ARCANDOR

COMMITTED TO CREATING VALUE

ANNUAL REPORT OF THE GROUP

01.01. TO 30.09.2007

At a glance

		30.09.2007	30.09.2006*	Change in %*	31.12.2006*
SALES					
Thomas Cook	mill. €	8,447.8	2,503.1	-	3,886.7
Primondo	mill. €	2,889.4	2,778.0	4.0	3,984.2
Karstadt	mill. €	2,861.6	2,940.4	-2.7	4,372.6
Operating segments	mill. €	**14,198.8**	**8,221.5**	72.7	**12,243.5**
Other segments[1)]	mill. €	192.9	213.1	-	282.6
Reconciliation account	mill. €	-110.8	-128.3	-	-169.2
	mill. €	14,280.9	8,306.3	71.9	12,356.9
EARNINGS					
Thomas Cook	mill. €	708.6	45.5	-	199.2
Primondo	mill. €	-72.9	-73.7	1.1	-40.9
Karstadt	mill. €	-34.0	-35.9	5.3	145.9
Operating segments	mill. €	**601.7**	**-64.1**	-	**304.2**
Other segments [1)], Reconciliation account/Holding company	mill. €	-75.0	107.0	-	95.7
EBITDA (adjusted)	mill. €	**526.7**	**42.9**	-	**399.9**
EBITDA margin (adjusted)	*in %*	*3.7*	*0.5*	-	*3.2*
Group earnings after minorities	mill. €	**16.3**	**479.0**	-96.6	**330.3**
FINANCIAL SITUATION					
Cash and cash equivalents	mill. €	1,505.6	965.6	55.9	1,152.1
Investments	mill. €	255.0	167.4	52.3	233.7
Depreciation and amortization (not including amortization of goodwill)	mill. €	389.0	216.4	-79.8	346.0
Net financial liabilities/assets	mill. €	-628.9	-387.7	-62.2	148.9
Working capital	mill. €	-567.5	759.1	-174.8	358.6
FULL-TIME EMPLOYEES at the balance-sheet date					
Thomas Cook	number	29,070	10,089	-	9,548
Primondo	number	16,837	18,067	-6.8	17,966
Karstadt	number	24,304	25,453	-4.5	26,608
Operating segments	number	**70,211**	**53,609**	31.0	**54,122**
Other segments [2)]	number	426	1,399	-	1,450
Total	number	**70,637**	**55,008**	28.4	**55,572**
ARCANDOR SHARE					
Earnings per share (undiluted)	€	0.08	2.39	-96.7	1.65
Dividend per no-par value share	€	0.00	0.00	-	0.00
Rate applying at the balance-sheet date	€	23.48	18.75	25.2	21.96
Highest price (01.01. – 30.09./31.12.)	€	29.21	25.37	15.1	25.37
Lowest price (01.01. – 30.09./31.12.)	€	17.96	12.93	38.9	12.93

* The data has been adjusted. The adjustments relate to special factors and divestments as well as restructuring expenses in EBITDA.

1) The Other segments comprise: Services and Real estate.
The data is not comparable on account of the real estate transaction in 2006.

2) The Other segments comprise: Services, Real estate and Holding company.

CONTENTS

Arcandor has been the name of your company since July 1, 2007. Under this umbrella you find a group with a clear structure and three strong operating and independent divisions: Thomas Cook, Primondo, Karstadt. As a financial holding company, Arcandor's objective is to develop this group in strategic terms so as to create value for our shareholders on an ongoing and sustained basis. This objective is the focus of our daily activities and was selected as the central claim of our corporation. We are committed to creating value.

Overview of the operating segments of the Arcandor Group

THOMAS COOK

Thomas Cook Group plc is a leading global tourism group with excellent market positions in Europe and North America and a large portfolio of attractive brands. The new group was created in June 2007 by the merger of MyTravel and Thomas Cook and has since then been listed on the London Stock Exchange.

PRIMONDO

Primondo has a high-quality portfolio of European universal and specialty mail order companies. Quelle, the core brand in Universal Mail Order, has leading market positions in Germany and Central and Eastern Europe, and operates an extensive multi-channel sales network. The Specialty Mail Order companies focus on three selected growth segments.

KARSTADT

Karstadt operates four department store formats, each focusing on different customer requirements: the cosmopolitan stores of the Premium Group modeled after KaDeWe, the Karstadt brand department stores, the Karstadt sports sporting goods stores and the online portal karstadt.de. The leitmotiv for all types of store is that of the modern market place.

