

KARSTADT QUELLE^{AG}



Sustainability Report 2005

About this report

With this, its second Sustainability Report, KarstadtQuelle underscores its clear commitment to sustainability. At the same time, the report presents a record of what has been achieved in 2004 and 2005, and identifies the challenges that remain. It is published for analysts and investors, business partners, collaborators, consumer organizations, official bodies and our employees. At the same time, however, we are addressing customers, special interest groups and the public at large.

The Sustainability Report 2005 focuses on the three main Group companies, Karstadt Warenhaus, Quelle and neckermann.de, and thus relates to around 70 percent of the people employed by the KarstadtQuelle Group. We had intended to expand the scope of the report to take in other subsidiary and associated companies, but this has proved impossible due to the extensive restructuring measures realized during the period under review. We have not given up on this objective, however, and hope to have achieved it by the time the next report is published in the first half of 2008. This Sustainability Report has been drawn up in accordance with the guidelines of the Global Reporting Initiative (GRI), the requirements of the rating agencies specializing in sustainability and the suggestions made by our employees and stakeholders.

KarstadtQuelle employs almost 89 percent of its total workforce in Germany, so almost all of our people are covered by comparatively strict statutory social welfare provisions. The environmental management systems introduced cover all relevant processes and sites.

In light of the breadth of the environmental, social and societal commitment of the Group, the companies and the employees, we have not focused on every single activity. Those seeking further details on the topics covered in this Sustainability Report and links to important organizations are referred to the Internet.

Details of the Group's financial position and the progress of its business can be found in the current Annual Report, which may be ordered and downloaded over the Internet.

Further information on the subject of sustainability can be found on the websites of Karstadt Warenhaus, Quelle and neckermann.de.

If you have any questions about sustainability issues at KarstadtQuelle, please contact us at sustainability@karstadtquelle.com

The editorial deadline for this report was January 31, 2006.

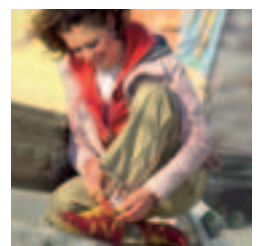
www.karstadtquelle.com
> Sustainability

www.karstadtquelle.com
> Investor Relations

www.karstadt.de
www.quelle.com
www.neckermann.de

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Foreword

Dear readers,

The past two years have confronted our Group with serious challenges. Our everyday activities have been marked by radical changes and comprehensive restructuring measures. The fact that we are once more on track is also thanks to the efforts of our employees. The will to shape the development of KarstadtQuelle in a sustainable way remained a central driving force behind our activities. We can point to many successes here, and have set them out in this report.

For KarstadtQuelle AG, economic matters, environmental issues and social responsibility are inextricably linked: As the intermediary between producer and customer, we commit ourselves to the promotion of good social and environmental standards among our partners. We have mounted numerous campaigns, including the promotion of fairly traded goods and our “Environmentally friendly back to school” initiative, in order to encourage customers to take a socially and environmentally aware approach to their purchasing decisions. We have significantly expanded our offering of energy-efficient home appliances and textiles bearing the eco-friendly “Oeko-Tex Standard 100” label during the period under review. KarstadtQuelle believes that training young people constitutes a sig-

nificant contribution to sustainable development. During the years 2004 and 2005 alone, some 1,800 young people started vocational training leading to a qualification with the Group.

This gratifying picture was clouded by the collapse of a textile factory in Bangladesh in the summer of 2005. KarstadtQuelle had only had four test orders carried out in the factory and had terminated the collaboration months before the accident. Nevertheless, the press attacked our company without justification. KarstadtQuelle donated 35,000 US dollars for humanitarian aid to help the victims. This accident again showed that we must continue to identify deficiencies in the supplier chain and work towards improvements.

This report is intended to be of maximum benefit to our stakeholders – analysts, investors, business partners, collaborators, consumer organizations, official bodies and our employees. We leave it to you to judge if we have achieved this goal. We look forward to your suggestions and constructive criticism. The 2005 KarstadtQuelle Sustainability Report is not merely a “statement of account”, it is also intended to help intensify the dialog with our stakeholders.

We hope you find the report interesting.



Dr. Thomas Middelhoff
Chairman of the Management Board



Prof. Dr. Helmut Merkel
Member of the Management Board with responsibility for
the Environment and Social Affairs

Portrait of the Group: KarstadtQuelle AG

KarstadtQuelle is Europe's largest department store and mail order group. The last two years have been characterized by restructuring measures and a consistent process of reorganization.

The KarstadtQuelle Group, which is headquartered in Essen, employs some 69,000 people. Karstadt Warenhaus, Quelle and neckermann.de do not operate their own production facilities. During the business year 2005, we posted adjusted sales of 15.45 billion euros. About 26 percent of the sales were achieved outside Germany.

Business segments

The business segments of the KarstadtQuelle Group include Karstadt, Mail order, Thomas Cook, Services and Real estate.

With 90 department stores and 32 sports stores, KarstadtQuelle has a presence in many larger German towns and cities. Some 2.5 million customers visit our department stores every day.

In the mail order segment, the two principal brands Quelle and neckermann.de cover the entire bandwidth of general and special mail order activities in Europe. With its 20 international companies such as Peter Hahn, Hess Natur or Baby Walz, the special mail order arm concentrates on precisely defined target groups.

Tourism activities basically encompass our 50-percent holding in Thomas Cook AG.

In the services segment, KarstadtQuelle is expanding retail-related services in particular. This applies especially to financial and infor-

mation services and Customer Relationship Management. The real estate segment handles the Group's extensive property portfolio.

With more than sixty online portals in place, KarstadtQuelle has further enhanced its leading position in Germany.

Restructuring and realignment

On September 28, 2004, we introduced to the public "KarstadtQuelle Neu", the program for the restructuring and realignment of the Group. It defines the strategic approach for the 2004 to 2008 financial years. "KarstadtQuelle Neu" is based on a fundamental reconstruction of the finances and a radical realignment of the business models, particularly in the retail segments.

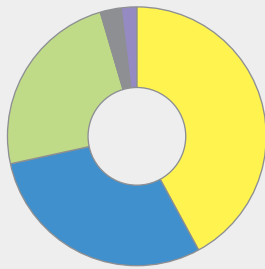
The basic concept "KarstadtQuelle Neu" was supplemented by further divestments in mid-2005 and extended to include a massive reconstruction program in universal mail order Germany. At the end of 2005 strategic realignment was specified for Thomas Cook and the real estate portfolio.

"KarstadtQuelle Neu" has the following goals:

Phase 1 (financial years 2004 and 2005):

- Focusing on the core competences
- Realignment of the business models
- Reconstruction and restructuring of finances
- Reduction of employed capital
- Cost reductions

Adjusted sales according to business segments (2005)



	in billion euros
Mail order	6.75
Karstadt	4.73
Thomas Cook	3.83
Real estate	0.42
Services	0.31

*The figures were adjusted. The adjustments relate to special factors, divestments and joint ventures.

Phase 2 (from the financial year 2006):

- Reconstruction of universal mail order Germany
- Reduction of net financial liabilities towards zero
- Concentration on profitable growth segments
- Further considerable reduction of the employed capital

Corporate Governance: Strengthening trust

Within the KarstadtQuelle Group, Corporate Governance means managing and regulating the company in a responsible manner, and with a view to long-term value creation. This enhances the trust of national and international investors, the financial markets, business partners and employees, as well as the general public in the KarstadtQuelle Group.

KarstadtQuelle AG complies in almost every regard with the German Corporate Governance Code. The Management Board and Supervisory Board issued the last declaration of

compliance in accordance with Section 161 of the German Stock Corporation Act on March 21, 2006. As a company governed by German laws on stock corporations, we have a dual management and control structure in the form of a Management Board and a Supervisory Board. The 20-strong Supervisory Board is made up of equal numbers of employer and employee representatives. The efficiency of its activities was audited according to the Corporate Governance Code for the first time in 2005.

Our sales and earnings development

The KarstadtQuelle Group achieved adjusted sales of 15.45 billion euros (previous year: 16.14 billion euros) in the 2005 financial year. This represents a decrease by 4.2 percent. It must be noted that part of the sales decrease was caused by the temporary closure or partial closure of reorganized department stores, dispensing with large-scale discounting campaigns and selective discontinuation of product lines and the associated considerable reduction in catalog pages in universal mail order Germany. Thanks to the successful restructuring measures the KarstadtQuelle Group is again plannable and manageable.

Adjusted operating earnings before interest, tax, depreciation and amortization (adjusted EBITDA) rose by 5.1 percent to 544.1 million euros (previous year: 517.5 million euros) at Group level. The earnings target was thus achieved. Four out of five business segments – Karstadt, Thomas Cook, Services and Real estate – are above plan; Mail order is below plan.

Declaration of compliance with the German Corporate Governance Code
www.karstadtquelle.com
 > Corporate

Our responsibility:

Positive appraisal

Active responsibility for employees, the environment and society has always been a fundamental requirement for KarstadtQuelle's actions, even in difficult times. Our first Group-wide Sustainability Report, which appeared in April 2004, was well received.

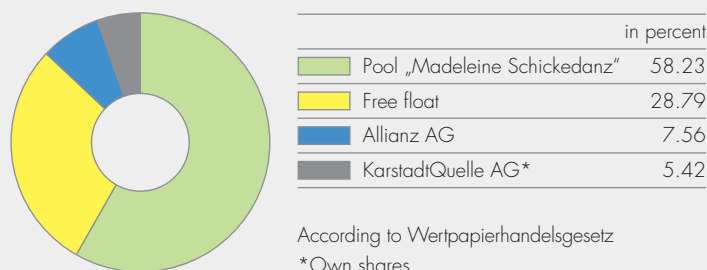
A worldwide benchmarking study performed by London-based consultants Sustainability Ltd. placed the KarstadtQuelle AG report in the top 50 of such publications. The overall rating put KarstadtQuelle in 25th place, and earned it second place among the German reports.

A ranking of the sustainability reports of the 150 largest German companies performed by future e.V. and the Institute for Ecological Economy Research put our report in second place in the overall assessment.

A wealth of awards and prizes confirm that we are on the right track. Karstadt Warenhaus earned recognition from the German section of UNESCO for three of its projects: Weeks of action focusing on organic products and "TransFair" goods, along with the "Environmentally friendly back to school" campaign were honored as official projects of the World Decade for 2005/2006.

Karstadt Warenhaus and neckermann.de were singled out by the German Environmental Management Association (B.A.U.M.) and the German mining and chemical industry trade union for their project designed to motivate employees on sustainability issues.

Shareholder Structure (As of: December 31, 2005)



The companies of the KarstadtQuelle Group are party to the following cooperative environmental alliances and partnerships between the German federal states and business and industry:

- Umweltallianz Sachsen des Landes Sachsen und der Wirtschaft (Saxony)
- Umweltallianz Hessen des Landes Hessen (Hesse)
- Partnerschaft "Umwelt & Unternehmen" (Bremen) a network of the state of Bremen and selected companies
- Umweltpakt Bayern der Bayerischen Staatsregierung und der Wirtschaft (Bavaria)
- UmweltPartnerschaft der Freien und Hansestadt Hamburg und Unternehmen (City of Hamburg)
- Umweltlernpartnerschaft Hessen (Hesse)

Umweltallianz Sachsen
www.smul.sachsen.de

Umweltallianz Hessen
www.umweltallianz.de

Partnerschaft "Umwelt & Unternehmen"
www.umwelt-unternehmen.bremen.de

Umweltpakt Bayern
www.umweltpakt.bayern.de

UmweltPartnerschaft Hamburg
www.umweltpartnerschaft.hamburg.de

In response to the positive appraisals of our sustainability performance we are listed in indices including the following:

- FTSE4Good (FTSE4Good Europe Index and FTSE4Good Global Index)
- Ethibel Sustainability Index

FTSE4Good
www.ftse.com/ftse4good

ESI – Ethibel Sustainability Index
www.ethibel.org



German consumer goods testing foundation Stiftung Warentest carried out an investigation into remote controlled toy cars at the end of 2005. The testers not only scrutinized the vehicles' performance, they also examined the social and ecological commitment of the various manufacturers. The results amounted to a glowing endorsement of the Group's efforts. The conditions under which the miniature cars are produced for Karstadt Warenhaus, Quelle and neckermann.de were judged to be exemplary. Consumer body Stiftung Warentest gave all the Group's companies its top commitment rating in the corporate responsibility category. The Stiftung Warentest team also singled out Karstadt Warenhaus' Quadra Racer as the test's "secret tip".



Our sustainability strategy

As an international retail company and supplier of own-brand products KarstadtQuelle acknowledges the significant social and ecological responsibilities it incurs. Clearly, we pursue profitable growth for our company, but we bear these responsibilities in mind: we regard them as prerequisite to lasting success in the marketplace.

