

STABILITY IN TIMES OF CHANGE
SUSTAINABILITY REPORT 2007

About the Report

This is the first Sustainability Report of our Group after the name renaming as Arcandor AG on 1 July 2007. It follows the reporting tradition of KarstadtQuelle AG and links to its Sustainability Report from the year 2005. The Sustainability Report addresses our most important stakeholder groups, among them analysts and investors, our business and cooperation partners, employees and junior workers, consumer organisations and authorities, our customers as well as interested members of the public.

In this report, we follow the internationally-recognised guidelines of the Global Reporting Initiative (GRI) as well as the requirements of sustainability-orientated ranking and rating agencies, our employees and external stakeholders. Due to the diversity and structural complexity of the Arcandor Group as well as the diversity of our ecological and social commitment, it was not possible to provide a complete picture of all our sustainability activities in the print version of the report. Therefore, further complementary themes relating to sustainability are addressed on the Arcandor AG corporate website. We also give a report on the corporate website about our progress in the implementation of the ten principles of the United Nations Global Compact.

The subject matter of the report is Arcandor AG's ecological and social commitment as well as the three operational business divisions, namely Thomas Cook Group plc, Primondo GmbH and Karstadt Warenhaus GmbH. Due to the restructuring of the Group and the current data situation arising from it, the chapter concerning the subsidiary company Primondo GmbH contains only statements and figures related to its core brand, Quelle GmbH. A sustainability managementsystem will be established throughout Primondo by the beginning of 2009. Further information about the collection of data and a selection of consolidated key figures for the Group are shown in the key figures section of the report. At the end of each chapter, in the sustainability programmes of Arcandor AG, Thomas Cook Group plc, Primondo GmbH and Karstadt Warenhaus GmbH, we provide information about the status of the 2005 targets. At the same time, we provide an overview of the companies' measures and goals up to 2009. Since no goals were announced for the Thomas Cook Group plc in 2005 and new challenges arising from the merger with MyTravel in 2007, only new sustainability targets and measures are shown in the sustainability programme of Thomas Cook Group plc.

The reporting period extends from 1 January 2006 to 31 December 2007. Information from 2008 was also taken into account insofar as it was available by the publication deadline (29 February 2008). The copy deadline does not apply to the "Strategy" chapter in the report section of Arcandor AG. In this section, we provide information about important strategic processes that are continuing throughout the year 2008. In order to render the report easier to read, we have avoided the use of both masculine and feminine pronouns as well as the legal forms plc, AG and GmbH in the company chapters. We are reporting uniformly as Arcandor AG on the sustainability management of KarstadtQuelle AG up to the renaming of the Group in July 2007. The Arcandor Sustainability Report 2007 is available in German and English. We will publish Arcandor AG's next Sustainability Report in 2010.



MISSION STATEMENT

Arcandor AG is an internationally orientated financial holding company with subsidiaries in the core areas of tourism, department stores and mail order. Our aim is to develop all three business areas continuously through sustained growth and operational excellence. As a globally operating group, our investments exert a daily influence on the lives and working conditions of customers, employees, service providers, suppliers and shareholders. In order to honour our responsibility to them, we align our corporate activities with the following principles:

CUSTOMERS

Customer satisfaction is our motivation and our challenge

Providing value to customers is the key to our group's success. We work hard daily to meet the expectations of our customers. For this reason, our top priorities are service and good relations with customers. This includes selecting goods and services of the highest quality, as well as establishing a fair price-performance ratio. Our goal is long-lasting customer relations based on trust. We are accessible to our customers as a reliable partner, without restrictions.

EMPLOYEES

We challenge our employees, and orientate them on the path to professionalism, corporate responsibility and customer focus

Our employees are the drivers of added value. Their knowledge, commitment and innovative strength help to assure our joint success. We face one another, our customers and our business partners in a spirit of openness, fairness and respect. Through continuous investment in skills development, we enable our employees to realise their individual potential.

SHAREHOLDERS

We create value for our shareholders

We strive for long-term growth and attractive dividend yields. To meet this challenge, we set ourselves ambitious yield targets. We honour the trust invested in us and are careful with the resources made available to us. Communication with our shareholders is transparent and comprehensible.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

We are aware of our social and environmental responsibility

Social responsibility and environmental protection are anchored deeply within our value-added chain. We work actively for the further development of internationally recognised environmental and social standards, and are consistently committed to seeing that they are upheld. To this end, we strive to maximise our influence as a global operating business. To enhance the efficiency of our use of natural resources, we are continually working to improve the environmental sustainability of our products and services. Our dialogue with society is based on openness and cooperation.

ONLY A BUSINESS BASED ON VALUES CAN CREATE VALUE.

GRI Content Index (Global Reporting Initiative)

The current Arcandor Sustainability Report 2007 (“Stability in times of change”) is based on the guidelines of the Global Reporting Initiative (GRI G3 guidelines). With GRI Application Level B, GRI confirms that Arcandor is highly compliant with its reporting elements.

The following index provides an overview of all the GRI indicators and also the degree to which Arcandor takes them into account in its reporting. References to individual sections of the report and to our corporate website clearly show the places where Arcandor meets the GRI requirements. Other publications by the Group, such as the Arcandor Annual Report 2007, are also cited for this purpose.

On our corporate website, which you can access at www.arcandor.com > Sustainability > Data & Facts > GRI, you will find a comprehensive GRI index that contains additional explanations of the individual indicators.

Status	Reference
● fully reported	1-80: Sustainability Report 2007 pages
● partially reported	C1-8: Cover pages Sustainability Report 2007
○ not reported	AR 1-167: Annual Report 2007 pages
≡ not applicable	www (www.arcandor.com)

Core indicators
Additional indicators

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1.1	● Statement from the most senior-decision maker	p. 8-10, 30, 44, 62
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2.10	● Awards received	p. 10, 19, 33, 47, 59, 64-66
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4.3	● Independent Members at the Board	AR p. 37ff, www
4.4	● Mechanisms for shareholders and employees to provide recommendations to the board	p. 14-16, AR p. 37ff, www
4.5	● Linkage between executive compensation and organization's performance	AR p. 42ff, www
4.6	● Processes to avoid conflicts of interest at the board	AR p. 42ff, www
4.7	● Expertise of Members of the Board on sustainability topics	p. 14-15, AR p. 42ff, www
4.8	● Statements of mission, codes of conduct, and principles	p. 8-10, 14-17, 20-21, 28-29, 36, 39, 51-54, www
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4.11	● Precautionary approach	p. 20-23, 26-27, 47-50, 64-66, www
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The German and English editions of the Sustainability Report 2007 are also available online as PDF downloads.

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A low-angle photograph of a dense forest. The camera is positioned on the ground, looking up at the tall, slender tree trunks that reach towards a thick canopy of green leaves. Sunlight filters through the branches, creating a bright, glowing effect in the lower center of the frame. The overall atmosphere is serene and natural.

Consistency



Change



Transparency

Dear Reader,

“Stability in times of change” – under this motto we have made far-reaching structural changes to our Group in recent years and put it on a fresh course for success. As a financial holding company, Arcandor AG, which changed its name in 2007, is the umbrella for our three core areas of business, namely tourism, home shopping and stationary retail sales. In the past two years since the publication of our last Sustainability Report, the structure of our Group has changed considerably. With the takeover of the majority shares in Thomas Cook, the Group has gained a business division that is strong in sales and growth. As a result, we have changed from a pure commercial enterprise into a leading tourism and retail Group with a strong international direction.

Arcandor strives above all for consistency in its entrepreneurial values, which already enjoy a long tradition in the three areas of business. Arcandor considers itself as expressly committed to this tradition: right from the start, we assume full responsibility for our employees, the environment and the society in which we live and work. Throughout the entire production process to sales and distribution and the period of use of our goods and services, we commit ourselves to maintaining social and ecological standards.

Arcandor’s goal is to create sustainable development for our Group, the environment and society. For us, economic success and sustainable action go hand in hand. We are convinced that good corporate governance pays off for our Group, both financially and ideologically. Over the medium term, we aim to position Arcandor as an internationally-leading tourism and commercial company through sustainable management. We regard it as an urgent task to further improve the sustainability profile of our Group following its name change and to address our social and ecological responsibilities systematically and group-wide. Following on from the many years of experience and successes of our participating companies, in 2007 we carried out restructuring of our sustainability organisation and updated our sustainability strategy. This involved strengthening central committees and increasing responsibilities in sustainability management. In our strategic renewal process, we adhere to the values in practice within our Group in relation to our claim that we are “Committed to creating value” and we also comply with international standards for responsible company management. Arcandor is committed to the goals of the United Nations Global Compact, which we have actively supported since May 2006. Detailed information about our activities can be found in our Communication on Progress Report 2007 at www.arcandor.com > Sustainability.

Throughout the past two years, our Group has been able to demonstrate many highlights and successes: despite tough economic conditions in 2006, we were able to create more than 1,000 new training positions in our Group. In the same year, we gave a clear sign of the importance of further training of our employees with the founding of the Arcandor Academy. Alongside qualification processes for managers, in step with actual practice the Arcandor Academy offers an international platform to strengthen group-wide dialogue and corporate culture. For the adjustments to personnel costs, which were required in the course of restructuring, we have developed mutual solutions in close cooperation with employee representatives.



Dr. Thomas Middelhoff
Chairman of the Management Board

By accepting to the company restructuring agreement, employees have shown their solidarity with the Group. For this, we would like to thank all our employees here as well. The founding of the Group works council in 2007 will strengthen further the regular, constructive dialogue between employees and management.

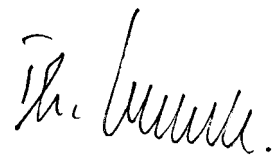
In the spring of 2007, Arcandor was able to settle the long-standing legal dispute with the Jewish Claims Conference as representative of the inheritors of Wertheim. Arcandor accepts its responsibility to history and welcomes the amicable agreement.

The consistently positive evaluations of our sustainability performance are reflected in the listing of our Group in the FTSE4Good (FTSE4Good Europe Index and FTSE4Good Global Index) as well as in the Ethibel Sustainability Index. The fact that our 2005 Sustainability Report earned fourth place in the Institut für ökologische Wirtschaftsforschung (IÖW – the Institute for Ecological Economy Research) and future e. V. ranking of sustainability reports in 2007 was again very pleasing. Furthermore, our business areas were repeatedly honoured for their commitment to environmentally-friendly and socially-compatible products and services. Looking to the future, we will continue to place the greatest value on further strengthening the markets for sustainable tourism as well as ecologically and socially-compatible goods.

Our Sustainability Report 2007 provides information about our successes and progress, but also about goals that we have failed or have yet to reach. We are guided in this by the requirements of the Global Reporting Initiative (GRI). We consider the Sustainability Report as an important instrument for maintaining and deepening the dialogue with our various stakeholder groups. We would therefore be pleased if you would accept this offer and help us with constructive and critical suggestions for improving our sustainability performance further.

For the Management Board,

Yours faithfully,



Dr. Thomas Middelhoff
Chairman of the Management Board



Front left: Prof. Helmut Merkel; front right: Dr. Matthias Bellmann
 Back row, left to right: Peter Wolf, Marc Sommer, Dr. Thomas Middelhoff, Dr. Peter Diesch, Manny Fontenla-Novoa

Dr. Thomas Middelhoff
Chairman of the
Management Board

Corporate Communi-
 cations, Investor Relations,
 Law, Revision,
 Management Board
 Projects

Marc Sommer
Vice Chairman of the
Management Board

Primondo

Dr. Matthias Bellmann
Member of the
Management Board

Human Resources/
 Employees Relations,
 Chief Restructuring Officer,
 Social Affairs, Director
 Arcandor Academy

Dr. Peter Diesch
Member of the
Management Board

Controlling, Treasury,
 Accounting, Taxes,
 Mergers & Acquisitions

Prof. Helmut Merkel
Member of the
Management Board

Purchasing, Logistics, IT

Peter Wolf
Member of the
Management Board

Karstadt

Manny Fontenla-Novoa
Member of the
Management Board

Thomas Cook

Arcandor - Committed to creating value

Since 1 July 2007, Arcandor AG as a financial holding company unites three strong business areas under a single roof: tourism, mail order and stationary retail sales. Between January and September 2007, the Group, with its more than 87,700 Group employees, generated total sales of more than € 14 bn. As a financial holding company, Arcandor AG's focus is on steady growth with the goal of creating value for our stakeholders on a continuous and sustainable basis. "Committed to creating value" is our Group claim and guiding principle shared throughout all business areas of the Group.

GROUP STRUCTURE AND OPERATIVE SEGMENTS

The holding company, with its headquarters in Essen, brings together three independent operative areas: the tourism Group Thomas Cook Group plc, the mail order Group Primondo GmbH and the department store company Karstadt Warenhaus GmbH.

THOMAS COOK

With its excellent market positions in Europe and North America, the Thomas Cook Group plc is one of the leading tourism groups worldwide. The new Group came into being from the merger of Thomas Cook and MyTravel and has been listed on the London Stock Exchange since June 2007. Among its brands are Thomas Cook, Airtours, Neckermann Reisen, Condor, Ving, Direct Holidays and Sunquest. As a travel provider, Thomas Cook offers a diverse range of package tours, individual components and services. Key focal points are the increasingly-individual customer requirements as well as e-commerce. At the end of 2007, Thomas Cook had 97 planes. More than 3,000 company or franchised travel offices advise our customers when selecting their holiday destination. Thomas Cook has around 19 million travel guests each year for whom some 33,000 Group employees ensure the best possible service.

PRIMONDO

The Primondo Group portfolio includes high-quality universal and special mail order companies in Germany and Europe. In universal mail order, the core brand Quelle holds leading market positions both in Germany and in Central Eastern Europe. A total of twelve special mail order companies, among them the brands Hess Natur and Baby Walz, satisfy individual customer demands in eleven European countries. As a multi-channel provider, Primondo, in addition to catalogue mail order, is also positioning itself in the growth segments of e-commerce and teleshopping with its own homeshopping channel HSE24. In total, Primondo serves approximately 25 million customers in 24 European countries, maintains approximately 100 shopping domains and dispatches more than 1,400 catalogues each year in a total print run of more than 800 million copies.

KARSTADT

Karstadt reorganised itself as a modern marketplace in 2007. The company meets the respective demands and needs of customers with four independent department store profiles: the prime-location department stores of the Premium Group, including the KaDeWe in Berlin, the Alsterhaus in Hamburg and the Oberpollinger in Munich, the Karstadt brand's department stores, the Karstadt sports stores and the online portal karstadt.de. In 2007 Karstadt had a workforce of more than 33,600 employees.

GROUP STRATEGY AND INTERNATIONALISATION

The successful realignment of the Group will continue in 2008. The aim of the Arcandor Group is to become the respective market leader in all business areas. Karstadt and Primondo are intended to become capital-market instruments. To do this, Arcandor is pursuing a clear internationalisation strategy. It was possible to bring about notable expansion of the market presence outside the German home market within a short period of time. Today, the foreign share of sales is greater than 40 percent. Around 31,800 employees, 36 percent of our workforce, are already working in foreign countries – a trend that is set to continue. Key drivers of this include the success of Quelle in Central Eastern Europe and Russia, the merger of Thomas Cook with MyTravel and the acquisition of Thomas Cook India.

The growth strategy places the focus on promising, future markets in all areas of business: Thomas Cook is increasingly putting the emphasis on improvement in the package travel business, expansion in individual travel and in the internet business as well as on an expansion of financial services. Primondo plans to expand its multichannel network focusing on e-commerce and teleshopping. In the long term, these modern distribution channels are planned to develop the same economic strength as the catalogue business. Karstadt is putting its focus on the consumer fields of fashion, beauty and living, where margins are strong.

ECONOMIC DEVELOPMENT

Restructuring put the Group on a healthy financial basis and allowed us to take an active approach in the ongoing development of our business areas. In the course of restructuring at Arcandor AG, the financial year was also changed: it now covers the period from 1 October to 30 September for all operational areas. The change led to a shortened financial year in 2007. It covers the time period from 1 January to 30 September 2007. Within this period, the adjusted Group sales rose markedly by 71.9 percent to € 14.3 bn. The adjusted EBITDA of the operational areas improved by € 665.8 m to € 601.7 m. The positive overall results are attributable to the increase in sales across all three operational areas.

Anchoring sustainability

“Committed to creating value” – the claim of the Arcandor Group forms the foundation of our sustainability strategy: values guide our actions and at the same time constitute the results of our responsible business activities, which focus on the future. With our Mission Statement, we show our commitment to the values lived out in our company. This includes the benefit to the customer, the motivation and encouragement of our employees and increase in value for our capital owners. Our stated values also include a socially and ecologically-responsible organisation of the value creation chain as well as open and cooperative dialogue with our stakeholders.

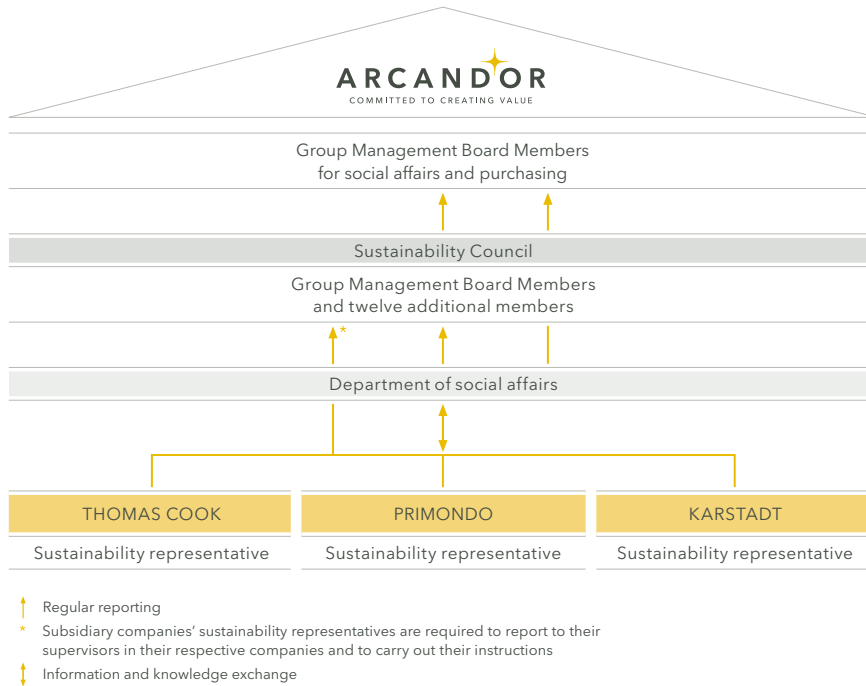
CHANGE AND CONSISTENCY

The sustainability strategy of Arcandor is based on the value orientation of our Group and is in agreement with the ten principles of the United Nations Global Compact as well as the OECD guidelines for multinational companies. In the steady development of our sustainability strategy we are building on the Group’s social and ecological commitment from previous years. At the same time, we meet the challenges involved in the new Group structure and the consolidation of Thomas Cook into Arcandor’s portfolio. Against this background, we have implemented numerous changes and restructuring measures in the sustainability management of the Group since it changed its name from KarstadtQuelle AG to Arcandor AG on 1 July 2007.

