

Shaping *Awareness*

Sustainability Report 2003



OTTO

With 86 companies in 21 countries and 37 purchasing offices in the key markets, Otto numbers among the world's largest trading and service groups.

We pursue a clear strategy...

- [•] We offer our customers outstanding service and a modern product range.
- [•] We take a responsible approach to natural resources with the goal of safeguarding humankind's habitat for future generations.
- [•] We actively promote safe and healthy working conditions.
- [•] We are engaged in, and for the benefit of, society.

...that also will enable us to achieve sustainable growth in the future.

Dear Ladies and Gentlemen,

Through the way we act as consumers, each and every one of us can help protect the environment and ensure that the standard of living in the developing countries, where a large portion of goods are produced, continues to rise. For only in the context of a global improvement in living conditions can environmental and social standards be adequately enforced.

Conversely, prolonged environmental destruction will impede and even largely reverse social and economic progress. For this reason, it is a major concern to us to offer environmentally friendly and socially acceptable products in our ranges.

The present report, written in accordance with the guidelines of the Global Reporting Initiative (GRI), renders account of what we do to harmonise economy, ecology, and social responsibility. For we want to offer our customers good value for money in their purchases, while simultaneously preserving resources as far as possible and reflecting the social context of our production activities. In this respect we are able to demonstrate considerable success. We have been able to increase the percentage of textiles tested for harmful substances, and are therefore healthy to wear, from 10 per cent to over 84 per cent. Under our quality label »PURE WEAR«, we carry by far the largest range of bio-cotton textiles. Moreover, by systematically reducing the damaging CO₂ emissions generated during transportation, Otto makes a significant contribution to the protection of the world's climate.

Since 2000, we have also reported to you regularly on the steps we have taken to secure prescribed social standards in the textile industry. The vast store of experience we have accumulated over time – from auditing and certifying hundreds of production sites – enables us to proceed very effectively on this sensitive issue. We are especially pleased that, in concert with the Außenhandelsvereinigung des deutschen Einzelhandels [German Retailers Foreign Trade Association], we have succeeded in developing a concept to build a broad alliance within the German textile industry – to work in partnership with suppliers on the worldwide establishment of stringent social standards.

With regard to our employees, we attach great importance to effective health management, the integration of the handicapped in the labour market, and providing opportunities for basic and continuing training that will secure our future. As a corporate citizen we above all support those forces in society that promote the health and education of young people, or that are engaged on behalf of conservation.

We regard this engagement as an important part of securing the future of our enterprise. It is our conviction that, in a globalised world, we can only be successful in the long run within a stable social framework. We shall continue to make our contribution to this cause.

Hamburg, February 2004

Sincerely yours,



Dr. Michael Otto

Contents

2	Shaping Awareness
4	The Otto Discussion An expert dialogue
10	Commerce
24	Ecology
38	Social Affairs
44	Employees and Society
56	Milestones
58	About this Report
61	Glossary



Dr. Michael Otto

- [10] Our vision: Otto commits itself to environmentally- and socially-compatible commerce
- [14] Added value
- [16] Global Compact – improving commerce
- [17] Old and new economy: e-commerce as a factor in success
- [18] Entrepreneurs in the company
 - [18] Hermes Logistics Group
 - [20] Systain Consulting GmbH
- [21] Location policy: structural improvements in Haldensleben
- [22] Textile products – the life-cycle

Commerce [10]

- [44] We promote our employees' health with aktiv.net
- [48] Capital sharing for employees
- [48] Company pension scheme
- [49] Combining a profession with family life
- [50] Corporate culture and training
- [53] The Otto charitable foundations

Employees and Society [44]

Ecology [Page 24]

- [24] PURE WEAR:
uncompromisingly ecological fashions
from start to finish
- [29] Forest Stewardship Council – for a
good cause
- [30] Systematic eco-management
- [31] Sustainability:
Statement by Dr. Volker Hauff,
Chairman of the Council for
Sustainable Development
- [32] Saving resources with Otto household
appliances
- [36] Reducing emissions: our contribution
to protecting the global climate

Social Affairs [Page 38]

- [38] Hand in hand towards responsible retailing
- [41] The AVE Sector Model Social Responsibility
- [42] Fair Trade, Fair Play:
the Otto Group's Code of Conduct



Thinking globally – *building tomorrow*

Perspectives on the
issues of sustainability
and globalisation



Angelika Hillmer

In response to an invitation from Otto, leading figures from the fields of research and learning, politics and commerce, gathered in the summer of 2003 for a round-table discussion. Their subject: the current status of sustainability in society and the need to change attitudes. The participants were Dr. Veerle Vandeweerd, the Deputy Director of the United Nations Environment Programme in The Hague, Professor Dr. Andreas Troge, the President of Germany's Federal Environmental Agency, Professor Dr. Richard J. S. Tol from the University of Hamburg, and – as the host – Dr. Johannes Merck, Vice President, Environmental and Social Policy at Otto. The discussion was moderated by Angelika Hillmer, the science editor at the newspaper *Hamburger Abendblatt*.

[**Angelika Hillmer**] Dr. Vandeweerd, how do you see the situation vis-à-vis the issue of sustainability in Germany?

[**Dr. Veerle Vandeweerd**] If we look at the global picture and see what has happened concerning the environment and sustainability over the past three years, then – sadly – we have to say we are moving backwards rather than forwards at the moment. Frequently, environmental departments in large companies only address ecology where it affects their corporate image. If you take a closer look at what large companies are actually doing, the reality and public facade are often miles apart. If we try and understand why this is happening, the basic fact is that there are very few companies like Otto that are really taking sustainability to heart.

[**Prof. Dr. Richard J. S. Tol**] I think one of the reasons why many people seem to forget about environmental issues, or take them off their agendas, is that the problems facing us are becoming increasingly diffuse and more difficult to understand. It clearly makes sense to fear situations that can obviously kill you immediately – for the very reason that the risks are so apparent. But now we are facing problems like global warming. These seem vague and removed from reality.

The attitude »I can't do anything on my own anyway!« sums up general opinion precisely. What's more, I believe this is linked to another problem as well: technologically speaking, we've made gigantic strides, but if we look at our moral development, we have a long way to go. Our ethical progress has fallen behind technological progress. Despite pretending to be »green«, many companies do their best to disregard principles of sustainability until there is no escape. Only then do they react – but even then only do the absolute minimum required.

[**Dr. Johannes Merck**] I'd like to expand on that: the market doesn't demand sustainability. That's a key reason for the sluggish progress during the last decade.

[**Angelika Hillmer**] Otto was described as being different to other companies beforehand. In which respect?

[**Dr. Veerle Vandeweerd**] Not only did Otto start to actively implement environmental measures and sustainability at a much earlier stage, but its sustainability principles apply throughout the entire company. From a global perspective it should be stressed that Otto's sustainability programme seeks to integrate its suppliers in emerging markets. This ensures



Prof. Dr. Andreas Troge (left) and Dr. Johannes Merck (right)

Dr. Veerle Vandeweerd

»We need to ensure that the developing countries avoid the mistakes made by the industrialised countries in the past«.

Dr. Veerle Vandeweerd

that the developing nations avoid the mistakes made by the industrialised countries in the past. In other words, largely ignoring ecological issues in the beginning and only taking environmental concerns on board at a later date. With our approach, these issues can be taken into consideration from the very outset.

[Prof. Dr. Richard J. S. Tol] Fundamentally, I think we have to be aware that Otto is dealing with issues that are problematic by their very nature, i.e. selling products, some of which go well beyond the basic satisfaction of people's day-to-day requirements. The good thing about Otto is that it appreciates the effects its actions can have and understands that these need to be minimised. Otto is also different – to many companies if not all – in that it defines goals and measures and then monitors whether they are being attained.

[Prof. Dr. Andreas Troge] On its own initiative, Otto has developed and is continuing to refine an effective control system in which social aspects of sustainability are outlined in concrete terms for its suppliers. That means no child labour, a maximum of 48 hours in a working week, etc. As such it is stipulating minimum standards for the social sector. That's an achievement in itself, and making a success of it in the market reality represents an even greater feat. Lots of other companies make environmental protection and sustainability internal company matters, as a result of which few people ever get to hear about it. One thing that does really stand out though – despite the positive points – is that Otto is no longer participating in the European Union's environmental audit EMAS.

[Dr. Johannes Merck] We discontinued the EMAS system in favour of ISO 14001. The ISO and EMAS standards are almost identical. We opted for ISO 14001 because it is the globally applicable standard and Otto is a global company. EMAS, on the other hand, focuses primarily on Europe.

[Angelika Hillmer] At this point we should really talk about the issue of globalisation. What is your opinion Dr. Vandeweerd?

[Dr. Veerle Vandeweerd] We know how sustainable production works in the industrialised nations in the West. However, our standards can't simply be applied to other countries; the conditions and circumstances are too different. Nevertheless, there are factories in numerous developing countries that would never be allowed to operate in Germany. Something needs to be done. I hope that the World Trade Organisation, for example, can help introduce more consistent environmental standards so we can maintain the same standards in developing countries that have already become reality in Europe's established economic structures.

[Dr. Johannes Merck] And that's why we attach so much importance to transparency. Transparency facilitates comparability which in turn generates competition – and competition can create the impetus needed. Keeping the really important things on the agenda will remain a challenge for the forces of civil society too, for governments and non-governmental organisations alike. I believe that the positive influence of a company like Otto, a formative force in globalisation, will be really felt when development or development potential are also exported along with the social standards. Even if it's a gradual step-by-step process, it's certainly better than refusing to trade with non-developed countries at all, as some of the more extreme non-governmental organisations are demanding. Finding the right balance between exporting acceptable social standards on the one hand and offering fair development opportunities on the other – that's the challenge we have to master.

»Finding the right balance between exporting acceptable social standards on the one hand and offering fair development opportunities on the other – that's the challenge we have to master«.

Dr. Johannes Merck

Prof. Dr. Richard J. S. Tol, Angelika Hillmer



Prof. Dr. Andreas Troge





[Angelika Hillmer] But how can you convince Otto customers to make sustainability more of a focus – by choosing eco-cotton when they're shopping, for example?



[Dr. Johannes Merck] Understandably enough, customers look to their own personal advantage. Convincing them to pay that little bit more so that fewer pesticides are sprayed on cotton fields in India or Turkey is very difficult. That's why Otto doesn't sell eco products with »eco« labels. Our PURE WEAR label is the result of years of experience of this very problem. From a communications perspective, it focuses on personal benefits like exceptional skin-friendliness, rather than on abstract ecological characteristics. That's why we are using the slogan »PURE WEAR – nature's own fiber« in our communications. We want customers to know they are getting something that offers their skin something special, i.e. clothes with real personal advantages. As long as customers continue to react the way they do, aggressive marketing of environmental benefits will be impossible.



[Prof. Dr. Andreas Troge] In this context I'd like to mention the phrase »product-related environmental protection«. We need to be reaching people inside their own personal realms of experience.



[Dr. Veerle Vandeweerd] That's one side of the coin. The other important issue is how we can learn to consume in a sustainable manner. It was one unequivocal result of the Summit for Sustainable Development in Johannesburg that our next big step forward will involve us changing our patterns of consumption. That isn't, however, what the market wants. In my opinion, the media and schooling – education – all have a crucial role to play here. Just look at all those things our children are presented with every day. The result is that they want everything. But they don't want to know about sustainability. Wouldn't it be great if our education system – and I mean every single school – taught children first and foremost that sustainable development is an absolute necessity if we are to safeguard our planet's resources. And that brings us back full circle: how can we ensure that people buy more eco-cotton when they have little idea why they should do so? It's all really an issue of awareness – and of increasing public appreciation.

[Angelika Hillmer] In your view, how can we communicate the concept of sustainability so that more people take an interest in the subject?

»Our affluence has exploded because we enjoy limited liability. We need to ensure we accept liability for the environment«.

Professor Dr. Andreas Troge



[Prof. Dr. Andreas Troge] We can only make people aware of sustainability, or help them discover it themselves, if they assume full responsibility for their actions – responsibility for the entire chain of events associated with their actions as consumers. That impacts both the costs and corporate liability. Needless to say, I don't want to go so far as to say we should abolish limited liability for companies. But our affluence has exploded because we enjoy this limited liability. We need to ensure we accept liability for the environment and gradually implement minimum social standards in developing countries. Otto has already set an example here. It will still take another generation or two; it isn't going to happen overnight.

[Dr. Johannes Merck] Fifteen years ago, Otto defined three strategic goals it wanted to pursue. Firstly, environment-related measures at its locations. Secondly, the ecological optimisation of its product ranges. And thirdly, to arouse customer interest in the issue. We know we can only achieve this third goal to our satisfaction if society learns to identify with the problem more. The topic has to be personified by the media, stars, celebrities and teenage idols. We need leadership. In my view, the mobilisation of the economic, political and social elites offers another important instrument here.

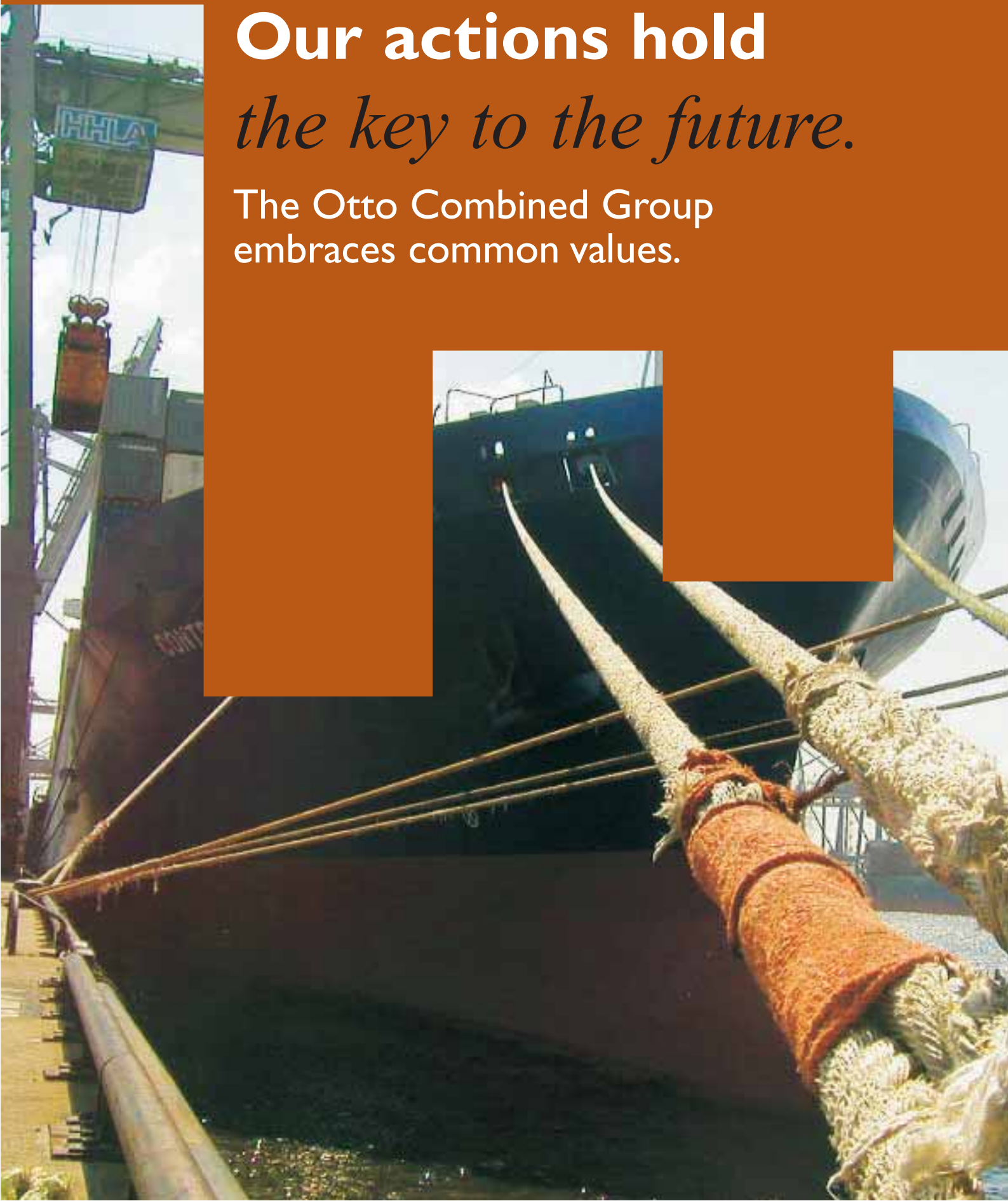
When I say this, I'm also thinking about inside our own company. We need to increase incentives for managers to achieve sustainability-related targets. For example, we need to make it clear that individuals too can gain credit for helping us attain the goal of using 1,000 tonnes of processed bio-cotton every season, and ensure that this milestone doesn't simply become an abstract statistic generating image and marketing benefits.

