

Otto (GmbH & Co KG), Hamburg:
UN Global Compact - Interim Communication on Progress 2008

1. Statement of support

The long-term goal of the multi-channel retailer OTTO is to sustainably unite economic, environmental and social responsibility (www.otto.com/sustainability). To give its efforts in ensuring an environmentally and socially conscious process of globalization an international aspect, OTTO has supported the principles of the United Nations' Global Compact since 2001. As part of its membership, the company is committed to implementing the ten principles of the Global Compact within its sphere of influence. OTTO will continue to uphold this Global Compact commitment and its principles in the future.

2. Measures and achievements 2007/08

In autumn 2007 OTTO published a detailed sustainability report entitled 'Corporate Responsibility', which was created according to the guidelines of the Global Reporting Initiative (GRI) and simultaneously served as a progress report for the Global Compact (www.otto.com/sustainability-report). The following remarks are intended to succinctly supplement the information from the report on the areas of corporate action concerning customers, employees, suppliers, the environment and society, with regard to current developments since autumn 2007. It should be borne in mind that this document is merely an interim report for the period between two sustainability reports. For further information the Otto Group Annual Report for the fiscal year 2007/08 can be downloaded at www.ottogroup.com. Publication of the next scheduled Otto (GmbH & Co KG) sustainability report is planned for autumn 2009.

2.1 Customers

Products

For some 20 years OTTO has publicly respected sustainability issues when purchasing timber products. Our goal is to support careful handling of this raw material, as well as to prevent illegal exploitation and raze-felling of forested areas. Initially, the protection of

tropical timber was the priority for OTTO. However, as not only tropical forests but also, for example, the boreal forests face a threat, the focus was broadened in autumn 2007 to include all timbers. Under the new 'Timber Sourcing Strategy', OTTO furniture suppliers must now provide a certificate of origin for all timber products offered in our assortment. In critical cases, the supplier must provide an additional certificate that proves the impeccable credentials of the timber source. Accepted certificates include the FSC seal, the TFT certificate and the Naturland certificate. Furthermore, individual regional certificates will also be recognized, but only as carefully justified and audited exceptions. The long-term goal of our new timber sourcing strategy is to continue offering furniture bearing the seal of the internationally recognized Forest Stewardship Council (FSC). Together with its suppliers, the company is therefore working to develop sustainable timber production that has as its goal the FSC seal as its 'Best Practice' standard.

Communication

Last year OTTO further expanded its customer communication efforts regarding sustainability issues. This communication focused mainly on addressing the LOHAS target group via the Internet. 'LOHAS' stands for 'Lifestyle of Health and Sustainability', the title for a type of consumer that, through his or her consumer behaviour and targeted product selection, desires to promote a lifestyle guided by health and sustainability considerations. To illustrate this, from December 2007 to July 2008 the Internet shop Nature World, which bundles the sustainable products in the OTTO assortment, was expanded and redesigned in order to more directly address the LOHAS target audience (www.otto.de/naturwelt). Since June 2008, our PURE WEAR label's organic cotton textiles are also presented on the external information and shopping portal www.bransparent.com. This portal bundles the offering of sustainably produced textiles from various manufacturers and suppliers and provides transparency concerning the label used. Moreover, OTTO was a founding partner of the LOHAS platform www.utopia.de that was launched in November 2007. This platform is an Internet portal for strategic consumption and sustainable lifestyle practices that acts as an exchange platform for consumers. The goal of Utopia is on the one hand to sensitize its users to conscious and sustainable consumption patterns, while on the other hand to convince further companies to develop fairly traded, socially and environmentally responsible products for this growing target market.

Furthermore, OTTO is a project partner of the non-profit Consumer Initiative e.V., the German Federal association of critical consumers, in implementing the project 'CSR in Retail', which is supported by the German Federal Environmental Ministry and the German Federal Environmental Agency. The goal of this project is to work closely with retailers to

develop criteria for the assessment of environmental and social responsibility in trade - and also to assess those criteria from a consumer perspective. This project should help to make CSR activities in trade transparent for the consumer, to strengthen consumer competence, to encourage sustainable trade practices and to motivate companies to engage with sustainability issues.