LETTER TO SHAREHOLDERS

Dear shareholders,

This is the first Annual Report of your company operating under the Arcandor name. The name stands for a new understanding of the Group and the positioning of Arcandor AG as a finance holding. In particular, it symbolizes the successful realignment of the Group and its focus on the three strong business units. At the same time, it stands for a return to growth and profitability. After three difficult years, your Arcandor Group is once again a “completely normal company”, with good perspectives.

The figures in the Annual Report show the strongly changed structure of your company. Today Arcandor is a leading tourism and retail group. The importance of Thomas Cook has increased strongly, the level of internationalization has moved up strongly and the equity ratio is much improved. Furthermore, the risk profile of the operating units is considerably optimized today, not least as a result of the focus in Universal Mail Order Germany.

A further sign of the change is the shift in the financial year. The 2007 financial year is a short financial year. It covers the period from January 1 to September 30. While the two retail segments, Primondo and Karstadt, are consolidated for nine months in the scope of this realignment, Thomas Cook Group plc has been consolidated for 12 months. In the future, the financial year for all three business units will be the period from October 1 to September 30.

GROUP SALES AND ADJUSTED EBITDA STRONGLY IMPROVED – ALL OPERATING TARGETS ACHIEVED

There were a great many changes in a positive direction during the reporting period. We achieved or exceeded our operating targets in all three business units. As Thomas Cook Group plc, Thomas Cook developed strongly and in a very satisfactory manner, Karstadt achieved an ongoing good development in the context of its successful realignment and as announced Primondo managed to achieve the trend reversal.

In the second quarter, adjusted group sales increased by 71.9 % to 14.28 bill. € (8.31 bill. € in the previous year). This strong sales plus demonstrates the positive changes within the Group resulting from the massive realignment. Adjusted EBITDA in the operating segments improved by 665.8 mill. € to 601.7 mill. € (previous year: minus 64.1 mill. €). As a result, the newly established Group portfolio more than compensated for the normal seasonal losses in the retail segments – as the important Christmas quarter is not part of the short financial year. All operating divisions improved their earnings.

Dr. Thomas Middelhoff
Chairman of the Management Board

ALL THREE OPERATING COMPANIES WITH SUCCESSFUL REALIGNMENT

As a result of the full consolidation of the listed Thomas Cook Group plc, consolidated sales of the tourism group increased to 8.45 bill. € (2.50 bill. € in the previous year). In the short financial year, adjusted consolidated EBITDA of Thomas Cook Group plc totaled 708.6 mill. € (previous year: 45.5 mill. €). This corresponds to an increase of 663.1 mill. €; on a like-for-like pro forma basis, there was a slight sales decline of 0.9% and a significant rise in adjusted EBITDA of 13.8%. The Arcandor Management is very satisfied with business development and the progress made in bringing together Thomas Cook and MyTravel. The key measures to realize the synergy potential from the merger of the two tourism groups have already been implemented. The synergy volume has been raised twice, and is currently quantified at no less than 200 mill. €.

With the rigorous realignment at Quelle, Primondo achieved a trend reversal and is growing again. The measures initiated in relation to the repositioning are having an increasingly positive impact. Accordingly Primondo improved steadily during the year. With sales growth of 1.1% and 14.6% respectively, the second and third quarters of 2007 were the best quarters for many years. After a very weak start to the year, the business moved into positive territory. After nine months, sales had moved up by 4.0% to 2.89 bill. €. The earnings (adjusted EBITDA) also improved considerably from quarter to quarter. They totaled minus 72.9 mill. € (minus 73.7 mill. € in the previous year).

During the reporting period, the Karstadt department stores consistently continued their realignment. The appearance of the branches improved considerably, customer orientation increased in a tangible fashion and in terms of marketing Germany's leading operator of department stores is moving down completely new paths. The Karstadt profile was sharpened, consumer areas with low margins passed to partners and the branch network was further optimized. Karstadt slightly improved the year-on-year earnings in all quarters. In the short financial year, adjusted EBITDA improved to minus 34.0 mill. €. This equates to a 5.3% improvement. The fact that a negative EBITDA is posted is due solely to seasonal factors. Karstadt generates its positive result in the fourth quarter of the calendar year.