[Dr. Veerle Vandeweerd] The key factor is how you get the idea of sustainability across to people. Sustainability also has the dimension of being an action that spans generations, meaning future generations should not be penalised or have to suffer from what we are doing today. At a global level, it is imperative that sustainable economic activities, especially in developing countries, get support from the global community. For the more the West has overcome its own most urgent ecological problems, the more environmental protection and the preservation of resources have become a matter for other continents.

[Angelika Hillmer] Thank you very much for talking to us.

Our actions hold *the key to the future.*

The Otto Combined Group
embraces common values.



Our Path to Success

The success story began back in 1949. On August 17, Otto Versand – now Otto (GmbH & Co KG) – was established, laying the foundations of today's global trading and service organisation.

Today the Otto Combined Group ^[1] operates 86 home shopping and trading organisations in 21 different countries. Beyond this, it is represented by local branches, offices and agencies in numerous other countries.

The growth of the Otto Combined Group to its current size occurred in several phases. During its first twenty years of existence – the period until roughly 1970 – Otto expanded into a large autonomous corporation. The following decade saw the creation of the Group network within Germany. Since 1981 the focus has been on international expansion and diversification into new segments. The past ten years have seen Otto concentrating particularly on multi-channel activities. Having proved its worth, this concept will be extended, and pursued with still greater vigour in the future.

During this entire period, the Otto Combined Group has leveraged a variety of options for growth: establishing new companies, performing acquisitions and engaging in joint ventures. The Otto Combined Group is currently active in three strategic segments: retailing, wholesaling and the service sector.

Turnover in the Otto Combined Group more than quadrupled between 1985 and 2002, with the proportion contributed by holdings continually increasing.

Our vision

All the companies within the Otto Combined Group share common values. The Otto Combined Group is committed to acting responsibly towards its employees, the environment and society as a whole. Mutual trust and long-term commercial relationships provide the platform for this family enterprise's international operations, which are keyed to securing the customers', employees' and company's futures. Sound commercial growth and reasonable profits, which aren't posted at the expense of people or the environment, provide the cornerstone for this. Otto has undertaken to pursue a policy of environmentally- and socially-compatible commerce and rejects both destructive changes to the balance of nature and inhumane working conditions.

The companies within the Otto Combined Group are integrated into a global network of knowledge and learning.



For us, this entails the following:

- [•] The focus is on the customer.
- [•] We offer a fascinating world of shopping whose topicality and service impress consumers.
- [•] We gain the confidence of our customers and generate loyalty through our quality, value for money and excellent basic services.
- [•] Every individual is important!
- [•] We fully embrace our corporate culture – that means customer orientation, taking responsibility ourselves, and developing a sense of personal initiative.
- [•] We regard exemplary management and partnership-oriented interaction as our duties.
- [•] As a globally operational organisation, we leverage corporate synergies.
- [•] We aim to be good citizens towards humankind, society and the environment.
- [•] We want to be the leading New Media supplier and make shopping as pleasant and convenient as possible for our customers.
- [•] We maintain fair and trusting relations with our suppliers, because strength comes from cooperation.

^[1] including joint ventures

Fundamental principles of corporate management

The corporate policies of the Otto Combined Group are designed to promote the sustained and responsible increase in corporate value. The Group's Board of Management has responsibility for both the company and the Combined Group. The Board of Management and Supervisory Board are the central organs in the executive company.

Risk Management

In order to monitor the risks associated with commercial activities at Otto, and to limit the impacts of these risks, the relevant controlling instruments (e.g. credit card scoring, inventory controlling, budgeting, reporting, market analyses) are in use at all Group locations around the world. The systems instituted are subject to ongoing optimisation and, where required, adjustment. Otto counters financial and currency-related risks with currency and deadline-congruent financial structures and the hedging of currency and interest options. Taxation and legal risks are limited by taking comprehensive advice – both from the Group's own experts and external specialists. Any financial effects from potential claims and identifiable liability risks are largely neutralised through insurance policies. A review of current risks demonstrated that there are none that might jeopardise the company's existence. Nor is it possible to discern any future risks that might endanger the company in years to come.

Group Accounting

During the current financial year, the Group accounts are being adjusted to comply with the IAS/IFRS international standards that will apply throughout Europe from 2005 onwards. The next Annual Report, which will be drawn up in accordance with IAS, will be published in June 2004.

Responsible action on a global scale

Only if trading companies use their influence positively can they hope to gain the sustained confidence of their customers. Otto requires that its suppliers around the world ensure compliance with a code of conduct – within their organisations and at their own sub-contractors' and sub-suppliers' premises. This code proscribes the use of child and forced labour, delineates health and safety regulations, and stipulates minimum wages and maximum working weeks etc.

In conjunction with other companies in the Außenhandelsvereinigung des Deutschen Einzelhandels e.V. [German Retailers Foreign Trade Association], also known as AVE,



Ordering by mouseclick

Otto is seeking to implement consistent social standards in the German retailing segment. We have modelled our efforts on the international certification system Social Accountability 8000 (SA8000). The goals of this initiative include enforcing social standards, avoiding any need for multiple audits (thereby saving time and money for manufacturers and retailers alike), enhancing the industry's competitive position and improving the quality of merchandise. As part of a three-year public-private partnership project with the German Ministry for Economic Cooperation and Development (BMZ) and the Deutsche Gesellschaft für Technische Zusammenarbeit GmbH [German Society for Technical Cooperation], a system for auditing and training suppliers is being established in the key import markets. The auditing companies are all accredited with Social Accountability International (SAI) of New York. This ensures that working conditions are assessed independently, transparently and therefore credibly (compare page 40).

Employees

In 2002 the Otto Combined Group had 65,854 employees compared to 64,864 in the previous year. The core company employed 11,725 staff during 2002, including 286 apprentices and trainees. This corresponds to a total of 8,903 full-time positions. On average, employees have been working for the company for nine years. A clear majority of the workforce – 68.3 per cent – is female. 40 per cent of the staff work in the industrial segment. Some 53.3 per cent of the workforce occupy part-time positions (2001: 51.6 per cent). This is possible thanks to a broad range of employment models involving differing working weeks, details of which can be found on page 49.



Catalogue production



Purchasing

The training and the strategic fostering of young staff cements the foundations of corporate development

The Otto Combined Group is confronting the complex requirements of this field of employment by providing targeted, practice-oriented training.

In this way, training at Otto is designed to serve a range of social functions. For example, the Group offers top athletes apprenticeships tailored specifically to their sports training requirements. Severely challenged trainees are taken on with the goal of helping integrate them into the employment environment (compare below www.otto.com).

The Otto Management Academy

It goes without saying that executives too require regular, systematic training. For this reason, the Personnel Development department established the Otto Management Academy in 2002. This institution provides the framework for a multi-level program designed to foster management staff at Otto.

Working in international networks

Four years ago Otto established its own corporate university – the Otto International Academy. The creation of networks of experts, the so-called best practice clubs, allows successful systems to be implemented in the other Group companies and solutions to be designed that set new standards

in the Otto Combined Group. Through the activities of the Otto International Academy, the companies in the Group will grow together – without having to yield their commercial and entrepreneurial autonomy.

Partnerships with universities

For periods of five years each, the Michael Otto Foundation for Environmental Protection has initiated professorships at the two German universities of Hamburg and Greifswald. The goal of the professorship »Sustainability and Global Change« is to promote an interdisciplinary approach towards environmental issues, one that reflects scientific advances, ethical goals and the options available (political, legal and economic) for shaping society.

The objective of the Chair of Environmental Ethics at the University of Greifswald is to find integrated solutions that promote environmental conservation, are ecologically feasible and serve the purposes of social sustainability. It is designed to spark impulses in the worlds of commerce, politics, and learning, as well as in the public domain, to exert the requisite pressure both nationally and internationally, and to identify and articulate ethical deficits.

Otto Recruitment has been working intensively with the University of Kiel for several years: workshops and case studies at Otto locations, and participation in several recruiting events have led to the establishment of close contacts with this northern German city's educational institutions.

Otto – a global trading and service group

Otto is one of the world's largest trading and service groups. But it's much more than that. Guided by principles anchored in ecology and social responsibility, the Group offers a full spectrum of services for the trade – from financing through to repairs. Tens of thousands of Otto employees are engaged in these functions around the world. Millions of customers actively enjoy the convenience of buying merchandise by phone, fax or internet – in the knowledge that they can be sure of getting quality, safety and top service for their money.

Every season, the Otto Group ^[1] offers well over 100,000 articles in some 980 catalogues around the world. In doing so we generate Group sales of EUR 16 billion and output of EUR 18 billion.

Germans remain the world's leading spenders in the home shopping segment. On average, German consumers bought mail order products worth a total of EUR 270 ^[2] during 2002. The inhabitants of the U.S., Great Britain and Norway also number among the top home shopping spenders.

The Otto Group was supplied with merchandise worth over EUR 9 billion during 2002. The net value added – excluding write-offs and other expenses – was EUR 2,156.8 million.

Breakdown of net value added during fiscal 2002/2003

in EUR '000

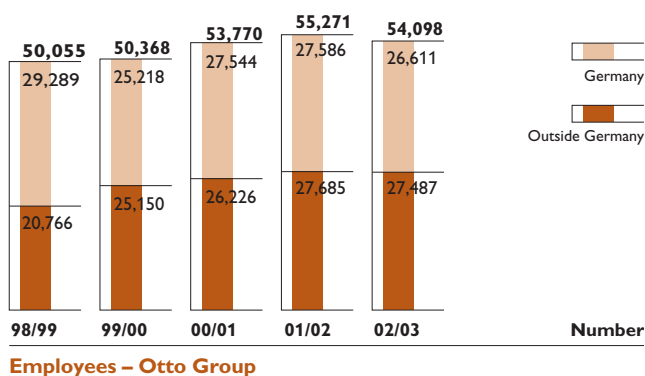
Sales	14,021,428
./. Changes to inventories	12,718
+ Other company-produced additions to plant and equipment	379
+ Other operating income	585,673
./. Material expenses	9,002,684
./. Depreciation	194,381
./. Other operating expenses	3,222,348
./. Other taxes	18,530
= Net value added	2,156,819

[1] Otto Group refers to the Otto Combined Group excluding joint ventures

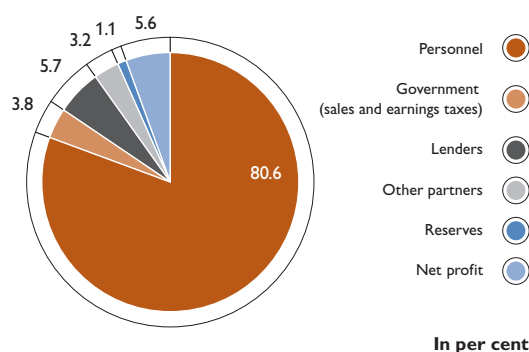
[2] Data based on information from the Bundesverband des deutschen Einzelhandels e.V. [Federal Association of German Retailers], Frankfurt/Main

The overwhelming portion of the net value added benefits the employees of the Otto Group. A total of EUR 1.9 billion is devoted to staff wages and salaries, and social and pension contributions. Creditors providing the finances that power growth receive interest totalling EUR 134.5 million. This sum includes the interest from profit participation rights etc. The state is another major beneficiary, receiving EUR 2 billion in sales tax and EUR 91 million in taxes on income and earnings. Some EUR 25 million of the net value added is allocated to the revenue reserves, while other partners receive EUR 76.7 million. The net profit for the fiscal year 2002/2003 was EUR 131.1 million.

A total of 54,098 personnel are employed by the Otto Group around the world. Half of them hold positions in Germany, with the remaining 50 per cent spread across 20 different countries. The largest employer in the Group is the core company Otto (GmbH & Co KG).



Employees – Otto Group



Distribution of value added

The distribution also reflects a residual amount of EUR 208,712,000 from income and depreciation on financial assets and current investments.



Our standards don't make choosing easier.

People are the focus of the Otto world: as customers, as personnel, and as members of society. »Customers are our employers«, explains Dr. Michael Otto. During a course of over half a century, this perspective has helped a small shoe mail order company become a complex, globally operative trading and service organisation. Customers are offered an outstanding, up-to-date range of products in both the main catalogue and numerous specialist catalogues. To guarantee the ultimate in service, the Otto Group also leverages innovative technologies. www.otto.com

OTTO



Peer Seipold, an environmental consultant at Otto, meeting Kofi Annan at a Global Compact convention

Global Compact – improving commerce

Since 1999, when the Global Compact was first launched, businesses, UN organisations, representatives of the public and trade unions have been pursuing a worldwide campaign in support of human rights, fair and appropriate working conditions and environmental protection.

Alongside over 750 companies around the world, Otto has been a member of the UN Global Compact since January 2002. As such, Otto reaffirmed its commitment to configure its trading activities in ways which promote sustained development and are in accordance with the principles of the UN. The following companies within the Otto Combined Group have joined the Global Compact: Otto (GmbH & Co KG), Heine, Bon Prix, BAUR, Alba Moda, Witt Weiden, Schwab, Sport-Scheck, Eddie Bauer and the Hermes Logistik Gruppe [Hermes Logistics Group].

Under the patronage of Kofi Annan, the United Nations approved nine guidelines which are being supported on a voluntary basis by the member companies. The company's 2003 Sustainability Report demonstrates how Otto has implemented these guidelines.

[@]

Further information can be found at
www.un.org/partners/business

Human Rights

- [1] World business should support and respect the protection of international human rights within their sphere of influence; and
- [2] make sure their own corporations are not complicit in human rights abuses.

Labour

- [3] World business should guarantee freedom of association and the effective recognition of the right of collective bargaining; and
- [4] the elimination of all forms of forced and compulsory labour;
- [5] the effective abolition of child labour; and
- [6] the elimination of discrimination in respect of employment and occupation.

Environment

- [7] World business should support a precautionary approach to environmental challenges;
- [8] undertake initiatives to promote greater environmental responsibility; and
- [9] encourage the development and diffusion of environmentally friendly technologies.



e-commerce bridges tradition and innovation

On the internet since 1995, the website www.otto.de offers customers a friendly user interface, fast access times and transparent ordering procedures plus instant delivery data. Otto has succeeded in combining the strengths of traditional mail order with the possibilities offered by innovative technologies to produce sustained success. Today, Otto is the world number two in online trading.

Dr. Thomas Schnieders, Director of New Media at Otto, gave the following interview.

[?] People who lost money with dot.com stocks are disenchanted with the New Media. What experiences have you had with the internet?

[Dr. Thomas Schnieders] Otto has been represented on the internet since September 5, 1995. By launching the company website so early, we have been able to gain a lot of experience – something we have consistently used to improve the website since. We are very happy with the success of our internet activities. During the past fiscal year, we succeeded in increasing the volume of goods ordered or purchased online by over 30 per cent for a total sales volume of EUR 1.5 billion. This exceptionally pleasing trend is still continuing today. The Otto online store alone registered 30 million shoppers in the first six months of the year. That constitutes a rise of 60 per cent compared to the previous year's period.

[?] What makes Otto, as a representative of the Old Economy, so successful in the markets of the New Economy?

[Dr. Thomas Schnieders] Otto can't be considered part of the Old Economy in the traditional sense because we were seeking a dual strategy from the very outset with our e-commerce activities. We used the internet for our regular mail order companies, i.e. Otto, Heine and BAUR. But we also established start-ups in the market – Discount24, myToys and shopping24 come to mind in this context – to explore the potential for the Otto Combined Group in the so-called New Economy, the options that traditional mail order providers could and can leverage.



Dr. Thomas Schnieders,
Director of New Media at Otto

[?] Are there any other factors that make this strategy so visionary or future-oriented?

[Dr. Thomas Schnieders] Needless to say, the learnings that Otto derives from its Group-wide online activities are systematically used by the e-commerce sections in our »traditional« mail order companies to ensure ongoing optimisation of their services. Beyond this, a new, integrated state-of-the-art IT infrastructure was created which will lay the foundations for a Group-wide e-commerce platform. The structure and processes of the corporate divisions involved have been modified to cater to the requirements of e-business. All this puts us in the happy situation of being extremely flexible, and therefore able to react spontaneously to rapidly changing market requirements.

[?] How will Otto be developing both its traditional and its new sales channels?

[Dr. Thomas Schnieders] We have always been committed to the parallel use of all our sales channels. As a multi-channel provider we can leverage the specific benefits of each medium, and combine them to generate further added value.

[?] On the subject of »Sustainable Shopping Baskets« and e-commerce, does the internet – in your view – offer special advantages for companies marketing environmentally friendly merchandise?

[Dr. Thomas Schnieders] For those of our customers specifically looking for ecological products, we pool our offerings in our »Natural World« shop. In cases like this, the internet offers the benefit of enabling shoppers to create a sustainable shopping basket with products from a variety of different ranges, e.g. with textiles bearing the PURE WEAR seal. In this way we can satisfy a relatively small target group, while simultaneously promoting sustainable consumer behaviour.

