



Together for a better future.

KARSTADT QUELLE^{AG}

SUSTAINABILITY REPORT 2003

About this report

The first KarstadtQuelle AG Sustainability Report explains what the Group does to advance the cause of sustainable development and what objectives it has set itself for the future. The report is written for analysts and investors, business partners and collaborators, consumer organizations and the authorities and the Group's employees. It discusses topics including sustainability strategy and management, customer and employee focus, product mix policy, human rights and environmentally aware operational management.

The Group's sustainability strategy builds on the environmental commitment of the three major Group companies, Karstadt Warenhaus, Quelle and Neckermann, and incorporates ecological, social and employee-related issues.

The scope of this first Sustainability Report is limited to these three companies and thus covers 70 percent of the total workforce of KarstadtQuelle. We plan to expand reporting to the subsidiary companies ready for the next Sustainability Report, which is due for publication in 2006. This will bring in companies such as the environmentally friendly textiles supplier Hess Natur, mail-order supplier Madeleine and service provider companies such as Starbucks Coffee Deutschland.

This Sustainability Report covers the years 2000 to 2003. It has been prepared in line with the guidelines of the Global Reporting Initiative (GRI) and the requirements of rating agencies that specialize in sustainability. KarstadtQuelle employs just about 92 percent of its people in Germany, which means that almost the whole of the company's workforce is covered by relatively strict statutory social welfare provisions. The certified environmental management systems introduced cover approximately 10 percent of the workforce.

KarstadtQuelle also provides information about how it lives up to its responsibilities for the environment and society via its website (www.karstadtquelle.com > Sustainability). Details of the Group's economic position and commercial progress can be found in the Annual Report, which may be ordered or downloaded over the internet (www.karstadtquelle.com > Investor Relations). Further information on the subject of environmental protection can be found on the websites of Karstadt Warenhaus (www.karstadt.de), Quelle (www.quelle.com) and Neckermann (www.neckermann.de).

If you have any questions about sustainability issues at KarstadtQuelle, please mail them to: sustainability@karstadtquelle.com.

The editorial deadline for this report was February 29, 2004.

1999

Karstadt and Quelle merge to become KarstadtQuelle AG.

OCTOBER 2000

KarstadtQuelle approves a code of conduct for purchasing. The code is based on the conventions of the International Labour Organization (ILO) and applies across all Group companies. See page 28 for more.

JULY 2001

Critical shareholders at the KarstadtQuelle Annual General Meeting in Düsseldorf demand fairer terms of employment in the clothing industry. See page 35 for more.

JULY 2001

Karstadt Warenhaus sets up a Germany-wide transfer company to facilitate socially responsible staff reduction.

AUGUST 2001

Quelle Slovakia successfully gains ISO 14001 accreditation for its environmental management system and becomes the first company in the country to register under the European Eco Management & Audit Scheme (EMAS).

MARCH 2002

Karstadt Warenhaus, Neckermann and Quelle implement joint supplier quality guidelines for textiles.

JULY 2002

KarstadtQuelle creates an environment and social policy portfolio at Management Board level and establishes the Environment and Social Affairs corporate office reporting directly to the corresponding Board member.

AUGUST 2002

KarstadtQuelle appoints a corporate governance manager to ensure full implementation of the corporate governance standards. See page 5 for more.

SEPTEMBER 2002

The KarstadtQuelle Group stops selling real fur in line with the animal welfare provisions adopted in the code of conduct. See page 29 for more.

German Federal Minister of Consumer Protection Renate Künast presents the “Clemens Clever” environmental coloring book at the World Children’s Day event in Berlin. The book is subsequently distributed through Karstadt department stores, schools and kindergartens.

OCTOBER 2002

The relaunched KarstadtQuelle staff magazine ma:z, which appears monthly in newspaper format, encourages even closer integration of Group staff.

DECEMBER 2002

The major Quelle sites (Leipzig mail-order center, Nuremberg/Fürth returned goods center and Nuremberg regional warehouse) complete their second successful verification process under EMAS II.

JANUARY 2003

Karstadt Warenhaus adds copier and printer paper made from recycled materials to its office supplies range.

APRIL 2003

KarstadtQuelle is involved in putting on the first event under the Awareness Program of the Foreign Trade Association of German Retailers (AVE). Held in India, the event aims to disseminate information about social standards. See page 35 for more.

JUNE 2003

The Karstadt branches across Germany host a week-long organic foods promotion including advice, tastings and events. The Karstadt range now includes around 700 organic products.

JULY 2003

Karstadt branches promote the sale of environmentally friendly stationery products in a Germany-wide campaign in the lead up to the start of the new school year.

AUGUST 2003

Karstadt Warenhaus AG becomes the first major German retail company formally to grant equal legal status to registered same-sex life partnerships in employment and career matters.

NOVEMBER 2003

The Karstadt food departments host a week of special activities to promote TransFair products. Launched under the slogan "Fair feels good.", the campaign showcases around 40 fair trade products. See page 26 for more.

DECEMBER 2003

KarstadtQuelle publishes a special edition of the staff magazine ma:z focusing on sustainability.

Quelle gives its backing to German children's rights foundation "Alliance for Children – against violence" (Bündnis für Kinder – gegen Gewalt) and starts selling the foundation's "Mein Kind ist unschlagbar" (My child is unbeatable) T-shirts. Quelle donates € 7.75 to the foundation for each shirt sold.

The Management Board approves the corporate Sustainability Guidelines. See page 2 for more information.

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**Be better. Be more.
Be a partner.**

Born out of the merger of two venerable old companies, we have combined our strengths and created the basis for a successful future.

OUR ROLE AS INTERMEDIARY BETWEEN SUPPLIERS AND CUSTOMERS PRESENTS AN OPPORTUNITY.

We use this opportunity to uphold quality awareness, environmental responsibility and respect for human dignity as central values in our society and to promote and support them around the world.

WE BUILD LONG-TERM, TRUSTING RELATIONSHIPS WITH OUR CUSTOMERS.

We know our customers and their needs and provide a reliable partner for all regardless of age or spending habits. We take no customer for granted and seek to reaffirm our partnership every day through our service and advice.

OUR RANGE AND SERVICES OFFER OUTSTANDING QUALITY AND INNOVATION.

We understand what our customers want and find creative solutions to please them. We recognize the importance of a balanced price-performance ratio and an innovative product mix. We look hard at the ecological and social aspects of our products and services and work continuously to develop and improve them.

SUCCESS DEPENDS ON A RELIABLE PARTNERSHIP WITH SUPPLIERS AND SERVICE PROVIDERS.

We give our customers confidence and peace of mind by making our suppliers subject to the same high standards of responsible business that guide our own actions

WE ACHIEVE OUR OBJECTIVES THROUGH THE EFFORTS OF OUR STAFF.

Consequently we encourage our staff to enhance their qualifications, take on new responsibilities and commit to the company's cause. We help them to expand their knowledge and skills and take an active role in shaping the progress of our company. We support diversity, codetermination and equal opportunities.

WE ARE OPEN TO SOCIETY; WE ARE PART OF SOCIETY.

We explain how and why we do what we do. We face up to criticism and seek an equitable solution. We cooperate actively as a partner in the development of new solutions and approaches.

WE MAKE AN IMPORTANT CONTRIBUTION TO THE QUALITY OF LIFE OF CURRENT AND FUTURE GENERATIONS.

We practice consistent consumer protection and promote healthy working conditions. We reduce environmental impact and resource consumption wherever we can throughout the lifecycle of our products.

RESPONSIBLE ACTION SAFEGUARDS THE FUTURE OF OUR COMPANY.

We define standards for efficient and forward-looking business operations. Formal guidelines ensure this position is firmly anchored in the management structures of the companies in the KarstadtQuelle Group.

THE CAPITAL MARKET RESPECTS OUR FOCUS ON VALUE.

We create and enhance value for investors and our company. We retain the trust of analysts and shareholders through open and efficient dialog and our implementation of the German Corporate Governance Code.

Our Sustainability Policy

Foreword

As a major retailer, KarstadtQuelle is an integral part of our society and a focus of public life. Customers and consumer organizations ask us about the materials used to make our products, where we purchase them and the conditions under which they are produced. While analysts and investors with a special interest in sustainability want to know what we are doing to verify and maintain the environmental quality of our goods, train and develop our staff and improve working conditions around the world.

These are all fair questions. KarstadtQuelle ranks among the largest retailing groups in Europe, is one of the largest employers in Germany, uses manufacturing operations in more than 70 countries and moves many € million worth of goods every day: we undoubtedly have a certain amount of influence to make a difference.

This Sustainability Report provides the answers to these questions and shows exactly how we fulfill our responsibilities as a corporate citizen, and is the first of its kind our Group has published. Karstadt Warenhaus, Quelle and Neckermann, the three largest companies in the Group, integrated environmental protection into their principles right back at the start of the 1990s and are constantly involved in numerous social and environmental projects.

Our decision to create the Environment and Social Affairs corporate office following the merger of Karstadt and Quelle demonstrates the priority given to these issues within our organization. Sustainable development means working not only to protect and conserve the common resources on which we depend, but also to improve the conditions under which we live.

This principle applies equally to our customers, to our staff and to the people in the countries from which we source our products, be they in Europe or in Asia.

We have drawn up principles for the sustainable development of KarstadtQuelle AG in order to provide a common point of reference for operations right across the Group. The principles bear witness to our acknowledged responsibilities and give expression to our commitment to our role as an agent of societal development. A Corporate Sustainability Management Guideline provides the framework needed to support implementation of the principles in our everyday business operations.

We would like to extend our sincere thanks to everyone who has helped lay the foundation for the active culture of sustainability we now share at KarstadtQuelle. The simultaneous pursuit of economic, social and ecological objectives, we believe, holds the key to both global prosperity and long term growth in the value of our company.



Wolfgang Urban

Chairman of the Management Board



Prof. Dr. Helmut Merkel

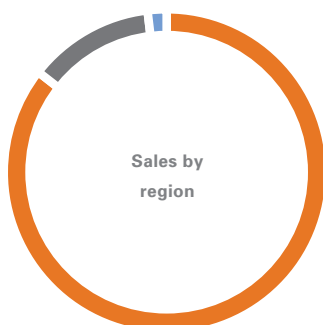
Member of the Management Board
with responsibility for environment
and social affairs



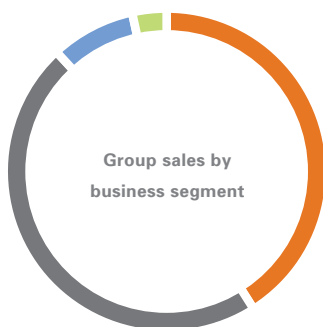
Wolfgang Urban



Prof. Dr. Helmut Merkel



Germany	€ 13.7 bill.
EU Western Europe	€ 2.0 bill.
Eastern Europe	€ 0.1 bill.
	€ 15.8 bill.
Reconciliation account	€ -0.5 bill.
Group sales	€ 15.3 bill.



Over-the-counter retail	45.7 %
Mail order	52.5 %
Services	9.4 %
Real estate	3.8 %
	111.4 %
Reconciliation account	-11.4 %
Group sales	100 %

KarstadtQuelle AG emerged from the 1999 merger of Karstadt and Quelle. Karstadt had held a majority stake in mail-order house Neckermann since 1977. The formation of KarstadtQuelle AG created Europe's largest department store and mail-order group. The Group has its headquarters at Essen in Germany. We do not have any manufacturing facilities of our own.

Market position

A STRONG PLATFORM FOR FURTHER DEVELOPMENT

Our approximately 101,000 employees achieved sales of around € 15.3 bill. in 2003. The share of sales originating outside Germany amounted to some 14 percent for the Group as a whole and more than 24 percent in the mail-order segment.

New growth markets have been successfully opened up: We have carved out a favorable position in the service sector with financial and information services, a customer loyalty card bonus program and the Starbucks Coffee Houses. The real estate portfolio, which

is concentrated in a separate business segment, strongly reflects our approach of optimization with the focus on value.

Market presence

CONTACTS ARE OUR STRENGTH

KarstadtQuelle has a presence in every large city in Germany, where we operate 180 department stores, 32 sports outlets, 305 specialty stores, around 422 travel agencies, 30 financial service centers, about 4,900 Quelle shops, more than 150 Quelle-Technik-Center stores and a number of other over-the-counter outlets belonging to the mail-order operations (e.g. Baby Walz, Madeleine). Our well-known universal mail-order suppliers Quelle and Neckermann operate in 17 countries across Europe with their local companies. There are also 23 specialty mail-order suppliers with companies in 16 countries throughout the world.

Our strength comes from the many customers who contact us every day in person, by e-mail, over the internet, on the telephone, via TV or via one of our catalogs. Our department stores and specialty stores attract around three million visitors a day, while our mail-order catalogs have a place in almost every German home.

Business segments

OVER-THE-COUNTER RETAIL

180 department stores, 32 Karstadt-Sports outlets, 305 specialty stores trading under the SinnLeffers, Weh-meyer, Runners Point, and Golf House brand names.

MAIL ORDER

Quelle and Neckermann and a total of more than 140 other subsidiaries of universal and specialty mail-order companies including Baby Walz, Elégance, Peter Hahn, Hess Natur.

SERVICES

Corporate business (B2B services) with information services, e- and TV-commerce, logistics, IT and purchasing. Consumer business (B2C services) with financial services, loyalty card programs and tourism.

REAL ESTATE

Department stores and specialty stores, principally at A1 locations. Logistics centers and administrative premises. The portfolio also embraces real estate services and financing.

Portrait of the Group: KarstadtQuelle AG

Corporate management

IN PURSUIT OF LONG-TERM VALUE
ENHANCEMENT

Our corporate control strategy focuses on long term value creation and is characterized by an open information policy and good relations with shareholders, staff, customers, trades unions and the authorities. We employ a transparent management and controlling system in accordance with the recommendations of the German Corporate Governance Code. Our approach is largely based on this code, as explained in greater detail on our website.

Responsible corporate management relies on effective and trusting cooperation between the Management Board and the Supervisory Board. KarstadtQuelle's Management Board, currently comprising four members, is backed by a 20-strong Supervisory Board consisting, as required by the German Law of Co-Determination, of an equal number of shareholders and employees' representatives. KarstadtQuelle appointed a corporate governance manager in August 2002 to ensure implementation of the corporate governance standards.

Economic development

KARSTADTQUELLE HOLDS UP WELL IN
A DIFFICULT RETAIL ENVIRONMENT

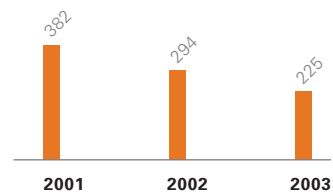
2003 proved to be another difficult financial year for Germany's retailers. The continued problems in the economy and unemployment levels that remained stubbornly high meant that consumers still kept a tight hold on their purse-strings. The situation was exacerbated by falling real-terms incomes, and growing awareness of the need to provide for the future. Almost all companies were impacted by the general reluctance to spend.

Although the KarstadtQuelle Group did not emerge unscathed from the crisis in Germany's retail sector, it showed up well in a challenging market environment. Our restructuring into a retail and service company is gradually taking shape. In the short run, successfully optimizing our processes and our financing arrangements can only partially offset the negative conditions under which we must operate. We are, however, convinced that the long-term strategy of realignment we have drawn up is set to deliver good results.

For more information, see:
www.corporate-governance-code.de

Declaration of conformity:
www.karstadtquelle.com
> Corporate

Development of group operating result
(EBTA) in € million



6 BILLION EUROS

is what KarstadtQuelle spends every year on the purchase of goods.

80 MILLION

the number of customer deliveries made every year just by the Necker-mann mail-order business.

330 MILLION EUROS

annual revenue at Quelle from the sale of environmentally optimized products such as energy-efficient electrical appliances.

700 ARTICLES

from the range of the department stores come from certified organic agriculture or fair trade.

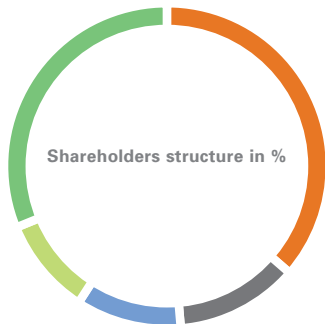
100,000 METRICTONS

is the weight of paper consumed every year by the Quelle catalogs.

300,000 OBSOLETE ELECTRICAL APPLIANCES

are taken back from customers by KarstadtQuelle every year, making it the market leader in Germany.

Responsibility in figures



■ 36.40 "Madeleine Schickedanz" pool
■ 12.24 Riedel Holding GmbH & Co. KG
■ 10.50 Allianz AG
■ 9.70 KarstadtQuelle AG*
■ 31.16 Free float
 (in accordance with security trade law and company information, respectively)

As of March 19, 2004

* Share repurchase program

Further commendations and awards:

www.karstadtquelle.com

> Sustainability



www.sustainability-index.com

www.ethibel.org

www.ftse.com/ftse4good

A good overview of the whole topic of sustainable investment is available at www.sustainable-investment.org

Communication with the capital market

GOOD SUSTAINABILITY PERFORMANCE

The capital market holds a favorable opinion of KarstadtQuelle's online communication activities in particular, with those analysts questioned in a 2002 survey responding that our website kept them well informed about developments at the company. Our Investor Relations department keeps analysts informed with up-to-the-minute announcements and annual and interim reports on our website, as well as with Group presentations, live broadcasts and recordings of our analysts' and telephone conferences and annual general meetings. We formally adopted the International Accounting Standard (IAS)/International Financial Reporting Standards (IFRS) for our accounts in 2001 and can thus offer the financial markets a good insight into our financial position with data that allows quick and effective comparisons with other companies around the world.

We also provide an open and comprehensive response to enquiries from sustainability-oriented rating agencies. These agencies, which are usually acting on behalf of ethical investment funds, investigate the extent to which companies live up to their environmental and social responsibilities. Positive evaluations of our sustainability performance have earned us listings on the following indices, among others:

- Dow Jones Sustainability Index World
- ESI – Ethibel Sustainability Index
- FTSE4Good

Public image

OUR PRINCIPLED STANCE PAYS DIVIDENDS

The way the public at large views our Group depends on a host of different factors including economic strength, product range and staff management. There is also growing public interest in the fact that we meet our social responsibility and how we behave as a corporate citizen.

German business magazine Capital conducted a study in the fall of 2003 in which it looked at how the media reports on various German companies. The results of the study provide a good indication of the company's reputation. KarstadtQuelle occupied fourth place for both corporate reputation and the public image of our management team.

