no longer a member of the Otto Group.

Supplier Structure

SUPPLIERS BY ORDER VOLUME*



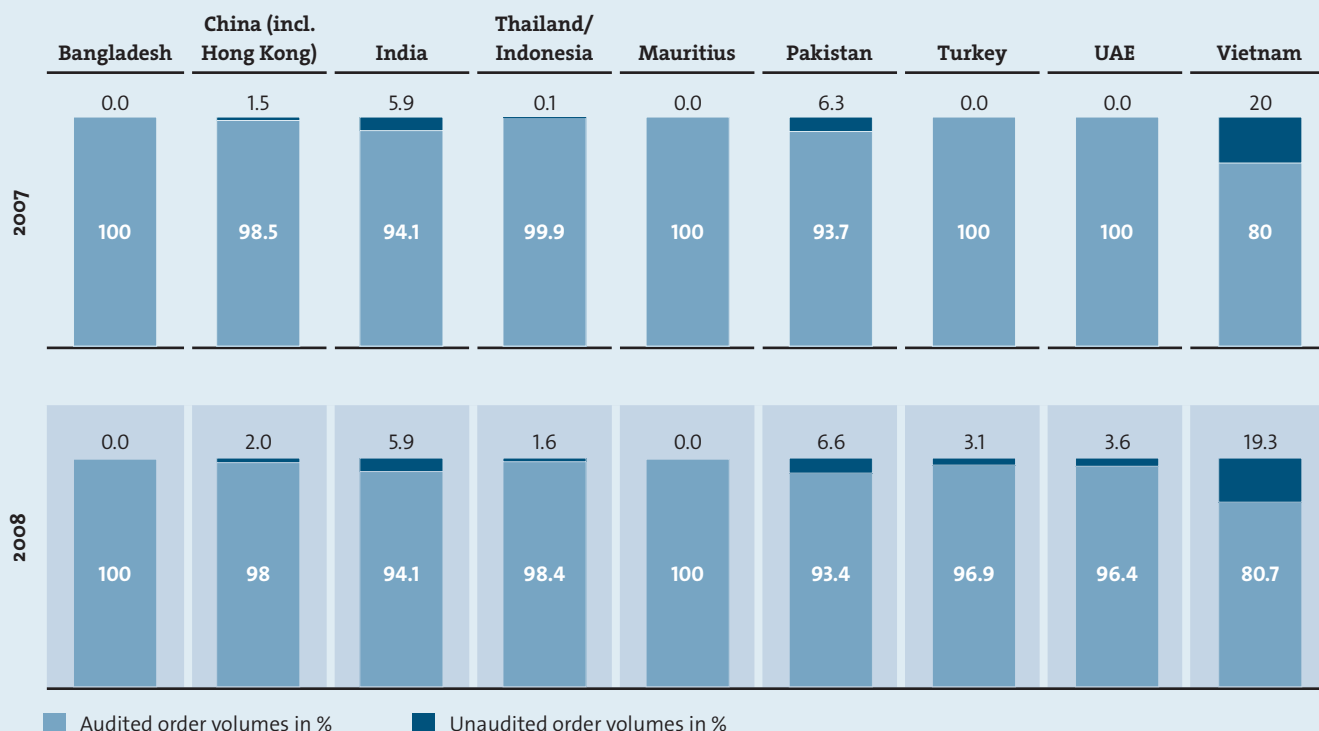
	2007	2008
1. Bangladesh	3.7	2.9
2. China (incl. Hong Kong)	55.8	61.5
3. India	14.5	13.0
4. Thailand/Indonesia	1.9	2.7
5. Mauritius	3.4	2.1
6. Pakistan	1.1	1.8
7. Turkey	15.9	11.3
8. United Arab Emirates (UAE)	2.7	3.8
9. Vietnam	1.0	0.9

* in % per country

In the reporting period, the most important markets for Otto Group retailers for the sourcing of textiles, home textiles, shoes and toys were China, India and Turkey, in that order. China currently has the greatest growth potential.

Distribution of Order Volume

ORDER VOLUMES AMONG AUDITED/UNAUDITED SUPPLIERS BY COUNTRY

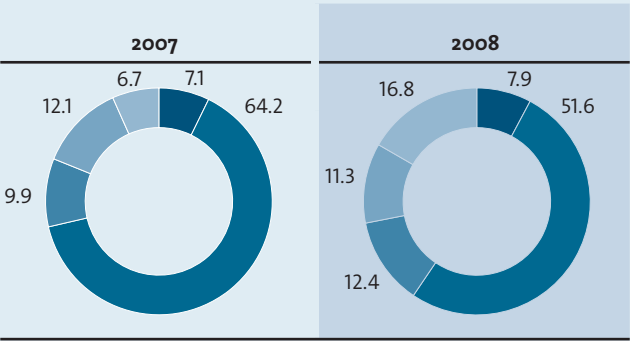


Suppliers which have entered into a contract with the Otto Group need to pass a pre-scan before the first order is placed with them. They then need to present a BSCI audit result or SA8000 certificate at the latest from the third active season. Unaudited suppliers shown in the graphic comprise suppliers where the audit/certificate is still outstanding. Expansion in the supplier base (China, UAE, Thailand/Indonesia) or a change within the supplier base (Turkey) may temporarily lead to increases in

unaudited order volumes. Significantly more than 90 percent of our order volume is covered by audited suppliers in almost all markets – with only Vietnam trailing at 80.7 percent. The development in this country is, among other factors, attributable to a high level of human-resources turnover within the market organisation; however, action was taken by Otto International through acquiring a majority stake at the start of 2009 in the previously independent agency.