Facts and Figures

Visits	30 million visitors during first six months of 2003
Awards	<p>[•] Winner of the test published in the magazine »tomorrow« in the category online delivery service</p> <p>[•] According to Forrester Research, the most user-friendly German website</p>
Average number of clicks needed to reach desired product	3

Entrepreneurs in the company – Hermes Logistics Group

Hermes – a success story

	<p>[1974] Hermes collects returns for first time – since then a fixture of the Hermes service portfolio.</p>	<p>[1985] Following years of quantitative development, Hermes launches a major service offensive.</p>	<p>[1987] Technical Customer Services, previously part of Hermes Versand Service, becomes an independent company: Hermes Technischer Kundendienst GmbH & Co.</p>
<p>[1972] Otto establishes the parcel courier service Hermes Paket-Schnell-Dienst.</p>	<p>[1980] Hermes initiates deliveries on Saturdays, in addition to weekdays.</p>	<p>[1986] The shipping company Hermes Versand Service (HVS) launches its vacation storage service.</p>	<p>[1989] Hermes starts its 24-hour service for mail order customers.</p>

Customer orientation – our number one priority

More than ever before, precisely tailored logistics services and customer satisfaction are today the key factors behind success and differentiation in distance trading. For this reason, customer orientation is the number one priority shaping operations at Hermes companies. Under the umbrella brand Hermes Logistik Gruppe [Hermes Logistics Group], these companies pool their logistics competence both for the Otto Group and increasingly for other clients too – by offering a consistent and unique brand identity, a clear statement, and the potential for expanding the combined logistics portfolio.

Today one in three B2C packages in Germany are delivered by the Hermes Logistik Gruppe (HLG). Not to mention the millions of letters, catalogues and – with the assistance of the Hermes Einrichtungs Service [Hermes Furnishing Service] – furniture and major electrical appliances. Established three decades ago as the company's own internal delivery service, HLG now numbers among the top home delivery specialists. The Hermes drivers don't simply transport merchandise – they deliver pleasure in the shape of packages. Some 700,000 times every single day.



Always well received! 175,000,000 consignments transported during 2002 35 per cent market share in the B2C segment

490,000,000 Euros total turnover in 2002 600 bases 9,000 PaketShops

5 hubs 700,000 customer contacts every day 11 days is average delivery time 4 delivery attempts

65 depots 12,000 employees 97 per cent immediate delivery

[1990] Following German reunification, Hermes becomes the first parcel delivery service capable of delivering throughout the area of former East Germany.

[1994] Seamless consignment tracking becomes possible thanks to the use of portal and mobile hand-scanners. Since 2000, delivery receipts and the recipients' signatures have also been stored electronically.

[2000] The creation of the PaketShop [parcel shop] system begins. With this service, Hermes offers an alternative to traditional doorstep delivery and collection.

[2003] Hermes opens over 9,000 PaketShops for the dispatch and delivery of private parcels.

[1993] Hermes institutes the One-Day-Cycle for its entire depot. As such, all consignments reaching the depot by 6 am are delivered on the same day.

[1996] The first messenger bases for catalogue and small goods delivery are established, paving the way for the Hermes Boten Service [Hermes Messenger Service].

[2002] Goods are delivered to the depots from five central hubs. This reduces the volume of transport required while further accelerating deliveries.

Well over 99 per cent of consignments reach their chosen recipients punctually and safely. The company has achieved this figure by introducing numerous special customer-oriented services, like its preferred delivery day service, evening and Saturday delivery, depositing merchandise with neighbours or at alternative addresses, and vacation storage etc. If required, Hermes drivers will attempt delivery up to four times.

In the future, by means of its continued operational excellence in its core »package« segment, coupled with its product leadership in special services, the Hermes Logistik Gruppe will be positioning itself in the following niche markets: hanging garments, bulky and fragile goods, catalogues, books/CD's, luggage, COD deliveries and returns management.

The high levels of customer satisfaction have been confirmed by comparative, representative surveys performed by independ-

ent market research institutes. In all those categories central to customer satisfaction, Hermes was rated good to very good – putting it well ahead of its rivals.

As transport services impact the environment, the Hermes Logistik Gruppe fully accepts its social responsibilities in this respect as well. During the last financial year, the Hermes Versand Service [Hermes Mail Order Service] – which has already received certification under ISO 14001 – also completed a two-year test of the world's first-ever DaimlerChrysler Sprinter powered by a hydrogen fuel cell. This vehicle – which was operated in conjunction with the manufacturer, DaimlerChrysler AG – covered over 25,000 kilometres on its delivery routes, clearly demonstrating the feasibility of this environmentally friendly fuel technology for everyday operations.





Providing practical expertise: Systain Consulting GmbH

Systain Consulting GmbH, an Otto Combined Group company with offices in Hamburg, Istanbul, Leiden (Netherlands) and Zurich (Switzerland), has been marketing its expertise in sustainable corporate management for three years. Originating as it does from the Environmental Department at Otto, Systain Consulting can call on over 20 years of practical experience. Today customers from Europe and throughout Asia are benefiting from the insight that economic success and socially and environmentally compatible actions are not mutually exclusive, but rather complementary.

Systain stands for Systematic Solutions for Sustainability. Systain Consulting advises professional associations, state institutions and decision-makers from every industry on the topic of sustainability. The direct advantages for clients are manifold. They range from increased efficiency in the use of resources, time and cost savings, and improved risk management through to image-related benefits and therefore enhanced customer loyalty. The consultants from Systain Consulting design specially-tailored concepts which combine ecological efficiency with social competence and economic success. Systain Consulting's clients include the listed energy company RWE AG, the exhibition organisers Expo 2000 GmbH, the coffee shop operator Tchibo-Frisch-Röst-Kaffee GmbH, the publishers Axel Springer AG and environmental organisations like Greenpeace International and WWF Deutschland. Fashion companies such as s.Oliver and Tom Tailor also number among Systain Consulting's clientele.

[@]

Further information can be found at
www.systain.com

Case Study: RWE AG

Given the rapid international expansion of RWE in recent years, there have been increasing calls from a range of groups – above all from within the capital market – for a clear commitment to sustainable development and transparency. The company's philosophy has always been marked by an exemplary commitment to its environmental and social responsibilities. RWE director Dr. Gert Maichel – whose responsibilities at the company embrace environmental policy – says: »Sustainable company management increases earning power and cements the social context – and that's crucial to securing a company's profitability«.

Systain Consulting was commissioned with the task of analysing the external demands made of the Group and of designing a sustainability strategy based on the results. Joachim Schlange, a member of the executive at Systain Consulting GmbH, takes a positive view of RWE's engagement: »Social demands on corporations are increasing rapidly. In the future, no major company will be able to ignore social and environmental components in its corporate policies. Entering into open dialogue with the relevant pressure groups in society will necessarily be part and parcel of its everyday work«.

Sustainable strategy for the entire group

The initial step entailed surveying the demands of the various interested parties, e.g. customers, NGO's, employees, suppliers, the media, the public sector and capital market. Systain Consulting performed a benchmark analysis of sustainability strategies in the segment, in comparable industries and – more generally – of companies generally perceived as sustainability leaders. At the same time, discernible long-term trends were identified along with the potential risks. All of this information was used to create a sustainability profile for the company, based on which Systain Consulting – together with the company – determined the key parameters of its strategic orientation and the main areas where input or action was required.

As the RWE roadmap on sustainability moves on, the results will be used to formulate the future guidelines and strategic goals.



Structural improvements – Haldensleben Distribution Centre



After construction work lasting just 18 months, an ultra-modern, computer-controlled distribution centre was opened for Otto in Haldensleben in September 1994. Aided by the world's most modern storage and control technology, some 40 million consignments are processed there every year. Since 2000 the facility has been operating two high-rack warehouses offering a total of 1.2 million storage locations. The third construction phase, which is due for completion in 2003, will provide a further order-picking store, a packing station, and another shipping bay.



The 28 m high storage racks offer capacity for a total of 600,000 boxes. Additional data:

- [•] Total investment: EUR 570 million
- [•] Approx. 2,000 employees
- [•] 16,000 pallet magazines
- [•] 120 sorting and packing stations
- [•] 47 packing stations for individual consignments
- [•] 18,000 m long conveyor belt system
- [•] Space for 40 lorries

On premises totalling some 140 acres, high-tech architecture has been combined with an employee- and environmentally-friendly concept. Alongside state-of-the-art conveyor systems and warehousing installations and the use of alternative (solar) energy, the site features generous expanses of water (10,000 m²) and grass (300,000 m²). Three wind power plants supply approximately 2 per cent of its power and reduce CO₂ emissions by 183 tonnes per year.

The Otto facility in Haldensleben has been the region's largest employer since 1994, creating 2,000 new jobs in the eastern part of Germany. Donations for the summer music festival and restoration work at Hundesburg Castle just outside Haldensleben have fostered integration into the area's social fabric. Contacts are being established and sustained, for example via the region's Trade Association and fire brigade, as well as directly with the mayor of the town. The region's largest enterprises – including Euroglas, Keramag and Otto – have established mutually beneficial partnerships, e.g. by employing challenged people over and beyond the statutory requirements or by aiding victims of the 2002 flooding of cities alongside the River Elbe.



Textile Products

– The Life-Cycle

Trendscouting/ »Store-Check«

Twice a year, Otto buyers embark on so-called »store checks« to unearth the latest trends in London, Paris, Amsterdam and other fashion capitals. The Otto fashion office in Hamburg also collates information, determines colour themes and designs motifs all year round.

>

Reviewing

Together, the Purchasing and Quality Development departments examine the practicability of implementing individual trends. If considered viable, a qualified supplier is then chosen and assigned the manufacture of PURE WEAR products using organic cotton.

>

Raw Material/Spinning

If an article is awarded the quality seal PURE WEAR, Otto firstly ensures that the spinning mill has been supplied with organic cotton. The organic cotton is stored separately there and processed into fine thread at its own spinning station. The entire process – from initial cleansing through to the final production of the thread – is fully automated.

>

Knitting/ Weaving

>

Each bobbin holds 129,000 meters of thread. The reels of thread are inserted into modern knitting machines and processed into fabrics. The final results could be T-shirts, sweatshirts or bodywear. Alternately, the thread is wound onto a warp beam and woven into material. This is then used to make shirts, trousers, bed linen and other products.



»Convince me too! I would definitely buy your clothes if I knew for sure they'd been manufactured without exploiting women.«

Elisabeth M., Denkingen

»I enjoy being one of your customers but would like to know more about how and where your products are manufactured.« **Saskia R., Goslar**

»As part of my studies I'm working on a project about Fair Trade at the moment, so I'd be interested to know just how committed your company is on the issue.« **Ilona K., Berlin**

»...we would stop purchasing your products if you couldn't guarantee they hadn't been manufactured using child labour.«

Katharina L., Frankfurt/Main

»We have supported terres des hommes for a number of years now. In their brochure on child labour, your companies are cited as being exemplary in enforcing social (and, in some cases, ecological) standards at your suppliers.«

Hartmut F., Bad Zwischenahn

Customer Comments

»...due to my keen interest in fair trade, I was pleased to read that you also market gepa products.«
Hanna M., Dülmen

Dyeing/Printing

In line with specifications, the lengths of cloth are dyed using modern textile dyes and the relevant tools. The dyed fabric can then be printed in one piece. If individual names or symbols are to be affixed, the print is applied to the finished garment.

Prêt-à-porter

The finished material is cut to the pattern specifications. The pieces are then sewn together by machine, and accessories such as zips and buttons are added to create the final product.

Laboratory monitoring

The officially recognised test institute Hansecontrol operates as an independent laboratory at the Otto premises in Hamburg. It is important that materials are generally checked for pollutants and usability before being cut, hence saving time and costs.

Transportation

Goods are taken by ship, plane, lorry or train from the supplier and pass through stock distribution centres and Hermes depots before finally reaching the customer. Goods from Turkey are transported to Germany by ship and then lorry. Each and every package is the result of a perfected logistical system, one that offers complete transparency on CO₂ emissions throughout the journey from the supplier to the customer.



Quality control in textile production

In touch with *the environment through ecological textiles*

Otto sets high standards of ecological and social responsibility in its production processes, yet still remains economically successful. The company's realisation of transparency plus economical and ecological efficiency in the textile chain represents a pioneering achievement.

Environmental production and pollutant checks – the perfect partners

Otto pursues two core strategies in its textiles ranges: strictly ecological production and monitoring for any pollutants from the manufacturing process.

Since 1990, Otto has been offering pollutant-checked textiles and since 1995, its »Kind to your skin – tested for harmful substances« seal of quality has denoted that products in the catalogue have been examined for harmful substances. These requirements correspond to the »Öko-Tex 100« standard recognised in the textiles industry. The laboratories ensure, for example, that the percentage of formaldehyde and heavy metals like arsenic, lead, cadmium and mercury do not exceed the permitted levels. These textiles have to be demonstrably

free of biocides and flame-resistant chemicals. The pH value also needs to be neutral and skin-friendly. During the past four years, the proportion of pollutant-checked textiles has risen from 27 per cent (spring/summer season 1998) to 84 per cent (spring/summer season 2003).

During the spring/summer season 2003, Otto launched a brand new seal of quality for textiles in its catalogues: PURE WEAR. Throughout the range of textiles, it denotes fashions whose cotton derives from biologically controlled cultivation. PURE WEAR guarantees an optimum of skin-friendliness, as the raw material is never treated with substances that could leave pollutants in the organic cotton. Every step of the production process is subject to the highest ecological standards.

PURE WEAR®
Die reinste Faser.



+++ PURE WEAR +++ PURE WEAR is the highest standard for ecologically optimised and pollutant checked textiles at Otto. The cotton in all products afforded this quality seal has not only been cultivated under ecologically controlled conditions, but is optimally pollutant checked and therefore especially kind to skin.

+++ Kind to your skin – tested for harmful substances +++ 84 per cent of Otto textiles bear the quality seal »Kind to your skin – tested for harmful substances«. This standard goes well beyond maximum levels stipulated in law, being aligned with the »Öko-Tex 100« standard generally accepted within the textiles industry.

Cotton balls waiting to be picked

No compromises – from start to finish

The percentage of ecologically cultivated cotton globally is 0.1 per cent at present. A total of 600 tonnes of certified eco-cotton was processed in 2002, making Otto Germany's top supplier of eco-cotton textiles.

PURE WEAR cotton is cultivated in fields where crop rotation is implemented annually to maintain healthy soil. Pests are controlled by natural means and only biological fertilisers are employed. Each kilogram of cotton seed yields around 300 grams of raw cotton after deseeding. As fabric quality is largely a product of yarn quality, Otto uses one of the most modern spinning mills in Turkey to spin the raw cotton onto rotating spindles. During this process, the cotton fibres are first purified and then parallelised before being combined as so-called carded slivers. The slivers are then spun into the required type of yarn in a multi-phase process.

PURE WEAR®
Die reinste Faser.

Carded slivers



We've got to grips with environmentally friendly textiles.

Years ago, Otto set itself the goal of offering a broad spectrum of ecologically optimised fashions. Today, the company numbers among the world's top suppliers of textiles made from organic cotton. Every single step of the value chain – from cultivation through to delivery – is scrutinised carefully from an ecological standpoint. Fashions in organic cotton are instantly identifiable in the catalogue thanks to their PURE WEAR seal of quality.
www.otto.com

OTTO

Processing eco-cotton is slightly different to a mill's standard operations. Eco-cotton must be stored and processed separately to avoid being blended with conventional cotton.

Finally the eco-cotton is made into lengths of material and dyed. Ecological dyeing processes economise on both water and energy – more than 50 per cent water usage in the case of woven fabrics, for example. Research findings from numerous industry experts, from Freiburg's Eco-Institute and health protection professionals are all reflected in the choice of dyes. Dyes and textile processes which are kind to skin are used exclusively.

Textiles displaying the PURE WEAR quality seal undergo additional inspection in the form of the »**ciliate test**« as well. The idea stems from cosmetics research and was developed by the Deutsche Textilforschungsinstitut Nord-West (DTNW) [German Textile Research Institute North-West]. Ciliates are amoebas that respond to chemical substances in a manner similar to skin cells. They react extremely sensitively to pollutants. Impurities that other tests have found difficult to identify can now be definitively ascertained.

The PURE WEAR quality seal represents the highest standard of ecologically optimised and pollutant checked textiles at Otto.



Cotton wound onto spools

Textiles are checked for pollutants using the ciliate test. These amoebas are almost identical to human skin cells. They are even more sensitive to impurities than human skin, meaning concealed pollutants, allergens and carcinogenic substances can be ascertained.