SOLID BALANCE SHEET STRUCTURE, NEGATIVE WORKING CAPITAL, POSITIVE CASH FLOW

The structure of the Group balance sheet improved on a sustained basis. The equity ratio rose to 17.4% (15.8% in the previous year). Net financial liabilities totaled only 0.6 bill. €, although Group reporting includes bridge financing of 0.8 bill. € for the acquisition of Thomas Cook AG. Taking account of the disposal of the 49% stake in the Highstreet property company agreed in the fourth quarter of 2007, the Group is free of net financial liabilities. The working capital development is also pleasing. Overall the Arcandor Group has negative working capital of 0.6 bill. € (plus 0.8 bill. € in the previous year).

This represents an improvement of 1.4 bill. €. Key factors driving this positive development are the new portfolio structure, with an ideal timing of working capital flows as well as considerable progress made in reducing operating working capital. The successful start to the cooperation with Li & Fung is thus already impacting positively. Here terms of payment have since been extended to almost 90 days. The improvement of working capital which resulted purely from operating measures totaled 26%. Cash flow also developed in a positive direction. Cash flow from operating activities was 14.5 mill. €. Against the previous year's figure of minus 182.1 mill. €, this represents a considerable improvement of 196.6 mill. €.

ALL STRATEGIC TARGETS ACHIEVED – KEY HISTORICAL DECISIONS TAKEN

Strategically we successfully implemented moves of fundamental importance for the Group. We announced all strategic steps in due time, and then implemented them rigorously in line with the motto: Promised and delivered!

In the fourth quarter of 2007, we signed a letter of intent on the disposal of our 49% stake in the Highstreet real estate company. The buyer is a consortium made up of RREEF (a Deutsche Bank AG investment subsidiary), the Milan-based Pirelli Real Estate and the Borletti Group. The total value of this transaction (sale of the 49% stake and discontinuation of partnership in the joint venture) amounts to approximately 800 mill. €. In two tranches Arcandor will thus have received proceeds for the department store real estate portfolio totaling well over 4 bill. €. The dramatic development of the market over the last few months confirms that we achieved exactly the right timing for implementing our strategy of disposing the real estate in 2006. With a change in market conditions and higher capital market interest rates, a comparable value could not have been achieved today. Without the proceeds from selling the real estate, we would have had a high level of financial indebtedness today, and this in an environment with an ongoing credit market crisis. But this is not the case! On the contrary: Due to the successful disposal of its real estate, your company is free of net financial liabilities. It thus has a sound financial position and again has the potential to make acquisitions.

We actively advanced the consolidation of the European tourism market. By acquiring Deutsche Lufthansa AG's remaining 50% stake and taking over MyTravel we designed Thomas Cook AG into a successful, listed company within a very short period. The Arcandor share in the market capitalization of the new Thomas Cook Group plc is now approximately 2 bill. €. We added a strongly growing element to the group and can continue to be involved actively in shaping a strongly profitable, future-driven market. In another strategic step, in the context of implementing its asset-light strategy, the Thomas Cook Group transferred Condor, its German airline, to Air Berlin plc at attractive conditions, thus considerably increasing the value of Condor.

In the Primondo business, we successfully completed the focus on the market leader Quelle in a vigorous fashion. In respect to neckermann.de, in the fourth quarter of 2007 we signed a contract with the American investor Sun Capital, disposing of a 51% stake and the operating management. In the process we considerably reduced the risk profile in Universal Mail Order Germany. During the course of the year, we also disposed of companies in Western Europe with low margins as well as specialty mail order companies which were not part of the selected growth segments. With the portfolio streamlining being completed, growth is on the agenda again. This was impressively demonstrated by the acquisition of HSE24, the home shopping TV channel. Since the acquisition, HSE24 has developed considerably better than the market, posting high growth rates for both sales and earnings. With HSE24 we have made a major move in strengthening Primondo's unique multi-channel concept.

In the Department Store segment we signed a letter of intent for initiating European consolidation. In the context of a strategic alliance with the consortium consisting of RREEF, the Milan-based Pirelli Real Estate and the Borletti Group, we want to establish a European premium group. The objective of this strong alliance is a unique European department store portfolio and exploiting the resultant high synergy potential. For this purpose, Karstadt is set to take a 25% stake in the department store chains La Rinascente/Italy and Printemps/France. At the same time, the consortium is set to take a 25% stake in the Karstadt Premium segment. In this way we are keeping all the options open for the rest of the Karstadt department store portfolio. On the international arena, we will rigorously expand this strong foundation by opening new or acquiring existing premium stores. Our objective is clear market leadership in the European luxury segment.