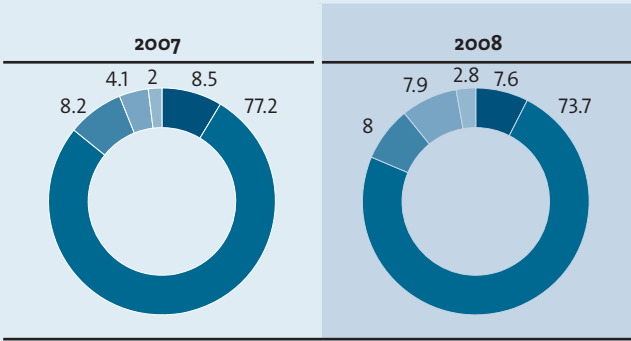
Audit Results

AUDIT RESULTS
(BY SUPPLIERS)*



* in % SA8000 Good Improvements needed

AUDIT RESULTS
(BY ORDER VOLUME)*

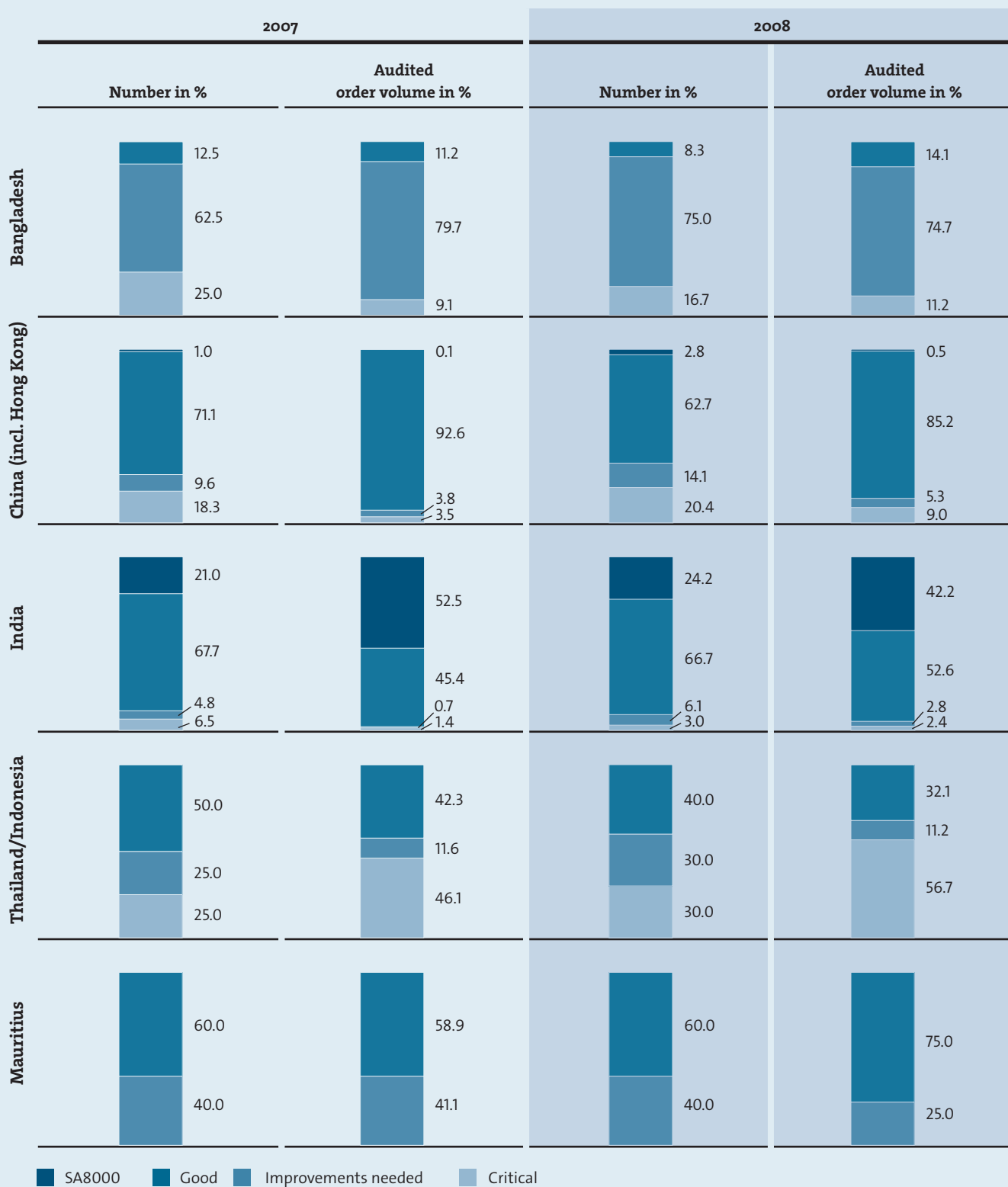


Critical Unaudited

The primary objective of our Social Management System is for Group companies to place their entire order volume with audited suppliers. Our secondary objective when arranging for goods to be produced by suppliers is that they should, where possible, have a ‘Good’ score in the BSCI audit or have an SA8000 certificate – not a ‘Critical’ score. The incorporation of many new suppliers is clearly reflected in the percentage changes between 2007 and 2008 in the graphic ‘Audit results distributed by number of suppliers’; however, the expiry of an audit result/certificate and failure to promptly obtain a new audit result/certificate may also lead to a temporary reduction in the respective rate. At the same time,

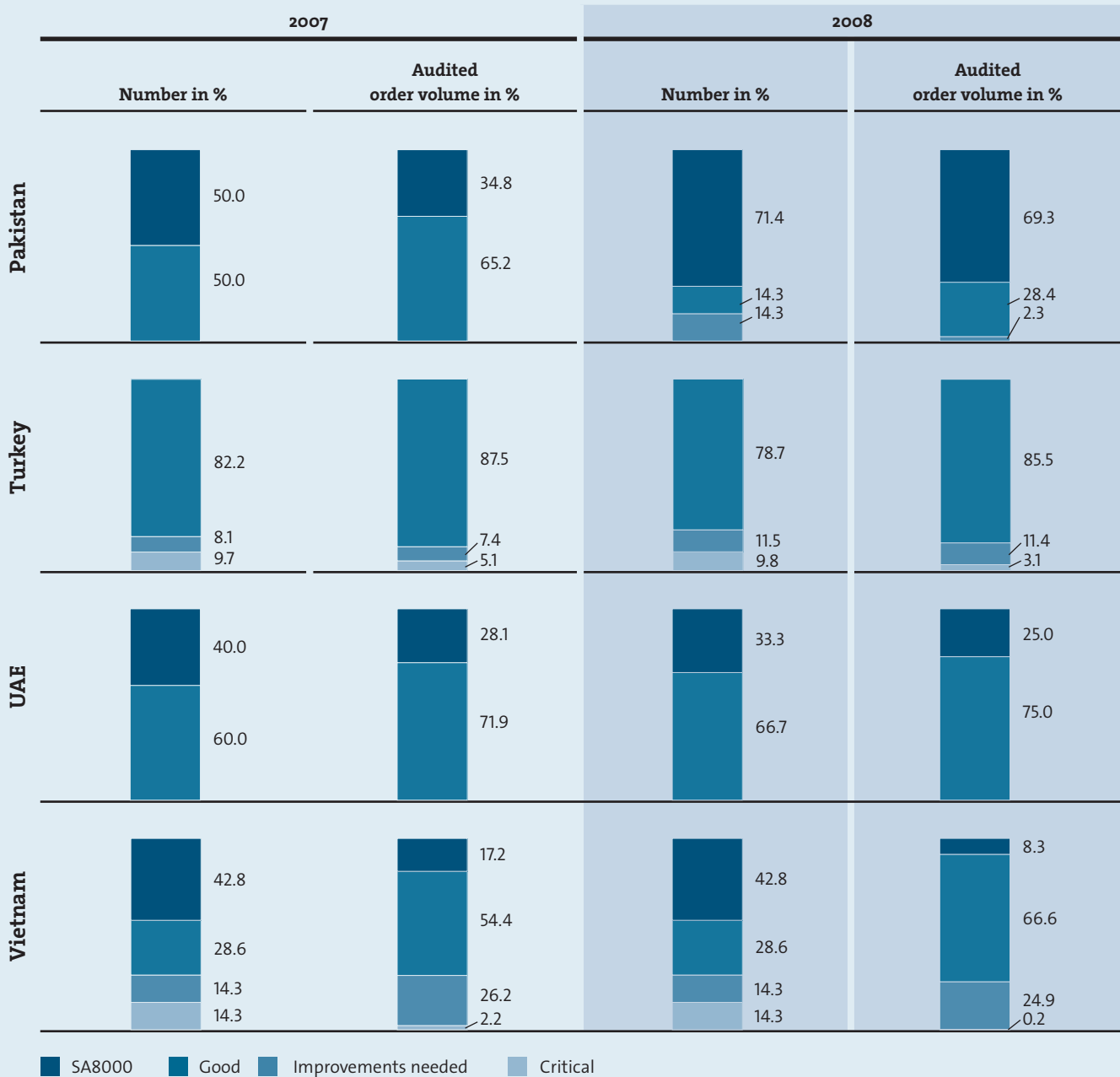
whereas the share of unaudited suppliers increased, the new suppliers received only small order volumes during this ‘trial period’ as the figures clearly illustrate. The result of suppliers audited for the first time is often critical. Therefore, although more suppliers were able to present a ‘Good’ audit score in 2008 in absolute terms, the percentage of suppliers achieving this scoring fell considerably. Moreover, we incorporated initial-audit suppliers with large order volumes in 2008, leading to the increase in order volume among suppliers with a ‘Critical’ score. As per the development-policy approach of our Social Programme, these suppliers are the focus of the training and qualification measures funded by the Otto Group.

DISTRIBUTION OF AUDIT RESULTS BY THE NUMBER AND ORDER VOLUME OF SUPPLIERS PER COUNTRY



FACTS AND FIGURES

DISTRIBUTION OF AUDIT RESULTS BY THE NUMBER AND ORDER VOLUME OF SUPPLIERS PER COUNTRY



This graphic shows the audit results based on both the number as well as the order volume of suppliers as a percentage for each market. While the percentage of suppliers in Mauritius and Vietnam remained unchanged between 2007 and 2008, the volume of orders placed indicates that more orders were placed with suppliers with a 'Good' score – and that suppliers which still had a 'Critical' score only received smaller orders. This is in contrast to the growth

market of China, but also to Bangladesh, where several changes of supplier have taken place. In these two markets, the share of the order volume placed with 'Critical' suppliers has increased. Without exception this relates to suppliers which have only just had their initial audit – they now have six months to make the necessary improvements with the support of the Otto Group's training and qualification programme.