Otto supports the suppliers in optimising their processes and assumes responsibility for any coordination with the partners

Cotton cultivation	> Spinning mill	Weaving mill, Hosiery mill, Knitting mill	> Dyeing, Finishing	> Prêt-à-porter	> Otto
<ul style="list-style-type: none"> • No use of pesticides and chemical fertilisers 	<ul style="list-style-type: none"> • Energy-saving power generation 		<ul style="list-style-type: none"> • Dyeing in accordance with ecological standards - Savings in dyes and textile utilities (fixing, bleaches) - Energy-savings <ul style="list-style-type: none"> > Water > Oil > Electricity > Steam 		<ul style="list-style-type: none"> • Requirements <div style="border: 1px solid black; padding: 2px; text-align: center;"> PUREWEAR® <i>Die reinste Faser.</i> </div> <ul style="list-style-type: none"> • Screening using the ciliate test • Seal of quality displayed on articles
Certificate from Skal (Netherlands)	Cooperation with and qualification by the corporate consultants Systain Consulting GmbH*				Hansecontrol Test Institute

[*]

See also page 20 in the chapter »Commerce« in this report.



The »EcoMTex« project – ecological textiles for the mass market

Frequently it isn't the ecological challenges that prevent consumers from buying environmentally-friendly textiles. Avoiding costs and generating interest among potential customers are often the top priorities for producers. As enhancing the competitiveness and appeal of ecological textiles in the mass market remains a key goal for Otto, the company decided to participate in a three-year research project that was concluded in October 2002. The »EcoMTex« project, which was sponsored by Germany's Ministry of Education and Research, focused on ecological optimisation in the areas of mass textile production and marketing. The research was carried out in conjunction with the University of Oldenburg in Germany, the University of St. Gallen in Switzerland, and the textiles company Steilmann GmbH & Co. KG.

Within the framework of »EcoMTex«, Otto developed two prototype textile chains for organic cotton textiles in Turkey which satisfy the most stringent ecological standards. After performing a thorough analysis of production processes and customer requirements, significant economies proved possible by improving the material flow management on the one hand and concentrating on a limited number of product groups on the other. Trend-oriented ranges and emotional product statements form the central component of the new marketing strategy which communicates information concerning ecological quality in after-sales activities rather than in the catalogue.

[i]

The publication »Strategy and Organisation in Supply Chains« (Metropolis-Verlag, Marburg, Germany 2003), edited by Professor Dr. Uwe Schneidewind, Maria Goldbach, Dirk Fischer and Stefan Seuring, uses empirical data from the interdisciplinary research programme »EcoMTex«. It contains the article »Material Flow Management in Practice« by Simone Back. This describes in detail the interest taken in research by Otto and the complex processes underlying the ecological flow management of textiles at the company.

Tropical forests, along with the thousands of animal and plant species that inhabit them, are in grave danger. In Venezuela, for example, vast stretches of forest are being razed in order to prepare the land for agricultural use. After two or three years, the soil is depleted, and so more forests are destroyed. The impact on the global climate and water cycle is catastrophic.

For many years, OroVerde – a foundation located in Frankfurt, Germany that focuses on tropical forests – has been taking practical steps to help preserve these vital resources. The organisation's latest project, bearing the name »La Cerbatana«, provides the local population with on-site information about the sustainable use and management of the tropical forests. It initiates large-scale tree plantings and develops educational programs. As a result, several devastated regions have already been regenerated and erosion brought to a halt.

Otto's OroVerde shirt by Apart, which is made of pure organic cotton, offers a rare opportunity to do both oneself and the environment some good. Moreover, it allows its owners to identify themselves with the »La Cerbatana« project – while also drawing people's attention to the foundation OroVerde and its work in the cause of tropical rainforests and the environment.



[i]

Anyone wishing to learn more about the work of OroVerde can obtain additional interesting information here:
Tropenwaldstiftung OroVerde
Radlostraße 17 – 19
60489 Frankfurt/Main
Germany
www.oroverde.de

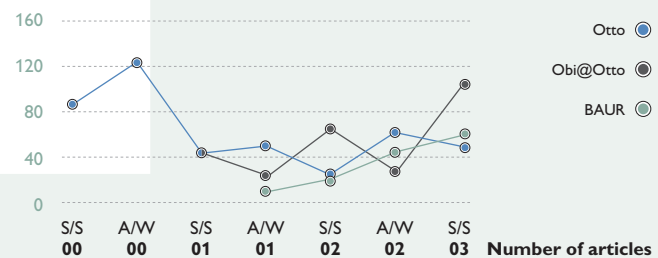
Forest Stewardship Council – for a good cause

Forests provide habitats for animals and plants, produce clean air, serve us for recreation, and constitute a workplace for many people. Tropical forests, in particular, number among the earth's oldest biotopes and harbour more than half of all animal and plant species. As a result of the reckless exploitation of their resources, portions of these forests are annihilated day after day. »Clear-cutting a primeval forest instead of sustainably using individual trees inside it means destroying its ecological value completely«, says Dr. Uwe Sayer, managing director of the FSC's Germany Division. »This is true not only of tropical ecosystems«, he continues, »but also of forests in temperate zones, which are also subject to large-scale clear-cutting in many places. Many of our earth's forests are still critically endangered«. Otto seeks to support a responsible use of the natural resource of wood, and therefore to prevent the wholesale destruction of tropical forests, by only selling garden furniture bearing the FSC seal. This seal guarantees a systematic control process that allows the production of every piece of furniture to be traced all the way back to the individual tree that supplied the raw material.

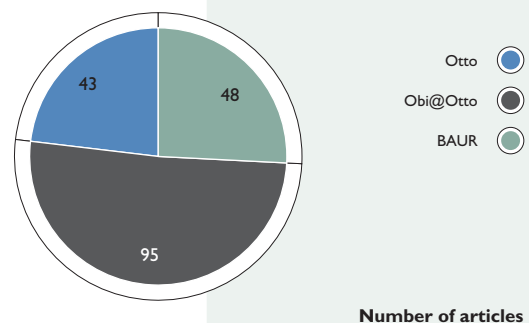
The goal of the Forest Stewardship Council (FSC), established in 1993, is to ensure the preservation of forests and their multiple and multifarious functions by establishing a proper balance between conflicting social and economic interests. To this end, the FSC has formulated ten principles and criteria within an international framework; these represent the cornerstones of a type of forest management that is at once environmentally sound, socially acceptable, and economically viable. By acknowledging these principles and criteria, both timber companies and their customers can participate in a voluntary certification system. One core function of the FSC is to authorise and supervise the certifying organisations. Only those companies that demonstrably abide by the FSC principles may apply the distinctive FSC seal to their products. In this context, Otto assumes the role of intermediary between manufacturers and customers, working, for example, with purchasers and suppliers to only select furniture constructed using FSC wood.



FSCTrademark© 1996 Forest Stewardship Council A.C.



Number of FSC articles in Otto catalogue, at Obi@Otto and BAUR



Breakdown of FSC furniture during the spring/summer 2003 season in the Otto Group

[@]

Further information can be found at
www.fsc-deutschland.de

[>>>]

Further information on the FSC is provided
on page 9 in Facts(&)Figures

Systematic eco-management

Otto's long-standing environmental engagement is fully authenticated. With the successful initial audit of the northern German plants at Billbrook and Norderstedt in April 2002, the company has realised its goal of implementing a certified eco-management system in accordance with ISO 14001 at each of the seven locations operated by the Otto retailing company. The other locations – Haldensleben, Löhne, Burbach, Ohrdruf and Hamburg-Bramfeld – likewise submitted to the eco-management system's annual monitoring audit and passed it successfully.

In 1997, Otto became the first trading company worldwide to be certified according to the ISO standard. Since then its holistic and dynamic management system has enabled Otto to steadily improve its environmental record. Outside experts from DQS Ltd. («German Association for the Certification of Management Systems») of Frankfurt make sure that the eco-management system satisfies the criteria set out by internationally recognised ISO standards. Thanks to tours of inspection and interviews with employees from the various corporate divisions, as well as the scrutiny of relevant documents, the auditors obtain a comprehensive overview of the eco-management system's performance every year.

»A review of all the links in the added value chain serves to distinguish Otto from other enterprises«, says Dr. Georg Sulzer, the external evaluator from DQS Ltd., with reference, for example, to Otto's organic cotton project. Above all, »the professional methods and procedures used in Otto's ecological company management stand out«.

A consistent, company-wide engagement in the cause of environmental protection continues to be one of Otto's prime goals. Along with all of Otto's retail locations, the Group's subsidiaries BAUR Versand, Hermes Versand Service and Sport-Scheck now also have their own certified eco-management systems. Other companies within the Group will be following suit.

What is ISO 14001?

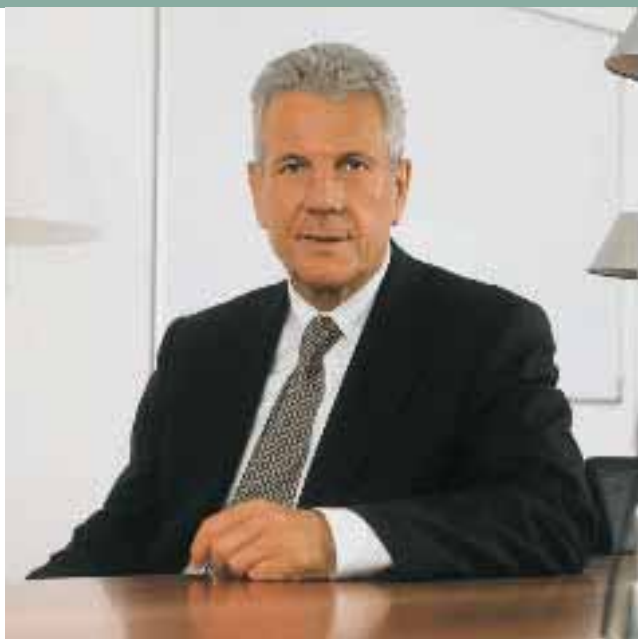
ISO 14001 is an internationally recognised standard for voluntary self-control that governs the implementation of eco-management systems in businesses. In some respects, its requirements exceed those of German laws and regulations. Businesses committing themselves to observe this standard formulate their individual company objectives regarding environmental protection, create programs for realising these objectives, and develop an effective eco-management system. Thanks to the use of unified and thus readily comparable environmental statistics, and of regular progress checks, the eco-management systems promote ongoing improvements in the individual firms' environmental performances.

[>>>]

Further information on the structure and responsibilities is provided on page 3 in Facts(&)Figures

+++ The environmental handbook +++ Every Otto employee can read a description of the ecological management system in the form of a digital environmental handbook on the company intranet. This allows optimum access to information on the Group's environmental programs, and provides descriptions of processes, instructions on how to perform these processes, in addition to the relevant contact data.

+++ Networking +++ As the spectrum of relevant topics has extended far beyond the environment itself, the environmental officers from the various divisions get together every three months in the Environmental and Social Policy network. Additionally, every year, there is at least one meeting of environmental coordinators at the Group level to discuss innovations and leverage potential synergies.



Dr. Volker Hauff

Statement for the Otto (GmbH & Co KG) Sustainability Report by Dr. Volker Hauff, Chairman of the Council for Sustainable Development

Sustainability: The guide to an economy with a future

The sustainability model makes plain a basic change in our consciousness in dealing with our natural resources and our sense of fairness toward future generations. It encapsulates a simple postulate: Use the natural and social bases of life in such a way that they remain unimpaired for all human beings today and in the future. The concept of sustainability answers to the urgent necessity of respecting the need of future generations for a healthy environment, carefully rationed natural resources, and social cohesion.

Sustainability is no »eco-niche« or passing fad. The agenda of sustainability policy has become firmly anchored as a topic in environmental, economic, and social policy, both internationally as a result of the 2002 UN Conference on Sustainability in Johannesburg, and nationally owing to laws passed by the German federal government. Thinking in terms of sustainability opens up new potential for action over and beyond government regulations. It demands civic engagement as well as the »corporate citizenship« of businesses. Many business enterprises have long since evolved into trendsetters in this field. They combine the dynamics of entrepreneurial innovation with a vision of sustainable development. The concept

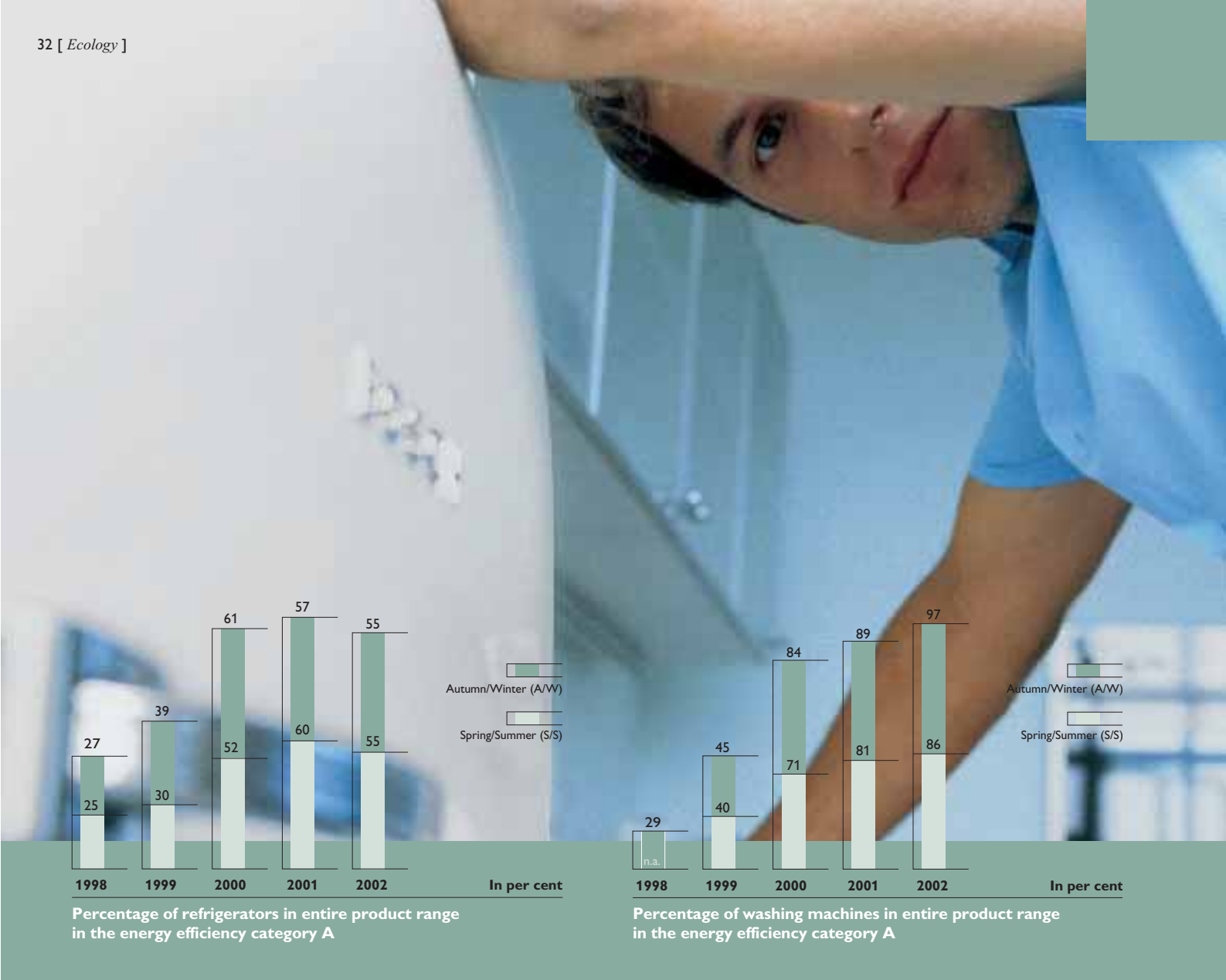
of sustainability provides them with a sense of direction in the public debate on future growth, new markets, and entrepreneurial responsibility.

Sustainability is rightly understood as a business field. In my estimation, the triadic business strategy combining economic success, ecological management, and social obligation represents a growing trend. Anyone believing that the issue of sustainability can be postponed for another day – given the hard facts of fiscal and economic reality – is quite mistaken. Such thinking overlooks the fact that environmental protection and social acceptability are vital preconditions for the future of a globalised world.

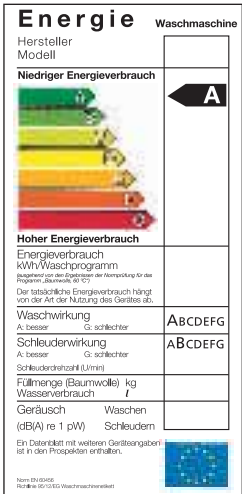
»Corporate social responsibility«, the obligation of making entrepreneurial actions answerable to society, thus sets new benchmarks. Responsible attitudes towards nature and the environment and the maintenance of prescribed social standards are being incorporated into job descriptions at both international and national companies. Furthermore, there is a growing insistence that companies provide a transparent, public account of their performance. Environmental groups, churches, developmental associations, and other interest groups have set the pattern by making sustainability a key component of environmental and social policy. More and more enterprises have now understood that sustainability fuels innovation, and are looking to implement sustainable methods of commerce as their way of combatting the challenges of globalisation.