What is more in March 2007 we solved a problem which had concerned and made demands on the company both in business and ethical terms for years. We reached agreement with the Jewish Claims Conference (JCC), as representative of the Wertheim heirs. The central element of the agreement is regulating the legal dispute about the so-called "Lenné Dreieck" in Berlin and further properties which once belonged to the Wertheim department store group. In your interest as shareholders, we thus ensured that the future of the company is not burdened with the risk of a high level of legal uncertainty.

Outlook

We have already achieved a great deal in realigning the Arcandor Group, but there is still a great deal to do. The focus remains on further improving the performance of our three operating companies.

For the 2007/2008 financial year, we expect the successful reorientation to continue in all three operating areas. For the first time, Thomas Cook is consolidated fully for the whole financial year – as Thomas Cook Group plc. However, due to the adjustment of the financial year to that of the Arcandor Group to September 30, the tourism company will only be included for eleven months (in the Group accounts). Both of these facts make a comparison more difficult.

In its first full financial year after the IPO, the Thomas Cook Group is very well positioned. The group generates a strong cash flow and has a sound balance sheet structure. With its asset-light business model, Thomas Cook is very flexible and is able to align capacity quickly to changed conditions. This makes Thomas Cook less susceptible to external factors. After the successful integration of the business of Thomas Cook and MyTravel, the focus for the 2007/2008 financial year remains expansion and improving profitability. The key accents are optimizing and strengthening the package tour business, expanding the individual travel and the Internet business as well as growth in financial services. In addition to organic growth, the good financial situation means that further acquisitions are also feasible. These are ideal conditions for achieving the target of an EBITDA exceeding 800 mill. € in the 2009/2010 financial year. After approval by the Annual General Meeting, Thomas Cook intends to implement a share buyback program of approximately 375 mill. €.

Primondo is again set to grow in the current financial year. The focus is continuing the successful turnaround at Quelle Germany. The key levers include extending the unique multi-channel network with a focus on e-commerce and teleshopping, further increasing the number of customers, efficient marketing, improving the trade margin on the back of more favorable buying conditions and a further reduction of infrastructure costs. Within a few years, e-commerce and teleshopping are set to generate the same sales level in the Primondo Group as is currently being generated by the traditional catalogue business. Sales in the high-margin specialty mail order are also set to move up strongly over the next few years. Internationally, Primondo is focusing on continuing its strong expansion in Central and Eastern Europe and will develop its good market position on a systematic basis. Alongside the classical mail order business, teleshopping is another growth accent.

Karstadt will make rapid advances in its repositioning. The focus is on service orientation, innovative marketing, further implementation of category management and the realignment of the stores in the direction of a “modern market place” or an “ideal store”. Here Karstadt is concentrating on high-margin, strongly profitable consumer lines with a strong market position and a high level of in-house expertise. Key areas here are Fashion, Beauty and Living. For consumer lines where Karstadt cannot achieve sufficient market differentiation, sales space will be reduced. Alternatively they will be rented or transferred as concessions, in line with international standards.

Parallel to operating improvements, the Arcandor management will actively advance market consolidation in the core business areas. In all business units there are a wide range of options to increase the value of the Arcandor Group on the basis of targeted M & A activities. A key goal in the retail segments is to achieve capital market viability.

Your company will thus continue growing. In the current financial year, the visibility in the direction of our medium-term objectives for the 2008/2009 financial year will increase clearly. We see ourselves fully confirmed with the successful progress being made in the realignment and are confident of achieving Group sales of more than 23 bill. € and an adjusted EBITDA exceeding 1.3 bill. €.

For the Management Board

Your

Dr, Thomas Middelhoff
Chairman of the Management Board

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

Dr. Thomas Middelhoff
Chairman of the Management Board

Corporate Communications,
Investor Relations, Law,
Revision, Thomas Cook

Dr. Matthias Bellmann
Member of the Management Board

Human Resources/
Labour Relations Director
Arcandor Academy

Dr. Peter Diesch
Member of the Management Board

Controlling, Finance,
Corporate Accounting Financial Services,
Taxes, Real estate,
Financial Services,
Mergers & Acquisitions