In July 2008, the Management Board of Arcandor AG finalised a new organisational structure for group-wide sustainability management and approved the newly-defined areas of corporate action in relation to sustainability. They have since included “Product Range – Services – Supplier Management”, “Social Dialogue”, “Customers”, “Environment” and “Employee Relations”. Every year, the Group determines its sustainability goals within these five areas of corporate action and steers the group-wide sustainability strategy towards them. Furthermore, in July 2008, the Board of Management brought Arcandor’s Code of Practice on Sustainability Management into effect. These guidelines specify the responsibilities and portfolios of the bodies and committees involved in sustainability management across the Group and regulate the coordination of goals and measures within the context of Arcandor’s social and ecological responsibilities. The Board of Management will also finalise the new version of the Group Guideline on Sustainability Management by the end of 2008.

In accordance with the new organisational structure in the sustainability management of the Arcandor Group, the Management Board of the Group bears overall responsibility for sustainability and directs its business towards the demands of ecologically and socially-responsible management. The Management Board of the Group transferred operational responsibility for the areas of ecology and social affairs to the Board Members responsible for social affairs and purchasing. In doing so, the cross-sectional competence of the group-wide Sustainability Council was significantly expanded. This functions as an advisory and recommendation committee for all the ecological and social affairs of the Arcandor Group.

ORGANISATIONAL STRUCTURE: SUSTAINABILITY MANAGEMENT



The chairmanship of the Sustainability Council is held by the Group Management Board Member for social affairs (chair) as well as the Group Management Board Member for purchasing (co-chair). The committee was expanded to 14 members including sustainability representatives and chairpersons from the Group works council as well as managers from all Group divisions relevant to sustainability and the subsidiary companies. The Sustainability Council meets every six months to develop recommendations for the sustainable business development of the Arcandor Group.

The Management Board of the Group has entrusted group-wide coordination of our sustainability effort to the department for social affairs, thereby acting as an interface between the financial holding company, the Sustainability Council and the participating companies. It is responsible for internal and external communication and reporting, sustainability rankings and ratings as well as the collection of data and key figures. The department also coordinates the stakeholder dialogues, diversity management, social compliance and issue management, as well as the corporate volunteering of the Group. In environmental and climate protection, in social standards and human rights, as well as in the areas of supplier management, auditing and sponsoring, the department for social affairs carries out an advisory role. As the operational entity of the Sustainability Council, its duties also include the implementation of the Council's decisions.

In the subsidiary companies, responsibility for sustainability lies in each case with a member of the Management Board. Each company in addition appoints a coordinator who represents the interests of his company as a sustainability representative and is a member of the Sustainability Council. Further tasks and organisational structures are determined independently by the participating companies as part of the group-wide sustainability strategy. An internal communication system supports information exchange within Arcandor's sustainability management framework and provides those responsible with access to relevant information and key figures.

LEADERSHIP IN RESPONSIBILITY

In exercising their social responsibilities, the leading entities and committees of the Arcandor Group focus strongly on the German Corporate Governance Codex. We work continuously on further developing our measures for implementing the Codex and verify their effectiveness at regular intervals. In December 2007, based on the recommendation of the Codex, we created a fourth supervisory committee, the nomination committee. We ensure transparency in terms of dates and financial data by drawing up a financial calendar and by publishing comprehensive investor relations and press information on the Group's corporate website. Remuneration of the entities is likewise subject to the principles of transparency.

RISK MANAGEMENT

In order to estimate the risks that are associated with our company activities, we engage in dialogues with numerous stakeholder groups. These include initiatives, associations, governmental and non-governmental organisations as well as our suppliers and customers. In order to ensure the timely recognition of risk potential, to systematise and use it as a basis for decisions, the Arcandor Group also operates an internal risk management system. It forms part of the group-wide steering system and is based on a uniform and firmly-defined steering and reporting concept.

SUSTAINABILITY ROADMAP

With the Group's name change, we have set new goals for ourselves and given sustainability management a broader base. We thereby also respond to the need to make improvements in terms of overlapping management, as outlined in the last Sustainability Report. Our sustainability roadmap shows the milestones that have already been reached and the steps we wish to take on the way to a successful future.

SUSTAINABILITY ROADMAP

STRATEGY

2003	2004	2005	2006	2007	2008	2009	2010	by 2012
<ul style="list-style-type: none"> - Uniform risk management - Group Guideline on Sustainability Management 	<ul style="list-style-type: none"> - Group-wide general specifications for sustainability management - Solidarity pact agreement 	<ul style="list-style-type: none"> - Provide support to affected people in collapse of a textile factory - Start of regular customer surveys Karstadt 	<ul style="list-style-type: none"> - Founding of Arcandor Academy - 2nd Group Sustainability Report - Start of training programme on social standards for purchasers 	<ul style="list-style-type: none"> - Name change to Arcandor AG - Founding of Group works council 	<ul style="list-style-type: none"> - Reorientation of group-wide sustainability strategy - New organisational structure - New version of Group Guideline on Sustainability Management - Taking effect of the Code of Practice on Sustainability Management 	<ul style="list-style-type: none"> - Green concept for environmental protection - Establish uniform reporting system and key performance indicators concept - Update Code of Conduct for suppliers - Introduction of Group job portal and talent pool 	<ul style="list-style-type: none"> - Derive and establish group-wide goals from sustainability guidelines - Group-wide management guidelines - Increase share of direct imports from socially-audited suppliers in risk markets to 90 % - 4th Group Sustainability Report - Employee training on social standards - Sustainability as a part of targets for all managers 	<ul style="list-style-type: none"> - Training projects for BSCI requirements - Expansion of e.Campus (Arcandor Academy) - Continuation and development of workshops dedicated to sustainability topics throughout the Group
<ul style="list-style-type: none"> - Working group for sustainability - Supplier auditing - Joining the BSCI 	<ul style="list-style-type: none"> - 1st Group Sustainability Report - Sustainability communications via corporate website and intranet - Dialogue event on the subject of social standards - Founding "Quelle InnovationsStiftung" 				<ul style="list-style-type: none"> - Restructuring and expansion of Sustainability Council - Establishment of group-wide whistleblower programme - Signing the "Charter of Diversity" - 3rd Group Sustainability Report - Relaunch sustainability section of the corporate website - Introduction of an environmentally-sound fleet management 			

IMPLEMENTATION AND COMMUNICATION

Added value through transparency and openness

The entrepreneurial activities of Arcandor are carried out in the conviction that our commitment creates added value – for society and for our Group. Values, which are played out in practice and anchored in the individual and collective consciousness, provide our employees with a reference point and increase their motivation and productivity. At the same time, these values are an essential prerequisite for gaining the trust of our stakeholders and also significant capital.

Sustainable management is firmly integrated into the core strategy of our Group. Credible communications form part of this strategy alongside the need to transport our values effectively inwards and outwards.

“Credibility as a central factor for success can only be reached by means of open communications that clearly and honestly depict the context and only announce what is also achieved at the end,” states

Dr. Alexandra Hildebrandt, head of social affairs at Arcandor.

SYSTEMATIC STAKEHOLDER DIALOGUE

Arcandor engages in a regular and systematic exchange with its various stakeholders. In order to recognise the interests and requirements of our stakeholders early, and be able to work on and fulfil them, the department of social affairs is entrusted with the systematisation of the Group’s stakeholder dialogues. The department regularly organises dialogue events that are specific to the individual target groups and engages in exchanges with the company’s most important target groups. In addition, both the Group departments and the subsidiary companies engage in stakeholder discussions. In addition to the Annual General meeting and the analysts meeting, for example, the investor relations division organises the annual Investors’ Day. The dialogue with capital market target groups is also supported by ongoing exchanges at international investor conferences, private investor events and in numerous individual discussions.

COOPERATIONS AND MEMBERSHIPS

In numerous initiatives and organisations, Arcandor commits itself to the worldwide improvement of the basic social and ecological conditions in our society. We are committed to the ten principles of the United Nations Global Compact and increasingly advocate consideration of the core values in the fields of human rights, labour rights and environmental standards within the context of our worldwide activities. Since 2003, Arcandor has been a founding member of the Business Social Compliance Initiative (BSCI). Together with scientists and representatives from non-governmental organisations, other companies and unions, we regularly participate in the international Round Table Codes of Conduct initiated by the Gesellschaft für Technische Zusammenarbeit (GTZ), an international cooperation enterprise for sustainable development. Arcandor also cooperates with the Fair Trade and TransFair organisations as well as with the “Deutsches Netzwerk Wirtschaftsethik” (German Business Ethics Network). In addition, we are a member of the “Außenhandelsvereinigung des Deutschen Einzelhandels” (AVE – Foreign Trade Association of the German Retail Trade), the “Hauptverband des Deutschen Einzelhandels” (HDE – the German Retail Federation), the “Kulturkreis der deutschen Wirtschaft” (Cultural Committee of German Business), the “Intercontinental Group of Department Stores” (IGDS) and “The Conference Board”, a global, independent organisation for the improvement of management expertise and entrepreneurial services for the companies.

DEPARTMENT OF SOCIAL AFFAIRS

The department of social affairs is responsible for the coordination and communication of Arcandor's themes and goals that are relevant to sustainability. It ensures that professional and credible communication relating to sustainability is a constant in the culture of the entire Group. One focal point in this regard is the integration of the topic into personnel development programmes, particularly for prospective executives. In cooperation with the personnel department, the department for social affairs organised an event on the subject of "Kreativ handeln, Unternehmenswerte leben" (Acting creatively, living company values) in the red dot design museum in Essen in January 2008. It became clear here that openness and allowing for changes in ways of thinking, acting and communicating is the path to success. In order to integrate the concept of the creative day into the corporate culture at Arcandor, the department for social affairs documented the event in a brochure. Other book projects of the department for social affairs also have the goal of illustrating cultural, ecological and social aspects in creative ways. The book "Die Andersmacher. Unternehmerische Verantwortung jenseits der Business Class" (Kamphausen Verlag, 2008) gives case studies of employees from various Group companies and documents the implementation of our guiding value of cultural diversity within the Group. As part of a media partnership with Arcandor, the Glocalist Magazine sets out our Group's approach to sustainability. The feature presents specific, practical examples from Arcandor and adds them to a professional, expert debate in the Glocalist media.

REPORTING

Our reporting goal is to communicate our activities in the field of sustainability continuously and transparently. As a central instrument for this purpose, Arcandor's Sustainability Report is published every two years. In the summer of 2008 we also completely revised the sustainability section of the Arcandor Group's corporate website and added numerous themes and aspects.

The transparency and quality of our Sustainability Reports have been confirmed by good rankings in recent years. In the ranking of the sustainability reports of the 150 largest German companies, carried out by the Institut für ökologische Wirtschaftsforschung (IÖW – the Institute for Ecological Economy Research) and future e. V., Arcandor took second place in 2005 and fourth place in 2007.

Responsibility in the supply chain

Our customers expect high-quality products from responsible production. Arcandor, therefore, in parallel with its economic goals, also assumes responsibility for compliance with social standards among our suppliers.

This has made it possible in recent years to improve the work and living conditions for many thousands of people in our procurement markets.

Arcandor's procurement guidelines (Code of Conduct, CoC), which are based on internationally-valid conventions of the United Nations Organization (UNO) and the International Labour Organization (ILO), have already been a fixed part of the contracts with our suppliers in important procurement markets since 2000. As an active founding member of the Business Social Compliance Initiative (BSCI), we have used the methodological instruments and all other opportunities offered by the BSCI since 2003 to meet the responsibilities that we have assumed. The common goal is to coordinate the numerous efforts made by the companies to improve working and living conditions in the factories and to design them more efficiently. The BSCI now has approximately 150 members from eleven European countries.

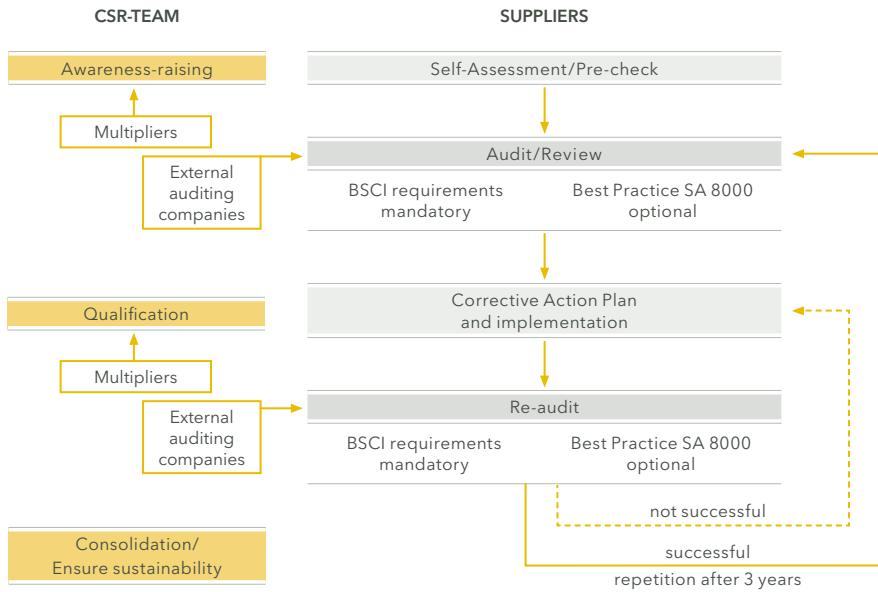
AUDITING IN ACCORDANCE WITH BSCI

The BSCI process model guides companies and suppliers through several consecutive stages for improving the situation in the production sites. The process starts with general raising of awareness about the subject of social responsibility and standards. At this stage, changed attitudes in supply chain management trigger above all workshops that clarify, with specific examples and documentation, that social engagement also pays off economically over the long term. Each supplier must assess their own organisation via a self-assessment to create a picture of the situation in their factory and identify any measures that need taking immediately. Following this, the supplier can request an "official" analysis via an audit.

Currently, eleven external and independent audit companies are authorized to perform BSCI audits, thereby ensuring the objectivity and comparability of results. As well as determining the current conditions in the factory, one-on-one interviews with workers are also part of an audit. An audit takes several days and is concluded with a report that includes a Corrective Action Plan (CAP).

Experience has shown that implementing the CAP, i. e. correcting any problems or shortcomings within the specified timeframe, can often cause difficulties. Arcandor therefore holds special workshops, individual discussions and trainings courses with suppliers, and develops ideas and solutions together with them. When doing this, we usually employ experts in the field who have already had positive experiences with social responsibility and promote the long-term benefits they have enjoyed from their social commitment. After implementing the CAP, a re-audit requiring the result "good" is carried out to confirm that the agreed measures have been implemented and the factory now complies with all necessary social standards. Should this audit conclude the situation is still "in need of improvement" or even "critical", new measures are drawn up.

IMPLEMENTATION OF THE BSCI PROCESS AT ARCANDOR



However, even if the plant is judged to be “good” in the BSCI process, auditing continues. It is in staff interests that the level attained is consolidated, and a further audit three years later (from the time of the first audit) serves to confirm this. As such, consolidating and securing sustainability will become a new focus of our work with suppliers in the future. We are very confident we will reach our strategic goal that by 2010, approximately 90 percent of all imports from risk procurement markets will be from socially-audited suppliers.

WORLDWIDE COOPERATION WITH LI & FUNG

After Arcandor sold its foreign procurement organisation to Hong Kong firm Li & Fung in autumn 2006, the latter has been responsible for goods procurement in significant import markets as the exclusive agent. Aside from selecting and managing suppliers, its duties include monitoring and overseeing placed orders, product quality control, documenting compliance with social standards, and communicating directly with suppliers in their local language. After overcoming initial difficulties due to differing views and mentalities, we now work very closely with our colleagues at Li & Fung. Together we set priorities, monitor the supplier portfolio and regularly inspect the implementation and improvement status of social standards. Furthermore, new suppliers are evaluated using a pre-check and assessed regarding their suitability and need for development. Strategic targets and any focusing on specific groups of goods or markets are, however, still handled by our Group centre, in line with Arcandor’s ultimate responsibility for supply chain management.

Achieving success through personnel management

The positive developments of the past two years in all business areas have shown how important well-trained and motivated employees are for company success. Personnel and knowledge management are thus a key part of our corporate strategy. Arcandor believes in demographically-sustainable personnel management, with the goal of binding well-trained employees to the Group over the long term. Our trainee and further development schemes have a central role here, and at the end of 2007 Arcandor employed 2,862 trainees across the Group.

ARCANDOR ACADEMY AND E.CAMPUS

In May 2006 we founded the Arcandor Academy. The Business Talents Program (BTP) and the Management Learning Program (MLP) are a key component of this. The BTP was carried out successfully in 2006 and 2007, and offers targeted support to talented and committed young employees across the Group. Over the course of a nine-month programme run by external and internal staff, 20 business talents, having been selected as part of an anonymized process, gain a valuable insight into issues that are relevant to the Group and learn about innovative methods. The MLP is similarly structured: a further development course, it is aimed at employees in differing functions – from management via senior staff in key Group positions to management trainees. It is structured according to three different modules (MLP 1–3). Since its founding, the Arcandor Academy has generated considerable interest and enthusiasm among staff, and after its first two years it is already proving a valuable tool with 352 employees taking part in 136 event days.

The e.Campus was founded in 2007 as part of the innovative environment of the Arcandor Academy. It focuses on future-orientated and strategically-important themes in the fields of e-commerce, m-commerce and t-commerce. The e.Campus aims to facilitate e-business related experience exchanges and networking across the Group, as well as the speedy implementation of innovative concepts and business ideas in this segment. Beyond this, the e.Campus is intended to assist the further development of existing business models, and to offer start-ups help in analysing, planning and implementing projects.

ATTRACTIVE PERSONNEL DEVELOPMENT

Arcandor supports the health, job satisfaction and motivation of its employees with a range of attractive schemes. As the organisation of the company develops dynamically and training requirements evolve, intensive support and goal-orientated measures are provided to employees from a large variety of fields and hierarchical levels via professional and personal development programmes. Further to this, health-problem prevention schemes have been introduced in cooperation with health-insurance providers, while constant improvements have been made to workplace safety. Depending on the business area, we offer various options for flexible working hours, family breaks and working from home, so that our employees can combine their professional and private lives as suits them best. We also offer senior employees a gradual transition into retirement. Further to this, the Arcandor Group is planning to introduce working-time accounts for the autumn of 2008. Against a backdrop of falling pension levels and rising retirement ages, working-time accounts are a new work model designed to make work time more flexible. Employees can “pay in” money or time to their account, and the employer supports the account with attractive bonuses and by guaranteeing interest rates.

Employees can use the credits they save either to enter early retirement, or to take an extended break during their careers (sabbatical) – while continuing to receive wages. The accounts offer employees far greater flexibility and allow them to organise their work according to their personal wishes and requirements.

SECURING EMPLOYEE DIALOGUE AND EQUAL TREATMENT ACROSS THE COMPANY

Since the second quarter of 2006, Arcandor has carried out quarterly employee surveys and has therefore gained a constant overview of the opinions and mood of its employees. The aim of the employee surveys is to encourage and support dialogue between staff, as well as between managers and their teams. As between 33 and 38 percent of employees have taken part each time, the surveys have firmly established themselves as a tool for dialogue within the Group.

We enjoy a regular, constructive dialogue with employee representatives, including the newly-founded Group works council as of 2007. We have also actively implemented the new German General Equal Treatment Act throughout the Group and trained staff in exactly what it means. An independent complaints office will also be set up soon for any queries or problems staff may have. At 70 percent, the proportion of women within our staff is extremely high.