But let us not deceive ourselves! What we see around us are beginnings and experiments rather than final answers and results. The demographic changes in Germany and the ongoing, unbridled destruction of the environment the world over will force all of us to take difficult decisions in the near future. Changes that improve sustainability will be needed in Germany.

Not only will businesses need a »License to Operate«; so will society's modes of production and consumption in general. Sustainability requires a major reorientation in our consumer behaviour. In this respect, consumers will be expected to play their part. The Council for Sustainable Development has directed its »Sustainable Shopping Basket« project at the consumer and shown in an exemplary fashion what being a sustainable consumer entails: a carefully-considered, eco-conscious approach to buying, consuming, using and travelling. Seen from this perspective, sustainability begins in stores. Business methods aimed at implementing prescribed ecological and social standards can only prevail in price competition if the products concerned are the subject of market demand. It is here that strategies of sustainable management will, in the final analysis, have to prove themselves.



+++ **Background information** +++ To make sure that consumers have direct access to environmental and energy-related data when they purchase white goods, a European Energy Label was introduced on January 1, 1998. This has to be displayed on the product or in the product catalogue. This label contains important information, e.g. on energy and water consumption levels, as well as key statistics on the appliance like the maximum load, capacity, and wash and spin rating. The cataloguing of machines into energy efficiency classes A – G is especially helpful as it enables a direct comparison between different models. The standard program »cotton 60°« is used to determine washing machine efficiency. An »A class« washing machine uses a maximum of 0.19 kWh per kilogram of laundry, compared to the 0.39 kWh of a »G class« machine. Quite a difference!



Sample European energy label (washing machines)

A to C	Very economical to economical
D and E	Average
F and G	Uneconomical

Energy efficiency class	Energy consumption (kWh/kg)
Most economical.....A	< 0.19
.....B	< 0.23
.....C	< 0.27
.....D	< 0.31
.....E	< 0.35
.....F	< 0.39
Least economical.....G	> 0.39



Sonja Groß [32], married, homemaker, son Lukas [1]

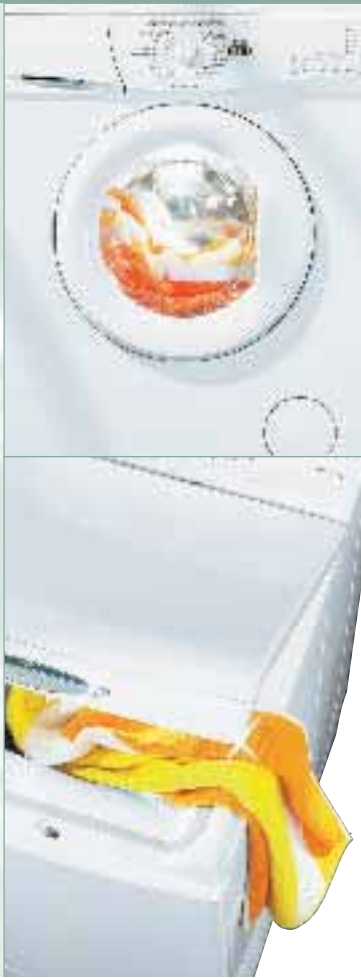
»When you become a parent, the environment suddenly becomes much more important. I only buy organic vegetables and hope the world will still be in one piece when Lukas grows up. I recently bought a new *fridge* from Otto and think it's great that 71 per cent of their models are the *energy saving* class A or A+. The D class was discontinued in 2000 and, needless to say, there have been no F and G models for a long time now. I also like the fact that, instead of simply complying with legislation prohibiting CFC's, Otto also avoids the use of HFC's and tries to use an absolute minimum of PVC. Otto – I really like it!«

Carsten Reiche [27], single, biology student

»I'm single and a student so the fact that I own a dishwasher makes my friends laugh. But my motives are mainly *environmental* – honestly! The models from Otto use an average of 14.2 litres, I'd need more than that to wash everything by hand. And if it ever breaks, I can send it back to Otto for proper disposal – it's that simple!«

Jens Hering [41] and Karen Schwob [38], Anita [10], Tobias [8] and Thomas [5]

»Can you imagine how much laundry three children generate? Especially the boys when they get back from football. Everything has to go straight into the washing machine! We don't always have a lot of money, so when we bought a new washing machine, we opted for a model that uses less water. We found one at Otto that only uses 39 litres, making it *far more efficient* than the old machine. And, as another bonus, we're helping the environment too.«



The Catalogue

Otto publishes its Main Catalogue twice a year: in spring/summer and autumn/winter editions. It weighs well over four pounds and contains more than 40,000 items. For each issue, some ten months go into selecting, purchasing, and photographing all of the items, not to mention printing ten million copies. 40 weeks of buildup, work, and decision-making; 300 days of teamwork on trends and technology.

The production of these catalogues has consequences for the environment: from the extraction of the raw materials, the production of cellulose, and the manufacture of paper, down to printing and waste disposal. Catalogues and other advertising materials therefore deserve special attention from an ecological perspective as well.

A seven-part environmental strategy to reduce negative environmental impacts was devised as early as the mid-nineties. Through continual improvement, catalogue production since then has attained a high degree of ecological compatibility.

For example, the catalogue is printed exclusively on paper that has been bleached without the use of chlorine (TCF). A 3.6 per cent reduction in the size of the 2001 catalogue saves approximately 1,150 tonnes of paper annually. An optimised

paper thickness and minimal trimming further contribute to the catalogue's environmental balance sheet.

Wood, of course, is the raw material used to produce paper. Otto is therefore a strong supporter of a sustainable forest management that aims at preserving forests of exceptional ecological value, especially virgin forests.

To ensure that no wood from primeval Russian forests is used, the companies UPM-Kymmene, Axel Springer AG and Otto jointly undertook a project in 2000 and 2001 designed to increase the transparency of the paper chain. One year later, in October of 2002, two Otto employees satisfied themselves on site of the effectiveness of the tracking system for wood products developed by the Finnish paper manufacturer UPM-Kymmene. Encouraged by the successful outcome of this project, Otto has reinforced efforts to further increase transparency in paper production.



Safely packed

Packing materials are an indispensable part of any mail-order business. In order to arrive in mint condition, the T-shirts, shoes, furniture, television sets, and household appliances the customer has ordered must all be optimally protected from damage in transit. Yet it is precisely in the area of packing materials that major strides can be made in ecological progress – as Otto has demonstrated for years.

Otto's principle has always been: as much packaging as necessary, as little packaging as possible. Unavoidable packaging is designed for maximal ecological compatibility. Otto has established six criteria to make packaging more environmentally friendly:

- [1] Avoiding packing materials wherever possible.
- [2] Avoiding one-way in favour of reusable packaging.
- [3] Upgrading one-way packaging by reducing tare weight.
- [4] Utilising environmentally friendly materials, such as cardboard in place of ecologically inimical Styrofoam.
- [5] Replacing primary materials with recycled and biodegradable materials.
- [6] Re-using unavoidable packaging waste incurred at Otto in environmentally friendly ways.



Transportation & Traffic

+++ **Joint Research** +++ The Hermes Versand Service (HVS), a mail-order company specialising in merchandise delivery, participates as a praxis partner in two research initiatives. Conjointly with the »Scientific Workshop for Environmental Measurement Technology« (WWU), and with the support of the »Federal Ministry for Education and Research«, Hermes has been engaged in a project called »Clean Routing System« since Spring 2002. This cooperative endeavour is designed to optimise delivery routes both ecologically and economically. Its objective is to measure the en route emissions of noxious and greenhouse gases by vehicles of the Hermes fleet; these results are then evaluated with the aim of devising an optimal routing system which is economically and ecologically feasible. Since mid-2003, this system facilitating the »on-board-measurement« of emissions, mileage, and other parameters such as locations and speeds, is being tested in selected Hermes vehicles.

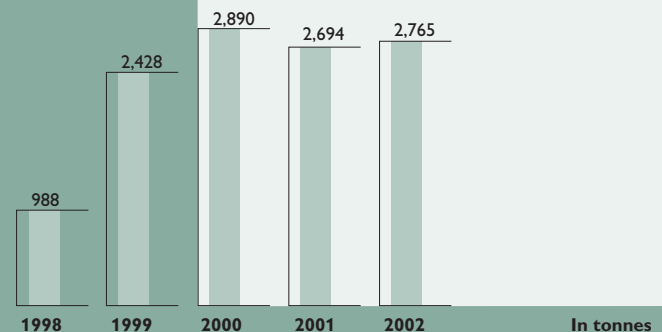


The second initiative, »**Intelligent Traffic and Utility-oriented Technology**« (INVENT) is devoted to traffic flow, traffic guidance technology, and traffic safety. Likewise subsidised by the Ministry for Education and Research, Hermes Versand Service is one in a line of noted companies which are researching the transmission of up-to-date traffic and customer information by means of state-of-the-art telematics technology, with the aim of optimising delivery routes in »real time«.

Significant improvements in packaging have been achieved over the years. As early as 1972, Otto introduced the use of shipping cartons made of recycled cardboard; nowadays all their mail-order bags are made of recycled plastic. The next step will be the introduction of biodegradable packing foil.

It doesn't stop there. Otto also takes an interest in the packing materials used by their suppliers. Otto suppliers are given explicit packing and shipping instructions which alert them to Otto's high ecological standards. These specify, for example, that no packaging may be used that contains PVC or chlorine-bleached materials.

True to the saying, »What gets measured, gets managed«, a comprehensive packaging review and control system has been installed in order both to identify potential for economising and to gauge the success of measures already implemented. Its next task will be to define new benchmarks for the Otto Combined Group.



Savings in/replacement of non-returnable packaging with reusable packaging



Peer Seipold


Interview with Peer Seipold, responsible for transportation in the company’s Environmental and Social Policy Department, on the effects of CO₂


Why does Otto take such a stand on CO₂ emissions? »In the scope of our business operations, we transport large amounts of goods to Germany from different procurement markets all over the world. Every phase of the transportation uses fossil fuels such as petrol, diesel or kerosene. These fuels produce large amounts of carbon dioxide during the combustion process. Burning just one litre of diesel releases 2.6 kg of CO₂ – one of the main causes of the greenhouse effect. Reason enough for Otto to develop environmentally friendly transport chains and efficient logistical concepts«.

Why doesn’t the CO₂ that animals and humans have always exhaled heat up the earth’s atmosphere? »The CO₂ we exhale is part of a natural cycle. Additional CO₂ emissions, released by burning fossil fuels, have a critical impact on this cycle«.

What are the possible long-term effects in your opinion? »CO₂ reflects the sun’s rays in the atmosphere, which are then reflected back from the Earth’s surface. This process and mounting CO₂ emissions contribute to a continual warming of the Earth’s atmosphere. Three main scenarios reflect this climatic change: the melting of polar ice and subsequently rise in global sea levels, the climate zone shift and the increases in extreme weather conditions. Climatic changes also impact the economy significantly. In addition to damage to property and goods, consequences such as crop failures and earnings losses, and the devastation of the basics of human life deserve mention. You can see just how important it is that Otto is helping reduce CO₂ emissions on a sustained basis«.

The goods come from the Far East: costs and CO₂ emissions can be cut using intermodal transportation methods

 kg CO₂ per T-shirt (0.33 kg)

Aircraft	2.023
Ship	0.132
 Ocean/Airfreight	1.115

Intermodal transport from the Far East using ocean shipping and air routes generates almost 45 per cent less CO₂ emissions than using air transportation alone.



Dr. Jacques Léonardi

Statement by Dr. Jacques Léonardi, Max Planck Institute of Meteorology

»In terms of sustainable global development, the reduction of CO₂ emissions, and the endeavour to minimise other negative effects of shipping, the contribution made by Otto can be regarded as exemplary, unique, and unparalleled elsewhere in Germany. Just how Otto has succeeded in recent years in optimising its logistics and modes of transportation – both ecologically and economically – is something for the textbooks. In Otto we have an important scientific partner for testing and advancing solutions that offer relief to the environment, climate protection, and social engagement. Such an approach should be self-evident and far more widespread, for good solutions also translate into greater efficiency and therefore increased profitability«.

Factors in the improvement of ecological efficiency

Logistical Optimisation

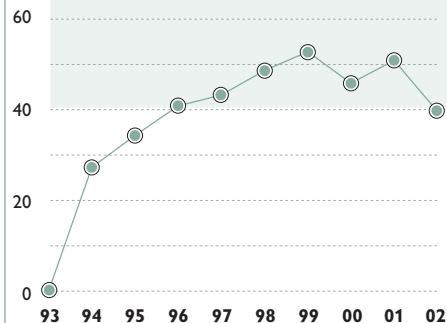
- [•] Avoidance of transportation
- [•] Increasing shipping volumes per vehicle
- [•] Consignment consolidation in the depot
- [•] IT-based delivery route optimisation

Skill Promotion

- [•] Driver training
- [•] Sensitisation
- [•] Safety training

Ecological Efficiency

Optimising transportation in a sustainable manner lowers both costs and CO₂ emissions and will therefore make a positive contribution towards safeguarding our climate for future generations. An important index for measuring this optimisation process is the »Ecological Efficiency« indicator. The higher the tonnage of goods and shipments moved per tonne of CO₂, the higher the efficiency. Using five different strategies, we strive daily to continuously improve this efficiency.



Percentage reduction of all transport-related CO₂ emissions compared to 1993, from 2000 adjusted for tonnage

Target for 2005: Reduction of transport-generated CO₂ emissions by 45 per cent of 1993 level

Hermes Versand Service

By separating the issues of consignment volume and CO₂ emissions, ecological efficiency was increased by 29 per cent between 1994 and 2002.

Alternative Drive Technologies

- [•] Electrical vehicles from 1995 – 1997
- [•] Natural gas-powered vehicles from 1995
- [•] Hydrogen-powered vehicles from 1999 – 2003
- [•] Fuel powered-vehicles from 2001 – 2003

Hermes Versand Service (HVS), an Otto Group company, uses six vans powered by natural gas in its delivery vehicle fleet. A trial operation program – lasting several years – using a hydrogen-powered vehicle for deliveries was also successfully completed.

Technical Optimisation

- [•] Regular modernisation of vehicle fleet
- [•] Tyres optimised for rolling resistance
- [•] Innovative technology (e.g. CDI)
- [•] Low-friction oils

Goods transported by long-haul flights moved to

- [•] Ocean-bound ships
- [•] Intermodal transport (sea/flights)
- [•] Rail
- [•] Inland waterways



Hand in hand *towards responsible retailing*

The provision of fair working conditions around the world represents a complex challenge that cannot be mastered overnight, but which can be attained step by step given a systematic and perservering strategy.

»Observing human rights is a fundamental principle of human society. Inhumane working or employment conditions violate this principle«. This sentence heads our practical principles for socially responsible retailing. Selecting suppliers for Otto and maintaining good relations with them play a key role in these principles.

As a global trading organisation, Otto has pledged itself to ethical and responsible corporate management.

We purchase in excess of 43,000 tonnes of goods from 49 different countries annually. In the textile sector alone we employ hundreds of suppliers. It's a responsibility we face up to: our goal is to simultaneously implement ecological and social standards with our product imports. For us, sustainability means examining each and every level of the value-added chain.

An interview with Achim Lohrie, Director of Strategy Development and Controlling, Department for Environmental and Social Policy

Mr. Lohrie, what drives Otto to address working conditions in the Third World? *»Working conditions in low-wage countries are issues that concern everyone. Both specialists and customers are well informed and showing keen interest. They really care under what kind of ecological and social conditions a T-shirt is produced. Our customers demand products manufactured under acceptable conditions – they want carefree consumption«.*

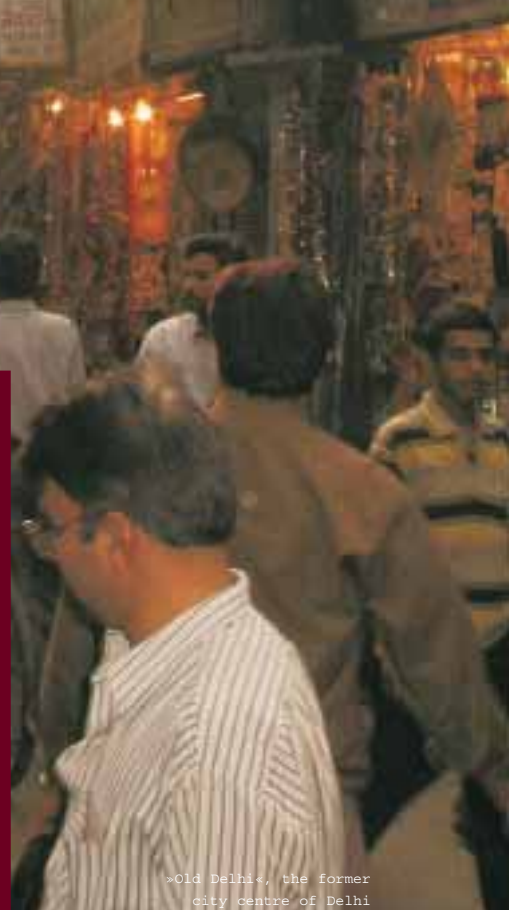
How does Otto evaluate the situation and what steps are being taken? *»It's a welcome development, enforcing what Otto has been practising since early days: a code of conduct for all suppliers was compiled as far back as 1996 and suppliers working conditions have been monitored regularly since 1997, and systematically since 2000. If working conditions fail to adhere to the code of conduct, the supplier is re-educated and given support in remedying the situation. After twelve months at the latest, a re-audit is held. A repeated violation of the code of conduct can result in the termination of business relations«.*



Production



Achim Lohrie, Environmental and Social Policy



»Old Delhi«, the former city centre of Delhi

»We have developed a code of conduct that is based on the stipulations of the International Labour Organisation and which forms our platform for implementing social standards at our production locations all over the world«.