Prof. Dr. Helmut Merkel
Member of the Management Board

Purchasing, Logistics, IT,
Environmental and
Social Affairs

Marc Sommer
Member of the Management Board

Primondo, E-Commerce

Peter Wolf
Member of the Management Board

Karstadt

Manny Fontenla-Novoa
Chief Executive Officer
Thomas Cook Group plc

Strategy

ARCANDOR
COMMITTED TO CREATING VALUE

THOMAS COOK	PRIMONDO	KARSTADT
No. 2 in Germany No. 2 in Europe No. 2 in UK No. 1 in Scandinavia No. 2 in Canada	No. 1 in Germany No. 2 in e-commerce Leader in many European countries Strong special mail order portfolio	No. 1 in Germany No. 1 in the German textile market No. 1 in the German sports market Top locations

Committed to creating value

The Arcandor Group is managed by a streamlined and efficient financial holding company. Its stated objective is to increase shareholder value. This is expressed by the Arcandor claim of being "committed to creating value".

The role of the Group holding is comparable to that of a portfolio manager. The focus of investments into three core areas has since been completed. The three core member companies Thomas Cook, Primondo and Karstadt have an independent position and operate on the market independently from each other. Arcandor concentrates on business models with a leading market position and an efficient capital deployment as low as possible. Arcandor considers sustainable growth and capital market viability as a common goal of all core business areas.

Thomas Cook

Thomas Cook Group plc is a globally leading travel group with strong market positions. As a result of the merger with MyTravel, the third largest British travel provider, Thomas Cook is the market leader in Scandinavia and has leading market positions in Great Britain, Continental Europe and Canada. The Group, which was floated on the stock exchange within a very short period of time, has great potential for increased value and high earnings momentum. As a result of its good financing potential, Thomas Cook has great scope for action in strategic terms. Thomas Cook thus has an excellent starting position to continue shaping a future-oriented market with strong returns in an active manner.

Thomas Cook operates a highly flexible business model with low capital tie-up (asset light). As a result of this flexible business model, Thomas Cook is able to adjust capacity rapidly to changing general conditions and is thus less susceptible to unforeseen events and external crises. The key accents of the growth strategy are strengthening the package tour business, expanding individual travel and generating additional growth with travel-related finance services.

The following key objectives are to be achieved with this strategy: For 2009/2010, the travel company is targeting earnings (EBITDA) of more than 800 mill. € on sales of approximately 13 bill. €.

In addition to the organic growth, Thomas Cook will also take into account options of external growth on the basis of acquisitions. A further lever to increase value is the intended merger of the airlines Condor and Air Berlin. As an Air Berlin shareholder, Thomas Cook will benefit from flexible access to airline capacity, without itself operating Condor's capital-intensive business.

Primondo

Primondo is to be developed into a globally leading multi-channel homeshopping group. The key strategic areas are the further extension of electronic distribution channels, the expansion of specialty mail order as well as the dynamically growing markets in Central and Eastern Europe and Russia. The planned future development of the sales share is based on a “3 x 50 %” formula: In each case we are targeting a 50:50 weighting for the ratios universal mail order to special mail order, catalog business to E-commerce/TV-commerce and international business to German sales. This results in a successful shift in favor of strongly growing areas. At the same time, we reduce dependency on the German market.

In Universal Mail Order Germany, Primondo is concentrating on the market leader, Quelle. After a successful turnaround in 2007, Quelle is now developing its leading position as a multi-channel provider. Important strategic measures include the introduction of monthly catalogs as innovative catalog strategy, entry into the strongly growing teleshopping distribution channel by acquiring the HSE24 TV channel and further expansion of the high-volume e-commerce business in Universal Mail Order.

In Specialty Mail Order, which operates across Europe, Primondo has concentrated its catalog portfolio on three strategic growth segments: The target groups "Communities", "Golden Ager" and "Premium". Specialty mail order companies which are not part of the core business were sold. The core portfolio which has been created is to be supplemented and upgraded by additional purchases.

After targeted and successful portfolio streamlining, the international business at Quelle is aligned vigorously to German-speaking territories and a strong market position as well as rapid expansion into the attractive growth markets of Central and Eastern Europe, in particular Russia. Annual sales of 1 bill. € are intended for Russia in the medium term. The prerequisite for achieving this is targeted preparation, e.g. establishing an effective infrastructure. Extensive measures have been taken in this regard: successful recruitment for management positions, implementation of logistics and the launch of an aggressive national marketing campaign.