Our environmental commitment is widely recognized, as evidenced by our growing collection of awards and commendations:

- Employees of Karstadt Warenhaus, Quelle and Neckermann receive the environmental award of B.A.U.M. e.V., the German Environmental Management Association (1993, 1994 and 1998)
- Karstadt Warenhaus receives the environmental prize of the Federation of German Industries (BDI) in the "Environmentally aware corporate management and promotional campaigns" category (1994, 2002)
- Karstadt Warenhaus and Neckermann receive commendations for environmentally aware corporate management from the German Small and Midsize Enterprises Association (ASU) (1995, 1996/97, 1999)

Comment

Our brands

HIGH RECOGNITION VALUES

Around 95 percent of Germans recognize the Karstadt, Quelle and Neckermann brands. Brands help consumers to orient themselves and also engender trust, so this excellent level of recognition gives us an enormous advantage when it comes to reaching and retaining customers.

We invest several million € every year in market studies and customer surveys to keep us in step with customer requirements. Programs active at the moment include Mystery Shopping, which involves continuous test visits to the department stores, and Customer Monitor, which involves regular time-series analyses of our image in relation to the competition. These and other research activities reveal valuable potential improvements. We launched a broad-based brand campaign for the Karstadt department stores in August of 2003 under the slogan “Besser Karstadt” (“Better Karstadt”). The campaign represents a sustainable commitment to quality and service through which we hope to enhance the loyalty of our existing customers and tap into the potential of new customer groups.

Their fine reputation has given the Group companies a head start in internet shopping, with customer confidence levels well above average. Quelle, Neckermann and Karstadt Warenhaus consequently rank among the ten largest online retailers in Germany and the value of orders placed online already accounts for more than ten percent of total Group sales.

Prof. Dr. Norbert Walter

CHIEF ECONOMIST,
DEUTSCHE BANK GROUP

“I expect the whole issue of sustainability to acquire a far higher profile in corporate strategy over the coming years. Companies have a unique responsibility for sustainability, as they are both employers of people and consumers of natural resources.

The hope that sustainable corporate strategies will find a warm welcome in the capital market is entirely justified. For, although most financial analysts still rely primarily on short-term monetary indicators, those share indices that track companies oriented towards sustainability are already showing above-average performance. A company that conserves energy, manufactures and sells environmentally friendly products and gives its staff regular training to reinforce their affinity for sustainable ideas is, and can be seen to be, a company with vision. This cannot help but enhance both the company’s reputation and its long-term prospects and these are precisely the type of factors which, over more than the short-term, the capital market regards most highly. The stock market appreciates effective crisis management, especially in times of external shocks. Companies that stand ready are able to avoid panic and ill-considered reactions.

Strategies based on the principles of sustainability will, I believe, continue to spread from specialist green companies into the mainstream.



Prof. Dr. Norbert Walter

Ultimately very few companies will be able to afford to disregard the ecological implications of their activities. The US automotive manufacturers, for one, are already learning this lesson the hard way as they struggle to export “gas-guzzling” vehicles to unimpressed consumers in Europe and Asia. What is true of companies, of course, also applies to countries: policies built on sustainability improve competitive fitness over the medium to long term. Developed economies are clearly the pioneers in this respect, as they are more easily able to afford an extensive environmental orientation and social policies to enhance the labor-market participation and performance of their inhabitants. Our challenge for the future is to ensure that we also help less advanced countries navigate the path to sustainable development.”

www.norbert-walter.com



KarstadtQuelle combines ability and knowledge to secure commercial success and make room for new opportunities. Key to its progress is a sustainability management system that keeps risks in check and creates added value for customers, employees and shareholders.



Neckermann alone purchases 120,000 metric tons of goods from all over the world every year. Transport and production in particular throw up a whole range of different risks.



Sustainability strategy: Thinking synergies

Two decades ago the retail sector accounted for no more than around three percent of global aggregate output. Now it contributes approximately 20 percent, which means that one in every five dollars earned is made through the exchange of goods.

Retailing has grown to be the second largest sector of the economy in Germany after industry and thus has a significant role to play in the development of society. Sales may be declining just at the moment, but the expectations placed on the sector in respect of sustainability remain high.

Our strategy

ENSURE GROWTH

KarstadtQuelle defines its most important management duties as: play an active role in shaping structural change; ensure the continuing growth of the company; leverage our combined strengths to expand the business; and find ways to open up new markets.

These objectives can only be achieved if the company is well received in society as a whole, however, which makes our duties as a corporate citizen in effect just as critical. The creation in 2002 of an environment and social policy portfolio at Group Management Board level and the establishment of a dedicated Environment and Social Affairs corporate office demonstrate the importance we as a company attach to social and environmental issues (see page 12).

■ EXPLOIT SYNERGIES

The merger of Karstadt, Quelle and Neckermann created a wealth of potential synergies. At the same time we exploit opportunities consistently through our multi-channel network, which enables us to reach customers via a large number of ever more closely integrated sales channels.

Pressure groups urge companies operating on the world stage to be concerned about better working conditions in the markets where they source their products.

A company's social reputation is becoming a factor in its success.



■ PENETRATE AND DEVELOP MARKETS

Penetrate and develop markets: We aim to offer customers a new shopping experience by enhancing the appeal of our department stores and stepping up the expansion of our strong fashion and sports segments. We strive in our mail-order business to become more highly specialized and also to increase the share of sales from customers outside Germany, primarily in the up-and-coming markets in Central and Eastern Europe.

■ EMBRACE OUR SOCIAL RESPONSIBILITIES

Retailing companies like ours are more closely tied to society than just about any other commercial enterprise, so we have to remain in tune with society's needs in order to progress our business. We intend to integrate social demands more closely into our overall strategy in future in order to ensure general acceptance of our actions.

Sustainable business operations REQUIREMENTS IN THE POLITICAL ARENA

The United Nations appealed to the business community at the 2002 Johannesburg summit to do more to help realize the ideal of sustainable development. The European Union has also encouraged companies to face up to their social responsibilities and incorporate them into business processes, most notably in the form of the Corporate Social Responsibility (CSR) strategy announced in 2001.

Released concurrently with the CSR was the EU's Integrated Product Policy concept (IPP), which proposes improved communication between all parties, from suppliers and manufacturers to resellers and consumers, as a way to reduce environmental impact at all stages of the product lifecycle and encourage more sustainable patterns of consumption.

Living up to our responsibilities AS INTERMEDIARY BETWEEN PRODUCER AND CONSUMER

KarstadtQuelle's commercial strategy is backed up by a strong commitment to environmental protection and social responsibility. We wield considerable influence through our position as intermediary between producers and consumers. Influence of this nature, we believe, brings with it special responsibilities and these we acknowledge and embrace.

Ultimately we consider the expectations society has of us to be entirely justified: if we could manage conditions in the producer-trader-consumer chain in such a way as to reduce poverty, improve health and make more efficient use of resources, we would without doubt be taking a giant leap toward truly sustainable development.

Maintaining acceptance OUR ACTIONS ARE SUBJECT TO CLOSE SCRUTINY

Retail companies are as a result under growing pressure to examine social conditions in their purchasing markets and look more closely at their purchasing behavior.

KarstadtQuelle believes that the voluntary commitment of companies can achieve far more for sustainable development in a constantly changing sales and purchasing market than government legislation and

regulations. We consequently take an active role in seeking voluntary undertakings and co-operative solutions for the sector.

We also support and follow the Guidelines for Multinational Enterprises adopted by the Organisation for Economic Co-operation and Development (OECD) in 2000, which challenge companies voluntarily to do everything they can in host and purchasing countries to prevent bribery and corruption, promote environmental protection and encourage support for human rights.

Areas of action

OUR SUSTAINABILITY STRATEGY

The complex interplay between political demands, stakeholder expectations, our actual influence and the need to trade efficiently yields opportunities for us to contribute to sustainable development on five levels:

■ PRODUCT MIX

Our position as intermediary between producer and consumer gives us a certain scope to promote both responsible production processes and sustainable patterns of consumption. A conscientious approach to product selection allows us to ensure that ecological, health and social aspects are considered over as many phases of the product lifecycle as possible.

■ GLOBAL WORKING CONDITIONS

We have the capacity to make a substantial contribution by bringing our influence to bear on working conditions in newly industrialized and developing countries. We aim to enable suppliers to meet our corporate standards on a consistent basis. Efficient and effective implementation of this and similar policies really demands co-operation right across the sector.

■ ADVICE TO CUSTOMERS

We must convince our customers of the substance and merits of our corporate sustainability concept. This includes not only meeting current demand for environmentally friendly and socially acceptable products, but also presenting the ecological and social consequences of our actions in a clearer and more easily understandable form in order to boost consumer acceptance for sustainable production methods and products.

■ OPERATIONAL MANAGEMENT

Our own operational management is one area in which we can implement our preferred socially and environmentally responsible approach directly. Priorities for us here include minimizing water and energy consumption and reducing our material flow by cutting down on packaging and improving waste management. An effective management system that integrates environmental protection fully into operating processes is essential here.

■ HUMAN RESOURCES MANAGEMENT

The single most important resource in any company, employees are even more significant in retail business as they also hold the key to the customer. Our sustainability concept thus mandates staff involvement and fair and conscientious human resources management at all levels. The training offered to our people and the way they identify themselves with the company play a major role in allowing us to realize our commercial objectives. Their awareness of sustainability issues and commitment to the principle are decisive in ensuring that customers receive the right advice and that, as a result, our operational environmental concept is actually put into practice.

Organisation for Economic
Co-operation and Development:
www.oecd.org

For more information about the sustainability management, see: www.karstadtquelle.com
 > Sustainability

Sustainability management

CREATING NEW STRUCTURES

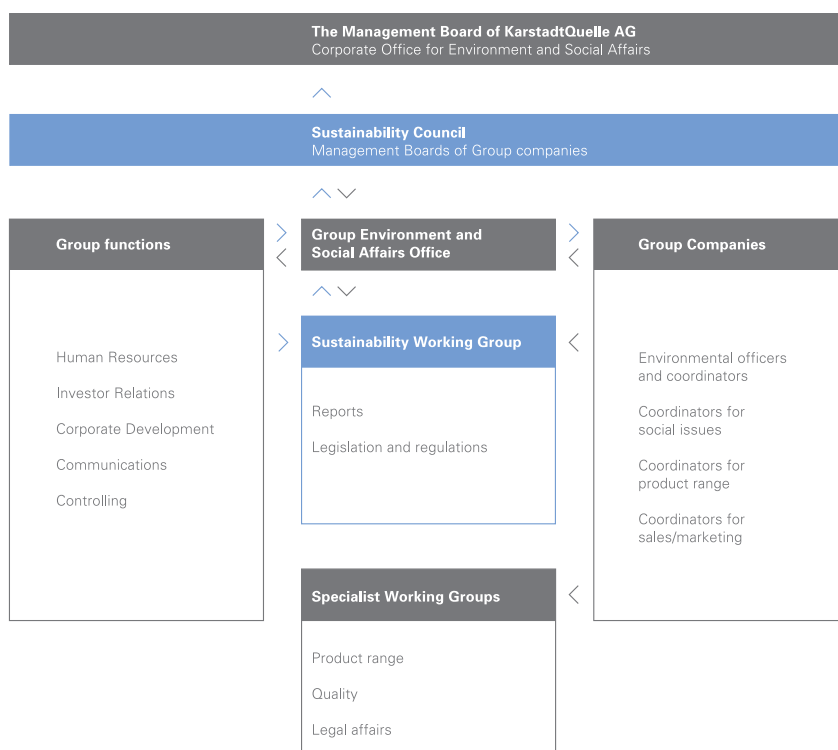
We have introduced a Group-wide sustainability management system to pool and develop the activities of the Group companies. Based on the comprehensive environmental management structures already in place in the Group companies, the new system also captures social responsibility issues.

The Environment and Social Affairs corporate office was created in summer 2002 to co-ordinate the system. This new corporate office, which reports directly to the member of the Group Management Board with responsibility for the environment and social policy, is charged with ensuring consistency

in our approach to sustainable development matters. Its duties include raising awareness of the need for responsible conduct within the Group as well as external communication.

The task of ensuring a free flow of relevant knowledge and experience between the segments falls to the Sustainability Council, in which the relevant Management Board members from the Group companies meet regularly. The technical work at both Group and segment level takes place in the Sustainability Working Group. The Sustainability Principles drawn up by the members of this group (see page 2) came into force by order of the Group Management Board in December 2003, along with the Corporate Sustainability Management Guideline, which sets out the ground rules for future activities at KarstadtQuelle, which was approved in April 2004.

Sustainability management at KarstadtQuelle Group



Environmental management

EXTERNAL VERIFICATION

When it comes to external accreditation of environmental management systems, Quelle and Neckermann rank among the pioneers in the German retail sector. Karstadt Warenhaus, on the other hand, has consciously avoided certification due to the sheer number of sites it operates: the cost of certifying an organization with more than 200 department stores and other operating sites would far exceed any potential benefits.

Some ten percent of our people now work at premises that have successfully completed the external verification process for German mail-order sites in accordance with international environmental management standard ISO 14001 and the European Eco Management & Audit Scheme (EMAS). The Quelle branch office in Slovakia has also been verified under ISO 14001 and has become the first company in the country to register under EMAS.

Full-time environmental officers operate in the over-the-counter retail and mail-order segments. Karstadt Warenhaus has in addition appointed environmental co-ordinators in all branches, while Quelle has engaged 35 environmental officers in the specialist departments.

Risk management

AVOIDING RISKS TO OUR REPUTATION

The capital market views the ability to counter risks in good time as an essential factor in preserving and increasing the value of a company. As a retail company we have to be prepared for an enormous range of potential threats, including political risks, financial

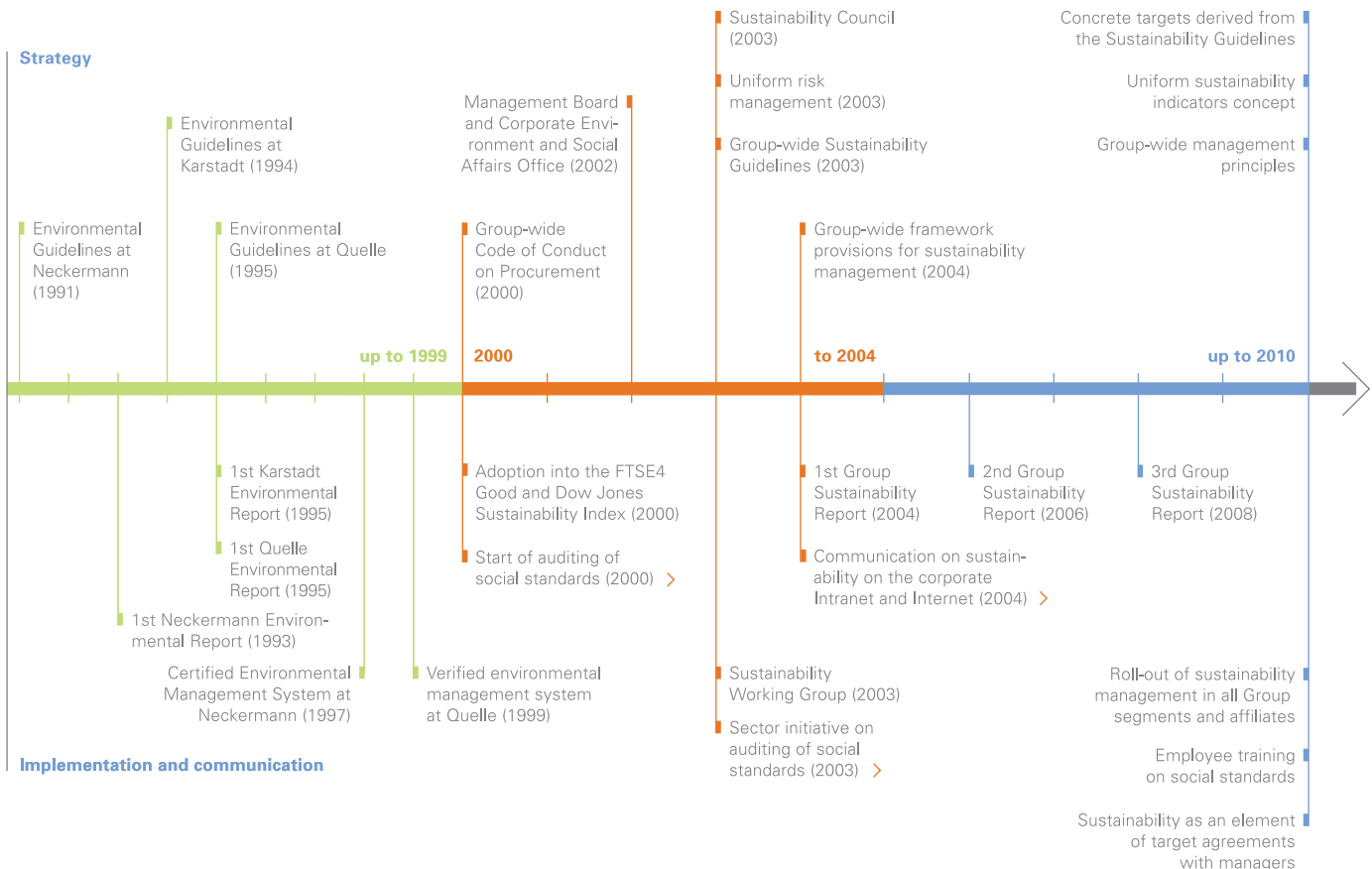
risks, supplier risks and reputation risks, as we strive to realize our objectives. We operate a risk management system covering all Group activities both at home and abroad in order to ensure that potential dangers are detected at an early stage. Detailed procedures are in place, moreover, to minimize any deleterious consequences for people or the environment in the event of product recalls or environmental incidents. 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.

Karstadt Warenhaus environmental policy:
www.karstadt.de/umwelt

Quelle environmental policy:
www.quelle.com/de/umwelt

Neckermann environmental policy:
www.umwelt.neckermann.de

Compass for sustainable development of KarstadtQuelle AG





The global economy brings people of different cultural backgrounds and nationalities together every day. Understanding, respect and tolerance are prerequisites for successful cooperation; openness and faith in dialog have never been so important.