+++ Fair Trade +++ In cooperation with the »German Association for the Promotion of Partnerships with the Third World« (abbreviated »gepa«), the Otto Christmas catalogue »Schöner schenken« has been featuring products from gepa suppliers since autumn 1997.

What exactly do suppliers agree to adhere by? »By signing the code of conduct, they agree to abstain from child labour, discrimination and forced labour for example, and also to uphold safe and healthy working conditions – many aspects which go without saying in our industrialised nations. There are critical working and social laws in low-wage countries but they are often unfamiliar, not familiar enough or ignored completely. In addition, there is a lack of state control«.

How successful are the audits? »Initial reactions are usually very positive: our trade partners are honest and eager to participate. All in all, we observe continual improvements in the social performance and greater care by suppliers in selecting their sub-suppliers. The suppliers realise that, in the end, they alone are responsible for the success of their company's future. They improve their competitive position, increase their productivity by systematic management and are able to cut expenses«.

How can business sense and social commitment be combined? Or put differently: can Otto afford to do it? »Social responsibility is not a luxury! The question should be: can corporations today afford NOT to be involved. NGO's and the media have a powerful influence. Protests resulting from poor supplier working conditions can damage an organisation's public image permanently. As a consequence, the customer loses faith and stops buying from the company involved. The result is a clear loss of sales. Educating and qualifying suppliers affords another positive outcome: changes in work processes and conditions often lead to increased productivity and improved product quality. So you see – a socially responsible production line brings economical advantages too«.

What are the main problems in import markets? »Usually the money: suppliers either fail to pay legal minimum wages or neglect correct social security contributions. Working conditions often need to be improved too – shifts are too long, work and health safety measures are ignored. The rights of employees to form a union and hold collective negotiations with the management are only invoked rarely. Sub-suppliers' exterior working conditions are often particularly critical«.

In Germany, a joint initiative of the AVE [German Retailers Foreign Trade Association] aims to improve working conditions within external supplier businesses, especially in NIC's and developing countries. What does this entail? »Trading organisations can only secure customer trust on a long-term basis by using their powerful influence. To tackle the challenges of the global economy the member companies of AVE have developed the so-called AVE Sector Model – or, in other words, joined forces to safeguard prescribed social standards together. The AVE Sector Model touches on the independent, international certification system Social Accountability 8000 (SA8000). Otto is a member of the Advisory Board at the NGO Social Accountability International of New York which developed the SA8000 certification system«.

Organically grown cotton being harvested in Yenipazar, western Turkey



Rolls of cloth being transported to the dyeing plant



The AVE Sector Model Social Responsibility



What are the advantages of the AVE Sector Model Social Responsibility? *»The advantages are clear-cut. Processes to implement social standards in production companies will be far more effective – for manufacturers and for us, the retailers, too: multiple auditing can be avoided in the future – above all where one company is supplying several retailers. Additionally it also means that producers can work with more refined requirements rather than varying requirements from dealers«.*

What are the next concrete steps? *»Within the framework of a three-year public-private partnership project, a system for supplier auditing and qualification in major import markets will be compiled with the German Ministry for Economic Cooperation and Development and the Deutsche Gesellschaft für Technische Zusammenarbeit GmbH [German Society for Technical Cooperation]. Every auditing organisation is accredited to Social Accountability International (SAI), New York. This way we can guarantee the independent, transparent and thus credible monitoring of working conditions«.*

»Minimum Social Requirements«

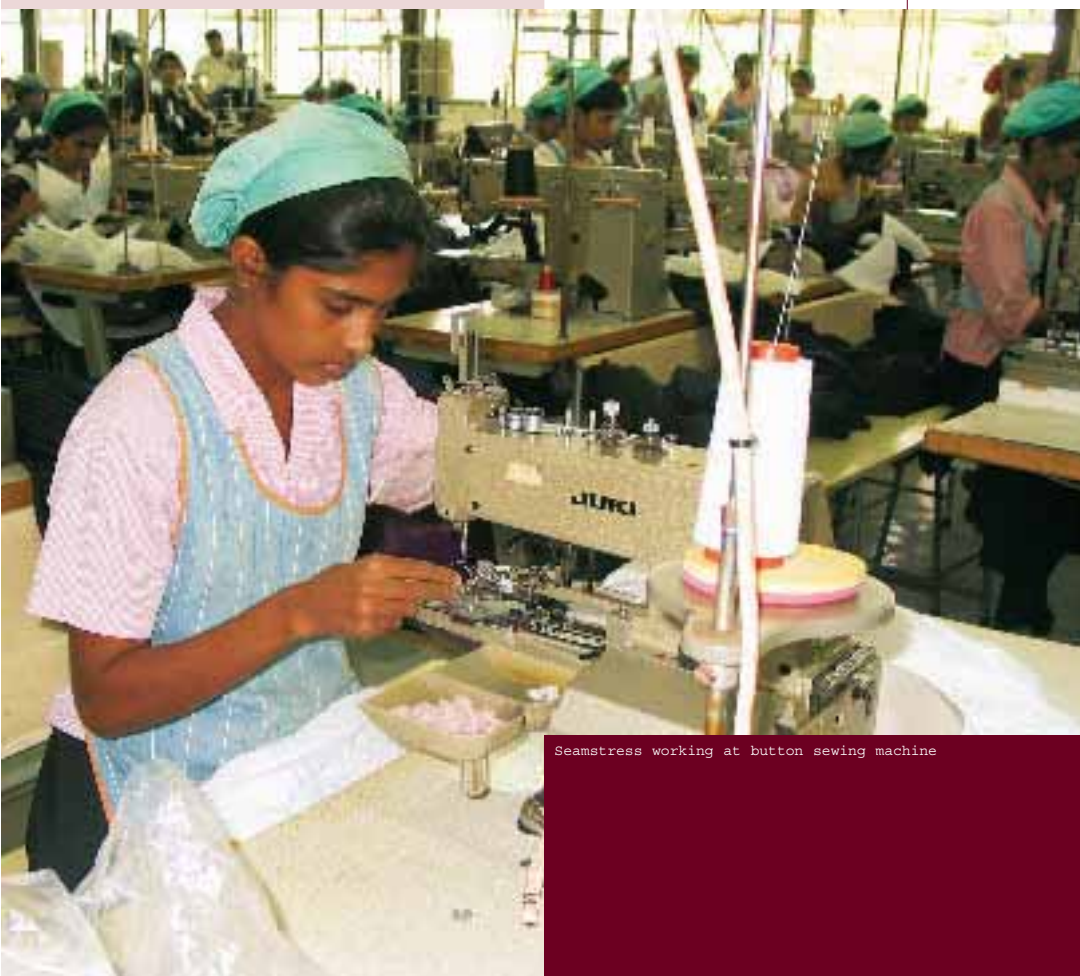
- [*] Basic documentation requirements and organisation of responsibility
- [*] Child labour ban
- [*] Payment of minimum wages
- [*] Observance of maximum working hours
- [*] Right to form unions and hold wage negotiations
- [*] Discrimination ban
- [*] Forced labour and physical punishment bans
- [*] Safe, healthy working conditions
- [*] Responsibility for sub-contractors

»Best Practice (SA8000) or comparable«

- [*] Comprehensive social management system including documentation and communication
- [*] Payment of basic needs wages
- [*] Complete responsibility in the value-added chain, i.e. for sub-contractors, suppliers, sub-suppliers and home workers
- [*] Independent verification

[>>>]

See also page 24 of Facts(&)Figures.



Seamstress working at button sewing machine



Producer in India receiving SA8000 certification

Fair Trade – Fair Play

Otto Group campaigns for social standards

Observing human rights is a fundamental principle of human society. Inhumane working or employment conditions violate this principle. We insist on compliance with prescribed social standards when entering into business relations. Before awarding any contracts, our suppliers have to undertake – on behalf of their own organisations and all their suppliers – to accept the following conditions prescribing basic rights for their employees:

- [1] Applicable national employment law must be observed.
- [2] Child labour is prohibited in the manufacturing of merchandise or provision of services for all companies within the Otto Group. The definition of child labour is based on the relevant United Nations statutes or national legislation, whichever is more rigorous.
- [3] Employees must receive wages and other benefits in accordance with applicable law and/or local production industry practice, whichever is more beneficial to the employee. The objective is to ensure wages that cover the cost of living should the legal minimum wage fail to do so. Wage cuts on disciplinary grounds are not permitted. The regular maximum working week is comprised of 48 hours. All additional work must be remunerated as overtime based on the regulations in force and/or local practice, whichever is more beneficial to the employee. The normal working week including overtime may not exceed 60 hours. Employees are entitled to at least one day off every week.

[4] An employee's legal right to establish and join an organisation of his or her choice and to conduct negotiations as part of collective bargaining agreements may not be constrained in any way.

[5] Employees must not be subject to discrimination on grounds of their beliefs or personal characteristics.

[6] Forced labour, corporal punishment, and other forms of physical or psychological coercion are prohibited.

[7] Working conditions must be safe and not represent a health hazard. The same principles apply to any living quarters provided for employees.

Suppliers and their sub-suppliers agree that their compliance with these [minimum] requirements may be monitored by either a company from the Otto Group or an independent organisation. Termination of business relations may result should we ascertain any violation of these [minimum] requirements.



+++ Carpets with the Rugmark guarantee +++ In its 1996 catalogue, Otto became the first German mail order company to list guaranteed Rugmark carpets which were produced wholly without the involvement of child labour. 1 per cent of the import price is donated to UNICEF for children's education programmes. »Misereor«, »terre des hommes« and »Brot für die Welt« number among the founders of the Rugmark Initiative.

+++ Manila School Project +++ This friendship initiative partnered by Germany and the Philippines was initiated by Otto ten years ago in Manila. Since then, more than 300 children have received pre-school education as part of the project. Ample donations have now allowed enough money to be saved to make the project self-sustaining.



Statement by Albrecht Graf von Hardenberg, Head of Office for Cooperation with NGO's at the GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit GmbH) [German Society for Technical Cooperation].

» «Public Private Partnerships» are development partnerships with the private economy. Partnerships consist of projects financed jointly by private corporations and public development organisations. Companies particularly appreciate the GTZ's backing for practical collaborations in project planning, concept development and establishing on-site contacts. Their experience of local markets and political issues surrounding corporate investments is also highly in demand. In return, the GTZ relies on the progressive economic strength of business partners such as Otto.

Otto and the GTZ have already realised three successful development projects, both individually and together with other partners. The matter in hand was the implementation of prescribed social standards for suppliers in China and India. Based on around 100 social audits, a supplier handbook was compiled in China, containing information and practical tips on how businesses can eliminate deficits in meeting social standards. It also explains how both employees and businesses can recognise and reap the benefits of long-term improvements. Otto and the GTZ gleaned further insights through a project involving 60 suppliers in India. Auditing suppliers was a means to an end, rather than the ultimate goal itself: transparency in a supplier's social performance served as a starting point on which schooling and qualification measures were then based. In view of the initial projects' positive outcome the partners agreed to extend their support to other developing countries that manufacture goods for the German market. This project is run under the umbrella of the trade organisation AVE (Außenhandelsvereinigung des deutschen Einzelhandels e.V.) [German Retailers Foreign Trade Association], of which Otto is also a member. The project sets new standards and offers a host of advantages for all involved – for production plants in partner countries as well as for German companies and their consumers. Within its framework the partners establish a basis for the simple and practical handling of an otherwise complex subject matter – namely on an international level with a strategic outlook and with strong partners behind us. The manner in which cooperation between Otto and GTZ has flourished sets a model example: growing from individual projects into a strategic alliance. We see it as encouragement to continue working toward solutions – quickly, unbureaucratically and jointly – with companies like Otto.

Albrecht Graf von Hardenberg



Waltraut Waidelich



Statement by Waltraut Waidelich, Church Support Group for Employment

»Decisions by multinational companies – including Otto – to ensure their suppliers uphold prescribed social standards represent a positive and very encouraging development. But this is but a drop in the ocean; since the mid-eighties, advancing globalisation has affected the general conditions surrounding the trade of goods, services and capital. Employment and welfare laws that apply globally, for example in China, are desperately needed to ensure that workers' rights and wages reach even an absolute minimum. Were they implemented, the companies and their suppliers wouldn't have to impose their own standards, compliance with which is difficult to monitor anyway. What's more, if global standards were applied, businesses manufacturing under appalling conditions wouldn't enjoy the competitive edges their lower costs currently bring. If international corporations were to abide by the social standards prescribed by the International Labour Organisation in Geneva, and entrust independent auditors with the task of monitoring compliance, this would already represent a step in the right direction«.

Hand in Hand

More information about the international implementation of prescribed social standards in the world of employment

- [•] www.cleanclothes.org
(Clean Clothes Campaign)
- [•] www.sa-intl.org
(Social Accountability International)
- [•] www.fairlabor.org
(Fair Labor Association)
- [•] www.ethicaltrade.org
(Ethical Trading Initiative)
- [•] www.unglobalcompact.org
(United Nations Global Compact)
- [•] www.ilo.org (International Labour Organisation)
- [•] www.unctad.org
(United Nations Conference on Trade and Development)
- [•] www.wto.org
(World Trade Organisation)



Our health management principles

- [•] Comprehensive
...means physical, psychological and social welfare in and outside of the workplace
- [•] Promoting and protecting health are executive functions at Otto
- [•] Employee participation and independence
...only if employees participate can sustained improvements be achieved



What makes Otto a success? The employees!

As a responsible employer we take the health of our employees to heart. Sustainability at Otto also entails analysing the question: What can we do to maintain and promote our employees' health?

Our health management has become active: in 2000, experts in work safety, corporate social welfare and industrial medicine joined forces under the name »aktiv.net« and developed a comprehensive programme together.

Determining values *together*

We promote dedication and a sense of responsibility with our activities – both within the community and beyond it.



Women's football in the Otto Group: Otto versus Witt

Cutting to the chase: What do we offer?

[1] A health programme focusing selectively on every topic concerning health education and accident prevention, for example traffic safety, nutrition, exercise, relaxation, workstation ergonomics, etc. »Safe Driving Training« and »Work-Life Balance« were among the highlights in 2002.

- [2] Social counselling for psychological or social problems such as addictions or financial difficulties. In addition, the social counselling has been offering advice on tackling personal problems in a self-help style for years – proving an enormous success.
- [3] Information and seminars, e.g. tips on safe lifting and carrying (vital in packing parcels), first aid training, information on fire protection, etc. Events dealing with a healthy balance between work and leisure formed the core focus of 2002.
- [4] Medical care includes advice about working abroad, basic examinations, a casualty station for emergencies as well as flu vaccinations. Thyroid gland screening was the special preventative activity offered in 2002. In 2003, Otto employees were able to participate in screening for the early detection of intestinal cancer if they wished.

A total of around 3,000 employees have used our preventive healthcare offerings – a huge success in our eyes. The number of recorded accidents has also improved: at 411 the figure is 50 per cent below the industry average.

We get things moving!

To improve health levels, aktiv.net devises special activities for individual areas. For example, the Group’s well-being project for warehousing employees – »...move with Otto« – aims to maintain healthy motor apparatus. For employees who have not been able to work for a sustained period due to motor-related injuries, a viable return to work is made possible.



»The »...move with Otto« programme enabled me to resume work without any restrictions again. Above all I found the health-related advice I received at my workplace a really great way to stop the pain from returning«.

[<]
Marita Dose, a data-processing worker in the Returns department, took part in the »...move with Otto« course.

+++ Coaching +++ Seen as a whole, a healthy employee is not only physically fit but also socially and psychologically sound: after all, worries and problems get taken to work and vice versa. We therefore provide our employees with internal counselling in specific problem fields. The positive response encourages us.

