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Sustainability is part of our promotional mandate. In the challenging times of climate change, scarcity of resources, globalisation, technology-driven structural change and demographic development, KfW bears a particular share of responsibility as a promotional bank of the German Federal Government and the federal states. Active in more than 100 countries around the globe, KfW must live and promote ecological, social and economic responsibility. Sustainability is thus part of our global mandate to continue to support the German economy and society and those of our partner countries in mastering these challenges.

Our funding instruments make a major contribution to implementing the Federal Government’s sustainability strategy. Our promotional track record: environmental and climate protection alone account for 28% of the total financing volume. Today, KfW is the world’s largest promoter of renewable energies, thus ranking above the World Bank in developing countries.

KfW’s current Sustainability Report not only describes our activities on behalf of environmental and climate protection for the years 2006 to 2008 but also provides information on all the bank’s activities that today fall under the term “sustainable action”. We present the individual goals KfW has set for itself and explain how it aims to achieve them. We also explain in more detail our basic principles and considerations underlying the individual measures.

Our guiding philosophy commits us to sustainability. Environmental and social guidelines to implement this framework were developed that apply to all areas of the bank; they ensure that promotional projects in Germany and abroad that we co-finance do not present any unacceptable environmental and/or social risks.

Of particular note is the sustainability policy for KfW IPEX-Bank’s project and export finance operations that was revised in November 2007. In anticipation of KfW IPEX-Bank’s March 2008 commitment to the Equator Principles, the policy internally implements the highest international standards for project assessments and broadens the scope of application even further.

Since 2006, KfW has committed to the United Nations’ “Principles for Responsible Investment” initiative, becoming one of meanwhile 350 signatories. In joining, it undertakes to make its own investments in fixed and variable rate securities in line with socially responsible action.

We also aim to address the high expectations of our owners as well as employees concerning corporate environmental protection, e.g. through new or renovated administration buildings with, for example, low primary energy requirements. All of KfW’s remaining greenhouse gas emissions, particularly also from business travel, have been rendered carbon neutral by retiring emission reduction credits since 2006. This offsetting requirement has declined over the course of the years, e.g. through converting to green electricity since 2008, and will continue to decline due to planned energy-saving measures.
KfW Bankengruppe has done a great deal in the field of sustainability over the three reporting years. This second Sustainability Report offers a wealth of examples of our actions. Yet for us, this publication is more than just a progress report or annual report documenting our self-commitment and global responsibility for sustainable action over the past three years. Instead, we see the KfW Sustainability Report also as an invitation to all our stakeholders – for example, our clients, sales partners or interested members of the public – to enter into dialogue with us.

With your help, we want to become even better!

Dr Ulrich Schröder (Chairman)

Dr Axel Nawrath (Board member in charge of environmental issues since 1 October 2009)

Wolfgang Kroh (Board member in charge of environmental issues until 30 September 2009)
YESTERDAY, TO MORROW: SUS A LIVED CORPO
Sustainable improvement of economic, social and ecological conditions is a key value of KfW’s guiding philosophy. The bank has a long tradition of environmentally and socially responsible action, based on the mandate from the Federal Government. Moreover, the KfW Law also prescribes environmental protection measures, measures with purely social objectives as well as measures to promote education as independent promotional tasks. These basic positions are defined in the environmental and social principles that set forth a binding orientation framework for all areas of the bank. Its work is also based on the Government’s sustainability strategy, which defines generational equality, social cohesion, quality of life, and global responsibility as benchmarks.

As a global bank, KfW aims to make a contribution to improving living conditions at all levels.
60 years of KfW Bankengruppe

The history of KfW Bankengruppe is closely tied to the economic development of the Federal Republic of Germany. Since its formation in 1948, KfW has supported future-oriented ideas. To this end, it has granted loans totalling nearly EUR 1 trillion in the course of 60 years. In its anniversary year 2008, KfW Bankengruppe was Europe’s largest national promotional bank.

Initially, KfW supported Germany’s reconstruction primarily with funds from the Marshall Plan. In the ensuing period, the promotional bank of the German Federal Government and the federal states has redefined its priority support areas in reaction to changing political and societal needs. Even if there was not yet anything collectively referred to as “sustainability”, KfW assumed the role from the very beginning of not only developing principles and values but also rigorously adhering to and practicing them so that the generations to come can benefit from them as well.

KfW was and is – both as an institution and in the way it works – a role model for promotional banks around the world. Its role is to correct errors in the market system and to drive promising developments. In doing so, it acts on its legal mandate, for example in financing start-ups and medium-sized company projects as well as in making investments in education, infrastructure, environmental protection and innovations. These areas are key to how well Germany masters the structural challenges resulting from global trends such as scarcity of resources, climate change, globalisation and demographic change.

The economic stimulus packages approved by the Government, have forced KfW to now address major new challenges for which its experience has prepared it well. KfW was unable to repeat the 2007 record volume of promotional business in 2008. However if the extremely difficult environment brought on by the financial market crisis is taken into account, it is evident that KfW’s efforts were very beneficial to the Germany economy in the past year as well.

Nevertheless, KfW must face the changed economic conditions. The financial crisis has moved the banking world to centre stage of a critical discussion. The sector’s public reputation has suffered damage. KfW has used this criticism and the associated challenges to modernise the bank and to focus even more strongly on its role as promotional bank. This means that it gears itself even more to the needs of its client groups.

These groups comprise:

• commercial clients such as start-ups, small and medium-sized enterprises (SME) and companies in the export business,
• private clients, particularly in the private housing and education financing sector,
• public sector clients and
• developing countries.

With the new KfW, the bank is in an excellent position to resolutely continue its promotional activities and to sustainably boost the economy and advance society in the future as well.

The financial crisis and the most severe recession since the formation of the Federal Republic of Germany have made KfW’s promotional activities more necessary and its role in bolstering the economy more important than ever before. Germany needs a strong KfW, especially now, to support the economy and the country’s status as a financial centre, to ensure and expand prosperity – and ultimately to emerge stronger from the crisis.

About this report:

KfW Bankengruppe has regularly published an Environmental Report since 1995. This was expanded for the first time in 2006 to a Sustainability Report to comprehensively explain our responsibility to society. The present report continues this tradition. KfW aims to provide comprehensive information on its manifold measures and programmes to its strategic partners in business and politics as well as stakeholders representing public interests, in addition to all those that take advantage of its service offering.

Moreover, KfW has oriented itself to the Global Reporting Initiative (GRI) guidelines. Reference is made in many places to further information on the Internet. Furthermore, a detailed list of links is available at www.kfw.de/sustainability that helps to quickly locate specific content. This Sustainability Report refers to KfW Bankengruppe in Germany unless otherwise stated. Data or statements that refer to only one group bank will be identified. The figures included in this report are based on the years 2006 to 2008. Moreover, material events that occurred up to 1 July 2009 are taken into account.

You can find more information on this issue at www.kfw.de/sustainability
As a company, KfW needs a reliable orientation framework. To this end, it has developed values and a code of conduct that are important to its work and its self-image as set out in its corporate guidelines. They contain the basic rules and principles of conduct that are binding for the employees at all levels.

**KfW’s mission statement**

KfW’s mission statement is called KfW Compass. At its core is our mandate: to support change and advance future-oriented ideas nationally and internationally. The goal is to counteract negative market developments as well as undesirable economic, social or ecological situations through politically initiated funding. KfW’s work in so doing is absolutely neutral in terms of competition. All the bank’s products and processes are tailored to the customers’ needs. KfW supports them with comprehensive market know-how, never losing sight of the customers’ benefit even in complex service chains. We develop process optimisation strategies on this basis with the aim of achieving highest transparency, flexibility and cost efficiency.
Environmental and social principles

As the bank of the German Federal Government and the federal states, KfW bases its decisions on the Government’s sustainability strategy as its guiding principle. This is also reflected in KfW’s “Statement on environmental protection and sustainable development”, which was presented to the Bundestag (lower house of the German parliament) in 2003. In this statement, KfW emphasises the obligations incumbent upon it under the “UNEP Statement by Financial Institutions on the Environment and Sustainable Development”.

Given its promotional mission and its values, social responsibility is an inherent part of KfW’s business activities. Accordingly, KfW has defined its fundamental position in a set of guidelines entitled “Responsibility in society – the environmental and social principles of KfW Bankengruppe”.

The environmental and social principles are based on the sense of social responsibility that is firmly anchored in KfW’s statutory mandate and business areas. These principles cover the following:

• KfW’s objectives,
• international agreements,
• how social aspects and environmental protection are taken into account in KfW’s service offering and business relationships,
• human resources policy and social benefits,
• corporate governance (responsible, ethically sound management),
• KfW’s civic commitment (Corporate Citizenship) and
• implementation and reporting.

The statements made in these principles apply across all of KfW’s business areas, and have been elaborated on by the latter to develop their own, more specific guidelines.

You can find more information on this issue at www.kfw.de/statement

The German Government’s sustainability strategy as the basis for our promotional policy

The German Government’s sustainability strategy aims to ensure generational equality, social cohesion, quality of life and global responsibility. These are the guiding principles that are applied when issues such as resource conservation, renewable energies, economic provision for the future, health and food, gender equality, employment and social integration are analysed and assessed.

KfW Bankengruppe’s extensive financing and promotional offering in Germany and abroad is based on a set of objectives that is largely consistent with the concerns addressed by the national sustainability strategy.

You can find more information on this issue at www.destatis.de and at www.bundesregierung.de

The uneven distribution of information, positive or negative external factors, size-related barriers to capital market entry, and the trend towards corporate consolidation can knock the market economy system out of balance, creating an obstacle to the realisation of the socio-economic ideal. KfW’s promotional programmes help to iron out these market imperfections through

• countering their negative impact by offering low-interest promotional loans, as well as mezzanine and equity financing,
• boosting competition by providing support to small enterprises and start-ups or
• offering rewards for positive external effects on the environment, economic and social progress, and education.

This means that KfW’s promotional programmes encourage sound investments and activities that could not be realised – or at least not in full – without the bank’s help.
On 1 July 2009, the Federal Cabinet passed the Federal Public Corporate Governance Code (Public Corporate Governance Kodex des Bundes – PCGK), which is aimed specifically at companies in which the Government holds a majority interest, and sets out recommendations and proposals for standards of sound corporate management, the idea being to make the management and monitoring of these companies more transparent and comprehensible. Large parts of the Code are based on the German Corporate Governance Code (Deutscher Corporate Governance Kodex – DCGK) for listed companies.

Like the DCGK, the PCGK is aimed primarily at incorporated companies. Legal persons under public law like KfW are advised to adhere to the PCGK unless there are legal provisions to the contrary. KfW will implement this recommendation, and the main aspects of corporate governance at KfW are already set out in the KfW Law and in the By-Laws.

Furthermore, KfW has recently further developed key aspects of its corporate governance policy: the work of the Board of Supervisory Directors has been made more efficient by the establishment of an Executive Committee that has the authority to make urgent decisions. A similar aim was being pursued with the establishment of an Audit Committee in addition to the existing Loan Approval Committee. New rules of procedure and a code of conduct were also put into force for the Managing Board.

KfW also plans to take further measures: among other things, it plans to pass rules of procedure for the Board of Supervisory Directors incorporating the main recommendations set out in the PCGK for the work of a supervisory body and the cooperation between the management body and the supervisory body.

You can find more information on this issue at www.kfw.de/code_of_conduct

Sustainable economic commitment also requires a systematic approach to protecting human rights.

**Safeguarding human rights**

Human rights have their roots in the dignity of each and every human being – dignity that they aim to protect. They are an extensive system of norms affecting many areas of human life and stipulating requirements on how governments should act.

In its own area of influence, KfW respects and safeguards human rights. It rules out any involvement in any kind of human rights violations. Furthermore, it is committed to playing an active role in helping to implement human rights at international level where it has suitable tools at its disposal.

KfW places particular emphasis on protecting the people who work on its projects in developing countries and emerging markets, where it is committed to ensuring compliance with fundamental employment norms. This includes efforts to abolish forced labour, child labour and to prohibit discrimination at work. In its environmental and social principles, KfW has undertaken not to provide financial support to any projects that are likely to have unacceptable environmental or social consequences, including human rights violations.

You can find more information on this issue at www.kfw-entwicklungsbank.de/human_rights
ALWAYS IN FOCUS.
ABILITY AND TIVE PROMOTION.
KfW is a public-law institution. As the bank of the Federal Government, which holds 80% of its capital, and of the federal states, which hold 20%, it supports the sustainable improvement of economic, social and ecological living and business conditions. It focuses on supporting SMEs, start-ups, environmental protection, the housing sector, infrastructure, education, project and export finance and development cooperation. It has been highly successful as a promotional bank for the past 60 years. KfW Bankengruppe aims to provide impetus for the economy, for society and for the environment not just in Germany, but across the globe.
Key business areas and the services they offer

The economic and social framework has undergone considerable change throughout the bank’s 60-year history – and its organisational structure and promotional activities have changed, too. Today, KfW provides low-interest loans to small and medium-sized companies, promotes infrastructure and housing construction and is committed to driving progress in the area of climate protection. Its key tasks also include promoting exports, as well as conducting Financial Cooperation with developing and emerging countries. The bank’s main business areas are illustrated below.

Promoting SMEs and start-ups

The promotional offering open to start-ups and SMEs includes not only conventional, long-term loans, but also a range of new programmes aimed at strengthening companies’ equity base. Both options are available to clients via their regular business banks. It goes without saying that this area of KfW’s business also includes giving targeted advice.

Construction, housing, energy saving

With its “Construction, housing, energy saving” promotional programmes, KfW is helping more and more people to become homeowners, as well as financing housing modernisation projects. In this respect, environmental and climate protection are the guiding ideas.

Financing for municipal infrastructure projects

KfW provides financial support to local authorities wishing to embark on infrastructure projects. These include sewer system modernisation, the further development of public transport networks or housing projects. Private-law companies or non-profit organisations that perform municipal tasks can also apply for promotional funding.
Education

For a low-resource country like Germany that is on its way to becoming a knowledge-based society, education is of paramount importance as a production factor. The education level of a country’s population has a positive impact on a country’s productivity and innovative strength. More innovation means more growth and more prosperity. This is why KfW also provides students and skilled workers with low-interest loans to help them finance their training and further education.

KfW IPEX-Bank

KfW IPEX-Bank is a wholly-owned subsidiary of KfW Bankengruppe. It is responsible for project and corporate finance in Germany and abroad, as well as for trade and export finance. It operates, with a focus on its clients and its competition, in line with standard market conditions and plays a key role in helping KfW to perform the tasks assigned to it by the Federal Government. It acts as a long-term, reliable partner for companies that operate at international level, providing them with the right financing solutions to suit their needs. KfW IPEX-Bank owes its success primarily to its many years of global experience in the world’s major markets and industry sectors.

KfW Entwicklungsbank and DEG

KfW Entwicklungsbank operates on behalf of the Federal Government, financing investments and advisory services in developing countries. These projects are aimed at establishing and expanding social and economic infrastructure, creating strong financial institutions, as well as safeguarding resources and a healthy environment. As a partner to the private sector, Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG), which is wholly owned by KfW Bankengruppe, provides support to companies that are looking to invest in developing and transition countries.

Global loans

In order to provide local financing abroad, KfW grants global loans to partner banks in Europe. The latter use these to make medium and long-term investment loans available to SMEs, as well as to finance private housing construction projects with an environmental/climate protection focus.

Other tasks commissioned by the Federal Government

KfW has established itself as a strategic partner for business and policymakers alike. In its capacity as an advisor to the Federal Government, it provides expert knowledge with regard to the privatisation of state-owned companies. The other tasks commissioned by the Government include the agency business performed via Finanzierungs- und Beratungsgesellschaft mbH (FuB).

Low-interest loans

One of the most important components of KfW’s promotional programmes is the granting of low-interest loans. Most promotional loans are offered at reduced interest rates thanks to the use of federal budget funds or KfW’s own funds. Thus the loans can be offered at a level below the market conditions that would usually apply.
**Organisational structure**

KfW employed a workforce of 4,228 at the end of 2008. The bank is governed by a Managing Board and supervised by a Board of Supervisory Directors.