The KarstadtQuelle Group combines three venerable old companies. The first Karstadt department store opened in Wismar in 1881. On the left the company's flagship outlet, KaDeWe. Quelle was founded in 1927 and was followed by Neckermann some thirty years later. Both Quelle and Neckermann started out as successful family-owned companies.



Dialog: Understanding cultures

Companies that can understand other cultures and respond quickly and knowledgeably to foreign markets, whether selling or buying, have a powerful advantage in the age of globalization. Company mergers and partnerships similarly demand understanding and respect for different conventions and approaches. KarstadtQuelle thus regards cultural diversity, tolerance and respect for others as key success factors for the future.

Global purchasing

OPPORTUNITIES FOR SUPPLIER COUNTRIES

Internationalization in purchasing began in 1963 as we started to search more widely for the favorable price-performance ratio our customers expect. The process contributed to the displacement of jobs to what are referred to as low-wage countries, but in so doing brought these countries important development opportunities. Today KarstadtQuelle has purchasing offices in 26 countries.

We take care to make sure that minimum social standards are met in production in our supplier countries and do so by assisting the companies concerned in a spirit of partnership and support. Such an approach serves both sides: proper observance of the rights of employees helps to create a settled environment, which not only reduces our purchasing risk, but also helps suppliers to avoid the threat of losing orders due to regional instability.

Quelle and Neckermann catalogs are now published in 17 different languages. Purchasing has been a decidedly international affair for decades and we currently operate 26 offices around the world.



Internationalization

EVERY MARKET HAS ITS OWN CULTURE

Our mail-order segment has around 500 expatriates – German staff seconded for a certain period to one of our foreign branch offices – in place. We give prospective expatriate staff intensive training in advance of any placement to prepare them for the living and working conditions in their new country and to help them integrate quickly. The roles are effectively reversed when these staff return: now it is they who are the experts and their first-hand knowledge of local markets provides the Group with an invaluable guide as to the particular requirements of customers in other countries and to the likely components of an attractive product mix.

Quelle and Neckermann already occupy a leading position in the mail-order markets in the Netherlands, Austria, the Czech Republic, Croatia, Slovakia, Hungary, Slovenia, Bosnia-Herzegovina and Serbia-Montenegro and aim to cover the whole of Central and Eastern Europe by 2008. Preparations for the establishment of foreign-based companies in Latvia, Lithuania, Romania and the Ukraine are currently underway.

Integration management

MODERATING BETWEEN CULTURES

The combination of traditions and resources that produced the KarstadtQuelle Group relied on our ability to merge different corporate cultures. Quelle and Neckermann, for example, are relatively young companies compared to Karstadt and are still strongly influenced by the ethos of the respective founding families. Not only that, but as mail-order suppliers they operate under completely different conditions to over-the-counter retailers.

The greatest difference between the over-the-counter retail and mail-order segments lies in their timing: each has its own unique rhythm that leaves an indelible mark throughout the culture of the organization. Over-the-counter retail tends to be all about the rapid turnover of goods and special offers, whereas mail-order companies have to assemble a range to last the entire season unchanged. Over-the-counter retailers can easily remove an unsatisfactory batch from stock and respond quickly to changing trends, but any quality defects or planning oversights in mail order are almost impossible to rectify once the catalog reaches the customer. This makes the consequences of any such problem far more severe in mail order than they would be in over-the-counter retail.

Creating a common identity

STAFF NEWSPAPER AND SEMINARS

The process of integrating the three Group companies has thus been – and indeed remains – a matter of mediating between quite different worlds. The ma:z staff newspaper, which is distributed throughout the Group, is an important tool throughout the process. It provides a common platform for spreading knowledge and raising awareness by shedding light not only on the activities of the Group as a whole but also on the concerns and interests of its various business segments.

The merger required openness and a willingness to change of all managers and staff, but the process has been particularly demanding for those in the mail-order business due to the fact that Quelle and Neckermann have been managed jointly since 2002. A number of measures were taken to help the fusion proceed as smoothly as possible. These included integration seminars and special training for the management teams of both companies and a joint conference organized in Leipzig in summer 2002 under the tagline “Together: more opportunities, better growth, greater success” to enable managers to get to know each other on a personal level.

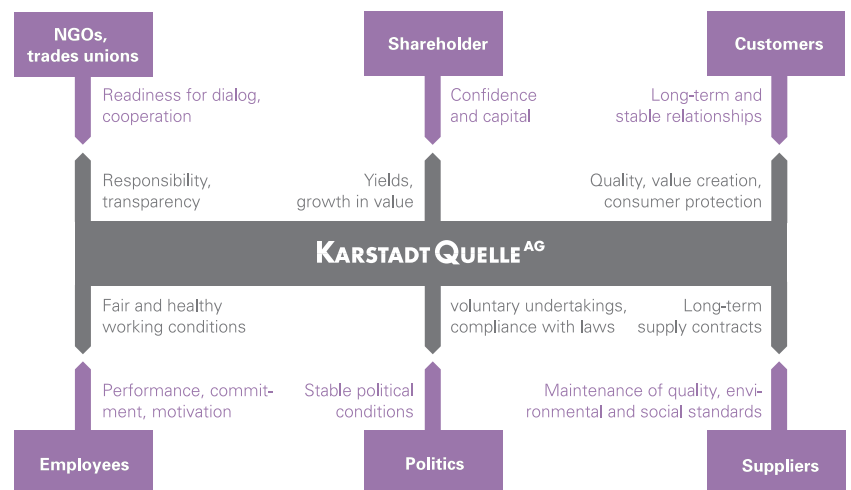
Dialog with stakeholders

OTHER OPINIONS WELCOME

Dialog with employees, customers, the authorities, environmental organizations, trades unions, suppliers, neighbors – in short every party with a right to have its views heard by the company – occupies a central position in a sustainable corporate strategy.

The strategic sharing of views and information with stakeholders requires openness and new ways of thinking. It is, moreover, important fully to grasp how much the stakeholders of a company like KarstadtQuelle (consumer groups, environmental and animal rights organizations, religious associations, trades unions, local pressure groups and international human rights organizations) differ from each other in their traditions, methods and priorities.

Stakeholder relationships at KarstadtQuelle AG



Managing criticism

AGREEMENT IS POSSIBLE

KarstadtQuelle recognizes the importance of dialog without prejudice and a continuous communication process. Our actions will always be subject to the scrutiny of critical stakeholders. Repeated campaigns by animal rights activists, the results of numerous customer surveys and the obligation to protect biodiversity adopted in our code of conduct, for example, have led us to cease the sale of real fur throughout the Group (see page 29). When, in the fall of 2003 Greenpeace mounted demonstrations against Karstadt Warenhaus, claiming that we were selling foodstuffs tainted with pesticides, we immediately took the goods concerned off our shelves. Subsequent checks by independent laboratories gave the products a clean bill of health.

Unfortunately we also tend to become the focal point for criticism in cases where the real target of demonstrations or boycott calls is actually a specific manufacturer. We intend to counter this risk more forcibly in future by stepping up our dialog with both non-governmental organizations and manufacturers. We are currently among other things involved in intensive discussions with the Clean Clothes Campaign (CCC), which has chosen to make KarstadtQuelle the main focus of its campaign for better working conditions in newly industrialized and developing countries.

A commitment to communication

NEW TOPICS, DIVERSE TARGET GROUPS

Being serious about dialog means taking the time to hear both sides and discuss issues thoroughly. We have therefore decided to make the burning topic of the day, namely minimum social standards in newly industrialized and developing countries, a top priority for the moment. We are currently deeply involved, along with trades unions, NGOs and other companies, in a round table initiated by the German Federal Ministry for Economic Cooperation and Development (BMZ) to examine the issue of codes of conduct. The German Federal Ministry of Economics and Labour (BMWA) and the German Federal Foreign Office (AA) are also participating.

This group, the Round Table Codes of Conduct, has already produced an industry model entitled "Ensuring Social Standards" (see page 35). It has also initiated several projects, among them the "Living Wages" study. Presently still in its infancy, this project aims to demonstrate how living wages can be defined and put into practice using two newly industrialized and developing countries as an example. Another pilot project will look at the question of complaint systems. This project will use measures such as protection for complainants, be they factory workers, trades unions or trade associations, in an attempt to tease deficiencies in supplier countries out into the open.

The open dialog with environmental groups and organizations that we have been cultivating for the last ten years or so also remains a priority. Most interaction with these stakeholders will continue to be managed from within the individual Group companies (see page 33).

“How we became what we are.”



Heinz-Dieter Koepppe, Corporate Director
Environment and Social Affairs

Heinz-Dieter Koepppe (Corporate Director Environment and Social Affairs), Klaus Wilmsen (Head of Quality Assurance and environmental protection department for Karstadt Warenhaus), Stefan Küst (Environmental officer for Quelle and Neckermann) and Dr. Jens-Peter Rosenhayn (Human Resources Management at the holding company) met in October 2003 to discuss common threads and challenges in matters of environmental protection and sustainability.

Environmental protection has been a core issue at Karstadt Warenhaus, Quelle and Neckermann for many years. How did this come to be so?

WILMSEN: When I became environmental protection officer in 1989, we decided to examine our product range systematically to see exactly how many environmentally friendly products it contained. We were astonished by the large number of green products we found and ended up developing our own environment logo to make these products more distinctive.

KÜST: Like Karstadt Warenhaus we came to environmental protection through our products – in fact we had several low energy

consumption products in our range right back in the 1970s. When we actually began to investigate the environmental implications of our business, however, we found a large number of environmental protection activities but very little structure. The European Eco Management and Audit Scheme proved to be a good way for us to move forward systematically.

What are the duties of the new Environment and Social Affairs corporate office?

KOEPPE: My job is to pool all of this knowledge and experience, to apply it and to transfer it to all areas. Ultimately we want to create space for new activities: the importance of social responsibility is growing all the time.



Stefan Küst



Dr. Jens-Peter Rosenhayn, Human Resources
Management at the holding company

DR. ROSENHAYN: How we manage and look after our own people is all part of the same concept really. We want a long term strategy that delivers reliability and the definite framework our staff need in order to know where they stand without jeopardizing our essential flexibility.



Heinz-Dieter Koeppel

What we are talking about here in effect is values. Are expectations of the retail sector particularly high?

KOEPPE: Absolutely, at least as far as social standards are concerned. More and more customers want to know what we are doing to protect human rights in newly industrialized and developing countries. As a major company we have a special responsibility in this area.



Stefan Küst, environmental officer for Quelle and Neckermann

Do you believe then that these expectations are justified?

KOEPPE: Yes, I do. The primary responsibility as regards social standards lies of course with the governments that ought to be implementing appropriate regulations and the supplier firms that hire the employees. We, in turn, have an obvious responsibility to choose the right suppliers and ensure that they continue to satisfy our criteria.

WILMSEN: We have to make sure here that we always keep our consumers on side. The number of customers asking us why TransFair and organic products are so expensive has recently begun to increase again. We – and by that I mean every single employee in sales – must always be able to justify this extra cost. The fact that our TransFair and

organic products still represent what is very much a niche market only emphasizes how much work we still have to do to convince consumers.

KÜST: Initially the situation in textiles was very similar. The breakthrough came when customers began to recognize the connection between fashion, quality and ecological benefits. Today environmentally friendly textiles and products that are especially gentle on the skin make up 40 percent of our mail-order range.

Do you as a major supplier have more power than most to help alternative products break through?

KÜST: Clearly the volumes we are able to purchase allow us to achieve more favorable prices. The old excuse that ecological products are too expensive in principle no longer applies and this has helped us to make significant progress with a wide range of environmentally friendly items. Things will probably develop in the same way with social standards.

WILMSEN: I am convinced that upholding social standards will come to be very important over the next few years and given that I think we really need to step up our efforts in this area.

That brings us on to corporate culture: How do you create a working climate in which values influence actions?

DR. ROSENHAYN: We establish values in an organization by raising awareness of them, making them credible and then ensuring that we put them into practice visibly at every opportunity. Once they are in place, we have to make sure their profile is never allowed to slip.

KOEPPE: We cannot think of ourselves as being somehow separate from society. Not only do we employ a very large number of people, but unlike any industrial company



Klaus Wilmsen

we also have daily contact with a very large number of customers. We are thus an integral part of our society and cannot help but be influenced by its values. Conflict will quickly follow whenever we find ourselves out of step with public opinion.

DR. ROSENHAYN: We must not underestimate the value of our people as multipliers: they are a highly effective channel through which to share ideas with our customers and the public at large. When we talk about corporate culture, however, we also need to bear in mind that as a Group we are still a very recent concept. The emergence of a genuine corporate identity is central to many of the issues we are discussing; our new corporate identity is still very much a work in progress.

This raises the matter of integration: How far along are we with the integration process?

DR. ROSENHAYN: The areas where we are setting up common systems already show some progress. Examples include the pooling of e-learning activities, the use of our auction platforms in purchasing and the company pension scheme. Inter-company project work is also helping to foster a common identity, but there are of course certain differences we intend to preserve in order to benefit from the diversity of the Group.

What key features do you think we share?

WILMSEN: I would say the ecological product requirements for suppliers, for one. Any inconsistencies here would be unacceptable to our purchasing offices and even less popular with our suppliers!

KÜST: We are all very close to our customers too despite our differing sales channels. Karstadt Warenhaus, Quelle and Neckermann all have a direct relationship with the end customer, which goes a long way to explaining why public opinion has such a marked influence on our commercial success.



Klaus Wilmsen, Head of Quality Assurance and environmental protection department for Karstadt Warenhaus



Dr. Jens-Peter Rosenhayn

What do you wish to achieve together over the coming years in the area of sustainability?

WILMSEN: One central task for us will be to maintain and expand the high standard we have set for consumer information. Promotions and campaigns in the branches will be a particular focus.

KÜST: Encouraging our employees to become even more involved is particularly important in my opinion. We need to maintain their awareness and commitment.

DR. ROSENHAYN: That requires a settled environment. Employees should be able to concentrate on serving customers without being distracted by concerns about their job. If we can create such an environment, we will not only continue to attract qualified employees, but will also be able to retain them over the long term.

KOEPPE: My priority is to make the knowledge and expertise that resides within each of the companies available to the Group as a whole. We have more than 100 subsidiaries. We have a lot of work to do before customers will recognize and support us as a sustainable company. That is what I would like to see. We need it to happen.



A company that values its customers offers them good quality at a good price together with sound advice and personal service. Product standards protect the environment and human health so customers can have confidence in what they buy.





Feature labels help customers find what they need. The Oeko-Tex Standard 100 mark identifies textiles that have been tested and found to be particularly gentle on the skin. Nearly 100 percent of our bedclothes meet the standard's requirements.

The Quelle Institute for Merchandise Inspection has been verifying the quality and safety of Quelle products for half a century. It tests more than 20,000 items every year.

Product range policy: Valuing the customer

Customers care more about quality than price. That, at least, is the conclusion of a 2002 study by the German Consumer Research Society (GfK), which found that when buying clothes, 92 percent of Germans consider quality to be important but only 83 percent ascribe an important role to price. The third most important factor after quality and price was that the textiles used should be gentle on the skin. Some 75 percent of respondents ranked this as an important concern. A third of the consumers surveyed considered factors such as environmentally friendly production to be important.

Significantly these findings indicate that we can no longer rely on consumer pressure to dictate a more environmentally friendly product range. Consumers are, however, still perfectly prepared to dig a little deeper in their pockets to help the environment if the extra cost is justified over the long term.

Statistics published by the German Federal Environmental Agency (UBA) in 2002, for example, show that 84 percent of Germans would be willing to buy an energy saving appliance.

Customer focus

TAKING THE CUSTOMER SERIOUSLY

Well informed customers are satisfied customers and satisfied customers are the best customers. The old saying sounds almost trite today, but its message remains as true and pointed as ever. Some 90 management level staff at Quelle had the chance to familiarize themselves more closely with the concept in 2001, when they spent a number of sessions on the telephone answering letters of complaint to the company. The initiative was intended to flag up shortcomings in customer service and send out a signal across the whole of the company that customer requirements are a top priority.

A friendly voice for round-the-clock customer service: More than 4,000 advisors in the mail-order businesses' call centers are there to help.



www.karstadt.de

> Über Karstadt

> Menschen und Berufe

> Unternehmensverfassung



■ 22 % brand and lifestyle buyers
(value suggestions and
branded goods)

■ 17 % "As quickly as possible"
(price and service are of lesser
importance)

■ 18 % impulse buyers (like a bargain,
not guided by brand loyalty)

■ 21 % safety and advice buyers (buy
what they know and expect advice)

■ 22 % price-conscious professionals
(research purchases, are price aware
and value new products)

Source: Marketing Team Karstadt-
Quelle, German Consumer Research
Society (GfK), 2003

Neckermann keeps a detailed report of customer contacts for the same reason. The comparative statistics for 2002 reveal a 32 percent fall in complaints accompanied by a 21 percent increase in general requests for information.

Most of the services provided by telephone support agents in mail-order business are provided on a face-to-face basis by sales assistants in over-the-counter retail business. The Karstadt Warenhaus company constitution lays down rules for customer interaction and compliance is verified on an ongoing basis through measures such as test purchases under the Mystery Shopping Program.

Customer service

NUMBER ONE FOR CUSTOMER SATISFACTION

We offer customers professional product servicing through our own customer service organization. The fast and reliable service provided by our Profectis staff, who maintain and repair electrical appliances, has caught the eye of more than just our customers and earned the team the title of Best in Test in a March 2003 review of seven customer service organizations conducted by German consumer goods testing foundation Stiftung Warentest. While the result was encouraging, it could have been better: Profectis won the test, but its final rating was no better than "Satisfactory".

The retail sector as intermediary

UNDERSTANDING CUSTOMER REQUIREMENTS

If sustainable development is to become a reality, we as society have to break the habit of waiting for others to make the first move.

Rather than simply responding to customer pressure as and when it comes, retail companies like ours need to learn to wield the influence and responsibility inherent in our position as intermediary between producer and customer. We have the capacity to make a difference: if we make the effort to tell our customers more about the health and quality benefits of products from sustainable organic agriculture, for example, they will respond.

This type of responsible marketing is very much a priority. We can help all sides by advertising and presenting sustainable products attractively to appropriate target groups, highlighting the real customer benefits they offer and ensuring a favorable price-performance ratio.