2.2 Employees

Co-operation with the Leuphana University of Lüneburg

Since summer 2007 the Otto Group has supported internships for students at the Leuphana University of Lüneburg with its own scholarship programme. Two paid internships of six months each are the focus of the new Otto Group scholarship programme developed by the company in co-operation with this university. The programme strives to combine theory and practice in a targeted manner and allows interns to gather initial professional experience and take on responsibilities during the course of their studies. 12 students are admitted annually to the Otto Group scholarship programme and supported with a monthly stipend for books to the amount of 120 euros, as well as with an additional remuneration of over 800 euros during their internship. The core elements of the programme include additional event offerings that go beyond their curricula, such as preparing current case studies, seminars for the promotion of so-called soft skills as well as regular discussion meetings with managers. Through the Otto Group scholarship programme the company strives to connect with promising young professionals as early as possible. This internship programme is intended for those students who think in a highly responsible, strategic and entrepreneurial way, and who intend to remain aware of the ecological and social aspects of their trade practices.

In July 2008, representatives of the Otto Group and the Leuphana University signed a contract of co-operation whose goal is the integrated professional and academic training of the future leaders of the Otto Group. This co-operation closes the gap between general studies offered at public universities, professional seminar programmes and internal company training. This co-operation between the Otto Group and Leuphana includes the provision of a Professorship in the area of strategic management as well as the establishment of a new MBA track that exclusively addresses potential future managers of the Otto Group. The focus of this training is qualification of the participants in the area of general management. The English-language curriculum is internationally orientated and begins in the Winter Semester of 2008/09. This MBA programme developed and established by the Otto Group and Leuphana University is one of the most innovative training and research partnerships in Germany and has initially been established as a two-year course; a total of 20 employees from the Otto Group are to participate in the programme each year.

Company health and fitness activities

In September 2008 OTTO and the Techniker Krankenkasse (TK) set new standards in support for company health. The inauguration of the TK Fitness Lounge on the premises of OTTO's headquarters in Hamburg is the result of both partners pooling their resources with the goal of providing thousands of employees with innovative training facilities and an innovative range of fitness activities, supported and advised by qualified trainers. This co-operation between OTTO and the TK is the first of its kind in Germany and a pilot initiative. In the TK Fitness Lounge, OTTO offers its own employees as well as those from the Otto Group headquarters in Hamburg the latest fitness equipment. The TK Fitness Lounge's activities range from individual training on cardio and weight-training machines, through trainer-guided fitness circuits, to a multitude of courses including pilates, static cycling and fit fight ('tae bo').

External Ombudsman

In March 2008 the Group's anti-corruption guidelines were overhauled. These lay down the whole Otto Group's firm commitment to actively combat every form of corrupt behaviour and at the same time call on Group employees to act responsibly. Besides internal contact partners, for the first time there is now an external Ombudsman who can be contacted – anonymously if desired - in cases where corruption or corruptibility is suspected.

2.3 Suppliers

Social management system

In summer 2008 a pilot project for the implementation of the SA8000 Social Standard at supplier companies in our Buying markets was successfully concluded. The project's objective was to ensure that suppliers of licensed products within our supplier group in both of the critical markets of India and Pakistan meet SA8000 Certification standards, in line with Social Accountability International's internationally recognised certification system. In these two markets, the practice of subcontracting frequently raises related issues. One of the preconditions for the awarding of certification is that the supplier assumes full responsibility for his manufacturing subcontractors and any individual piece-workers, as well as for the prior stages in the value chain, that is, for his subsuppliers. To fulfil this condition, producers are required to implement a management system, in which they receive support in the form of training from the Otto Group.