**Group structure (as at July 2009)**

The Managing Board

The Managing Board is responsible for managing KfW's business activities and its asset management. It has overall responsibility for the bank's sustainability policy and for ensuring that its business activities are both sustainable and socially responsible. The members of the Managing Board are:

- Dr Ulrich Schröder (Chairman)
- Dr Günther Bräunig
- Dr Norbert Kloppenburg
- Wolfgang Kroh (until 30 September 2009)
- Bernd Loewen (1 July 2009)
- Dr Axel Nawrath (1 April 2009)

You can find more information on this issue at [www.kfw.de/organisational_structure](http://www.kfw.de/organisational_structure)

The Board of Supervisory Directors

The Board of Supervisory Directors supervises the management of KfW's business activities and of its assets. It approves major loan commitments and the bank's annual financial statements. The Board has 37 members. In accordance with the public mission of KfW Bankengruppe the Federal Minister of Finance and the Federal Minister of Economics and Technology alternate as Chairman and Deputy Chairman. The Board of Supervisory Directors comprises federal ministers, members appointed by the upper and lower houses of the German parliament, representatives of banks and savings banks, as well as representatives from industry, local authorities, agriculture, trade, the crafts, the housing industry and trade unions.
Countries of operation

KfW has its headquarters in Frankfurt am Main, branches in Bonn and Berlin and an office in Brussels. DEG is based in Cologne. KfW Entwicklungsbank, DEG and KfW IPEX-Bank maintain representative offices in a growing number of countries. KfW Entwicklungsbank and DEG alone can rely on a network of more than 50 representative offices in Europe, South and Central America, Africa, Asia and Oceania. After all, many activities can be performed better and more efficiently if they are performed locally. KfW’s permanent presence on local growth markets is of key strategic and economic importance, both for the bank itself and for its partners and clients.

KfW Bankengruppe’s offices outside Germany

- KfW Entwicklungsbank and DEG offices
- KfW Entwicklungsbank, DEG and KfW IPEX-Bank offices
- KfW IPEX-Bank offices
2008 was an out of the ordinary and difficult year for KfW Bankengruppe, dominated first and foremost by the global crisis on the financial markets, which had a massive impact on Germany’s banks and its economy. KfW did not exit the crisis unscathed and had to tackle specific issues resulting from the financial market turbulence. This included first of all saving, and subsequently selling the ailing IKB to prevent a loss of confidence in Germany as a financial centre, as well as the execution of a swap transaction with the investment bank Lehman Brothers shortly after it became insolvent. These events prompted major changes in the composition of the Managing Board.

Key burdens

In the summer of 2007, KfW decided, together with the banking associations and the Federal Government, to put together a rescue package to save IKB Deutsche Industriebank AG, Düsseldorf, one of the first banks that became entangled in the web of the financial market crisis. The aim was to prevent IKB from total collapse, and to ensure its survival as a bank for SMEs. In particular, however, the package was aimed at preventing a loss of confidence in Germany as a financial centre and the impact that this would have on the economy. Fifteen months later, in October 2008, the bank sold its shares in IKB to the private investor Lone Star after difficult, but ultimately successful, stabilisation measures. Although the role KfW played in the rescue mission placed a substantial financial burden on the bank’s shoulders, the decision to save IKB turned out to be the right decision.

Another financial burden came from the transfer the bank made to a subsidiary of Lehman Bank, which had already become insolvent, on 15 September 2008. This incident constituted not only a financial loss for KfW, but also a blow to the bank’s reputation. In the immediate aftermath of the incident, the bank took appropriate personnel-related action, as well as implementing the first in a set of structural measures. Improvements to the bank’s risk management system were implemented with immediate effect. As far as fundamental changes are concerned, KfW has enlisted external advisors who are helping it to analyse its risk management system in detail and to implement proposed improvements. KfW’s commitments in Iceland were a third critical issue linked to the financial market crisis. The bank’s activities in other European countries are part of a conscious strategic decision, because the nature of KfW’s legal mandate, which is endorsed by the EU, means that it supports not only the German, but also the European economy. The bank has now entered discussions on the extent to which it wants to support the European economy. Its investment in a number of Icelandic securities is a completely separate matter. Like other banks, KfW has a diversified securities portfolio, which includes Icelandic securities that, although deemed secure in the past, have lost value in the course of the financial market crisis.

Internal modernisation

KfW had to get by on more limited resources as a result of the financial impact of its decision to save IKB, as well as the impact of the financial market crisis. It therefore decided to embark on a process of modernisation to make the bank better equipped to tackle future challenges. One aspect is the further development of KfW’s risk management system. Triggered by the Lehman incident, KfW collaborated with external experts to develop proposals that are to be implemented. Another key issue is the overhaul of the bank’s internal structures, the aim being to ensure more client focus and improved efficiency. In the future, KfW will be even more focused on the needs of its end clients. By way of example, it has split its domestic business into three areas that concentrate on the SME, private and public-sector client groups respectively. It has also set up a central marketing unit to enable closer cooperation with on-lending banks and savings banks, but also with the promotional institutions in the German federal states. It is forging ahead with the modernisation process in a transparent manner, maintaining ongoing dialogue with its employees, in a programme entitled “KfW Modern”.

Financial market crisis
Economic key figures of KfW Bankengruppe

Global developments over the past three years and, in particular, the financial crisis are reflected in KfW’s economic key figures. Despite these negative factors, the bank achieved a consistently high volume of promotional financing, thanks primarily to a further improvement in its operating results.

Economic indicators

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<th>Key income statement figures (EUR in millions)</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
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<tbody>
<tr>
<td>Net interest income</td>
<td>1,754</td>
<td>1,755</td>
<td>2,006</td>
</tr>
<tr>
<td>interest rate reductions</td>
<td>475</td>
<td>573</td>
<td>606</td>
</tr>
<tr>
<td>Net commission income</td>
<td>200</td>
<td>209</td>
<td>218</td>
</tr>
<tr>
<td>Administrative expense</td>
<td>573</td>
<td>607</td>
<td>646</td>
</tr>
<tr>
<td>personnel expense</td>
<td>335</td>
<td>349</td>
<td>366</td>
</tr>
<tr>
<td>Operating result before valuation</td>
<td>1,381</td>
<td>1,357</td>
<td>1,579</td>
</tr>
<tr>
<td>Risk provisions for lending business</td>
<td>–12</td>
<td>–6,409</td>
<td>–2,139</td>
</tr>
<tr>
<td>Net gains/losses from hedge accounting* and other financial instruments at fair value through profit or loss</td>
<td>155</td>
<td>–1,880</td>
<td>–1,747</td>
</tr>
<tr>
<td>Net gains/losses from securities and investments</td>
<td>19</td>
<td>–421</td>
<td>–1,974</td>
</tr>
<tr>
<td>Net other operating income</td>
<td>32</td>
<td>1,189</td>
<td>1,536</td>
</tr>
<tr>
<td>Taxes on income</td>
<td>10</td>
<td>4</td>
<td>–89</td>
</tr>
<tr>
<td>Consolidated profit/loss</td>
<td>1,564</td>
<td>–6,168</td>
<td>–2,657</td>
</tr>
<tr>
<td>Consolidated profit/loss before IRFS effects from hedging</td>
<td>1,433</td>
<td>–6,164</td>
<td>–2,092</td>
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Key balance sheet figures (EUR in billions)

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<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
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<tbody>
<tr>
<td>Total assets</td>
<td>334</td>
<td>354</td>
<td>395</td>
</tr>
<tr>
<td>Volume of business</td>
<td>406</td>
<td>417</td>
<td>454</td>
</tr>
<tr>
<td>Equity</td>
<td>17</td>
<td>15</td>
<td>12</td>
</tr>
<tr>
<td>Employees**</td>
<td>3,831</td>
<td>4,003</td>
<td>4,228</td>
</tr>
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Differences in the totals are due to rounding

* Income/expense from micro and macro hedge accounting

** The average number of employees, excluding the Managing Board and vocational trainees, but including temporary staff (based on the levels at the end of each quarter of the financial year)

You can find further information on the economic key figures in KfW’s Annual Report and Financial Report at www.kfw.de/financial_reports
KfW Bankengruppe understands the principles of sustainable development not only as meaning effective risk management. It also aims to set an example and play a key role in fostering an economically stable, ecological and socially just society. This means that all group banks have to incorporate aspects of sustainability in their work and organisational structures. For KfW, this also means, in particular, implementing well-founded principles and values for sustainable development in its financing projects in a systematic manner. KfW ensures that in all projects it helps to finance, environmental and social compatibility are key elements of project design and implementation.
The sustainability management system

The sustainability management system is the structural umbrella for KfW Bankengruppe’s environmental and social commitments. It sets out the organisational framework, duties and responsibilities required to ensure sustainable products and processes. At the system’s core are the sustainability guidelines of the business areas and subsidiaries, which set out responsibilities, processes and standards of assessment at operational level. Since 1999, a designated member of the Managing Board has been responsible for the sustainability management system and fundamental aspects of environmental and climate protection. The Board member in charge of environmental issues is supported by the Competence Centre for Environment and Sustainability, the Sustainability Coordination Group (Koordinierungsgruppe Nachhaltigkeit – KGN) and the Working Group on In-House Ecology. The KGN elaborates on, and coordinates the main environmental and social issues relating to the operating business of the various business areas.

Additionally, all of KfW Bankengruppe’s business areas have appointed a sustainability officer who helps implement the sustainability guidelines specific to his or her particular business area. The experts from the Competence Centre for Environment and Sustainability, as well as KfW’s technical experts, can be consulted if questions arise, in particular when assessing KfW IPEX-Bank and KfW Entwicklungsbank projects. Within DEG the department “Sustainable Development and Environment” is responsible for assessing the environmental and social aspects of the financing and advisory business.

You can find further information at [www.kfw.de/sustainability](http://www.kfw.de/sustainability)
Evaluating environmental and social risks in the bank’s core business

With our environmental and social principles, we set high standards that require all of the parties involved to act “sustainably”: we assess the ecological opportunities and risks of all projects and programmes we support before making a decision on whether or not to provide financing, taking a particular look at where the weak points in the environmental protection system lie. We help our partners to solve environmental problems. We also use the tools available to the individual business areas to help to ensure that appropriate social standards are observed and safeguarded, and take the social impact of our business activities into account. If projects are likely to result in an unacceptable environmental burden or social disadvantages, we do not consider them for financing. This is why binding sustainability guidelines have been developed for all of our business areas, setting out the requirements that the specific business areas have to fulfil when assessing how environmentally and socially sound particular projects are, as well as the processes required in order to implement them. All of the guidelines have been reviewed since 2007.

You can find more information on this issue at www.kfw.de/principles

An environmental and social impact analysis is an integral part of every assessment of the projects we help finance in developing and transition countries, as well as in export and project finance operations in countries outside of the EU/OECD. The projects to be financed are subjected to a systematic assessment to identify any potential negative impact. Project risks that could affect human beings and nature are weighed up against the project opportunities, and specific measures are developed to prevent, minimise or compensate for any negative impact. The environmental and social impact assessment defines protection and offsetting measures that are observed as part of a monitoring programme. More than 40 in-house scientific/technical experts from a variety of disciplines can be enlisted to support all of the stages in a project’s development. As a general rule, our project assessments are based on the provisions that apply in the countries in which the projects are to be implemented. These provisions must be consistent with international environmental, social, health, safety and labour standards. These include the standards set by the EU and the OECD countries that lead the field in terms of environmental protection, the Performance Standards of the International Finance Corporation (IFC) and the Environmental, Health and Safety (EHS) Guidelines of the World Bank Group. These standards are adhered to as regards the information provided to the general public and the involvement of the people on whom the project will have a direct impact, as well as when dealing with objections to particular projects.

Our scope for action depends on the type of financing and our involvement in the project. If necessary, KfW Entwicklungsbank can provide additional promotional financing in order to strengthen the environmental and social aspects of the project design in line with international standards. Environmental and social agreements, in some cases even including extensive environmental and social action plans, are agreed upon with the respective partners. Compliance with these agreements is monitored and supported throughout the entire project period (see page 23).

As of 1 March 2008, KfW IPEX-Bank adopted the “Equator Principles”. The Equator Principles are based on the IFC Performance Standards and the EHS Guidelines of the World Bank Group. They set out extensive requirements as regards the environmental and social aspects that have to be borne in mind when implementing major project finance operations. The requirements of the Equator Principles had already been set out in KfW IPEX-Bank’s sustainability guideline, which came into force in 2007, and apply above and beyond the realm of project finance. With this guideline, KfW IPEX-Bank highlights just how important an extensive environmental and social impact assessment is to all of its financing projects.

You can find more information on this issue at www.kfw-ipex-bank.de/guideline and www.equator-principles.com

Review of the environmental and social assessment process at DEG

DEG also bases its assessments of the environmental and social risks associated with planned financing projects on the IFC Performance Standards. 2008 saw an overhaul of the fundamental principles of the environmental and social assessment process. Key changes include more detailed risk assessments, as well as the introduction of standardised risk identification tools that are employed throughout the entire project cycle. This gives DEG a far better picture of the overall portfolio.

The corresponding principles and action guidelines are summarised in the policy entitled “Sustainable responsibility – Guideline for environmental and social compatibility of DEG’s business”.

You can find more information on this issue at www.deginvest.de/guideline
A green light for the storks –
Gabal el Zayt wind farm, Egypt

The area along the Red Sea coast in the west of Egypt offers optimum conditions for harnessing wind. Gabal el Zayt, in particular, however, is also on the main flight path of a large proportion of white storks, thousands of cranes, numerous birds of prey and pelicans. The Egyptian authorities originally planned to erect several wind farms covering an area of around 630 km² with total output of up to 3,000 MW in this region. KfW Entwicklungsbank was to finance a 200 MW wind farm in the north of the region, together with the European Investment Bank and the European Commission.

The German Nature and Biodiversity Conservation Union (Naturschutzbund Deutschland – NABU) raised concerns about this project, because wind farms on this scale could pose a considerable threat to migratory birds. At that time, the conservationists were not yet aware that, when the terms of the feasibility study were agreed, KfW Entwicklungsbank had stipulated an extensive environmental and social impact study paying particular attention to bird migration as a requirement. The ornithological study analysed bird migration in Gabal el Zayt in both the spring and the autumn.

The main recommendation was to protect the southern area of the project, which accounted for around 60% of the areas originally planned, for bird migration. Only part of the area in the north was approved for the erection of wind farms. Further studies in the central area were also recommended, and are currently underway, having been commissioned by KfW Entwicklungsbank. The results of the ornithological study were unveiled at talks with NABU representatives, and the implementation of the recommendations was discussed. The protection of the main migratory corridor in the south was agreed upon with the Egyptian Government. “All in all, KfW helped to ensure a good compromise”, said Dr Hermann Hötker of NABU’s Michael-Otto-Institut. “The permanent safeguarding of the most important migratory corridor in the south has done a lot for bird protection.”

You can find more information on this issue at www.nabu.de/en
Monitoring existing projects

Ongoing projects are monitored in line with KfW’s environmental and social principles, as well as with the sustainability guidelines of the individual business areas.

The loans for KfW’s domestic promotional programmes tend not to be granted directly to the end borrower, but via the borrower’s own bank, which acts as an intermediary. As part of its loan processing activities, it is this bank that is responsible for ensuring that the funds made available are used in a timely manner and in accordance with the respective programme. KfW Bankengruppe checks that the loans made available are being properly managed at regular intervals. Some promotional programmes, e.g. the “Energy-Efficient Rehabilitation” programme, require confirmation by an authorised expert to be submitted following the implementation of extensive energy modernisation measures. This confirmation by a neutral party states that the project was implemented as planned and that the energy-related requirements were adhered to as agreed. Furthermore, KfW Bankengruppe can perform an on-site assessment of the measures for which it has provided support.

Financial Cooperation projects are subjected to an extensive quality assurance and evaluation system throughout their entire duration. A detailed monitoring plan is drawn up as early as during the project preparation stage, stipulating the monitoring of any potential negative environmental or social impact. By agreeing on detailed, periodic reporting and informational requirements with the borrower, KfW Entwicklungsbank is regularly informed of the implementation of the protection measures agreed and the monitoring process, as well as of the development of environmentally and socially relevant aspects. KfW Entwicklungsbank uses regular progress assessments performed on site to check to what extent the protection measures that were agreed are being adhered to or implemented, and whether or not the requirements for sustainable operation have been fulfilled.

DEG subjects all financing projects to an annual review. Furthermore, the past few years have seen the use of several sector portfolio analyses (e.g. financial sector, textile sector) to check the monitoring system. These supplement the standard monitoring procedures performed on site to check to what extent the protection measures that were agreed are being adhered to or implemented, and whether or not the requirements for sustainable operation have been fulfilled.

In the case of KfW IPEX-Bank projects in developing or emerging countries with a particularly high environmental or social impact, the financing agreements generally include a provision requiring annual reporting on adherence to protection measures. Independent experts are responsible for the monitoring process, or for checking the client’s own monitoring system.