Sustainable products at KarstadtQuelle

FEATURE LABELS GUIDE CUSTOMERS

There is of course more to the job than just marketing. Equally important in an Integrated Product Policy that involves all parties in the product lifecycle is a transparent communication system: information needs to flow unobstructed from the producer right through to the point-of-sale. A plentiful supply of reliable information is particularly important in connection with issues such as sustainability in order to maintain credibility

Product declarations, environmental seals and other feature labels make it easier for our customers to find and identify the sustainable products in our range. We explain the precise meanings of the seven internal and eight external product labels used by the Group in informative leaflets, on the web-

sites of the Group companies, at promotional events in the department stores and in the catalogs. Our “Acting eco-friendly” (Umweltbewusst handeln; Karstadt Warenhaus), “Green Leaf” (Grünes Blatt; Quelle) and “Environmental Distinction” (Umweltprädikat; Neckermann) seals let customers know at a glance that the product concerned offers particular ecological benefits.

Fashion und Sport

OEKO-TEX STANDARD 100

We are one of Germany’s highest turnover suppliers of textiles and clothing and as such have a special responsibility to our customers. We provide intensive support to our suppliers in order to ensure they implement the measures we consider appropriate in addition to the minimum statutory requirements. We have been using the criteria of the Oeko-Tex Standard 100 as the basis for efforts to optimize our range of textiles and clothing for around ten years. Some 40 percent of our textiles in the mail-order business now count as gentle on the skin, having been tested for harmful substances.

Home textiles und furnishings

SETTING SUSTAINABILITY STANDARDS

Some years ago KarstadtQuelle introduced a policy of only importing rugs and carpets from India, Nepal and Pakistan that carry the RUGMARK seal. The seal guarantees that the products do not involve the use of child labor. Neckermann is one of the largest German mail-order supplier of wooden furniture and other products from sustainable forestry operations certified by the Forest Stewardship Council (FSC), an organization of which the company became a permanent member 2003.

Electric appliances

ENERGY EFFICIENT AND SOLAR POWERED

Choosing an energy efficient electrical appliance can make a significant contribution to climate protection. Quelle offers no fewer than 28 energy saving refrigeration appliances that qualify for the European Energy Label’s new “A+” or “A++” energy efficiency ratings. The new Privileg refrigerator, for example, consumes 36 percent less energy than a comparable appliance with an “A” rating. We also carry 14 washing machines that meet the highest efficiency standards. These appliances, which are sold under the “Our Super A” label, have electricity consumption figures that are at least ten percent lower than the benchmark for energy efficiency class A.

The appliances mentioned also meet the stringent criteria of the “energy+” project, which is a European Commission initiative intended to develop the market for electrical appliances that use 25 to 45 percent less electricity than today’s “A” rated models. Like Quelle, Karstadt Warenhaus and Neckermann have been involved in this project since its inception in 1999.

We now offer TV and video appliances with improved stand-by consumption to reduce the amount of energy wasted in stand-by mode. Most of the television sets in our current range have stand-by consumption values of less than six watts. Quelle is in addition one of the leading sellers of solar products, which now yield annual sales of € 7.5 million. Our selection spans the entire range from solar powered watches to complete solar power installations (for which we also offer customers professional support and advice).



Oeko-Tex Standard 100 prohibits the use of certain chemicals (such as allergenic disperse dyes and particular softeners for baby clothing) to ensure that textiles are gentle on the skin and imposes strict tolerances for undesirable residues from the production process. Compliance with the Oeko-Tex Standard 100 is verified by independent institutes: www.oeko-tex.com



The Forest Stewardship Council (FSC) is an international organization dedicated to the promotion of sustainable forestry around the globe. Timber and forestry products that comply with their sustainability standards at every step of the process from planting to harvesting, processing and transport are entitled to display the FSC seal: www.fsc-deutschland.de/inhome.htm

More information on the Rugmark Seal may be found at: www.rugmark.org

For more information about energy efficient appliances, see: www.initiative-energieeffizienz.de



TransFair e.V. is an initiative to promote fair trade with the Third World. The organization awards a seal to importers that purchase their raw materials in accordance with the TransFair principles. These principles include minimum prices that enable adequate living and working conditions in the producer co-operatives: www.transfair.org

German consumer action organization Bundesverband Verbraucherinitiative e. V. provides a useful overview of the various labels and seals in use in Germany: www.label-online.de

Foodstuffs

FAIR AND ENVIRONMENTALLY SOUND

Sales of fairly traded products bearing the TransFair seal at Karstadt Warenhaus rose by 27 percent between 2000 and 2003. A total of almost 40 items sold by the Group now carry the familiar symbol.

Our range of organic foods also continues to expand rapidly and we now offer almost 700 certified organic products (in 1996, by way of comparison, we had only 175 organic products available). Some branches have a separate organic department and these offer up to 3,000 organic products. The rapid expansion of the range has caused a corresponding increase in the share of sales attributable to organic products, which more than doubled between 2000 and 2003.

Recycled paper products

THE BLUE ANGEL SEAL

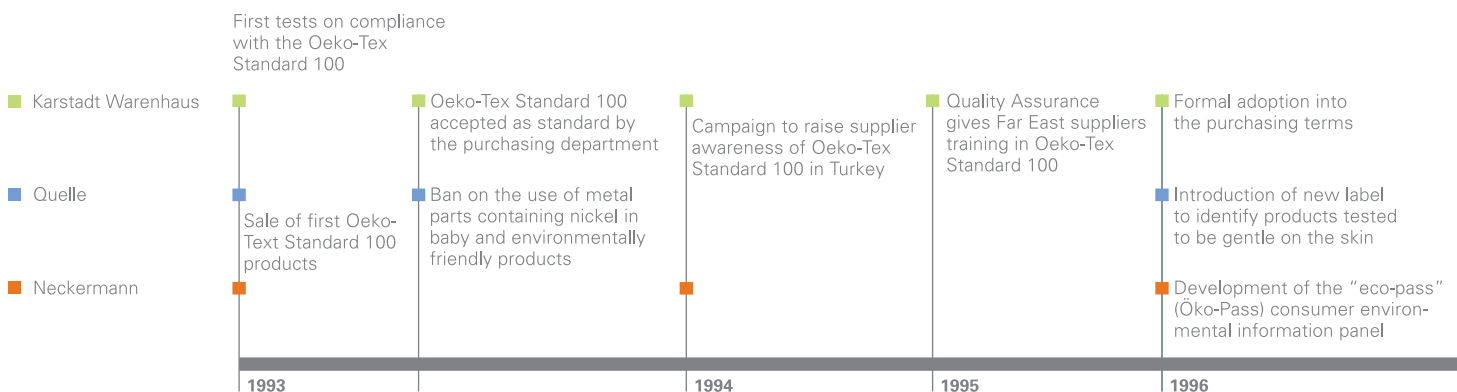
The Blue Angel seal of the German Federal Environmental Agency (UBA) is used to identify products that are significantly better for the environment than other comparable products. Karstadt Warenhaus has for many years carried a wide selection of stationery bearing the Blue Angel. We are one of the few suppliers still to offer recycled paper products (such as our own brand PaperMade range) for office use and actually expanded our range in January 2003 with the addition of copier and printer paper made from recycled materials. We also back up our commitment to recycled paper products through communication measures including the "Environmentally friendly back to school" campaign.

Product design

GUIDELINES FOR ALL AREAS OF THE RANGE

Karstadt Warenhaus and Friends of the Earth Germany (BUND) first started working together more than 12 years ago. One result of this collaboration is the "Guideline for environmentally friendly product design", which defines ecological criteria for a large number of product groups and is intended to help us create a sustainable product mix.

History of the Oeko-Tex Standard 100 at the KarstadtQuelle Group



The guideline covers office equipment, radio and television receivers, large and small electrical appliances, glass and porcelain, leisure products, home improvement tools, home furnishings and toys. Products identified as environmentally friendly according to the defined criteria have a good life expectancy, are easily repaired and recycled, use environmentally friendly materials, have no adverse health implications, are frugal in their use of energy, are supplied in optimized packaging and come from environmentally aware production processes.

Genetically modified food

NEW LABELING REQUIREMENTS

The new European Union regulations on genetically modified foods came into force on November 7, 2003. The new legislation introduces significantly tougher rules on labeling: any use of genetically modified plants must be indicated on the label irrespective of whether the presence of genetically modified material can be detected in the end product. Oils and margarines produced from genetically modified canola or soybeans, for example, must be labeled. The authorization process and scientific safety assessments are largely open to the public.

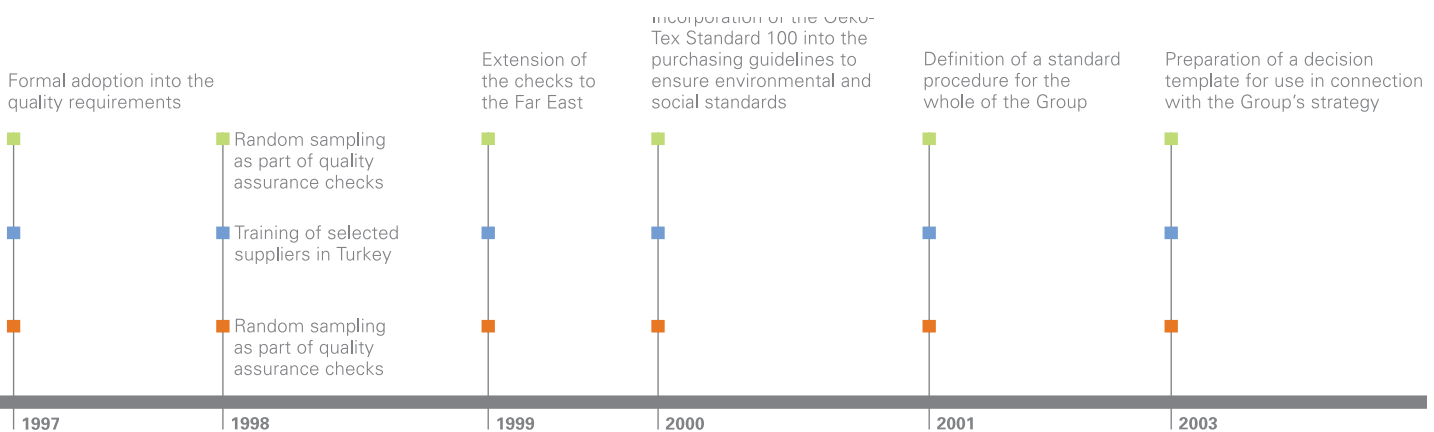
For years now, Karstadt Warenhaus has taken care to ensure that its “own-brand” products contain absolutely no genetically modified ingredients, and regularly seeks confirmation of this fact from its suppliers. Apart from this, we have long advocated the full declaration of genetically modified foodstuffs, including products containing less than 0.9 percent of additives of genetically modified origin.

A guide on avoiding genetically modified foods (“Essen ohne Gentechnik”) published by Greenpeace Germany recommends Karstadt Warenhaus brand name products without reservation, an accolade conferred on none of Germany’s other major food retailers.



Since September 2001, certain German foodstuffs have been entitled to bear the government-administered “Bio” seal. Only producers and manufacturers who comply with the EU Environmental Regulation and submit to the appropriate controls have been entitled to display the symbol on their goods. The consumer can thus rest assured that anything bearing the “Bio” seal has been organically farmed. More information on the “Bio” seal may be found at: www.biosiegel.de

For more information about genetically modified food, see: www.transgen.de
www.greenpeace.de
 > Greenpeace Einkaufsnetz



For more information about the International Labour Organization, see: www.ilo.org

Purchasing and sales

RESPONSIBILITY THROUGH PURCHASING POWER

KarstadtQuelle purchases more goods than just about any other European retail company. A total purchasing volume of more than € six billion gives us considerable power in the market. This means we have substantial scope to encourage implementation of the standards we support, but we are always careful not to use our strong position to the detriment of our suppliers.

We have been firmly committed to cooperation and partnership for many years and intend to stand by this principle as new standards are introduced.

KarstadtQuelle approved a code of conduct for purchasing in October 2000. Based on the conventions of the International Labour Organization, the new code applies across all Group companies. Compliance with the code has already been reviewed in a range of countries including China, Indonesia and Turkey. These checks will in future be made as part of the “Ensuring Social Standards” industry model.

Provisions of the KarstadtQuelle Code of Conduct

ENVIRONMENTAL STANDARDS

- Compliance with the applicable local minimum standards
- Obligation to use environmentally friendly production processes
- Compliance with the regulations to protect biodiversity
- Ban on the use of CFCs
- Obligation to use timber produced in an environmentally friendly manner (FSC)
- Compliance with the criteria of Oeko-Tex Standard 100

SOCIAL STANDARDS

- Compliance with the applicable minimum social standards
- Ban on child labor
- Ban on forced labor
- Ban on inhuman prison labor
- Respect for the dignity of employees
- Ban on discrimination
- Maintaining the safety and protecting the health of employees
- Adequate wages
- Compliance with maximum working time regulations
- Recognition of the right of freedom of association, and right to collective bargaining

Purchasing guidelines

REQUIREMENTS AND CONTROLS

Binding provisions concerning the fundamental quality requirements and processes for the purchase of textiles are in force right across the Group. Based on the quality guidelines jointly developed by Karstadt Warenhaus, Quelle and Neckermann, these provisions focus on reliable service, on-time delivery and the manufacture of high quality products that live up to customer expectations.

Suppliers have to ensure that the goods they supply meet our specified requirements. Our quality assurance experts support them closely to this end all along the product chain. Compliance with our quality requirements around the world in practice is verified through representative sampling and spot checks.

An end to the sale of real fur

An end to the sale of real fur: KarstadtQuelle decided in 2002 to cease selling fur products made from animals hunted or farmed for their fur. The measure covers not just fur coats and jackets, but also all items trimmed or decorated with fur. We will continue to sell products made from sheep skins and cattle hides, as these animals are farmed primarily for food production, but will no longer carry rabbit fur. Following seasonal sales to clear existing stocks, the selling of real fur ceased at the end of 2003. The phase out has been delayed slightly at our mail-order subsidiary

Madeleine, which will withdraw fully from the sale of real fur on expiry of the 2004 catalog. We have so far witnessed a very positive customer response to the synthetic fur and fur products offered in place of real fur.

For more information about the joint project with the German Federal Environmental Agency, Karstadt Warenhaus and BUND, see: www.clemens-clever.de

Sales promotion

EVENTS FOR CUSTOMERS

Karstadt Warenhaus has always been more proactive than other retail companies in its use of promotions and information events. Our ambitious environmental communication concept, for example, takes in a number of different channels including special displays developed specifically for the branches to help them with their local public relations and publicity work.

We also make considerable use of partnership campaigns, such as the joint project run with the German Federal Environmental Agency (UBA) through which we provide environmental tips and suggestions to

schoolchildren and their parents in the lead up to the start of each new school year. The promotional articles distributed include information on climate protection and the “Clemens Clever” coloring book developed jointly with the UBA and Friends of the Earth Germany (BUND).

Training staff is another area to which we devote significant resources. We develop instructor guidelines, training videos and checklists for the branches covering topics such as environmental issues, organic agriculture and TransFair products to make sure that our sales assistants have the knowledge they need to raise customer awareness. Our promotional weeks for organic and TransFair products in June and November 2003 were particularly successful. We trained sales staff at 72 department stores in the associated issues, distributed a range of informative brochures and invited customers to sample some of the products on offer. Sales of fairly traded products such as espresso coffee and chocolate rose by 16.5 and 22.4 percent respectively in the wake of the promotion.

Consumer protection

CHECKING QUALITY

Quality works as a selling point only if the actual quality of the goods offered is checked on a regular basis. KarstadtQuelle maintains quality assurance departments in all three major Group companies for this purpose. The Group also includes a dedicated quality checking organization, the Quelle Institute for Merchandise Inspection, which is the largest of its kind in the German retail sector and was the first to be officially recognized by the authorities. The institute has been checking and upholding the high standard of quality offered by own brand products like Privileg and Universum for more than 50 years. German consumer goods testing foundation Stiftung Warentest has awarded its “Good” or “Very good” ratings to some

Tests carried out since 1968 by German consumer goods testing foundation Stiftung Warentest for Quelle and Neckermann (own brands)

		since 1968	%
Quelle	very good	44	2.6
	good	780	45.2
	satisfactory	640	37.1
	adequate	228	13.2
	unsatisfactory	33	1.9
		1,725	100.0
Neckermann	very good	11	1.2
	good	313	33.1
	satisfactory	381	40.3
	adequate	213	22.5
	unsatisfactory	28	3.0
		946	100.0

Comment

800 items previously approved by our institute, which confirms the standard of our Institute's work – it carries out around 20,000 product tests and approximately two million spot checks every year.

The Quelle Institute for Merchandise Inspection continues to break new ground with its testing methods and equipment and there are now a number of industrial standards based on its work. The institute's technology and hard goods section and its textiles laboratory have both successfully gained accreditation under DIN EN ISO/IEC 17025:2000 for their quality management system, which is based on the international quality management standard ISO 9002, and are thus now also able to carry out testing for other companies. Quelle received the 1999 Bavarian Quality Award largely as a result of its achievements in product testing. The textile laboratory operated by Karstadt Quality Assurance is also accredited under the standards mentioned.

Data protection

A LEGAL REQUIREMENT

Germany has some of the toughest data protection regulations in Europe. The protection of personal data counts as a top priority for KarstadtQuelle and we therefore consult closely with the data protection authorities on all processes to make sure that we meet the applicable requirements in full. This commitment extends to any details provided by customers voluntarily as well.

We collect customer data primarily in order to help simplify transactions such as ordering. Information provided voluntarily is used in the interests of our customers to enhance our service through personal approaches and appropriately targeted advertising. Fewer than 0.1 percent of our customers find any grounds to contact the company with complaints or questions.

Dr. Werner Brinkmann

CHAIRMAN OF THE GERMAN CONSUMER GOODS TESTING FOUNDATION STIFTUNG WARENTEST

"I think that we are going to see the assessment of companies against social and ethical criteria become a highly significant issue over the coming years. Such assessments will center on the key question of whether production activities and methods meet acceptable standards as regards social conditions, sustainable use of resources and other ethical concerns. We are currently planning a number of pilot projects to acquire relevant data for the new assessment category of corporate responsibility. We intend to publish the results along with an assessment.

The issue of quality remains as important as ever. Our testing work shows that lower prices do not inevitably mean poorer quality and that expensive products are not always the best.