Moreover, in this effort the Otto Group has worked with the GRI pilot project 'Transparency in the Supply Chain', which has encouraged and supported suppliers in producing their own

sustainability reports in line with GRI criteria. The project was successfully concluded in the autumn of 2008, with all three participating suppliers able to produce reports meeting the targeted standard.

Project 'A future through education'

In March 2008 the Otto Group, together with the human rights organisation Terre des Hommes, launched a development policy project to combat child labour in India. The project has two regional foci, the Indian capital New Delhi and the northern Indian state of Bihar. Working with project partners from the region, under the leadership of Terre des Hommes and with the financial support of the Otto Group, children, youths and their parents are offered several opportunities targeted at making a school education for children possible, thereby giving them the basis for vocational training and enabling them to lead independent lives later in life.

In Bihar, project partner staff went from door to door to engage families in personal dialogue and to build trust, in a drive initially to increase the number of schoolchildren and also to maintain the numbers of children in existing schools. These measures are intended to stem the flow of children into the child labour market. In addition to this, self-help groups for mothers are being set up in Bihar to help their members establish small businesses and give them access to micro-credits and thus protect their livelihoods

In the Indian capital New Delhi, where the precarious existence of slum-dwellers is omnipresent, the project is taking a different approach: here, children from three Delhi slums are invited to play and learn together in learning centres. In parallel to this, management systems are being introduced in the state schools and teachers are being trained. Here too, the initial priorities are improving the numbers of schoolchildren and prolonging their time in basic education. Differently to Bihar, child workers themselves are being offered opportunities to leave the market. Efforts in this area include training them in new skills and providing alternatives to working in factories or restaurants. In Children's Clubs, up to 200 child workers aged between 10 and 14 can meet to learn together and discuss problems at work or in their families. Moreover, young women are trained to become seamstresses, to provide them with genuine employment prospects.

Environment

Paper and advertising materials

Since the initial certification carried out by the Forest Stewardship Council (FSC) in the summer of 2007, OTTO has already implemented more than 22 FSC projects. These ensure

that a great many catalogues, invoicing documents, envelopes as well as the regularly published employee magazine are printed on paper that meets the FSC's demanding standards. Particular interest was generated in summer 2007 by the special catalogue 'Markenguide' ('Brand Guide'), which was the first gravure catalogue in Europe to be printed entirely in accordance with the FSC standard. This landmark was followed by others in 2008 including the next edition of 'Markenguide', and 'Das macht Sommerlaune' ('Summer Feeling'), fliers including 'Technik News' ('Technology News') and the Otto Group's own 2007/8 Annual Report. As a result, we were able to print the FSC logo over 30 million times on Otto Group paper products over the last year.

Climate protection

In December 2007 for the first time the Otto Group approved a climate protection strategy valid for the entire Group. The strategy's objective is a long-term, continual and sustainable reduction of Group companies' CO₂ emissions. All main Group companies have committed to lowering their freight, mobility and facility-related CO₂ emissions by 50 percent by the year 2020. Just as with the other German Group companies, OTTO's implementation of this initiative will be carried out adjusted for tonnage, parcel volume and facility surface area, based on fiscal year 2006/7 figures.

Cornerstones of the effort to achieve this ambitious target at our facilities are commitments that go well beyond the targets established in existing political and business agreements; for instance, raising the energy efficiency of machinery and equipment such as heating and air-conditioning systems, room lighting that is sensitive to daylight levels as well as intensified usage of renewable energies such as solar and renewable natural fuels to replace natural gas consumption. Besides this, OTTO is currently examining CO₂ reduction measures that are particularly relevant to the mail-order sector, such as the further reduction of incoming freight by air and the optimisation of our distribution chain logistics.

Biodiversity

The Otto Group is a founding member of the 'Business & Biodiversity Initiative', created in February 2008 by the German Federal Environmental Ministry and the German Society for Technical Co-operation ('Deutsche Gesellschaft für Technische Zusammenarbeit'). The Initiative comprises a group of internationally leading companies from a range of sectors which publicly accept their responsibility for the protection and sustainable exploitation of biological diversity. In a common statement these companies have committed to intensifying their engagement in the area of nature conservation and also to far-reaching activities

intended to give the protection of biological diversity particular prominence in their corporate policies.