SUPPORTING EDUCATION

Arcandor works with a range of national and international further education institutions such as the University of Mannheim, the Kulturwissenschaftliches Institut Essen, the European Business School (ebs), the University College Falmouth (Great Britain) and the Hong Kong Polytechnic University (Hong Kong). As part of our partnership with the Chinese-German further education college at Tongji University in Shanghai (China), we discussed our experiences of “sustainability in the supply chain” with Chinese students during a series of lectures on supply chain management. To further advance scientific discussion on the subject of corporate governance, Arcandor was also actively involved in the founding of the first German Institute for Corporate Governance (ICG) at the University of Witten/Herdecke. Here, via the Arcandor foundation chair for corporate governance & board dynamics, we help shape research, teaching and continued education.

In tradition of culture, science and education

Arcandor is continuing KarstadtQuelle's long tradition of social commitment. As part of this, we support worldwide aid projects and do a great deal domestically in the fields of culture, science and education – both via our own projects and through working with initiatives and organisations.

HUMANITARIAN SUPPORT

To provide quick and effective support to the victims of a factory collapse in Savar (Bangladesh) in 2005, Arcandor took an unconventional route: rather than waiting for the establishment of an international trust fund, we provided immediate help in cooperation with the "Friendship" aid organisation. Medical care and assistance with food and accommodation enabled victims' families to find their own source of income once more. The hall of the textile factory, in which we only had four test orders produced and whose owners we had decided long before the accident not to work with, collapsed in the summer of 2005. Since then, our work with "Friendship" has developed into a long-term commitment, and saw us donate over € 250,000 in materials and personnel support in 2006 and 2007. As part of a newly-created project, we will also be contributing over € 50,000 to support the people of Bangladesh in 2008.

In South Africa, Arcandor supports the foundation "Hugo-Tempelmann-Stiftung", which provides medical care to people suffering from AIDS and also carries out educational work in local clinics. So far, approximately 200,000 people have received treatment in the foundation's clinics. In 2007 we donated a total of € 25,000, the funds going in part to finance a TV documentary entitled "Ithemba – Hoffnung", about the work of the "Hugo-Tempelmann-Stiftung" in South Africa. With the aid of Human Plus, Arcandor donated € 10,000 in money and goods to the victims of the Greek forest fires in summer 2007.

CULTURAL ENGAGEMENT

Art and culture are an important part of our company's values and are therefore reflected in our social work. As a supporting member of the German UNESCO committee, the Group assists the UNESCO in education, science, culture and communications. As part of a dialogue with other experts, representatives of institutions and political figures, Arcandor is actively involved in the German UNESCO committee's work. In 2007 we supported the award "Deutscher Kulturförderpreis" for outstanding corporate cultural support, with the Arcandor's Norintra Design Centre's new collection displayed at the event. The Group's commitment to culture was further underlined that year through our support of the 43rd award "Adolf-Grimme-Preis" as well as in 2006, though our role as main sponsors of the "Cinema for Peace" Berlinale gala, the profits of which were donated to UNICEF Germany and other aid organisations.

Embracing diversity as an opportunity

Arcandor recognises that there are many aspects to diversity: we are committed to maintaining an open corporate culture, and recognise that fostering diversity has huge benefits to both the natural and corporate environment.

EVERYBODY COUNTS

We see the cultural diversity of our international staff as a huge opportunity. People with different cultural backgrounds, ways of thinking and experiences thus receive the support they need to reach their full potential at Arcandor. We will only be able to deliver innovative and creative solutions across the Group if every employee feels valued, as demonstrated by our motto: “everybody counts”. As part of our diversity management, we encourage knowledge transfer between different departments and generations within the Group, and support talent from every area at the Arcandor Academy. In June 2008, Arcandor will sign the “Charter of Diversity”, underlining its aim of creating a work environment that is free of prejudice and where all employees are valued – regardless of their gender, race, nationality, ethnic origin, religion or Weltanschauung disability, age, sexual orientation or identity.

Since 2007, we have published reports and contributions on cultural diversity at Arcandor with the “Your Culture Counts” authors’ network, as well as the international agency “Zeitenspiegel”. 2007’s “Die Sprache von Mode und Design” (The Language of Fashion and Design), represented our first book project on this subject. As a central project partner, Arcandor helped develop the Bertelsmann Foundation’s “International Cooperation Skills” toolbox, contributing our experiences in German-Chinese partnerships and providing financial support. Items in the toolbox focus on potential areas of conflict such as reciprocity, the flow of information and the perception of differences, and help improve international partnerships between businesses.

BIOLOGICAL DIVERSITY

Further to this, we also support the preservation of biological diversity. In 2007, Arcandor joined the “Naturallianz” under the patronage of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, and in December 2007 we actively participated in the expert debate on the implementation of a national biological diversity strategy at the first National Forum on Biological Diversity in Berlin.

A test run of seven fuel-efficient, environmentally-friendly fleet vehicles in October 2007 allowed us to educate staff as to the importance of this type of vehicle. These measures led to a reduction in fuel consumption of 20 percent and thus lower CO₂ emissions. Due to this significant CO₂ reduction, as well as to the vehicles’ excellent fuel consumption rates and employees’ positive reaction, the Group has now introduced a sustainable fleet park management system. This has seen us change the models of our fleet vehicles and establish new environmentally-conscious vehicle regulations.



Arcandor Academy

An educational structure that adds definable value to the Group

Arcandor believes that providing talented and motivated employees with targeted support is both a social responsibility and a corporate necessity. By founding the Arcandor Academy in 2006, we sent out a clear signal of our company's values. The academy plays a significant role in management development within the Group and its main purposes are to help participants establish networks and exchange knowledge, while providing targeted support to existing managers and young talents.

Within tailored and innovative programmes, conferences and dialogue events, the interdisciplinary network is strengthened while concepts and content are inseparably linked to the Group's work culture. "As such, the Arcandor Academy does far more than simply link training measures with the goals of our Group," comments Dr. Matthias Bellmann, member of the Management Board of Arcandor and the initiator of the Academy. "It aids dialogue across the Group and strengthens our corporate culture."

RESULTS-ORIENTATED LEARNING STRUCTURE

As well as learning leadership and management skills, participants in all programmes also carry out Business Impact Projects (BIPs). These are specific problem-solving exercises that call for innovative ideas which must make a measurable contribution to the company's performance in the short term. This scheme was successfully implemented in both the Management Learning Programs (MLP) and the Business Talents Program (BTP) in 2006 and 2007. Combining study and daily work with others is the fundamental principle that guides Arcandor Academy's actions.

BIP's implemented so far range from the introduction of Quelle kitchens and special mail order products (e.g. Bon'A Parte Kids) at Karstadt stores, to on-board sales of Karstadt products on Condor flights, and specific measures to boost sales and increase the conversion rate.

The Arcandor Academy plays a significant role in management development within the Group, and its main purposes are to help participants establish networks and exchange knowledge, while providing targeted support to existing managers and young talents.

ARCANDOR ACADEMY EVENTS

	2007		2006	
	Participants	Event days	Participants	Event days
Business Talents Program	20	35	20	8
Management Learning Program 1	21	16	26	16
Management Learning Program 2	24	14	29	15
Management Learning Program 3	38	33	24	15
Top Management Assistant Program 2007*	17	13		
e.camp*	13	5		
BTP Dialogue event 2007	30	1	72	1
Marketing day	78	9	68	2
e.day 2006			81	1
e.xpert forum*	30	5		

* For the first time in 2007

That is not to say, however, that only business management-orientated projects have been implemented: in 2007, 20 BTP participants designed a waiting room for young patients at the Duisburg Clinic for Paediatrics and Adolescent Medicine as part of a joint project. They determined the specific requirements, drafted recommendations and then implemented the finalised room concept themselves, with support provided from specialist staff at the Group. “Corporate responsibility is about far more than performance indicators,” states Mirko Hein, Business Talent 2007 of the Arcandor Academy.

INTERNATIONAL FOCUS

The Arcandor Academy is increasingly looking to develop exchanges and expand its programme internationally. Since 2008, both the Business Talents Program and the Management Learning Program 1 have been delivered in English. This move means employees at all of the Group’s companies, both inside and outside Germany, are able to take part in the programmes.

Sustainability Programme Arcandor

OBJECTIVES	MEASURES BY 2008 - STATUS	CONTINUATION AND NEW OBJECTIVES BY 2009
Product range, services and supply chain management		
Sustainability management	Reorientation of group-wide sustainability strategy after name change to Arcandor AG in 2007	Continuous adaptation and verification of the group-wide sustainability strategy, annual determination of the strategic sustainability goals of the Group
	Finalisation of new organisational structure by group-wide sustainability management in July 2008	Intensification of company-wide cooperation; establishment of systematic coordination and exchange processes with regular target comparison between financial holding and participating companies
	Expansion of cross-sectional expertise of group-wide Sustainability Council, expansion to 14 members	Introduction of workgroups on sustainability topics of group-wide relevance; joint development of concept papers on ecologically - and socially-relevant topics in the Arcandor Group for submission to the Sustainability Council
	Code of Practice on Sustainability Management to specify responsibilities and fields of jurisdiction of bodies and committees in group-wide sustainability management became effective	Implementation of the specifications in the Code of Practice on Sustainability Management; intensified coordination of objectives and measures within the context of social and ecological responsibility
Business management	Establishment of a group-wide whistleblower programme in 2008	Complete revision of the Group Guideline on Sustainability Management and finalisation by Board of Management, by the end of 2008
		Internal communication and presentation of the whistleblower programme
Data recording/ collection of key figures	Adaptation and optimisation of existing data recording systems	Establishment of a uniform reporting system as well as a key performance indicators concept for the Arcandor Group
Supply chain management	Implementation of worldwide workshops and training schemes with approximately 300 participating suppliers, initiation of individual discussions with purchasers and mailings	Inclusion of additional and smaller suppliers into the BSCI process; improvement of the BSCI information database
	Increased auditing status: 52% of products from risk procurement markets from socially-audited factories	Update the Code of Conduct for suppliers by adapting existing requirements/adding new requirements in 2009
	Attainment of BSCI audit recognition with various brands (Disney and Hush Puppies are accepting BSCI audits within the licence agreements)	Increase imports from risk procurement markets from socially-audited suppliers to approximately 90% by 2010
	Implementation of a pilot project in the Pearl River Delta (South China): intensive training of selected suppliers by external trainers in the fields of human resources management, communications, health and workplace safety, increasing productivity	Implement the Factory Evaluation Process by means of comprehensive verification of all new suppliers in terms of conformity to social standards prior to commencing business relations
	Training scheme in Bangladesh: training 15 of the most important suppliers in the fields of workplace health and safety, reducing overtime hours etc.	Training for suppliers and workers in China, Bangladesh, India and Turkey in 2009
	Design House Norintra supplier training: educating factory managers in the field of organic cotton production and compliance with social standards in the delivery chain	Specific training schemes on topics such as BSCI requirements, increased productivity, human resources management, HIV prevention etc.
	Gaining committed suppliers as multipliers: experience and knowledge transfer regarding sustainable factory management through multipliers within the context of workshops and individual discussions	
	Level assurance in suppliers who are entering the repeat cycle	Develop and expand level assurance

OBJECTIVES	MEASURES BY 2008 - STATUS	CONTINUATION AND NEW OBJECTIVES BY 2009
Employees		
Employee training and information on environmental protection	Communication of sustainability strategy and Group objectives using the employee newsletter and the Group intranet	Intensify employee information about group-wide sustainability management
	Implementation of preventive measures in cooperation with health insurance providers	Constant improvements in health management and work safety Implement seminars on the General Equal Opportunities Act every 12-24 months
Employee representation	Founding of Group works council in 2007	Develop and expand group-wide representation of employee interests
Training and continued education of employees	Founding of the Arcandor Academy in May 2006; implementation of employee programmes (Management Learning and Business Talents Program), specialised conferences and dialogue events for all Group employees in German and English	Expand participant numbers and event days at the Arcandor Academy; internationalise the Arcandor Academy; expand the e.Campus with measurable turnover increase
		Develop a Group job exchange as well as a talent pool for stronger binding of highly-qualified employees to the Group
		Introduce on-board system to support new employees from the day of contract signing (provision of information, mentorships)
Maintaining high standards in the creation of flexible working hours	Implementation of various options for flexible working hours, family breaks and working from home; enable a gradual transition into retirement for senior employees	Continuation and optimisation of existing instruments
Planning employee development	Introduce working-time accounts for flexible design of lifetime working hours	Expand working-time accounts to selected business fields
Social dialogue		
Stakeholder dialogue	Regular holding of dialogue events with internal and external stakeholders by the department for social affairs as well as target group-specific dialogue events by Group functions	Group-wide systematisation of stakeholder relations through the department for social affairs Continuation and expansion of stakeholder dialogues in all Group functions
	Participation in stakeholder dialogues within the context of the Round Table Codes of Conduct as well as focusing on the Round Table 2007 at the Arcandor Group, Essen	Expansion of commitment and participation in projects for the implementation and further development of social standards in supplier countries within the context of the Round Table Codes of Conduct in 2009
	Signing the "Charter of Diversity" in June 2008	Boost the diversity concept within the Group by means of internal communication measures
	Joining the "Naturallianz" under the leadership of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety in 2007	Develop awareness among internal and external stakeholders about maintaining biological diversity
Customers		
Sustainability communications	Implement the department for social affairs' communication concept, as well as relaunch of the sustainable section of the corporate website	Expand and intensify open and transparent communication about Group sustainability management; continuous update of sustainability presence on the corporate website
	Publication of the group-wide Sustainability Report 2007	Publication of the next Sustainability Report in 2010
Environment		
Environmental management	Conception of a green concept for the Arcandor Group	Implementation Arcandor Group's green concept
	Test run with seven economical and environmentally-friendly fleet vehicles in October 2007 to educate employees as to the use of environmentally-friendly vehicles	Expand the fleet of economic, environmentally-friendly vehicles to approximately 370 models by the end of 2010
	Reduce CO ₂ emissions through reducing fuel consumption by 20%	Further reduction of CO ₂ emissions by implementing various measures within the Group

Dear Reader,

as the oldest and best-known name in travel, Thomas Cook pioneered international travel in 1845. More than 150 years on, we are proud that our international business brings economic benefit to the destinations that we, and our customers, visit. We recognise the many virtues of travel, the positive cultural exchange and the boost to local economies, but we are also aware of the potential impact on the environment, societies and local communities. The travel and tourism industry has a responsibility to operate in a sustainable way and Thomas Cook, which founded its business with clear social and educational intentions, is very proactive in this area.

Thomas Cook's original vision was to enlighten people through travel and contribute to their ongoing education. This not only remains true today but has been further developed and gained increasing importance over the years. We aim to place sustainability at the core of our business and feature it as an integral part of our strategy, particularly when it comes to the environment. These responsibilities no longer sit on the periphery; their importance represents a genuine business risk. Society, customers, investors, governments and communities no longer look for but demand that both time and money be invested in the preservation and protection of the unique peoples and places with which we come into contact.

Thomas Cook aspires to set the industry standard in this area and is making excellent progress. Our activities are varied and far-reaching, from the challenge of operating the most economical aircraft fleet possible, to working with the Travel Foundation on smaller projects to make a difference locally in a number of key destinations. Every effort, however small, by the Thomas Cook team, its customers and anyone who chooses to travel, for business or pleasure, takes us one step further towards minimising the potential environmental and maximising the social and economic impact on our planet and its people – and this does not have to come at a cost. For example, in the UK, holidaymakers can show their support by choosing accommodation which bears a "Travelife Sustainability Award" in our brochure.

The subject of sustainability is very close to our hearts and over the past year, since the merger of Thomas Cook and MyTravel, the two companies have brought together their CSR policies, structures and reporting systems, taking the best from both to develop. If you would like to know more about this please visit www.thomascookgroup.com.

Yours faithfully,



Manny Fontenla-Novoa
Chief Executive Officer



Thomas Cook
Sustainability in tourism



Travelling safely – and with awareness

Like no other industry, tourism requires the trust of its customers to survive. We not only sell products but experiences and only after travel is concluded do customers know if these experiences have met their expectations. At the same time, the stakes are high since many people consider holidays to be the most precious time of the year. For this reason, we have set ourselves the task of doing more than merely developing propositions that meet the requirements of our customers. We must also communicate with them reliably and in accordance with the expectations that have been created. Customer focus is therefore the foundation of our business.

MODEL FOR CUSTOMER FOCUS

Customer feedback is especially important to us. We use customer surveys to help us analyse the service each customer receives and make improvements where necessary.

As a result, in the past few years we have been able to consistently improve customer satisfaction. In 2007, for example, the volume of complaints was lower than in 2006. The customer survey in 2007 revealed that 95 percent of our customers in the UK would travel with Thomas Cook again. We achieved similarly good results in Northern Europe, where 60 percent of those surveyed had already booked a second trip with us within two years; 84 percent would travel with us again. We are also particularly proud of our results from North America where overall customer satisfaction in the year 2007 was about 91 percent.

These results have encouraged us to raise our already high standards even further. Therefore, in the past few years, Thomas Cook has continually worked to develop dialogue with its clients. At the end of 2006 we became the first travel agency in Germany to offer online complaint management. This system allows us to deal with complaints efficiently and effectively.

In 2007, Thomas Cook Germany became the first company to have its complaint management certified by “TÜV Süd” according to ISO 10002, after a demanding 9-month testing process. In the same year, we added a platform to our German websites www.thomascook.de and www.neckermann-reisen.de where guests can rate our hotels. The information entered is systematically evaluated by Thomas Cook, and any deficiencies are dealt with promptly.

SUSTAINABILITY AND SPECIAL OFFERS

We attach the utmost importance to making our package tour offerings as environmentally-friendly and sustainable as possible. We accommodate the heightened environmental awareness of our clients with completely distinct initiatives.

In cooperation with other travel agencies and non-governmental organisations, our first priority is to further develop the environmental awareness of our partners. For example, together with the UK Federation of Tour Operators (FTO) and other partners, we developed the Travelife Sustainability System to reward achievements in the area of sustainability by hotels and other service providers in the tourism industry. In order to qualify for a Travelife Sustainability Award, companies must allow their performance in various fields,

such as environmental management and employee relations, to be assessed by independent reviewers and evaluated according to a points system. By featuring the awards in our brochures we make it possible for customers to choose a hotel which operates with a particular emphasis on sustainability. In 2007 Thomas Cook UK trained more than 60 employees to be Travelife auditors and seconded a senior manager to work on the project. In addition, we have audited more than 150 hotels, resulting in over 40 awards.

In 2005 Thomas Cook was also the first major high-street travel agent to sell holidays for passengers with limited mobility. We work in partnership with Enable Holidays, a specialist tour operator which offers exceptionally well-equipped hotels in 20 of the most popular long-distance travel destinations and combines hotel stays with airport assistance and adapted taxi transfers. We continue to work towards compliance with stage two of the EC Regulation 1107 on Access to Air Travel for Disabled or Persons of Reduced Mobility.

THE HIGHEST SAFETY STANDARDS ON OUR TRIPS

One of Thomas Cook's central concerns is ensuring that the highest safety standards are met for the entire duration of the journey. In order to accomplish this, we are constantly improving safety within the Group and among our suppliers.