A commitment to sustainability is nothing new for KarstadtQuelle: our Management Board formally assumed responsibility for ensuring the sustainability of our operations in 2002, we introduced a comprehensive sustainability organization, rigorous sustainability guidelines and defined areas of action just one year later, followed by our first Sustainability Report in 2004. The Group has consistently stood by the sustainability strategy during the period under review. KarstadtQuelle concentrates its sustainability activities on five areas of action that we consider fundamental in the light of current political imperatives and the requirements of our stakeholders:

- Product mix
- Global working conditions
- Advice to customers
- Operational management
- Human resources management

Sustainability management:

Good progress made, but still more to do

We set ourselves clear objectives for the years 2004 and 2005 in the central areas of action for sustainability. This Sustainability Report reviews our achievements over this period and identifies those areas in which we still have work to do (cf. "Sustainability program: Update of status and new measures", cf. page 42). Overall, we can be very pleased with the implementation of our sustainability strategy in our operating business, that is to say in purchasing and sales. A number of opportunities for improvement remain in our comprehensive approach to sustainability management, however.

Two corporate bodies, the Sustainability Council and the Sustainability Working Group, were set up in 2003 to coordinate and promote sustainability activities in the Group.

We are currently in the process of reviewing our sustainability organization and adapting it to the new Group structure. The Group-wide Sustainability Management Guideline, which provides the Group companies with a framework for the operational implementation of sustainability issues, will be revised if necessary and will remain in force.

Environmental management:

External validation waived

Quelle and neckermann.de were among the first German retailers to obtain external certification for their environmental management

KarstadtQuelle Group-wide Sustainability Guidelines and Group-wide Sustainability Management Guideline
www.karstadtquelle.com
> Sustainability

OECD Guidelines for Multinational Enterprises

Adopted by the Organisation for Economic Co-operation and Development (OECD) in 2000, these guidelines embody the shared values of the 30 member states, of which our home country of Germany is one. Recognized by all 30 OECD member states and, to date, nine non-member states, they represent the only comprehensive, multilaterally accepted code of conduct for responsible trading. KarstadtQuelle has given an explicit commitment to abide by the OECD guidelines: www.oecd.org/daf/investment/guidelines

system. External validation is a very expensive option though and the costs now far outweigh any tangible benefits, so it has been decided to proceed without certification under the European Eco-Audit Directive (EMAS) or ISO 14001 in future. Internally, however, the Group companies continue to operate their established environmental management procedures, and the relevant processes will also be retained in the environmental management system at the sites that have been sold.

The Group employs a large number of people in the fields of environmental and social policy. Environmental protection activities at

Karstadt Warenhaus are initiated by Environmental Officers, who are also in charge of quality assurance, while neckermann.de and Quelle have a joint Environmental Officer. Appropriately trained employees in the 22 international offices so far established ensure that social standards are upheld in the supply chain.

**Risk management:
Preserving our good name**

Retail groups like KarstadtQuelle face an enormously volatile environment in which to try and realize their objectives. Unpredictable factors include political, financial and supply

Compass for sustainable development of KarstadtQuelle AG



Implementation and communication

“Engaged in high-level activities”

Interview with Prof. Dr. Helmut Merkel,
member of the Management Board with responsibility for the Environment and Social Affairs



You identified five central areas of action in your last Sustainability Report. Have you been able to make improvements in these areas despite the difficult economic situation?

Prof. Dr. Merkel: We have had to put some issues on the back burner it is true, but sustainability is not one of them. Sustainability is inextricably bound up with our core business of “buying and selling”, and we have therefore continued to engage in high-level activities to pursue our objectives in the areas of product mix, advice to customers and global working conditions. We had to reorganize our operational environmental protection procedures in the period under review as a result of the Group restructuring, but it was undoubtedly in human resources that we found it most difficult to stick to our basic principles. Nevertheless I can assure you that we managed it.

Do customers fully appreciate the efforts you make to source and promote a socially and ecologically aware product mix?

Prof. Dr. Merkel: It depends very much on events: when the BSE crisis broke, customers turned to us as a trusted and reliable supplier and made us the only company to increase its sales during the period, but between scandals few people show much interest in what we are doing. The advice we provide to our customers is helping to raise awareness continuously, however, so staff training remains our top priority in this area.

KarstadtQuelle is repeatedly targeted by protests against infringements of social and environmental standards. How far do your responsibilities go?

Prof. Dr. Merkel: We always listen to any criticism, of course, as compliance with social and environmental standards deserves to be on the agenda. We bear full responsibility for the entire lifecycle of our own brand products such as Yorn or Privileg. We have less say in respect of the external brands, but as buyers we can exert influence on manufacturers. It is many years since we first began to work with other retailers in the foreign trade association of German retailers to set up effective mechanisms in this area. Meanwhile, regular audits provide a measure of reassurance. Indeed suppliers have come to see them effectively as a ticket to enter and remain in the marketplace.

What are the principal issues that will have to be addressed in order to keep KarstadtQuelle moving in a sustainable direction in the years ahead?

Prof. Dr. Merkel: How ideals of sustainability are put into practice depends largely on people. The first essential element is an organization in which all parties work together to advance the cause. Intensive internal communication plays a key role too. And we must never allow ourselves to forget that constant scrutiny of our actions is critical for consistent progress. ■



The Quelle Institute for Quality Control checks some 20,000 articles every year, conducting around two million spot checks.

risks and also the risk of damage to a company's image. KarstadtQuelle has introduced a risk management system encompassing all Group activities both in and outside Germany in order to identify such potential hazards at an early stage. The risk management guidelines lay down detailed procedures for product recalls and environmental incidents to minimize any deleterious consequences for people and the environment. Our international purchasing activities constitute the most likely source of risks to our reputation and we therefore make a particular effort to encourage and support appropriate environmental and social standards in our supplier countries. We repeatedly demonstrated this commitment throughout the period under review.

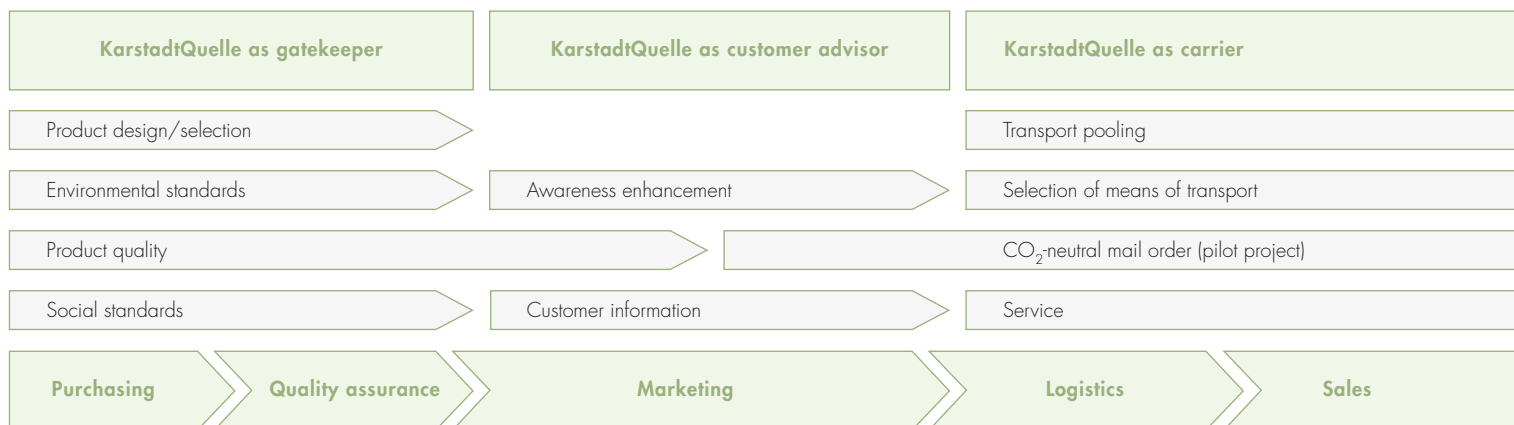
**Quality management:
High quality affirmed**

Karstadt Warenhaus, Quelle and neckermann.de all have dedicated quality assurance departments working to avoid situations such as product recalls due to poor quality. The tex-

tile laboratories operated by the three Group companies are certified under the international standards for quality management DIN EN ISO 9001:2000 and DIN EN ISO/IEC 17025:2000, for example, while the Quelle Institute for Quality Control ensures that our own brand products also meet our demanding quality standards. The Quelle Institute is the largest facility of its kind in the German retail sector and was the first to receive official state recognition. It tests around 20,000 products annually and carries out some two million spot checks. The results of investigations by German consumer goods testing foundation Stiftung Warentest leave the effectiveness of our Quelle Institute for Quality Control in no doubt: since 1968 some 800 products passed by the institute have been rated as either "good" or "very good" by the Stiftung Warentest team.

A Stiftung Warentest review of remote control cars published at the end of 2005 saw us commended for the second time not only for a very good price-performance ratio, but also

The value creation chain at KarstadtQuelle



for the high social and ecological standards set by our own-brand products. Karstadt Warenhaus, Quelle and neckermann.de together took first place in the relevant company ranking, which, significantly, was based on more than just our responses to an exhaustive list of questions. According to the testers' report, "All of the companies but one declined to permit an inspection of their factories in China: only Karstadt Warenhaus opened the doors for a reporter and a photographer from Stiftung Warentest" (Stiftung Warentest, January 2006). We are beginning to build a tradition in these tests: Karstadt Warenhaus' "Outdoor" jacket won the first social and ecological company ranking published by Stiftung Warentest in 2004.

**Staff training:
Promoting sustainability**

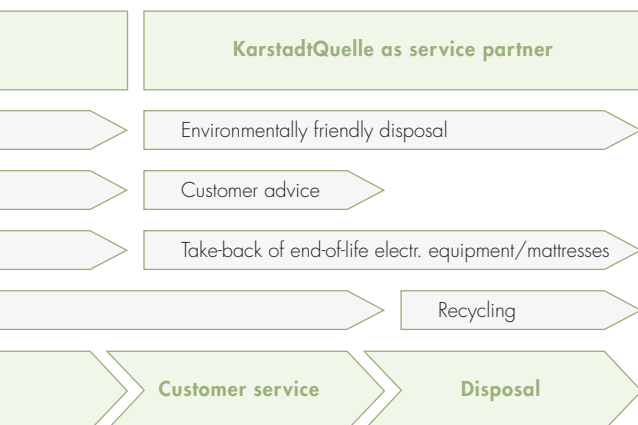
The vast range of training activities organized during the period under review serves as a forceful reminder of the importance KarstadtQuelle attaches to staff training and education in sustainability matters. One of

the activities arranged by the Group for its buyers, for example, was a training program on social standards. Previously judged purely on the price and quality of the items they purchased, buyers will in future also have to account for the social conditions under which these items are produced. They will be expected to emphasize the importance of consistent compliance with social standards even before a contract is signed and to insist even more forcefully that any agreement reached incorporates corresponding provisions. While it is true that the Group has been checking its suppliers for years, experience shows a need for a fundamental effort to raise awareness among buyers and suppliers.

The Environment and Social Affairs corporate office kept the works council Code of Conduct committee up to date about ongoing activities during the period under review.



KarstadtQuelle operates its own purchasing function in Asia. Activities center on the offices in Shanghai and Hong Kong.





Products bearing the TransFair logo taste much like any others. Buying them, however, often helps to secure the existence of small-scale farmers in developing countries who grow them. These farmers are assured a certain proportion of the proceeds from sale, and this helps to support their sustainable development. Karstadt Warenhaus has been selling fairly traded products since 1993 as a partner in the TransFair initiative. TransFair reserves its seal for importers prepared to pay a specified minimum price when purchasing raw materials, thereby assisting more than a million small farmers. The range of fairly-traded products, including 40 products such as coffee, tea, chocolate and orange juice, now accounts for six percent of sales in the food department at Karstadt Warenhaus.

Responsibility for customers

KarstadtQuelle offers customers more than just a good price-performance ratio. Our extensive ranges and individual services also stand for quality and innovation as well, and our stringent product-specific standards ensure optimal consumer safety and environmental protection.

A retail company like KarstadtQuelle has two invaluable assets: loyal customers and committed employees. Cultivating enduring customer loyalty is particularly challenging in our sector, as our target groups are so many and disparate and their wishes and requirements so enormously diverse. Some, for example, want the latest fashions, while others are especially interested in energy efficiency or have preferences influenced by their ethnic background. Some are young, some old, some rich and some poor. However, they all have one thing in common: they expect attractive prices, high quality and excellent advice.

Customer focus:

Understanding customer wishes and needs

It is impossible to offer customers an appropriate range backed by competent advice without first understanding precisely what it is they want and need. We have been taking a closer look at our customers' concerns since February 2005 and conduct regular customer surveys in all of our department stores. Some 1.3 million customers had completed one of our feedback cards by the end of last year. We were able to implement some of the suggestions received very quickly, and this, coupled with the effects of a comprehensive training initiative in sales, boosted our proportion of satisfied customers in the period up to the end of January 2006 to 85 percent – a gain of nine percent.

In 2004 Quelle set up a customer advisory board, which now meets three or four times a year. Group company neckermann.de

earned a grade of 1.7 (“good”) in a survey of 2,400 customers carried out in the same year by TÜV Saarland. The survey rated product quality and the availability of goods. The company is now entitled to include the “TÜV service tested” seal on its marketing materials, as is our customer service arm Profectis, which maintains and repairs electrical and electronic equipment sold by KarstadtQuelle. Profectis was rated as “good” in an equivalent customer survey also carried out by TÜV Saarland, and actually emerged as test winner in a review of customer service conducted by Stiftung Warentest in March 2003. Stiftung Warentest found Profectis to be particularly strong on fault diagnosis and repair.