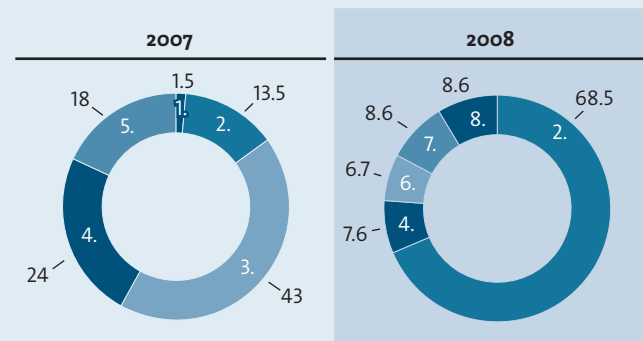
Violations of Standards

NUMBER OF VIOLATIONS BY TYPE	2007	2008
Management system	37	44
Documentation	44	65
Maximum working hours	37	51
Wages	41	49
Child labour/underage workers	10	13
Forced labour	3	2
Freedom of association and right to collective bargaining	15	20
Discrimination	1	2
Working conditions (cleanliness, ventilation etc.)	10	9
Health and social arrangements	32	42
Occupational safety	40	57
Accommodation	10	15
Environmental requirements	13	14
TOTAL NUMBER OF VIOLATIONS	293	383

The listed violations only relate to suppliers which were given a 'Critical' or 'Improvements needed' score as part of the BSCI audit (in other words, a 'Good' audit score or SA8000 certificate is only awarded to suppliers without any violations). The violations mainly lie in the areas of 'Documentation', 'Maximum working hours', 'Wages' and 'Occupational safety'. In the case of violations with regard to the topics of 'Freedom of association', 'Forced labour' and 'Child labour/underage workers', generally only 'Improvements needed' findings were established, not 'Critical' ones. An example of a violation in this case may have been the failure to specifically record the age of workers when they were hired. With our Market Development Programme training and qualification programme, the Otto Group supports our suppliers when it comes to implementing the necessary improvements.

Qualification Measures

DISTRIBUTION OF TRAINING AND QUALIFICATION MEASURES AS PART OF OUR MARKET DEVELOPMENT PROGRAMME BY COUNTRY*



* in %

NUMBER OF TRAINING AND QUALIFICATION MEASURES	2007	2008
1. Pakistan	3	0
2. China	27	72
3. India	86	0
4. Bangladesh	48	8
5. Turkey	36	0
6. Indonesia	0	7
7. Vietnam	0	9
8. Egypt	0	9
TOTAL	200	105

On behalf of the Otto Group, the consultancy company Systain carried out a total of 305 training and qualification measures in eight countries in 2007 and 2008 as part of our Market Development Programme. These training and qualification measures comprise factory-inspection visits, workshops and individual consultations where the focus is placed on suppliers with a 'Critical' audit score as well as suppliers with an 'Improvements needed' score and a large order volume.

Almost twice as many training and qualification measures were carried out in 2007 compared to 2008, as additional training courses educating suppliers on how to conduct business with their subcontractors were being carried out at the time, particularly in India, Bangladesh and Turkey (see p.41). Due to the strong increase in order volume in China, over two-and-a-half times as many training and qualification measures were carried out there in 2008. In addition, as Egypt is also gaining in importance, and as of March 1st 2009 is defined as a 'risk market' within the framework of our Social Management System, training and qualification measures were already carried out there in 2008 as a preliminary step.

Sustainability Programme*

Action Field	Objectives by 2011	Timeframe
RESPONSIBLE CORPORATE GOVERNANCE		
Strategy Development	Further development of the existing CR Strategy, Development of Group and company-specific concepts – agenda 'Innovation und Verantwortung' (Innovation and Responsibility)	ongoing
Management	Introduction of a Group-wide, integrated CR Data-Management System and of a steering process based on this	by end FY 2009/10
Stakeholder Management	Continuation and expansion of existing contacts, implementation of a stakeholder management system	ongoing, spring/summer 2010
Compliance/ Code of Conduct	Applying an implementation controlling system and further developing a management process for the Code of Conduct (merchandising/non-merchandising goods), checking the implementation status in all contracts and giving feedback to the Compliance Committee, employee sensitisation	by end of 2010
Data Protection	Creating and filling a new Data Protection and IT Security post which deals exclusively with the topic of data protection and reports directly to the Board Member for GROUP Finance and IT	June 2009
EMPLOYEES		
Recruitment	Expansion of the use of modern Internet portals for employee recruitment, in particular the Generation Y age-group, as well as expanding the use of video interviews as an applicant-orientated, innovative option for rapid initial familiarisation	ongoing
Employee Loyalty	Improving employees' work-life balance through high working-time and location flexibility, e.g. by making modern laptops and PDAs available	FY 2010/11
	Implementation of a Group-wide, digital talent-management system to enable maximised use of existing employee potential and the associated improvement in employees' career perspectives	FY 2010/11
Employee Training and Qualification	Continuation of the training and further education offer on a consistently high level, with a particularly close focus on the topics of e-commerce, internationalisation and innovation	ongoing
	Development of a common vision at Group level to support the next generation of management	2010
Socially Sustainable Design of Restructuring Measures	Development and implementation of a social plan to mitigate social distress and reduce dismissals for operational reasons, including filling vacant posts from within the Group, training and qualification measures, compensation payments on entering partial retirement, redundancy payment regulations and establishing a transfer company at the Hamburg facility	June 2009
ENVIRONMENT AND CLIMATE PROTECTION		
Climate Protection Strategy	Methodology check carried out by an external company consultancy	summer 2009
	Integration of the international companies of the Otto Group in the Climate Protection Strategy incl. closure of data collation for the calculation base year	mid-2010
Biodiversity	Implementation of the Leadership Declaration of the 'Business & Biodiversity' initiative and presentation of the measures within the framework of the 10 th Convention on Biological Diversity (CBD Biodiversity Summit) to be held in Japan 2010	autumn 2010
Environmental Management System	Continuation of ISO 14001 certification for Baur, OTTO and Unito; Schwab and SportScheck are planning initial certification	ongoing, 2010/11
Catalogues and Advertising Materials	Continued use of recognised forestry certification systems for timber tracing and thus the exclusion of illegally produced wood	ongoing
	Cooperation with the FSC and expansion of FSC activities; e.g. - inclusion of bonprix in multi-site certification - application of over 200 million FSC logos on paper products since 2007	ongoing, June 2009, December 2009
Packaging	Reduction of packaging volumes through weight reduction: checking the viability of reducing wrapper strength in mailing wrappers for single-piece mailings machine-wrapped in Hamburg; subsequent implementation if large-scale tests are successful	December 2009
Facilities	Reduction of energy consumption in power, heating and cooling systems: - introduction of water-cooled server cabinets in a computing centre to reduce air volumes that need cooling - carrying out an investigation into the viability of a CHP (Combined Heat and Power) plant	December 2009
	Reduction of electrical energy consumption: - checking the electrical supply performance and switching off unnecessary redundant-array transformers to minimise idling losses in various Otto Group buildings - producing a 10-year plan for the execution of projects in and around buildings, with the goal of a 50 percent reduction in CO ₂ emissions by 2020	December 2009