In 2007 we established a Health, Safety and Environment Committee of the plc Board, chaired by a non-executive director, to ensure that health and safety is maintained as a high priority with focus at the highest level, thus minimising the risks for our customers and employees. We evaluate the safety of the accommodations we arrange in each source market. For example, in the UK, we encourage our partners to uphold the Federation of Tour Operators' Preferred Code of Practice on Health and Safety. Since 2006, Thomas Cook Germany has cooperated with "TÜV Süd", which is available anywhere in the world to serve as an assessor if there is suspicion of safety risks in a hotel. We have developed a group-wide regulation especially for the protection of children.

In 2007, the independent organisation Check Safety First recognised Thomas Cook Northern Europe's Sunwing Hotels as the best hotels in the categories of pool and food safety for the second time in a row. Our Hotel Panoramic in Mallorca (Spain) was ranked as one of the top six hotels out of 350 evaluated by the Saniconsult Group. Additionally, in 2007 MyTravel Airways became the world's first charter airline to gain an internationally-recognised safety excellence registration: IATA's Operational Safety Audit (IOSA). This covers over 750 standards and recommended practices in aviation safety and operations.

In 2008 we will implement a Group Health and Safety function to coordinate and work with the source market operating businesses in order to develop group-wide policies and procedures and to implement and monitor those in conjunction with the source market organisations.

Successful in times of change

Thomas Cook is the best known tourism brand in the world. Our name stands for quality, reliability, affordability and flexibility. More than 32,200 employees worldwide stand behind this success and they are all committed to offering our clients the best possible service. For this reason, human resources management has top priority at Thomas Cook and we are continuously working to improve it.

The merger with MyTravel in 2007 presented a significant challenge that required an adaptation of staffing levels. During the transitional phase, which lasted into the second quarter of 2008, we made every endeavour to support our employees.

FROM RELOCATION ASSISTANCE TO THE JOB SHOP: HELP TO MAKE A NEW START

The business most seriously affected by the restructuring was the UK organisation of Thomas Cook.

In 2007, a total of six offices were closed and about 2,500 positions were eliminated. We were able to offer many employees jobs at other locations. During the change, we supported them to the best of our ability.

By providing comprehensive information on the new locations and the opportunity to view them, we made the decision easier for our employees. When looking for a home and moving, they could also rely on our assistance.

We offer all of our employees the opportunity to further their skills and invite other companies to present employment opportunities in our Job Shops. In 2007, about 55 positions involving Group operations were transferred to the UK from Germany. The employees affected should be able to find new areas of responsibility within the Group.

The good results from our 2007 employee surveys in the UK and Ireland attest to the popularity of Thomas Cook as an employer: 79 percent of those surveyed were satisfied with their work at Thomas Cook and 83 percent would like to continue working for Thomas Cook in the future.

HEALTH AND SAFETY

Ensuring the health, safety and welfare of our employees has always been treated as an important value at Thomas Cook. We are convinced that the company as a whole benefits when we offer working conditions that are safe and promote employee health. Our consistently low annual accident statistics, are proof of our high safety standards. In our organisation in the UK and Ireland, there were a total of only 30 accidents that required reporting in 2007.

NUMBER OF ACCIDENTS AT THOMAS COOK UK AND IRELAND IN 2007

	RIDDOR*	Other accidents
Thomas Cook Retail	14	101
MyTravel Retail	9	57
Thomas Cook Airline	0	174
MyTravel Airline	7	216

* Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR):
Comprises work-related deaths, severe injuries, accidents resulting in more than three days of absence and work-related illnesses

In 2007, we began consolidating already existing health and safety programmes in the UK and Ireland and aim to conclude this process in 2008. We have developed new, individual rehabilitation programmes for employees who are returning to work after a long period of illness or an accident. At our main Peterborough (UK) site, we have also developed a partnership with the municipal environmental health team for the retail sector. In 2006, Thomas Cook Germany arranged two special days in cooperation with the “Neckermann-Betriebskrankenkasse” (Neckermann Company Health Insurance Fund) to promote individual health and about 400 employees participated.

PERSONNEL DEVELOPMENT AND QUALIFICATIONS

Thomas Cook is considered one of the best employers in the tourism industry. We have always considered the key to our success to be respect for our customers and employees. We promote the competencies of our employees and, in addition to comprehensive qualification courses, also offer personal career development. Thomas Cook UK rewards the contributions of its senior employees with a bonus system and also offers all personnel flexible benefits which they can arrange according to their own requirements. These include special discounts on holidays. Each employee receives an individual development plan once a year. Additionally, everyone has the opportunity to participate in training sessions and to use our extensive collection of educational materials.

In 2008, Thomas Cook UK will be expanding senior management development through a new Learning and Development Academy. As a company with many functions, we offer our employees interesting career opportunities. We are members of the UK initiative Investors in People and in this way emphasise our commitment to the constant improvement of human resources management. In our organisation in North America, all the executives underwent a training programme in 2007. In both organisations we are also developing new ways of flexible working. As part of this, in 2007 we substantially expanded opportunities for sales and service personnel to work from home.

In April 2007, Thomas Cook Germany introduced a development centre for its employees, the main focus of which is the target-orientated encouragement of individual skills. Since 2007, the programme New Manager has provided a focused way of introducing new executives to their responsibilities going forward.

DIVERSITY

At Thomas Cook, it is understood that employees, partners and customers are to be recognised as individuals and that their contributions are to be treated in a correspondingly fair way. We do not tolerate discrimination in any form.

Thomas Cook UK cooperates with external government organisations for the purpose of promoting equal opportunity within our company. In 2008, we will revise our diversity regulations and then publish the new regulations in cooperation with the governmental Equality and Human Rights Commission. Just under 80 percent of our employees in the UK are women and they hold 29 percent of senior management positions. In contrast, in sales 63 percent of senior managers are women. The average age in our company is low: 44 percent of our employees are under 30 and 47 percent are between 30 and 49 years old.

NUMBER OF EMPLOYEES IN THE UK BY GENDER, 2007

Entries in percent	Men	Women
Senior managers	71	29
Senior managers - Sales only	37	63
Airline crew	29	71
Airline technical personnel	92	8
Total employees	22	78

NUMBER OF EMPLOYEES IN THE UK ACCORDING TO AGE 2007

Entries in percent	Under 30	30-49	50+
Senior managers	3	75	22
Total employees	44	47	9

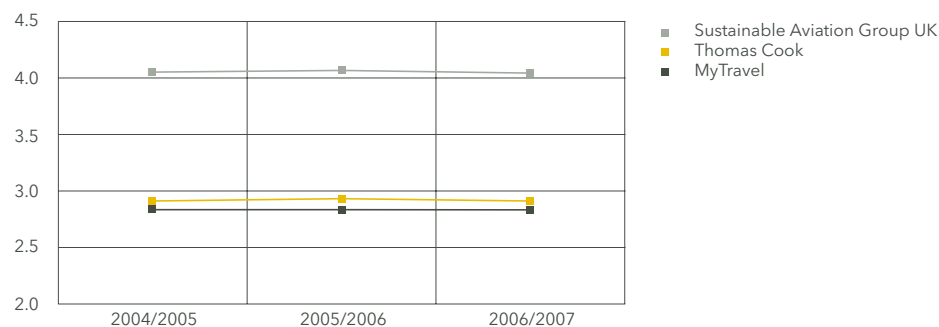
Sustainable travel

Environmental protection is of vital importance to the sustainability of tourism companies. Our business is directly dependent on the natural beauty of our destinations and weather also plays an important role in the holiday decision-making process. Due to climate change, this topic is gaining a new urgency. Today, the consequences of global warming can already be felt in popular travel destinations. However, the tourism industry is not merely a victim of climate change. Primarily as a result of tourist travel, it contributes directly to global CO₂ production. Worldwide, tourist travel accounts for about three percent of all CO₂ emissions.

AVIATION EMISSIONS AND NOISE

For years, the energy efficiency of air travel has had a high priority at Thomas Cook. Thomas Cook UK is a founder member of the Sustainable Aviation initiative, a consortium of companies from the aviation industry that focus on achieving a reduction of aeroplane noise and emissions. Our own fleet includes some of the most modern and energy efficient aeroplanes in the world. The extremely high capacity utilisation of our aeroplanes guarantees a lower environmental burden per passenger. With MyTravel Airways we have also acquired a modern fleet that has substantially reduced its emissions figures over the past few years. With an average of three litres of fuel per passenger for every 100 kilometres, our two airlines perform very well even in comparison to the members of the Sustainable Aviation Group.

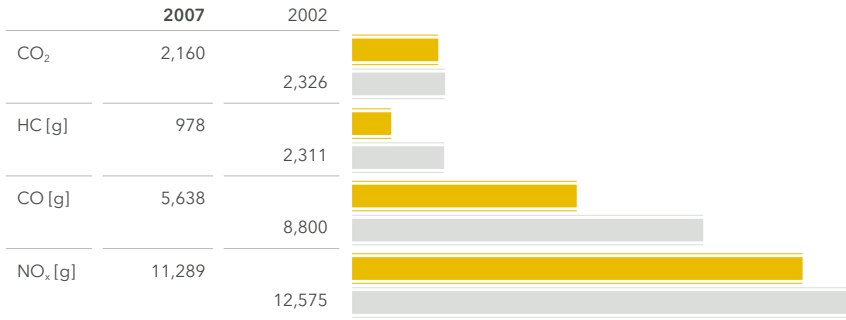
AVERAGE FUEL CONSUMPTION*



* litres per 100 passenger kilometres

In Northern Europe, we also offer our customers the opportunity to offset the carbon emissions from their flight. Beginning in 2008, all internal flights in Northern Europe will be covered by a carbon offset scheme. Since March 2008, Thomas Cook Germany have offered customers the opportunity to offset the CO₂ emissions generated by their air travel by making a donation to a recognised offsetting programme, operated by Atmosfair. Another vital challenge for the entire aviation industry is noise reduction in the takeoff and landing phase of aeroplanes. In order for this goal to be realised, airport personnel and pilots as well as industry and regulatory bodies must work closely together. For years, Thomas Cook has been involved in various committees for the development of noise-reducing measures. For each aeroplane in our fleet, an earlier appraisal is used to determine how high the minimum thrust must be at takeoff and during the climbing phase. We adjust the equipment according to this value, thus keeping sound exposure, fuel consumption and wear and tear to a minimum.

AVERAGE AVIATION EMISSIONS MYTRAVEL FLEET*



* Average emission per flight hour of carbon dioxide (CO₂), hydrocarbons (HC), carbon monoxide (CO) and nitrous oxides (NO_x)

WASTE MANAGEMENT AND ENERGY CONSUMPTION

Waste management at Thomas Cook is exemplary in many ways. Thomas Cook Northern Europe is taking a leading role; through its innovative waste management, it has directly influenced the regulations in many arrival and departure airports. In 2007, Thomas Cook UK, in cooperation with Spanish airport authority AENA and the Travel Foundation, initiated an extremely successful recycling project for beverage cans used on board. In the long term, it is hoped that all destination airports worldwide can participate. Thomas Cook UK was also the first provider of travel services to print its brochures on recycled paper. Currently, we produce 85 percent of our brochures from recycled paper, thereby saving 3,400 tonnes of CO₂.

SUPPLY CHAIN

In order to continually improve our environmental performance, we are cooperating closely with our partners in the tourism industry. In our UK brochures we therefore clearly highlight hotels that are environmentally-friendly using the Travelife Sustainability System, and in Northern Europe we publish environmental ratings so our customers are able to make an informed choice. In cooperation with the Travel Foundation, a UK charity, we developed informational material on the topic of sustainable hotel management and published it in four languages. In Northern Europe, we certify our group-owned hotels according to the environmental standards of the European Union with the EU Flower, and also according to the standards of the Scandinavian eco-label Nordic Swan. In addition, we award our own environmental seal of approval – the green leaf – which is based on energy and water consumption, waste management and the use of chemicals and which is reviewed on an annual basis. In 2003, the Sunwing Group’s Kallithea Resort (Greece) became the first hotel to be awarded the EU Flower. By the end of 2007, all the resorts in the Group had been certified with the EU Flower as well as the Nordic Swan. Thomas Cook Germany is also seriously committed to the implementation of ecological standards among its partners. Even before concluding a contract we review how a company handles resources such as water and food, as well as packaging materials. Whenever possible, we advise our partners on ecological designs for new hotels while they are still in the planning phase. This includes the use of solar energy and the installation of energy-efficient air conditioners and building materials made from commodities that can be regrown.

Commitment to communities

Social commitment has a long tradition at Thomas Cook. Our employees play a central role in this, since they themselves have initiated most of the projects we support. In the future, we will direct our commitment with an added focus on certain themes such as children, education and the environment. In addition, we plan to establish an independent foundation for our Group's charitable activities. In our destinations we also see a great opportunity to ensure that tourism has a positive impact on the environment and people, helping to protect our natural treasures and our cultural heritage.

DONATIONS AND SPONSORING

Our flight attendants in the UK have previously collected coins in foreign currencies for the Cancer Research UK programme. In 2007, they raised a total of £ 140,000. Another £ 46,000 went to Destination Florida (USA), an organisation that organises trips with the accompaniment of medical personnel for children who are seriously ill. In 2007, Thomas Cook Airlines was already in the fourth year of its Flight of Dreams programme for disabled and socially-underprivileged children. About 800 children were able to take part in a sightseeing flight with Father Christmas and to receive gifts that were financed by donations from our staff. Since 2005, Neilson has been cooperating with Sail4Cancer, an organisation that collects money for cancer research and therapy, making it possible for patients to take sailing trips, and supporting a holiday project for cancer patients.

Thomas Cook Germany supports the foundation "Kinder in Not" and, within it, primarily a project for the education and medical care of children in Nepal. Many staff have undertaken voluntary missions to contribute to the care of approximately 400 children in a facility near Kathmandu (Nepal) and have collected contributions.

COMMITMENT TO THE DESTINATIONS

In all its destinations in South America, Africa and Asia, Thomas Cook Northern Europe implements a Code of Conduct to prevent the sexual exploitation of children. The regulations were developed by a child protection organisation, and reports are produced annually on the progress made. All hotel owners in the corresponding countries must comply with the Code of Conduct.

Thomas Cook Northern Europe has the goal of supporting a social or environmental project in each of its destinations. An example is the Capoeira Project in Brazil, where children from disadvantaged families learn the Brazilian fighting dance Capoeira. This gives them a chance to earn a living independently later.



Travel Foundation

Ground-breaking tourism

In the tourism industry, sustainable solutions are not found ready-made. In order to respond to the various conditions at our destinations around the world, we develop individually-coordinated projects in close coordination with experts and residents. For this reason, Thomas Cook UK is involved in committees and rounds of dialogue. Our partnership with the UK Travel Foundation takes a central role.

The Travel Foundation is an UK charity that was founded in 2003 and its goal is to encourage sustainable tourism worldwide. It develops projects to protect the environment, to maintain cultural traditions in different destinations and to ensure the economic development of the local populations. We are convinced that sustainable tourism contributes directly to preserving natural and cultural treasures and provides valuable stimuli to economic development; this makes the Travel Foundation an ideal partner for us. Therefore, we have been cooperating closely with the charity since 2003 and in 2007 we collected over £ 500,000 to invest in these projects.

Cooperation between the Travel Foundation and Thomas Cook has proven its value in numerous projects. For example, in 2007 we worked using the Travelife Sustainability System to conduct a hotel refit in Turkey and to try to create a model for sustainability. The Travel Foundation summarised the experiences gained as a result of the project in a toolkit for sustainable hotel management and published it in four languages. In another project, we support girls from rural Turkey, who otherwise would scarcely have a chance of an education, by sponsoring them to study tourism management at Mugla University near Bodrum. In the pilot phase we arranged scholarships for five girls. “If I had not been accepted in this programme, I would not have been able to go to university”, says Cigdem Gummusoy, one of the participants.

We are convinced that sustainable tourism contributes directly to preserving natural and cultural treasures and provides valuable stimuli to economic development; this makes the Travel Foundation an ideal partner for us.

The model farm that the Travel Foundation founded in Gambia is another example of our positive cooperation. In December 2006, the farm, which grows fruits and vegetables for the tourist market, was opened to the public. Ever since then, Thomas Cook travellers have been able to book an excursion to see how food is grown there. By working on the model farm, farmers were able to increase their earnings by 300 percent. In addition, a Train a Farmer programme was started, which encourages young men to earn their own income by planting fruits and vegetables for the tourist market. “In other villages the young people go to the city to earn money”, says Ebrima Jawara, a participant in the programme. “That’s no longer happening here. They see that they are able to earn good money while still remaining with their families”.

In cooperation with the Travel Foundation, Thomas Cook UK would like to create greater awareness of species diversity in its destinations. The short film “Turtles in Trouble” released in April 2007, explores the theme of protecting endangered animal species such as loggerhead and green turtles in Greece and Turkey. The film, along with training packs, was sent to Turkey and Greece in 2007 to be rolled out to all of the resort teams for joint workshops with local experts.

Sustainability Programme Thomas Cook

OBJECTIVES 2009	ACHIEVEMENT OF OBJECTIVES
Employees	
Introduce employee participation	Launch Sharesave scheme for employees, with shareholder approval
Group-wide harmonisation of HR management	Review legacy policies from the former Thomas Cook UK and MyTravel organisations to consolidate them or create new policies
Maintain "Investors in People" accreditation	Recruit 300 young people into our apprenticeship programme in the UK
	Develop a group-wide human resources (HR) approach, taking legislation of the respective countries into account
Encourage diversity within the company	Review and where applicable, reorientate our diversity policies in the UK
Expand senior management development in the UK	Increase the number of participants in the Group's own management academy which was founded in 2008
Review health and safety information gathering systems across the Group	Introduce a group-wide reporting system for high-level health and safety statistics
Customers	
Improve pre-departure information	Harmonise customer communication throughout the Group wherever possible
Boost customer satisfaction	Continue to improve on-time performance and maintain the UK airline's No. 1 position
Improve flight safety	100% IOSA (IATA Operational Safety Audit) certification of UK airlines
Develop awareness of sustainable tourism	Feature Travelife Sustainability Award on all websites
Environment	
Implement uniform environmental standards throughout the Group	Develop a new and expanded environmental policy for the Group
	Set up working groups throughout our markets to share best practice and develop uniformity throughout the Group
Implement uniform recording methods for environmental data throughout the Group	Introduce uniform system to report environmental impact of all airlines

OBJECTIVES 2009	ACHIEVEMENT OF OBJECTIVES
Environment	
Systematise environmental management	Introduce environmental management system in UK locations
Reduce environmental effects of airline fleet	Thomas Cook Northern Europe: reduce fuel consumption and emissions per passenger kilometre by 1 %
	Thomas Cook Northern Europe: reduce cabin waste per passenger by a further 5%
	Thomas Cook UK: develop carbon strategy for airlines
Increase share of certified hotels	100% certification of European Sunwing Hotels with the EU Flower
	Expand EU Flower criteria to hotels in the Sunwing Resort & Spa Bangtao Beach Phuket, Thailand and Sunwing Resort & Spa Side Beach Turkey
Thomas Cook Northern Europe: reduce energy consumption in office buildings by 10%	Increase employee consciousness of environmental topics, for instance using workshops and placing environmental themes on the intranet
Home Communities	
Cooperation with non-governmental organisations	Raise a further £ 300,000 for the Travel Foundation
Expand social engagement	Launch the Thomas Cook Foundation as a charitable foundation with an independent Board of trustees
	Open the Thomas Cook Children's Critical Care Centre at Kings College Hospital in London
Destination Communities	
Anchor sustainability more strongly in everyday company work	Develop own policy for sustainable tourism
	Appoint a staff member dedicated to sustainable tourism
Elevate social and environmental standards in our markets	Audit a further 100 hotels and resorts according to Travelife Sustainability System
	Train further employees as Travelife auditors
Develop supplier awareness for sustainable tourism	Give Thomas Cook Award to select suppliers for special engagement in sustainability

Dear Reader,

Much has changed at Quelle in recent years. We have organised our business processes more effectively, restructured our product offerings and focused on the needs of our core target groups. Alongside our traditional catalogue business, we have developed important new customer groups through the rapid expansion of our online business. Primondo – and its core brand Quelle – once more holds a leading position in the European home shopping market, and we plan to further develop this in the future. As part of our strategy, we are committed to ensuring and harmonising our economic, environmental and social aims.