Every day, around 2.5 million customers visit Karstadt's stores. We carry out regular surveys to make sure we are giving them what they want.

Quelle and neckermann.de:

Outstanding service on the web

The “Q”(uelle) button on the quelle.de Internet portal represents a milestone for Internet shopping. A click on the “Q” takes customers straight to strategically selected offers from the Quelle store. The innovative service feature received two separate awards in 2005: the German Multimedia Award and the German Dialog Marketing Prize. In October 2005, neckermann.de portal picked up an award for the best online strategy. The two mail order companies presented their advanced systems for interactive TV shopping, which enable customers to shop directly from the comfort of their own sofa, at the IFA 2005 consumer electronics trade fair in Berlin.



In eleven of the Karstadt Warenhaus stores we offer separate organic goods outlets with up to 3,000 different organic articles.

Quelle introduced a dedicated range of kitchens for people with disabilities in 2004, with a separate catalog. Specially trained consultants help customers design a space to meet their specific kitchen needs.

Customer complaints:

Still declining

Every item returned in mail order business has to be carefully processed, so a high level of customer satisfaction helps to keep costs down as well as stimulating sales. Efficient early warning systems that pool details of customer calls and highlight particular issues make it easier to provide good service on the telephone and can significantly reduce the number of returns due to complaints or customer dissatisfaction. This has made quite an impact: the number of items returned by Quelle customers last year fell to 22.5 million from around 36 million in 2004.

Shaping the product range:

Awareness of environmental issues

The ranges of products carried by the department stores and the two mail order companies will change to a certain extent as a consequence of the Group's restructuring. Our long-standing commitment to considering sustainability issues wherever possible in our product selection, on the other hand, will continue unchanged. We are currently in the process of expanding our range of certified organic products in the food departments of the Karstadt department stores. All but one of the food departments are operated by Karstadt Feinkost, a partnership with Rewe. The BIOlogisch ("organic makes sense") family brand offers in excess of 700 different arti-

cles and some of the eleven branches now have a completely separate organic section offering over 3,000 products.

Our organic products are grown without the use of pesticides, fungicides or artificial fertilizers in compliance with the European Union's regulations on organic agriculture. Before they may be labeled organic, the products and the agricultural methods by which they are grown have to undergo regular inspections.

Karstadt Warenhaus has for many years been organizing an annual week of special activities in all of its German department store food departments to promote and raise awareness for organic and TransFair products. Grouping these two types of product together in this way makes sense, as 64 percent of fairly traded products now also meet the requirements of the EU Regulation on the organic production of agricultural products. The organic department at Karstadt Dresden won the "Silver Selly" (second place) award in the first nationwide organic retail competition launched by the Central Marketing Organization of German Agricultural Industries (CMA) and may now advertise as "Organic store of the year 2005" on its promotional materials.

With our range of energy-saving home appliances, we have been contributing to climate protection for many years now. Some 90 percent of the range we carry boast an A energy efficiency rating. On the mail order front, neckermann.de and Quelle were able to expand their range of ultra energy-efficient refrigerators and freezers (those rated A+ and

Organic store of the year
www.biomarktjesjahres.de

Organic seal
www.biosiegel.de

A++) to 48 percent and 57 percent respectively. Already, 92 percent of all the large electrical appliances offered by Karstadt Warenhaus carry an A, A+ or A++ rating. The EcoTopTen product lists reflect Quelle's strong presence in the energy-saving large electrical and electronic appliance market: in the various refrigerator and freezer categories, for example, models from Quelle's Privileg brand constitute between 20 and 60 percent of Eco-

TopTen's listed products. In the cookers and ovens category, neckermann.de occupies the first three places.

neckermann.de has now even introduced a climate-neutral, A+ rated combined fridge and freezer. Its chief energy efficiency feature is that it will be rendered CO₂-neutral over its first ten years of operation by what is known as an offsetting project. Customers thus now

EcoTopTen
www.ecotopten.de

"Perceived quality" as added value

We have been collaborating successfully with Karstadt Warenhaus since 1993. It was quite clear to us right from the outset that the company intended not only to put fair trade products on its shelves, but also to raise awareness of what they were about. Karstadt Warenhaus still offers the widest range of fair trade products of any retail chain and its promotional activities for these products and the fair trade week it has held every year since 2001 are exemplary. The training provided to staff is of course all part of this too. Karstadt Warenhaus' training videos and other internal information materials have set the standard, and it is thanks in no small part to its efforts that our organization has continued to grow resolutely over recent years despite customers increasingly looking to rein in their spending. Clearly more and more consumers want to know how and where the products they buy originate. The "TransFair" seal gives them an assurance that the raw materials used have been managed carefully and that all of the people involved in the production process have been treated with respect. The knowledge conveyed by the seal imparts a certain personality to fairly traded products and creates a new and different shopping experience. This 'perceived quality' extends well beyond the actual quality of the product and therefore represents significant added value. Fortunately, the genuine quality of the TransFair range has been shown to be very good too, with our products achieving top positions in numerous independent tests (Öko-Test, Stiftung Warentest, etc.) and quite often winning outright. We are currently working to enhance our product mix on two fronts by introducing more and more new organic varieties into existing lines such as coffee and fruit juice and also venturing into completely new product areas ranging from bananas and wine to soccer balls, cut flowers and rice.



*Dieter Overath,
Managing Director of
TransFair e.V.*

www.transfair.org



Since 2001 Karstadt Warenhaus has been running its “Environmentally friendly back to school” campaign, whose aims include the promotion of school material with the “Blue Angel” seal of approval.

have the chance to help reduce the hazards caused by emissions of environmentally damaging greenhouse gases.

Textiles that are friendly to both the environment and sensitive skin constitute another key element of our sustainability-oriented product mix. No less than 44 percent of Quelle’s textile range satisfies the exacting requirements of Oeko-Tex Standard 100 and qualifies for the special “skin-friendly/dermatologically tested” label. The figure for neckermann.de is around 46 percent. Almost all of the baby clothing, next-to-skin textiles and bedclothes sold by Karstadt Warenhaus meet the Oeko-Tex Standard 100 criteria.

Our furniture range has strong ecological credentials too, and we actively favor products from sustainable forestry. The Furniture environmental working group at neckermann.de,

which includes representatives from a variety of departments ranging from sales to quality assurance, has been committed to this since 1995. Hence our current range of garden furniture consist of a wide variety of FSC-approved products. The widely recognized FSC (Forest Stewardship Council) label identifies products that comply with prescribed ecological standards throughout their lifecycle.

So it is no wonder that FSC furniture is becoming increasingly popular. We have reacted to customer preferences, adjusting our furniture range and continuously increasing the number of environmentally friendly products ever since 2003. Now, for example, 100 percent of the mail order items of garden furniture made of tropical woods are FSC approved. The proportion of home furnishings bearing the Blue Angel environmental mark awarded by the German Federal Environment Agency (UBA) is also increasing continuously. Quelle introduced its first Blue-Angel-certified bedroom range ten years ago, and nearly half the bedroom systems in its portfolio now carry this well-known environmental seal. Coatings and treatments that release harmful volatile organic compounds in use are prohibited in the case of these products.

Special initiatives:

Pushing sustainability up the agenda

The “Environmentally friendly back to school” campaign aims to promote the use of stationery with a low environmental impact. It has almost become Karstadt Warenhaus tradition. The German Federal Environmental Agency (UBA), Friends of the Earth Germany (BUND) and the Pro Recyclingpapier Initia-

Energy efficiency ratings A+ and A++

Like readers of the Quelle or neckermann.de catalogs, visitors to Karstadt department stores are probably familiar by now with our refrigerators and freezers flaunting the European Energy Label’s A+ and A++ energy efficiency ratings. Introduced by the EU to distinguish the most efficient new appliances, these new ratings identify models that consume up to 45 percent less electricity than the models of the old A class. The clear advantage of these appliances was highlighted during the “Energy efficiency pays” days organized jointly by Karstadt Warenhaus and the German Energy Agency (dena) in 2004 und 2005. www.deutsche-energie-agentur.de

tive have all been supporting the campaign since 2001. Its success confirms our resolve to continue it: sales of recycled paper school notebooks bearing the Blue Angel, for example, were up two percent in 2005, and around 35,000 children entered the accompanying pupils' competition. A study carried out by the North-Rhine Westphalian Consumer Advice Center in July 2004 revealed that Karstadt Warenhaus is the only retail company in Germany to offer environmentally-friendly school materials on a large scale.

Procurement:

High standards throughout the Group

Our purchasing policy consistently incorporates sustainability concerns throughout the Group. KarstadtQuelle adopted a Code of Conduct for procurement based on the conventions of the International Labour Organization (ILO) and covering all Group companies back in October 2000. We have been involved in international training and auditing under the "Ensuring Social Standards" initiative, which has now been taken up at the European level as the Business Social Compliance Initiative (BSCI), since its inception by AVE, the Trade Association of German Retailers (cf. page 41). KarstadtQuelle also continues to verify supplier compliance with Oeko-Tex Standard 100 in accordance with standardized Group-wide criteria (cf. the Sustainability Report 2003, page 26/27).

Data protection:

Code of Ethical Practice signed

Increasing public concern about data protection poses a significant and growing challenge for us. We coordinate our handling of

sensitive data closely with the data protection authorities and always strive to meet their requirements in full. neckermann.de has in addition signed up to the Code of Ethical Practice of the German Direct Marketing Association (DDV) and is accordingly bound to comply with the DDV's strict provisions for customer protection on the Internet. The tiny number of enquiries and complaints received from worried customers indicates that these efforts are achieving the desired effect: the entire Group received hardly any queries in the whole of 2005.



Toys: A battery of tests required

The great majority of children's toys are produced abroad, which makes inspecting manufacturers and checking compliance with the prescribed production methods complicated and expensive. There are an enormous number of regulations to be enforced too, one of the most recent being the ban introduced by the EU in 2005 on the use of plasticizers (phthalates) in toys that children are likely to put in their mouth. Health concerns are just one of the issues we have to consider when purchasing toys, however. No less important in our eyes are the environmental and social conditions of production. KarstadtQuelle applies all of the fundamental rules of the code of conduct published by the International Council of Toy Industries (ICTI) in 1995 in the auditing and training activities it carries out under the BSCI. Ongoing negotiations between the ICTI and the (predominantly textiles-oriented) BSCI give us grounds to hope that the two organizations might soon agree to recognize each other's implementation measures.

www.bsci-eu.org www.toy-icti.org



The KarstadtQuelle Group experienced a major crisis in 2004 as performance fell to unsatisfactory levels across great swathes of the business. The financial situation deteriorated markedly and had become very serious by the fall. A reconstruction pay agreement was concluded in October 2004, sending out a clear signal that the Group was united in its willingness to institute the necessary changes. Employees and managers alike declared themselves ready to make significant sacrifices, and with their help the Group is set to cut personnel costs by 769 million euros by the end of 2007. This laid the foundation for an unprecedented solidarity pact: the major shareholders agreed to subscribe to the capital increase proportionate to their relative holdings and it was possible to agree a long-term loan of 1.75 billion euros with a consortium of 16 banks.

Responsibility for employees

Our highly committed and deeply motivated employees have made the critical difference in setting the Group back on a course to success. They are our most valuable asset and the capital with which future profitable growth at KarstadtQuelle will be built.

KarstadtQuelle was forced to undertake a comprehensive restructuring program in 2004 and 2005. The measures taken included trimming jobs, selling long-term investments and cancelling employee benefits. The reconstruction pay agreement concluded deserves much of the credit for the encouraging prospects the Group now enjoys.

Successful reconstruction Group-wide: The contribution by the employees

In 2005 the reconstruction pay agreement concluded on October 14, 2004 for Karstadt Warenhaus and Quelle/Neckermann began to be implemented. It involves a reconstruction contribution by the employees totaling 769 million euros (in relation to the period 2005 to 2007). These difficult measures were decided and implemented by agreement with the employees' representatives.

Among other things cuts were agreed to special payments under the collective pay agreements (vacation and Christmas bonuses) as well as to bonuses in excess of the agreed pay scale. In addition to this, employee social benefits were reduced or indeed cancelled completely. In some parts of the mail order business it was agreed to reduce the regular weekly working hours for a limited period and to cut pay accordingly.

At the same time – in accordance with the agreements met under the reconstruction pay agreement regarding sustained personnel cost cuts – it was necessary to reduce the number of employees at both Karstadt Warenhaus and in the mail order segment. The reduction in manpower took place by making use of

the element of fluctuation as well as by means of a voluntary compensation scheme. Furthermore, the Karstadt Warenhaus employees were offered the opportunity of moving to a transfer company. This company was designed to improve employees' opportunities on the job market by means of targeted measures.

Dialog with employees: More important than ever in difficult times

In times of crisis it is more important than ever to communicate frankly with employees and to allay their fears. The last two years have been hard for the employees, and the Group has consequently made a conscious effort to step up dialog with the staff. The "Employees ask, the Management Board answers" initiative, which enables employees to contact Chairman of the Management Board Dr. Thomas Middelhoff directly by letter or E-mail, was launched with this objective clearly in mind.