Action Field	Objectives by 2011	Timeframe
SUPPLIERS		
Scope of Application Social Programme	Markets: introduction and implementation of the Social Programme (pre-scans, audits, training and qualifications) in the newly defined risk markets of Egypt, Brazil, Bulgaria, Israel, Morocco and Romania	ongoing
	Assortment: implementation of the Social Programme for hard-goods suppliers	ongoing
	Importers: approval and implementation of a concept for the systematic integration of importers into the Social Programme, based on the results of a pilot project in 2008	2009 and ongoing
	Subcontractors: development and implementation of a policy on business relationships with subcontractors	2010
Audit Targets for Purchasing and Import Organisations	Newly defined markets: an audit result of at least 'Improvements needed' or better for 75 percent of order volume and 50 percent of all suppliers (number)	2011
	New scope for established markets (hard goods): an audit result of at least 'Improvements needed' or better for 98 percent of order volume and 85 percent of suppliers (number)	2011
Training and Qualification Measures	Continuation of the Market Development Programme at suppliers	ongoing
Courses and Sensitisation	Group companies: development of a training concept for multipliers to improve understanding and dissemination of essential knowledge regarding the Social Programme	2010
	Market organisations: development of a training concept for all employees (not only Social Officers)	2010
Controlling/Reporting	Common implementation of a database with Otto International that enables an overview of the entire supplier structure incl. subcontractors, and also supports the further expansion of the systematic implementation-controlling/reporting body	2010
Projects	Continuation of the cooperative project 'A Future through Education' with terre des hommes	ongoing
	Participation in the Collective Leadership Institute's 'Young Leaders for Sustainability' programme; carrying out a comprehensive identification and survey of various stakeholders in Bangladesh	autumn/ winter 2009/10
CUSTOMERS		
Data Protection	Further development of IT systems regarding data security, in particular the development and implementation of new concepts for the encryption of customer data in the ERP systems and the enterprise data-warehouse	February 2010
Sustainable Products	Textiles: increase of the percentage of textiles tested for harmful substances to 95 percent; increase of the processed volume of Cotton made in Africa to 750 tonnes per year; increase of the processed volume of organic cotton to 450 tonnes per year	2011
	Hard goods: increase of FSC articles offered to 100 products per year (focus area in OTTO assortment, alongside entry to the WWF Wood Group); increase of the percentage of ecologically optimised home appliances (refrigerators and freezers, washing machines, dishwashers, electric ovens) to 85 percent	2011
Awareness raising/Communication	Each individual company defines its own focus areas in this field. In general: more intensive use of the topic of sustainability in customer communication; for example OTTO: relaunch of the 'Naturwelt' (World of Nature) Shop in July 2009 under the name of 'EcoRepublic' and the parallel expansion of the offer of sustainable products to 1,000 articles (e.g. through including external, sustainable brands); intensified application of quality seals and labels as well as user-friendly orientation aids through EcoFacts	ongoing
SOCIETY		
Education	Support for the Körber Foundation's Anniversary initiative 'Anstiften! 50 Impulse für Hamburg' (Instigate change! 50 new ideas for Hamburg) through accepting a partnership role for the school project 'Erklär' mir das Zimmerwetter' (Explain the weather in here to me) on the topic of climate protection	summer 2009
	Carrying out a broad-based, sustainable music project for socially disadvantaged pupils in Hamburg	January 2010
Foundation Engagement	'Michael Otto Stiftung für Umweltschutz' (Michael Otto Foundation for Environmental Protection): start of the cooperation project 'Aqua-Agenten' (Aqua Agents) – Hamburg primary-school pupils discover the significance of water as a resource in their city, following the approach of an Education for Sustainable Development	spring 2010
	Michael Otto Stiftung für Umweltschutz (Michael Otto Foundation for Environmental Protection): development of a position paper on the interrelated topic area of 'Biodiversity and Agriculture in Germany': running several expert workshops as well as producing an expert's report on the level of compensation payments for the organically orientated use of agricultural land in Germany	summer/ autumn 2009
	'Aid by Trade Foundation': expansion of the Cotton made in Africa cotton cultivation regions to include Malawi and Ivory Coast, as well as market entry in the USA	end of 2009

* The Sustainability Programme refers to those objectives and measures planned up to 2011 for which the Otto Group holds central responsibility. In addition to these, the ten single companies included in this report also pursue their own objectives and measures in the topic areas in which they have defined the focal points of their own sustainability-related activities.

GRI Content Index/Global Compact Communication on Progress



The Sustainability Report 2009 that you are now reading comprises the Otto Group's ten largest retail companies based in German-speaking countries and completely fulfils the requirements of the G3 Guidelines of the Global Reporting Initiative (GRI). The GRI has examined this Sustainability Report and has confirmed its compliance with the Guidelines by awarding it the highest Application Level, 'A+'. The following GRI Content Index documents where in this report the individual indicators are fulfilled. At the same time it shows to what extent the Group companies provide information on the respective GRI indicators. Here the Otto Group also partly refers to its flip-page Sustainability Report

2009 (e-book) available on the Internet, through which additional information can be accessed. The Group also refers to its Annual Report 2008/09. Additional indicators whose fulfilment is not obligatory as core indicators for Application Level 'A' are marked in blue type. The Sustainability Report 2009 is intended to serve simultaneously as the Otto Group's Communication on Progress regarding its adherence to the United Nations Global Compact: the Group gives an account here of its commitment to fulfilling the Global Compact's Ten Principles. References to the corresponding Principles are integrated in the left-hand column of the GRI Content Index.

Global Compact	GRI-Indicator	References and Comments	Level of Performance
STRATEGY AND ANALYSIS			
	1.1	Statement from the most senior decision-maker	p.3 ●
	1.2	Key impacts, risks, and opportunities	p.13 > e-book, Otto Group Annual Report 2008/09 ●
ORGANISATIONAL PROFILE			
	2.1	Name of the organisation	p.4-7 ●
	2.2	Brands, products, and/or services	p.4-7 ●
	2.3	Organisational structure	p.4-7 ●
	2.4	Headquarter location	p.4-7 ●
	2.5	Countries in operation	p.4-7 ●
	2.6	Nature of ownership	p.4-7 ●
	2.7	Markets served	p.4-7 ●
	2.8	Scale of the organisation	p.4-7, p.75 ●
	2.9	Significant changes regarding size, structure, or ownership	p.4, p.10 (Strategic Focus), p.26 (Reorganisation), p.75 (Operating figures), Otto Group Annual Report 2008/09 ●
	2.10	Awards received	p.12 (MUWIT Award 2008 for Further Training), p.31 (Health Management Awards), p.49 ('Office & Environment' competition), p.59 (Performance Comparison 2008), p.59 (Internal Innovation Prize 2008), p.61 > e-book, p.70 (Award 'Medal for Merits in the German Philanthropic Sector') ●
REPORT PARAMETERS			
	3.1	Reporting period	About this Report (Foldout) ●
	3.2	Date of most recent previous report	About this Report (Foldout) ●
	3.3	Reporting cycle	About this Report (Foldout) ●
	3.4	Contact point for questions	Publisher's Imprint (Foldout) ●
	3.5	Process for defining report content	About this Report (Foldout), p.19-20 ●
	3.6	Boundary of the report	About this Report (Foldout) ●
	3.7	Limitations on the scope or boundary of the report	About this Report (Foldout) ●
	3.8	Joint ventures, subsidiaries, and outsourced operations	About this Report (Foldout), p.4-7, p.10-11 ●
	3.9	Data measurement techniques	About this Report (Foldout), p.75 ●
	3.10	Effects of re-statement of information provided in earlier reports	About this Report (Foldout), p.75 ●
	3.11	Significant changes in the scope, boundary, or measurement methods	About this Report (Foldout), p.75 ●
	3.12	GRI Content Index	p.94-97 ●
	3.13	External assurance	PwC Assurance Statement (Foldout) ●
GOVERNANCE, COMMITMENTS, AND ENGAGEMENT			
	4.1	Governance structure	p.13-14 (Corporate Governance system), p.16-17 (Sustainable organisational management and structure). ●
	4.2	Indication whether chairperson is also managing director	German company law stipulates that the tasks of the Chairman of the Otto Group Executive Board and the Chairman of the Supervisory Board be strictly separated from one another. ●

Global Compact	GRI-Indicator	References and Comments	Level of Performance
	4.3	Independent members on the board	○
	4.4	Mechanisms for shareholders and employees to provide recommendations to the board	●
	4.5	Linkage between executive compensation and organisation's performance	●
	4.6	Processes to avoid conflicts of interest at the board	○
	4.7	Expertise of board members on sustainability topics	●
	4.8	Statements of mission, codes of conduct, and principles	●
	4.9	Procedures for board governance on management of sustainability performance	●
	4.10	Processes for evaluation of the board's sustainability performance	●
7	4.11	Precautionary approach	●
	4.12	External charters, principles or other initiatives	●
	4.13	Memberships in associations	●
	4.14	Stakeholder groups	●
	4.15	Stakeholder identification and selection	●
	4.16	Approaches to stakeholder engagement	●
	4.17	Topics and concerns raised by stakeholders	●
ECONOMIC PERFORMANCE INDICATORS			
1, 4, 6, 7		Disclosure on management approach	●
	EC1	Direct economic value generated and distributed	●
7	EC2	Financial implications due to climate change	●
	EC3	Coverage of the organisation's defined benefit plan	●
	EC4	Financial government assistance	●