Dr. Werner Brinkmann

Such findings give the consumer the opportunity, perhaps even something of a social duty, to make a responsible purchasing decision based on the information provided. Individual consumers might question whether one isolated decision can really make any difference; as a group though consumers have the power to achieve a considerable amount, especially with the support of a recognized and reliable partner in the form of Stiftung Warentest. It is thus in the direct self-interest of retailers to publish accurate and comprehensive information about the content, origin and means of production of their products. Ultimately nothing builds the confidence of customers like transparency and openness."

www.stiftung-warentest.de



Considering others means showing fair play within the team context and being willing to take on responsibility. This applies equally to our partners in other countries and to our immediate environment. Our commitment must be focused on children and young people in particular – to ensure a better future.





Co-operation: Concern for others

It is an unwritten rule that as a company grows, so too do its responsibilities as a corporate citizen. Multinational companies today are expected to act as a good neighbor wherever in the world their operations take them. KarstadtQuelle supports this notion and indeed takes it one step further: we seek not just to be a good citizen, but to be an active partner and collaborator in the development of expertise and the sharing of experience.

Co-operation

BROADENING OUR HORIZONS

Co-operation can be a powerful tool, especially when it brings together a range of different viewpoints. Neckermann recently had the opportunity to work with the German Federal Environmental Agency (UBA), the German Institute for Ecological Economy Research (IÖW) and the German Environmental Management Association (B.A.U.M. e.V.) on a joint pilot project relating to the European Union's new Integrated Product Policy (IPP) requirements. The four partners conducted an examination of the lifecycle of upholstered furniture, with each learning from the experience and concerns of the others along the way.

Quelle, for its part, collaborates with COUP 21, a sustainability initiative of the city of Nuremberg and environmental foundation Heinz Sielmann Stiftung, while Karstadt Warenhaus works closely together with Friends of the Earth Germany, future e. V. and TransFair e.V.

For more information, see:

www.coup21.de

www.sielmann-stiftung.de

www.bund.net

www.future-ev.de

www.fairewoche.de

We are working hard closer to home too. More than 300 Quelle employees and their families in Leipzig took part in a tree planting campaign organized by environmental foundation Heinz-Sielmann-Stiftung between 1996 and 1998.



Fair trade guarantees farmers in South America, Africa and Asia better working and living conditions. Karstadt stocks nearly 40 products carrying the seal of German fair trade organization TransFair.

The German retail trade has launched a joint initiative to assure social standards in supplier countries. The project started in summer 2003 with an event for suppliers in India.

For more information, see:

www.bag.de

www.ave-koeln.de

www.baumev.de

www.dihk.de

www.ral.de

www.future-ev.de

www.stiftung-warentest.de

www.umweltpakt.bayern.de

www.coc-runder-tisch.de

Participation

SHARING EXPERIENCE

We contribute our knowledge and experience in sustainability matters to the broader social debate through our membership of a wide range of trade associations, working groups and initiatives including:

- The environmental protection committee of the Federation of German Wholesale and Foreign Trade (BGA)
- The Foreign Trade Association of German Retailers (AVE)
- The German Environmental Management Association (B.A.U.M. e.V.)
- The Association of German Chambers of Industry and Commerce (DIHK)
- RAL German Institute for Quality Assurance and Certification
- future e. V.
- The German Consumer Goods Testing Foundation Stiftung Warentest
- The Environmental Pact of Bavaria
- The Round Table Codes of Conduct

Sponsorship and charitable giving

FOCUS ON CHILDREN AND YOUNG PEOPLE

We have chosen to focus our sponsorship and charitable giving activities primarily on children and young people in the belief that anything we can do to improve their health, knowledge and education will have a positive effect on the society of tomorrow. This thinking led us at the beginning of 2003 to become a major sponsor of the world's largest school sports competition "Youth gets fit for the Olympics" (Jugend trainiert für Olympia). KarstadtSport contributes to the competition and has launched a special product collection based on it.

The chief beneficiaries of our charitable giving are German child welfare organization SOS-Kinderdorf and UNICEF (Karstadt Warenhaus), the CARE charity for Afghanistan and local children's charity Kinderhilfestiftung Frankfurt (Neckermann), the Power-Child foundation, which assists children who have been the victim of abuse, and German children's rights foundation "Alliance for Children – against violence" (Bündnis für Kinder – gegen Gewalt; Quelle). Quelle is in addition a longtime supporter of the African famine relief charity Menschen für Menschen, which was established by renowned German film actor Karlheinz Böhm. Neckermann participates in an environmental learning partnership with a Frankfurt high school and is supporting the sustainable forestry certification project of a co-operative in the tropical forest in Guatemala.

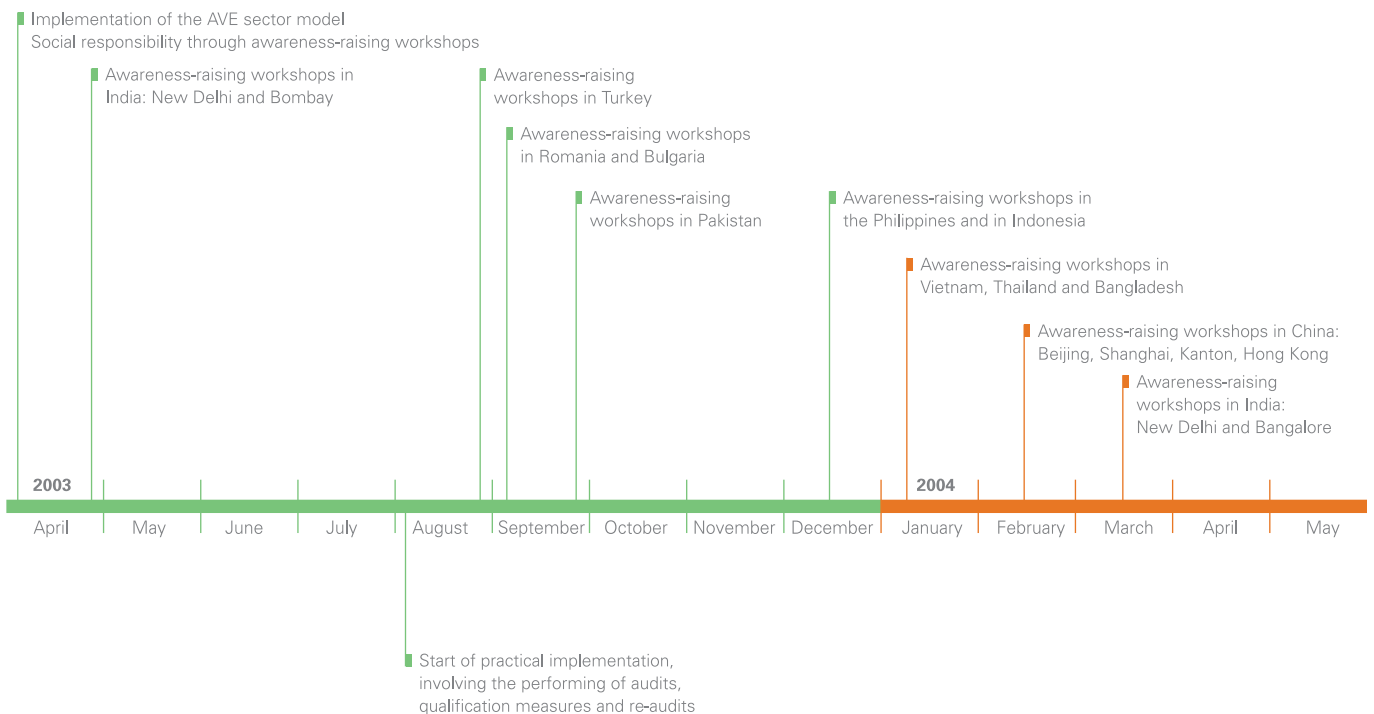
Joint initiatives

SAFEGUARDING SOCIAL STANDARDS

Germany's largest textile and clothing retailer, KarstadtQuelle maintains commercial relationships with more than 5,000 suppliers in 70 countries. Not surprisingly therefore, the issue of social standards has been high on our agenda for almost a decade. We drew up and adopted our own code of conduct for purchasing management in 2000 (see page 28), but the process of auditing whether and how such a large number of production sites were implementing our guidelines soon began to seem overwhelming.

Our concerns in this area led us to support and, to a large extent, drive the creation of the joint "Ensuring Social Standards" initiative, which involves a number of large retail companies and was launched by the Foreign Trade Association of German Retailers (AVE) in summer 2003. Designed to improve working conditions in supplier countries, especially in the production of textiles, sporting goods, footwear and toys, the initiative enjoys the support of the German Federal Ministry for Economic Co-operation and Development (BMZ) and GTZ, a company established by the German Federal Government to promote technical co-operation in sustainable development projects.

Implementation of the AVE sector model



For more information about the International Labour Organization, see: www.ilo.org

Standard SA8000 was developed in 1997 by US organization the Council on Economic Priorities together with relevant stakeholders. It reflects the fundamental conventions of the ILO and United Nations pronouncements on human rights and the rights of children (www.sa8000.org).

AVE code of conduct

FUNDAMENTAL CONVENTIONS OF THE ILO

The “Ensuring Social Standards” initiative was born out of the realization that no one company could really afford the costs or resources involved in a comprehensive review of suppliers and that it made little sense in any case for each company to proceed in isolation. Where would the benefits lie in a system that audited certain suppliers multiple times under all but the same criteria and passed over others altogether?

The audit program on which the German retail companies have now settled is based on the jointly developed AVE code of conduct, which draws heavily on the fundamental conventions of the International Labour Organization and also takes into account criteria from the internationally recognized social standard SA8000 published by Social Accountability International (SAI).

Comment

Heidemarie Wieczorek-Zeul

GERMAN FEDERAL MINISTER FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

“A large number of importers have been involved for some years in trying to improve environmental and social standards at their suppliers in developing countries and KarstadtQuelle AG has been one of the leading performers.

German development policy is supporting these efforts through long-term strategic partnerships between business, society and politics. We are currently working with the Foreign Trade Association of German Retailers (AVE), for example, on a joint project to develop and implement a standard approach to the task of improving the situation of employees at supplier companies in the countries with which we have development co-operation programs.

Ultimately such measures aim to help suppliers reach a point from which they can meet the requirements of European markets on an ongoing basis through their own efforts.

Projects of this type are built on the belief that international trade can help to reduce poverty, but this can only happen if the industrialized countries are prepared to open their markets more widely to products from developing countries. The areas of agriculture, processed agricultural products, textiles and clothing give particular cause for concern in this connection.

The World Bank estimates that a development-oriented program to open up markets could generate additional income of USD 350bn in 2015 in the developing countries alone, which is six to seven times the total amount channeled into international development work every year around the world.

This only underlines the importance of re-starting world trade talks following the collapse of the 5th WTO Ministerial Conference in Cancún.

Audit program underway

EVENTS IN SEVEN COUNTRIES

Although the audit program only kicked off in summer 2003, information events have already been held for suppliers in Bulgaria, India, Romania, Turkey, Pakistan, Indonesia and the Philippines. These events, which form part of what AVE calls the Awareness Program, are followed by audits in which independent experts verify supplier compliance with the AVE code of conduct. If any deficiencies are uncovered, the supplier and verification body concerned together draw up a set of corrective action plans, and agree on objectives, before progressing to the qualification phase, in which measures are identified to eliminate the problems found.

Independent initiatives pursued by the business sector are an effective way to improve trading conditions for producers in developing countries. They also serve as an example for the public at large and show consumers the living and working conditions in poorer countries.

Companies trading internationally sometimes wield enormous influence, especially in developing and transitional countries. More and more companies are coming to realize that they have a part to play in determining the course of globalization and promoting sustainable development.

A number of major German retail companies, KarstadtQuelle among them, have already voluntarily declared their willingness to play their part in upholding human rights around the world by adopting internal codes of conduct.

Working together in the "Round Table Codes of Conduct", representatives of commercial enterprises, non-governmental organizations and the German Federal Government have recently developed an informative brochure

It is envisaged that around 2,500 supplier factories in twelve countries will have been audited through this procedure by 2005.

A level playing field

SPREADING THE WORD INTERNATIONALLY

The next step for the initiative will be to attempt to harmonize the AVE model with similar concepts in other countries. An agreement on the reciprocal recognition of standards and procedures has already been reached between AVE and the International Council of Toy Industries (ICTI), which counts among its members such companies as Mattel, Toys 'R' Us, Hasbro, Walt Disney and Zapf Creation.

detailing best practices in an attempt to win over even more companies to the cause of social standards. The companies themselves also have much to gain from this kind of involvement: as consumers become ever more discerning and ever better informed, social and ecological competence will begin to be as important as product quality in guiding purchasing decisions.

It is important for the continuing success of the initiatives launched by the business sector that companies adopting voluntary codes of conduct actually manage to live up to their declared standards in their purchasing activities. This, of course, requires that their employees are thoroughly familiar with the standards concerned."



Heidemarie Wiczorek-Zeul

For more information about the German Federal Ministry for Economic Cooperation and Development, see: www.bmz.de/en/



We use rail transport for our goods wherever possible. Karstadt Warenhaus, for example, sends out 40 rail containers to Berlin every day from its distribution center at Unna.

As Germany's largest seller of clothing, KarstadtQuelle handles an enormous volume of clothes hangers. The department stores switched to reusable hangers in 1998.



Environmental protection: Conserving resources



Both national and European sustainability strategies single out climate protection as one of the most important areas for action. Retailers like KarstadtQuelle are not directly affected by European emissions trading, which will commence in 2005 as part of efforts to reduce greenhouse gas emissions. We do, however, have ample opportunity to help cut CO₂ emissions by offering more energy efficient products, reducing energy consumption at our sites and making the most of intelligent logistics and sales processes.

Energy management

A LEVER FOR CLIMATE PROTECTION

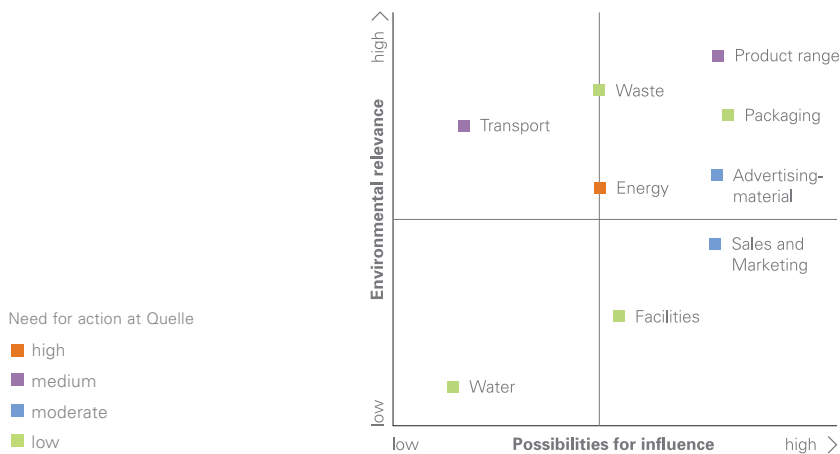
One particularly promising area for improvements in energy efficiency is building management. Our sites require light from thousands of fluorescent tubes every day and the heating or air conditioning of hundreds of square meters of trading and business space depending on the time of year. Volume is everything: even a relatively small improvement can result in significant savings if applied consistently on such a large scale.

All Group companies are obliged to exploit potential energy savings, although how they do so is a matter for each to resolve separately. Decentralized decision-making has proven to be more effective in this area, as the best option in a particular case is often determined by specific local parameters. Quelle decided in 2000 to abandon gas in favor of district heating for its office building in Nuremberg, for example, a move that slashed its annual CO₂ emissions by 2,000 metric tons. Neckermann used the opportunity thrown up by redevelopment work on its Frankfurt am Main service center in 1999 to completely reinsulate the building. The investment yielded a significant drop in energy consumption.

A third of our domestic appliances offer particularly good energy efficiency values. When they reach the end of their useful lives, we take them back and recycle them properly: all 300,000 of them every year.



An example of the systematical approach in the company: Quelle priority matrix



A systematic energy management regime at Quelle has been tracking energy consumption at all the major sites (Leipzig mail-order center, Nuremberg/Fürth returned goods center and Nuremberg regional warehouse) since 1998. Even a simple comparison of figures can turn up useful indicators of deficiencies, as can analyses of energy consumption over time.

Karstadt Warenhaus employs a monitoring system unique in the German department store sector. Heating and air conditioning equipment, escalators and lighting in all branches are controlled from the headquarters site in the city of Essen; all use of electricity, heat and water is likewise monitored through central measuring devices. The Essen headquarters itself has a block-type thermal power station, which ensures highly efficient use of energy. Quelle's Leipzig logistics center, which was completed in 1999, includes a wind turbine system that feeds

around 120 megawatt hours of electricity into the company's internal network every year. This is equivalent to the needs of around 30 homes and since the energy comes straight from a renewable resource there is no net emission of CO₂.

Water management

A DUTY

Germany's climatic and geological conditions mean that it has so far largely escaped the worsening global shortage of drinking water. Nevertheless we still need to do everything we can to conserve water resources and minimize contamination of the water we use. This is a stated objective for the entire Group and applies at all of our sites.

The department stores and other sites of Karstadt Warenhaus alone consume more than 1.5 million cubic meters of water every year, which is equivalent to the annual requirements of a town of 25,000 inhabitants. Water consumption has been cut significantly over the last three years as a result of measures such as the replacement of inefficient dishwashers in the restaurants and the installation of sensor-controlled faucets and valves at wash basins and urinals. Mail order house Neckermann trimmed its water usage by close to eight percent by switching the toilets in its refurbished service center to the rainwater fed system. Quelle likewise elected to use water-saving faucets when building its new mail-order center in Leipzig. The toilets at the Nuremberg/Fürth returned goods center are also gradually being converted.

Karstadt Warenhaus headquarters site received an award for water conservation from local utility Emscher-Lippe-Verband in April 2003 in recognition of the rainwater collection system completed in 2001.

The system has a water catchment area of around 70,000 square meters and has so far saved up to 30,000 cubic meters of water a year, which is equivalent to the annual requirements of 120 typical households.

Waste management

REUSE AND RECYCLING COME FIRST

The whole KarstadtQuelle Group works very hard to minimize waste generation and maximize reuse and recycling, as improvements in this area usually yield cost savings in short order. Waste management was a red hot issue a decade ago, but its importance in the public eye has declined over recent years. This is perhaps not surprising given that good reuse and recycling practice is now very much the norm in Germany.