Restructuring the mail order business

Since the beginning of 2006, the Mail order Group now comprises Quelle and neckermann.de, QuelleNeckermann Spezialversand GmbH and QuelleNeckermann Versand Service GmbH. The latter has three constituent companies:

- QuelleNeckermann Logistik GmbH
- Quelle.Contact Holding GmbH
- QuelleNeckermann Management Service GmbH

The people employed by the service companies since January 1, 2006 became exempt from the provisions of the reconstruction pay agreement when the new structure came into effect.



KarstadtQuelle executive management teams seek direct contact with the workforce, in order to explain about the changes.

Mindful of the concerns our people might be facing, we set up a dedicated hotline for the mail order segment to answer employee queries about the position of the company. The members of the Management Board visited the branches of Karstadt Warenhaus to tell employees about the planned restructuring in person, and senior management also took questions from more than 500 managers at a series of discussion forums held in February 2005.

Employee satisfaction: Regular analyses from 2006

Satisfied employees exhibit above-average commitment, creativity and motivation. Keeping employees happy in future means understanding their current needs and desires, and to this end the company intends to begin carrying out quarterly Intranet surveys. We will use the findings to draw up new measures and will assess their effectiveness in subsequent satisfaction analyses.

An initial survey was carried out in part of the Group as a pilot at the beginning of 2006. The results make encouraging reading: the majority of employees still have faith in the management and believe in the Group's objectives. Most of those surveyed are prepared to support the measures implemented to tackle our current problems.

Codetermination: A fundamental and inalienable right

The belief that employees who are involved in shaping their conditions of employment are more committed to helping the company succeed and more understanding of the

reforms that have to be made underpins the culture of codetermination which is characteristic of German joint-stock corporations. KarstadtQuelle has works councils in every Group company and associated company, and their representatives meet regularly to discuss developments in the organization. The works councils carry on a constructive dialog with company management too, and are represented on the Group's Supervisory Board. Their attention in 2004 and 2005 focused overwhelmingly on the Group's restructuring activities.

German companies are increasing their international activities all the time, and employee representatives therefore also need to organize across national boundaries. A European Works Council (EWC) established at Quelle in 1997 to meet this need has members from each of the countries in which the company operates. neckermann.de too now has an EWC.

Occupational health and safety: Beneficial for both sides

Companies that take a particular interest in the health of their employees win on two counts: fewer days are lost to sickness, and employees are better motivated and hence more productive. So we do not merely observe the statutory provisions on occupational health and safety throughout the Group, we also run an assortment of additional projects to help our employees stay healthy. Those responsible for this area at the Quelle mail order center in Leipzig, for example, have set up a company health management system with the human resources department to bring all the health and safety activities

“Initial training is very valuable”

Interview with Dr. Matthias Bellmann
member of the Management Board with responsibility for Human Resources



The solidarity pact represents a substantial contribution on the part of our employees to the restructuring of the Group. What is so special about this pact?

Dr. Bellmann: The pact is an agreement with our non-exempt employees through which we have brought personnel costs into line with the new circumstances and avoided the need to make layoffs for operational reasons despite the truly dramatic situation. But that is not all. Significant elements of the pact have also been extended to other employee groups, senior staff and the members of the Management Board, so that every last one of us at KarstadtQuelle is doing his or her bit to help the restructuring process succeed.

What are the distinctive features of a sustainable corporate culture in the personnel sector? And how do you uphold it in difficult economic times?

Dr. Bellmann: It is vital to understand that initial training is very valuable. Even during our 2004 crises we decided to again engage 750 trainees in 2005. A large number by German business standards and especially for the retail sector, in which many companies are no longer offering training at all. Respect for older employees is also a part of it: despite tight budgets, Karstadt Warenhaus, Quelle and neckermann.de still celebrate employee service anniversaries in appropriate fashion thus reassuring staff that a job with us is more than just a job.

Restructuring breeds uncertainty and fear among employees and can easily have an adverse effect on retail business. Was the company able to keep this in check?

Dr. Bellmann: We were well aware of this hazard, which was one of the reasons we carried out daily customer satisfaction surveys in all of the Karstadt department stores in 2005. The surveys actually showed that customers were much happier with us than we had suspected. Nevertheless they also revealed scope for improvement. As a consequence we have invested in comprehensive and very intensive training for our employees. This was very much welcomed as it was seen as a sign of the management's faith in the future of the company.

What do you expect to be the key issues in the coming years for a value-oriented corporate culture and sustainable development of the entire Group?

Dr. Bellmann: Building on the customer surveys, we plan to conduct regular employee satisfaction surveys as well in future. Satisfied customers are a forlorn hope without satisfied employees. This does not necessarily mean providing ideal working conditions all the time, but management at least must always be good. Employees need to be able to play their part and put their ideas into practice. This is one arena in which we still have much to do. ■



A wide variety of part-time working models are in use within KarstadtQuelle.

such as stress assessments, training in lifting and carrying, opportunities offered by the company sports club, the preventive measures provided by the medical service and health insurance fund together in a single program.

Equal opportunities for all: A duty to society

Respect, tolerance and equality of opportunity are central tenets of our corporate guidelines, not least because we employ people from more than a 100 countries. KarstadtQuelle was the first major retail company in Germany to afford full rights to same-sex partnerships, for example, and makes a special effort to accommodate people with disabilities – indeed we actually give preference in principle to young people with disabilities in cases where all candidates are equally well qualified. Karstadt Warenhaus and vocational training center Annedore-Leber-Berufsbildungswerk

launched a pilot project together in September 2005 that enables young people with disabilities to train for their preferred vocation.

Thanks to a whole range of measures, the proportion of people with disabilities in the total workforce at Karstadt Warenhaus has for many years been hovering around the legally enshrined five percent mark – and is considerably higher than the average for German business as a whole. People with disabilities actually made up 5.3 percent of the Karstadt Warenhaus workforce in 2004. Mail order company neckermann.de made a substantial investment in 2004 to modify a clearing area in the high-bay storage facility for better disabled access as part of further improvements in conditions for people with disabilities. Efforts such as this to improve opportunities for people with disabilities have not gone unnoticed, with neckermann.de winning a prize from the Wiesbaden Integration Office for increasing the proportion of people with disabilities in its total workforce from 2.5 to 5.1 percent within ten years.

Retirement pension system revised

KarstadtQuelle formally approved and successfully introduced the reorganized company pension scheme for the Group in December 2002. The various different benefit systems across the Group were switched to a standard contribution-based model at the same time, and the individually acquired entitlements acquired up to year end 2002 were transferred to the new system. Payments have been accumulating in a pension fund, which assures beneficiaries of reliable provision for the future even in times of economic difficulty, since January 2003. Our pension obligations are secured by assets using what is known as a trust model.

Women in management: A constant challenge

Women are still under-represented at the top executive levels of German companies. KarstadtQuelle is no exception: the proportion of women in our intermediate and senior management is still too low given the high proportion of female employees in the Group as a whole (up to 73 percent in over-the-counter retail and 65 percent in mail order). Unfortunately it proved impossible to implement the “Career and Family” project announced in the last report.

Working time:

Flexibility creates opportunity

Flexible working hours give employees the scope to strike a more effective work-life balance. Karstadt Warenhaus has been offering staff part-time working arrangements and flexitime models for many years, and keeps annual working time accounts for employees so that they always have an overview of their hours worked. Quelle also now favors a variable working time system in its administrative units, which phased out their old flexitime structure early in 2005. The working time models now in place are being improved and developed continuously, and part-time models, teleworking, flexible retirement ages and reduced hours arrangements for employees nearing retirement are becoming more and more common Group-wide.

Education and training:

Always a priority

The Group invested some 40 million euros in education and training in 2005 to optimize the skills and qualifications of its employees and the next generation of managers. We still consider training young people to be both a social and a commercial imperative despite great cost pressure at the moment. After all, well-trained young people are the key to the future prosperity of our country and our company. Karstadt Warenhaus took on 650 young trainees in 2005, and aims to add another 1,000 in 2006. Our mail order segment created nearly 100 traineeships in 2005.

The Group hosts orientation seminars for its young recruits to help ease the transition from school to career. Quelle operates "Quelle

Young Generation", a junior company in which trainees work on projects from a wide range of disciplines, specifically as a way to give future management candidates a taste of responsibility at an early stage.

The Group offers interested young people training for over sixteen different professions ranging from textiles business administrator to business administrator for advertising. The nationwide "Girls' Day" involving both Quelle and neckermann.de gives young women the chance to experience typically male professions in fields such as IT and mechatronics. neckermann.de organized the first "Boys' Day" for young men in 2005.

Personal development:

Recognizing and cultivating skills

KarstadtQuelle runs development programs to enhance the technical and personal skills of its employees. Examples include "Innovation through Experience" for managers with professional experience, and "Junior Managers" for the next management generation in the mail order business. Non-management contract employees are trained in communication, cooperation, self-management and change management through the "Employee eXtra" program. Assessing what type of training each individual needs and what he or she stands to gain from it is one of the core tasks of our managers, who monitor each employee's performance and potential and hold regular employee interviews. Karstadt Warenhaus introduced new guidelines for interviews with employees in 2004, and Quelle and neckermann.de revised their rules for the annual employee feedback meetings in 2005.



KarstadtQuelle offers a variety of personal development programs aimed at enhancing the technical and personal skills of employees.



Non-Governmental Organizations (NGOs), consumer bodies, trade unions, the press and politicians are increasingly focusing on companies' supply chains in developing countries. Particular suspicion surrounds sneakers, T-shirts and soccer balls, the production of which is frequently linked with inhumane working conditions in third world countries, sometimes even with child labor. Such suspicions can be allayed if the trading company has signed up to the code of conduct of the Business Social Compliance Initiative (BSCI). Jointly formulated by more than 20 well-known European trading companies, including KarstadtQuelle, it does more than pay lip service to its principles. And KarstadtQuelle was heavily involved in this: Since 2003, the participating companies have been conducting training courses and audits in newly industrialized and developing countries, to ensure that minimum social and environmental standards are maintained.

Responsibility for society

As the intermediary between producer and customer it is our constant endeavor to ensure that our partners observe social and environmental standards. In an age of global sourcing, frequently involving developing countries, this is a process of continuous improvement, and one to which our Group is committed.

Not only do we require our suppliers to maintain social standards, we are also keen to convince them of the need for this approach, and the benefits it brings. We check our suppliers by means of auditing, and offer training measures that will help them develop into socially conscious and environmentally sound partners in the long term. We aim for voluntary commitment rather than resorting to threats. We put our faith in consensus, dialog and cooperation with all involved parties: suppliers, export organizations, NGOs, trade unions and governments. We will not solve all the problems instantly, but will attain our goals on a step-by-step basis.

It is our responsibility to ensure adherence to socially and environmentally acceptable standards among our suppliers. The standards included in our Code of Conduct are in line with international conventions, and form part of our purchasing requirements for all goods and countries. With a comprehensive sustainability management system aimed at aligning our corporate culture and structure, we create value for all stakeholders, whether employees, customers, suppliers, citizens' bodies or the community at large.

BSCI:

European traders commit themselves

Social standards not only benefit employees but also the company itself, since poor working conditions sometimes lead to mediocre product quality. The conditions under which social standards are implemented must be improved across the world, which is why responsibility for the circumstances obtaining

in developing countries lies not just with the governments in these nations. Companies which believe in external auditing enlist the aid of independent regulators or follow KarstadtQuelle's lead and join the Business Social Compliance Initiative (BSCI), a European platform for monitoring social standards in all supplier countries and for all consumer goods.

The BSCI, established in 2003 by the Foreign Trade Association (FTA), includes companies like Deichmann, Wehmeyer, Peek & Cloppen-

Business Social
Compliance Initiative
www.bsci-eu.org

Accident in Bangladesh: 35,000 US dollars in aid donated

When a textile factory in Savar (Bangladesh) collapsed in the summer of 2005 killing more than 60 people, criticism focused primarily on the "exploitive" methods of companies from the West who had goods manufactured there. According to local law, the multi-storey extension that ultimately caused the building to collapse should never have been approved. KarstadtQuelle too was confronted by such accusations, though we had only awarded some trial orders to the factory and had decided against working with the supplier. In order to nevertheless contribute to alleviating the hardship of the victims and give them the chance to earn their own living again by means of sustainable aid, KarstadtQuelle donated 35,000 US dollars to a local relief organisation. Payouts were, however, only possible after considerable research, as the victims' families were scattered among many villages outside the capital, Dhaka. All the Group's suppliers in Bangladesh are now subject to auditing or are undergoing an appropriate process to enhance their skills.

burg, SinnLeffers, OBI, Otto, Metro and the Steilmann Group. Right from the start, BSCI helped to communicate and monitor minimum requirements to the manufacturers in third-world countries. It also empowered the businesses to fulfill these requirements. The focus is thus on training measures aimed at economic, health-related and employment

law issues. Training and auditing have been taking place with great success since 2004, in countries including China, Indonesia, India, the Philippines, Thailand and Turkey.