With its quality-focused, sustainable product range, Quelle is ideally positioned for the future, as demand for environmentally-friendly products manufactured in socially-responsible ways is steadily growing. We are now reaping the rewards of identifying the market for energy-saving electrical devices early and have a considerable advantage in the way our customers confide in us. We have expanded this further within the reporting period: for the first time ever, every single washing machine, dishwasher, refrigerator and freezer featured in our spring/summer 2008 catalogue, has an energy efficiency rating of class A or better. We are also renowned as pioneers in quality assurance: since 1953, we have operated our own institute for product testing, which is now a leader in German commerce.

Since 1976, we have taken back over five million used electrical devices from our customers and properly disposed of them. As such, we took responsibility for a hugely important issue, long before the legal regulations required us to do so. We are actively approaching new challenges such as climate change, and in the past four years have reduced the company's internal CO₂ emissions by more than 30 percent. Furthermore, a large proportion of the textiles we offer meets the Oeko-Tex Standard 100, while our collections increasingly feature organic cotton.

Quelle has also always taken responsibility both for the people who work for us and for the society we operate in. During the restructuring of our company, we have worked more closely with employee representatives than ever before. At the same time – against a backdrop of demographic change – we are continuously developing new strategies to bind our employees to the company in the long term. We also take our regional responsibilities seriously and engage in numerous initiatives around our various sites. After the changes to Primondo's portfolio have taken place, sustainability management will be established throughout Primondo by the beginning of 2009.

Yours faithfully,



Marc Sommer
Chief Executive Officer



Primondo
Sustainability in mail order



Customer focus comes first

For a mail order company such as Quelle, customer confidence is absolutely essential to achieving long-term success. Quelle is particularly popular as a result of our product quality, our strong customer focus and our wide range, which also sets high standards in environmental and health protection. These factors meant that in 2007 we reached approximately 11 million customers in Europe, and achieved sales of € 1,744 m, in what was a short financial year.

E-COMMERCE SHOWING STRONG GROWTH

In recent years, e-commerce has brought about major changes in mail order, while at the same time reinvigorating the industry. According to a study by the “Bundesverband des Versandhandels” (bvh – German Federal Association for mail order) nearly 30 million Germans made online purchases in 2007. This now makes the internet the most popular order channel in mail order, even placing it ahead of the telephone. This trend was backed up by a market research study commissioned by Primondo in 2007 that identified a new customer type. So-called couchers actively and comfortably shape their living and consumer worlds from their living-room sofa. They range from 30 to 49 years of age and make an above-average number of purchases online. To meet the needs of this new target group, Quelle has redesigned its online stores over the last few years with an emphasis on customer service. These efforts have paid off: with an average of 30 million visitors per month in 2007, www.quelle.de was one of the three most widely-used German-language online stores.

The mail order industry must also evolve to meet changes in the population's age structure. In the future, the requirements of the 60+ generation will be far more significant in assembling product ranges and ensuring accessibility, for example. The environmental profile of products is also having an ever-greater influence on purchasing decisions. This was shown in a survey carried out by the GfK market research institute in 2007.

THE CUSTOMER AT THE CENTRE

If we are to deliver customer satisfaction and ensure their long-term loyalty, it is essential that we focus on our customers at all times at Quelle. As such, one of the new management guidelines introduced in spring 2007 at Quelle, is that of “clear customer focus”. The Quelle customer committee, which meets three to four times a year and was founded in 2004, is an important body here, and the number of people involved is growing continuously.

As of August 2007, we have offered online support with a live chat function at www.quelle.de. Here, customers can directly ask service staff about products, offers and order processes. In November 2007, the project was awarded the CRM Best Practice Award in the B to C category (business to consumer) by trade magazine *acquisa* and *asfc GmbH*, in recognition of what is a particularly effective customer relations management scheme. Aside from this, the Quelle online store received numerous additional awards in 2006 and 2007. www.quelle.de, for example, took second place in the “Fashion & Lifestyle” category of the “OnlineStar 2007” general public awards, and was named “LCD Television” shop of the year by CHIP Online.

MAKING SUCCESS MEASURABLE

Quelle is currently developing a new set of key performance indicators (KPIs) for mail order. By introducing a simple system of performance indicators, we want to ensure our customer focus can be better measured, thus allowing us to make clear improvements in the future. The KIPs should make issues such as product availability and delivery times more transparent, and allow us to get our goods to customers faster than ever before.

Quelle also has various instruments to determine the success of business decisions. As of June 2006 for example, the department of consumer research has operated its own panel made up of over 2,000 Quelle customers from our core target groups. The aim of this panel is to determine behavioural changes of customers over longer periods. During ordering, wide-ranging customer surveys with focus on issues such as quality and processes are carried out. In addition to that Quelle also performs special investigations, for instance with regard to customer complaints. So far, the results of the surveys have always been very positive. An internal study of complaint management processes showed that customers are very happy with the Profectis technical customer support service. Following the 2006 customer survey, the technical customer support service received the “good” quality seal from the “TÜV Saarland” monitoring body.

In the mail order industry, a high degree of customer satisfaction is obviously important for sales, but it also directly affects costs. This is because complaints regularly result in expensive returns. As such, we completely redesigned our complaint management system two years ago and, with SixSigma, introduced a quality management system that differentiates us from competitors in the market. SixSigma serves to make long-term improvements to processes, as well as motivating employees. As a result of our efforts, the 2007 (January 2007 to January 2008) complaint rate dropped from 19.6 percent to 13.4 percent.

PROTECTION OF PERSONAL DATA

Data protection issues are currently subject to great debate in society, and the subject is also of great importance to Quelle. In order to protect all personal data, we comply with the regulations of the German Federal Data Protection Act. Customers can thus contact the data protection team directly via e-mail at datenschutz@quelle.de.

In 2007, “TÜV Süd” confirmed the security of our customers’ personal data by awarding the Quelle online store the “s@fer-shopping” certificate. This certificate is awarded to particularly trustworthy organisations.

PRODUCT RANGE AND SUSTAINABILITY

Within the reporting period, one of Quelle's main aims was to realign its product range with a greater focus on sustainability. As the middleman between manufacturers and consumers, we have considerable influence and we want to put this to good use. When assembling our product range, we are thus particularly conscious of how much energy and water our electrical devices consume. As such, we have been contributing to climate protection and the protection of resources for a number of years now and now occupy a leading position in the German market. In total, 94 percent of the electrical devices we offered in 2007 were classified A, A+ and A++, the highest energy-efficiency grades available.

PROPORTION OF ELECTRICAL DEVICES WITH AN ENERGY EFFICIENCY CLASS OF A (INCL. A+, A++ ETC.) IN THE QUELLE PRODUCT RANGE*

Entries in percent	2007	2006	2005
	94	92	79

* Status as of the respective year's end

To ensure our customers are aware of the importance of energy efficiency, we provide them with detailed information on the subject in our online store at www.quelle.de. Transparent product data and comprehensive comparison options make the selection process clear and straightforward for our customers. We also offer a range of special stores that focus on various areas:

- at our EcoTopTen shop, we have grouped together all Privileg devices that are featured in the Freiburg Eco-Institute's current EcoTopTen lists. Drawn up in cooperation with the Federal Foundation for the Environment, these lists feature recommendations for environmentally-friendly products that are high in quality and offer an excellent price-performance ratio. As well as the purchase cost, the operating costs for each device are taken into account.
- in the "Unsere Energiesparmeister" (Our Masters of Energy Saving) store, we feature the most energy-efficient electrical devices from our entire range.
- the "Gesünder schlafen" (Sleeping more Healthily) special store addresses the issue of sleeping more healthily. It offers a comprehensive range of beds and mattresses, as well as bedding, special wellness products, books and CDs. Furthermore, a guide to sleeping can be downloaded here, with a range of tips on achieving a good night's sleep.

We also offer a host of further information on saving energy and protecting the climate at www.quelle.de in the special "Energie sparen" (Saving Energy) section in "Beratung & Service" (Advice & Service).

A HEALTHY AND ENVIRONMENTALLY-FRIENDLY PRODUCT RANGE

As well as the energy efficiency of our electrical devices, we also focus on health and the environment when selecting our product range. As one of the biggest-selling retailers in Germany, Quelle believes it has a particular responsibility when it comes to textiles. For the first time, our spring/summer 2008 catalogue will feature several pages of textiles for the home – mainly bedding – made out of organically-produced cotton.

We take responsibility for our customers and the environment in each of our product areas. As such, our furniture product range features a range of products with the “Blauer Engel” (Blue Angel) environmental symbol, or the Forest Stewardship Council (FSC) seal for sustainable forestry management. In addition, at the end of 2007 we also set up a special shop at www.quelle.de entitled “Ökologisch Wohnen” (Living ecologically) featuring energy-saving lights, dining room furniture, home textiles, upholstered furniture and bedrooms, which we plan to expand further.

NUMBER OF ARTICLES WITH THE BLUE ANGEL ENVIRONMENTAL SYMBOL IN THE QUELLE PRODUCT RANGE*

Number of units*	2007	2006**	2005
	297	288	301

* From the main catalogue and home crafts/garden

** Adjusted product range (no main catalogue, no home crafts/garden catalogue)

NUMBER OF ARTICLES WITH THE FOREST STEWARDSHIP COUNCIL (FSC) SEAL IN THE QUELLE PRODUCT RANGE*

Number of units*	2007	2006**	2005***
	77	18	48

* From the main catalogue and home crafts/garden

** Adjusted product range (no main catalogue, no home crafts/garden catalogue)

*** In the mail order sector, the garden product range was greatly reduced in 2005; the proportion of FSC products remained constant, however

STRIVING FOR THE HIGHEST QUALITY

Quality plays an essential role in our product strategy. In fact, quality assurance is more important to Quelle than almost every other retailer in Germany. An important reason for this is the high proportion of own-brand electrical and electronic products we sell. Against the backdrop of our insistence on quality, we offer guarantees that far surpass the market standards.

In order to meet our own high demands, we founded our own product testing office in 1953, which later became the Quelle “Institut für Warenprüfung” (IfW – Institute for Product Testing). Today the IfW is the largest institute of its kind in German commerce. With approximately 100 employees, we test more than 20,000 articles, and analyse every aspect of the product from development to production and delivery. The institute’s other work involves assessing customer returns, and monitoring products on the market. In mid-November 2007, the IfW received international DIN EN ISO/IEC 17025 certification from the “Deutsche Akkreditierungssystem Prüfwesen GmbH” (DAP – German Accreditation System for Testing). This means the institute can also offer its services on the open market.

Our high quality management standards have been confirmed for a number of years by the “Stiftung Warentest” consumer organisation and the tests they have carried out. In October 2007 for example, two Privileg refrigerators were graded “very good” and “good”. Similarly, in September 2007, the Privileg ProComfort 86406 washing machine was graded “good”. Due to the large number of own-brand products, Quelle submits a wide range of goods for testing by “Stiftung Warentest”. Far more of our products have been tested than our competitors: since 1968, more than 1,500 Quelle products have received a positive mark from the Stiftung Warentest, with 45 articles graded “very good”, 807 “good” and 653 “satisfactory”.

Responsibility for our employees

The commitment of our 4,120 employees is one of the central factors for our success as a customer-orientated retailer. Quelle thus takes responsibility for its staff and aims to achieve long-term productive employment relations. Our personnel management strategy is demographically sustainable and focused on the future, and we continually look to improve our employees' working conditions. This includes acting responsibly and seeking mutually-agreeable solutions with affected staff during the recent necessary restructuring.

Within the reporting period, we worked particularly hard to improve communications between management and employees. By setting individual objectives, offering comprehensive training schemes, and systematically identifying potential future managers, we are specifically looking to foster long-term careers within the company. Flexible work time models and numerous measures to help employees in their transition back into employment, e. g. after parental leave, ensure our staff have a healthy work-life balance. In 2007, 2,148 individuals were employed full time at the company, with 1,644 part time staff.

Naturally, comprehensive health management packages constitute an important aspect of what we offer our staff. Through training schemes and safety measures, we are also constantly improving the safety of our workplaces. This is reflected in the number of work accidents, which have been particularly low for a number of years. In 2006, there were 9.9 accidents per 1,000 employees, while in 2007, there were 11.5.

RESTRUCTURING LARGELY COMPLETED

On 31 December 2007, the general restructuring contract for Quelle expired after three years as planned. Personnel modifications and massive structural changes, particularly within the Service Group (logistics and customer care), were necessary as part of the restructuring and re-orientation process. At the end of 2007, we thus closed two customer centres in Nuremberg. Approximately 500 affected employees decided to move to a Nuremberg employment agency, while around 150 received settlements and 120 changed to other companies within the Group. By the end of September 2009, the servicelogiQ logistics service provider – also headquartered in Nuremberg – will cease business operations. A total of close to 600 positions will gradually be phased out. At the Leipzig shipping centre, however – partly as a result of extending the working week to 42 hours – we have been able to re-establish competitive structures. A similar extension of working hours has enabled us to secure approximately 500 positions initially for two years, at our returns centre in the Nuremberg-Fürth region. Staff at the site are guaranteed employment for the next two years, while the location itself is initially secured for three years.

PERSONAL DISCUSSIONS AT EVERY LEVEL

New instruments have allowed us to make significant improvements to dialogue within the Primondo Group inside the reporting period. In 2007, Chief Executive Officer Marc Sommer began the "Sommer discussions". Once a month, he invites interested employees from one area of the business to a round of discussions. Here he personally explains strategic company decisions, and listens to any criticism and suggestions. Quelle Nuremberg's "Business Brunch" is a means for different departments to exchange information, with employees and managers meeting every six weeks. At these meetings, strategic plans for the coming weeks are also announced. The Quelle Forum has taken place since 2006, and sees senior management discuss current business developments, planning and imminent changes. In 2007, a total of 700 employees attended the event.

The “Feedback for Managers” scheme, introduced in 2007, has also proven popular, with some 1,757 employees participating. As part of this initiative, managers are urged to discuss the feedback with their employees and introduce any necessary changes. This will now take place annually.

DIALOGUE WITH EMPLOYEE REPRESENTATIVES

The Quelle management team maintains an open dialogue with employee representatives, and upcoming changes are always brought up and discussed in good time. Since 1997, the interests of employees at our European subsidiaries have been represented by the European works council, which held its tenth meeting in autumn 2006 in Hradec Kralove, Czech Republic. In July 2006, a union delegation from China studied the organisation and negotiation systems of German works councils, using Quelle as an example.

IDEA AND KNOWLEDGE MANAGEMENT

Our systematic knowledge management system ensures that employees who leave the organisation pass on their valuable expertise to their former colleagues. As such, we are meeting the recommendations of our annually-updated age structure report. In 2008, we will evaluate existing measures to see what changes need to be made in areas such as knowledge management. The Quelle quality forum, held since 1995, is another useful knowledge management tool and has provided us with hundreds of suggestions for improvement from our staff. Quelle pays a bonus for each idea that is implemented. In 2007, two employees from the department of maintenance in shipping operations and conveyor technology received an award for a concept that prevents the wear of plastic parts on conveyor belts. Introducing the measure saved Quelle around € 80,000.

FINDING AND SUPPORTING TALENTS: TRAINING AND RECRUITMENT

We see training young people as one of the most important investments we make, both for the future of our company, and society as a whole. In 2006 and 2007, 103 young people began their training at Quelle, ensuring a training rate of 2.6 percent in 2006, and 3.2 percent in 2007.

As part of a business impact project in 2006, young management trainees evaluated our recruiting strategies and tested new ideas within a pilot project. Most notably, contact with renowned higher education institutions was increased, while a talent pool for particularly talented trainees was set up. Furthermore, a comprehensive talent management system will be established in 2008.

PERSONNEL DEVELOPMENT

To succeed in a rapidly-changing working world with ever greater competition, we need skilled, committed employees who can work independently. Therefore, we offer each individual within our organisation extensive training opportunities. Within the reporting period, for example, we launched a practice-orientated programme for young staff entitled “Fit into the Future”. Inside nine months, the participants must develop a project that will subsequently be implemented. In 2007, the traditional employee reviews where objectives are agreed and set were expanded with a performance management scheme to systematically improve

performance. Since then, at the start of the business year each employee receives a set of challenges derived from the company's strategy, alongside their individual agreed objectives. After six months, an interim assessment is carried out, and at the end of the business year, the strategy is adjusted as part of a "portfolio conference". Parallel to this, high-performing individuals are recommended for talent management, while all staff can attend seminars and workshops.

In October 2007, a completely new personnel development scheme was introduced, known as the Future Entrepreneur Programme. Here, talented internal and external candidates have the opportunity to prove their entrepreneurial skills over a one-and-a-half-year period, with the objective of securing an important management position within the Primondo Group afterwards. They are supported during the scheme by the Primondo Management Team, an experienced coach and the personnel development unit, and attend a renowned foreign business school.

Aside from this innovative programme, Primondo employees always receive significant support when taking on new responsibilities. Should they wish, managers can thus receive coaching and advice on management change. Similarly, management personnel are prepared for assuming their first senior role, or for taking on extra responsibilities, by Management Learning Programs 3 and 4.

Personnel development programmes are an integral component of our organisational development. For example, junior managers in fashion and account executives in advertising are offered comprehensive training as they move into new areas and take on greater responsibilities.

NEW MANAGEMENT GUIDELINES

In 2007, Quelle introduced binding management guidelines for all management personnel. These include "Clearly together", "Clear objectives", "Clear responsibilities", "Clear communications", and "Clear customer focus". By surveying all management personnel and gathering extensive feedback, it was ensured that these guidelines correspond perfectly to our corporate culture and current situation. The guidelines were implemented via an online feedback system and in subsequent workshops attended by both managers and their employees.

A tradition of environmental commitment

Quelle takes direct responsibility for the environmental effects of its business activities. As part of this, we assess the entire production chain, including distribution and the actual use of our products. Our commitment to the environment is thus a conscious corporate decision, and has formed part of our strategy for many years. We were early to recognise new challenges such as climate change, and have developed innovative concepts in response. We see our active commitment to the environment as both an advantage over our competitors, as well as an opportunity.

STRATEGIES FOR THE ENVIRONMENT

For over ten years, Quelle has employed a specific environmental representative, who is supported by the environmental coordination department. To implement our environmental policy, we have established a transparent system of goals and strategies over the last few years, and have continuously worked to develop it. The scheme was introduced with the assistance of environmental management systems that are already in place at all relevant locations.

Unfortunately, we were unable to introduce our environmental management system throughout the Primondo Group within the reporting period as planned. This was a result of the far-reaching changes made to the special mail order system and foreign companies. After the changes to Primondo's portfolio have taken place, sustainability management will be established throughout Primondo by the beginning of 2009. Due to cost-benefit considerations, Quelle has been unable to achieve consistent EMAS or ISO 14001 certifications of its environmental management systems for several years.