Quelle's mail order business generates approximately 30,000 metric tons of waste annually, of which around 90 percent can be recycled at a profit. Earnings from reusable and recyclable waste in 2003 amounted to EUR 750,000. The waste that could not be reused or recycled consisted of just 1,800 metric tons of residual waste and 35 metric tons of hazardous waste such as used oil and fluorescent tubes.

Some time ago Quelle set up a dedicated working group to reduce packaging. The group's recommendations, including the replacement of foam inserts with tissue paper when packing items for shipping and the widespread use of molded cardboard modules in place of Styrofoam to protect fragile products have already been implemented. Similar measures have been implemented at Neckermann, where a separate department for packaging technology examines around 6,000 product packaging solutions every year in the search for potential improvements. The many alternatives developed by the department include the use of cotton bags for shipping shoes.

Karstadt Warenhaus publishes a manual for suppliers that details its specific requirements for environmentally friendly packaging and describes ways to reduce the weight and volume of packaging materials. The catalog of requirements forms part of the shipping instructions. A reusable transport box developed in-house and introduced in 1991 saves on materials and keeps waste volumes down in internal distribution. The company began selling cotton bags for purchases in 1990, a move which has halved the number of plastic bags handed out every year.

Obsolete goods collection and recycling

MAKING USE OF THE MANY OPTIONS AVAILABLE

All Group companies are required to take back end-of-life goods for recycling wherever possible. Being Germany's largest seller of textiles and clothing, KarstadtQuelle handles enormous volumes of clothes hangers. The department stores began to phase in reusable hangers in 1998 and each hanger is now typically used eight times before going for recycling. The number of different hanger designs used has been reduced from 129 to 19 over the same period.

KarstadtQuelle accepts around 300,000 end-of-life electrical appliances back from customers every year. Subsidiaries such as Elektro Recycling GmbH ensure that these appliances and their components are recycled or disposed of properly. Karstadt Warenhaus introduced toner cartridge collection and recycling for its customers at the end of 2000 and now reuses some 8,500 units annually. We donate 50 euro cents to Friends of the Earth Germany (BUND) for every reused unit sold. Karstadt Warenhaus will also dispose of bulky old mattresses and bed frames for customers on request. This service collected 71,790 units in 2003.

Catalogs: Catalogs are the very heart of mail-order business. They are the display window for our goods and many households browse their catalog almost daily. Unfortunately our catalogs also make us one of the largest consumers of paper in Germany: Quelle needs approximately 100,000 metric tons of paper every year just to present its range. Nevertheless we continue to make savings where we can and have been able to cut paper consumption by around 60 percent by shrinking the format of some editions. Our environmental manual mandates the use of the lightest possible paper with the highest possible recycled material content for promotional mailings.

Optimus Logistics GmbH, which was set up as a subsidiary of Karstadt-Quelle AG in 2000, offers a broad range of services, embracing everything from traditional parcel deliveries, to the transport of bulky goods and the shipment of entire kitchens. The company operates a system involving whole freight train loads, linking the conurbations of Hamburg, Berlin, Munich and North Rhine-Westphalia. Optimus Logistics employs 250 staff in Nuremberg, Essen und Frankfurt, with a further 50 "on the ground" at the customers' end. High-quality textile logistics are a specialty of the company.

Logistics

OPTIMIZING CONSUMPTION

Creating and maintaining an efficient logistics system is a challenging yet absolutely essential task for all retail companies. Good logistics not only boosts cost-effectiveness, but also improves the company's sustainability. The key factors influencing the logistics system are the number and diversity of products, the nature and speed of the mode of transport and the time available. The greater the range of requirements, the more expensive and resource-intensive the logistics system has to be.

On the mail-order front, 55 percent of goods inwards are transported by water, 7.5 percent arrive by rail, 3 percent by air and 34.5 percent by road. Shipments unloaded at the Rotterdam are transferred to Europe's internal waterways for transshipment at Duisburg and Frankfurt am Main.

At the end of the 1980s we decided to restructure the system for deliveries to our department stores, by replacing the old direct supply arrangement with a system of 14 distribution and branch centers used as intermediate warehouses. This has enabled us to eliminate 1.8 million heavy goods vehicle journeys (amounting to 840 million journey kilometers) every year.

The Unna distribution center (North Rhine-Westphalia), for example, sends around 40 containers every day by rail to Berlin, where the goods are delivered to the local Karstadt department stores from 2 AM onward.

Our mail-order logistics centers at Leipzig and Frankfurt am Main send out around 160,000 customer deliveries every day to places such as Altötting, Cologne or Rostock, but we have very little influence on this final stage of the delivery process, as the products are sent either by post or, in the case of larger items, using external forwarders.

Conserving fuel every day

MEASURES FOR STAFF

The Group-wide regulations on business travel recommend the train as the most environmentally friendly and cost-effective mode of transport. Employees who travel frequently on business are able to reclaim from us the cost of a German Railways BahnCard, which entitles the holder to discounted rail travel.

Intelligent travel management and thoughtful use of different modes of transport can make a significant difference even at the local level. Quelle and the city of Nuremberg initiated a joint project in March 2001 to encourage staff, customers and neighbors of the company's Nuremberg site to try out more environmentally friendly ways of traveling for a year. All who sign up for the project are provided with a bicycle and accessories by Quelle and with a ticket and timetables for local public transport and a car sharing voucher by the city.

Comment

Hazardous substances

SAFETY COMES FIRST

When addressing hazardous goods, we consider those that form part of our product range separately from those used as materials and supplies at our sites. Our product range includes around 1,500 everyday items such as coatings, adhesives and sprays for which there are elevated storage safety requirements. Most of the approximately 50 materials and supplies classed as hazardous substances are cleaning agents used, among other purposes, to ensure that our sites meet the applicable hygiene requirements. KarstadtQuelle no longer operates any transformers containing PCBs.

Safety data sheets containing the information needed in the event of a hazardous substance accident are available for all hazardous substances as required by law. Staff who handle such substances receive regular safety training.

A large number of the hazardous substances mentioned are subject while in transit to the statutory regulations concerning the movement of hazardous goods. Perfumery products, while not covered by the labeling requirements of the German Hazardous Substances Ordinance (GefStoffV), also fall under these regulations due to the flammable alcohol they contain. This brings the number of hazardous items transported by Karstadt-Quelle up to around 10,000 in total. We conduct regular checks and training sessions with the relevant staff to ensure that all hazardous goods shipments proceed as safely as possible.

Dr. Ulrich Maly

LORD MAYOR OF NUREMBERG

“Environmental protection and human rights will be right at the top of the agenda over the coming years. Major cities like Nuremberg have a duty to see the big picture in such issues. Our Nuremberg International Human Rights Award, for example, has now earned the city worldwide recognition.

Today’s difficult economic situation and shortfalls in public revenue demand effort, imagination and co-operation. Municipalities and companies alike have to modernize. The point is not simply to cut costs, but also to give new ideas a chance. It is very important in this connection that the public and private sectors pull together. The Nuremberg region has developed a real culture of networks to this end through its economic forum, its competence initiatives and its many co-operative projects.

Companies are the backbone of the Nuremberg region. They have the capacity to move us a long way toward a more sustainable future by investing in new technologies, processes and services for their sites and in traineeships and professional development for their employees.



Dr. Ulrich Maly

I believe that we can significantly enhance the prospects of our region relative to other regions by giving proper consideration here to our social and ecological responsibilities.

The city of Nuremberg set up the COUP 21 initiative to seek agreements with companies on projects and measures that link ecological and social objectives with commercial success. Quelle AG is a major asset for this joint initiative and I am confident that Nuremberg continues to enjoy the full support of management following the merger of Quelle and Karstadt.”

www.nuernberg.de

www.menschenrechte.nuernberg.de



Employees are the public face of the company and hence in many ways the key to its success, especially in retail business. KarstadtQuelle is keen to prepare its people for the coming changes in our sector. Flat hierarchies foster communication and encourage personal initiative.

KarstadtQuelle is one of the largest training organizations in Germany. As well as training for sales assistants, the Group offers a wide range of other career opportunities, and are currently helping young people gain qualifications in more than 20 different fields.





Human resources policy: Supporting our people

A company's employees are its greatest asset and its success depends absolutely on its ability to make effective use of their knowledge and experience. Making the most of our people is but one of a number of human resources objectives at KarstadtQuelle, however. We are particularly aware at the moment of the need to prepare our people for the pronounced impact on the retail sector of the general changes currently taking place in society. Flexible store opening hours, declining sales and growing customer expectations as regards quality and quantity of information are the most prominent developments in over-the-counter retail, while imminent internationalization and the consequent need for new human resources development concepts have become the dominant themes in mail-order business.

Human resources policy

GROUP-WIDE COORDINATION

Responsibility for human resources matters continues to rest with the individual companies. The central Human Resources Management department works with the specialist departments of the companies concerned to co-ordinate projects with similar aims (such as those relating to the supervision of management staff, pension provision and health and safety at work) at Group level.

Health and safety at work

GOOD FOR OUR PEOPLE AND GOOD FOR US

Company medical officers and health and safety at work experts support management in all Group companies with the planning, realization and maintenance of working premises, the design of workstations and questions concerning industrial hygiene. If new materials or equipment are to be purchased, employee representatives are involved in the process in order to ensure ergonomic standards are upheld.

Helping people combine work and family life is an important but challenging task for a company like KarstadtQuelle, where around 70 percent of the workforce are women. Quelle launched a project at the beginning of 2004 to help parents organize childcare.



New store opening hours: Karstadt Warenhaus stores have been taking advantage of the longer opening hours now permitted following the amendment of the German law on store opening hours (LadSchIG) on June 1, 2003. This has inevitably meant a change in working hours. Our rules vary from store to store, but are based in all cases on customer frequency and the need to avoid unsociable working hours.

Employees and managers participate in the regular meetings of the occupational health and safety committees, health forums and audits. The purpose of all relevant bodies and meetings is to bring workplace-specific hazards and exposures out into the open and develop remedial measures.

All employees whose duties involve particular exposures or hazards receive regular company medical examinations. The Group companies also try and help their employees to maintain a healthy lifestyle, for example by providing balanced meals in company restaurants, and provide counseling for employees with chronic illnesses and potential addiction problems.

Working hours

A HIGH DEGREE OF INDEPENDENCE

Staffing requirements are difficult to plan in both over-the-counter retail and mail-order business. Seasonal effects, promotional activities and weather-driven customer behavior lead to enormous fluctuations in sales and hence the volume of work available not only over the course of each month, but also within each week or even each day. This necessitates careful co-ordination of working and absence times, of course, but also opens up valuable scope for personalized working time arrangements.

Karstadt Warenhaus is presently involved in intensive discussions with employees on agreement-based flexible working hours. Flexible working hours agreements are based on the applicable individual employment contracts or operating agreements. It is possible for employees to adopt working hours other than those specified if both team and manager consent. Extra hours worked and hours missed must balance out for each employee over the course of the year.

Sales employees, of whom 43 percent are employed on a part-time basis, thus enjoy a high degree of independence as regards their working hours.

Our decision to replace the flextime agreements in the mail-order segment with the more flexible variable working hours model has been well received. We plan to extend the new model to all administrative areas at Quelle by the end of 2004. Initial pilot measures are already underway in preparation for the introduction of the same system at Neckermann.

Combining family and working life

FLEXIBLE WORKING HOURS MAKE IT EASIER

Approximately 70 percent of the Group's employees are female. Quelle, which is the largest employer in the Nuremberg region and has a workforce that is 62 percent female, is making a special effort to help staff combine family and working life more easily. Various part-time working models and the opportunity to switch to teleworking are just some of the options available. One new initiative planned for 2004 is the "Work and family" project, which is intended to help employees obtain kindergarten and day care places and find suitable schooling and private tuition.

Karstadt Warenhaus amended its operating regulations in 2002 to extend the period of leave available to new parents. The maximum duration of parental leave, contractual unpaid leave for new parents and the family break is now eight years and the family break (as distinct from parental leave or contractual unpaid leave for new parents) may be taken at any time up to the 14th year of life of the child concerned. The measure will have a significant impact at Karstadt Warenhaus, as women make up more than 73 percent of the workforce in the over-the-counter retail segment.

Equal opportunities

COMMITTED TO DIVERSITY

KarstadtQuelle in Germany employs people from more than 100 different countries. Our management principles stipulate respect, tolerance and equality of opportunity and prohibit discrimination on the grounds of religion, ethnicity or lifestyle. Karstadt Warenhaus decided in 2003 to grant employees with registered life partners the same status and benefits as their married colleagues. It was the first of the major German companies in the retail sector to take this step, which represents a significant move to eliminate discrimination against same-sex couples. The measure relates not only to areas such as company pensions, but also provisions in the company regulations such as assistance for the registration of a life partnership and the continuation of payments in the event of the employee's death.

People with severe disabilities

NEW FRAMEWORK INTEGRATION AGREEMENT

With 4.6 percent of the workforce, KarstadtQuelle already employs a comparatively high proportion of people with severe disabilities. The law in Germany calls for a figure of five percent, but most companies fall well short of this mark.

A new framework agreement to integrate people with disabilities into the everyday working environment in over-the-counter retail was adopted in 2002. Working together with the Integration Office of the German Federal Ministry of Health and Social Security (BMGS), we have defined achievable aspirations and targets for people with disabilities that more accurately reflect their requirements. We hope that this measure will raise the proportion of employees with disabilities within our company to five percent and improve their progress within our organization. We would in addition like to establish contacts with vocational training organizations, career advancement centers and employment offices at

an early stage in order to be able to offer young people with disabilities the opportunity of training. Advertisements for situations vacant will in future carry the following extra line: "Preference will be given to applicants with disabilities who are able to offer the same level of qualification".

Retirement pensions

A FORWARD-LOOKING SOLUTION

KarstadtQuelle agreed in December 2002 to reorganize the company pension scheme. The aim is to provide a forward-looking and secure solution despite the prevailing difficult economic conditions. The first step on the way to establishing the new scheme was to convert the various existing systems in the Group to a standard contribution-based model. Individual pension entitlements earned up to the end of 2002 are being transferred into the new system.

We started paying our contributions into a pension fund in January 2003 and have also secured our pension obligations with assets by means of what is known as a trust model.

Human resources development

PERFORMANCE MANAGEMENT

KarstadtQuelle values the commitment of its employees and ensures that high performers are properly rewarded. Our mail-order segment introduced a performance-related remuneration model in 2001 and by 2003, some 70 percent of Quelle employees who are exempt from collective bargaining were working under target agreements. Staff who reach or exceed their agreed targets receive a bonus. The model is being expanded steadily and should cover all of Quelle's exempt employees by 2004. Neckermann plans to introduce the scheme right across its organization starting in 2004. Karstadt Warenhaus has likewise switched compensation to performance-related models for all exempt employees for 2004.

Training professions at Karstadt-Quelle: Mention the retail sector and most people think of sales assistants, buyers and accountants. We, however, are able to offer young people a far broader range of professional training options including wholesale and import/export trader, IT business administrator, business administrator for textiles, IT specialist and media designer, commercial assistant, business administrator for travel and tourism, office clerk, promotional display designer, warehousing specialist, organizational catering specialist and business administrator for advertising.

People management

USING NEW TOOLS

Working through their joint “Strategic management development and planning” (SMEP) project, Quelle and Neckermann developed a common approach designed to ensure the systematic identification, support, development and positioning (retention) of employees and management resources in the mail-order segment. The two companies co-ordinated and standardized the potential assessment and annual employee meeting across the whole of the mail-order business using the Action Card 2002. As a result we now have a high level of transparency with respect to potential high performers and management candidates. The Action Card 2002 was implemented in all areas and formed the basis for human resources development measures in the various departments.

We also provide our managers with personal feedback by means of an anonymous online questionnaire for employees. Human Resources Development discloses the results in a meeting before moving on to discuss the next steps to be taken and any potential improvements that might be appropriate. The special mail-order companies also use the management feedback system.

Karstadt Warenhaus conducted a management audit involving 70 management level staff to look at core management competencies. The findings of the audit formed the basis for concrete individual and team development measures.

Training and development

PREPARING THE NEXT GENERATION

Companies operating in highly competitive markets lay the foundations for their own future success by investing in the training and qualification of committed young employees. Total Group spending on training and development in 2003 amounted to € 70 million. Our more than 3,500 trainees make KarstadtQuelle one of the largest training organizations in Germany.

KarstadtQuelle offers special training courses in cooperation with professional colleagues and universities in order to develop the Group’s next generation of managers. Our trainee schemes help to make sure that we can fill any vacant management positions that arise within the Group with properly qualified internal staff.

We also train our purchasing and sales staff, with most courses focusing on the development of methodological, social and technical skills. Special courses and individual measures planned by regional Human Resources Development round out the training program and help to ensure continuous employee development.

Socially responsible staff reduction

TRANSFER COMPANIES ESTABLISHED

Staff reduction measures at KarstadtQuelle are restricted largely to over-the-counter retail business. We aim to achieve the headcount reduction necessitated by recent economic developments in the most socially responsible manner possible. Redundancy schemes are not adequate to provide the level of support we consider appropriate and we have therefore taken additional steps to simplify the transition to a new job and avoid unemployment where possible.

Comment

All employees affected by the restructuring measures were offered the chance to join a transfer company for a limited period during which that company would perform the role of employer. Employees who accept are on what is known as reduced working hours 0 and receive a structural short-time allowance. We pay a top-up supplement during the employee's time with the transfer company. The transfer company focuses on:

- vocational reorientation measures (analysis of potential),
- support and advice through the transfer process including psychological support,
- training in how to apply for jobs coupled with active job hunting,
- individual opportunities to improve qualifications and
- setting up contacts with potential new employers.

Virtually all sites and offices used this method when reducing staffing levels during the restructuring process. The original transfer company, which was set up in 2001 and covers the whole of Germany, was joined in 2003 by new transfer companies at three further department store sites. Two other sites are presently planning new transfer companies.

The transfer companies are currently still supporting around 1,200 former employees of Karstadt Warenhaus AG.

Wolfgang Pokriefke

DEPUTY CHAIRMAN OF THE SUPERVISORY BOARD OF KARSTADTQUELLE AG AND CHAIRMAN OF THE OVERALL WORKS COUNCIL OF KARSTADT WARENHAUS AG

“Karstadt Warenhaus is a customer-centered company. If we want to be successful, we need people who are prepared to be there for our customers. This is our aim and we need to work hard for our people in order to achieve it. We have to find the right combination of staffing levels and sales expectations, but I think we must beware the demand for absolute flexibility. Our employees are already far more flexible and far more prepared to operate on their own initiative than we might believe. Their strength in this regard is the reason our sites and offices operate so smoothly and we ought to give them greater recognition for it.