2.5 Society

Michael Otto Foundation for Environmental Protection

In July 2008 the Michael Otto Foundation established its third Foundation Professorship, with Ottmar Edenhofer, Chief Economist and Deputy Director of the Potsdam Institute for Climate Consequence Research, taking the Chair for 'Economics of Climate Change' at the Technical University of Berlin. This Professorship is the first of its kind worldwide and is co-financed by the Foundation with around € 580,000. By taking this step both the university and its sponsors have created a stimulus for shaping future-oriented climate policy and have reacted to the latest related demands on the spheres of research and tuition.

This year's fifth Hamburg Dialogues for Nature Conservation ('Hamburger Gespräche für Naturschutz') took place on the topic of biodiversity, under the heading of 'The End of Diversity?'. Decision-makers from the political, scientific and nature conservation worlds discussed the extinction of species due to the increasing pressure of exploitation on the natural and agricultural environments. The German-language documentation of the previous year's Hamburg Dialogues on the subject of 'Defenceless Fish' ('Fisch ohne Schutz'), which examined the economic, ecological and social consequences of over-fishing, has been available for download from the Foundation's website www.michaelottostiftung.de since the beginning of 2008.

Aid by Trade Foundation

In March 2008 the pilot phase of the project 'Cotton made in Africa' was successfully concluded in the three initial project countries of Benin, Zambia and Burkina Faso. The project focuses on contributing through trade to the fight against poverty and environmental destruction in Africa. Through creating a fair and reliable business relationship between cotton farmers, cotton traders and large textile retailing companies, its objective is to assure improved and more reliable sales conditions on the European market and thus to combat dumping prices for this high-quality raw material on the global market.

Cotton producers are trained in efficient and resource-friendly cultivation methods as well as in the correct handling and application of pesticides and fertilizers. New cultivation methods help to achieve better crop yields and to improve the health of cotton farmers. Thanks to more efficient cultivation, not only are yields improved but product quality too, which allows farmers to demand higher prices for their produce. A further key element of the project is

ensuring timely payment for the farmers; they receive payment for their harvest just four days after delivery of their crop, thereby providing prompt and regular income.

Overall, Cotton made in Africa produced some 32,000 tonnes of cotton fibre in 2008. In Zambia for instance, crop yields were already raised by an average of 85% over the previous year on the same cultivation input. In Benin, 99% of all CmiA farmers received an A classification for their raw cotton, as opposed to 80% the previous year. Based on this success, the project was expanded in April 2008 to include Mozambique. Further countries are currently being assessed for their project suitability in order to extend the roll-out further across the African continent.

Since the beginning of 2008, the Aid by Trade Foundation has regularly published a newsletter outlining the project's progress; delivery can be requested at www.cottonmadeinafrica.org.

Transparency and dialogue

OTTO's sustainability report published in autumn 2007 was awarded first place in the widely respected ranking issued by the Institute for Ecological Business Research ('Institut für ökologische Wirtschaftsforschung') and the business association future e.V., published in November 2007. The ranking evaluated the sustainability reporting of Germany's 150 largest corporations. In autumn 2008 the project 'Sustainability Report 2009 – 10 members of the Otto Group' was created: this new report will for the first time not focus exclusively on the individual OTTO company, but will present a total of ten retail companies within the Otto Group. To provide the best framework for this major step and to correctly identify the expectations of key stakeholders on this issue, in November 2008 the Otto Group organised a moderated discussion event consisting of a half-day workshop that included sustainability experts from NGOs, trade unions, science and the media.

Since May 2008 OTTO has maintained a content partnership with the online news channel www.umweltdialog.de, in order to keep both the specialist and interested lay publics informed in a more systematic and up-to-date way about the developments in the area of sustainability at OTTO.

Contact and feedback form: www.otto.com/sustainability-report