Status

● completely covered ○ partially covered ○ not material

Global Compact	GRI-Indicator	References and Comments	Level of Performance
1	EC5	Entry-level wage compared to local minimum wage	●
	EC6	Locally-based suppliers	●
6	EC7	Local hiring	●
	EC8	Infrastructure investments and services for public benefit	●
	EC9	Indirect economic impacts	○

ENVIRONMENTAL PERFORMANCE INDICATORS

7, 8, 9		Disclosure on management approach	p.3, p.8-9, p.13-14, p.15, p.43-44, p.45, p.46-47, p.48, p.49-50, p.50-51, p.52-53, p.54, p.55, p.56-57, p.65, p.69 > e-book, p.70, p.77-78, p.79-80, p.80-82, p.92-93	●
8	EN1	Volume of materials used	p.52-53, p.46-47, p.77-79	●
8, 9	EN2	Recycled materials	p.49, p.52-53, p.65, p.77-78	●
8	EN3	Direct primary energy consumption	p.43-44, p.50-51, p.54, p.80-82	●
8	EN4	Indirect primary energy consumption	p.53, p.55, p.80-82	●
8, 9	EN5	Energy conservation	p.43-44, p.50-51, p.54, p.60, p.80-82	●
8, 9	EN6	Initiatives for energy-efficiency and renewable energy	p.3, p.8-9, p.15, p.43-44, p.45, p.50-51, p.53, p.54, p.65	●
8, 9	EN7	Initiatives for reducing indirect energy consumption	p.3, p.8-9, p.15, p.43-44, p.45, p.53, p.54, p.55, p.61	●
8	EN8	Total water withdrawal	p.77	●
8	EN9	Effect of water withdrawal	Within its water management the Otto Group takes no water from sensitive ecosystems. For details on the Group's use of water, please see p.77.	●
8, 9	EN10	Water recycled and reused	This indicator is not relevant to the Otto Group, as the Otto Group is not a production company. As a rule the only waste water generated is comparable to domestic waste water. There is no waste-water recovery or reuse.	○
8	EN11	Land assets in or adjacent to protected areas	This indicator is not relevant to the Otto Group, as the plots of land it uses are not – nor are immediately adjacent to – protected areas. For further details on the Otto Group's engagement in the area of biodiversity please see p.15; and p.69 > e-book (Our Commitment to Culture, Nature and Sport).	○
8	EN12	Impacts on biodiversity	p.15, p.69 > e-book	●
8	EN13	Habitats protected or restored	p.15, p.69 > e-book, p.77	●
8	EN14	Strategies for biodiversity	p.15, p.69 > e-book, p.45	●
8	EN15	Endangered species	p.69, p.69 > e-book, p.70	●
8	EN16	Greenhouse gas emissions	p.45, p.80-82	●
8	EN17	Other greenhouse gas emissions	p.45, p.80-82	●
7, 8, 9	EN18	Initiatives to reduce greenhouse gas emissions	p.43-44, p.54, p.55, p.80-82	●
8	EN19	Emissions of ozone-depleting substances	p.45, p.80-82	●
8	EN20	NO _x , SO _x and other air emissions	p.43, p.45, p.80-82	●
8	EN21	Water discharge	There is no direct routing to surface water. As there are no production plants within the Otto Group, its take-up of water almost corresponds to the volume of waste water it generates (minus the volume of water that is used for air humidification in air-conditioning systems).	●
8	EN22	Waste by type and disposal method	p.53 > e-book, p.78	●
8	EN23	Significant spills	p.48, p.80-82	●
8	EN24	Waste deemed hazardous under the terms of the Basel Convention	p.78	●
8	EN25	Impacts of discharges and runoff on biodiversity	Waste water is not generated by the production process; it corresponds to normal domestic waste water. Waste water is channelled into the local waste water (sewage) system. In this reporting period there were neither any significant emissions of water-polluting substances nor any stress placed on water reserves by waste-water emissions and/or emissions to surface water.	●
7, 8, 9	EN26	Initiatives to mitigate environmental impacts	p.3, p.43-44, p.45, p.48, p.50-51, p.53, p.54, p.55, p.61-62, p.65	●
8, 9	EN27	Packaging materials	p.53, p.78	●
8	EN28	Sanctions for non-compliance with environmental regulations	p.76	●
8	EN29	Environmental impacts of transport	p.43-44, p.51-52, p.54, p.55	●
7, 8, 9	EN30	Environmental protection expenditures	As the Otto Group carries out integrated environmental and climate-protection measures, the costs of the environmental protection activities of the ten Group companies in this report cannot be isolated.	●

SOCIAL PERFORMANCE INDICATORS: LABOR PRACTICES AND DECENT WORK

1, 3, 6		Disclosure on management approach	p.12, p.14-15, p.22-23, p.24-25, p.26, p.26-28, p.28-29, p.84, p.92	●
	LA1	Workforce by employment type and region	p.75, p.82-83	●
6	LA2	Employee turnover	p.83	●
	LA3	Benefits to full-time employees	p.24-25, p.25 > e-book, p.29, p.29 > e-book, p.83, p.85	●
1, 3	LA4	Employees with collective bargaining agreements	p.83	●
3	LA5	Minimum notice period(s) regarding operational changes	The stated goal of OTTO's human-resources policy is to inform both employees and their representatives as early as possible about planned changes in the company. The other nine companies in this report also adhere to this principle, depending on the nature of the change.	●
1	LA6	Workforce represented in joint health and safety committees	p.30, p.84	●
1	LA7	Occupational diseases, lost days and number of fatalities	p.31, p.84	●
1	LA8	Training on serious diseases	p.30-31, p.31 > e-book, p.85	●

Global Compact	GRI-Indicator	References and Comments	Level of Performance
1	LA9	Trade union agreements on health and safety	●
	LA10	Training per employee	●
	LA11	Programmes for lifelong learning	●
	LA12	Regular performance and career development review	○
1,6	LA13	Composition of governance bodies	●
1,6	LA14	Gender pay disparity	●

Health protection and occupational safety at the ten Group companies in this report is in line with applicable EU regulations as well as with respective national stipulations. Humane working conditions as well as social aspects are defined in works agreements established in cooperation with the Works Councils and their Working Committees. At the Group's head office, an occupational Health Management System has been introduced, which is considered to be a management instrument.

p.26-28, p.84

p.22-23, p.24-25, p.26-28, p.29 > e-book, p.84-85, p.92

Performance assessment is a core human-resources instrument of the Otto Group. Assessment frequency is governed by the different human-resources systems in place at each company, however. As a rule, executives and employees with managerial responsibility are assessed annually, and salary-scale employees every three years. An annual or date-specific rate of assessment is therefore not a meaningful indicator.

p.28-29, p.83

Given the current status of Otto Group data it is not possible to make a meaningful statement on gender-based variations in compensation. Compensation is particularly dependent on the specific professional function of male and female employees, but based on experience, also depends on length of employment and age. To determine a possible gender-related dependency, differentiated, multivariate analyses would be required. Furthermore, within the Otto Group the percentage of women at Division Manager and Board level is comparatively small, meaning that individual cases have a disproportional influence on the overall picture and render a meaningful statement impossible. In pursuing the goal of a consistent, Group-wide compensation policy the Otto Group applies so-called 'analytical position gradings' in many Group companies. Compensation for a particular position is thus orientated by the value of the function carried out and the corresponding salary benchmark determined by an independent external provider.