As part of our efforts to constantly improve our environmental protection work, we always look for open dialogues with our partners. In November 2006, Quelle hosted a dialogue with the "Bundesdeutscher Arbeitskreis für Umweltbewusstes Management" (B.A.U.M. e. V. – German Environmental Management Association) on the subject of mobility. Among other things, issues relating to vehicle fleet management, driver training for external service providers and employees' journeys to work were discussed. The opening event of the "B.A.U.M. Climate strategies for companies" working group also took place at Quelle in December 2007.

SAVE ENERGY, PROTECT THE CLIMATE

In recent years, awareness of climate change has increased considerably throughout the world. It is one of the greatest ecological challenges facing us today. By introducing effective energy-saving measures and reducing greenhouse gases, Quelle wants to do all it can to help protect the climate and natural resources. We believe that this will best be achieved through an integrated approach. As such, in 2007 we began to develop a comprehensive climate protection strategy at Quelle. This will bring together all our activities in this field and include the following core areas: internal corporate environmental protection, climate protection in the product range, and accompanying communications.

QUELLE ELECTRICITY CONSUMPTION

Entries in megawatt hours	2007*	2006*	2005
	72,000	76,000	91,000

* Only limited comparisons between 2006 and 2007 with previous years are possible due to site closures

Quelle is pursuing a two-pronged strategy to reduce emissions. Firstly, targeted measures are being introduced at our sites, such as improved logistics, to reduce emissions. Together with Germany's largest delivery service DHL we have been able to optimise our transport logistics, while saving fuel and lowering costs by bundling transportation and minimising city traffic. We are also shifting as much transport as possible to rail and sea and optimising our HGV use by bundling transportation and avoiding unnecessary routes and empty vessels. In 2007 (extrapolated data), parts of used carriers in the mail order division were distributed among transport by sea (54.9 percent), by road (34.6 percent), by rail (7.5 percent), by air (2.7 percent) and by inland waterway transportation (0.4 percent).

Secondly, by offering an attractive range of energy-efficient household devices and promoting the issue with our customers, Quelle is indirectly contributing to a reduction of greenhouse gas emissions. As the middle-man between manufacturers and customers, we believe we have a lot of potential influence by stocking a sustainability-orientated range.

AVOIDING AND USING WASTE

Efficient waste management is an important tool in the preservation of valuable resources. One of Quelle's major challenges in 2006 and 2007 was the disposal of electronic and electrical devices. Between 2000 and 2006, we voluntarily took back an average of 230,000 used appliances every year and properly disposed of them. Introduced in March 2006, the Waste Electrical and Electronic Equipment (WEEE) regulations contained new legislation to be followed across Europe for taking back electrical devices. Following the implementation into the German Electrical and Electronic Equipment Act, dealers and manufacturers are obliged to take back all electrical devices they initially sold (provided evidence indicates this) and properly dispose of them. As a result of its high sales figures, Quelle was the secondmost-affected company in Germany by the legislation. In 2006 and 2007 a total of 528,283 electrical devices were taken back. The environmentally-friendly disposal and efficient use of used materials is therefore particularly important to us.

TAKING-BACK OF USED ELECTRICAL DEVICES BY QUELLE*

Number of units	2007*	2006*	2005
	263,838	264,445	223,108

* Only used units taken back by the company itself

TOTAL INCOMING WASTE AT QUELLE

Entries in metric tons	2007	2006	2005
Waste requiring special monitoring	43.98	59.57	72.74
Waste requiring monitoring	988.92	982.81	1,720.13
Waste which does not require monitoring	16,944.25	17,522.91	22,428.36
Total	17,977.15	18,565.28	24,221.23
Utilisation rate in percent	97	97	95



Energy cost check at Quelle

A++ in euros and cents

The refrigerator was a bargain – but will that still be the case when the first electricity bill comes in? This is what the “energy cost check” assesses at www.quelle.de, which has details on running costs of around 300 refrigeration and freezing units.

Many customers have unpleasant surprises when what seems like a good deal shows itself to be a costly, electricity-hungry unit. This is especially true for large electrical devices such as refrigerators, washing machines and dishwashers. “Electricity and water use adds up and can far exceed the purchase costs”, states Georg Abel, Managing Director of the “Verbraucher Initiative e. V.” (German Consumer Initiative). In December 2007, Quelle – in cooperation with the “Verbraucher Initiative e. V.” – thus launched a special kind of service to its customers: visitors to www.quelle.de select a particular refrigerator and get a detailed breakdown of all the costs the appliance will incur during its service life.

The check also allows visitors to compare operating costs of their new unit with those of their old appliance – from the comfort of their own home. They can also compare total costs (purchase plus operating costs) with other new units and product recommendations from Quelle. Aside from electricity consumption and electricity costs, the energy cost check also shows CO₂ emissions.

Visitors to www.quelle.de select a particular refrigerator and get a detailed breakdown of all the costs the appliance will incur during its service life.

The cost check database currently includes consumption data of around 300 branded refrigeration and freezing units; other appliances such as washing machines and dishwashers will follow. The service is unique in Germany, ensuring Quelle is taking a leading role in consumer information – before now, it has often been difficult for consumers to determine the actual running costs of electrical appliances. While the energy efficiency class provides a good guide of running costs, it does not give specific information. “Due to the patchy information available, many customers make their decision solely on the purchase price”, notes Stefan Küst, environmental representative at Quelle. “With the cost check, we enable them to make an objective purchasing decision.”

The aim of the initiative is to support sales of energy-efficient and water-saving appliances, and thereby contribute to environmental and climate protection. It marks the beginning of a series of information campaigns on efficiency that Quelle will launch in 2008. Protecting the environment and the climate through energy efficiency is a major priority at Quelle, and today we are already one of the leading suppliers of energy-saving electrical devices in Germany. Every single one of our refrigeration and freezing appliances, washing machines and dishwashers are graded efficiency class A or better, and in the future we will look to further improve energy efficiency beyond the boundaries of current official energy efficiency indicators. Even today, some of our fully-automatic washers are significantly superior to most A-class appliances, though there is now way of indicating this under current legislation.

Taking local responsibility

Social responsibility is an important part of our corporate culture. It begins in the communities where our sites are found, and extends to the worldwide production facilities of our suppliers and partners. We believe behaving in a socially-responsible way is essential to achieving long-term success. As a responsible member of society, Quelle is thus heavily involved in life around its sites in a number of ways.

SUPPORT THROUGH DONATIONS AND SPONSORING

Quelle shows its commitment to the regions around its sites through targeted sponsoring of initiatives.

As a main partner of the town of Fürth's jubilee celebrations, we provided € 50,000. Similarly, the theatre of Fürth received donations of € 10,000 in both 2006 and 2007. We also donated € 7,200 to the "Leipziger Tafel e. V.", an organisation that distributes food to needy people, in December 2006.

Children are the future of our society. Because Quelle feels a particular commitment towards them, we support the "Kindertagesstätten Grete Schickedanz" (Grete Schickedanz Children's Day Care centres) association, which runs five sites in Fürth and Nuremberg. We also support other care facilities in Fürth and the surrounding area through goods and coupons. In September 2006 we donated approximately € 7,000 to the "Leipziger Kinderklinik" (Leipzig Paediatric Clinic). This sum was the proceeds of a raffle organised by Quelle employees during a children's event at "Leipzig Zoo". The prizes were donated by Quelle at no charge.

As a sponsor of the "futureSAX" business plan competition, Quelle supports young talent and innovations. The aim of the initiative is to assist new business founders and young entrepreneurs in their first steps towards independence. In 2006 and 2007, a total of € 15,000 was donated to the project.

In November 2006 € 100,000 went to the foundation "Uwe Seeler Stiftung", which works to help mentally and ill/physically-disabled people. The money came from the sale of memorabilia from German football history: Quelle offered fans the opportunity to buy parts of the original pitch that the final of the 2006 FIFA World Cup™ was played on.

WORKING WITH PARTNERS

Strong partnerships and strategic alliances are hugely important, as they allow organisations to combine skills and expertise, and achieve optimum results. For many years now, Quelle has been part of the "Umwelt-pakt Bayern" (Environmental Pact of Bavaria) and the "Umweltallianz Sachsen" (Environmental Alliance of Saxony), and is a member of "B.A.U.M. e. V.". Within the reporting period, Quelle organised two "B.A.U.M." meetings to exchange experiences. The "Zentralverband Elektrotechnik und Elektronikindustrie e. V." (ZVEI – Central Association for Electrical Technology and Electronics Industry) is another important association in which we play an active role.

THE “QUELLE INNOVATIONS INITIATIVE”

The Quelle Innovations Initiative was founded in 2004, with the aim of supporting innovations and fostering an inventive mindset. Once a year, it honours particularly successful inventions with the Innovation Prize. Innovations Partner GmbH organises the prize-giving, and also advises the victorious inventors. With regards to implementing the respective invention, it helps groups overcome bureaucratic hurdles and financing problems and – if required – assists with the building of sales contacts. The prize-winning inventions are also tested by the “Institut für Warenprüfung” (IfW – Institute for Product Testing), while their further development is supported.

In April 2007, the foundation “InnovationsStiftung” competition took place under the slogan of “Family”. The prizes, which were up to € 20,000 in value, went to the inventor of a children’s tricycle with tilt technology, the inventor of a new type of wicker chair, and the two inventors of shoe inlays that use nanotechnology to heat themselves through friction. The best “junior inventors” were the members of a group that developed a new type of bottle closure. This prevents carbonated beverages from spilling out the top of the bottle when opened.

In April 2007, the Quelle Innovations Initiative was honoured as a “Selected Location 2007”, under the “Deutschland – Land der Ideen” (Germany – Land of Ideas) project. The support and practical assistance offered to inventors was described as exemplary. We see this award as important public recognition of our commitment.

Sustainability Programme Primondo

OBJECTIVES	MEASURES BY 2008 - STATUS	CONTINUATION AND NEW OBJECTIVES BY 2009
Product range policy		
Increase the share of pollutant-tested textiles	Share of textiles tested for pollutants: 42%	Training buyers on Oeko-Tex Standard 100 and about supplier queries on how they will be able to provide pollutant-tested textiles by the end of 2008
	100% of objective not yet reached	Awareness raising at the purchasing organisation in the Far East as well as at all suppliers, with the long-term goal of having a complete selection of pollutant-tested textiles according to the Oeko-Tex Standard 100 by 2011
Review of possibilities for using textiles that satisfy more demanding ecological standards	Conclusion of the test offers; Stopped due to insufficient demand	Intensified market observation with the goal of offering organic/eco collections in the fashion section of the main catalogue for spring/summer 2009
Increase of the share of electronic devices with energy efficiency class A*	Washing machines: 98% (target value exceeded); Dishwashers: 100% (target value exceeded); Free-standing refrigeration and freezing appliances: 100%; in the mail order business: 97% (target figures exceeded); Selection of built-in cookers/solo cookers/range cookers in the mail order business: 64% (target figure not reached due to technical reasons); Selection of driers: 35% (target figure exceeded)	Increase the share of washing machines, refrigeration and freezing appliances and dishwashers to 100%, and cookers to 80%; Increase of A devices to 10% for washing and drying machines Increase of A and B devices to 50%; Discontinuation of devices with energy efficiency ratings of C and lower
Increase of the share of refrigeration and freezing appliances rated A+ or A++ sold by the mail order business*	Share of refrigeration/freezing appliances with energy efficiency class A+/A++: 58% (fell just short of target figure of 60% for 2007) Share of free-standing refrigeration and freezing appliances with energy efficiency A+/A++ in the main fall/winter catalogue (trade goods): 60%	Increase of the share of A++ devices among refrigeration/freezing appliances to 25%, and A+ devices to at least 40%
Expansion of the range of solar products	Due to the temporary suspension of the entire product range in 2006, the goal had to be reset for 2007	Continuation of the range
	Share of solar-powered garden accent lights in the home crafts/garden catalogue: 100%	
Reduction of water-consumption figures of electronic devices in the mail order business*	Reduction of average water consumption of fully-automatic 5 kg washers to 41.4 litres per wash cycle and 43.97 litres per wash cycle for 6 kg machines	Reduction of the average water consumption of all washing machines per kg of holding capacity and per wash cycle by an additional 5% (2007 basis: 7.96 l/kg)
	Share of water-saving fully-automatic 5 kg washers (less than 46 litres per wash cycle) at Quelle: 92% (target value of 67% clearly exceeded); Share of water-saving fully-automatic 6 kg washers (less than 49 litres per washing cycle): 100%	Complete discontinuation of fully-automatic washers that require more than 46 litres (for 5 kg machines) or 49 litres (for 6 kg machines) per wash cycle
	Reduction of average consumption in 2007 to 13.8 litres per rinse cycle (14.2 litres in 60 cm devices, 13.2 litres in 45 cm devices)	Further reduction of the average water consumption per rinse cycle by another 5% (2007 basis: 13.8 litres)
Reduction of energy consumption in stand-by operation for multi-media devices in the mail order business	Expansion to 42 devices achieved successfully	Increase range of televisions with low stand-by energy consumption (< 1 watt) to 100% for the main spring/summer 2009 catalogue
	Share of Universum televisions with energy consumption in standby mode of less than 3 watts at the end of 2007: over 40%	Reduction of energy consumption in stand-by mode among Universum televisions to < 3 watts for 100% of the devices by the end of 2008
		Offer climate-neutral televisions in a monthly catalogue or the main catalogue by the end of 2008
Increase of the share of Forest Stewardship Council (FSC) furniture	Temporary suspension of the do-it-yourself product range in 2006 and therefore a majority of the FSC product range. However, in 2007 some 77 items were offered	Increase of the share of products with our own ecological label to at least 50% of the main catalogue for spring/summer 2010 (basis: complete multimedia product range); Further addition of devices with recognised environmental quality seals such as the EU Flower, the Blue Angel, etc.
	Certification of nearly all tropical woods according to the FSC. In the presence of appropriate market conditions, exceptions are switched to FSC within a short period of time	Reintroduction of FSC items for tool sheds and carpports, initial introduction for saunas, to the extent offered by the supplier
	Introduction of FSC paper delayed until 2008 due to the market situation	Use of wood with FSC certification or other credible proof of sustainable forestry origin for items made from tropical woods as well as imports of all-wood articles from the Far East, as far as possible
		Renewed attempt to use FSC paper for advertising materials - test until mid-2009
		Assessment of possibilities for using FSC-certified items in other furniture product ranges by the main catalogue for spring/summer 2009

* Basis: main catalogue

OBJECTIVES	MEASURES BY 2008 - STATUS	CONTINUATION AND NEW OBJECTIVES BY 2009
Product range policy		
Expansion of the offering of furniture with the "Blue Angel for low emissions" quality seal	Share of furniture with the "Blue Angel for low emissions" seal: 49% (just short of the target value)	Increase in the share of bedroom wardrobes with the Blue Angel to 80% of the main catalogues for 2008; Offering of the first Blue Angel items in other product ranges such as household furniture, smaller furniture items, dining rooms, etc. (main catalogue for spring/summer 2010)
Offering of Quelle brand upholstered furniture with pollutant-tested textiles	Large increase in the range of upholstered furniture with pollutant-tested textiles (target value of 50% not quite reached)	Percentage of upholstered furniture with pollutant-tested textiles in Quelle's own Casamaxx brand range 50%, others minimum of 30% by 2009 Assessment of possibilities for offering a selection of pollutant-tested garden furniture cushions with quality seal (Oeko-Tex Standard 100) from 2009
Increased use of internal and external quality seals in product presentation	Establishment of quality seals as a significant element of production presentation in the mail order business	Continuation of the objective
Customer advice		
Sales support for sustainable products	Implementation of concept for Quelle internet in 2007 (purchasing advisor for electronic devices - lifecycle costs) Make energy consumption and opportunities for savings a central theme through expert advice in technical centres	Strong communication of environmental and sustainability issues as a leading brand communication in the main catalogue for autumn/winter 2009
Continuation of the integration of sustainability issues into brand communications	Integration of sustainability topics through internet, catalogues, brochures, PR, cooperative efforts and presentations More pronounced customisation of personalised internet pages, installation of internet terminals in Quelle shops in 2006	Continuation of the objective, publication of an environmental brochure for Quelle in 2008
Business management		
Maintenance and further development of existing environment management systems	Separation of the management system in the mail order business due to disinvestment, but still maintained; certification/validation of the system also not performed for reasons of cost	Continuation of the existing environmental management system at Quelle, expansion of the organisation to the Primondo Group
Reduced consumption of resources	Reduction of electricity consumption at Quelle by more than 20% between 2005 and 2007 Increase of the recycling rate in waste management to 97% (target value exceeded) 20% increase of low paper consumption from 2005 to 2006 as a result of increased advertising measures; reduction of paper consumption by approximately 2.5% in 2007 Successful replacement of print campaigns by e-mail in the mail order business Optimisation of the use of recycling paper and paper with a high recycling content in the creation of advertising materials, flyers, brochures, etc. for the mail order business Consideration of the possibilities of substituting wood-free paper for paper with FSC certification Long-term appeal to printers to use FSC-certified paper in the mail order business in order to promote competitive offers in the production of advertising materials	Reformulation of the objective following the expiration of the current site restructuring at the end of 2009 Stabilisation of the excellent utilisation rate Reduction of paper consumption in the creation of advertising materials depending on the business activity Printing of all publications regarding sustainability and the environment on FSC paper Review of possibilities that exist for printing advertising materials on FSC paper. First tests by mid-2009 Preference for FSC printers when issuing publications in smaller print runs (e.g. environmental brochures)
Increased rate of reuse for returned products	Successful implementation in terms of cost effectiveness with the increase in the rate of reuse for returned products through variable structuring of the maximum and minimum costs for the processing of the articles	
Dealing with employees		
Providing training, information and motivation to employees so they act in an environmentally-responsible way	Communication of the Sustainability Programme through the employee newsletter (extra double-page spread, regular articles) and over the Group intranet	Continuation of efforts; raising of employee awareness through the communication of sustainability programmes; integration of sustainability issues in the existing communications channels of the Arcandor Group and of the Group member companies

Dear Reader,

as a major German retail company we have contributed to the protection of the environment and sustainable development since 1989. Every year, we have further improved our activities in these areas.

Climate protection – currently the most important environmental issue – is a priority for us too, and since 2001 we have provided annual consumer information on the matter through information and communication projects in stores. This campaign was complemented in 2007 with two different promotions, each of which lasted for several weeks. In terms of our properties, we are also making large-scale investments into cutting-edge building engineering systems to help protect the climate. In logistics meanwhile, we have been able to eliminate large quantities of CO₂ emissions through targeted measures such as bundling shipments together and moving HGV shipments on to trains and inland ships.

We are also committed to optimising our product range from an environmental standpoint, as well as promoting sales in Karstadt stores of products that are environmentally sound. This is achieved through national consumer information campaigns, individual sales advice and tasting of products from organic and fair trade ranges. Naturally, we also train our employees in this subject so that they can provide professional advice to interested customers.

Our children and young people target group is especially important to us. In 2007, organic cooking demonstrations were held with school children in 15 Karstadt deli markets. This innovative project will be continued in another 15 stores in 2008. Other important areas included the continuation of the annual environmental back to school campaign, and the “Tierisch Gut!” (Wildly good!) pupil idea competition.