We are nevertheless aware that even within the framework of the BSCI, there is still room for improvement in the way we cooperate



*Dr. Liu Kaiming,
Executive Director
of the Institute of
Contemporary
Observation (ICO)*

<http://ico-china.org>

“First we need to build up capacity”

The initiative of the Western companies to implement environmental and social standards in the newly industrializing and developing countries is an innovative approach aimed at improving working conditions and protecting human rights on site. I must admit, however, that most Western companies do not really consider the cultural differences when they implement their codes of conduct, for example, most emphasize compliance, but few are concerned with building up capacity for workers and management. I think we should invest in capacity at the factory level and motivate the factory's management to pursue the Corporate Social Responsibility (CSR) trend. Therefore I hope, that I, together with my organization, the Institute of Contemporary Observation (ICO), will have the opportunity of playing the role of external independent monitor, to implement the KarstadtQuelle monitoring scheme. I strongly support bringing different companies onto the same board, and using a multiple dialog system to encourage all participants to work hand in hand toward the same goal. I think that not only should the monitoring program perform a social audit, but also cooperate closely with workers and suppliers to create the sustainable development approach, for example, by empowering workers, improving the communication channel between the management and workers and giving workers the opportunity to participate in the monitoring program. In China, empowering workers is the best way to protect the interests of the workers in the textile factories as well as to improve the working conditions. It means workers should know what their basic rights are and understand how to be workers and citizens, how to organize themselves, and how to negotiate with the government and management. Although it is very difficult to organize an independent trade union in present-day China, there are many legal approaches to enabling the workers to protect their interests, for example, by organizing an active workers' committee in the factory.

BSCI training sessions



with suppliers in third-world countries. As a result of the disaster in Bangladesh, for example, a number of important steps were taken: The country's Ministry of Economics was instrumental in setting up a "National Forum", to draw up and implement effective measures designed to further improve the situation in the production facilities. The forum is made up of all the relevant stakeholders as well as a representative of the BSCI. Parallel to this, the "Bangladesh Garment Manufacturers Export Association" (BGMEA) has drawn up a list of measures with the aim of securing social standards in its members' factories. KarstadtQuelle has since audited all its suppliers in Bangladesh, and put them through a training process.

Fair business relationships: Taking the long-term view

Fairness vis-à-vis national and international suppliers is a fundamental principle of the way we operate. In recent years we have asked our German suppliers in particular to

participate in the solidarity pact involving our employees, stockholders and banks, thereby supporting the reorganization and realignment of KarstadtQuelle. We attracted some public criticism for this appeal. We are aware that as a major customer we are crucial to the very existence of many of our suppliers. Nevertheless, this measure was unavoidable in our view.

Cooperation:

Joining forces in committing to others

The path towards sustainable commercial success requires a market-oriented approach and socially responsible commitment. Consensus between industry, society, the scientific community and the political world is an important element of our corporate responsibility.

We collaborate with a variety of initiatives, alliances, associations and institutions. The subsidiaries largely engage in such activities on an autonomous basis. Quelle, for exam-

Heinz Sielmann Stiftung
www.sielmann-stiftung.de

Außenhandelsvereinigung des
Deutschen Einzelhandels e.V.
www.ave-koeln.de

Friends of the Earth Germany
(BUND)
www.bund.net

Umweltbundesamt
www.umweltbundesamt.de

Essen für das Ruhrgebiet –
Kulturhauptstadt 2010
www.kulturhauptstadt-europas.de

Bundesdeutscher
Arbeitskreis für Umweltbewusstes
Management e.V. (B.A.U.M.)
www.baumev.de

future e.V. – Umweltinitiative
von Unternehme(r)n
www.future-ev.de

ple, has a particularly strong commitment to the nature conservation foundation Heinz Sielmann Stiftung, which celebrated its tenth birthday in 2004. During the anniversary celebrations at the nature-study center in Gut Herbigshagen, we conducted presentations on environmentally friendly products, and in the fall of 2005 we supported a school student visit to the Environmental Camp run by the foundation. Karstadt Warenhaus can look back on many years of cooperation with the German branch of Friends of the Earth (BUND) and the German Federal Environmental Agency (Umweltbundesamt).

Stakeholder dialog: Safeguarding and enhancing acceptance

The socially responsible nature of our actions is shown especially in the regular dialog we conduct with our stakeholders (business partners, associations, NGOs, politicians, official authorities, local residents and municipalities). KarstadtQuelle also participates in environmental organizations such as the German Environmental Management Association (B.A.U.M.) and future e.V. – Umweltinitiative von Unternehme(r)n.

To broaden the dialog still further, in July 2004 KarstadtQuelle organized a podium discussion under the banner “Better together: More product responsibility for all!?”. Over eighty representatives from companies, associations, NGOs and politics took up the invitation to attend the meeting. Participants included Prof. Dr. Helmut Merkel, Management Board Member of KarstadtQuelle, Heinz-Dieter Koeppe, formerly Director of the Environment and Social Affairs depart-

ment, Dr. Hans-Peter Schipulle from the Federal Ministry for Economic Cooperation and Development, Jan Eggert from the retailers’ foreign trade organization, Außenhandelsvereinigung des Deutschen Einzelhandels e.V. (AVE), Dr. Otmar Lell from the consumer council, Verbraucherzentrale Bundesverband, Ingeborg Wick from the Clean Clothes Campaign, and Dr. Reiner Hengstmann from Puma AG.

Joint commitment: Assuming on regional responsibility

Although as a group we are active on the international stage, we do not ignore our local responsibilities (“think local – act global”). For example, as a partner of the cultural competition K.R.A.S.S., KarstadtQuelle supported Essen’s campaign to become European Capital of Culture for 2010.

Our employees also get involved in the social sphere. Employees from Karstadt Esslingen, for instance, put good intentions into practice by doing a three-day job-swap, which involved working in the geriatric medicine department of the Aerpah Clinic as part of the “Tandem” project. With this project, the community of Esslingen aims to foster partnerships between companies and social institutions, thereby promoting social skills and key qualifications, especially of trainees.

Ethical responsibility: A broad field with difficult issues

Ethics are bound up with the actions of individuals, groups and institutions. It is our constant endeavor to maintain good relationships with our employees, customers and business

partners. Current examples show that accusations of corruption can do lasting damage to a company's image. It is, however, impossible to totally rule out breaches of such provisions. During the period under review, employees were accused of accepting unauthorized payments. Regardless of the results of the investigation we have set in motion we intend to work with our internal auditing department to improve the existing structures, thereby if possible ruling out the chances of corruption occurring in future.

Respect for animals is one of basic values of our civilization. Since 2002, we have gradually been withdrawing real fur goods from our product mix. After seasonal sales of existing stocks, the end of 2003 saw the last real fur items leave our warehouse. The synthetic fur products offered as an alternative by Karstadt Warenhaus, Quelle and neckermann.de since that date have met with an enthusiastic response from customers.

Donations and sponsorship: Rewarding bright ideas

Our most important sponsorship activities focus on areas such as innovation, sports and wellness. In order to encourage ideas and the personal commitment of inventors, Quelle has set up a foundation to foster innovation. Since the beginning of 2005, the mail order company has provided creative brains with access to a network of useful contacts, as well as the Quelle Institute for Quality Control. A jury of experts from science and industry ensures that only viable ideas receive the requisite encouragement, and selects the best of these for special distinction. The


foundation also helps to bring these ideas to market, and supports their further development. At the first awards ceremony, which took place in February 2005 in the presence of the then German Minister for Industry and Labor, Wolfgang Clement, there were special inventors' prizes, for example for transfer lifts for the disabled, a "black-box" to reconstruct road traffic accidents and a safety gyroscope for children's bicycles, to prevent the possibility of nasty falls.

Since 2003, KarstadtSport has been the main sponsor of "Youth trains for the Olympics". In 2004 KarstadtSport sponsored the German Gymnastics Festival in Berlin, which attracted more than 100,000 participants. April 2005 saw some 30,000 competitors and over one million spectators gather for the third Karstadt RuhrMarathon, while the KarstadtSport Walking Day, which took place in 2004 and 2005 has also been enthusiastically received. Last year also marked the 15th time that Quelle has supported the world's largest triathlon competition, "Quelle Challenge Roth", which drew 3,800 contestants from 44 nations.

The "Stand Up Speak Up" initiative organized by Nike and supported by famous players aims to fight racism in soccer. Karstadt stores and sports stores took part in this campaign during which the sale of charity bracelets for a minimum donation of two euros brought in more than 62,000 euros for this good cause.



A million enthusiastic spectators cheered on the 30,000 runners at the third Karstadt RuhrMarathon.

A man with short brown hair, wearing a light-colored sweater over a collared shirt and blue jeans, is sitting in a wooden chair with red and white striped cushions. He is holding and reading a newspaper. The background is a bright, out-of-focus outdoor setting with greenery and a large window.

New wooden furniture is frequently the object of criticism from environmentally aware consumers. They fear, in some cases rightly so, that these items have been manufactured from illegally felled trees, or that its production has contributed to the denuding of the tropical rain forests. However, if the furniture bears the seal of the Forest Stewardship Council (FSC), their suspicions are totally unfounded. These products now make up an ever-increasing proportion of KarstadtQuelle's range. In our mail order catalogs, the number of items of domestic and garden furniture boasting the FSC logo continues to rise. And that is not all, since with the introduction of FSC-certified paper, KarstadtQuelle is also improving its own environmental balance sheet: the present sustainability report has been printed on environmentally sound paper.

Responsibility for the environment

KarstadtQuelle engages in many activities which have a direct or indirect impact on the environment. We thus pursue a clear aim of minimizing this impact or eliminating it altogether. In all areas of the company, operational environmental concepts ensure that resources are conserved, thus at the same time cutting costs.

Employees who act in an environmentally conscious manner on their own initiative are an important prerequisite for our efficient and sustainable activities. In addition, we have introduced a systematic, Group-wide environmental management system, including the measurement of material consumption and emissions, along with consistently applied regulatory measures. We integrate KarstadtQuelle's entire value creation chain into these activities.

Energy and climate protection: Central to our activities

Climate change is one of the greatest environmental problems of our time. Road and air traffic and the electricity consumption of private households are resulting in a dangerous increase in the greenhouse effect due to higher CO₂ emissions. We are combating this development with innovative products and processes. KarstadtQuelle is thus increasing its range of energy-efficient home appliances (cf. page 14), and consistently optimizing procurement and distribution logistics. We are of course making continuous efforts to reduce energy consumption at all of our sites.

Since the beginning of 2005, neckermann.de has been taking part in the climate protection project "Hessische Klima-Partner". The initiative focuses on developing "climate-neutral" products and services, and receives support from Hesse's Ministry for the Environment, Rural Affairs and Consumer Protection (cf. page 32).

The project selected processes with minimal CO₂ emissions, which can only be further reduced by means of so-called offset projects. Our offset project involves the biogas plant at Gundorf in Saxony, which produces regenerative electricity. It has been awarded certification by the TÜV technical inspectorate, and was made feasible thanks to the opportunity of selling emission-reduction certificates.

Two examples illustrate how this system functions: In summer 2005, neckermann.de became the first German mail order company to dispatch its main fall/winter catalogs on a climate-neutral basis. In addition, the company is offering ten years of climate-neutral operation for a fridge-freezer combination, enabling the customer to contribute towards climate protection without incurring any extra costs. The CO₂ emissions generated by the transportation of the catalogs and operation of the fridge-freezer combination were calculated and offset by the project in Gundorf. The great success of this initiative is highly impressive, since each fridge-freezer combination gives rise to a total of 1.8 tonnes of CO₂ emissions.

By engaging in this project we are not only aiming to achieve lasting reductions in harmful greenhouse gases, we are also seeking to raise the profile of the topic of climate neutrality in the public arena, and a whole wealth of articles in the press and on the Internet have helped us achieve this goal. By visiting www.neckermann.de, customers interested in



In the fall of 2005, neckermann.de launched the first climate-neutral fridge-freezer combination, from Lloyds.

the issue will find information and can even determine how much they personally need to offset, by means of an online CO₂ emission calculator.

For some years now, Karstadt Warenhaus has been cooperating with the Deutsche Energie Agentur (dena) to promote energy-efficient behavior among consumers and employees.

Waste and recycling: Turning obligation into opportunity

Worldwide, Germany has a nearly unrivaled record for the consistent separation of waste. The lawmakers compel companies to sort waste so that raw materials can be recycled. KarstadtQuelle of course meets these obligations, as well as regarding them as an opportunity to cut costs. By practicing strict waste separation, the Group thus not only saves on disposal charges, but also derives worthwhile earnings from the sale of materials such as sorted packaging waste (for example card-

board, plastic film, metals). The mail order companies Quelle and neckermann.de in particular profit from this approach, selling used cardboard packaging and benefitting from good market prices. We now recycle 100 percent of the used paper and cardboard.

Thanks to the reusable transport containers in service since 1988, Karstadt Warenhaus has been able to save around 50,000 tonnes of disposable packaging material during the period under review. More than 95 percent of the small amount that then remains is recycled. The mail order companies too rely on environmentally friendly and readily recyclable packaging material. Taking its lead from Quelle, neckermann.de has switched its dispatch operations to unbleached cardboard, thereby saving some 150,000 euros per year.