SOCIAL PERFORMANCE INDICATORS: HUMAN RIGHTS

1-6		Disclosure on management approach	p.15-16, p.36-37, p.39-40	●
1-6	HR1	HR1 Investment agreements	In this reporting period the Otto Group made no investments in areas where it was necessary to take human-rights aspects into account beyond the essential validity of the relevant stipulations of the Group's Code of Conduct.	●
1-6	HR2	HR2 Supplier screening on human rights	p.39-40, p.41-42, p.87, p.88, p.89-90	●
1-6	HR3	HR3 Training on human rights	p.36-39, p.41-42, p.91 No distinction is made between the type of training and/or qualification: factory visits, accompanied pre-scans, workshops and introductions are all grouped under 'Training and qualification'.	●
1, 2, 6	HR4	HR4 Incidents of discrimination	p.29, p.36-37, p.91	●
1, 2, 3	HR5	HR5 Freedom of association and collective bargaining	p.36-37, p.91	●
1, 2, 5	HR6	HR6 Child labor	p.36-37, p.43, p.64-65, p.71, p.91	●
1, 2, 4	HR7	HR7 Forced labor	p.36-37, p.91	●
1, 2	HR8	HR8 Training of security personnel	p.41, p.91 No distinction is made between the type of training and/or qualification: factory visits, accompanied pre-scans, workshops and introductions are all grouped under 'Training and qualification'.	●
1, 2	HR9	HR9 Violations of rights of indigenous people	This indicator is not generally relevant to the Otto Group (see 'Result of the Materiality Analysis', p.20).	○

SOCIAL PERFORMANCE INDICATOR: SOCIETY

10		Disclosure on management approach	p.13-14, p.19, p.21, 'Second level' of this report, p.36-37, p.41-42, p.68-69, p.70-71, p.73, p.93	●
	SO1	Impacts on communities	p.32-33, p.34-35, p.38-39, p.41-42, p.43, p.63, p.64-65, p.68-69, p.70-71	●
10	SO2	Corruption risks	p.13, p.76, p.91	●
10	SO3	Anti-corruption training	p.13-14	●
10	SO4	Actions taken in response to incidents of corruption	p.13-14, p.36, p.76	●
1-10	SO5	Lobbying	p.19	●
10	SO6	Donations to political parties and politicians	The Otto Group does not make donations to political parties.	●
10	SO7	Legal actions for anti-competitive behavior	p.76	●
	SO8	Sanctions for non-compliance with laws and regulations	p.76	●

SOCIAL PERFORMANCE INDICATORS: PRODUCT RESPONSIBILITY

1, 8		Disclosure on management approach	p.13-14, p.56-57, p.58-59, p.59 > e-book, p.60, p.61-62, p.61 > e-book, p.63 > e-book, p.64, p.78-80, p.93	●
1	PR1	Health and safety impacts along product life cycle	p.55, p.61-62, p.79	●
1	PR2	Non-compliance with health and safety standards	p.78, p.91	●
8	PR3	Product information	p.79-80, p.61-62, p.62-64, p.63 > e-book	●
8	PR4	Non-compliance with product information standards	p.78	●
	PR5	Customer satisfaction	p.58-59, p.59 > e-book	●
	PR6	Marketing communication standards	p.13, p.59 > e-book, p.60, p.76	●
	PR7	Non-compliance with marketing communication standards	p.76	●
1	PR8	Complaints regarding customer privacy	p.76	●
	PR9	Sanctions for non-compliance with product and service related regulations	p.76	●

 The 10 Principles of the UN Global Compact in the e-book

 Global Reporting Initiative www.globalreporting.org

 United Nations Global Compact www.unglobalcompact.org

Status

● completely covered ○ partially covered ○ not material

Glossary

BSCI The Business Social Compliance Initiative (BSCI) was founded in 2004 under the umbrella of the European Foreign Trade Association (FTA). Its member companies aim to ensure that their suppliers comply with a consistent social standard.

Code of Conduct Our Code of Conduct sets out principles and aspects of corporate responsibility that are in harmony with international conventions. As the umbrella of the Otto Group's Social Programme, it is a component of every supplier contract and commits suppliers to upholding social and environmental standards.

Corporate Governance The aim of corporate governance is to manage the company in a responsible way. Its structures and processes serve to ensure our company is managed in an independent, value-focused and success-orientated manner in order to secure and increase corporate value. As an integral component of corporate governance, **compliance** describes the process of upholding laws and directives as well as standards, voluntary codes and social conventions.

Corporate Responsibility Corporate Responsibility (CR) describes the contribution made by companies and institutions to sustainable development. In the broader sense of the term, CR covers all aspects of responsible corporate management that go beyond statutory requirements. In the narrower sense, the term refers specifically to companies' social and environmental efforts. In this regard, CR is often also used synonymously with the term **sustainability**. This comprises three components: environmental, economic and social sustainability (three-pillar model of sustainability).

Ethical Consumption Ethical Consumption means that consumers do not base their purchasing decisions solely on value for money. Customers take into consideration additional criteria concerning the entire production and service process. They ask whether companies operate in accordance with laws, treat their employees and suppliers fairly and use natural resources in a responsible way. They want to know about the social and environmental impact that manufacturing, processing and using the

products has. A new type of consumer has developed from this. Their lifestyle is guided by the topics of health and sustainability:

LOHAS – Lifestyle of Health and Sustainability.

FSC The Forest Stewardship Council (FSC) is an independent, non-profit organisation that promotes responsible forestry. The criteria it developed serve to prevent uncontrolled logging, infringement of human rights and environmental pollution across the world.

Global Compact The United Nations Global Compact initiative was established in 2000 by Kofi Annan to make globalisation a more environmentally friendly and socially responsible process. Under the umbrella of this global alliance between politics and business, companies and organisations from across the world commit to uphold the Global Compact's Ten Principles in the areas of human rights, working standards, environmental protection and combating corruption.

ISO 14001 The international environmental management standard ISO 14001 stipulates globally recognised requirements on environmental management systems. It emphasises a continuous improvement process as a means to reduce the environmental footprint of companies and other institutions. On the basis of the ISO 14001 standard, the participating companies can have their environmental management systems certified by independent environmental auditors.

Multichannel Multichannel is a business strategy based on multiple sales and communication channels. Multichannel Retail is one of the Otto Group's strategic business segments. Here, products are distributed by means of three channels: catalogue, e-commerce and over-the-counter retail. E-commerce, which is the trading and marketing of goods over the Internet, has developed into a powerful motor for our Group's growth.

Pre-Scan A pre-scan is a preliminary audit of an Otto Group supplier, carried out by employees from our market organisations before the first order is placed. In the Otto

Group this replaces the supplier self-assessment on social performance stipulated by the BSCI.

(Product) Carbon Footprint The carbon footprint of a product indicates the direct and indirect amounts of greenhouse gases emitted within its entire lifecycle. All relevant emissions produced from the extraction of raw materials, production, transportation, packaging, distribution and use to eventual recycling and disposal are included in its calculation. The global warming potential of all greenhouse gases produced (besides CO₂ this also includes other gases such as methane) is recorded and then converted into CO₂ equivalent units or CO_{2e} for this purpose.

SA8000 SA8000 is an internationally recognised, certifiable standard for social-management systems developed by **Social Accountability International (SAI)**. Founded in 1997, SAI is a non-governmental organisation dedicated to ensuring that ethical and humane labour conditions are upheld throughout the entire supply chain. SAI has developed effective systems to audit social standards and the SA8000 standard is used by the BSCI as a best-practice standard.

Value Chain The value chain (also referred to as the **supply chain**) describes the network of an organisation which participates in the various commercial value-adding processes through upstream and downstream connections. Here, the products' and services' entire path from the supplier to the manufacturer and ultimately to the end customer is taken into consideration. To optimise all value-chain processes, most companies have an internal supply-chain management system.