You can find more information on this issue at www.kfw.de/reviews

In-house environmental protection management

KfW Bankengruppe not only promotes environmental protection, it also demands it of itself. As a result, it has developed extensive in-house environmental protection measures that are implemented by an internal network of specialists. This system ensures that energy and material flows are tracked, analysed and optimised in a systematic manner at all of the bank’s locations. At the core of the network are the sustainability officers for in-house environmental protection at KfW and DEG. These officers are responsible for identifying and minimising the environmental consequences resulting from technical operations at their locations. They perform their advisory tasks in close cooperation with the respective head of operations for the building in question, those responsible for procurement, and the in-house environmental protection officers for the various locations.

KfW Bankengruppe is aware of the obligations incumbent upon it as regards internal communication on in-house environmental protection issues and ensure that its employees act with as much environmental awareness as possible. The package of measures includes extensive reporting on the intranet, training courses for all new employees and the provision of regular information to key bodies and target groups, e.g. the staff councils and operational management companies. Furthermore, an average of one trainee workshop a year is organised on issues relating to in-house environmental protection.
Supplier management

All of KfW’s invitations to tender take environmental issues into account. The selection criteria are based on environmental labels such as Blue Angel and Energy Star or on certification systems like EMAS/ISO 14000 et seq. These labels are particularly suitable given that 97% of KfW’s around 1,850 suppliers come from Germany, and 2.8% from other OECD states.

As with invitations to tender, KfW applies stringent environmental requirements to other goods and services supplied, too, such as services performed by tradespeople. These requirements are set out in KfW’s general terms and conditions of procurement and, in some cases, extend beyond the statutory requirements. If external employees are likely to be used, suppliers are required to prove that these employees have been duly registered for social insurance purposes. Foreign workers also need to have a valid work and residence permit and must be able to furnish proof of the latter. In the future, KfW plans to use new SAP procurement software to ensure improved quality assurance.

KfW is currently in the course of expanding its supplier management system based on environmental aspects to cover the entire bank. The framework guideline for environmentally friendly procurement, which was scheduled for implementation in 2008, had to be postponed due to internal restructuring measures affecting the bank’s procurement system.

Risk management

KfW’s risk strategy is aimed at enabling the provision of sustainable support on a continual basis by employing suitable risk management tools and processes. The bank’s risk management activities include the management of counterparty risks, market price risks (interest and currency risks), liquidity risks and operational risks.

The confidence crisis in the international financial markets has also had an impact on the real economy in numerous countries, causing a considerable deterioration in the risk situation. Global developments and trends are being observed on an ongoing basis so that potential risks can be identified early on. KfW uses stress tests to allow it to assess risk-relevant scenarios, e.g. a severe recession, in a more specific manner.

The financial market crisis has prompted the bank to launch a number of projects aimed at the targeted further development of its risk management processes. These projects focus on improving group-wide management processes, expanding a timely, decision-relevant risk reporting system and strengthening the bank’s operational risk management.

As far as operational risks are concerned, experience has shown that, in falling markets in particular, the consequences of mistakes can be far more severe than in normal market phases. This makes it particularly important for the bank to have an effective risk management system for operational risks. Consequently, the bank launched a broad-based project to strengthen the operational risk function, the idea being to intensify the interplay between decentralised risk management and the centralised risk control system.

Sustainability in risk management also means being aware of the responsibility that the bank has towards its clients and employees, and being able to continue its promotional business even in emergency situations. KfW has contingency plans for occurrences such as the loss of buildings or data processing system failure, or even epidemics/pandemics, and takes precautionary measures to ensure that business can continue in such situations.
Compliance

KfW’s compliance system includes, in particular, data protection systems, as well as systems designed to prevent conflicts of interest, money laundering, terrorism financing, corruption and fraud. The corresponding regulations, processes and checks are revised on a continual basis to reflect the statutory and regulatory framework, as well as market demands. Regular compliance training is offered to all relevant members of staff.

You can find further information on money laundering and corruption at www.kfw.de/money_laundering respectively www.kfw.de/corruption

Lawful conduct, diligence, honesty and professionalism are all ways in which conflicts between KfW and third parties can be prevented. Compliance with market standards, as well as acting in the interest of all stakeholders, are obligations to which KfW is committed. Any violations of the corresponding regulations are systematically pursued and punished. The “Group Compliance” organisational unit (Compliance@kfw.de) is the main point of contact for all employees, clients and other third parties.

Sustainable asset management

As part of its in-house liquidity management measures, KfW invests in fixed- and variable-rate securities. Its investments focus on liquid asset classes, e.g. Pfandbriefe (German covered bonds), bank bonds and public-sector bonds. At the end of 2008, the investment volume came in at around EUR 33 billion.

KfW takes sustainability aspects into account for a large part of its securities investments (end of 2008: around EUR 22 billion). In order to demonstrate this commitment, it joined the United Nations “Principles for Responsible Investment” initiative and signed the “Carbon Disclosure Project”.

In its sustainable investment processes, creditworthiness remains the key criterion for the bank’s investment decisions and selection of individual issuers. Yet KfW also takes into account their sustainability rating. In this respect, KfW makes a distinction between “environmental”, “social” and “corporate governance” aspects. KfW attaches particular importance to “environmental” aspects: these are given a weighting of 60%, with a weighting of 20% being attributed to “social” and “corporate governance” aspects respectively.

These three aspects are described in detail using a variety of criteria, and their assessment is summarised in a rating category. KfW has commissioned an external partner, the sustainability rating agency Sustainalytics, to prepare these ratings. For all of the issuers in the investment universe of KfW’s liquidity portfolio, Sustainalytics assigns a sustainability rating based on the definition of sustainability stipulated by KfW. The result of this rating procedure is not absolute, but is instead a ranking of all issuers, who are graded in terms of their sustainability. The use of the sustainability rating system means that particularly sustainable issuers are given a higher weighting in the portfolio than less sustainable issuers.

You can find more information on this issue at www.unpri.org and www.cdproject.net

Promotional business controlling

KfW’s business means that the bank’s key financial and promotional figures have to be managed in a precise and timely manner. In the past, individual sub-divisions and small teams from various areas were responsible for collecting these figures. This means that the resulting reports were not always sufficiently standardised or “hands-on”.

Since 1 December 2008, KfW’s key figures have been calculated by the Financial and Promotional Business Controlling department: members of the Managing Board and members of staff responsible for the bank’s operating business are now provided with timely, hands-on information on business developments that takes into account the needs of the respective target group.

The idea is to make the management of the bank, i.e. projections and achieving objectives, much easier.

The reporting system focuses on key financial figures (cost and revenue situation of the bank and the individual departments) and operating figures. The latter provide a detailed insight into KfW’s operating business, for example into the number of clients, the regional distribution of the lending business, default rates or sales and revenue figures. Furthermore, initiative-based key figures mean that selected projects or plans, for example larger promotional measures, can be analysed as and when required.
CORE SUPPORT TO MORROW'S ACTIVITIES, MANAGEMENT CHECKS.
Embodying and promoting global responsibility – this is the guiding principle behind the promotional activities of KfW Bankengruppe. One of the focal points of our commitment is environmental protection: KfW is one of the world’s largest promoters of climate protection measures, as well as of measures to increase energy efficiency and employ renewable energies.

A second focal point of our work is the social impact: our aim is to provide sustainable support to improve the economic and social conditions of human life – both today and in the future. This is why KfW is committed to numerous measures in areas such as SME and infrastructure support, as well as to investment in education and health care, both in Germany and abroad.
Environmental impact of KfW financing

All business areas of KfW Bankengruppe focus on promoting environmental and climate protection. In 2008, KfW made a total of EUR 19.5 billion available at group level to finance projects in these areas, an increase of 20% as against 2006. All in all, around 28% of KfW’s overall business volume went into environmental and climate protection projects last year.

### KfW commitment volume for environmental and climate protection projects (EUR in billions)

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<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic promotional business</td>
<td>12.5</td>
<td>12.9</td>
<td>14.5</td>
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<tr>
<td>KfW IPEX-Bank</td>
<td>2.1</td>
<td>2.0</td>
<td>2.6</td>
</tr>
<tr>
<td>KfW Entwicklungsbank</td>
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<td>1.1</td>
<td>1.7</td>
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<tr>
<td>DEG</td>
<td>0.6</td>
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<tr>
<td>KfW Bankengruppe</td>
<td>16.2</td>
<td>16.6</td>
<td>19.5</td>
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</table>

**Climate protection – a cross-cutting task**

Climate protection will be one of the biggest challenges facing us over the next few decades. The human impact on our climate means both ecological and economic damage, and high adjustment costs as a result. Greenhouse gas emissions have to be cut quickly and drastically to ensure that we have at least a chance of getting a grip on the consequences. This means more energy efficiency and the increased use of renewable energies. Given how dependent Germany is on energy imports, these measures will also help to ensure more secure energy supplies.

But investment in a sustainable energy supply is not a self-starter. Obstacles standing in the way include a lack of information and financial restrictions. This is why the corporate sector, municipalities and private households alike need additional incentives to switch over to state-of-the-art methods of energy production and use. KfW boasts many years’ experience in promoting sustainable energy projects for residential buildings, at SMEs, for municipal infrastructure and as part of its Development Cooperation efforts.

Last year, in all of its business areas combined, KfW Bankengruppe supported measures designed to boost energy efficiency with a commitment volume of EUR 8.1 billion. EUR 5.3 billion was provided to promote renewable energies, with many of these investments being implemented in Germany. This confirms the exceptional role played by KfW in supporting the implementation of the Federal Government’s “Integrated Energy and Climate Programme”.

You can find more information on this issue at [www.bundesregierung.de](http://www.bundesregierung.de)
Promoting renewable energies

KfW uses a range of programmes to encourage the increased use of renewable energies. Renewable energies reduce greenhouse gas emissions, create new jobs and make economies less dependent on fossil fuels.

Over the past few years, KfW Bankengruppe has systematically taken its commitment to renewable energies from strength to strength. In 2008, the loan volume was up by around 43% on 2006, making KfW Bankengruppe one of the world’s main promoters of green energy sources.

Commitments for renewable energy projects (EUR in millions)

<table>
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<tr>
<th></th>
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<th>2007</th>
<th>2008</th>
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<td>Domestic promotional business</td>
<td>3,343</td>
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<tr>
<td>KfW IPEX-Bank</td>
<td>219</td>
<td>435</td>
<td>607</td>
</tr>
<tr>
<td>KfW Entwicklungsbank</td>
<td>144</td>
<td>211</td>
<td>497*</td>
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<tr>
<td>KfW Bankengruppe</td>
<td>3,706</td>
<td>4,421</td>
<td>5,282</td>
</tr>
</tbody>
</table>

*including credit lines for renewable energy projects

Solar power systems and low-energy houses, January 2008 in Germany
Promoting renewable energies in Germany is also an investment in jobs.

Evaluation of KfW’s renewable energy projects in Germany

KfW commissioned the Centre for Solar Energy and Hydrogen Research Baden-Württemberg (Zentrum für Sonnenenergie- und Wasserstoff-Forschung Baden-Württemberg – ZSW) to evaluate the support it provided to domestic renewable energy projects (excluding KfW IPEX-Bank) in 2007 in detail. Some of the main findings of the evaluation are as follows:

• The facilities and systems promoted by KfW in 2007 prevent the emission of around 4.6 million tonnes of carbon dioxide (CO₂) a year compared with the standard energy mix in Germany at present.
• In 2007, KfW’s programmes to promote renewable energies financed investments totalling EUR 5 billion in Germany. This corresponds to almost half of all investments in renewable energies in Germany were made with the help of KfW. The report concludes that the facilities promoted for the first time in 2008 alone will reduce CO₂ emissions by a further 3 million tonnes a year. The investment volume of EUR 5.2 billion also created around 42,000 jobs, first and foremost at SMEs.
• The impact on the labour market is of particular benefit to SMEs: more than 70% of the jobs were at small and medium-sized companies with a workforce of less than 500.

The “2008 Renewable Energies Evaluation Report” confirms these figures, stating that 40% of all investments in renewable energies in Germany were made with the help of KfW. The report concludes that the facilities promoted for the first time in 2008 alone will reduce CO₂ emissions by a further 3 million tonnes a year. The investment volume of EUR 5.2 billion also created around 42,000 jobs, first and foremost at SMEs.

KfW: largest financer of renewable energy projects in developing countries

KfW Entwicklungsbank leads the international field when it comes to financing renewable energy projects in developing countries. In 2008, it even surpassed the World Bank.

You can find more information on this issue at www.ren21.net

KfW Entwicklungsbank uses both federal budget funds earmarked for Financial Cooperation with developing countries and KfW Bankengruppe funds to finance renewable energy projects. In particular, it makes low-interest loans available for investments in energy and climate projects in developing countries as part of the special facility entitled “Initiative for Climate and Environmental Protection” (Initiative für Klima- und Umweltschutz – IKLU). This initiative by the German Federal Ministry for Economic Cooperation and Development (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung – BMZ) and KfW is designed especially to finance investments in anchor countries and emerging markets in the following areas:

• energy efficiency,
• renewable energies,
• environmentally friendly urban development,
• industrial environmental protection,
• energy-saving mobility and
• adaptation to climate change.

The volume of financing totals EUR 2.4 billion for the period leading up to 2011.

You can find more information on this issue at www.kfw-entwicklungsbank.de/energy
One IKLU programme is the special facility for renewable energies and energy efficiency that was launched in 2005 ("4E facility"). KfW also works with the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (Bundesumweltministerium – BMU) in the International Climate Initiative (Internationale Klimaschutzinitiative – IKI), providing funds for investments, low-interest loans (2008: just under EUR 308 million), as well as project grants (2008: around EUR 25 million). The International Climate Initiative is a new financing mechanism for global climate protection, and is financed using proceeds from emissions trading auctions. The IKI finances projects aimed at reducing greenhouse gas emissions, adapting to climate change and maintaining biodiversity in emerging, transition and developing countries.

Based on calculations performed by KfW, the energy projects assessed by KfW Entwicklungsbank in 2008 will save at least 2.8 million tonnes of carbon dioxide every year, thus making a key contribution to climate change mitigation.

Promoting climate protection projects has also been one of the declared objectives of Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) since the mid-1990s. In the period from 2006 to 2008, it provided around EUR 240 million in financing commitments for climate protection investments. These funds are used for a range of projects, including for the construction of small-scale hydropower plants and wind farms.

KfW IPEX-Bank, together with four other banks, is financing the world’s second-largest photovoltaic farm in Turnow-Preilack, Brandenburg. On the site of the former military training area in Lieberose, north of the city of Cottbus, the project developer Juwi, from the German state of Rhineland-Palatinate, and the solar module manufacturer First Solar, are constructing the farm, which will boast total output of 53 MW and will cover an area spanning 162 hectares. The power plant will produce around 53 million kWh of environmentally friendly electricity a year, enough to supply around 15,000 households. The facilities will be equipped with thin film modules from the German branch of the market leader First Solar in Frankfurt an der Oder. The farm is scheduled for completion by late 2009.
Promoting environmental protection and resource conservation in the corporate sector

As well as promoting the increased use of renewable energies, KfW’s environmental programmes for private enterprises support corporate investments in environmental protection and resource conservation. The projects that KfW helps finance range from measures to save energy and materials, to investments in air pollution control, sewage treatment, waste management, recycling and the remediation of contaminated sites. In the period from 2006 to 2008, KfW made a total commitment volume of EUR 8.3 billion (excluding commitments for renewable energies) available to finance environmental protection and resource conservation measures in trade and industry.

Acquisition of low-emission heavy goods vehicles

In order to reduce pollution on Germany’s roads and thus improve air quality, KfW introduced a new focal point of its promotional activities in 2007: the procurement of low-emission, heavy commercial vehicles. Since early September 2007, KfW has been supporting the procurement of new lorries with a total permissible load of at least 12 tonnes. The new vehicles have to meet emissions standards that go beyond the current statutory requirements. Funds were provided for the acquisition of 43,600 low-emission heavy goods vehicles in 2008. Support is made available either in the form of low-interest loans, or as non-repayable grants provided by the Federal Ministry of Transport, Building and Urban Affairs (Bundesverkehrsministerium – BMVBS). This gives the owners or holders of heavy goods vehicles an incentive to invest in a low-emission fleet as early as possible despite the additional costs involved.

2008 saw the Federal Ministry of Economics and Technology (Bundeswirtschaftsministerium – BMWi) and KfW launch a joint initiative known as the “Special Fund for Energy Efficiency in SMEs” which helps small and medium-sized companies to exploit their energy saving potential. In addition to climate protection, the aim is to take some of the burden off these companies by reducing their energy costs, enabling them to improve their competitive position. The special fund ensures a close link between financing and advice. KfW provides grants for qualified energy advice in order to better inform SMEs on their available energy saving potential. KfW provides reduced-interest loans to finance the corresponding investments.