Customer requirements, the working environment and the political and social climate all change constantly. This is more change than we can reasonably expect our people to cope with on their own, a fact we have to bear in mind when designing our numerous training schemes.



Wolfgang Pokriefke

We need to create a situation in which we work together to shape the change processes of the moment. Not always a straightforward task, this demands intensive dialog and, ultimately, a readiness to pursue and accept compromise. As Chairman of the Overall Works Council, I know from my own experience what a tall order this can be.

The situation in retail business at the moment is without doubt very difficult, but we should remember that there always have and always will be fluctuations in the economy. The long traditions of the various Group companies serve as a potent reminder that KarstadtQuelle has always mastered the challenges of the past and remains ideally prepared for the future. It is our duty to preserve and advance the great potential of our company – for the success of one and all.”

Data collation

Group-wide controlling of key figures relating to product ranges, environmental data and human resources (HR) figures is currently being established at KarstadtQuelle. It is intended to assist in attaining environmental targets by identifying progress and deficiencies alike.

Nevertheless, the centralized and detailed collation of data in the retail sector is significantly more difficult to realize than for production companies. On the one hand the number of sites,

especially in over-the-counter retail is far higher. Secondly, product ranges differ not just from season to season, but also from store to store. The gathering of reliable and uniform data from right across the Group in order to prepare differentiated and meaningful all-embracing statistics thus remains a major challenge in relation to sustainability-management.

The environmental data set out over the pages that follow relate to the three large companies Karstadt Warenhaus, Quelle and Neckermann, and thus encompass some 70 percent of all the

Group's employees. Special mail-order houses and specialist businesses will be included only from the next report.

The HR data encompasses all the companies engaged in over-the-counter retail and mail-order operations (94 percent of the workforce), though it excludes the services and real-estate.

As regards the headquarters in Essen, although the energy and water consumption figures are incorporated into the environmental data, the holding company's employees are not included in the HR figures.

Facts and figures

Indicators for purchasing and product range policy

The purchasing and product range policy is an important lever in contributing to sustainable development. KarstadtQuelle has been making use of these possibilities for many years now, and has consistently increased the proportion of its products that are manufactured in an environmentally friendly or socially responsible manner. KarstadtQuelle intends in the future to pay even greater attention to its suppliers' observance of social standards. Accordingly, the company has played a crucial role in the creation of a worldwide auditing and qualification system (cf. Page 35).

To date, the classification of goods purchasing according to country of origin has only been possible in the case of direct imports. In the financial year 2003 this made up around € 1.9 billion of the total purchasing volume of € 6.3 billion. Although the goods we obtained from German companies (€ 4.4 billion) frequently also originated elsewhere, it was not possible to differentiate between them according to country or origin.

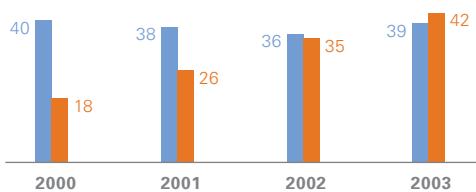
One focal point of the product range is the offering of energy-efficient appliances – an important contribution to climate protection. KarstadtQuelle welcomes the European Union's Directive on energy labeling.



Europe	41.5 %
Turkey	8.7 %
Central und Eastern Europe	7.5 %
China	14.0 %
Southeast Asia	25.4 %
Other	2.9 %

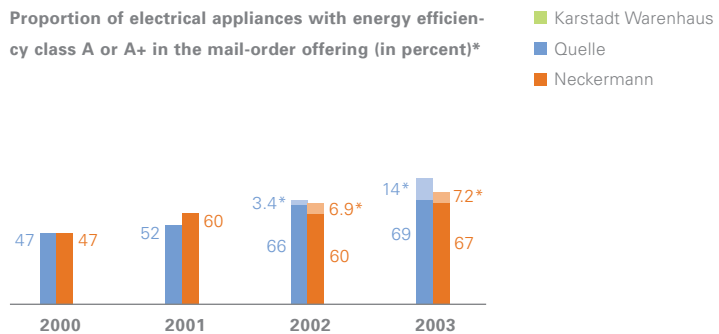
Total: € 1.882 bill.

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



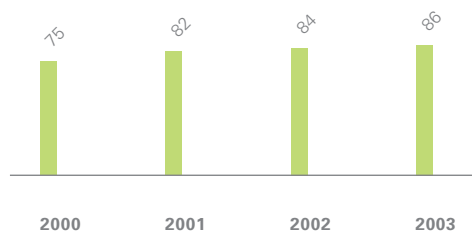
*no details possible for Karstadt Warenhaus

Proportion of electrical appliances with energy efficiency class A or A+ in the mail-order offering (in percent)*



*A+, A++, Super A or energy+

Proportion of refrigerators and freezers with energy efficiency class A in the Karstadt Warenhaus offering (in percent)

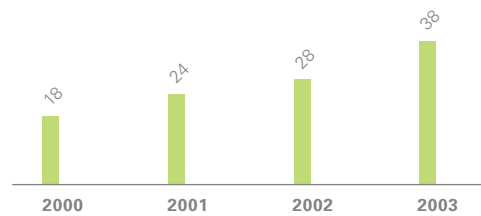


With effect from mid-2004, the Directive brings in more stringent requirements and creates a new energy efficiency class “A+”. Appliances in the new “A+” class undercut the energy consumption of the “A” models available today by a further 35 percent. In the mail-order sector, eleven percent of the appliances on offer already meet these stricter requirements.

It also proved possible to increase the proportion or number of products with various seals of approval (cf. Page 24). 2003 saw sales of products from certified organic agriculture reach € 4.7 million, for example. The fact that the number of products bearing the “Blue Angel” environmental label at Karstadt Warenhaus fell markedly during 2002 is attributable to the streamlining of product ranges in relation to colors and paint finishes.

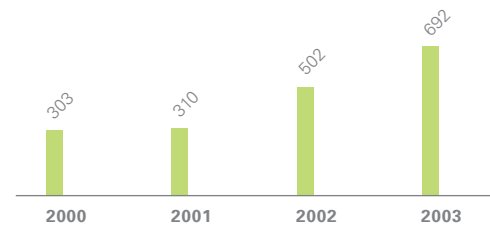
- Karstadt Warenhaus
- Quelle
- Neckermann

Number of foodstuffs with TransFair seal*



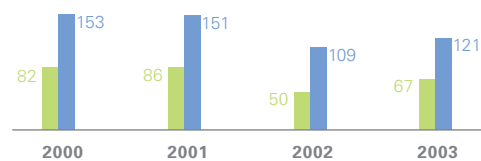
*not relevant to Quelle and Neckermann

Number of foodstuff articles with BIO seal*



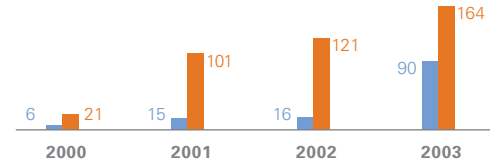
*not relevant to Quelle and Neckermann

Number of articles with the “Blue Angel” environmental seal*



*no details possible for Neckermann

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



*not relevant to Karstadt Warenhaus

Indicators for operational environmental protection

Externally accredited environmental management systems cover one third of the domestic employees of the mail-order segment and ten percent of the KarstadtQuelle Group's workforce as a whole. Climate protection represents an important task within the context of operational environmental protection too. Nevertheless, energy consumption figures have tended to rise over recent years, and CO₂ emissions along with them.

Heat requirements are satisfied predominantly by gas and district heating. Only a small proportion (10 to 15 percent) of needs is still met by heating oil at Quelle and Karstadt Warenhaus – primarily to cover short-term supply shortfalls at individual sites. Karstadt-Quelle also generates energy itself on a small scale, from a block heating plant at the Essen headquarters and in the distribution center at Unna, and a wind turbine system at Quelle's Leipzig logistics center. The three plants generate a total of 2.81 Megawatts (MW).

Total electricity consumption (in megawatt hours)



Total heat consumption (in megawatt hours)

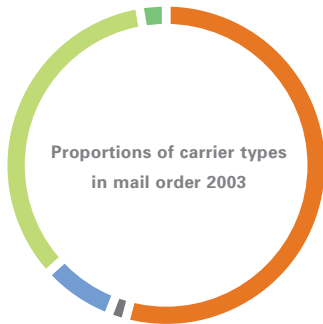


■ Over-the-counter retail
■ Mail order

Total CO₂ emissions (in metric tons)*



*calculated from electricity and heat consumption



Seagoing freight	54.9 %
Internal waterways	0.4 %
Rail	7.5 %
Road	34.6 %
Air	2.7 %

Total: 1.4 billion ton/kilometers

KarstadtQuelle is putting its faith in rain-water, as a means of cutting water consumption. It is used for recooling purposes at the heating plant at the Essen headquarters, while at Neckermann it is employed for a number of purposes, including flushing toilets.

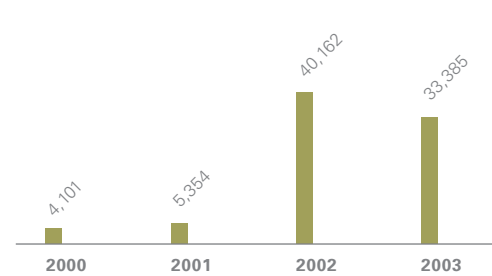
Twice as much waste is generated by over-the-counter retail activities as in the mail-order segment, because packaging waste accrues in the department store itself, while on the mail-order front significant quantities only arise at the customers' end, and these are disposed on by the joint take-back systems such as the Duale System Deutschland (DSD). Both over-the-counter retail and mail-order boast a recycling rate of around 90 percent.

Over-the-counter retail	
Mail order	
Group wide	

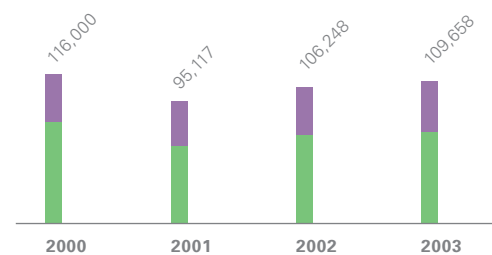
Total water consumption (in cubic meters)



Rain water utilization (in cubic meters)



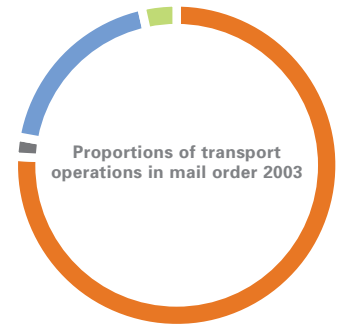
Total waste generated (in metric tons)



The figure for material used in advertising resources is mainly made of the amount of paper consumed. Here, KarstadtQuelle ensures that it uses the maximum proportion of recycled paper technically feasible, while at the same time ensuring that the grammage, especially in the case of catalogs, is minimized.

As Germany's market leader in the collection of end-of-life appliances, KarstadtQuelle is ideally placed to implement the European "Waste Electrical and Electronic Equipment" (WEEE) Directive.

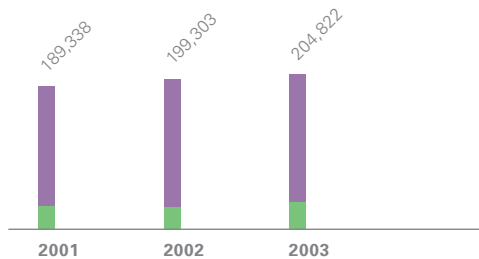
This is set to come into force in mid-2004, and will pose quantitative and qualitative requirements in relation to the take-back of end-of-life appliances and recycling. Against this background, KarstadtQuelle has upped its holding in Elektrogerätereycling GmbH to 40 percent, so that it not only boasts a proven logistics system, but has also established the right conditions for the recycling and disposal of appliances.



- Goods delivery 76.0 %
- Internal company transport 1.8 %
- Goods distribution 18.7 %
- Transport of advertising material 3.5 %

Total: 1.4 billion ton/kilometers

Total material used in advertising resources (in metric tons)

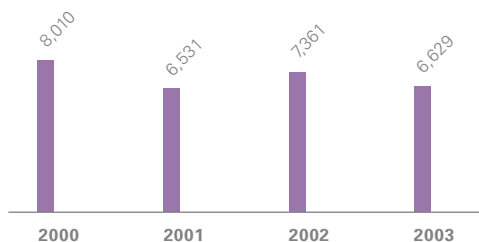


Take-back of waste electrical and electronic equipment (units)

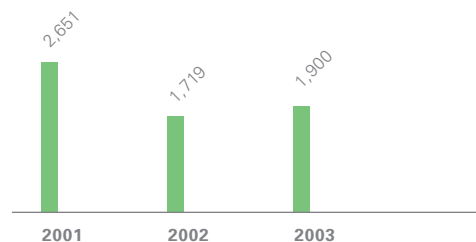


- Over-the-counter retail
- Mail order

Volume of packaging in mail-order sector (in metric tons)



Volume of service packaging in over-the-counter retail (in metric tons)



Social responsibility indicators

KarstadtQuelle, which of course has a high proportion of female staff, especially sales assistants and female employees in the packaging section of the mail-order operations, runs a very wide variety of part-time working models. The proportion of employees of both sexes working part time is commensurately high.

The proportion of people with severe disabilities within the Group is likewise high, as it is KarstadtQuelle's declared policy to pro-

mote the employment of the disabled. Although the ratio of such employees at KarstadtQuelle stands slightly below the five percent figure required by law, it is far higher than the average for German companies (approx. 3.4 percent).

KarstadtQuelle sets great store by the training and development of its people. Expenditure on such activities has fallen in recent years, due primarily to a reduction in the number of employees and trainees. The total expenses shown include the remuneration for trainees.

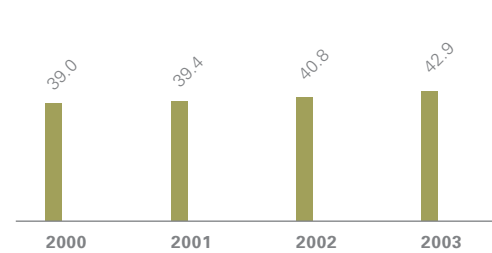
- Over-the-counter retail
- Mail order
- Group wide

Number of employees in over-the-counter retail and mail order* (as at 31.12. in each case)

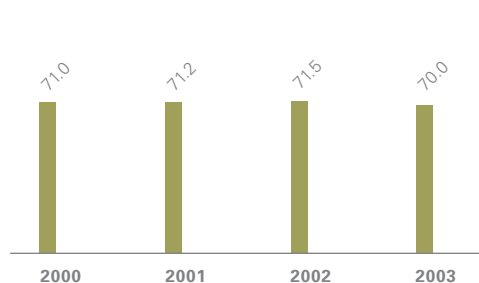


*excluding holding, services and real estate segments, equivalent to 93.7% of Group employees

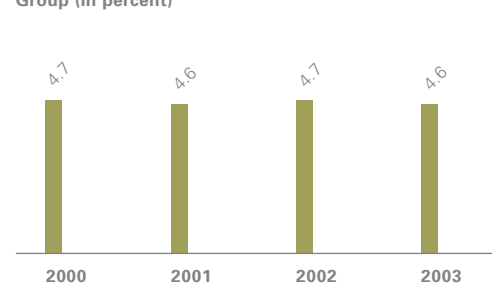
Proportion of part-time employees in the sales function (in percent)



Proportion of women in the Group (in percent)



Proportion of people with severe disabilities in the Group (in percent)



The figure for 2003 stood at € 37 million. Since 2000, the ratio of trainees in over-the-counter retail fell by 1.3 percent to 4.6 percent, though compared with other companies it remains relatively high. In the mail-order sector, it maintains a constant level between 2.1 and 2.3 percent.

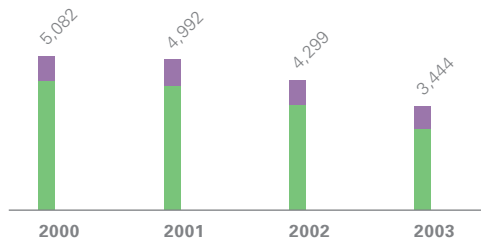
Nearly all the Group's employees are guaranteed basic social welfare provision (sickness benefit, retirement provision), since just on 92 percent of the workforce are in Germany, where this is a statutory requirement. The same applies to the employees' freedom to form trade unions.

KarstadtQuelle also regularly donates funds to support good causes within its sphere of operations. When various regions of Eastern Germany required urgent help in the wake of devastating floods, KarstadtQuelle was quick to respond with a generous contribution. Total donations for the year 2002 thus stand well above the customary average figure.

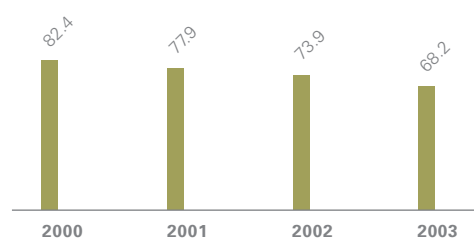


Germany 91.8 %
Other countries 8.2 %

Number of trainees in over-the-counter retail and in the mail-order sector (as at 31.12 in each case)

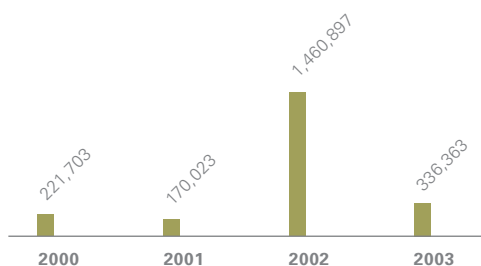


Expenditure on training and development (in € million)



Over-the-counter retail
Mail order
Group wide

Total charitable donations (in €)



Cutoff date 31.12 of the specified year in each case

Product range policy

INCREASED PROPORTION OF TEXTILES TESTED FOR HARMFUL SUBSTANCES

- Expanding the proportion of the total textile range tested for harmful substances at Quelle to 42 percent, at Neckermann to 45 percent (Basis: Outgoing goods, main catalog) (by 2005)
- Introduction of a data recording and controlling system to determine the proportion of textiles tested for harmful substances at Karstadt Warenhaus, similar to the data systems in the mail-order sector but taking account of the specific circumstances of department store operations, accompanied by an increase in the proportion of the textiles meeting the Öko-Tex Standard 100, based on the collated data.