On the electrical and electronic equipment front, from March 2005 we will have to comply with two new European Union directives, in the shape of the Waste Electrical and Electronic Equipment (WEEE) and Restriction on Hazardous Substances (RoHS) provisions. The WEEE directive regulates the takeback and disposal of waste appliances by the manufacturer.

KarstadtQuelle has for some time already been taking back large electrical appliances on a voluntary basis. We are obliged to finance the disposal and recycling of our own brands ourselves, while other makes are the responsibility of the manufacturers. The RoHS directive, on the other hand will pose a challenge to our purchasing section in particular, as with effect from July 2006 it will prohibit

climate neutral

What does "climate-neutral" mean?

The principle of climate-neutrality is based on the idea of balance: Here, the emission of unavoidable greenhouse gases is offset by climate protection measures elsewhere, though such an arrangement must involve additional environmental measures. This method works because it does not matter where in the world the greenhouse gases are discharged into the environment, or where the cuts are achieved since the incidence of emissions or the reduction influence the earth's atmosphere as a whole.
www.klimaneutral-partner.de

hazardous substances such as lead, mercury and cadmium in appliances. Quelle's holdings in Elektrogeräte Recycling GmbH (EGR) have given us our own disposal channel. This enables us to meet our statutory obligations far more efficiently and cost-effectively than would be the case if we engaged municipal disposal providers.

Logistics: Efficiency counts

As a group operating in the areas of over-the-counter retailing and mail order, KarstadtQuelle must ship the goods it sells to the customer via the shortest possible route – using a minimum of energy and at low cost. We tackle this challenge by continuously developing

“Certified wood offers certainty of origin”

In 1998, Karstadt Warenhaus and neckermann.de joined Group 98, with the aim of promoting the marketing of wooden products bearing the FSC seal. As cooperation intensified, neckermann.de became a member of the FSC working group for Germany. In 2003 neckermann.de is now among the largest suppliers of FSC wooden products in the German mail order sector. Today, we have to thank the mail order specialists neckermann.de and Quelle for a significant proportion of the sales and the level of awareness achieved by the FSC. All things considered, the mail order sector may be regarded as a pioneer in the marketing of FSC-certified products. In its Online-Shop, for example, neckermann.de set up a separate category to enable customers to search specifically for FSC-certified products. Here, they will find primarily living-room furniture, clothes closets and small furniture items for indoor and garden use. The KarstadtQuelle sustainability reports, which were printed on FSC-certified paper, can also be seen as a trailblazer in this regard. It can only be hoped that others will follow suit, though both the availability of and demand for FSC products sourced from forests managed in an environmentally and socially responsible manner are growing all the time, with controls on activities from processing through to sales. Across the world, some 70 million hectares of forest are certified according to FSC standards. Such matters do not, however, have a momentum of their own, and the greatest challenge remains that of convincing the consumer that his purchasing decision can make a real contribution to the conservation of forests around the world, and to the improvement of forestry practices. We therefore continue to rely on the commitment of companies like Karstadt Warenhaus, Quelle and neckermann.de.



*Hermann Graf
Hatzfeldt, Chairman
of the Board of the
FSC Arbeitsgruppe
Deutschland e.V.*

www.fsc-deutschland.de
www.fsc.org

our transport logistics. We use rail transportation options and optimize truck loads in order to minimize CO₂ emissions.

In light of our huge goods turnover, it is important on grounds of cost that we plan our logistics processes down to the minutest detail. We obtain goods from 10,924 suppliers around the world, and these reach our customers and stores via mail order facilities and logistics centers. In 2005 alone, Quelle and neckermann.de dispatched 50 million parcel shipments and 454 million catalogs (includ-

ing special lists and direct mailshots). Apart from the logistics centers in Frankfurt am Main, Leipzig and Nuremberg, the two mail order companies together operate 15 logistics facilities outside Germany. The year 2004 saw neckermann.de open Southeastern Europe's largest logistics center in Varazdin (Croatia), which boasts a capacity of six million packages a year.

The service provider DHL Solutions is responsible for by far the largest part of the Group's logistics operations. This subsidiary of Deutsche Post AG took over store logistics and parcel dispatch for neckermann.de and Quelle from KarstadtQuelle AG in the spring of 2005. DHL Solutions' sales volume stands at around 500 million euros. KarstadtQuelle continues to handle the parcel post shipments via the German mail order facilities.

Our logistics operations too are subject to a continuous process of improvement. 2005, for instance, saw KarstadtQuelle initiate the "Konsolidierung EUROpaLogistik" project, which aims to consolidate the logistics function within Europe. This included logistics audits in the nine largest international logistics centers, during which we were able to identify wide-ranging opportunities for optimization on the transportation and packaging fronts. The measures adopted as a result of this opened up the potential for annual savings of 15 million euros, and by 2005, logistics costs were already down by three million euros. Another project involves the ISO 14001 certification of Optimus Logistics, which has also optimized its transport logistics in the wake of this project.

WEEE: Takeback of waste electrical and electronic equipment

Since August 13, 2005 all European manufacturers of electrical and electronic equipment are subject to the European Union's WEEE (Waste Electrical and Electronic Equipment) directive, which obliges them to take back these products, free of charge, at the end of their useful lives and dispose of them in a proper manner, though this applies to Germany only as of March 24, 2006. At the very point of sale, every manufacturer must guarantee the funding of disposal costs. In addition, producers must ensure that by December 31, 2006 at the latest, at least four kilograms of separated waste equipment is collected per resident/per year from private households. A directory known as the EAR records all manufacturers, along with data on the quantities and categories of equipment produced and collected – from sale through to disposal. In line with their respective shares of the market, and coordinated by the EAR, the companies originally marketing the products will provide local authorities with collection receptacles for the waste products, and arrange for them to be emptied and the contents disposed of.

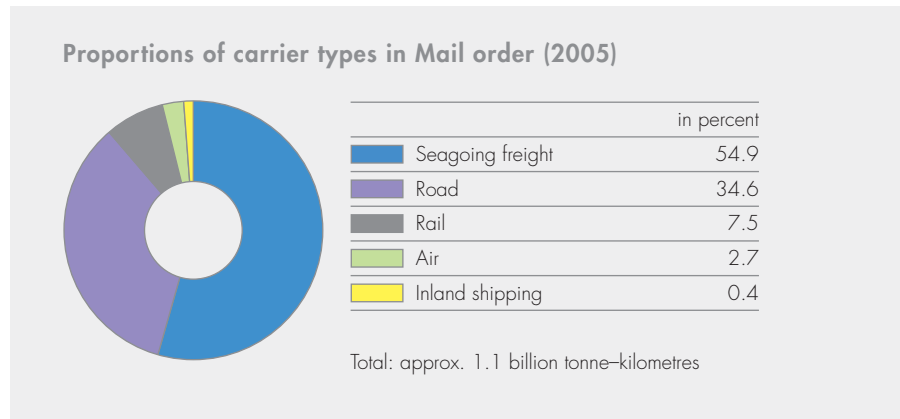
The “Reengineering Versand Frankfurt” project has enabled neckermann.de to put logistics processes at its headquarters on a more efficient footing. Since mid-2005, for example, the route for shipments to Swiss customers has been shortened by some 1,000 kilometers by cutting out the intermediate stop in Graz. Quelle has combined its four Nuremberg sites for parcel dispatch and has also stopped dispatching shipments of normal goods from Leipzig and special goods from Nuremberg suitable for pooled packaging as individual consignments. Instead it now puts together a combined package after the goods have been consolidated in Leipzig.

Hazardous substances and goods:

Instruction for employees and customers

Around 1,500 of the convenience goods available in Karstadt’s department stores are identified as hazardous goods, and are marked accordingly. These include paints, adhesives and cleaning and care preparations. Some 60 different products classified as hazardous substances are used at the various department stores and mail order locations, mostly for cleaning purposes and to comply with hygiene regulations. Safety data sheets are available for all the hazardous substances in use, and employees receive regular instruction in how to handle them safely. KarstadtQuelle neither sells nor uses toxic or very poisonous products.

The 10,000 or so perfumery products offered by Karstadt Warenhaus are classified as hazardous substances for transport purposes. These products are thus subject to special packaging and marking provisions when they



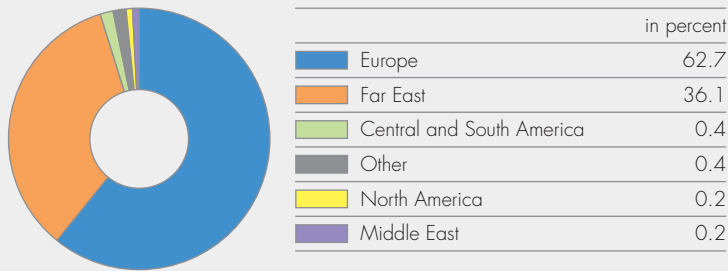
are shipped. Regular monitoring according to the statutory directives and employee training ensure that transportation is as safe as possible. Since April 2005, DHL Solutions has assumed responsibility for the transport of hazardous goods.

The Quelle mail order center in Leipzig is ten years old

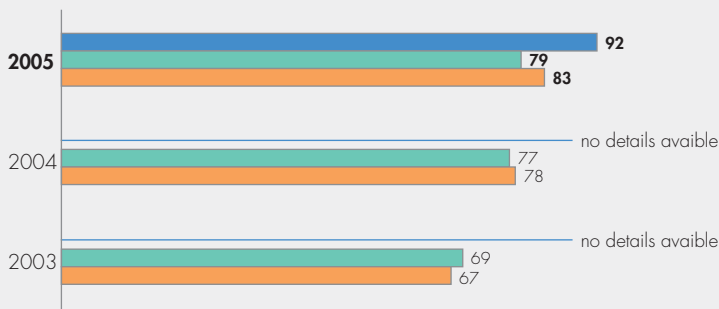
Quelle’s largest mail order center in Leipzig employs some 2,500 people. Construction started in July 1991, and the first package left the facility in February 1995. Since then, we have been shipping up to 180,000 packages from this center every day. The center is consistently being developed as the hub for logistics activities to Central and Eastern Europe. Initially Quelle only supplied Polish customers from Leipzig, but since the beginning of 2006 Estonia, Latvia and Russia are also among the countries supplied.

Key indicators

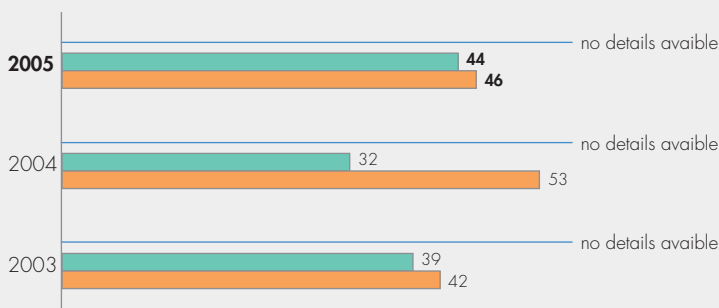
Direct imports by regions (total 1,504 billion euros)



Proportion of large electrical appliances with energy efficiency class A, A+ or A++ in percent



Proportion of textiles tested for harmful substances (e.g. Oeko-Tex Standard 100 or environmental seal) in percent



■ Karstadt Warenhaus
 ■ Quelle
 ■ neckermann.de

Key indicators for product mix policy

The purchasing and product mix policy is an important lever in contributing towards sustainable development. KarstadtQuelle has been making use of this opportunity for many years, continuously increasing the proportion of products manufactured according to environmentally compatible principles. KarstadtQuelle makes determined efforts to ensure its suppliers comply with environmental and social standards (cf. page 17).

Direct imports

To date, breaking down purchasing by countries of origin has only been possible for direct imports. During the business year 2005, this accounted for some 1.5 billion euros of the total purchasing volume of 5.1 billion euros, equivalent to just about 30 percent.

Points of focus within the product mix

Among other things, our product mix policy focuses on offering energy-efficient appliances – a significant contribution to environmental protection. More than 50 percent of the refrigerators and freezers we sell by mail order are rated in the new efficiency classes A+ and A++, which were introduced in 2004 and offer further reductions in energy consumption compared to Class A. Already, 97 percent of the Karstadt Warenhaus range of refrigerators and freezers boast an A, A+ or A++ rating.

Our policy also focuses on skin-friendly textiles which, for example, are tested according to Oeko-Tex Standard 100. This is particularly important for baby clothing and underwear.

Food

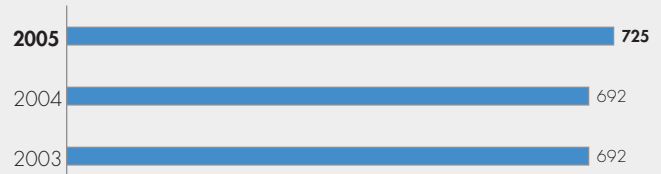
The mix of food products we carry refers only to the Karstadt department stores. By 2005, eleven branches had already opened separate organic produce shops in their food halls. These outlets offered between 1,500 and 3,000 different organic items, and attracted a growing response from customers, an enthusiasm that is reflected in a five percent increase in the number of items stocked during the period under review. In the food retailing business, Karstadt Warenhaus makes determined efforts to expand its range of fair trade products. During the period under review, the number of articles boasting the TransFair seal rose from 38 to 42, thanks in part to special campaigns and promotional events at Karstadt Warenhaus.