Counselling Statistics
Number of sessions
(counselling on specific issues)
Subject

	2002	2001
Debts	454	503
Illness	315	362
Job	267	217
Management	214	237
Addiction	113	74
Family	71	84
Accommodation	6	8

What exactly does that mean?

Employees with minor complaints receive a combination of different training types in the workplace and in special courses. aktiv.net offers a combination of physiotherapy and integration into work processes for victims of more serious injuries. If, for example, an employee suffers repeated back pain which restricts work, a six-week health plan alternating between work and physiotherapy offers the chance for the individual to become active again and experience pain-free work and leisure. During rehabilitation employees are released from work.

The project began at the start of 2002 and over 200 employees are already participating.

»...move with Otto« is run in cooperation with experienced partners such as AOK, LVA, and the rehabilitation centre at Berliner Tor in Hamburg. The University Hospital in Eppendorf is providing the scientific evaluation of the project.

Our philosophy: health and safety bring success

This project illustrates Otto's philosophy. We see ourselves as the employees' partners. We are jointly active and support their self-help. Health activities promote good health for employees and healthy employees mean success for Otto. Fewer absences, fewer accidents, more commitment and more resources in retirement mean a win-win situation for the employees and company alike.

+++ Our goals for a future-orientated and successful health management +++

- [•] Sustainable health management with the goals of fostering physical, psychological and social well-being; facilitating the ability to do one's job and promoting the company's success forms part of the corporate culture at Otto.
- [•] Systematic cooperation between social and safety-related competences within aktiv.net, which – in cooperation with partners – is keyed to company needs and actively supports and initiates changes.

Otto aktiv.net serves a total of 14,916 Otto Group employees.

[>>>]

For information on how health management activities are organised at Otto, see page 32 of Facts(&)Figures.



Christian Gatzemeier,
Trainee



Cati Schneider,
Public Relations



Michael Kirmis,
Returns Management



Irene Oksinoglu,
Customer Service

2000	1999	1998
489	551	572
324	329	388
173	212	213
166	186	97
72	139	141
98	90	134
12	19	29

+++ Successful +++ Otto's health management was awarded the corporate culture prize on November 20, 2002. The accolade is given to corporations that dedicate special attention to their employees' well-being. The prize money of 30,000 Euros will be invested in additional vocational training opportunities.

Otto's dedication reaches beyond the company itself

The working world is changing: companies and their employees need to tackle diverse issues such as the expansion of new technology, globalisation and the increasing average age of personnel. Employees' health and motivation are more important than ever for a company's success. Thus, everything that promotes health and motivation represents an investment in the future.

Otto already signed the Luxembourg Declaration for Corporate Health Promotion in 2001. The aim of the initiative is to further instil the importance of health and well-being in both the workplace and when making political decisions. On March 30, 2001, Otto was admitted to the European Network for Corporate Health Promotion, where companies particularly active in health promotion can get involved. We want to foster health management within the company, spread successful practical examples and support a continued exchange of ideas.

[@]

Further information at
www.enwhp.org



Erni Frenzel, 72 years old,
spent 30 years as a joiner
at Otto

+++ Getting older – so what? +++ To guarantee a secure income and therefore a time free of financial cares after retirement, Otto offers its employees a diverse range of pension alternatives. Otto provides every employee with a company pension scheme. In addition, more than 8,000 employees participate in regular contribution pension schemes. Components of the complete pension scheme:

- [•] Company pension plan
- [•] Contribution pension scheme financed by employer
- [•] Possibility of return conversion for the benefit of an additional pension since 2002
- [•] Option of applying for a so-called »Riester« pension
- [•] Additional direct insurance options



+++ Profiting from Teamwork +++

»With our capital sharing policy we want to make employees into co-entrepreneurs so they understand just how important each individual's dedication and initiative are – and what can be achieved as a result!«
Dr. Michael Otto

One characteristic of our corporate culture is the employees' active role in the company. In addition to individual performance-orientated bonuses, capital sharing within the framework of a profit participation model has been an option since 1988. By purchasing jouissance shares, employees can accumulate assets and share in corporate profits. A corporate grant which can amount to EUR 150 depending on the type of share package acquired is also awarded. Capital sharing represents special recognition for proven dedication and also serves as an incentive for sustained outstanding customer service.

[@]

Further information at
www.otto.com

A child and a career – twice the fun, not double the trouble!

Interview with Mrs. Jessika Peters (shoe department purchasing) about juggling children and a career. Her daughter Hannah was nearly eight months old in August 2003. Mrs. Peters returned to work four months after Hannah was born.

When families are blessed with children, it's hard to put all your effort into your job. Mrs. Peters, what was it like in your family? »Lots of things changed when Hannah was born. Nevertheless I was still keen to get back to my job, on a part-time basis. At Otto there are various models for doing this, depending on what kind of work you do. I could have worked full-time three days a week, or just a few hours every day. We decided on the latter option, and I am very happy to be in daily contact with my colleagues«.

And where is your daughter during your work hours? »An independent advice agency arranged by Otto helped me to find a caring childminder for my daughter«.

Location flexibility was introduced successfully with Otto's Home Office project. This entails employees being given a workplace at home where they can do their jobs – organising their working hours as it suits them. The participating employees are highly satisfied and, furthermore, outstandingly prolific. Would you consider this alternative too? »I would love to take advantage of the scheme in the future, but doing so poses slightly more complications in the purchasing department. I would only be in the office twice a week. Organisational aspects would be easier if I could work from home for the rest of the time but my husband plans to spend more time with Hannah in the future too. For me, it's important to stay involved«.

Do you feel that Otto is giving you sufficient support? »Yes, definitely! Flexible work schemes mean I could have chosen to take one or two years off after my maternity leave and still have the guarantee of a job when I returned. It's great that there are so many ways of combining your family and career. We even receive EUR 30 in child care allowance every month. And, as well as that, Otto rewards the birth of each child with a EUR 250 gift voucher«.

Since 68 per cent of Otto's employees are female, family and the career is an important subject for Otto, not least as women are typically the ones to sacrifice their professions to raise a family. To retain our qualified members of staff we strive to offer them our active support.

Our diverse work schemes – whether in the form of flexible working hours with no set times or job sharing – have all proved very popular. Over 53 per cent of employees already work part time. Not only women but an increasing number of men in professional positions too, choose to work from home. Teleworking has proved a particular success. By offering these alternatives we secure qualified employees, record less cases of absence and – through the desk sharing component of the Home Office project – can use office space more efficiently in the medium term.



Jessika Peters with her eight-month old daughter, Hannah

Corporate Culture and Further Education

Good training

It isn't enough to simply be qualified and motivated as a modern manager today. Otto expects more: our executives need to be inspired, able to cope with complex situations and build trust. They need to be flexible, creative and team orientated. The Otto International Academy regularly invites 15 – 20 budding managers from different countries in the Otto Group to attend an unusual workshop. In addition to their normal working day, they are expected to complete a special mission. In 1999, the task was to »create a piece of art to be displayed in the Guggenheim Museum«. It was an exciting project that both caught the attention of the press and was awarded a number of prizes. The task assigned to 16 managers in 2001 was no less challenging: »Shoot and produce an expressive documentary about ›Leadership‹ and present the result at the Cannes Film Festival«.

Michael Dumke, General Manager at Otto Italy, said the following of his experiences during the project: »Global change and the pace of society make learning a lifetime occupation. I was always open to new developments – at least I thought I was.

But when I found myself standing at Kottbusser Tor in Berlin and was expected to shoot a film – a high brow one at that – I thought: this isn't going to be easy! Full of anticipation, our team explored the capital with a camera. There were seven clearly defined locations for the theme ›Leadership‹. After three days of filming we had enough material but it was only then that the work really started. 20 hours of film material had to be condensed into a 50-minute film that not only matched up to the competition but met high artistic standards as well. Obviously, we had the support of a professional cutter but our goals were sky-high. I had never imagined the cutting of a few minutes of film could be so complicated.

The complexity and the lengthiness of the project eventually made things difficult – it became harder and harder to motivate the whole team. After all, we still all had our ›day jobs‹ at Otto. Only by joining forces could we keep the enthusiasm going and motivate each other. We didn't achieve our goal of being admitted as a debut film in the category ›Semaine de la critique‹ but we were still represented there in Cannes. More than 70 invited film journalists attended the premiere which was held in a beach bar next to the Festival Palace. ›Gold Cuts‹ is now set to reach a wider audience on TV and, in doing so, should contribute towards its re-financing. There were so many new experiences – and I learnt a lot too«.



Junior company Cultur-e



Cultur-e works on projects spanning all areas of the New Media

[@]

Further information on Otto as an employer can be found at www.otto.com/job@otto

+++ Prizes +++ Otto was awarded the Meeting Business Award in 2001 and 2002 for its training activities.

A change of sides means seeing the world through different eyes

Otto's personnel department has been recommending a change of scenery for company managers for a while now. To date, 25 managers have »swapped sides« and faced a whole new working environment at a welfare organisation. The experiences are essentially positive: *»I never imagined there would be so much to manage in a welfare organisation – it's just like my job. And it's downright hard work for a relatively low wage. But it's worth it! Seeing a sparkle in the eyes of people you have been able to help makes it so rewarding. And it gives you the energy to keep going!«*

Trainees now have the chance to »change sides« this year too. The partners from the welfare sector include centres for the homeless and the advice bureau (BSZ) [Beratungs- und Seelsorgezentrum] at Hamburg's St. Petri church. This year, the BSZ is offering five trainees the opportunity to help organise Christian Christmas celebrations for 150 lonely and homeless people.

Our trainees have also already been actively involved in the BSZ within the framework of the Young Projects und Cultur-e programme, where they succeeded in promoting a productive exchange between private companies and charitable organisations.

[@]

Additional information on the BSZ can be found at
www.hauptkirchen.de/hauptkirchen/petri/bsz.htm

Young Projects = Young Professionals

A fountain of ideas, innovative power and teamwork are all attributes we expect from our trainees. And these are exactly the qualities our youngest Otto trainees can demonstrate in our Young Projects. The Young Projects entail the autonomous planning, implementation and evaluation of a project commissioned by various departments. The project team – usually four trainees with differing core training subjects – has up to eight weeks to complete the task successfully. Creating a design concept for Otto Extra, trend scouting for men's & boys' wear and children's outerwear and organising a charity drive for the counselling bureau (BSZ) [Beratungs- und Seelsorgezentrum] at Hamburg's St. Petri church numbered among the assignments in 2002. All of the projects were completed successfully.

Trainees? – Terrific!

In our junior company Cultur-e, trainees work on their own projects concerning various areas of the New Media. The portfolio comprises web consultancy, web design, programming and training. Acquisitions, order processing and customer care are, to a large extent, dealt with by the trainees independently.

In 2001, Otto was awarded the German Training Prize (MUWIT) for its innovative personnel development activities. Our trainee company Cultur-e created a new e-learning concept that they presented at ProSales 2001. Jessica Düning, one of the youngest apprentices, took part in the independent training concept »Trainees Teach Executives« when it was staged as a play: *»Of course I was nervous but as soon as I started to speak, my nerves disappeared! It was exciting to see how the audience reacted to our production«*. Cultur-e actually won the International German Training Prize that included prize money of over EUR 5,000.

+++ Prizes +++ German Chamber of Industry and
Commerce Initiative Prize for Training and Further
Education 2002 and 2003 +++ Further Education
Award 2001 +++ International German Training Prize
from the Bund Deutscher Trainer und Verkaufstrainer
(Union of German Trainers and Sales Trainers)



Anti-Corruption Guidelines

In August 1998 the International Chamber of Commerce (ICC) published guidelines to help prevent corporate corruption. These rules of conduct include concrete principles for employees, a fundamental consensus view on corporate ethics as well as suggestions for business organisation and recommendations for monitoring and sanctioning violations. In 2001, Otto pledged to implement these ICC guidelines within the company.

Rules for employees

- [1] We should treat contacts, partners and the authorities fairly.
- [2] Our contacts, partners and the authorities should treat us correctly.
 - [•] Managers should be notified of any attempts to exert undue influence.
 - [•] Employees who are influenced as a result of corrupt behaviour are subject to disciplinary action and subject to punishment under the law.
- [3] We act responsibly where gifts are involved.
 - [•] No gifts should be accepted or distributed (applies to money, material gifts including trips, services, advertising bonuses and discounts).
 - [•] The value of promotional gifts should be at a level which does not create any sense of obligation or dependency for the recipient.
- [4] We make a clear distinction between the commercial and private domains.
 - [•] Where expenses involve both private and commercial benefits to a high degree, the costs for gifts and entertainment in particular should preferably be allocated to the private domain.
- [5] We avoid any conflicts of interest that might occur as a result of secondary forms of employment or investments
 - [•] Notification must be made and, where applicable, approval obtained in writing in the event of any secondary employment at or investments in partner or competing companies by employees or persons close to them.
- [6] Decisions on donations should be made by the company executive.

+++ Moral courage – Otto joins in! +++ As a reaction to increasing numbers of xenophobic and anti-Semitic attacks, a »public pledge to defend personal convictions« was born. A total of 3,572 Otto employees signed a petition protesting extreme right wing violence and calling for more tolerance – a clear sign that there is no place for xenophobia at Otto.



+++ Education for the future +++ To help eradicate youth and long-term unemployment, Otto became part of the »Hamburger Netzwerk der Initiative für Beschäftigung« [Hamburg's Network of Employment Schemes] along with 40 other Hamburg-based organisations. The scheme is having a lasting effect on Hamburg's 15-year old school-leavers, particularly those with a more practical education. Participating organisations provide these pupils with 200 vocational training positions annually. Sustained and lively partnerships have flourished between companies involved in the initiative and secondary schools in Hamburg. Pupils receive advice on career orientation and choices by the companies' personnel staff before being successfully found a training position by the employment office. Improved perspectives for secondary school-leavers on Hamburg's vocational training market are the result of this commitment.

**Auf jeden Artikel
15% Rabatt
für Katastrophenopfer**

dpa

When emergencies arise, as in recent disasters in Germany, Otto is a dependable friend in need. The company, for example, supported victims of the flooding in eastern Germany during 2002 by providing large volumes of free merchandise and offering additional 15 per cent discounts on goods. The Works Council also contributed by collecting money and other donations. Thanks to our »Colleagues Help Colleagues« campaign, some EUR 16,231 was distributed among employees in the flood-stricken area.

Language courses for foreigners

»A sound grasp of the German language is not only crucial for good relations between natives and immigrants but imperative for the immigrants' professional success«.
(German Institute for Economic Research)

Otto employs 579 non-German members of staff – 70 per cent of them in blue-collar jobs. 55 different nationalities are represented, although the majority of non-German employees – over 59 per cent in total – originate from seven countries. These are Turkey with 17 per cent, Poland with 13 per cent, Ghana with 8 per cent, Serbia and Montenegro with 8 per cent, Iran with 5 per cent, and Vietnam and Afghanistan with 4 per cent each. To help improve working and personal relations between colleagues, courses intensifying the German language for non-German commercial employees have been on offer since May 2003. More than 100 colleagues participate in a total of seven language courses. Classes provide exercises for improving grammar, style and vocabulary as well as discussing interesting work-related topics.





»A frightening number of students leave school without the grounding in German needed for vocational training. One of society's most pressing tasks is to become more active in this respect. We will provide German courses for our non-German employees. By doing so, we can reach many parents and make a start where we can really make a difference«.
Dr. Michael Otto

Foundations

»Society needs commitment if it is to function«.
Dr. Michael Otto

»But best of all is water«

Projects preserving oceans, lakes and other water sources form the focus of the Michael Otto Foundation's activities. Water knows no geographical boundaries. It links countries, continents and cultures. The Michael Otto Foundation for Environmental Protection does the same. It draws together a range of interest groups, from the realms of business, politics, NGO's and the general public. The foundation's extensive projects safeguard both our rivers and unique animal habitats:

-  Preservation of the lifeline »Elbe«, one of the last intact river landscapes in Europe
-  Conservation of the white stork, one of 150 species inhabiting the pastures surrounding the Elbe
-  Conservation of the Pripet region in Belarus. It is one of the most important wetland areas in Europe and, among other things, home to a small and endangered bird, the aquatic warbler
-  Planning and support of the viable, ecologically acceptable usage of the rivers Oder and Rhine





Numerous other individual projects are supported by the Michael Otto Foundation for Environmental Protection too. More information about making an application can be found at www.michaelottostiftung.de and in our Foundation brochure.

And who looks after Krebsbach & Co?

The young conservationists! The Michael Otto Foundation for Environmental Protection has been sponsoring an initiative launched independently by children and young people since 2001. Projects

are supported by those who are concerned with preserving the most basic source of life: water. The response to our first appeal was positive and the foundation is now supporting six projects by the young conservationists.

The programme has prominent backing from Germany's President Johannes Rau, who has agreed to become patron of the »aqua-projects«.