Competent, credible cooperation partners support our work, such as the Federal Environment Agency, Deutsche Umwelthilfe e.V., German Energy Agency (dena), the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, the German Wildlife Foundation, the “Initiative Pro Recyclingpapier” (Initiative for Sustainable Use of Paper), and TransFair e.V. Furthermore, renowned personalities from politics, the media and public life support our numerous national campaigns, writing them and participating in discussions.

Through all these efforts we achieve credibility and far-reaching acceptance among the public. Our stated aim is to continue the sustainable development activities that have proven successful for many years.

Yours faithfully,



Peter Wolf

Chairman of the Management Board



Karstadt
Sustainability in stationary retail sales



Providing a sustainable product range

Since 1989, Karstadt has intensively addressed the themes of climate and environmental protection as part of its sustainability strategies. As the middleman between producers and customers, we can generate interest in environmentally-friendly products and develop markets for sustainable products. Awareness of sustainable consumption is growing steadily: customers specifically ask about the origins of their everyday items and under what conditions they were produced. A new type of lifestyle and consumer is also emerging – so-called LOHAS “Lifestyle of Health and Sustainability”, which places a high value on sustainably-produced foods and textiles, as well as energy-efficient electrical devices, entertainment electronics, IT media and lighting.

Karstadt is benefiting from this development; with its sustainable product range, is among the most popular suppliers of organic and fair trade products. The response of our customers and the marked rise in sales of organic and fairly-produced goods during the reporting period confirms that we should continue in this direction. As such, the numerous sustainability measures we have introduced and actively supported since the late 1980s are now genuinely proving their worth. As such, necessary change has not been accompanied by a loss of profitability. Reliability and tradition remain important aspects of Karstadt’s corporate activity.

FAIR COMES FIRST IN TRADE

As a partner of the TransFair e. V. initiative, Karstadt has offered fair trade goods in its deli markets since 1993. Fair trade supports disadvantaged workers and farmers in the developing countries of Africa, Asia and Latin America, and improves their working and living conditions. At the end of 2007, our product range included around 50 fair trade products, among them various types of tea and coffee, honey, chocolate, cocoa and orange juice.

In order to push sales of products with the Fair Trade seal, we have produced a range of material for customers within the reporting period, such as the flyer “Fairtrade... und die Welt wird freundlicher!” (Fairtrade... and the world gets friendlier!). In addition, we have created a trainer guide, a checklist and a film to train our sales personnel so that they can answer customer queries competently. As part of national fair trade campaigns in November 2006 and October 2007, we offered advice to customers and provided samples in Karstadt deli markets, increasing awareness of fairly-produced foods. With these measures, we were able to increase percentage of total sales accounted for by fair trade goods to 2 percent in 2007, with 5 percent being our mid-term goal. For our commitment to organic and fair trade products, our company was awarded an honorary certificate by the “Interessengemeinschaft FÜR gesunde Lebensmittel” (Association of Interests for Healthy Foods) in 2006.

NUMBER OF FOODS WITH THE FAIR TRADE SEAL AND SALES DEVELOPMENT

	2007	2006	2005
Number of units	50	45	40
Sales increase in percent	2-3	2	2

ORGANIC BOOM IN DELI MARKETS

Karstadt is also among market leaders with its organic food range. We have offered ecologically-produced foods in our deli markets since 1995. Under the “BIOlogisch” umbrella brand, we offer customers a wide selection of organic items produced in accordance with European Union specifications, and without the use of chemical herbicides and genetic engineering. In 2007 our deli markets stocked around 800 organic products, while the separate organic markets offer over 3,000 items. Sales are developing excellently: 2006 saw sales of organic products rise by 11 percent, while in 2007 they rose by a further 17 percent. This corresponds to 10 percent of all sales of comparable goods. As such, Karstadt is one of the largest suppliers of organic products for the German market.

NUMBER OF FOODS WITH THE ORGANIC SEAL AND SALES DEVELOPMENT

	2007	2006	2005
Number of units	800	700	> 500
Sales increase in percent	17	11	7

With national organic promotional weeks, the company helps generate enthusiasm among customers for organically-produced foods: in July 2006 and June 2007, organic weeks were held in nearly all Perfetto deli markets at Karstadt. The programme ranged from food sampling promotions and free recipes to personal advice on organic eating.

In addition to the national organic weeks, 2007 saw Karstadt launch cooking demonstrations in 15 of its deli market stores, under the slogan “Bio erleben!” (The organic experience!) and with Eurotoques master chef Markus Haxter and classes of schoolchildren. Together with the chef, the pupils prepared various dishes with organically-produced items. The innovative campaign was supported by the German Federal Ministry of Food, Agriculture and Consumer Protection, and will be continued in a further 15 stores in 2008.

In 2007, trade magazine “Rundschau für den Lebensmittelhandel” (Food Trade journal) named the Dresden Perfetto deli market – on behalf of Karstadt Feinkost – as having the “best organic range”. In addition, twelve Karstadt Le Buffet Fresh Flow Restaurants were among the first chain restaurants to receive certification from the “ABCert Öko-Kontrollstelle” (ABCert organic monitoring authority) in May 2007.

TV chef Alfred Biolek has also been involved: in August 2007, he presented dishes from his new cookbook, which were then sold in our restaurants for four weeks. For every “organic” dish sold, one euro was donated to the Alfred Biolek foundation “Hilfe für Afrika”. Karstadt promised it would donate a total € 100,000 before the promotion – irrespective of the proceeds generated.

AWARD-WINNING ACTIVITIES

We have received a series of prizes and awards for our commitment. The German UNESCO has honoured our work to increase sustainability in commerce no less than four times: the campaigns “Ökologischer Schulanfang” (Environmental back to school), “Lebensmittel aus ökologischem Landbau” (Ecologically-farmed foods), “Energieeffizienz in Haushalten” (Energy-efficiency in housekeeping) and “Fairtrade-Produkte” (Fair Trade products) were named official projects of the UN decade “Education for Sustainable Development” in 2005/2006 and then again for 2007/2008.

Our information campaign “Zu wertvoll für den Müll” (Too good for the garbage) about taking back electrical and electronic used devices saw Karstadt – with the approval of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety as well as the German Federal Environment Agency – receive the award “Green Electronics Preis 2006” from Deutsche Umwelthilfe e. V. In 2006, Karstadt also received the recognition award from the IZT – Institut für Zukunftsstudien und Technologiebewertung (Institute for Futures Studies and Technology Assessment) and, as a result of its many years of expertise, was the head of the jury for the community “Hauptstadt des Fairen Handels” (Capital City of Fair Trade) competition in 2007. The same year, Karstadt received the “Klimaschutzpreis der Bayerischen Staatsregierung” (Bavarian State Ministry’s climate protection award) from the Staatsminister für Umwelt, Gesundheit und Verbraucherschutz (State Minister for the Environment, Health and Consumer Protection) for all of its work.

CONTROLLED QUALITY GUARANTEE

Every day 2.5 million customers experience our broad Karstadt range of high-quality products. The range is founded on our independent Karstadt quality assurance system. We insist on the Oeko-Tex Standard 100 when purchasing any textiles. With our range of recycled paper and environmentally-friendly school materials, we also support the “Blauer Engel” (Blue Angel) environmental symbol. Our corporate sustainable engagement is proving increasingly popular with customers: in 2007, we introduced the new product line organic cotton (bath towels and bedding), made up uniquely of cotton produced by monitored organic agriculture. Due to strong demand this product line will be expanded. In 2008 we also aim to have our organic cotton products certified as meeting fair trade standards.

SATISFACTION CREATES TRUST

We must re-earn our customers’ satisfaction and trust every day. All employees feel particularly responsible for customer satisfaction, in line with the “Spirit Karstadt”. This commitment is a significant part of our company’s culture. In September 2007 we took an important step towards even more personalised service: we were one of the first retail companies in Germany to introduce RFID (Radio Frequency Identification) intelligent smart chip technology in our procurement system. This technology prevents stock outages in our stores, and offers transparent, swift logistics. To improve the dialogue with our customers we have modernised our complaints management for all Karstadt stores, as well as our premium stores: new software ensures that questions, suggestions and complaints are quickly routed to the right places. Since 2006 it has also been possible to provide customer feedback via e-mail. Our aim is to respond to every customer e-mail within 48 hours, and in 2007 we achieved this for some 70 percent of the 28,000 inquiries we received. Since the programme was introduced in 2006, satisfaction with our answers has risen from 77 percent to 81 percent.

The best working conditions for a secure future

Karstadt is regarded as one of the most attractive employers in the retail sector. We see our commitment to our employees, who number over 33,000, as an important investment in our future. Karstadt's business objective is to win discerning customers for our quality products, and to meet this we are increasingly dependent upon well-trained and highly motivated employees.

TRAINING AS A COMMITMENT TO THE FUTURE

Our commitment to our staff begins with our training schemes: traditionally, Karstadt trains staff far beyond our actual requirements. We also adhered to this during the restructuring period, which expired at the end of 2007. Our training rate of 5.8 percent and intake of approximately 450 new trainees each year puts us far above the industry average. In 2006, we more than doubled the number of trainees: on the initiative of Arcandor AG's Chairman of the Management Board, 1,000 school leavers were able to begin a three-year training course at Karstadt in September. In 2007 we were also able to maintain our average level with 435 newly-created training positions. At the end of 2007, 1,848 trainees were thus employed at Karstadt.

The high quality of our training programmes is extremely rewarding for our trainees' personal career development and ensures we have an excellent pool of upcoming employees. In 2007 we awarded the first Karstadt training prize, honouring two employees and one whole store that has shown particular commitment to their trainees.

FURTHER TRAINING IN ALL FIELDS

Karstadt supports its employees' potential through a range of further training programmes. In 2006, we launched the "Förderprogramm Einkauf" (Support Programme for Purchasing), which educates purchasing employees in trade-specific practices as well as social and methodological skills. In the same year, we trained all sales employees so that they could recommend higher quality products in a professional, appropriate manner and obtain successful sales closures in one conversation. In 2007, as part of the "Unternehmer-Cockpit" (Entrepreneurial cockpit), we provided store managers with a "Werttreiberbaum" (Value driver tree) – an instrument that allows them to perform a more precise analysis of the factors which influence economic results. We also trained numerous trainers for our new Karstadt merchandise management system, FORWARD.

ENSURING A HEALTHY WORK-LIFE BALANCE

Part of an attractive position is the ability to balance one's professional and private lives. In 2007 we thus expanded the company's policy of offering staff the opportunity to take several years off to care for young children, so that they can now take a break to look after any member of the family. In 2007, Karstadt worked effectively and responsibly with employee representatives to make the most of the opportunities offered by new store opening-time regulations.



Top climate

Energy-efficiency in private households

Save energy, pay less and protect the climate: interested customers have been learning just how they can do that at Karstadt since 2001. Together with our partners, the German Federal Environment Agency, Deutsche Umwelthilfe e. V., German Energy Agency (dena), manufacturers Osram and Fissler and service company Lightcycle, we were able to educate a number of private customers on the subject of electrical efficiency in the home in 2006 and 2007.

Using the slogan “Wer will schon im Treibhaus leben!?” (Who wants to live in a greenhouse!?), our national campaigns aim to inform the public about the efficient use of energy and effect a change in thinking. No one has to do without in order to save electricity: new electrical and electronic devices, and using existing appliances more effectively, protect the environment while lowering bills.

ENERGY-SAVING MADE EASY

While 2006’s campaign focused on “white goods” (large electrical appliances) as well as radios/TVs and computers/printers, the March 2007 promotion aimed to increase the use of energy-saving lights: Karstadt employees took back customers’ old or defective lighting devices at no charge when they purchased a new energy-saving light. A rebate of up to 30 percent made the purchase of the environmentally-friendly lights even more attractive. During the promotion, over 350,000 copies of the brochure “Wer will schon im Treibhaus leben!?”, developed in cooperation with the German Federal Environment Agency, were distributed.

Using the slogan “Wer will schon im Treibhaus leben!?” (Who wants to live in a greenhouse!?), our national campaigns aim to inform the public about the efficient use of energy and effect a change in thinking.

A CROWNING SUCCESS

The success of our energy-saving campaign was overwhelming: over 16,000 conventional lighting devices were returned by our customers. Sales also rose by more than 200 percent compared to 2006's figures. Due to the positive response, we launched a second large energy-saving campaign in September 2007 – this time additionally focusing on energy-saving cooking pots. This generated an increase of sales of 68 percent compared to the previous year.

Our campaign “Energieeffizienz in Haushalten” (Energy-efficiency in housekeeping) was designated as an official project by German UNESCO in the world decade years 2007/2008. This makes Karstadt the only retail company to have been honoured by the UNESCO. This designation, as well as the positive public response, has encouraged us in our resolve to proceed with climate protection campaigns at Karstadt in the future.

Environmental protection is consumer protection

The interest in environmental and climate protection among the public has been growing for a number of years: energy-efficient products and environmentally-responsible waste disposal opportunities are playing an increasingly-important role in purchasing decisions. For us, environmental protection is no passing fad, but has been an integral part of our company's philosophy since 1989. Our many years of experience in environmental and consumer protection is extremely useful today, when advising customers on environmental matters, as well as on product quality issues.

PROVIDING EXPERT ADVICE TO CUSTOMERS

In 2006 and 2007 we published the information brochure "Zukunft dank Nachhaltigkeit" (A future, thanks to sustainability), which was received very positively by our customers, the media, institutions and the political sphere. As part of our consumer information campaign, around 1 million flyers "Zu wertvoll für den Müll" (Too good for the garbage) were distributed, with details on taking back used electrical and electronic devices.

Our children's education is of central importance if society is to change the way it thinks about the environment. In 2006, we continued our campaign "Ökologischer Schulanfang" (Environmental back to school), which is directed at preschool and primary school children and their parents. The central focus is the brochure "Das könnt ihr für die Umwelt tun! Clever durch alle Klassen" (This is what you can do for your environment! Clever in every class), featuring Karstadt's environmental hedgehog "Clemens Clever". Around 1.2 million copies were printed in cooperation with the German Federal Environment Agency and the "Initiative Pro Recyclingpapier" (Initiative for Sustainable Use of Paper). Furthermore, 35,000 children participated in our "Schüler-Wettbewerb Clemens Clever" (Clemens Clever student competition), submitting creative suggestions for the snappiest hedgehog slogan. The winning entry was "Clemens Clever, der Igel mit dem Durchblick" (Clemens Clever, the hedgehog that knows the score), with the pupil who sent it in winning an adventure weekend with his class at Gut Grasbeck in Walsrode.

In 2007, a student competition was held entitled "Tierisch gut!" (Wildly good!), with entries divided between two age groups. Overall, nearly 4,500 excellent creative ideas were submitted. The jury met in January 2008, with the winners announced in April 2008.

MAINTAINING BIODIVERSITY

For years, Karstadt has been committed to maintaining biodiversity and protecting endangered animals. As part of the jungle weeks "Die Stadt wird exotisch" (The city turns exotic) in February 2007, we organised a charity auction in 25 stores for the Sumatran tiger, which is threatened by extinction. We also support the WWF children's programme "Young Panda": "Young Panda membership" winners were able to choose which project would receive funds generated by Karstadt through member contributions. At the start of the special weeks, Peter Wolf, Chairman of the Karstadt Management Board, presented a cheque for € 80,000 to the WWF.

The campaign “Unterwegs für biologische Vielfalt” (On the go for biological diversity) generated considerable attention: in cooperation with the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, Volkswagen and MAN, a modern coach was fitted out as an “ark on wheels” to act as a mobile ambassador for the protection of endangered species. For four weeks, the information bus travelled through Germany and stopped off in the pedestrian zones at a total of 16 Karstadt locations.

REDUCING THE CO₂ BURDEN

One of Karstadt’s most important climate goals is the reduction of carbon dioxide emissions. Combining deliveries and transferring shipments to rail and inland ships does more than save costs – it also contributes to a drastic reduction of CO₂ output and traffic noise. Simply by centralising our logistics at the largest distribution centre in Unna, we saved 2.8 million journeys and approximately 840 million HGV kilometres in 2007. Furthermore, inland ships have been used to carry out the final leg of imports arriving in Rotterdam and Hamburg from Asia for a number of years now. Shifting approximately 75 percent of deliveries from the road to the railway in 2006 and 2007 is also making a significant contribution to the reduction of emissions.

KARSTADT ENERGY REQUIREMENTS AND CO₂ EMISSIONS

Energy source	2007	2006
Electricity in kWh	460,267,570	461,789,992
Heat/oil in litres	708,420	1,675,000
Natural gas in m ³	8,877,131	10,438,173
District heating in kWh	118,969,000	142,913,000
Total CO₂ emissions in metric tons*	337,162	350,551

* Calculated from electricity and heat consumption

Karstadt continuously invests in its properties and in modern building engineering systems to improve climate protection. When selling off property on 1 July 2006, we also worked closely with the real estate owners to ensure an efficient, coordinated approach and to leverage synergies.

PARTNERSHIPS WITH SUCCESS

Together we are stronger – and this also holds true for environmental and climate protection. Karstadt works closely with a range of expert partners and renowned institutions:

- German Federal Environment Agency
- Federal Agency for Nature Conservation
- German Wildlife Foundation
- Deutsche Umwelthilfe e. V.
- dena, German Energy Agency
- Initiative for Sustainable Use of Paper
- TransFair (chairmanship)
- B.A.U.M., German Environment Management Association
- Deutsches Verpackungsinstitut (German Packaging Institute) (chairmanship)
- Deutsches Verpackungsinstitut und Bund deutscher Verpackungstechniker (German Packaging Institute and Association of German Packaging Engineers) (scientific advisory council)
- German Museum of Packaging (curatorship)
- German Packaging Award (advisory committee)
- DIHK – the German Chambers of Industry and Commerce (environmental committee)
- DIN – German Institute for Standardisation (advisory standards committee for quality management, statistics and certification principles)
- EHI – Retail Institute (working group for disposal/hazardous substances and hazardous goods)
- InWent – Internationale Weiterbildung und Entwicklung gGmbH (International Further Education and Development) (jury “Capital City of Fair Trade”)
- RAL – Deutsches Institut für Gütesicherung und Kennzeichnung (German Institute for Quality Assurance and Labelling) (president)
- Stiftung Warentest (Consumer Organisation) (curatorship)
- TFH Berlin – University of Applied Science (industrial advisory committee)

In addition, at the end of 2007 Karstadt had formed environmental partnerships with six out of a possible eight German states, while it has been an official environmental partner of the city of Essen since 1998.

Shaping the future of our society

As the pioneers of value-orientated corporate policy, Karstadt has long worked to preserve Germany's cultural diversity. Through a wide variety of activities, Karstadt is helping create a society that is ready for the future, and taking responsibility for our communities. We participate in numerous initiatives around our locations, play an active role in local recreational sports, and regularly organise cultural events.

NO. 1: SPORTS SPONSORSHIP

Sports have always been at the centre of our sponsorship activities: since 2003, Karstadt has sponsored the "Karstadt Marathon", and has already signed up until 2010. The company has also organised the "Karstadt Golf Masters" since 1997, one of the largest amateur golf series in Germany. Aside from a range of other high-audience sports such as football, tennis and winter sports, we also support many popular sports such as nordic walking and fitness.