Environmentally compatible products

Both the mail order companies, Quelle and neckermann.de and Karstadt Warenhaus, offer a wide range of school and stationery products. While Quelle's range shrank slightly, Karstadt Warenhaus was able to expand its offering substantially during the period of the report, due in no small part to the annual "Environmentally friendly back to school" campaign.

Especially in the mail order business particular attention is focused on the range of furniture tested by the Forest Stewardship Council (FSC) (cf. page 16). Despite this, the number of articles offered by Quelle and neckermann.de fell slightly during the period under review due to the strict limits placed on the range of garden furniture. Nevertheless, the proportion of FSC-certified items carried by the mail order companies remained constant.

Number of foods with BIO seal*



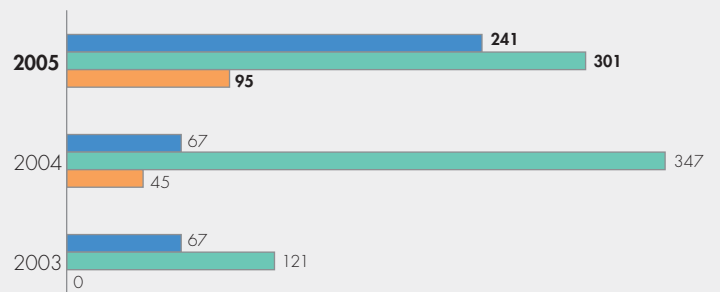
*Not relevant to Quelle and neckermann.de

Number of foods with TransFair seal*

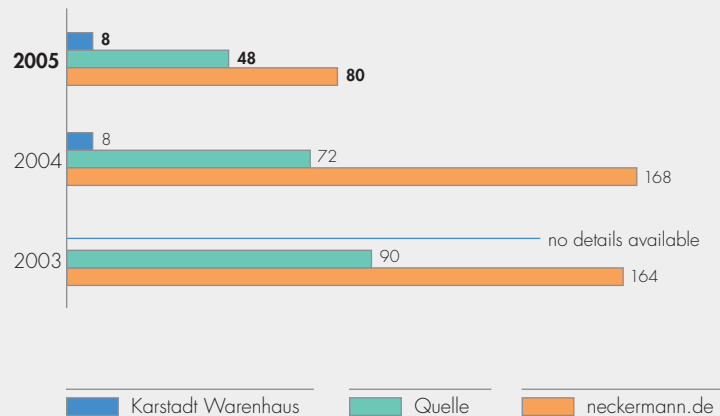


*Not relevant to Quelle and neckermann.de

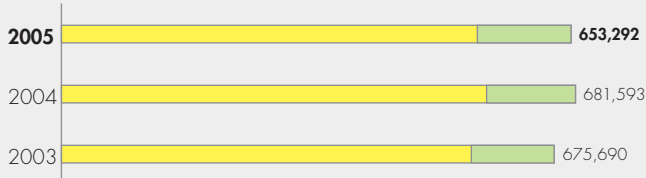
Number of articles with the "Blue Angel" environmental seal



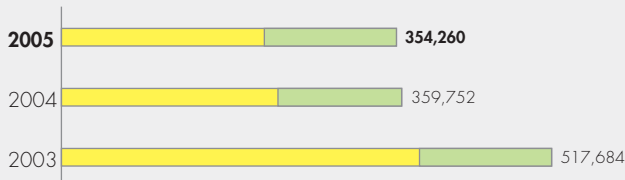
Number of articles with the Forest Stewardship Council (FSC) seal



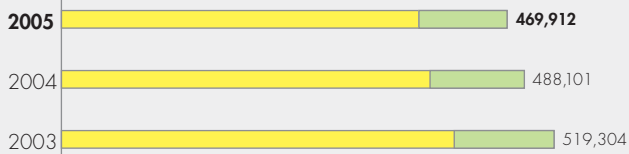
Total electricity consumption in megawatt hours



Total heat consumption in megawatt hours

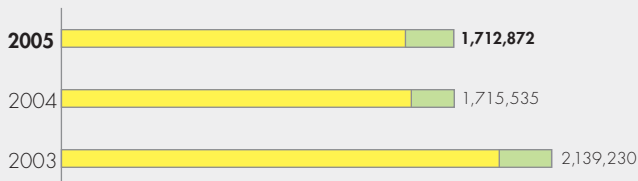


Total CO₂ emissions in metric tons*

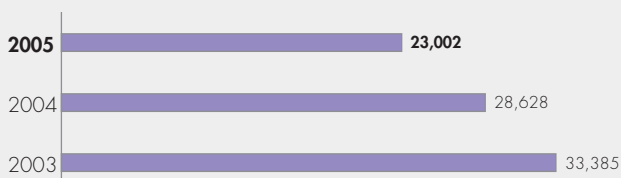


*Calculated from electricity and heat consumption

Total water consumption in cubic meters



Rain water utilization in cubic meters



Group Over-the-counter retail Mail order

Key environmental indicators

By the end of 2005, externally certified environmental management systems covered around one third of the mail order segment's German employees and some ten percent of the Group's total workforce. During the reporting period, savings proved possible in all areas of environmental protection, though a small proportion thereof is attributable to a retroactive adjustment of the data. After the definitive data for the year 2003 had been collated, it was in some cases necessary to adjust the figures upwards. Accordingly, the data for 2003 is slightly at variance with what was quoted in the last report.

Energy consumption

KarstadtQuelle's heating needs are primarily satisfied by gas and distance heating plants, with heating oil now making up only a small proportion (10 to 15 percent) of consumption at Quelle and Karstadt Warenhaus, when short-term supply shortfalls have to be catered for. KarstadtQuelle also generates its own energy, albeit in a small way, using a block-type thermal power plant at the Essen head office and a wind turbine at Quelle's Leipzig logistics center. Together, these two facilities generate some 2.7 megawatts.

Water consumption

KarstadtQuelle is putting its faith in rainwater as a means of cutting water consumption. It is employed primarily for cooling the heating plant at headquarters in Essen, while neckermann.de uses it for flushing toilets among other applications. During 2005 we were able to cover 23,000 cubic meters of the requirements by using rainwater.

Waste

The volume of waste generated by over-the-counter retailing is significantly greater than that created by mail order activities, since packaging waste arises at the store itself, rather than presenting the main problem at the consumer's end of the chain, where it is disposed of via take-back arrangements such as the Dual System Deutschland (DSD). Recycling rates for both over-the-counter retail and mail order stand at some 90 percent.

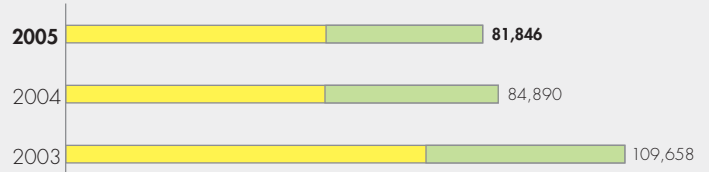
Material consumption

As the products are obtained from third parties, the primary consumption of material stems from the use of paper for preparing advertising resources. KarstadtQuelle takes great care to maximize the proportion of recycled paper it uses, as well as keeping the grammage of catalogs as low as possible.

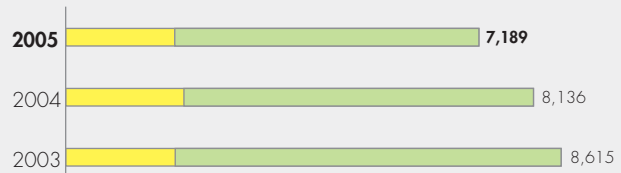
Take-back and recycling

As the German market leader in the take-back of end-of-life appliances, KarstadtQuelle is very well placed to efficiently implement the Waste Electrical and Electronic Equipment (WEEE) Directive, which imposes quantitative and qualitative requirements on the collection and recycling of end-of-life appliances. Against this background, Quelle has increased the size of its holding in Elektrogeräterecycling GmbH to 40 percent, and thus not only has access to a tried-and-tested logistics system, but also to favorable conditions for the recycling and disposal of appliances.

Total waste generated in metric tons



Total volume of packaging in metric tons*

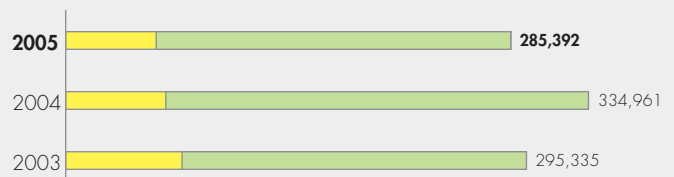


*For over-the-counter retail only; service packages, for mail order, mail packages without returns

Total material used in advertising resources in metric tons

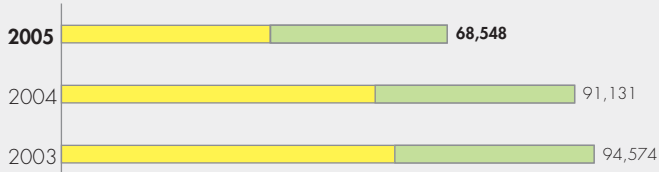


Take-back of waste electrical and electronic equipment in units



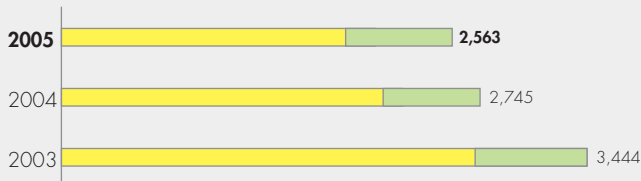
Over-the-counter retail Mail order

Number of employees* (as at December 31 in each case)

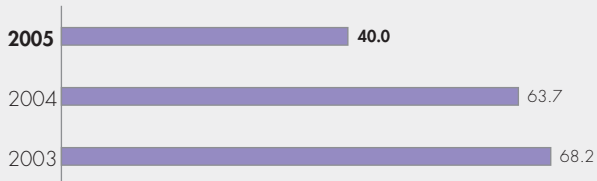


*Excluding holding, services and real estate segments, equivalent to 93.7 percent of Group employees

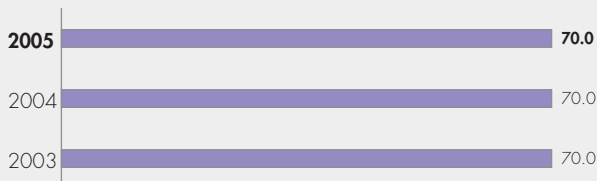
Number of trainees (as at December 31 in each case)



Expenditure on training and development in million euros



Proportion of women in percent



Group Over-the-counter retail Mail order

Social indicators

Since just about 90 percent of the employees of Karstadt Warenhaus, Quelle and neckermann.de work in Germany, domestic statutory provisions ensure that welfare obligations (pensions, sickness benefit and unemployment insurance) are largely fulfilled. We promote the right of employees to organize themselves and provide for their representation in all those countries where we operate our own facilities.

Employment

The most important social responsibility obligation borne by any company is to provide jobs, and to this extent, the development of our headcount is not entirely satisfactory. The drop in numbers is primarily attributable to the deconsolidation of holdings. We have, however been forced to cut jobs in our core business areas, the subject of this report. Where such action was necessary, we have taken it in as socially responsible a manner as possible (cf. page 19).

Further education and advanced training

KarstadtQuelle places great emphasis on further education and advanced training, and increasing the number of trainees was thus an important goal, which we were able to attain in the period under review. In doing so we are creating a pool of well-qualified junior recruits and providing young people with genuine prospects. At the same time, KarstadtQuelle is also investing in ongoing training of its employees – from junior executives through to shop-floor sales staff.

Development of female staff and part-time work

Since, understandably, a high proportion of KarstadtQuelle's workforce is female, especially on the sales floors of the stores and the packaging sections of the mail order houses, a wide variety of part-time working models are applied, and the proportion of employees of both genders who take up such opportunities is commensurately high. The high proportion of women is not, however, reflected in middle or senior management.

Equal opportunities

The proportion of disabled personnel within the Group is relatively high, putting it in line with KarstadtQuelle's declared intention of promoting employment of the disabled. The number of disabled staff at KarstadtQuelle is in line with the five percent minimum prescribed by law and thus higher than average for German companies (approx. 3.4 percent).

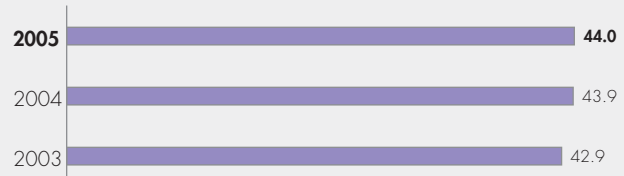
Donations

The company regularly donates money to support good causes within its environment. These take the form of many small cash sums or donations in kind.