What do Hamburg and Greifswald have in common?

The Michael Otto Foundation for Environmental Protection has initiated educational chairs in both cities. The aim of the posts – »Environmental Ethics« in Greifswald and »Sustainability and Global Change« in Hamburg – is to encourage new perspectives in the discussion surrounding sustainable and ecologically acceptable development, and to promote a new awareness of the issues.

[@]

Full details of how to apply are available at www.michaelottostiftung.de

[i]

For further information, please contact us at:
Werner Otto Foundation
Heegbarg 30
22391 Hamburg, Germany
T +49 (0)40 60 60 61 11
F +49 (0)40 60 60 65 70
info@werner-otto-stiftung.de
www.werner-otto-stiftung.de

For healthy children: the Werner Otto Foundation

The Werner Otto Foundation was founded in 1969 by Prof. Dr. Werner Otto. Its central mission is the support and treatment of disabled children, by donating important resources at projects where the state only offers basic care provisions.

The Werner Otto Foundation's chief project to date is the Werner Otto Institut der Evangelischen Stiftung Alsterdorf [Werner Otto Institute of the Protestant Association Alsterdorf]. Since being founded in 1974 the institute has played an outstanding role in Germany as one of the country's leading paediatric centres. Around 35,000 patients have been given intensive treatment to date.

Researching for the future

In its 34 years of existence, the foundation has contributed some EUR 16 million towards medical projects in the areas of care and research. Aid for sick or disabled children again forms the core of our work here. Consequently, the founda-

Opening of the Werner Otto House in Berlin on June 21, 2000.

Children who have received cochlear implants to remedy deafness learn to hear again at this facility.



tion helped to re-build a casualty ward and day clinic for Hamburg's child cancer centre as well as extending the facilities for research purposes.

Cooperation with the University Hospital, Eppendorf

To mark the fiftieth board of trustees' meeting, the »Werner Otto Scholarship for the Promotion of Young Medical Professionals at the University of Hamburg« – a project awarded over a million Euros – was introduced in October 1996. The project aims to assist three particularly talented young academics annually in compiling doctoral theses of a scientifically challenging and especially costly nature at the University Hospital of Eppendorf in Hamburg.

A close-up photograph of a woman and a young girl working together. The woman, on the left, is holding a green and yellow striped pencil and a long wooden ruler. She is looking down at the ruler with a focused expression. The young girl, on the right, is also looking at the ruler and has a joyful, open-mouthed smile. They appear to be in a workshop or classroom setting, measuring a piece of wood.

You can measure our dedication.

As a responsible employer, it is important to Otto that – in the cause of sustainability – it preserves and promotes the health of all its employees, provides good training opportunities and offers varying models for successfully combining a profession with family life etc. But Otto also initiates positive impulses outside the company: through, for instance, the Michael Otto Foundation for Environmental Protection and the Werner Otto Foundation, which supports medical research.

www.otto.com

OTTO

- [1949] First catalogue distributed
- [1959] Otto reaches 1,000 employees
- [1972] Founding of the Hermes Versand Service [Hermes Mail Order Service], Germany's oldest private delivery service
- [1974] Partnership with the French trading company 3 Suisses and thus, for the first time, with a foreign distributor
- [1985] Otto establishes the Bon Prix trading company
- [1986] The joint venture Otto Sumisho introduces Otto as a supplier to Asia
- [1995] First internet appearance under www.otto.de
- [1999] »Happy Fifty« – Otto celebrates its fiftieth anniversary with 40,000 participants
- [2000] Establishment of the joint venture between OBI and Otto

Commerce

Milestones

- [1956] Introduction of the five-day working week at Otto
- [1957] Founding of a social fund for a company old-age pension scheme and sports programme
- [1966] First edition of the in-house newspaper »Die Rampe«
- [1971] Introduction of flexi-time at Otto
- [1988] Launch of employee capital sharing programme
- [1989] Approval of a programme promoting compatibility of »Family and Profession«
- [1993] Establishment of the Michael Otto Foundation for Environmental Protection
- [1998] Founding of the Otto International Academy
- [2001] Start of the pilot project »Home Office« and the founding of aktiv.net
- [2002] Launch of a comprehensive old-age provisions programme

Ecology

- [1986] Environmental protection is firmly established as a company objective in Otto's corporate philosophy
- [1990] The seal »Kind to your skin – tested for harmful substances« appears in the main catalogue
- [1992] Publication of the first environmental report
- [1994] First environmental audit of Otto under the Common Market's eco-auditing legislation
- [1995] Creation of environmental requirement profiles for suppliers
- [1998] To reduce emissions in shipping, merchandise delivery is systematically transferred to sea and air routes
- [1999] House and garden furniture bearing the FSC seal of the Forest Stewardship Council for sustainable forest management is introduced into the main catalogue
- [2000] The first report on sustainability, »Report 2000«, is published
- [2002] The quality seal »PURE WEAR« for organic cotton textiles is launched

Social Affairs

- [1996] Introduction of the »Rugmark« seal in the main catalogue
- [1997] Establishment of the Otto »Code of Conduct«
- [1999] Membership of Social Accountability International (SAI) and its advisory committee
- [2000] Otto joins the German Business Ethics Network [Deutsches Netzwerk Unternehmensethik (DNWE)] and becomes the first recipient of the DNWE's »Business Ethics Award«
- [2000/01] Participation in pilot projects organised by the AVE/GTZ in India and China
- [2001] Otto joins the UN Global Compact

[2002] Dr. Michael Otto receives the Sustainability Leadership Award

[since 2002] Extension of the Otto Social Programme to include Bangladesh, re-audits performed in the other markets

[2003] Conversion of the Otto Social Programme into the AVE Sector Model Social Responsibility

Dialogue with all participants

We feel duty-bound to a partnership and dialogue with all internal and external interest groups. The large number of enquiries from customers, schools, students, and other institutions concerning Otto's commitment to sustainability demonstrates that our invitations to enter into dialogue with us are well received and used extensively.

With this report we intend to intensify our continuous and comprehensive communications with our employees, customers, suppliers, the media, the public in general, and stakeholders. We want to set forth clearly the values and attitudes that form the core of our understanding of entrepreneurial responsibility and sustainable business management.

Among the instruments used to effectively address specific target groups are press and public relations, marketing and advertising, as well as sales support and the New Media. We

also use international forums for the purposes of exchanging information beyond the confines of the company or the segment.

Our internal communications on sustainability are dedicated to providing comprehensive information, practical suggestions, and continuing professional training programs. For years, sustainability has been an integral part of both our basic and continuing training. Seminars on environmental and social policy are mandatory for both trainees and junior executives. Internal media, such as the employee newspaper and video, ensure the dissemination of the latest current information in the areas of social and ecological policy. Such efforts are based on the belief that ideas and implementations relative to sustainability can only be realised with personnel that are well informed and aware of their actions.

Here, at a glance, are Otto's hitherto published documents and reports on sustainability and the environment:

1992	Premier publication on environmental protection (philosophy, in-house measures, range-related measures, concept promoting a change in outlook)
1994/95	Second publication (»Environment: Acting Consciously«)
1996	First environmental report
1998	Environmental report and statement in conformity with the Common Market's environmental audit system
2000	»Report 2000«, Sustainability at Otto (environmental policy, »Code of Conduct«, social responsibility)
2003	»Shaping Awareness«, report on sustainability, based on the guidelines of the Global Reporting Initiative (GRI)

About this Report

The present report on sustainability covers a three-year period. Unless otherwise noted or expressly stated in the text, all references are to Otto (GmbH & Co KG), Hamburg.

To render the report more readable, we retained the format of our previous account, the »Report 2000«, which presents the voluminous supporting data in a separate supplement.

This year, Otto is publishing data on its personnel structure for the first time, including the percentages of foreign workers and women. Likewise included is comprehensive documentation on developments in the qualification of suppliers, the complex structure of which required detailed presentation. As in the past, the same is also true of the publication of environmental indicators, as well as of the descriptions of the respective environmental programs.

The section entitled »Facts(&)Figures« also includes the content index, which, in keeping with the guidelines laid down by the GRI, matches the contents of both the magazine and the data section with their respective GRI core indicators.

The first commercial enterprise worldwide to present reports on sustainability in accordance with GRI quality standards

In publishing its first environmental report, »Otto Mail-Order and Environmental Protection«, in 1992, Otto became a pioneer in the area of environmental communication. At that time only ten companies in Germany were giving any account, in the form of an environmental report, of their principles, activities, and achievements in the area of conservation. Since then the number has grown dramatically. For the vast majority of major corporations, reporting on ecological and social questions has now become de rigueur. Thus there are now only six firms listed on the FTSE-100 Index at the London Stock Exchange that provide no reporting on sustainability. Of the leading German corporations, too, there remain only a handful of »non-reporters«, such as Altana, E.ON, or Infineon, that stand out through their refusal to provide any information relating to sustainability and the environment. 23 of the DAX 30 companies now publish regular reports on these subjects.

Of signal importance today are the guidelines of the Global Reporting Initiative (GRI). The GRI manual has provided the framework for the production of the present report, which should therefore be assessed in this context.

Otto hereby is the first trading company worldwide to present an »in-accordance-with report« and thus to demonstrate top-level sustainability reporting as stipulated by the GRI. Given its orientation in line with the GRI's reporting principles, its statement of concurrence (in Dr. Michael Otto's preface), and its systematic detailing of the indicators reported in the annual *Facts(&)Figures* section, the report fulfills all of the GRI's requirements.

The Otto Report on Sustainability is distinguished above all in three respects:

- [•] Dialogue orientation: The report makes clear that Otto is intensively engaged in exchanges with commercial and social interest groups and stakeholders. That engagement is reflected in the target-group oriented selection and presentation of relevant sustainability topics. Co-workers, market partners, and spokespeople for social groups are all properly represented in the report. This enhances the credibility of the reporting.
- [•] Continuity and completeness: Otto has been reporting regularly on issues of sustainability and the environment ever since 1992. The reports have displayed a steady improvement, not only in the extent and quality of the published data, but also in the environmental and social management systems described. Along with its business report, the present document and its appended »Facts(&)Figures 2003« provide a complete and differentiated picture of the concern's commercial, ecological, and social activities and contributions.

- [•] Lively and attractive presentation: Sustainability is no sure-fire issue but needs to be argued with both customers and suppliers, as well as within the company. That necessitates presenting the abstract model of sustainable development in a concrete way that is attractive to the target groups. Concrete examples, transparent structure, and an attractive layout ensure that the issues contained in Otto's environmental report are appealingly communicated.

The following challenges for the further improvement of Otto's sustainability reports may be proposed:

- [•] System definition: While the report's preface points out unequivocally that the report refers specifically to the Otto Retail Corporation, it is not always made sufficiently clear to the reader what precisely belongs to the company, the Group and the Combined Group. Moreover, some of the data quoted, for example on sales and employment, pertain in part to different entities. A clearer and more perspicuous delimitation of the entities reported on would be worthwhile for the future.
- [•] More exacting goals in the area of consumer electronics: In contrast to the ecological successes and ambitious goals in textiles, household appliances, and wood products, the strategic targets in the area of home entertainment products and multimedia are relatively noncommittal. In view of the growing environmental relevance of information and communication appliances (electricity consumption, electronic junk, harmful substances, etc.), more stringent aims and implementations (environmental seals or designations etc.) would be desirable.

Summary: The present report underscores Otto's pioneering and leadership role in the realms of sustainability and reporting. The title of the publication is well chosen, since it signals that sustainability implies a new way of thinking and a different perspective on our world. The here and now inevitably becomes the here and tomorrow. The report contributes to a new consciousness designed to extend today's world.

Dr. Klaus Fichter

borderstep Institute for Innovation and Sustainability,
Berlin, December 2003

[<]

Author's note: This commentary restricts itself to an evaluation of the present report and the appended »Facts(&)Figures 2003«. No examination of the accuracy of the facts and figures themselves was performed. Neither was the reliability of Otto's internal information systems investigated.

Auditor's Certificate – PwC Deutsche Revision AG



With a letter dated 16 December 2003, PwC Deutsche Revision AG was engaged by Otto (GmbH & Co KG) to audit the »Facts(&)Figures« supplement to the 2003 Sustainability Report.

The objective of the audit procedures was to evaluate the correctness, completeness and materiality of the quantitative information provided in the »Facts(&)Figures« supplement relating to the years 2001, 2002 and 2003. This was to be done in accordance with the German »Principles for the Proper Auditing of Environmental Reports«, the auditing standards published by the German Institute of Certified Public Accountants (IDW PS 820).

The responsibility for the proper administration of the sustainability management systems on the various levels of the enterprise, and for the accuracy of »Facts(&)Figures«, lies exclusively with the executive at Otto.

Our work in connection with this contract is subject to the German »General Contract Terms for Auditors and Auditing Firms« dated 1 January 2002, as well as to our »Special Conditions« (regarding the extension of our liability) dated 1 January 2001. These conditions are also applicable in relation to third parties.

We have reviewed the processes with which the content of »Facts(&)Figures« was generated and subsequently determined whether the established processes are adequate to guarantee the reliability, completeness and materiality of the sustainability data which has been collected and collated. We have further verified our opinion by conducting sample audits of individual issues.


In accordance with the scope of the audit, the following opinion refers solely to the published German version of the report.

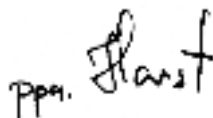
Our audit established that the entirety of the quantitative information cited in »Facts(&)Figures« is correct and does not contradict other information and documentation of the enterprise. In our opinion, the information provided constitutes a full and fair representation of the company's ecological and social performance.

PwC Deutsche Revision

Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft


(Bernd Saitz)
Auditors


ppa. Horst
(Dieter Horst)

Frankfurt/Main, January 16, 2004

Glossary

Federal Ministry for Education and Research

One of the chief missions of the Federal Ministry for Education and Research [Bundesministerium für Bildung und Forschung (BMBF)] is to strengthen the quality of the Federal Republic's educational system and to guarantee equal opportunity in education. Research is supported with the goals of safeguarding the nation's economic future and creating competitive employment opportunities.

Federal Ministry for Economic Cooperation and Development

The Federal Ministry for Economic Cooperation and Development [Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (BMZ)] is in charge of planning and implementing the federal government's developmental policies. Its tasks include the development of bilateral and multilateral support strategies and the sponsorship of developmental cooperation between non-governmental organisations (NGO's).

German Business Ethics Network

The German Business Ethics Network [Deutsches Netzwerk Wirtschaftsethik (DNWE)] serves as a mediator between theory and practice in German-speaking Europe. The DNWE is a national branch of the European Business Ethics Network (EBEN), which was founded in 1987 in Brussels and is engaged in supporting intercultural dialogue on questions of business and corporate ethics.

German Society for Technical Cooperation

The German Society for Technical Cooperation [Deutsche Gesellschaft für technische Zusammenarbeit (GTZ) GmbH] is an international federal project promoting international cooperation. In over 130 countries of the southern and eastern regions of the world, the GTZ is implementing some 2,700 developmental projects and programs, primarily on behalf of the German federal government. The aim is to improve the prospects and standards of living in developing countries and countries undergoing transition.

International Labour Organisation (ILO)

The ILO (German: IAO, Internationale Arbeitsorganisation), which has been in existence since 1919, endeavours to advance the cause of peace by promoting social justice on an international scale (by way of treaties); to improve working conditions and standards of living worldwide; and to strengthen economic and social security. In 1999 it comprised some 174 member states.

NGO

Abbreviation for »Non-Governmental Organisation«. The term stands for non-governmental interest and self-help groups with a firm organisational structure that are active, both nationally and internationally (INGO's), in specific policy areas either independently or in agreement with government agencies. The chief international fields of activity are developmental, environmental and human rights policies along with humanitarian aid.

Public Private Partnership

In this alliance between developmental policy and business, the Ministry for Development supports private industry abroad, promoting projects that promise specific developmental benefits. The goal is to mobilise commercial enterprises and sensitise them to developmental objectives, thereby helping to bring about a new understanding of their role in society.

SAI

Social Accountability International (SAI) was established in 1996 for the purpose of developing and certifying internationally valid systems designed to establish minimum social standards.

WEC

The World Environment Center (WEC) has been in existence for over 25 years. An independent organisation, it seeks to make contributions, in dialogue and practice, to the sustainable development of industrial and urban environments, to labour protection, and to medical safety.

Otto (GmbH & Co KG)

Wandsbeker Straße 3 – 7
22179 Hamburg, Germany

www.otto.com

Editor

Otto (GmbH & Co KG)
Environmental and Social Policy
22179 Hamburg, Germany

Vice President, Environmental and Social Policy

Dr. Johannes Merck

Concept and Design

Kirchhoff Consult AG

Text

Kirchhoff Consult AG
Dietlind Freiberg, Otto (GmbH & Co KG)

This report was printed on 100% recycled paper.