Improving energy efficiency is a major area for action in developing countries and emerging markets, too – especially for industrial enterprises. Financing for such companies is a key support area for KfW Bankengruppe, as the example of a DEG partner company shows: a desalination plant in India financed in part by DEG not only provides urgently needed drinking water to the million-strong metropolis of Chennai, but saves one third of the energy required by similar facilities by employing innovative technology.

Since 2008, evaluating the greenhouse gas emissions generated by new projects has been an integral part of DEG’s project appraisal process. Furthermore, it has collected data on the main greenhouse gas emissions generated by its existing clients, urging them to reduce these emissions in relevant cases. Projects that fail to meet the standards are rejected. By way of example, a PVC plant in Pakistan planned to import a 36-year old facility which would have considerably increased CO2 emissions as against the use of best available technologies. This was the reason why DEG opted not to finance the project.
Promoting climate and environmentally friendly transport

A study recently conducted by the IFEU Institute in Heidelberg shows that, in emerging markets like China, rail transport results in far less specific primary energy consumption and CO₂ emissions per passenger or tonne-kilometre than road and air transport. Furthermore, better capacity utilisation means that rail transport in these countries is even more energy-efficient than in Germany, for example.

Nevertheless, a lack of, or underdeveloped, rail systems mean that traffic growth in emerging markets is taking place primarily on the roads or in the air. In these countries, traffic is the fastest-growing energy consumer and greenhouse gas emitter.

In April 2009, a new train line running between Hefei and Wuhan in central China and financed by KfW and Oesterreichische Kontrollbank (OeKB) went into operation. Modern construction methods shortened the train route between these cities by around 200 km to total around 360 km. High-speed trains, which are only now able to run on this route, shorten the journey time from eight to under two hours.

The new infrastructure therefore offers high potential when it comes to shifting a large part of the fast-growing passenger and goods transport volume to rail transport. The improved route alone will reduce greenhouse gas emissions by almost 500,000 tonnes p.a.

Energy efficiency in residential buildings

Around one third of Germany’s CO₂ emissions come from buildings, most of which are residential buildings. Boosting energy efficiency here, in particular, has the potential to significantly reduce CO₂ emissions that harm the climate, and thus help climate change mitigation objectives to be achieved.

This was the motivation behind the “Housing, Environment, Growth” initiative, which was launched by the Federal Government and KfW in 2006. The cornerstones of the initiative are the promotional programmes for “Energy-Efficient Construction and Rehabilitation”, which are subsidised by federal budget funds. In the period from 2006 to 2008, these programmes helped promote modern, energy-efficient construction projects and energy rehabilitation measures in more than 800,000 residential units. Expert opinions have confirmed that these measures result in a permanent reduction in CO₂ of around 2.4 million tonnes a year.

These KfW promotional programmes are also having a positive impact on the labour markets: it is estimated that, between 2006 and 2008, the financed investments secured or created 202,000 jobs in small and medium-sized construction companies and in the crafts industry for at least one year.
**KfW Carbon Fund**

With the KfW Carbon Fund, KfW has successfully established itself as a buyer of emission certificates, introduced by the international community, from climate protection projects based on the flexible mechanisms provided for in the Kyoto Protocol (Clean Development Mechanism, Joint Implementation). The KfW Carbon Fund purchases emission certificates, on a trust basis, for companies that intend to use them to fulfill their obligations under the European Emissions Trading Scheme. This service is of particular interest to companies that have no access to foreign projects themselves and that do not wish to create capacities of their own for such projects.

In spring 2008, the “Post-2012 Carbon Fund” started work. The Post-2012 Carbon Fund was launched by KfW and the European Investment Bank together with other European promotional banks. The Fund is already making targeted purchases of emission certificates that will be generated in the years following 2012. As a result, it offers the certificate providers the planning reliability that they urgently need. In addition, the Fund sends out a clear confidence-building signal to the commercial actors on the market.

These KfW activities support the Government’s climate protection programme and take account of German and European industry’s interest in making more use of the market instruments under the Kyoto Protocol. At the same time, by buying the certificates, the KfW Carbon Fund makes a key contribution both to realising climate protection projects, and to sustainable development in the countries in which the investments are made. As far as the projects are concerned, the certificate sales provide an additional source of income, without which the projects would ultimately be more difficult to implement.

2008 marked the beginning of the first commitment period for the signatory states to the Kyoto Protocol. As regards the European emissions trading scheme, the second phase is already underway. This phase has introduced more stringent requirements for the companies involved, and means, for the first time, that emission allowances are no longer granted free-of-charge. Part of these allowances is sold by KfW with particular importance being attached to a transparent, market-friendly procedure, which can be guaranteed by the regular sale of the allowances via the stock exchange. Germany sold more allowances than any other country in 2008, assuming a pioneering role among the EU member states.

**Kyoto Coaching Cologne**

DEG’s activities also include getting developing and emerging countries involved in international climate policy by using the flexible mechanisms put in place by the Kyoto Protocol. DEG promotes these financing mechanisms and developing countries’ access to the international certificate market by offering its partner countries help in the certification process for emission reductions. This means that it both enables and fosters climate protection projects in which the income from emission reductions constitutes a key financing component. As part of the Public-Private-Partnership programme (PPP) set up using funds from the Federal Ministry for Economic Cooperation and Development, DEG and TÜV Rheinland Group joined forces to launch the “Kyoto Coaching Cologne” (KCC) project. The aim is to advise companies on the “flexible mechanisms” provided for by the Kyoto Protocol and on the complex certification process while making it easier for them to navigate the route from a CDM project idea to the sale of emission certificates. Last year alone, KCC vetted more than 100 projects as regards the possible generation of climate protection certificates and provided advice to the project companies. In this context KCC also cooperates with the KfW Carbon Fund.

You can find more information on this issue at www.kyoto-coaching-cologne.net
KfW Carbon Fund portfolio in 2008
Total certificate purchases: 21.5 m t CO₂e

Countries of origin
- India 24%
- Brazil 24%
- Mexico 2%
- China 43%
- Egypt 6%
- Costa Rica 1%

Purchasing emission certificates from foreign projects will be the main function of the KfW Carbon Fund in the future, too. The Fund will continue its activities as part KfW Entwicklungsbank from 2009 onwards. This will allow emission certificates to be acquired from projects even more effectively in the future. The use of synergies with financing business in the investment countries will also further expand and diversify the promotional potential for climate protection projects around the world.

Technologies
- Renewable energies:
  - Wind 28%
  - Water 21%
  - Biomass 5%
  - MSW/LFG (municipal solid waste and landfill gas) 26%
- Transport 2%
- Coke gas 4%
- Energy efficiency: other 5%
- Conversion to fossil fuels 9%
Adapting to climate change

The warming of the Earth’s atmosphere is progressing. As a result, experts expect to see extended periods of dry spells and drought, floods and storms, as well as rising sea levels. Climate change will have a material impact on food production, health, infrastructure and ecosystems. Developing countries and their predominantly poor population will be hit first, and hardest, due to their particular vulnerability. This is why KfW Entwicklungsbank helps those partner countries that are at risk to adapt to climate change.

Good development policy boosts a country’s ability to adapt to climate change, because the stronger its economy is, the more resilient the country becomes. In many regions in particular peril, however, this will be nowhere near sufficient. Based on UNDP and UNFCCC estimates, between USD 28 billion and USD 86 billion would have to be mobilised for adaptation measures every year over the next few decades in the developing countries alone. Nevertheless, it is obvious that these costs are much lower than the cost of doing nothing.

One of the focal points of KfW Entwicklungsbank’s adaptation activities is the water sector in North Africa and the Middle East. In these countries, climate change will make water shortages that are already problematic even more of an issue. This is why KfW is focusing on both the protection, and the more efficient use, of scarce water resources, for example reducing water loss in large-scale utilities systems and reusing treated wastewater in the agricultural sector. Other relevant sectors include agriculture/forestry/biodiversity, as well as the transport and energy sectors.

Integrated water resource management in Jordan

Water is a scarce commodity in Jordan. Overuse of the country’s valuable water resources caused by population pressure, migration and urbanisation, agriculture and industry means that the country’s groundwater levels are falling irreversibly. Particularly in the Middle East, considerable increases in temperature, more prolonged periods of drought and growing evaporation will result in a pronounced water emergency.

Since 2008, KfW Entwicklungsbank has been promoting measures aimed at improving integrated water resource management by making investments to the tune of EUR 70 million. Targeted investments in city supply networks help to reduce water losses caused by outdated infrastructure. City wastewater is treated so that it can be used for irrigation, cutting fresh water consumption. The main aim is to use the limited water resources in as efficient a manner as possible to alleviate water stress, which is already an issue and is set to become far more problematic due to climate change, for both the human population and nature. The projects are designed to balance the interests of various water users as best as possible, avoiding conflicts.
Promoting conservation

In developing countries, only very few conservation areas are self-financing. It is often the case that sustainable resource management concepts cannot compete with less environmentally friendly forms of use from an economic perspective. This is why KfW Entwicklungsbank helps these countries to protect biodiversity, and use it in a sustainable manner.

Example of a promoted project: promotion of a conservation area in Peru

Peru has one of the highest biodiversities of flora and fauna in the world. Many animals can be found in only a limited region. The South American country currently boasts a total of 63 conservation areas, including representative ecosystems on the coastline, in the Andes Cordilleras and in the tropical rainforest.

With its "Conservation Areas II" programme, KfW has provided a total of EUR 7 million since 2003 to preserve biodiversity and the natural resources in the conservation areas. The aim is to improve conservation area management in the medium term by investing in the infrastructure used to protect and administer the areas. The measures include:

- drawing up management and financing plans,
- expanding existing administrative buildings, information centres and sentry posts,
- purchasing equipment, vehicles and communication facilities, as well as
- measures in buffer zones that are designed to boost the acceptance of the conservation areas among the local population.
It is crucial to view individual nature and conservation areas in the context of their socio-economic environment. The cooperation of the local population is key to ensuring effective resource protection. At the same time, the individuals responsible for protection must be given the plans, equipment and infrastructure to enable them to perform their tasks effectively. This is why financing tools, such as conservation funds, which aim to ensure the long-term financial security of the conservation areas, have been increasingly promoted over the past few years. Since a large part of the support provided concentrates on tropical and sub-tropical forests, this commitment also makes a key contribution to reducing the greenhouse gas emissions caused by deforestation. In the period from 1990 to July 2009, KfW Entwicklungsbank made EUR 1.04 billion available for more than 100 projects aimed at protecting biological diversity in natural ecosystems and ensuring the sustainable use of natural resources in more than 40 countries; more than 30 other projects worth a total of EUR 320 million are currently in the preparatory stage.

Conservation projects supported by KfW Entwicklungsbank from 1990 to July 2009 – total amount EUR 1.36 billion

- Mediterranean and the Caucasus: EUR 132 million; 10%
- Sub-Saharan Africa: EUR 371 million; 27%
- Latin America: EUR 535 million; 39%
- Asia-Pacific: EUR 319 million; 24%

This makes KfW one of the world’s largest bilateral financers of biological diversity. The projects range from investments in infrastructure and equipment for the protected areas, to the sustainable use of the areas in question, and to the development of alternative sources of income for the rural population. Furthermore, KfW helps to create innovative financing tools such as debt restructuring in exchange for environmental measures, payments for ecosystem services and the establishment of endowment funds to make funds available to conservation areas in the long term.
Social and economic impact of KfW’s work

SME support
With its 3.55 million companies, the German SME sector makes a key contribution to investment and innovative activity, and thus to securing jobs. Small and medium-sized enterprises (SME) account for more than half of all corporate investments, and employ around two thirds of the total number of persons with a job. They also train around three-quarters of all trainees and apprentices. SMEs can only perform their crucial role as growth and employment drivers if they have a secure financial basis. In order to compensate for their structural financing disadvantages and to give them access to debt financing, KfW Bankengruppe made around EUR 40 billion available to SMEs (including innovation and start-up financing) in the period from 2006 to 2008.

Innovation financing
The development of new or considerably improved products and production processes within companies accelerates structural change within an economy and makes the latter more competitive on the global markets. Innovation plays a key role in promoting prosperity and creating jobs. KfW promotes innovation at German companies with its ERP Innovation Programme and as part of the equity financing that it provides. In the years from 2006 to 2008, KfW’s commitment volume for innovation financing in Germany totalled around EUR 3.5 billion.

Start-up financing
Business start-ups have a positive impact on structural change, as well as on an economy’s competitiveness and innovative strength. In particular, fast-growing start-ups that offer new, additional or higher-quality products and services spread technical knowledge, promote long-term productivity gains and create new jobs. The question as to whether or not start-ups can have a positive impact on prosperity depends not least on the stability of the new companies. Around one third of all start-ups do not survive the first three years. In order to offer a helping hand into self-employment, to compensate for financing disadvantages and to boost new companies’ chances of survival, KfW Bankengruppe provides support to start-ups in Germany in the form of financing programmes and advisory offers. In the special programmes for start-up financing in Germany alone, KfW Bankengruppe committed a total volume of EUR 0.9 billion between 2006 and 2008.

You can find further information on support for SMEs and start-ups at www.kfw.de/small_business
Microfinance fund for Germany

Access to microloans is especially problematic, because loans to very small start-ups and young businesses are often associated with higher default risks. This is compounded by the fact that small-volume loans tend to be relatively unattractive for banks due to the processing work involved and the comparatively high proportion of fixed costs. This prompted the Federal Ministry of Economics and Technology, the Federal Ministry of Labour and Social Affairs (Bundesarbeitsministerium – BMAS), GLS Bank and KfW Bankengruppe to launch the “Microfinance Fund for Germany” pilot project. The microfinance fund works like a guarantee fund and relieves banks providing microloans of up to EUR 10,000 with short terms of around two years to start-ups and young companies of the default risks in full. The granting of a microloan is closely linked to the start-up and management consultancy process. The involvement of a consultant makes promising business ideas easier to identify and lowers the costs of loan processing at the bank. The consultant is involved in both the lending preparation process and in providing ongoing support.

Microloans and advisory services give even the very smallest of businesses the chance to blossom.
Microfinance in developing countries and emerging economies

Microfinance has shown rapid growth over the past few years, in particular in emerging economies and anchor countries. An increasing number of microfinance institutions are working with a sound financial basis and are not reliant on subsidies. This success is attracting more and more private and institutional financers.

With a portfolio of around EUR 800 million, around two thirds of which comes from its own funds, KfW Entwicklungsbank is one of the largest providers of microfinance in developing countries and emerging markets, particularly for investments and commitments in Latin America, Eastern Europe/Caucasus and Asia. In the sub-Saharan African states, KfW is ranked second among the microfinance institutions. This means that it makes a key contribution to giving a growing number of people access to financial services, thus offering them a way out of poverty.

You can find more information on microfinance at KfW Entwicklungsbank at www.kfw-entwicklungsbank.de/microfinance.

Promoting municipal infrastructure

A well-developed municipal infrastructure is a prerequisite for a country’s long-term prosperity. This includes good road, supply and sanitation networks. Childcare centres, schools and universities, hospitals and sports and cultural facilities also help to improve quality of life.

KfW support for municipal infrastructure in Germany in 2006–2008

- Number of projects promoted
- Commitment volume in EUR billions

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Projects</th>
<th>Commitment Volume (EUR billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1,400</td>
<td>3.2</td>
</tr>
<tr>
<td>2007</td>
<td>1,600</td>
<td>3.1</td>
</tr>
<tr>
<td>2008</td>
<td>1,300</td>
<td>2.2</td>
</tr>
</tbody>
</table>
Promoting education

The education and training of the population is of particular importance to a society’s sustainable development. This applies in particular to knowledge-based economies that are poor in natural resources, such as the Federal Republic of Germany. Good education and training gives each and every individual a better chance of participating in economic prosperity.

Four billion for education in Germany

KfW has been committed to individual education finance in Germany since 1996, and granted a total volume of almost EUR 4 billion in the period from 2006 to 2008. The introduction of the KfW Student Loan in April 2006 was a particular milestone. This promotional programme allows KfW to make a key contribution to increasing student numbers in Germany, and allowing students to study more efficiently. KfW granted more than 52,000 student loans between 2006 and 2008. With its "Education Loan" programme, KfW Bankengruppe also supports students who are nearing the end of their schooling or studies, allowing them to focus on preparing for their final exams. With its "Meister-BAföG" programme, KfW Bankengruppe also supports the further training and professional development training of skilled workers, thus helping to combat the growing shortage of skilled workers in Germany.