Publisher's Imprint



Publisher

Otto (GmbH & Co KG)
Dr. Johannes Merck
Vice President Corporate Responsibility
Wandsbeker Straße 3-7, 22172 Hamburg/Germany
Internet: www.ottogroup.com/sustainabilityreport

Contact

Andreas Streubig
Division Manager Environmental and Social Policy
Phone: +49 (0) 40 64 61-70 70, Fax: +49 (0) 40 64 61-71 98
E-mail: andreas.streubig@ottogroup.com

Project Coordinator and Editor

Dr. Marianne Dehne
Sustainability Communications Officer

Concept, Research, Text and Art Direction

Stakeholder Reporting GmbH, Hamburg/Germany

Image Credits

Otto Group: Cover, p.3, p.9 (Portrait), p.11, p.12, p.15, p.16, p.19, p.23 (Portrait),
p.31, p.35, p.38, p.43, p.47 (Portrait), p.49, p.57 (Portrait), p.64TL, p.67 (Portrait),
p.69, p.72
Paul Ripke: p.21, p.24, p.26, p.29, p.37, p.40, p.44TL, p.48, p.50, p.52, p.55, p.58,
p.61, p.63, p.70
gettyimages: p.8/9, p.10, p.22/23, p.32/33, p.56/57, p.60
masterfile: p.14, p.27, p.30, p.44BR, p.51, p.64BR, p.66/67
FOTO STUDIO BECKER, Karlsruhe/Germany: p.33

Disclaimer

This Sustainability Report contains forward-looking statements which are based on the opinions and estimations of management. Although the management assumes that the expectations expressed in these forward-looking statements are realistic, it cannot guarantee that these expectations will actually prove to be correct. Assumptions entail risks and uncertainties which may cause actual results to differ materially from the forward-looking statements.

Otto (GmbH & Co KG) accepts no liability and offers no warranty against the possibility that this Sustainability Report may contain editorial errors or be otherwise incomplete. Otto (GmbH & Co KG) has no plans to update the forward-looking statements or to provide any corrections or supplements to this Sustainability Report, nor does it undertake any obligation to do so. However, Otto (GmbH & Co KG) does reserve the right to update this Sustainability Report at any time without notice. In the event of discrepancies between the German and English versions of this Sustainability Report, the German version shall be final and definitive.

Paper: ENVIRO TOP – recycled paper made from 100% waste paper. Produced without additional optical brighteners and without chlorine bleaches. Certificate: RAL UZ14
'Blauer Engel' (Blue Angel) environmental seal

Assurance Statement

Independent Assurance Reportⁱ

The Otto Group, Hamburg

We have been engaged to perform a moderate assurance engagementⁱⁱ on the adherence to the AA1000 AccountAbility Principles with respect to the ten Group companies covered by this report (hereinafter “the reporting companies”) and on specified quantitative sustainability-performance information selected by the Otto Group from its ‘Sustainability Report 2009: Responsibility – Innovation – Transparency’ (hereinafter “the sustainability report”)ⁱⁱⁱ.

MANAGEMENT’S RESPONSIBILITY

Otto Group’s management is responsible for

- the adherence to the Principles of Inclusivity, Materiality and Responsiveness set forth in the AA1000 AccountAbility Principles Standard (2008) (the “AA1000 AccountAbility Principles”) in the Corporate Responsibility management and
- the preparation of sustainability-performance information in the sustainability report in accordance with the criteria stated in the Sustainability Reporting Guidelines Vol. 3 (pp. 7-17) of the Global Reporting Initiative (GRI).

This responsibility includes the design, implementation and maintenance of systems and processes to ensure adherence to the AA1000 AccountAbility Principles and to prepare the sustainability report using assumptions and estimates which are reasonable in the circumstances.

ASSURANCE PROVIDER’S RESPONSIBILITY

Our responsibility is to express a conclusion based on our work performed as to whether any matters have come to our attention that cause us to believe that, in all material respects

- the systems and processes implemented by the Otto Group for the ten reporting companies are not sufficient to fulfil the requirements established by the AA1000 AccountAbility Principles of Inclusivity, Materiality and Responsiveness, or
- the selected specified quantitative sustainability-performance information in this sustainability report has not been prepared in accordance with the abovementioned criteria of the Sustainability Reporting Guidelines Vol. 3 of the GRI.

Within the scope of our engagement we considered the following quantitative sustainability-performance information from the section ‘Facts and Figures’ of the sustainability report selected by the Otto Group: textiles tested for harmful substances (p.79) and transport-related CO₂ emissions for outgoing goods distribution (p.81) of the topic area ‘Environment’, as well as supplier structure (p.86), distribution of order volumes (p.87), and audit results (pp. 88-90) of the topic area ‘Suppliers’.

We also have been engaged to report on recommendations for the further development of Corporate Responsibility management and reporting.

We conducted our work in accordance with the AA1000 Assurance Standard (AA1000AS) 2008 and additionally observed the International Standard on Assurance Engagements (ISAE) 3000.

Those standards require that we comply with professional requirements and plan and conduct the engagement, under consideration of materiality, to express our conclusions with moderate assurance, the level of assurance requested by the Otto Group. We are independent in the meaning of section 3.2 of AA1000AS (2008). Based on our skills and experiences within non-financial assurance, sustainability management, social and environmental issues, as well as expertise in the retail and consumer goods industry we possess the required competencies to perform this assurance engagement.

In a moderate-assurance engagement the evidence-gathering procedures are less extensive than in a high-assurance engagement^{iv} and therefore less assurance is obtained than in a high assurance engagement.

The procedures selected depend on the assurance provider’s professional judgment.

With respect to the adherence to the AA1000 AccountAbility Principles regarding the reporting companies we performed the following procedures on the level of corporate headquarters of the Otto Group, amongst others:

- Inquiries of management.
- Inspection of relevant documentation.
- Evidence-gathering procedures on the implementation and suitability of relevant systems and processes on a sample basis.

With respect to the selected specified sustainability-performance information of the sustainability report we performed the following procedures, amongst others:

- Inquiries of employees responsible for reporting of sustainability information.
- Inspection of procedures for collection, calculation and reporting of sustainability-performance information.
- Testing of controls implemented to ensure the data quality of sustainability information.
- Analytical procedures on selected sustainability information.
- Site visits at Altenkunststadt (Baur), Karlsruhe (Heine), Weiden (Witt), and Hamburg (OTTO) and performance of site-specific and company-specific inquiries, process appraisals and data analyses.

KEY FINDINGS AND CONCLUSION

Findings in relation to the AA1000 AccountAbility Foundation Principle of Inclusivity:

- Stakeholder management at the Otto Group is organised at corporate headquarters in Hamburg and is supplemented by decentralised stakeholder communication of the reporting companies.
- Based on specific examples we found evidence for robust and balanced strategies for identifying and interacting with relevant stakeholders.
- Internal documentation and publicly available information describe specific commitments to the stakeholders of the reporting companies.

- Management has implemented methods and procedures to include stakeholders and their expectations in decision processes on sustainability topics; in the course of extending the scope of the Group's Corporate Responsibility management these procedures are only somewhat formalised.

Findings in relation to the AA1000 AccountAbility Principle of Materiality:

- Systematic procedures are implemented at corporate-headquarters level to determine the relevance and significance of sustainability topics for the reporting companies.
- The criteria applied and the results of the evaluation of relevance and significance of sustainability topics identified are appropriately documented.
- Internal documentation supports the inclusion of internal and external stakeholders in the materiality assessment of sustainability topics.
- Internal corporate guidelines describe requirements for the reporting companies on how to deal with and react to key sustainability-related topics for stakeholders.
- We read the sustainability report and found that the prioritised sustainability topics are included.

Findings in relation to the AA1000 AccountAbility Principle of Responsiveness:

- The Environmental and Social Policy department in the Group's Corporate Responsibility area coordinates the process of stakeholder communication together with the operating departments of the corporate headquarters.
- Inquiries performed and documents obtained on a sample basis support the consideration of the reporting companies in the data-collection, communication, and coordination processes.
- Processes and procedures to deal with stakeholder requests are only somewhat formalised.
- Based on examples relating to the reporting period as well as the inspection of the sustainability report and internal documents we found that the external communication contains a balanced spectrum of sustainability topics and is available to stakeholders.
- By applying the Sustainability Reporting Guidelines of GRI suitable principles for stakeholder reporting are applied.

Based on our moderate assurance engagement, nothing has come to our attention that causes us to believe that, in all material respects, the systems and processes implemented by the ten reporting companies of the Otto Group are not suitable to adhere to the AA1000 AccountAbility Principles of Inclusivity, Materiality and Responsiveness.

Furthermore, nothing has come to our attention that causes us to believe that, in all material respects, the selected specified quantitative sustainability-performance information of the sustainability report has not been prepared in accordance with the criteria of the Sustainability Reporting Guidelines Vol. 3 (pp. 7-17) of GRI.