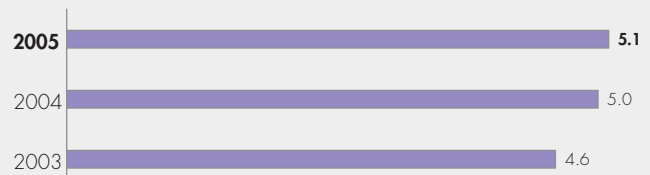
Dealings with suppliers

In line with the AVE model (today BSCI), KarstadtQuelle has been auditing its suppliers since 2003. If the local auditors conclude that the employment conditions are in need of improvement or critically unsatisfactory, the suppliers undergo appropriate retraining, rather than being immediately de-listed.

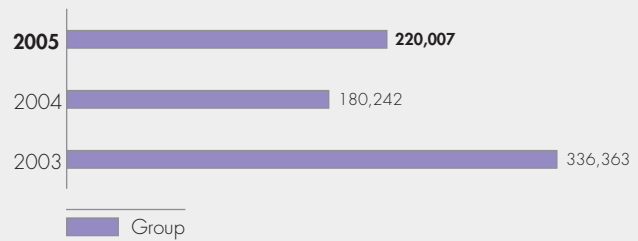
Proportion of part-time employees in sales function in percent



Proportion of Group staff with severe disabilities in percent



Total charitable donations in euros



Results of first audits in selected procurement markets in percent (as at January 2006)

	SA 8000* certified	Good	Improvement required	Critical
Bangladesh		6	11	83
Bulgaria		39	61	
China	2	3	16	79
India	11	10	21	58
Indonesia	33		17	50
Pakistan	38	8	37	17
Romania			100	
Thailand		9		91
Turkey		57	10	33
Vietnam	25		40	35

*International recognized social standard of Social Accountability International (SAI)

Sustainability program: Update of status and new measures

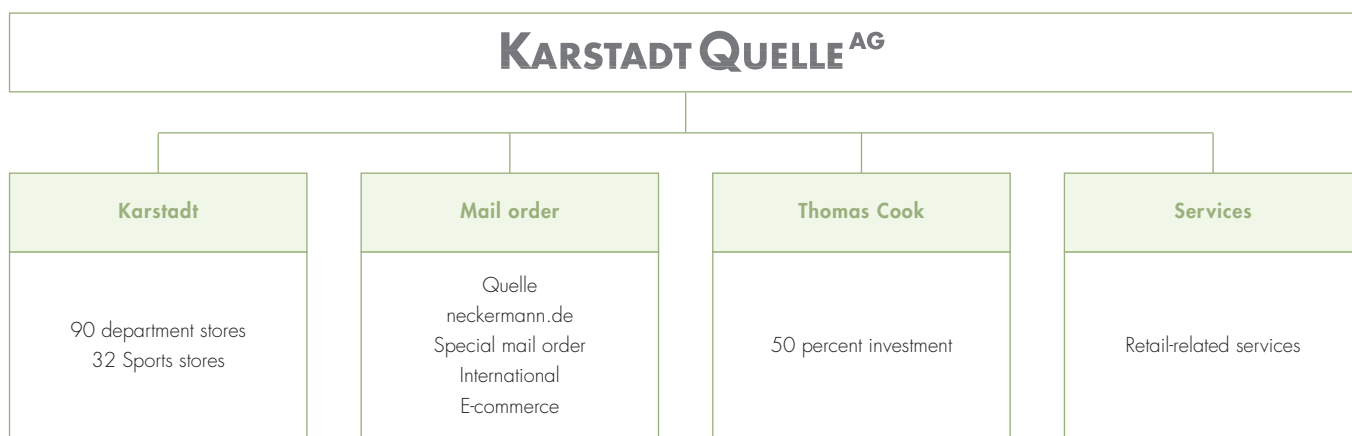
Objective	Measure prior to 2005 – Status	Updates and new measures
Product mix policy		
More textiles tested for harmful substances	44% (Quelle) and 46% (neckermann.de) achieved (target values 2005: 42% and 45% respectively). Karstadt Warenhaus achieved an increase in baby products and underwear	An increase to 45% (Quelle) and 50% (neckermann.de) by 2007. If possible, 100% of products made from textiles tested for harmful substances (Oeko-Tex Standard 100) by 2009 in the mail order segment
	System of data gathering for textiles tested for harmful substances still not introduced by Karstadt Warenhaus	To be pursued
More textiles with advanced environmental standards	Mail order trial completed, trial product ranges running (e.g. biologically controlled cotton used for baby products for neckermann.de)	Further monitoring of market situation and trial product ranges. Increase if good response received
More large appliances in the Class A energy efficiency category	Mail order objective of 95% for washing machines and dishwashers almost met (washing machines: 94%, dishwashers 91% for neckermann.de and 86% for Quelle respectively). Karstadt Warenhaus met objective of 98% of washing machines	Increase to 95% (neckermann.de) and 97% (Quelle) of washing machines, and to 95% (neckermann.de) and 90% (Quelle) of dishwashers by 2007
	Objective of 93% of refrigerators/freezers not met by Quelle (90%) but met by neckermann.de (95%) and Karstadt Warenhaus (97%)	Increase to 97% (neckermann.de) and 93% (Quelle) by 2007. A higher proportion of A+ and A++ appliances from Karstadt Warenhaus
	Mail order objective of 80% for cookers not met (Quelle 70%, neckermann.de 75%). Karstadt Warenhaus achieved 85%	Increase to 85% of cookers (neckermann.de) and 75% (Quelle) by 2007 Increase (energy-efficiency class A and B) to 30% (Quelle) and 35% (neckermann.de) of tumble dryers by 2007
A+/A++ refrigerators/freezers in mail order product mix	Objective of 40% and 25% respectively met (Quelle 57%, neckermann.de 48%)	Increase to 60% (Quelle) and 50% (neckermann.de) by 2007
A+ Washing machines in mail order product mix		Increase to 45% (Quelle) and 40% (neckermann.de) by 2007
Range of solar-powered products	Despite very limited product mix, increase of 33% in solar-powered articles in 2005 (mail order) compared with 2004 (Objective: 5% yearly for Quelle). Photovoltaic panels no longer on offer in 2006	Increase to 100% of solar-powered garden lights (Quelle), greater number of solar-powered products from neckermann.de by 2007
Reduce water consumption of large mail order appliances	Objective of 44 L and 46 L not completely met by Quelle (43.5 L) and neckermann.de (46 L)	Further reduce water consumption with ultra-economical appliances with large drum capacity by 2007
	Increase in water saving fully automatic washing machines to 92% (Quelle) and 85% (neckermann.de) already achieved by 2004	Increase water saving fully automatic washing machines to 67% for 5 kg machines (46 L) and by 5% for 6 kg machines (49 L) at Quelle by 2007
	Average water consumption of mail order dishwashers reduced (as planned) by 15 L	Stabilize water consumption of dishwashers at 15 L per wash cycle
Reduce energy consumption of mail order multimedia appliances in stand-by mode		Larger range of mail order appliances consuming < 1 watts in stand-by mode
		Reduce energy consumed in stand-by mode to < 3 watts for all own-brand Universum TVs by 2008

Objective	Measure prior to 2005 – Status	Updates and new measures
Product mix policy		
Furniture with an FSC certificate	Garden furniture no longer stocked by Karstadt Warenhaus. 33% of household items are FSC products	Greater number of FSC items in product mixes
	Increase of 45% in FSC items by Quelle in 2004 – wooden garden furniture and carports. A further increase of 6% in 2005. (Objective: 10% in 2004, further 3% in 2005 clearly exceeded), further increase in FSC items by neckermann.de, 2005 garden catalog: 45% of all wooden items FSC certified	Range of tropical wood products in large garden furniture section only available with FSC certificate by 2007 Further development of internal standards for sustainable forest cultivation by neckermann.de
Furniture with the “Blue Angel” seal of approval		Increase range of bedroom furniture to over 50% (Quelle), increase nursery and playroom range to 50% (neckermann.de) by 2007
Upholstery made from textiles tested for harmful substances		Increase upholstered furniture range using textiles tested for harmful substances with the Quelle brand to 50% by 2007
Solid wood furniture with environmentally friendly surface treatment		Increase solid wood furniture range with environmentally-friendly surface treatment at neckermann.de by 2007
Wider use of seals of approval	Seals of approval are an essential part of product presentation for mail order and for over-the-counter purchasing	To be pursued
Revise guidelines on environmentally sound product design	2003 objective in place until 2007	Implement by 2007
Worldwide working conditions		
Improve social conditions in production	Implementation of the Business Social Compliance Initiative (BSCI) by way of supplier audits and qualifications, inspection of production sites in all countries from which KarstadtQuelle purchases goods	Carry out worldwide awareness workshops, launch pilot projects for sub-contractors Involve more suppliers by 2007. Objective: audits/qualifications for 70% of main suppliers
	Organization of pilot projects in the areas of occupational health and safety, animal protection etc.	Continue pilot projects with the objective of exchanging experiences from different supplying countries
	Continuous cooperation with stakeholders as part of the “Round Table Code of Conduct”	Continue national and international stakeholder dialog at high level
	Intensification of dialog with all affected stakeholders in supplying countries by way of local “Round Tables” or projects	Further support “Round Tables” by transferring them from the GTZ into the hands of national organizations
	Further development of BSCI at European level	Intensive cooperation between all partners Introduce “Social Compatibility of Products” as an evaluation benchmark for purchasers by 2007
Cooperation in working parties Code of conduct for employee councils	Regular information for employee councils	Continue regular exchange of information

Objective	Measure prior to 2005 – Status	Updates and new measures
Customer advice		
Promote sales of sustainable products	Group-wide concept not yet completely implemented	Pursue objective until 2007
	Campaigns and activities in Karstadt Warenhaus branches, information in advertising material and catalogs, sustainability articles in customer magazines and brochures, upgrading of sustainability Internet sites, environment week in over-the-counter retail, upgrading and more rewards for mail order eco products	Continue all measures until 2007: training and information for suppliers, expand sustainability website, make environment a strong element in all catalogs, stocktaking of environmentally sound products with BUND and promotional development (Karstadt Warenhaus)
	Inclusion of environmental issues in seminars for field operators (Quelle)	Implement by 2007
Integration of sustainability issues into brand communication	A standard element of communication for KarstadtQuelle and for individual businesses and brands	To be pursued
	New step-by-step concept to introduce a complaints procedure for mail order service already partly implemented	Continue development of complaints procedure until the end of 2006
Guide customers towards e-commerce		Greater individualization of personalized Internet pages (Quelle), install Internet terminals in Quelle shops, replace paper-based marketing activities (Karstadt Warenhaus)
Operational management		
Use of synergies in sustainable corporate management	Methodical exchange of experience within the Group as well as harmonizing of collaborative work and disposal of packaging; further harmonizing of Group-wide waste management and waste disposal procedures only partly implemented due to regionally disparate waste disposal markets	Continue to pursue a methodical exchange of experience for the purpose of optimization
	Establishment of environmental management across the mail order service	To be pursued
	Support of subsidiaries and overseas companies by way of central environmental coordination for mail order service	Ongoing process
Reduce consumption of resources	Reduced electricity consumption by more than 11,000 Mw (objective: 1,700Mw) by Quelle, a reduction of approx. 13.7% by neckermann.de (objective: 2%)	Further reduce by 3% (Quelle), stabilize the very efficient energy use at neckermann.de
	Proportion recycled increased to more than 90% (objective met)	Further stabilize proportion recycled to over 90%
	Increase in rail transport and growth of combined freight transport use already achieved in 2005. ISO 14001 certificate for Optimus Logistics in 2005	Further pursue introduction of a transport management system, promote use of low-emission trucks
	Reduction of internal paper consumption of 5% by Quelle between 2003 and 2004, a further 32% between 2004 and 2005	Further reduce paper consumption in mail order segment by 2007, particularly in the 2006 business year
	Paper economization by way of shifting sales promotions to the Internet and E-mail	To be pursued

Objective	Measure prior to 2005 – Status	Updates and new measures
Operational management		
Reduce consumption of resources	E-mail collective purchasers instead of written correspondence	To be pursued
		Replace paper-based marketing activities with electronic methods, text advertisements on Internet search engines and Internet price comparison search engines, assign space to promotion on Internet pages
	Use of recycled paper and paper with a high recycled content widely optimized in mail order service, reduced consumption by Karstadt Warenhaus by way of using paper of a mini-mized thickness	To be pursued
	Encourage printers to use FSC-certified paper in mail order segment. FSC paper and printers favored for publications with a small circulation	To be pursued
Larger proportion of returns recycled	No measures to date	Greater variation in limit values for preparation of goods
Interaction with employees		
Training and information for employees on environmental protection	Communication of sustainability programs through employer newsletter, Group Intranet and by Karstadt Warenhaus also through the "Future thanks to Sustainability" flyer	Continue all measures
Increased involvement	Stronger communication of current improvement suggestion schemes through Intranet and posters, etc.	Continue measures: Widen options for participation in Intranet by 2007
Improve in-house cooperation	Joint seminars and internships could not be offered due to restructuring	
Maintain high standard of flexible working hours	Pilot project with optimizing potential by neckermann.de, wide-scale trust-based flexible working hours for exempt employees	

Future Group structure



Index according to GRI

(Global Reporting Initiative, 2002 guidelines)

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AR = Annual Report 2005

*No complete presentation as per GRI criteria or only examples

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