You can find more information on this issue at www.kfw.de/education

Committed to boosting knowledge across the globe

As part of its development cooperation efforts, which are sponsored by the Federal Ministry for Economic Cooperation and Development, KfW Entwicklungsbank has been committed to improving the education situation across the globe for more than 30 years. All of the measures are aimed at giving children, young people and adults access to the education denied to them in the past. Furthermore, the measures aim to ensure that anyone who makes it to school has sufficient time to study. More education gives children and young people an improved chance of a better life.

You can find more information on this issue at www.kfw-entwicklungsbank.de/education

Education for Afghanistan

Since 2002, KfW Entwicklungsbank has provided a total of EUR 29.9 million to date to help the Afghan education sector to get back on its feet. In detail, this has meant that a total of around 135 schools for some 130,000 children – just under 40% of whom are girls – have been built, reconstructed or equipped. The activities are currently focused on the north and northeast of Afghanistan, where, in five provinces, teacher training colleges and corresponding reference schools for practical teacher training are being built or expanded.

Schoolgirls in Afghanistan
Health care

One of the biggest challenges facing the international community of states is the health of the population in developing countries. The rapid growth of infectious diseases such as HIV, malaria and tuberculosis means that local health care systems in Africa and some Asian countries, in particular, face massive problems. In many countries, neither the public nor the private sector is in a position to attend to even the day-to-day health care needs of the population. Population growth, with its direct impact on the sustainable use of natural resources, is yet another real challenge facing many countries in this region. This often means high levels of maternal death and child mortality, and a general decline in life expectancy.

KfW Entwicklungsbank supports developing countries in their efforts to improve the health of the population. In 16 partner countries, the health care sector is one of the focal points of development partnerships. Projects dealing with issues such as drinking water supplies, wastewater disposal and waste management improve sanitation standards and make a key contribution to preventative health care. KfW Entwicklungsbank’s health activities focus on issues such as family planning, fighting HIV/AIDS, as well as diagnosing and treating sexually transmitted diseases. The bank works in close cooperation with national and international partners.

DEG also supports measures aimed at combating HIV/AIDS using additional PPP resources from a special fund of the Federal Ministry for Economic Cooperation and Development. By way of example, it provided support to a cotton company in Côte d’Ivoire in its plans to build two health care centres and 75 village health stations for its employees, as well as for the farmers that supply the company and their families. The project allowed around 350,000 people living in isolated areas of Côte d’Ivoire to be reached in the fight against HIV/AIDS.

You can find more information on this issue at www.kfw-entwicklungsbank.de/health

Committed to fair working conditions

KfW sees fair working conditions as a core element of sustainable development. One of the bank’s main aims is to create long-term jobs and income. Wherever possible, KfW Entwicklungsbank and DEG are committed to establishing social standards that extend beyond the scope of the statutory requirements in developing and emerging countries. This includes, for example, basic medical care, company pension provision, accident and invalidity insurance schemes, education and nutrition, as well as cultural protection and promotion measures.

One prime example is the Panda rose farm in Kenya, which DEG helped to finance. The company pays its workforce of around 1,000 wages that are above the going rate, and also offers non-monetary benefits. By way of example, the company pays for medical insurance for all of its employees, as well as the cost of their journey to and from work. The benefits also include a low-cost housing construction programme and company training measures. Outside of the company, Panda supports schooling and vocational training for orphans, donated five hectares of land for a primary school and helped finance the local hospital.
ABILITY – NO EXCUSES: OR TO- AND RESPECTIONS. LOGUE WITH
KfW is a reliable and trusted dialogue partner for its clients and employees, as well as for its shareholders, business partners, and for representatives from the fields of politics, science and media – both at home and abroad. The bank uses ongoing, constructive communication to lay the foundation for good long-term relationships with all stakeholders. An intensive flow of information is a fundamental component of the bank’s overall corporate culture. The bank attaches a great deal of importance to the reactions of, and feedback from, its stakeholders: they serve as a barometer for the transparency of the bank’s actions, and help it to further optimise its social commitment. The methods of communication used are as varied as the informational needs of the different interest groups.
Stakeholder dialogue

We believe that dialogue with our stakeholders – i.e. the groups we are involved with as part of our business activities – is a fundamental source of information for responsible corporate governance. Stakeholder dialogue has always been one of the cornerstones of our work, and provides vital impetus for the development and adaptation of our promotional and financing programmes.

KfW’s stakeholders represent all walks of society and all of the countries in which we operate. Key stakeholders include:

• our clients and borrowers from the promotional programmes, export and project finance measures and Financial Cooperation projects,
• our shareholders, public-sector clients and strategic partners from politics and business,
• analysts and investors,
• our suppliers and neighbours,
• representatives from medical, science and non-governmental organisations,
• the general public and
• our employees.

As part of our investor relations activities, we maintain open, ongoing contact with (mainly institutional) investors, as well as with financial analysts and rating agencies. We specifically seek contact with investors looking to make ecologically and socially responsible investments. We also maintain regular dialogue with sustainability rating agencies – even in matters not related to the rating process. KfW’s commitment to sustainable social responsibility is evident from its excellent Corporate Social Responsibility ratings (see page 53).
KfW is involved in numerous initiatives and associations. A selection of the associations and initiatives that are relevant from a sustainability perspective is set out below.

<table>
<thead>
<tr>
<th>Initiative/Institution</th>
<th>Tasks and objectives</th>
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<tbody>
<tr>
<td><strong>BBOP</strong></td>
<td>The international initiative Business and Biodiversity Offsets Program (BBOP) aims to encourage companies to take voluntary measures to compensate for any potential negative impact on the natural environment. BBOP has developed an extensive set of guidelines for the development of biodiversity offsets which is available on the Internet at <a href="http://bbop.forest-trends.org">http://bbop.forest-trends.org</a></td>
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<td><strong>Biodiversity in Good Company</strong></td>
<td>The aim of this initiative is to promote the increased involvement of the private sector in achieving the objectives set out in the UN Convention on Biological Diversity. The idea is that companies make the protection and sustainable use of biodiversity an integral part of their corporate management systems. The “Business and Biodiversity Initiative” (BiB) is an international project launched as part of the German CBD presidency. Further information can be found at <a href="http://www.business-and-biodiversity.de">www.business-and-biodiversity.de</a></td>
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<tr>
<td><strong>BioFrankfurt</strong> network currently comprises 15 leading institutions from the fields of research, education, conservation and development cooperation in the Rhine-Main area. They combine their experience and knowledge to work towards the preservation of biodiversity, and to boost public awareness of how important this issue is. Further information can be found at <a href="http://www.biofrankfurt.de">www.biofrankfurt.de</a></td>
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<tr>
<td><strong>CFA</strong></td>
<td>The Conservation Finance Alliance (CFA) was set up to mobilise more public and private funds to finance conservation projects. The CFA aims to support and promote new concepts in the cooperation between institutions that finance conservation projects. Besides KfW its members include the World Bank, UNDP, UNEP, AFD, GTZ, international non-governmental organisations (e.g. the WWF, CI, TNC, BirdLife), the Latin American umbrella association of environmental funds – RedLAC, PriceWaterhouseCoopers and many more. Further information can be found at <a href="http://www.conservationfinance.org">www.conservationfinance.org</a></td>
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<tr>
<td><strong>dena</strong></td>
<td>The German Energy Agency (dena) is the competence centre for energy efficiency and renewable energies. Its main aims include the rational and therefore environmentally friendly generation, conversion and use of energy, as well as the development of energy systems to meet the needs of the future, taking into account the increased use of renewable energy sources in particular. Its shareholders are the Federal Republic of Germany, KfW Bankengruppe, Allianz SE, Deutsche Bank AG and DZ BANK AG. Further information can be found at <a href="http://www.dena.de/en">www.dena.de/en</a></td>
</tr>
<tr>
<td><strong>RHSC</strong></td>
<td>The Reproductive Health Supplies Coalition (RHSC) is a global consortium that currently includes around 80 public- and private-sector institutions, as well as non-governmental organisations. The forum aims to give the population in developing countries easier access to high-quality, affordable contraception. Its members include UN organisations, bilateral donors and internationally active foundations, as well as pharmaceutical companies, the World Bank and the EU. The objective is to halt global population growth and improve health care in the long term, especially for women. Since 2004, RHSC has been raising funds, developing implementation concepts and promoting dialogue among all of the parties involved. Further information can be found at <a href="http://www.rhsupplies.org">www.rhsupplies.org</a></td>
</tr>
<tr>
<td><strong>UNEP FI</strong></td>
<td>The United Nations Environment Programme Finance Initiative (UNEP FI) is a global partnership between the United Nations Environment Programme (UNEP) and the financial sector. UNEP FI works closely with 170 financial institutions, including KfW and a number of partner organisations, to develop and promote links between environmental protection, sustainability and financial performance. Further information can be found at <a href="http://www.unepfi.org">www.unepfi.org</a></td>
</tr>
<tr>
<td><strong>WHH</strong></td>
<td>Deutsche Welthungerhilfe e.V. (WHH) is a non-governmental aid organisation for development cooperation and emergency aid. Its work focuses on securing sustainable food supplies and agriculture, as well as humanitarian aid. It also supports projects aimed at the establishment of civil society, youth promotion and health care. Deutsche Welthungerhilfe works closely with local partners. The European Commission and the German Federal Ministry for Economic Cooperation and Development rank among the largest public-sector donors. Further information can be found at <a href="http://www.welthungerhilfe.de">www.welthungerhilfe.de</a></td>
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<tr>
<td><strong>WWF</strong></td>
<td>The World Wide Fund for Nature is one of the world’s largest conservation organisations and operates in over 100 countries. It is supported by around five million donors all over the globe. The organisation aims to curb the global destruction of the natural environment and to create a future in which people and nature can live in harmony with each other. The aim is to implement this by preserving the Earth’s biodiversity and using renewable resources in an ecologically sound manner, cutting pollution and restricting wasteful consumption. Further information can be found at <a href="http://www.wwf.org">www.wwf.org</a></td>
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</table>
Transparent communication across the board

KfW systematically informs its stakeholders of its stance as regards environmental and social responsibility. A large number of events on recent environmental and social developments allow the bank to exchange ideas with political and academic circles, as well as with non-governmental organisations and clients. These events help the bank to develop solid standards and procedures for dealing with these issues. Part of this dialogue includes ex-post reporting, as carried out by the independent evaluation unit at KfW Entwicklungsbank, for example. In line with KfW’s “Statement on environmental protection and sustainable development”, KfW reports to the Board of Supervisory Directors on its sustainability management on an annual basis.

Series of events and publications

KfW organises series of events and special events on current issues. The "Berlin Expert Talks on Globalisation", for example, offer a regular dialogue platform for political, business, academic and civic leaders to discuss issues affecting the future. Our Developing Countries Forum is held in Frankfurt around six times annually. We also organise the Bonn Platform for International Cooperation together with Deutsche Welle. In 2008, for instance, a panel discussion at the Bonn Platform examined the issue of biodiversity and natural ecosystems. The KfW Forum on Development Issues, which targets international decision-makers, donor organisations and financial institutions, comprises both the KfW/DEG Forum on Development Strategies, which is typically held four times annually at our office in Brussels, and the Side Events that we hold during major international conferences.

Publications also help to support KfW’s commitment to sustainability. By way of example, every annual report published by KfW Entwicklungsbank includes a feature issue providing information on successful cooperation projects with developing and transition countries.
Ensuring client satisfaction

KfW uses a large number of tools to measure, improve or – if necessary – restore client satisfaction. These include, on the one hand, product evaluations that query client satisfaction with the product in question and with KfW as a whole. On the other hand, the bank uses product development measures to optimise its services, taking into account the needs of its clients, to the best extent possible. It also has a complaints management process in place, involving in-depth communication in individual cases and – wherever possible – aiming to eliminate the cause of the complaint. Among other things, the intensive coaching measures offered to Infocenter employees, which are aimed at continually improving dialogue techniques, provide a basis for increasing satisfaction. The Internal Auditing department is also involved in addressing client satisfaction issues.
Social commitment

Entrepreneurial action must be responsible. This is especially true for KfW, with its legal mandate to promote economic and social change. Entrepreneurial action can only be successful in the long term if there is a social framework in place to support it. This is why KfW’s promotional mission is closely linked to public sponsoring, i.e. support for issues relevant to society. Art and culture, in particular, provide a means of addressing the issues facing society at present. They provide a mirror image of society, reflecting our experiences. They force us to look at things from new perspectives by opening our eyes to pressing issues, and create a basis for creativity by opening our minds to new experiences. Art and culture help us to deviate from routine, established paths of thought. The sponsored projects are selected based on the “two winners principle”: the aim is to ensure that the financial commitment “benefits” both the artists and their projects, as well as the public at large. The projects that KfW supports are multi-faceted. As part of its modernisation process, KfW also intends to review the projects and objectives of its social commitment activities, and redefine them as part of a comprehensive CSR strategy.

Sponsoring art and culture

In addition to the “two winners principle”, another key component of the bank’s cultural activities is location sponsoring. The bank provides support exclusively to city cultural projects and institutions in the three cities in which KfW is based: Frankfurt am Main, Bonn and Berlin. This means that the associated improvement in the quality of life and attractiveness offered by these cities benefits not only the general public, but also the bank’s employees. In the city of Frankfurt am Main, where the bank has its headquarters, KfW supports the Frankfurt Opera House, the Senckenberg Natural History Museum, the Stalburg Theatre and the Rheingau Music Festival. In Berlin, funds are provided to support the “YOUNG EURO CLASSIC” festival, while in Bonn, KfW provides funds for the “International Beethovenfest”.

Tyrannosaurus Rex in the Senckenberg Natural History Museum, Frankfurt am Main
Frankfurt am Main: High-quality musical theatre is the trademark of the internationally renowned Frankfurt Opera House. As part of its sponsoring activities, KfW provides support in particular for the "Opera for families" project, in which the Frankfurt Opera House offers special family evenings at reduced ticket prices.

The Stalburg Theatre is an atmospheric suburban Frankfurt theatre and is known as a fresh and trendy venue for cabaret, theatre, jazz and classical music. The small, private theatre is committed to staging new and original works of high quality without elitist undertones. As a sponsor, KfW Bankengruppe's objective is to ensure that Frankfurt and the surrounding area continue to have access to a varied cultural and theatrical offering.

The Senckenberg Natural History Museum provides a unique combination of education, science and culture. The museum combines world-class research with a collection presented exceedingly well in educational terms. As one of the largest museums of its kind in Europe, it attracts around 400,000 visitors a year, primarily school groups and families. The museum's educational aims were one of the particular reasons why KfW decided to become involved as a main sponsor.

The Rheingau Music Festival offers a varied programme of concerts under the motto "A summer full of music". The festival owes its attractiveness as much to the mix of well-known and virtually unknown artists, as well as to the programme focus, which changes from year to year. KfW IPEX-Bank provides support to this major music event in its capacity as a sponsor.

Bonn: World-famous performers as well as young, exceptionally talented musicians appear at the annual "International Beethovenfest Bonn". KfW Bankengruppe supports the festival by making the cafeteria area of its Bonn branch available for an evening of music.

As one of the main sponsors, KfW Bankengruppe also promotes Videonale e. V. in Bonn. Germany's oldest and most important international video art festival presents contemporary video and media art to a broad section of the public every two years.

Berlin: The "YOUNG EURO CLASSIC – Europäischer Musiksommer" festival is one of Europe's most innovative. For two weeks every August, the Konzerthaus on Gendarmenmarkt Square in Berlin hosts 16 national and international youth orchestras whose programme is determined primarily by their geographical roots. The mixture of musical talent, youthful enthusiasm and a summer atmosphere attracts more than 20,000 music fans every year. KfW Bankengruppe is the festival's main partner.

KfW art collection

KfW has been promoting art on its own premises for more than 30 years. The bank's own art collection mainly includes works by young artists, in line with KfW's promotional aspirations. More than 2,500 works of art displayed in Frankfurt, Berlin and Bonn are testimony to how art has developed since 1970.
Other sponsoring activities

In the educational sector, KfW sponsors the Chair for Entrepreneurship at the Technical University of Munich, the school business project JUNIOR, business plan competitions and the African Wildlife College. It also supports European solar energy prizes in the environmental sector.

Ever since 2005, KfW has been providing support to the "Frankfurt Common Purpose" programme as part of its location sponsoring activities. The independent non-profit organisation Common Purpose aims to provide further training to active and future management talents from all walks of life, to bring them together and open their eyes to how they can become more effective. The objective is to create a network of individuals who have acquired both the theoretical and practice knowledge they need to foster progress in their city and for their fellow citizens, to recognise and solve problems and thus improve the quality of life of, and cohesion within, society.