As the exclusive merchandisers 2006 FIFA World Cup™ and the 2007 Handball World Championships, Karstadt has also shown itself to be major supporter of global sporting events. In 2007 we worked individually with over 20 event organisers, associations and colleges and 54 amateur golf competitions, as well as being involved in 60 local store partnerships.

STRONG PARTNERSHIPS FOR ART, CULTURE AND EDUCATION

For over 25 years, Karstadt department stores have hosted the "Kunst Kultur Karstadt" (Art Culture Karstadt) series of events. In 2007 renowned artists and musicians, authors and cabaret performers ensured another year of sold-out events and delighted audiences. However, supporting young talent is also hugely important to us: as part of the Mercedes-Benz Fashion Week, July 2007 saw the first ever Karstadt New Generation Award, which honours innovative and creative young designers. As the winner of the award, Berlin label "Kaviar Gauche" designed an exclusive collection available in Karstadt stores. The company has also continued its support of talented fashion designers in 2008: the winner of the second Karstadt New Generation Award was "q.e.d." – the label's exclusive collection will be available in various Karstadt stores as of autumn 2008.

As a partner of the youth initiative "RUCK", Karstadt also helps young people set up student companies, and boosts their opportunities in the professional training market. As part of this, Karstadt teaches economic issues and offers retail expertise directly in the classroom. By the end of 2007, Karstadt had provided teaching materials on the student company concept for 15,000 schools throughout Germany.

Sustainability Programme Karstadt

OBJECTIVES	MEASURES BY 2008 - STATUS	CONTINUATION AND NEW OBJECTIVES BY 2009
Product policy		
Share of textiles tested for pollutants	Increase the share of pollutant-tested textiles. For cost reasons, it was not possible to implement the planned data recording system - contrary to expectations	Continuation and, where possible, expansion of share of pollutant tested textiles
Organic cotton	Introduce the new product line "organic cotton" (bath towels and bedding) in 2007	Expansion of product line to further shopping sectors and additional certification with the Fair Trade seal
Number and sales development of foods with the organic seal	Number of organic products in deli markets in 2007: approximately 800 organic products; more than 3,000 organic products in separate organic markets; turnover increase in organic products in 2006: 11%, in 2007: 17%	Continuous changeover to further separate organic shops by 2009; further turnover increase to 10% by 2009
Number and sales development of foods with the Fair Trade seal	Increase in numbers/turnover development of foods with the Fair Trade seal in 2006 (45 products/2%) and 2007 (50/2%-3%)	Continuous expansion of offerings in foods with the Fair Trade seal by 2009; further increase in the share of turnover to 5% by 2009
Furniture with FSC certificate	Planned expansion of FSC shares in product offerings not implemented due to elimination of the furniture product range	No further need for action
Increased use of quality seals	Use quality seals as a significant part of product presentation and further expansion	Continuation and expansion of the use of quality seals in product presentation
Revision of guidelines for environmentally-friendly product design	Revision of guidelines stopped due to own initiative of suppliers	Due to changed overall conditions, there is no further need for Karstadt to act
Customer consulting		
Sales support for sustainable products	Information and explanation campaigns on the subject of sustainability for consumers; inventorying environmentally-friendly products together with BUND; implementation of group-wide concept to encourage sales of sustainable products did not take place	Continuation of sales support for sustainable products
Integration of sustainability themes into brand communications	Continuation of sustainability campaigns	Continuation of information and explanation campaigns for consumers
Complaints management	Introduction of new software for speedy transfer of questions, suggestions and complaints as well as enabling customer feedback via e-mail since 2006; in more than 28,000 enquiries in 2007, 70% of customer mails were answered within 48 hours; satisfaction with answers in 2006 increased from 77% to 81%	Efficient continuation and further optimisation of complaints management; further increase in customer satisfaction

OBJECTIVES	MEASURES BY 2008 - STATUS	CONTINUATION AND NEW OBJECTIVES BY 2009
Business management		
Utilisation of synergies in sustainable business management	Cessation of measures for systematic exchange in association work; harmonisation of group-wide activities in waste management and disposal processes as well as creation of departmental management	Efficiency verification of new expert management
Reduced consumption of resources	Utilisation quota increased to 95 %; objective of stabilisation at 90 % is more than fulfilled	Maintaining the attained utilisation quota
	Savings of 2.8 million trips with approximately 840 million lorry kilometres in 2007 by centralising logistics to the distribution centre in Unna	Further optimisation and increased efficiency in logistics
	Shifting approximately 75% of deliveries from road to rail from 2006 to 2007 and resulting significant reduction of CO ₂ emissions (2006: 350,551 t, 2007: 337,162 t CO ₂ emissions in total)	Reduction of CO ₂ emissions by 5 % by 2009
	Substitution of individual paper-bound marketing activities by advertising sections in the internet	No further measures to reduce resource consumption in paper-bound marketing measures
	Reduced consumption in brochures with minimised paper thickness	Continue to reduce consumption in print publications
Dealing with employees		
Employee training and information about environmental protection	Effectiveness of information spread about sustainability programmes via employee newsletter and Group intranet as well as the flyer "Zukunft dank Nachhaltigkeit" (A future, thanks to sustainability) is better than expected	Continue information and training of employees in environmental protection
	Expand and intensify the inclusion of environmental protection aspects when working with trainees	Revision and new issue of the training handbook "Environmentally-conscious actions!" for trainees by 2009
Manager qualifications	Introduction of the managers' programme "Beste Ideen präsentieren" (Presenting the Best Ideas) to encourage employee creativity in 2006, as well as teamwork and implementation of employee ideas; expanded offers for employees in all company sectors in 2008	Continuation and expansion of the managers' programme "Beste Ideen präsentieren" (Presenting the Best Ideas) for all employees

Key figures

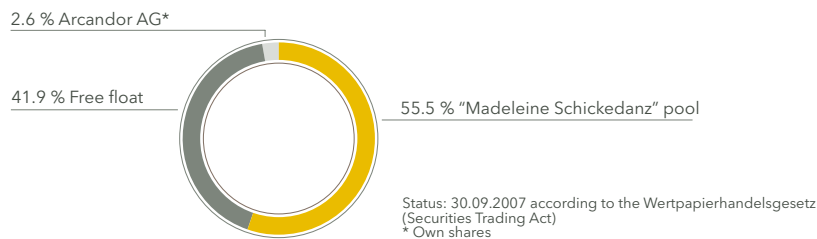
Our economic, ecological and social key figures are an important tool for continually measuring our performance, ensuring each year is transparently reported and can be easily compared.

The data in the figures shown – unless otherwise stated – refers to the entire Group, including all subsidiary companies in which the Group owns a majority stake. Due to wide-ranging restructuring and the changes made to survey methods and conditions, the following key figures are not comparable with those in the 2005 KarstadtQuelle AG Sustainability Report.

Key figures relating to Karstadt Warenhaus GmbH and Primondo GmbH or Quelle GmbH are designated as such. For Thomas Cook Group plc, which originated in June 2007 with the merger of Thomas Cook AG with MyTravel Group plc, there are only limited key figures for the reporting period.

ECONOMIC KEY FIGURES

STOCKHOLDER STRUCTURE



At 55.5 percent, the "Madeleine Schickedanz" pool remained the main stockholder in 2007. The proportion of own shares held by Arcandor AG has dropped significantly in 2007 compared to the previous year. The reason for this was the takeover of homeshopping channel HSE24 in June 2007, for which approximately 5.5 million shares were sold off to finance the deal. The proportion of shares in Arcandor held by the Group itself thus stood at 2.6 percent of the total at the end of the short 2007 fiscal year. The free float reached 41.9 percent.

ADJUSTED SALES BY COMPANY SECTORS

Entries in m €	01.01.-30.09.2007	01.01.-30.09.2006*
Thomas Cook	8,447.8	2,503.1
Primondo	2,889.4	2,778.0
Karstadt	2,861.6	2,940.4
Other/transitional	82.1	84.8
Group	14,280.9	8,306.3

* The data has been adjusted. The corrections are related to special factors and disinvestments

The adjusted Group sales rose in 2007 by 71.9 percent as compared to the previous year and stood at € 14.3 bn in September 2007 at the end of the short fiscal year. This clear growth in sales demonstrates the positive changes the Group has experienced since its massive reorganisation.

SOCIAL KEY FIGURES

NUMBER OF TRAINEES BY COMPANY SECTOR

	2007	2006	2005
Thomas Cook*	376	215	453
Karstadt	1,848	2,064	1,722
Primondo (thereof Quelle)	617 132	560 111	661 253
Other areas**	21	10	5
Total	2,862	2,849	2,841

* Applies only to Thomas Cook Germany ** Holding company, services

We consider the training of young people to be an important investment in our future. For this reason, we have maintained our high level of training for years in order to ensure that our Group has the best-qualified young talent.

TRAINING RATE BY COMPANY SECTOR

Entries in percent	2007	2006	2005
Quelle	3.2	2.6	2.8
Karstadt	5.8	5.7	4.6
Other areas*	< 1.0	< 1.0	< 1.0

* Holding company, services

Despite a reduction in staffing levels, we have been able to keep the total number of trainees stable in recent years. This has led to a slight increase in the training rate.

NUMBER OF EMPLOYEES BY COMPANY SECTOR

	2007	2006	2005
Thomas Cook	32,722	10,724	13,534
Primondo (thereof Quelle)	13,492 4,120	28,366 4,224	31,492 9,177
Karstadt	31,951	36,206	37,056
Other areas*	1,160	1,621	2,547
Total	79,325	76,917	84,629

* Holding company, services, property

We aim to offer our employees secure, long-term positions. Unfortunately, necessary restructuring measures in 2007 also led to a breakdown in employment relationships that we are trying to rectify in as socially-compatible a way as possible. The rise in employee figures at Thomas Cook is a consequence of the merger with MyTravel in 2007.

NUMBER OF SEVERELY DISABLED EMPLOYEES BY COMPANY SECTOR

	2007		2006		2005	
	Number of occupied positions	Quota in percent	Number of occupied positions	Quota in percent	Number of occupied positions	Quota in percent
Arcandor	5	2.5	5	2.5	5	2.8
Quelle	186	5.2	206	5.7	506	6.3
Karstadt	1,540	5.9	1,536	5.6	1,705	5.8

The percentage of severely disabled employees in the Group was 5.2 percent at Quelle and 5.9 percent at Karstadt in 2007, which was again above the quota of 5.0 percent for severely disabled employees as required by law in Germany. Creating accessible workplaces is as important to us as our commitment to supporting employee diversity.

SOCIAL-SECURITY CONTRIBUTIONS AND COST AT ARCANDOR AG

Entries in th. €	2007*	2006	2005
Social-security contributions and cost of pensions and welfare benefits	327,516	368,261	402,015
there of for pensions	58,786	34,138	39,888

* Based on the short fiscal year from January 2007 to 30 September 2007

Of social-security contributions and cost of pensions, € 58,786,000 went to pensions in 2007. The employer's contribution to pension insurance is thereby assigned to social-security contributions and not to cost of pensions. The decrease of social security contributions and cost of pensions and welfare benefits can be attributed to the declining employment figures in the past few years.

FURTHER DEVELOPMENT MEASURES AT THE ARCANDOR ACADEMY

	2007	2006
Participants	352	320

For us, the continued education of our employees is an important investment in our long-term economic success. Only well-trained staff can meet the growing challenges in the competitive retail and tourism sectors. In 2007, we increased the number of employees who participated in Arcandor Academy events – a trend which we plan to continue in the future.

NUMBER OF WORKPLACE ACCIDENTS

	2007	2006	2005
Quelle	151	271	231
Karstadt	453	436	387

The health of our employees is a No. 1 priority at Arcandor. Despite our efforts in the areas of work safety and health protection, the total number of workplace accidents rose in 2007. We take this development very seriously and will further increase our activities in this area.

SHARE OF AUDITED IMPORTS AND SALES DISTRIBUTION 2007

Entries in percent	
Import volumes from high-risk countries	100
Percentage of these audited	52
Import volumes total	100
Import volumes for mail order (Primondo)	77
Import volumes for stationary retail sales (Karstadt)	23

We are working continuously to increase the percentage of audited suppliers in procurement. In 2007, we were able to obtain more than half of our merchandise from audited suppliers. At 77 percent, the largest share of our imported goods sales volume is accounted for by the Primondo mail order business. By the year 2010, approximately 90 percent of imports from high-risk procurement markets should come from suppliers who have been audited on the basis of social standards.

SHARE OF AUDITED SALES ACCORDING TO COUNTRY 2007

Entries in percent	
Bangladesh	5
Bulgaria	2
China, Hong Kong	47
India	8
Pakistan	5
Romania	1
Thailand	1
Turkey	29
Vietnam	2

Nearly half of all sales from audited suppliers are accounted for by suppliers from China and Hong Kong. The second largest procurement market for goods from audited production facilities is Turkey. We thus focused our social audit on two of the most important production countries for textiles, which account for a significant proportion of our product range.

AUDIT RESULTS QUALITY DISTRIBUTION 2007

Entries in percent	
Good (BSCI system)	22
Needs improvement (BSCI system)	23
Critical (BSCI system)	37
Other (not BSCI, not comparable)	18

The quality of the audit results provides us with important feedback and decision-making support when selecting our suppliers. Unfortunately the share of suppliers rated “critical” is still at 37 percent. Here we are making an effort to have a positive influence on working and production conditions through workshops and training courses that are held in cooperation with the suppliers.

DONATIONS

Entries in th. €	2007	2006
Arcandor	3,075	2,225

The donation of goods and funds is an important part of our community work. In 2007, donations made by Arcandor rose to more than € 3 m. Among other things, these donations went to sponsorship projects in sports, education and culture.

ECOLOGICAL KEY FIGURES

ELECTRICITY CONSUMPTION

Entries in megawatt hours	2007	2006	2005
Quelle	72,000	76,000	91,000
Karstadt	460,267	461,789	542,100

WATER CONSUMPTION

Entries in cubic metres	2007	2006	2005
Quelle	85,000	93,700	182,001
Karstadt	1,184,000	1,378,947	1.480,663

HEAT CONSUMPTION

Entries in megawatt hours	2007	2006	2005
Quelle	63,000	72,030	100,950
Karstadt	224,323	275,213	229,986

The clear savings by Quelle in electricity and heat consumption are the result of far-reaching optimisation measures in building management. Intelligent management of energy consumption, modernisations and last but not least the renovation and consolidation of locations have made this remarkable success for climate protection possible. Building management that conserves resources has also led to declining consumption figures for water and heat at Karstadt.

CO₂ EMISSIONS*

Entries in metric tons	2007	2006	2005
Quelle	57,060	61,447	76,809
Karstadt	337,162	350,551	431,121

* Calculation based on German energy mix for electricity and estimated energy mix for heat

For years, Quelle and Karstadt have been making successful efforts to reduce their CO₂ emissions. In 2007 we were able to make a further contribution to climate protection. Emissions of the greenhouse gas CO₂ decreased by 17,776 metric tons in comparison to the previous year. Despite this positive development, the main aim of our environmental management policy remains the further reduction of our CO₂ emissions.

PACKAGING PRODUCTION*

Entries in metric tons	2007	2006	2005
Quelle	3,201	2,632	3,205
Karstadt	2,867	2,839	3,984

* Stationary retail sales service and sales packaging; for mail order sales packaging without return shipments and service

WASTE PRODUCTION

Entries in metric tons	2007	2006	2005
Quelle	17,977	18,565	24,221
Karstadt	43,249	42,592	50,947

Packaging production, particularly in mail order sales, is hugely important to the environment, while being extremely significant in terms of costs. The careful use of packaging materials is thus also an important objective at Quelle from an economic perspective. Due to a significant increase in mail order activities, packaging production rose slightly again in 2007 to 3,201 metric tons. At the same time, we were able to improve the recycling rate in mail order to almost 100 percent within the reporting period. At about 90 percent, the recycling rate in over-the-counter retail is also at a very high level.

Glossary

BLUE ANGEL

The Blue Angel is the first and most widely-recognised environmental symbol in the world. Since 1978 it has set the standard for environmentally-friendly products and services, which is determined by an independent jury according to fixed criteria.

CORPORATE GOVERNANCE

Comprises the entire management and control of a company, including its organisational structure, business policy principles, guidelines, and internal and external regulation and monitoring mechanisms. The Corporate Governance Codex represents significant legal requirements, recommendations and suggestions for the management and monitoring of German stock-exchange-listed companies, contains standards for good, responsible corporate management and is aimed at making the German Corporate Governance System transparent and comprehensible.

CORPORATE VOLUNTEERING

Volunteer activity by employees in joint projects within or outside working hours, organised or approved by the employer.

CSR

Corporate Social Responsibility refers to the voluntary efforts of a company to play a positive role in society and include social as well as environmental responsibilities in its business activities and strategy.

DIVERSITY MANAGEMENT

Diversity management is an important new aspect of international management practice. The individual diversity of employees – in terms of nationality, region, ethnic group and religion – is not only recognised, but regarded as a resource, valued and utilised as a strength of the company.

EBITDA

Earnings Before Interest, Taxes, Depreciation, Amortization. Earnings before financial results, income taxes and depreciation and amortization.

E-COMMERCE

Electronic trading between the company and the consumers.

ETHIBEL SUSTAINABILITY INDEX

The Ethibel Sustainability Index is one of the most important sustainability indices and selects responsible and sustainably-managed companies worldwide according to the best-in-class principle.

EU FLOWER

Since 1992, the EU Flower has been the European Union's (EU) quality symbol for environmentally-friendly products. The seal is only awarded to products that meet strict ecological criteria and the highest quality standards.

FTSE4GOOD INDEX

The Financial Times Stock Exchange FTSE4Good is an international ethics index created by the Financial Times and the London Stock Exchange in 2001. Companies are included that act sustainably, maintain positive relations with shareholders and observe human rights.

MULTICHANNEL

Strategy where a number of sales and communication channels complement one another. Important sales channels in the Arcandor Group are department stores, catalogues, travel agencies, e-commerce and teleshopping.

OEKO-TEX STANDARD 100

The Oeko-Tex Standard 100 is a testing and certification system for textiles. The certificate is awarded by the “Internationale Gemeinschaft für Forschung und Prüfung auf dem Gebiet der Textilökologie” (International Association for Research and Testing in the Field of Textile Ecology – Eco-Tex) and guarantees compliance with limits of contaminants in textile products which can be harmful to health.

PREMIUM GROUP

Karstadt top locations offering an exclusive, international product range. As “Top of Europe” (KaDeWe, Berlin) and “Top of the Region” (Alsterhaus, Hamburg), these cosmopolitan stores are the first port of call for a particularly high-quality shopping experience.

SHORT FINANCIAL YEAR

A financial year that includes fewer than twelve months. In accordance with a decision made at the 2007 general shareholders’ meeting, the end of the Arcandor AG financial year was changed from 31 December to 30 September. The 2007 financial year thus only ran for nine months, from 1 January to 30 September. In the future, the reporting period will run from 1 October to 30 September.

TELESHOPPING

Teleshopping is a form of sales, where products are presented to customers on television and can be ordered by telephone.

UNITED NATIONS GLOBAL COMPACT

The Global Compact is a worldwide alliance between the United Nations (UN) and private business, and is based on an initiative of the former UN Secretary General Kofi Annan. The aim of the pact is to ensure globalisation is carried out sustainably. Signatories of the ten Global Compact principles commit themselves to protecting human rights, upholding work, social and environmental standards, and fighting corruption. Since 2006, Arcandor has been expressly committed to the Global Compact principles.