INVESTIGATION OF THE POSSIBILITIES FOR INCLUDING TEXTILES WHICH MEET MORE STRINGENT ECOLOGICAL STANDARDS

INCREASED PROPORTION OF LARGE ELECTRICAL APPLIANCES WITH ENERGY EFFICIENCY CLASS A IN THE MAIL-ORDER SECTOR (BASIS: MAIN CATALOG)

- Raising the proportion of washing machine and dishwasher range with Energy Efficiency Class A to 95 percent at both Quelle and Neckermann (by 2005)
- Raising the proportion of refrigerator/freezer range with Energy Efficiency Class A to 93 percent at both Quelle and Neckermann (by 2005)
- Raising the proportion of built-in/freestanding cookers range with Energy Efficiency Class A to 80 percent at both Quelle and Neckermann (by 2005)

- Raising the proportion of washer dryer range with Energy Efficiency Class A-C to 95 percent at Quelle, to 100 percent at Neckermann (by 2005)

EXPANSION OF PROPORTION OF LARGE ELECTRICAL APPLIANCES WITH ENERGY+, A+ OR A++ IN THE REFRIGERATOR/FREEZER MAIL-ORDER RANGE TO 40 PERCENT AT QUELLE, AND 25 PERCENT AT NECKERMANN (BASIS: MAIN CATALOG) (BY 2005)

EXPANSION OF THE OFFERING OF SOLAR PRODUCTS

- Expanding Quelle's ranges of solar products by 5 percent (2004) and a further 5 percent (2005) if the planned figures for 2004 are attained
- Further expanding Neckermann's range of solar products through the integration of technical improvements and innovations into the offering

REDUCTION OF WATER CONSUMPTION FIGURES FOR LARGE ELECTRICAL APPLIANCES IN THE MAIL-ORDER SECTOR (BASIS: MAIN CATALOG)

- Cutting average water consumption figures for fully automatic washing machines to less than 44 liters per wash cycle at Quelle, and to under 46 liters at Neckermann (by 2005)
- Increasing the proportion of water-saving fully automatic washing machines (less than 50 liters per wash cycle) to 92 percent at Quelle, and to 95 percent at Neckermann
- Cutting average water consumption of dishwashers to 15 liters per wash cycle at both Quelle and Neckermann (by 2005)

Sustainability program KarstadtQuelle AG 2004-2005

EXPANSION OF THE PROPORTION OF FOREST STEWARDSHIP COUNCIL (FSC) ARTICLES IN THE FURNITURE SECTOR

- Expanding the variety of FSC articles in Quelle's ranges of wooden garden furniture and large items (carports) by 10 percent (2004) and a further 3 percent (by 2005)
- Raising the awareness of suppliers of solid wood furniture, with the aim of increasing the proportion of such products in Quelle's range of solid wood furniture (house furniture) to 100 percent (with a correspondingly structured offering) (by 2007)
- Further expanding the proportion of FSC articles in the Neckermann ranges: Garden furniture, summerhouses, furniture and decor articles
- Integrating FSC articles into the newly developed Neckermann Landhaus catalog (2004)
- Expanding the selection of FSC articles offered in the Karstadt Warenhaus ranges: Wooden garden furniture and household articles to 100 percent (by 2005)

GREATER USE OF INTERNAL AND EXTERNAL SEALS OF APPROVAL IN PRODUCT PRESENTATION

REVISION OF THE GUIDELINES ON ENVIRONMENTALLY FRIENDLY PRODUCT DESIGN, AND CONDUCTING OF SUPPLIER INFORMATION EVENTS/ TRAINING SESSIONS ON A STEP-BY-STEP BASIS ACCORDING TO PRODUCT RANGES (BY 2007)

Worldwide employment conditions

IMPROVEMENT OF SOCIAL CONDITIONS IN THE PRODUCTION OF GOODS BOUGHT BY KARSTADT-QUELLE COMPANIES IN THE THIRD WORLD

- Implementation of the Code of Conduct by means of stringent, independent regulatory measures
- Implementation of the sector model of the Foreign Trade Association of German Retailers e.V. (AVE) by auditing suppliers of the companies linked to the AVE Initiative: 2,500 production facilities in twelve countries, primarily in the Third World. The aim here is the sustainable safeguarding of social standards at the workplace (by 2005)
- Development of pilot projects and ongoing cooperation within the context of the German Federal Ministry for Economic Cooperation and Development's "Code of Conduct Round Table", which aims to improve working conditions right around the world
- Stepping-up dialog with NGOs at various levels in Germany and elsewhere
- Further development of the Business Social Compliance Initiative (BSCI) aimed at improving social standards at European level

COOPERATION WITH THE WORKS COUNCILS (KARSTADT WARENHAUS AG AND NECKERMANN VERSAND AG) IN THE COUNCILS' CODE OF CONDUCT WORKING GROUP

Cutoff date 31.12 of the specified year in each case

Cutoff date 31.12 of the specified year in each case

Customer advice

PROMOTION OF SALES OF SUSTAINABLE PRODUCTS

- Preparing a Group-wide concept for sales promotion with sustainability topics
- Putting greater emphasis on the company's role as a "go-between" in the area of environmental communication between customer and manufacturer
 - _ Conducting sales promotion campaigns for sustainable products in the over-the-counter retail outlets and in advertising material, keeping customers informed, expanding environment-related communications
 - _ Providing training and information for suppliers
- Information for customers/general public about
 - _ Brochures (e.g. availability of informative literature on eco-friendly textiles/technology)
 - _ Establishing an Internet site for KarstadtQuelle AG, as a communication medium for important topics relating to the environment and social policy
 - _ Environmental information as an integral element of all catalogs
- Conducting "Environment Weeks" at the over-the-counter retail outlets
- Doing more to commend "green" products from Quelle in the main catalog and for field staff
- Incorporating the topic of environmental protection into Quelle's field service training seminars

CONTINUED INTEGRATION OF SUSTAINABILITY TOPICS INTO BRAND COMMUNICATION

- Boosting of customer satisfaction
- Development of a new graduated concept for the introduction of complaints management in the mail-order sector

Operational management

UTILIZATION OF SYNERGIES EMERGING FROM SUSTAINABLE CORPORATE MANAGEMENT (ALL MEASURES ORGANIZED BY KARSTADTQUELLE AG)

- Introducing a system for the exchange of experiences between the large Group companies (Karstadt, Quelle and Neckermann) and the smaller firms, with the aim of transferring the experiences and successes during ecological activities to the smaller companies
- Evaluating internal and external benchmarks/exchanges within associations
- Further harmonizing Group-wide activities in waste management, harmonizing disposal processes

MAINTENANCE AND FURTHER DEVELOPMENT OF THE EXISTING ENVIRONMENTAL MANAGEMENT SYSTEMS

- Introducing a uniform environmental management systems for the mail-order sector
- Supporting subsidiaries and overseas companies in the introduction of environmental management systems (especially in Eastern Europe)

REDUCTION IN CONSUMPTION OF RESOURCES

- Reducing electricity consumption at Neckermann (by 2 percent) and Quelle (by 1,700 megawatt hours (MWh) by replacing old refrigeration plants and consistent use of luminaires) (by 2005)
- Stabilizing and possibly increasing recycling ratios to more than 90 percent in waste management
- Reducing resources consumed in transport/logistics operations
 - _ Introducing a new transport management system in 2004
 - _ Increasing the ratio of rail transport operations relative to road transport
 - _ Certification of Optimus Logistics to ISO 14001
- Reducing internal paper consumption at Quelle
- Switching registration confirmations, interim appraisals etc. for sales competitions and product range competitions at Quelle from paper to the Internet and e-mail
- Stepping up the collation of e-mail addresses in the case of central buyers as a means of replacing written customer communications (mailshots)

Employee relations

EMPLOYEE TRAINING, INFORMATION AND MOTIVATION IN ENVIRONMENTALLY FRIENDLY BEHAVIOR

- Raising employee awareness by communicating information on sustainability programs
- Integration of sustainability topics into the existing communication channels, for example by means of articles in employee magazines or the Intranets of Karstadt-Quelle AG and the Group companies

INVOLVING THE EMPLOYEES IN THE IMPROVEMENT OF THE ECONOMIC, ECOLOGICAL AND SOCIAL SITUATION WITHIN THE BUSINESS

- Stepping up communication of the existing improvement systems (company suggestion scheme, etc.), expansion of Intranet-based participation options

IMPROVEMENT OF INTERNAL CORPORATE COOPERATION (ALL MEASURES ORGANIZED BY KARSTADTQUELLE AG)

- Joint seminars offered across the Group, job shadowing

MAINTENANCE OF THE HIGH STANDARDS ACHIEVED IN THE AREA OF FLEXIBLE WORKING HOURS

Cutoff date 31.12 of the specified year in each case

Over-the-counter retail

Karstadt GmbH

Department stores	Specialty stores
Karstadt Warenhaus AG	SinnLeffers AG
	WEHMEYER GmbH & Co. KG
	Runners Point Warenhandelsgesellschaft mbH
	WOM World of Music Produktions- und Verlags-GmbH
	Le Buffet System-Gastronomie und Dienstleistungs-GmbH
	GOLF HOUSE Direktversand GmbH

Mail order

KARSTADT QUELLE Versand GmbH

Universal mail order	Specialty mail order
Quelle AG	Versandhaus Walz GmbH, Baby-Walz, Die moderne Hausfrau
QUELLE S.A., France	Peter Hahn GmbH
Quelle AG, Austria	AFIBEL S.A., France
Fonetix Call Center GmbH & Co. KG	Mercatura Holding, GmbH & Co. KG
Neckermann Versand AG	Atelier Goldner Schnitt GmbH & Co. KG
Neckermann B.V., The Netherlands	Madeleine Mode GmbH
Neckermann Versand, Österreich AG, Austria	Happy Size-Company Versandhandels-GmbH
	Elegance Rolf Offergelt GmbH
	Bon'A Parte Postshop A/S, Dänemark
	Hess Natur-Textilien GmbH & Co. KG
	Fritz Berger GmbH Co. KG
	Krähe Versand GmbH & Co. KG

Services

KARSTADT QUELLE Service GmbH

B2B-Services (corporate business)	B2C-Services (consumer business)
KARSTADT QUELLE Business Services GmbH	KARSTADT QUELLE Kunden-Service GmbH
Optimus Logistics GmbH	Karstadt Coffee GmbH
ITELLIUM System & Services GmbH	Profectis GmbH Technischer Kundendienst
Euro-Papier N.V., Belgien	Thomas Cook AG – consolidated at equity –
servicelogiQ GmbH	KARSTADT QUELLE Financial Services GmbH – consolidated at equity –
Karstadt Quelle International Services AG, Switzerland	KARSTADT QUELLE Bank GmbH – consolidated at equity –
KARSTADT QUELLE Information Services GmbH	
KARSTADT QUELLE New Media AG	
Sport Media Holding GmbH – consolidated at equity –	

Real estate

KARSTADT Immobilien Beteiligungs AG

Property	Management (Real-estate services/ Finance)
Karstadt Immobilien AG & Co. KG	ECM EuroCenter Management GmbH
MOSTIA Grundstücksgesellschaft mbH & Co. KG	KARSTADT Hypothekenbank AG
TRADO Grundstücks-Ver- waltungsgesellschaft mbH & Co. Objekt Dresden KG	
“HOLM“-Grundstücks-Ver- waltungsgesellschaft mbH & Co. Objekt Brieselang KG	
KINTO Grundstücks- Verwaltungsgesellschaft mbH	

For more information about the **AVE Code of Conduct**, see: www.ave-koeln.de

AVE Code of Conduct

1999 saw the publication by the German Foreign Trade Association (AVE) of a declaration on rules of conduct for purchasing activities aimed at guaranteeing social standards. This *code of conduct* aims to provide for minimum social standards in the field of goods purchasing. These are closely allied to the conventions of the *International Labour Organization*, and among other things call for the prohibition of child and forced labor, as well as setting out requirements relating to safety at the workplace.

CSR strategy of the European Commission

CSR strategy of the European Commission With the issuing of a “Green Book” in July 2001, the European Commission initiated a discussion about the social responsibilities borne by companies (CSR – Corporate Social Responsibility). A year later, the Commission presented its CSR strategy. The latter comprises seven points, including encouraging debate, setting up a stakeholder forum and integrating CSR aspects into community politics.

German Corporate Governance Code

Taking its cue from an initiative of the *Organization for Economic Co-operation and Development*, a German government commission put forward the “German Corporate Governance Code” in February 2002. It makes recommendations as to how companies quoted on the stock exchange can ensure the transparency of their management activities. The particular intention here is to fortify the interests of shareholders and the general public.

EMAS

Since April 1995, commercial companies within the European Union have been able to take part in the Eco-Management and Audit Scheme, or EMAS, on a voluntary basis. Initially, the scheme was legally underpinned by Regulation 1836/1993/EG, also known as the EC Eco Audit Regulation.

The amended version of this provision – Regulation 761/2001/EG – extends the right to participation to all companies and organizations. It sets down requirements in relation to operational environmental management, and provides for an environmental audit and the submission of an environmental declaration validated by external environmental experts. The regulation thus goes beyond *ISO 14001* from the qualitative standpoint. By the end of 2003, some 3,500 organizations had been validated according to the regulation.

Integrated Product policy (IPP)

The aim of integrated product policy (IPP) is the continuous improvement of products and services in respect of their effects on the environment. It represents a new approach to European environmental policy, based on the belief that preventive environmental protection must be applied at source – in contrast to post-closure environmental protection techniques (“end-of-pipe”).

International Labour Organization (ILO)

International Labour Organization (ILO) The International Labour Organisation (ILO), founded in 1919, is a specialized organization of the United Nations (UN). The aim of the ILO is to promote social justice within people’s working lives, and to this end, it issues recommendations and draws up conventions, which must be transposed into national law by the signatory states before coming into force. The ILO is headquartered in Geneva, Switzerland.

ISO 14001

Since October 1996, companies have been able to seek certification according to ISO 14001, the international standard for environmental management systems. The standard defines requirements relating to operational environmental management, and belongs to the 14000 Series of standards from the ISO, the International Organization for Standardization. As at the end of 2003, some 61,000 companies around the world were certified according to this standard.

For more information about the **CSR strategy**, see: http://europa.eu.int/comm/employment_social

For more information about the **International Labour Organization**, see: www.ilo.org

For more information about the **German Corporate Governance Code**, see: www.corporate-governance-code.de

For more information about **ISO 14001**, see: www.iso.org

For more information about **EMAS**, see: <http://europa.eu.int/eur-lex>

Labeling

The term labeling refers to the identification and accreditation of products, services or organizations by means of quality symbols and “tested-and-approved” marks. On the environmental protection front in particular, labels are a means of disseminating consumer information (e.g. “Blue Angel”, TransFair and the BIO seal).

Sustainability indices

Investment companies use sustainability indices as a means of keeping track of those companies that they regard as demonstrating particularly good future economic viability in respect of their socially- and environmentally-oriented corporate management. These indices provide an important aid to orientation for investments made according to socio-ecological criteria. Examples of such indices include the “Dow Jones Sustainability Index” (DJSI) and the “FTSE4GOOD.”

Organization for Economic Co-operation and Development (OECD)

In 1948, a number of Western European states founded the Organization for European Economic Co-operation (OEEC), as a vehicle for implementation of the “Marshall Plan”. From this body emerged the Organization for Economic Co-operation and Development (OECD), which dates from 1961. It is a forum for cooperation at government level between the industrialized nations on economic matters and development policy. The organization also draws up recommendations for responsible behavior on the part of companies. The OECD headquarters is in Paris, France.

The Round Table “Codes of Conduct”

The Round Table Codes of Conduct has undertaken to improve working and social standards in developing and threshold countries by means of *codes of conduct*. Taking part in this initiative, which dates from January 2001, are representatives of the Federal Ministry for Economic Cooperation (BMZ), commercial companies, trades unions and non-governmental organization. The work of the dialog process facilitated by the BMZ centers on recommendations as to how codes, such as that from *AVE*, for example, are to be introduced and regulated.

SA8000 Standard

In 1997, the US consumer organization “Council on Economic Priorities” (CEP) adopted its SAI (Social Accountability International) initiative. This incorporates the “SA8000” Standard, which aims to improve employees’ working conditions. Companies can seek certification according to this standard: this involves external auditors checking whether, for example, a business guarantees freedom of association and collective bargaining rights, or prohibits child or forced labor.

Codes of conduct

Codes of Conduct lay down rules of ethical behavior for the activities of companies, particularly with regard to social and environmental issues. Such codes are primarily drawn up by international organizations. The *Organization for Economic Co-operation and Development (OECD)* published its “Guiding Principles for Multinational Companies” as far back as 1976. Further examples include the *AVE Code of Conduct* and the *SA8000 Standard*.

WEEE Directive

At the heart of European Directive 2002/96/EG, also known by its English acronym WEEE (Waste Electric and Electronic Equipment), lie the ecological responsibilities of the manufacturers of electrical and electronic equipment. It stipulates that with effect from August 2004, member states of the European Union must establish systems for the taking back and recycling of end-of-life electrical and electronic appliances, and sets out relevant quantitative and qualitative targets.

For more information about quality symbols and “tested-and-approved” marks, see: www.label-online.de

For more information about SA8000 Standard, see: www.sa8000.org

For more information about sustainability indices, see: www.sustainable-investment.org

For more information about the OECD, see: www.oecd.org

For more information about the WEEE Directive, see: <http://europa.eu.int/eur-lex>

For more information about the Round Table Codes of Conduct, see: www.coc-runder-tisch.de

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Contacts

Heinz-Dieter Koeppe
Corporate Director
Environment and Social Affairs
KarstadtQuelle AG
Tel.: +49 (201) 7 27 - 25 75
heinz-dieter.koeppe@karstadtquelle.com

Jörg Howe
Director Corporate Communications
KarstadtQuelle AG
Tel.: +49 (201) 7 27 - 25 38
joerg.howe@karstadtquelle.com

Stefan Küst
Environmental Officer
for Quelle AG and
Neckermann Versand AG
Tel.: +49 (911) 14-2 78 96
stefan.kuest@quelle.de
Tel.: +49 (69) 4 04 47 84
skuest@nvag.de

Klaus Wilmsen
Head of Quality Assurance and
environmental protection department
for Karstadt Warenhaus AG
Tel.: +49 (201) 7 27 - 52 20
klaus.wilmsen@karstadt.de

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