Common Purpose programmes are currently underway in seven German cities, including Frankfurt am Main. As well as wanting to provide general support to the metropolis on the Main river, KfW Bankengruppe believes that Common Purpose offers an interesting approach for the further training of its own employees.

KfW's total donations have been constant at around EUR 200,000 for several years now. It makes neither monetary nor non-monetary donations to political parties or institutions associated with political parties.

KfW Award "Living European Style"

In 2008, for the sixth time, KfW granted the "KfW Award" for innovative and forward-looking projects by private builders and homeowners. Last year, the motto for the award, which was worth a total of EUR 27,000, was "Building and living in community in the city – creative and cost-effective approaches to home ownership". The jury selected projects that have mastered the challenges faced by city-based construction projects in an exemplary manner. The projects honoured with the KfW Award saw idle land being revitalised, traditional buildings undergoing energy rehabilitation measures, gaps between buildings being closed and an old factory building being rescued from decay.
**KfW bonds as a sustainable investment**

KfW refinances the majority of its promotional activities by issuing bonds on the international capital markets. In selecting their securities, buyers of bonds also place increasing importance on issuers’ sustainable conduct, in addition to return and risk aspects. KfW Bankengruppe offers those investors that take sustainability of their financial investments into account when making investment decisions an adequate investment opportunity.

The excellent ratings awarded KfW by sustainability rating agencies confirm its efforts toward the many aspects of sustainability. Sustainability ratings assess the ecological, social and corporate governance aspects of the respective companies. Socially responsible investors frequently base their investment decisions on the ratings. Since 2004, KfW has been regularly rated by the two most important agencies on the German market, Oekom Research and Sustainalytics (formerly Scoris), achieving top rating results. Its most recent rating was a “B” on a 12-step scale from “A+” to “D-” by Oekom Research in 2008 – the best rating Oekom Research awarded, in a cross-sectoral comparison with 16 other “development banks”. Sustainalytics gave KfW 70.3 out of 100 points. Here, too, KfW ranked first in the Sustainalytics segment encompassing the ten “development agencies”.

**Promotion sensitises companies about corporate social responsibility**

Many customers of Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) assume social responsibility at their locations in developing countries. Independent experts reviewed 16 of the companies co-financed by DEG in terms of their activities in corporate social responsibility (CSR). They concluded that both sides stand to benefit when companies assume social responsibility.

The spectrum of such activities is broad. Companies invest, for example, in public transport infrastructure or in energy supply; they build hospitals, schools, churches and mosques or improve water supply and sanitation systems. They usually pay well above the legal minimum wage, offer bonus payments and provide housing, subsistence and/or education allowances. Other important services include social and health insurance, sickness benefits, transport to and from work, meals while at work, and free lodging or housing construction subsidies. HIV/AIDS prevention and support to those affected constitute a significant part of CSR activities, especially in Africa.

In October 2008, DEG organised the international symposium “Act responsibly – why CSR pays off – Companies report on first-hand experiences” in order to present some best practices from the CSR evaluation and promote the exchange between entrepreneurs from developing countries and Germany. Around 100 guests from 25 countries obtained information on strategies and processes, discussing case studies from Egypt, Kenya, Mozambique, Peru, Ukraine and other countries.
KfW is active in all regions of the world and assumes its responsibility as employer at international, national and local level. It aims to be an attractive company for employees and to hire the best professional and management staff.

Success factors for personnel as well as personal development are an exciting range of responsibilities, performance-based compensation, comprehensive further training opportunities and international opportunities for career development. KfW places particular importance on dialogue-based management culture and teamwork – principles that have also been set down in writing. Moreover, the “fair play” agreement presents the principles of cooperation in a productive working environment, that is, for example, willingness to accept constructive criticism and objectively deal with issues.

Its employees are the main basis of current and future success of all of KfW Bankengruppe. They work daily in motivated teams to address the challenges of being economically successful while at the same time convincingly fulfilling the bank’s mandate. KfW aims to increase their efficiency and strengthen their qualifications through an effective human resource policy, attractive personnel structures and future-oriented personnel systems. Further components include fair wages, part-time work, equal opportunities and a large number of professional and health benefits. In this manner, the bank enables its employees to balance professional and private interests, and thus achieves long-term employee retention.

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### General information on KfW Bankengruppe workforce

<table>
<thead>
<tr>
<th>Key figures</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total employee wages</strong> (EUR in millions)</td>
<td>265</td>
<td>276</td>
<td>305</td>
</tr>
<tr>
<td><strong>Total workforce</strong></td>
<td>3,831</td>
<td>4,003</td>
<td>4,228</td>
</tr>
<tr>
<td><strong>Breakdown of workforce by type of employment contract</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– permanent</td>
<td>90%</td>
<td>88%</td>
<td>88%</td>
</tr>
<tr>
<td>– temporary</td>
<td>10%</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td><strong>Percentage of disabled employees</strong></td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Part-time employees</strong></td>
<td>16%</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Employees with flexible working hours</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flexible working hours model for nearly all employees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Percentage of management that is female</strong></td>
<td>22%</td>
<td>23%</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Percentage of total workforce that is female</strong></td>
<td>49%</td>
<td>48%</td>
<td>49%</td>
</tr>
<tr>
<td><strong>Vocational trainees</strong></td>
<td>157</td>
<td>164</td>
<td>175</td>
</tr>
<tr>
<td><strong>Graduate trainees</strong></td>
<td>72</td>
<td>103</td>
<td>56</td>
</tr>
</tbody>
</table>

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* Wages and salaries item in the Income Statement published for each year

** Average number of workforce excl. Board members and vocational trainees, but incl. temporary staff (based on the numbers of employees at the end of each quarter in the reporting year)
Vocational and further training

KfW has traditionally set great store by its training programmes. Nothing has changed in this regard, even in times of financial crisis. As a public-law institution as well as a member of the training pact concluded by the German Federal Government and business, KfW Bankengruppe fulfils its obligations in a special way, providing training beyond its actual requirements.

Qualification and further training are important pillars of KfW’s personnel strategy. With the help of a comprehensive range of continuing professional development measures, KfW promotes its employees, ensuring that they can cope with the tasks facing them now and in the future. Particularly in times of crisis, it is crucial to a bank that all of its employees become more flexible and develop their potential to also take on new tasks.

Language skills were an important area in terms of training measures in the reporting period. As an international bank, KfW needs employees who can communicate with the global financial markets. The main language courses on offer are English and French but, given the bank’s global presence, Arabic and Chinese are also available. Each employee received an average of 22 hours of in-house training per year during this period, which corresponds to about two events per year per employee. Moreover, the bank offered more than 1,000 events involving external further training measures.

Regular seminars are held on the sustainable management system for all new employees as well as trainees to raise awareness of this topic and to provide practical assistance for day-to-day work. For example:

<table>
<thead>
<tr>
<th>Training offering of the Sustainability Unit for staff of KfW IPEX-Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Course no 279: “Environmental protection and social issues in KfW IPEX-Bank project management”</td>
</tr>
</tbody>
</table>

**Objectives**

- Understanding the basics of KfW Bankengruppe’s sustainability management system
- Learning to work with KfW IPEX-Bank’s environmental and social policy (sustainability policy)

**Content**

- Structure and application of KfW Bankengruppe’s sustainability management system
- Basics in evaluating environmental and social issues
- Details on the policy and procedure for assessing environmental and social aspects
- Relationship to OECD Common Approaches and Equator Principles
- Practical tips for the first project contact
- Case studies in dealing with environmental and social issues

**Methods**

Lecture, case studies, discussion of current financing based on practical examples
**Compensation and social benefits**

Annual employee reviews are obligatory at KfW Bankengruppe. A comprehensive set of provisions serves as the basis for these reviews. On the one hand, it ensures constructive evaluation and commendation of individual performance on the basis of agreed responsibilities, and set goals and their achievement. On the other, the reviews also focus on the future development of employees and appropriate training and career enhancement measures.

KfW is subject to the collective bargaining agreement for the public and private banking sector. Detailed terms ensure that the compensation system and the performance evaluation process are transparent and verifiable for staff not covered by collective wage agreements. All employees receive comprehensive written information on compensation. Thus KfW ensures performance-based remuneration of its employees in line with market rates. In the reporting period, around two thirds of staff held employment contracts not covered by collective wage agreements and one third was remunerated in accordance with collective wage agreements.

KfW Bankengruppe’s comprehensive social benefits include employer contributions to different forms of occupational retirement provision, a group accident insurance policy and loans. Those employees who travel to work taking public transport receive reimbursement or a local public transport pass free of charge.

**Staff councils**

Long-term job security even in difficult economic times is the main task of the staff councils. As a result of the good working relationship between the management and staff representatives, job security could be ensured during the reporting period without having to question the bank’s future-oriented, organisational restructuring. The staff representatives also deal with issues that contribute to a positive working environment at KfW. Balanced social structures and responsibility, open communication and transparency of key processes while taking economic data into account contribute to this environment. KfW staff representation is in accordance with the Federal Personnel Representation Act (Bundespersonalvertretungsgesetz – BPersVG). KfW has a General Staff Council (Gesamtpersonalrat – GPR) and three local Staff Councils (örtliche Personalräte – ÖPR) in Frankfurt, Bonn and Berlin. Moreover, all KfW employees have the right to organise and actively participate in trade unions.
The General Staff Council represents the interests of all employees concerning decisions, regulations or agreements that affect all locations. The GPR monitors adherence to agreements and negotiates any necessary amendments. The local Staff Councils are responsible for local adherence and their application in individual cases. The General Staff Council meets every four weeks and regularly informs staff of current issues.

Current legislation does not permit KfW and its subsidiaries to form a Joint Group Staff Council. However the KfW General Staff Council remains in regular contact with the respective councils in the other group banks. DEG employees are represented by a staff council in accordance with the valid Works Council Constitution Act (Betriebsverfassungsgesetz – BetrVG) for private-law companies.

Award as attractive employer

KfW is one of the top 100 most preferred employers, according to the results of a study recently published in the German economic weekly WirtschaftsWoche, which surveyed more than 15,000 students at 48 post-secondary institutions. Assessment criteria included people and culture, employer reputation and image, job profile, income and career opportunities. The German Manager Magazin also published a survey of economics and business students, in which KfW ranked among the top employers. Around 18,000 business and engineering students at 108 German colleges and universities were interviewed for the survey. The top positions in the field of business received high marks for attractive salaries, interesting projects and the opportunity for professional development in a very short span of time.
KfW is open to intelligent working hour models that enable employees to balance their social desires with company and operational requirements. The balance between career and family is a particular challenge that the bank addresses with a variety of individual solutions, be it through its flexi- and part-time models or different forms of telecommuting. KfW also facilitates easy return after parental leave. Everyone is convinced that the bank’s family-conscious personnel policy contributes to recruiting and retaining motivated, hard-working employees – an important aspect for KfW’s future viability.

“Career and Family” certificate from the Hertie Foundation

KfW Bankengruppe sets great store by balancing career and private life. It supports a family-friendly personnel policy as well as concrete measures and institutions at KfW, such as childcare and a policy for flexible working hours and location. It also promotes equal opportunities for women and men.

The “Career and Family” audit is an initiative of Gemeinnützige Hertie-Stiftung and serves to foster a family-conscious personnel policy. The audit aims to significantly raise the awareness of all employees concerning career and family balance and to generate dialogue within the company in order to find new practical solutions.

KfW has participated in the audit since 2001. The last certification was performed in 2007.

The bank’s kindergarten at the KfW headquarters in Frankfurt am Main celebrated its 35-year anniversary in 2008.
Health promotion

Health seminars are regularly offered at KfW Bankengruppe. They include preventative back pain training, Pilates courses, mental activation training, nutritional counselling and counselling for smokers. In addition, KfW offers its employees a comprehensive fitness programme. Employees are also supported by company physicians and social counsellors. The incidence of serious illness among employees is below the national average.

Equal opportunities

Ensuring equal rights for male and female employees is an important part of KfW’s human resources policy. At managerial level, women tend to be underrepresented in Germany. This still applies to KfW as well. The Equal Opportunities Plan shows that equal opportunities for men and women at KfW primarily means strengthening the professional role of the bank’s female employees. Through its family-conscious personnel policy, KfW systematically increases the motivation of its staff, ensuring that they feel bound to the company even during periods of leave for family-related reasons. At the same time, this policy also makes the bank more attractive on the labour market, enabling staff to return to working life as soon as possible after the birth of a child.

The bank’s kindergarten, which celebrated its 35th anniversary in 2008, is one example of the family-friendly measures in place. The bank allows many employees to opt for an individually tailored combination of in-house childcare, individual part-time arrangements, home working and partial presence in the office. Moreover, female managers can opt to work part-time in tandem, flexibly sharing their tasks with a partner.

These measures have enabled the bank to increase the proportion of women managers: the proportion in the first level below the Managing Board (director/senior vice president) has increased over the past ten years from 0% to 14%, whilst the increase in the second level (first vice president) has been from 7% to 14%, and from 12% to 31% in the third management level (vice president). Overall, women now account for 24% of managerial staff, compared with 9% ten years ago. Throughout the company as a whole, the proportion of women has remained constant at just under 50%. Moreover, DEG is a member of "genderdax", an information platform for companies that particularly support women in their career development (www.genderdax.de).
The effects of climate change are forcing people around the world to address the preservation of nature and to review their behaviour on a regular basis. KfW Bankengruppe also has an impact on the environment – both directly and indirectly. The bank endeavours to keep this impact as low as possible in all areas.

It develops new programmes for in-house environmental protection every three years, and thanks to systematic environmental management, KfW has reduced its use of resources considerably. But this is only the situation as it stands; KfW develops its in-house environmental protection concepts on an ongoing basis, so as to use resources with increasing efficiency while also cutting costs.

KfW’s environmental accounting is based on standards set by the German Association for Environmental Management in Banks, Saving Banks, and Insurance Companies (Verein für Umweltmanagement bei Banken, Sparkassen und Versicherungen – VfU) which have been aligned with specific KfW requirements in some areas. The environmental accounts include all KfW employees in Germany, all KfW buildings and the large buildings it rents in Frankfurt. The annual environmental accounts are prepared using SoFi software from PE International, and are analysed by an in-house body of experts.

The number of employees relevant for environmental accounting grew from some 4,200 in 2006, to around 4,500 in 2007 and about 4,600 in 2008. Any deviations from other data contained in this or other KfW Bankengruppe reports are due to the specific features of the environmental accounting system. The calculations included the bank’s large rented buildings as far as possible in order to provide a comprehensive picture of the use of resources. Where this was not directly possible, projections were made based on the per capita figures for the employees working in KfW’s own buildings in Frankfurt. Because this altered the system limits, only the time series 2006–2008 are presented.

Although separate key figures are recorded for DEG, these amounts are included in the KfW totals. Separate internal figures cannot currently be compiled for KfW IPEX-Bank. In 2010, KfW IPEX-Bank will be moving into a KfW building which is currently still under construction; the most important figures will then be available.

Figures are rounded in all cases.

The report does not include reference to fines charged for non-compliance with legal environmental regulations, since KfW Bankengruppe has not incurred any in the past few years.

Further information on in-house environmental protection at KfW is available at www.kfw.de/environmental_protection
Environmental protection review:
The KfW Bankengruppe Environmental Protection Programme 2006–2008

Environmental protection in its traditional form usually comes into play at the end of a process – waste disposal and treatment of exhaust air and wastewater. But at KfW Bankengruppe, environmental protection is observed from the outset. The key areas are protection of air, soil and water, efficient use of resources and solid waste prevention. However, this concept can only work if environmental protection is treated as a shared task and challenge by all members of staff. At KfW, environmental protection starts with new ideas and constantly improved solutions which help targets to be reached.