RECOMMENDATIONS

Without qualifying our conclusions above, we recommend for the further development of Corporate Responsibility management and reporting the following:

Recommendation with regard to the Principle of Inclusivity:

- We recommend expediting the measures to formalise those stakeholder management practices that are already established and to systematically include all material companies of the Otto Group.

Recommendation with regard to the Principle of Responsiveness:

- We recommend establishing a Group-wide process instruction or policy on how to deal with stakeholder requests.

We further recommend:

- Establishing Group-wide definitions of sustainability indicators both for internal steering of sustainability performance and for external reporting.
- Completing the planned optimisation of data-collection and data-consolidation processes at company and Group level and to improve and formalise internal controls implemented to ensure data quality.
- Continuing to extend sustainability reporting beyond the ten reporting companies to the entire Otto Group.

Frankfurt on the Main/Germany, 24.07.2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Michael Werner

Authorised Signatory Kai Michael Beckmann

ⁱ Translation of the independent assurance report, authoritative in the German version.

ⁱⁱ The moderate level of assurance in AA1000AS (2008) is consistent with limited assurance respectively in ISAE 3000.

ⁱⁱⁱ Our engagement applies to the German version of the sustainability report.

^{iv} The high level of assurance in AA1000AS (2008) is consistent with reasonable assurance respectively in ISAE 3000.

About this Report

In its 'Vision 2020' the Otto Group defined its four Guiding Principles – one of which is '**Passion for Sustainability**'. The pioneering role which the individual company OTTO has adopted over the past decades in the area of sustainability is to be gradually expanded to cover the entire Group. Similarly, sustainability reporting will also be expanded over the coming years to cover more of the 123 main companies within the Group. In this publication 'Sustainability Report 2009: Responsibility – Innovation – Transparency', nine additional Otto Group companies are reporting their sustainability performance for the first time, alongside the individual company OTTO.

The **ten companies** have been selected for inclusion in this report based on three criteria: they are active in the retail segment, their annual turnover is more than 100 million euros and they are headquartered in a German-speaking country. Along with the individual company Otto (GmbH & Co KG), the nine other companies included in the report are Baur Versand (GmbH & Co), bon prix Handelsgesellschaft mbH, Frankonia Handels GmbH & Co KG, Heinrich Heine GmbH, OTTO Office GmbH & Co KG, SCHWAB VERSAND GmbH, SportScheck GmbH, UNITO Versand & Dienstleistungen GmbH and Josef Witt GmbH.¹

The Sustainability Report 2009 covering the ten Group companies follows on from OTTO's Corporate Responsibility Report 2007 and covers the **period March 1st 2007 to February 28th 2009** (the 2007/08 and 2008/09 financial years). In its main chapters, the ten single companies give a detailed account of their engagement in the area of sustainability within the reporting period. In addition, the 'Facts and Figures' chapter at the end of this report offers a concise overview of the most relevant economic, environmental and social indicators. Unless explicitly mentioned, the figures are consolidated and relate to all ten Group companies covered by this report.

The sustainability performance of the ten Group companies is presented in this report along the lines of the value chain

that is characteristic of multichannel retailers. This **reporting structure** is intended to illustrate how the Group systematically integrates sustainability-related aspects into its business processes. Two chapters form the logical start of the report: consideration is initially given to how the economic, environmental and social aspects of sustainability are embedded in the company culture and the management structures of the Otto Group, based on the Group's business development and strategic focus. Attention is then turned to the staff employed in the Group companies covered by this report, as it is these people who make the company's success possible. They are the starting point of our value creation, bring the highlighted sustainability strategies to life and implement them across and beyond all business processes.

The presentation of sustainability performance along the **process chain** starts with the topic of purchasing and procurement and examines raw materials, the manufacturing of products in the international sourcing markets and the transportation of goods to the respective domestic sales market. The following chapter presents activities at the companies' facilities and seeks to explain how administration and distribution are being optimised under consideration of sustainability aspects and how goods reach the end customer in the most environmentally friendly way possible. A further chapter is devoted to customers – after all, it is them that the Otto Group serves. They should feel that the Group companies respond to their every wish, that they are able to shop free from worry and that they receive optimum service in every respect – not least through being able to choose from a wide range of sustainable products. Our retailers' stated aim of meeting their corporate-responsibility objectives does not end once their products have been delivered to the end customer. They consider themselves to be an active part of society above and beyond their business activities. In accordance with this belief, all Otto Group companies are also actively engaged in addressing social, cultural and environmental matters outside their core business – both at a regional and supraregional level.

¹ Reference to the legal form of the Group companies will hereinafter be dispensed with. Instead, the companies will be referred to throughout this Sustainability Report as OTTO, Baur, bonprix, Frankonia, Heine, OTTO Office, Schwab, SportScheck, Unito and Witt.

In parallel to the sustainability performance of the ten retail companies reported on for the 2007/08 and 2008/09 financial

years, the **topic of Ethical Consumption** is one which spans a large part of this report, being also highlighted graphically at a 'second level'. Retail companies in particular are able to offer their customers the opportunity to shop without it being at the cost of people or nature. In doing so, they are contributing towards fostering a sustainable, future-orientated lifestyle. At the same time, by following this path companies also rely on the cooperation of many different social actors. As part of a workshop for experts held in March 2009 by the Otto Group entitled 'Zukunft Ethischer Konsum – Überlebensstrategien in der Rezession' (The Future of Ethical Consumption – Survival Strategies in the Recession), consideration was paid to the conditions under which Ethical Consumption can succeed. Selected contributions to the discussion in this workshop, background information and various opinions on potential future scenarios supplement this report. They represent the social background against which companies' activities are to be understood.

The Sustainability Report of the ten Otto Group companies is based on a **cross-media concept**: along with the information in this report, additional report-related content and supplementary information is available in our flip-page Sustainability Report 2009 (e-book) on the Internet at ottogroup.com/sustainabilityreport. The additional topics and content in the e-book are referred to in the Sustainability Report at the end of each page.

The Sustainability Report 2009 was developed and produced in accordance with the **Global Reporting Initiative (GRI) G3 Guidelines**. After thorough checking by the GRI, the report was awarded Application Level 'A+', the highest category for companies following GRI Guidelines. Reporting on sustainability performance by the ten companies also provides information on how the Ten Principles of the **United Nations Global Compact** are being implemented and at the same time serves as a Communication on Progress Report for this institution. A tabular overview of the GRI indicators and Global Compact principles covered in this report is included on page 94-97. Furthermore, the audit and assurance company PricewaterhouseCoopers (PwC) has carried out Assurance on our Sustainability Report 2009 in accordance with the **AA1000AS standard**: this standard highlights the question as to what extent the content of a report – and also the sustainability management system of a company – takes into consideration

the needs and interests of stakeholders. Auditing in accordance with this standard also takes into consideration compliance with the principles of the Global Reporting Initiative (GRI) to assure the quality of the data for selected key figures. Certification attesting to independent auditing by PwC can be found on the foldout inside back cover of this report.

The Sustainability Report 2009 is available in German and English. In the interests of readability, this report uses the generic masculine form and generally refrains from referring to both sexes. However in doing so both men and women are always implied. The publication is aimed at the retail companies' most important social stakeholders, in particular expert readerships. Along with non-governmental organisations (NGOs), business partners, state agencies and representatives from the areas of education and the media, this report is also aimed at employees and the next generation of staff, as well as customers and interested members of the public, and is intended to invite them to engage in constructive **dialogue with the ten companies**.

The Internet in particular is being used for this purpose: at ottogroup.com/sustainabilityreport you have the opportunity to give your feedback on this report, pose questions and exchange views with the Otto Group.

The **next Sustainability Report** is scheduled to be published in 2011. The Otto Group is planning to expand the report's scope above and beyond the retail sector to include those companies from the two additional Group business segments, Services and Financial Services, that are based in a German-speaking country and have an annual turnover of more than 100 million euros.

Editorial deadline for the Sustainability Report: June 30th 2009.



otto group

Wandsbeker Straße 3-7

22172 Hamburg/Germany

Phone: +49 (0) 40 64 61-0

Fax: +49 (0) 40 64 61-85 71

Internet: www.ottogroup.com