KfW Bankengruppe Environmental Protection Programme 2006–2008 (excerpt)

<table>
<thead>
<tr>
<th>Area of application</th>
<th>Description</th>
<th>Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy/emissions</td>
<td>Purchase of green electricity</td>
<td>2007</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>Obtainment of energy certificates for own buildings</td>
<td>2007</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>Analysis of base load to assess possibilities for optimisation</td>
<td>2007</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>Monitoring of “Ostarkade” building replicated in main building (Frankfurt)</td>
<td>from 2006</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>Further reductions through intensive management accounting with the operational management company (Berlin)</td>
<td>ongoing</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>Blind and lighting operating systems renewed in canteen (Bonn)</td>
<td>2006</td>
<td></td>
</tr>
<tr>
<td>Emissions</td>
<td>Analysis of provision of cogeneration unit (Bonn)</td>
<td>2006</td>
<td></td>
</tr>
<tr>
<td>Paper</td>
<td>Compulsory use of recycled paper</td>
<td>2006/2007</td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>Additional bicycle racks, showers and lockers provided (Bonn)</td>
<td>2006</td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>Free-of-charge local public transport passes (job ticket) provided (Cologne)</td>
<td>2008</td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>Purchase of environmentally friendly company cars</td>
<td>from 2006</td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td>Calculation of key figures for introduction of vacuum toilets (main building, Frankfurt)</td>
<td>from 2006</td>
<td></td>
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<tr>
<td>Water</td>
<td>Completion of trainee project and use of results for employee information (Bonn)</td>
<td>2006</td>
<td></td>
</tr>
<tr>
<td>Waste</td>
<td>Analysis of non-recyclable proportion of waste (Frankfurt)</td>
<td>2008</td>
<td></td>
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<tr>
<td>All areas</td>
<td>Promotion of environmental awareness and environmentally friendly conduct among staff through intensified information campaign</td>
<td>ongoing</td>
<td></td>
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<tr>
<td>All areas</td>
<td>Guideline for environmentally friendly procurement implemented</td>
<td>2008</td>
<td></td>
</tr>
<tr>
<td>All areas</td>
<td>Exhibition on “Protection of climate and environment at KfW”</td>
<td>2006</td>
<td></td>
</tr>
<tr>
<td>All areas</td>
<td>Intranet guidelines prepared on technical fixtures and fittings in KfW buildings</td>
<td>2008</td>
<td></td>
</tr>
<tr>
<td>All areas</td>
<td>Information leaflets produced on all new construction and renovation measures</td>
<td>from 2006</td>
<td></td>
</tr>
<tr>
<td>All areas</td>
<td>Improved environmental protection in plans for new building in Kämmergasse (Cologne)</td>
<td>2008</td>
<td></td>
</tr>
</tbody>
</table>
The target achievement rate for 2006–2008 was around 75% – a figure to be proud of. What is important, however, is that all objectives with high direct impacts on the environment were achieved, for example the transition to 100% green electricity in 2007. Energy certificates were also issued by the deadline for all buildings owned by KfW, and recycled paper was introduced across the board.

Improved environmental protection is a major target for new buildings in particular. Hence the fusion of economy and ecology was at the core of the new DEG building in Cologne – not only in the planning stages, but also during construction. In addition to efficient use of resources in all areas, building materials were assessed for compliance with environmental standards, and replaced where necessary.

In addition to these targets relating to technology and materials, KfW has also set objectives both for and involving its employees. For example, a solid information base means that staff are able to adequately operate the technical fixtures and fittings of the building – which can be somewhat complex. Extensive information has been added to the company Intranet over the past few years for this very reason, and many issues of the staff magazine Einblicke have included articles on in-house environmental protection.

Furthermore, KfW has taken part in the AOK/ADFC cycle-to-work initiative with an increasing number of employees since 2007, actually holding its own kick-off to the event as part of its series of events on health and fitness at KfW.

**Partial achievement is the first step**

The goal of limiting the use of resources overall has not yet been achieved, due to the generalised definition of the target. This issue will be addressed when future targets are defined.

The areas accounting for the largest use of resources, energy and water, recorded reductions; increases were evident only in paper and waste.

**Unfortunately not achieved**

A touring exhibition on “Protection of climate and environment at KfW” and an information campaign on in-house environmental protection (Mach mit!) were also planned, but unfortunately had to be postponed.

The targets not yet reached or completed are generally absorbed into the next new programme.
Focus on environmental protection: The KfW Bankengruppe Environmental Protection Programme 2009–2011

In spite of – or perhaps because of – the difficult economic situation at present, KfW Bankengruppe has set itself a series of ambitious environmental goals, to show that a crisis of this kind need not bring environmental protection to a standstill. Quite the contrary: KfW intends to step it up. However, the same still applies to all investments intended to improve the life cycle assessment – they must prove to be a success.

Environmental protection can also be achieved by subjecting existing procedures and the use of funds to more intense scrutiny. This makes energy monitoring a focal point of work – especially in the energy sector – in order to identify cost-cutting potential and introduce new ways of resource conservation.

<table>
<thead>
<tr>
<th>Area of application</th>
<th>Description</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>Assessment of additional optimisation measures for lighting concept including lighting for artwork (Frankfurt, Berlin, Bonn)</td>
<td>2010</td>
</tr>
<tr>
<td>Energy</td>
<td>Long-term monitoring of main and Ostarkade buildings (Frankfurt)</td>
<td>from 2010</td>
</tr>
<tr>
<td>Energy</td>
<td>Extension of monitoring to Westarkade building (Frankfurt)</td>
<td>from 2010</td>
</tr>
<tr>
<td>Energy</td>
<td>New building to be monitored as in Frankfurt (DEG, Cologne)</td>
<td>from occupation</td>
</tr>
<tr>
<td>Energy</td>
<td>Virtualisation of servers to reduce existing server footprint up to and including 2011, as far as possible and appropriate</td>
<td>2008–2011</td>
</tr>
<tr>
<td>Energy</td>
<td>Assessment of energy consumption in the canteens (Frankfurt, Berlin, Bonn)</td>
<td>2010</td>
</tr>
<tr>
<td>Energy/ emissions</td>
<td>Increase in climate awareness among employees with CO2 calculator on Intranet</td>
<td>2009</td>
</tr>
<tr>
<td>Emissions</td>
<td>Assessment of participation in Deutsche Post’s “GoGreen” project</td>
<td>from 2009</td>
</tr>
<tr>
<td>Emissions</td>
<td>Participation in “Sustainable Bonn” project*</td>
<td>ongoing</td>
</tr>
<tr>
<td>Energy/water</td>
<td>Participation as pilot project in German Certification for Sustainable Buildings system (DEG, Cologne)</td>
<td>2009</td>
</tr>
<tr>
<td>Paper</td>
<td>Increase in proportion of recycled paper used to 80%</td>
<td>2010</td>
</tr>
<tr>
<td>Transport</td>
<td>Participation in cycle-to-work initiative</td>
<td>annually</td>
</tr>
<tr>
<td>Transport</td>
<td>Participation in “bike + business”</td>
<td>ongoing</td>
</tr>
<tr>
<td>Waste</td>
<td>Assessment of waste accumulation in the canteens (Frankfurt, Berlin, Bonn)</td>
<td>2010</td>
</tr>
<tr>
<td>Canteen</td>
<td>Use of regionally-sourced and certified foods</td>
<td>ongoing</td>
</tr>
<tr>
<td>Canteen</td>
<td>Certification of Frankfurt canteen with organic symbol in accordance with EEC regulation on organic production of agricultural products</td>
<td>2009</td>
</tr>
<tr>
<td>All areas</td>
<td>Implementation of a master guideline for environmentally friendly procurement</td>
<td>2010</td>
</tr>
<tr>
<td>All areas</td>
<td>Exhibition to be held at all four locations on “Protection of climate and environment at KfW”</td>
<td>2011</td>
</tr>
<tr>
<td>All areas</td>
<td>Various projects for trainees</td>
<td>2010/2011</td>
</tr>
<tr>
<td>All areas</td>
<td>Information campaign (“Natürlich wir!”)</td>
<td>2009/2010</td>
</tr>
</tbody>
</table>

* The “Sustainable Bonn” project was launched with the aim of staging events in and around Bonn on the subject of sustainability.
Compiling environmental data: Energy requirements broken down by primary energy source

The primary energy requirements of KfW Bankengruppe can be broken down as follows into target figures for current construction or renovation projects and verifiable consumption by existing buildings based on energy certificates:

### Primary energy requirements for own buildings (in kWh/m²/a)

<table>
<thead>
<tr>
<th>Location</th>
<th>Building</th>
<th>Target</th>
<th>Energy certificate (rounded)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frankfurt</td>
<td>Bockenheimer Landstr. 109</td>
<td>344</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Main building</td>
<td>155</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nordarkade</td>
<td>140</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ostarkade</td>
<td>90</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Senckenberglage</td>
<td>140</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Südarkade</td>
<td>140</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Westarkade</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Berlin</td>
<td>Building section C</td>
<td>170</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Building section D</td>
<td>337</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Building section E</td>
<td>218</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Building section F</td>
<td>235</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Building section G</td>
<td>247</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Building section M</td>
<td>180</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Building section X</td>
<td>151</td>
<td></td>
</tr>
<tr>
<td>Bonn</td>
<td>LEP 1</td>
<td>129</td>
<td></td>
</tr>
<tr>
<td></td>
<td>LEP 2 and 3/Linse</td>
<td>171</td>
<td></td>
</tr>
<tr>
<td>Cologne</td>
<td>Kämmergasse</td>
<td>60</td>
<td></td>
</tr>
</tbody>
</table>

### Aggregate energy consumption in 2006–2008 (in MWh)

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>56,700</td>
</tr>
<tr>
<td>2007</td>
<td>54,000</td>
</tr>
<tr>
<td>2008</td>
<td>51,500</td>
</tr>
</tbody>
</table>

A large number of the measures were aimed at optimising energy efficiency – and were successful. Energy consumption fell overall between 2006 and 2008, in spite of an increase in staff numbers. The annual per capita consumption also fell: from 13,500 kWh in 2006 to 11,200 kWh in 2008.
Applying environmental protection programmes: Saved energy

The in-house optimisation and efficiency programmes cover various aspects. For example, the technology in the buildings is subject to frequent tests.

A series of energy-saving measures were introduced at all locations during the reporting period:

**Frankfurt:** All buildings are to be linked together on a single operating platform as part of a building automation project. This will make energy monitoring significantly easier, which allows peak demand to be reduced, for example. The entire cooling system in the Nordarkade building was also revamped, enabling cool air to be produced efficiently and in line with requirements.

**Bonn:** Electricity was saved by modernising the lighting in stairwells, corridors and offices in building LEP 2 and through the reduction in the number of mainframe computers. Further savings were achieved with the new dishwasher installed in 2007.

**Berlin:** No major measures were implemented in Berlin due to extensive fire-safety upgrades made.

**Cologne:** No major measures were undertaken in the old buildings as the staff moved into a new main building in 2008. The advanced environmental technology in the new building will reduce per capita energy consumption considerably as of 2009. However, consumption in the first two years following a move to a state-of-the-art building will not be ideal due to factors such as setting the technical features.

Green IT – efficient computing

One example of green IT at KfW is virtualisation. The increasing use of digital information technology makes life easier in many ways. However, this involves a considerable increase in electricity consumption. KfW Bankengruppe has therefore set up a new promotional focus initiative "IT goes green" in cooperation with the Federal Ministry for the Environment, the Federal Environment Agency (Umweltbundesamt – UBA) and the Federal Association for Information Technology, Telecommunications and New Media (Bundesverband Informationswirtschaft, Telekommunikation und neue Medien – BITKOM). The green IT project consulting provided by BITKOM covers brainstorming, planning, implementation and communication for green IT projects in companies, government authorities and organisations.

It remains KfW's goal to implement the support approaches in its own operations, including green IT. The first project in this area is virtualisation. There is usually only one operating system running on each server, as on a personal computer. When a server is virtualised, several operating systems can run on it at the same time. This enables efficient use of the free capacity on a server with low hardware utilisation. The number of physical server systems can be reduced, thereby cutting energy consumption – a further advantage.

Virtualisation has already been in use for Unix at KfW for several years, and since 2008, also for Windows. To avoid any additional investment, an assessment is made as part of regular hardware replacements, as to whether a server can be virtualised. Given the success of previous server virtualisations, there are plans for more. The virtualisation measures are already saving KfW the equivalent of 178 tonnes of CO₂ per year. However, since October 2007, when KfW switched to 100% green electricity, the CO₂ account has only recognised savings made based on the servers located in an external computer centre.
The proportion of renewable energies

As of October 2007, KfW has been using 100% green electricity in Frankfurt, Berlin and Bonn. DEG has also been using 100% green electricity since moving into its new building in September 2008. The only buildings using power from conventional sources in 2008 were the old DEG premises and the rented buildings in Frankfurt.

The switch to green power meant an increase in price of approximately 4%, although this was lower than the overall increase in the price of electricity. So opting for green power was also of economic benefit for KfW. KfW received confirmation from TÜV NORD that 100% of its green electricity is produced with hydropower.

This electricity is recognised as certified green power and was not previously promoted through statutory appropriations (for example, under the German Renewable Energy Sources Act [Erneuerbare-Energien-Gesetz – EEG]). It has been proven to support the increased use of renewable energy sources, as was confirmed by the Berlin Energy Agency. This means that KfW can record the emissions from the production of its green electricity as carbon-free.

The cogeneration units in Frankfurt and Berlin produce mainly electricity, as their configuration is electricity-driven. The (exhaust) heat generated is fed into the heating system. Although continuous operation of the Frankfurt unit has been hindered recently by extensive construction and renovation work, performance is expected to improve significantly in the next few years.

Photovoltaic systems have been installed at all four KfW sites. The power produced with these systems is fed into the grid in all locations except Bonn, where it is used directly.

The wood pellet unit has been running smoothly since the technical problems were solved.

DEG has been using district heating since moving to its new premises in Cologne.

Further information on district heating in Cologne is available at www.rheinenergie.com

<table>
<thead>
<tr>
<th>Energy forms used (in MWh)</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mains electricity</td>
<td>21,430</td>
<td>17,880</td>
<td>6,690</td>
</tr>
<tr>
<td>Green electricity</td>
<td>0</td>
<td>3,270</td>
<td>13,945</td>
</tr>
<tr>
<td>Cogeneration unit (electricity, own use)</td>
<td>2,297</td>
<td>2,284</td>
<td>1,141</td>
</tr>
<tr>
<td>Cogeneration unit (electricity, fed into grid)</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Photovoltaic system (own use)</td>
<td>5</td>
<td>n.a.</td>
<td>8</td>
</tr>
<tr>
<td>Photovoltaic system (fed into grid)</td>
<td>51</td>
<td>60</td>
<td>51</td>
</tr>
<tr>
<td>Natural gas</td>
<td>32,037</td>
<td>29,630</td>
<td>28,393</td>
</tr>
<tr>
<td>Fuel oil</td>
<td>683</td>
<td>678</td>
<td>577</td>
</tr>
<tr>
<td>District heating</td>
<td>–</td>
<td>–</td>
<td>349</td>
</tr>
<tr>
<td>Solar thermal energy</td>
<td>19</td>
<td>23</td>
<td>27</td>
</tr>
<tr>
<td>Wood pellets</td>
<td>207</td>
<td>257</td>
<td>321</td>
</tr>
</tbody>
</table>
Greenhouse gas emissions in 2006–2008 (in t CO₂e*)

KIW Bankengruppe only accounts for CO₂ emissions in equivalent carbon dioxide (CO₂e) for the areas of business travel and energy. The emission intensities are taken from the recognised databases GEMIS for energy and TREMOD for transport, and were updated in 2008. The significant drop in emissions resulting from energy use is largely due to the switch to green electricity in October 2007.

Water consumption – drinking water consumed in 2006–2008 (in m³)

- 2006 – 73,073
- 2007 – 76,741
- 2008 – 65,458

The amount of water consumed was reduced considerably in 2008. This is primarily due to the vacuum toilets used in the main building that staff moved into in that year. The vacuum toilet system is fed by grey water from the building; it is a sophisticated system which has experienced few operational problems. In addition, rainwater collected in Frankfurt and Bonn saved drinking water. The annual amount of drinking water consumption per capita at KIWI Bankengruppe fell from 17.4 m³ in 2006 to 17.2 m³ in 2007 – and down to 14.2 m³ in 2008.

* Energy includes mains electricity, natural gas, fuel oil, district heating and wood pellets.
Business travel refers to kilometres travelled by car, train or plane.
Disposal and treatment of wastewater

**Frankfurt:** The Ostarkade building is fitted with a grey water system, including a grease trap, biological cleaning and an ultrafiltration system, which treats used water from staff kitchens, showers and wash basins. It is then reused for sanitary facilities and watering the grounds. The carwash, with an oil trap and ozone system, drives the water in a circular flow.

The wastewater from the canteen in the Nordarkade building has to be treated before disposal, as it is only permitted to contain a maximum of 100 mg/l of lipophilic materials. This was guaranteed until December 2007, by using a grease trap followed by an ultrafiltration system. A new wastewater treatment system was installed in December 2008 comprising a grease trap, a sludge trap and milk of lime precipitation. A biological grey water treatment system was also put into operation and rainwater recycling started at this time. All of these factors together saved approximately 2,300 m³ of drinking water in 2008, and allowed a further 4,400 m³ to be treated.

**Berlin/Bonn/Cologne:** The wastewater from the canteens is cleaned using a grease trap and then disposed of. Wet waste is collected separately at the Berlin and Bonn canteens, and is picked up by a waste management company.
Total material consumption

The use of recycled paper was increased much further in 2008, thereby reducing the consumption of virgin fibre paper. The proportion of recycled paper used rose from around 36% in 2006 to some 55% in 2007 and up to almost 74% in 2008. This figure is expected to climb further.

The absolute annual consumption of paper rose unexpectedly last year. The in-house environmental protection officers have begun to analyse the possible reasons. This will be followed by appropriate countermeasures, as KfW remains true to its goal of reducing absolute figures.

Annual per capita paper consumption at KfW Bankengruppe rose only slightly from approximately 56 kg in 2006 to 58 kg in 2008.

Paper consumption 2006–2008 (in kg*)

As a financial services provider, KfW Bankengruppe is purposely reporting only on paper consumption here, as consumption of other materials is of comparatively little relevance in environmental terms.

* Printer paper, copy paper and letter paper, A4 size, 80 g.
Recycling

The waste produced by KfW Bankengruppe is collected by authorised and, where legally required, certified waste management companies, and almost all is recycled – either as materials or as energy. The recycling rate was 93% in 2006, 95% in 2007 and 94% in 2008 (approximate figures).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste paper for recycling</td>
<td>383</td>
<td>349</td>
<td>463</td>
</tr>
<tr>
<td>Waste for recycling (excluding paper)</td>
<td>730</td>
<td>893</td>
<td>840</td>
</tr>
<tr>
<td>Waste for disposal</td>
<td>79</td>
<td>60</td>
<td>81</td>
</tr>
<tr>
<td>Total waste</td>
<td>1,192</td>
<td>1,302</td>
<td>1,384</td>
</tr>
<tr>
<td>Recycling rate</td>
<td>93.4%</td>
<td>95.4%</td>
<td>94.1%</td>
</tr>
</tbody>
</table>

Where waste disposal is concerned, environmental and social aspects are just as important as economic ones for KfW. In Frankfurt, waste from both garden and canteen is recycled into energy using a biogas system in the nearby Taunus mountains; in 2008 the volume totalled some 130 tonnes. Paper in Frankfurt which is subject to data protection requirements is disposed of via the workshop for the disabled Behinderten-Werk Main-Kinzig e. V., and electrical waste via the rehabilitation workshop Reha-Werkstatt Giessen West. In Berlin, such paper is destroyed by the GDW Lichtenberg workshop for the disabled, and canteen waste is turned into biogas. In Cologne, surplus meals from the canteen are donated to the Kölner Tafel emergency food programme twice a week.
Minimising environmental burdens: Climate protection and resource conservation

Carbon-neutral status for KfW

KfW Bankengruppe resolved in 2006 to achieve a carbon footprint of zero. This voluntary step made it the first bank in Germany to completely offset its CO2 emissions. All carbon emissions from energy consumption and business travel are compensated by the corresponding amount of emission reduction certificates. Certified Emission Reductions (CER) were already retired to offset emissions in 2006 (on-balance sheet treatment). Offsetting for 2007 and 2008 is currently in the preparation stages. The actual compensation of the emissions for the three years is complete when the certificates are cancelled with the German Emissions Trading Authority (Deutsche Emissionshandelsstelle – DEHSt).

The goal is to continuously reduce the number of certificates required. A series of measures has been implemented for this purpose, such as the use of certified green electricity since 2007. This alone reduced the total amount of CO2 emissions to be offset from approximately 29,300 tonnes in 2006 to some 25,000 tonnes in 2007 and around 18,700 tonnes in 2008.

Amount of CO2 emissions to be offset in 2006–2008 (in t)

<table>
<thead>
<tr>
<th>KfW CO2 emissions (CO2+)</th>
<th>CO2-neutral</th>
<th>Emission reduction certificates (CO2-)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006 – 29,300</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2007 – 25,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2008 – 18,700</td>
<td></td>
</tr>
</tbody>
</table>

Green procurement, business travel and transport

Environmentally responsible action begins with purchasing, as demonstrated in the areas of recycled paper and green electricity. Environmental issues are always taken into consideration for invitations to tender with environmental relevance. For example, operational management companies must improve the energy consumption on an ongoing basis.

KfW’s business travel guidelines recommend using the train as far as economically viable. In addition, video conferencing is an alternative to business trips; in 2008 alone, over 1,500 video conferences were held at KfW.
Environmental burden reduced and costs minimised

Environmental protection is not just a cost factor – it also helps to cut costs:

1. Optimisation measures for waste disposal in Bonn have saved around EUR 50,000 a year.

2. As a result of an efficiency project, colour printing is being reduced in-house in 2009. The expected savings here amount to some EUR 35,000 net per year. The number of large-format black and white printers is to be cut by around 35%. This will mean better utilisation of the machines as well as a reduction in energy consumption.

3. Some 90,000 pages of existing documentation from the legal and IT departments were digitised in 2008, considerably reducing paper transport.

4. Since 2008, existing Windows servers have been assessed for the possibility of virtualisation in the course of regular hardware replacements. Savings to the tune of at least EUR 200,000 per year are expected by 2011. A range of technical measures to increase energy efficiency are currently being integrated in the construction of the new computer centre. For example, waste heat will be used to heat offices and the foyer of the Westarkade building.

Major environmental impact from business travel and transporting goods and materials

- All staff business trips are recorded in the annual environmental accounts. The annual total of kilometres travelled is reported, broken down into car, train and plane, and also the specific CO₂ emissions. These are 100% offset.

- Transport includes postal transport between KfW locations, postal serves and deliveries of office supplies and paper to the bank. The associated environmental impacts, such as fuel and energy consumption, and emissions, are not recorded.

Environmental spending and investment

KfW Bankengruppe sets high ecological targets for its construction and renovation measures. The new Ostarkade building demonstrated in 2003 that this need be no more cost-intensive than traditional construction. Costs were reduced even with extensive investment in “green technology”. The temperature of the building is maintained through free night cooling. This means that no complex air conditioning system was necessary, saving around EUR 100,000.

KfW Bankengruppe obtained energy certificates for all large buildings that it owns before this was legally required, although the buildings were not about to be sold or leased. Buildings still under construction were not included. The total costs for the energy certificates amounted to approximately EUR 70,000.
Renovation of KfW’s main building

The new facade of the KfW main building in Frankfurt, which was renovated in 2006, provides a functional shell, thereby substantially reducing energy consumption. This is further evidence of KfW’s serious commitment to climate protection. The amount of primary energy required for the building’s technical facilities is expected to be around 130 kWh/m² per year – almost 50% below the consumption level prior to the renovation. The new facade also has a positive effect on the indoor climate; the windows allow a great deal of natural light into the rooms, but reflect away the unwanted strong sunlight.

The water concept for the interior of the building provides that drinking water should only be used where indispensable, i.e. for drinking and washing hands. Water for coolant required for technical purposes is taken from rainwater, and treated used water, such as from wash basins, is used for cleaning purposes and toilet flushing. The toilets use the latest vacuum technology, so air takes priority over water used. Vacuum toilets only need a sixth of the amount of water that standard toilets use. The toilets also use treated water.
New DEG headquarters building

DEG was one of the first companies in Germany to obtain the new German Certification for Sustainable Buildings, for its new building which staff moved into in 2008. This certification system was introduced by the German Federal Ministry of Transport, Building and Urban Affairs and the German Sustainable Building Council (Gesellschaft für Nachhaltiges Bauen) in January 2009, and is currently the most rigorous assessment tool for sustainable construction.

Buildings are assessed based on more than 60 individual aspects grouped into six main categories: environmental, economical, socio-cultural and functional quality, technical quality, process quality and location quality. The particular strengths of the DEG construction concept and implementation were awarded a gold label. These aspects included the energy concept, the strong user focus and excellent standards with a view to life cycle costs and assessments.
Environmental protection has a future: Outlook

The focus is on the future. All KfW employees in Frankfurt are expected to be working in highly efficient, renovated or newly constructed KfW buildings as of 2011. This will reduce per capita consumption and enable more precise collection of key figures. The greater proximity of the buildings to each other will also improve working efficiency. Reducing per capita consumption on an ongoing basis through further measures will remain a priority for KfW Bankengruppe even after the buildings are complete. This extensive commitment to in-house environmental protection forms the basis for further process optimisation and cost-cutting. For this to succeed, in-house environmental protection as a whole must be in constant alignment with the fast-changing conditions.

KfW Bankengruppe is committed to setting standards in in-house environmental protection in the future, too, with the advantage of over 15 years of experience to build on. Environmental protection and sustainability are not just part of our strategic agenda, they are also implemented in the bank’s operations.
The Global Reporting Initiative (GRI) aims to provide a global uniform structure that enables companies’ sustainability reporting to be compared, also in a global context. For KfW Bankengruppe, the indicators developed to this end are a key benchmark for evaluating sustainability strategies.

KfW prepared this report on the basis of the GRI guidelines revised in 2006 (G3). The index on the next page refers to the relevant information in the report.

You can find further information on GRI at www.globalreporting.org
<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Pages</th>
<th>Code</th>
<th>Description</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>EN6</td>
<td>Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements</td>
<td>28–35; 61–63; 65</td>
<td>LA4</td>
<td>Percentage of employees covered by collective bargaining agreements</td>
<td>56; 58</td>
</tr>
<tr>
<td>EN7</td>
<td>Initiatives to reduce indirect energy consumption and reductions achieved</td>
<td>28–35; 61–63; 65–66</td>
<td>LA5</td>
<td>Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements</td>
<td>57</td>
</tr>
<tr>
<td>EN8</td>
<td>Total water withdrawal</td>
<td>67</td>
<td>LA7</td>
<td>Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities</td>
<td>59</td>
</tr>
<tr>
<td>EN9</td>
<td>Water sources significantly affected by withdrawal of water</td>
<td>68</td>
<td>LA8</td>
<td>Education and training</td>
<td>55</td>
</tr>
<tr>
<td>EN10</td>
<td>Percentage and total volume of water recycled and reused</td>
<td>36–68</td>
<td>LA9</td>
<td>Average hours of training per year</td>
<td>n. a.</td>
</tr>
<tr>
<td>EN11</td>
<td>Use of land owned, leased, managed in, or adjacent to, protected areas (biodiversity)</td>
<td>31; 36–38</td>
<td>LA10</td>
<td>Programmes for skills management and lifelong learning</td>
<td>23; 42; 55</td>
</tr>
<tr>
<td>EN12</td>
<td>Description of significant impacts of activities, products, and services on biodiversity in protected areas</td>
<td>22; 36–38</td>
<td>LA11</td>
<td>Diversity of governance bodies</td>
<td>59</td>
</tr>
<tr>
<td>EN13</td>
<td>Habitats protected or restored</td>
<td>36–38</td>
<td>LA12</td>
<td>Gender equality</td>
<td>59</td>
</tr>
<tr>
<td>EN14</td>
<td>Greenhouse gas emissions by weight</td>
<td>67; 71</td>
<td>HR1</td>
<td>Percentage and total number of significant investment and procurement agreements</td>
<td>21; 24; 42</td>
</tr>
<tr>
<td>EN15</td>
<td>Other relevant indirect greenhouse gas emissions</td>
<td>71</td>
<td>HR2</td>
<td>Screening of suppliers and contractors</td>
<td>24</td>
</tr>
<tr>
<td>EN17</td>
<td>Initiatives to reduce greenhouse gas emissions</td>
<td>61–63; 71–74</td>
<td>HR3</td>
<td>Total number of incidents of discrimination and actions taken</td>
<td>9</td>
</tr>
<tr>
<td>EN18</td>
<td>Emissions of ozone-depleting substances by weight</td>
<td>not relevant</td>
<td>HR4</td>
<td>Right to exercise freedom of association and collective bargaining</td>
<td>9</td>
</tr>
<tr>
<td>EN19</td>
<td>NO, SO, and other significant air emissions</td>
<td>not relevant</td>
<td>HR5</td>
<td>Measures taken to contribute to the elimination of child labour</td>
<td>9</td>
</tr>
<tr>
<td>EN20</td>
<td>Total water discharge by quality and destination</td>
<td>68</td>
<td>HR6</td>
<td>Measures taken to contribute to the elimination of forced or compulsory labour</td>
<td>9</td>
</tr>
<tr>
<td>EN21</td>
<td>Total weight of waste by type and disposal method</td>
<td>70</td>
<td>HR7</td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>EN22</td>
<td>Total number and volume of significant spills</td>
<td>not relevant</td>
<td>Social performance indicators</td>
<td></td>
<td></td>
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<tr>
<td>EN23</td>
<td>Hazardous waste</td>
<td>70</td>
<td>SD1</td>
<td>Curtail impacts on communities in the organisation's locations</td>
<td>50–52; 65–74</td>
</tr>
<tr>
<td>EN24</td>
<td>Biodiversity value of water bodies and waste water discharges</td>
<td>68</td>
<td>SD2</td>
<td>Measures taken to prevent corruption</td>
<td>25</td>
</tr>
<tr>
<td>EN25</td>
<td>Initiatives to mitigate environmental impacts</td>
<td>7–8; 23; 34; 61–63; 72–74</td>
<td>SD3</td>
<td>Training in the organisation's anti-corruption policies and procedures</td>
<td>25</td>
</tr>
<tr>
<td>EN26</td>
<td>Percentage of products sold and their packaging materials that are reclaimed</td>
<td>not relevant</td>
<td>SD4</td>
<td>Actions taken in response to incidents of corruption</td>
<td>25</td>
</tr>
<tr>
<td>EN27</td>
<td>Sanctions for noncompliance with environmental laws and regulations</td>
<td>not relevant</td>
<td>SD5</td>
<td>Public policy positions and participation in public policy development and lobbying</td>
<td>5–6; 46</td>
</tr>
<tr>
<td>EN28</td>
<td>Total environmental protection expenditures and investments by type</td>
<td>28–29; 38</td>
<td>SD6</td>
<td>Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations</td>
<td>not relevant</td>
</tr>
<tr>
<td>EN29</td>
<td>Labour practices and decent work performance indicators</td>
<td></td>
<td>Product responsibility performance indicators</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LA1</td>
<td>Total workforce by employment type, employment contract, and region</td>
<td>17; 54; 56</td>
<td>PR1</td>
<td>Life cycle stages in which health and safety impacts of products and services are assessed</td>
<td>not relevant</td>
</tr>
<tr>
<td>LA2</td>
<td>Employee turnover</td>
<td>54</td>
<td>PR3</td>
<td>Product and service information requirements</td>
<td>not relevant</td>
</tr>
</tbody>
</table>
Independent Assurance Report

We have been engaged to perform a limited assurance engagement on the material quantitative data of the Sustainability Report 2009 (the "Sustainability Report") of KfW Bankengruppe, Frankfurt am Main.

Management’s Responsibility

The Managing Board of KfW Bankengruppe is responsible for the preparation of the Sustainability Report, using the criteria stated in the Sustainability Reporting Guidelines Vol. 3 (pp 7–17) of the Global Reporting Initiative (GRI). This responsibility includes the selection and application of appropriate methods to prepare the Sustainability Report and the use of assumptions and estimates for individual sustainability disclosures, which are plausible in the circumstances. This responsibility also includes designing, implementing and maintaining systems and processes relevant for the preparation of the Sustainability Report.

Practitioner’s Responsibility

Our responsibility is to express an opinion based on our work performed as to whether any matters have come to our attention that cause us to believe that the material quantitative data of the Sustainability Report have not been prepared in accordance with the above mentioned criteria of the Sustainability Reporting Guidelines Vol. 3 of the GRI.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to express our opinion with limited assurance. In a limited assurance engagement the evidence-gathering procedures are more limited than in a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. The procedures selected depend on the practitioner’s judgment. Within the scope of our work we performed amongst others the following procedures:

- Inspection of the documentation of the systems and processes for gathering, analysing and aggregating the material quantitative data in the Sustainability Report as well as analytical procedures including the testing of these procedures via random sampling in the headquarters
- Inquiries of the central unit responsible for preparing the Sustainability Report – the Competence Centre for Environment and Sustainability – as well as employees of selected specialist divisions
- Comparison of selected data with corresponding data in the Financial Report 2008 and 2007 of the company

Conclusion

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the material quantitative data in the Sustainability Report have not been prepared, in all material respects, in accordance with the above mentioned criteria of the Sustainability Reporting Guidelines Vol. 3 (pp 7–17) of the GRI.

Frankfurt am Main, 27 August 2009
PriceWaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

sgd Michael Werner  sgd ppa Dieter W. Horst