The Service Group provides the Primondo Group with its back-office functions. Partly due to the strong sales decline in Mail Order Germany, the economic efficiency of the Service Group had deteriorated in recent years. Accordingly, in 2007, a restructuring strategy was developed and rigorously advanced by a large number of measures. Important objectives are restoring the competitive edge, consolidating structures and adjusting the cost level to changing general conditions. Services which no longer form part of the core business or which cannot be operated on a competitive basis have been and will be discontinued.

Karstadt

Karstadt sees itself as a service-oriented provider of attractive product ranges in best city center locations on the basis of a “value for money” line strategy. After a successful realignment of brands and locations, Karstadt has positioned itself with a clear market presence aligned to customers. The focus is on the independent profiles of the department store formats combined with innovative marketing.

The Karstadt department store portfolio is divided into four independent and locally managed department store formats. The leitmotiv for all formats is the modern market place:

- The Premium Group (top of Europe) with its locations is the top address for a particularly up-market shopping experience. They offer luxury and designer brands, a high-quality presentation of goods and a high service level at top locations.
- With their current brand portfolio, a high share of in-house brands and a rigorous customer alignment, the Karstadt department stores (top of the city) offer a modern market place and a key attraction in the city.
- As the German market leader in its sports stores, Karstadt sports (top of sports) focuses not only on competent ranges of sports apparel and equipment, but also on lifestyle-oriented fashion with strong brands, wellness topics as well as special sport service offers.
- As a general format, karstadt.de offers attractive market offers online round the clock.

The center of the realignment is implementing the "ideal store" concept. In the ideal store, Karstadt concentrates on consumer lines with high in-house expertise, attractive margins and a very good market position. The objective is that the customer perceives Karstadt as the first shopping address in these consumer areas. The other product areas are either operated on strongly reduced floor space with an obligatory range which generates customer traffic or outsourced to competent market leading partners, either by providing rental areas or concessions. In this way, Karstadt more rapidly raises its own profile with partnerships and cooperations. Examples are the cooperations with REWE in the food area, with Weltbild/Hugendubel for books and with Gravis in respect to Apple products.

Profiling the Karstadt brand and strengthening the market leadership is also based on regularly changing theme marketing as well as a clear market presence with the new claim "Karstadt – Schöner shoppen in der Stadt". In the process, trading up of the department stores is supported by the further expansion of brand shops and the extension of design expertise.

The ideal store concept is accompanied by the new category management. With holistic, demand-oriented planning and management of all processes relating to purchasing and sales, the best possible product range is determined for the respective location on a customer-oriented basis. On the back of this optimized space allocation and the customer-driven selection of product lines, Karstadt sees a good opportunity of developing as the place to go in German city centers.

Karstadt has excellent options for multiplying the unique Premium segment on an international basis. The agreement on cooperation with the consortium of DB RREEF, Pirelli RE and Borletti Group offers a good platform for expanding in the strong-margin premium business. Alongside the sales growth being achieved in existing Premium stores, strong growth is possible by converting company stores into Premium stores, opening new Premium locations or by acquiring existing stores.

Outlook

Arcandor has a fixed definition for its investments in respect of medium-term return expectations. In the 2008/2009 business year, the Group expects sales exceeding 23 bill. € and EBITDA of over 1.3 bill. €. The Arcandor Group should be free of net financial liabilities and achieve an equity ratio of 25 %.

In order to promote reaching the targets in an active fashion, the holding supports its three member companies in their strategic and operating development. In particular, this support covers active participation in the consolidation of the respective market as well as advisory and financial support in the various phases of the realignment.

CUSTOMER FOCUS

DECISIVE STEPS

MANAGEMENT AND EMPLOYEES

STAY ON TRACK

COMMITTED

RESPONSIBILITY

FUTURE SUCCESS

SYNERGY

PURCHASING POWER

INTERNATIONALIZATION

FASCINATION

CREATING

INTEGRATION

ATTRACTIVE ASSORTMENTS

INNOVATIVE APPROACH

DETERMINED TO DELIVER

COMMITTED TO THE SHAREHOLDER

THE FUTURE

TO

PAN-EUROPEAN PREMIUM GROUP

MARKET LEADERSHIP

TOP POSITIONS

TOP BRANDS

GREAT POTENTIAL

VALUE

STRONG GROWTH

TANGIBLE RESULTS

SUSTAINABLE EARNINGS

STRONG PERFORMANCE

CORPORATE COMMUNICATIONS

Investor Relations

General information about the Arcandor share

Securities code number	627 500
International Securities Identification Number (ISIN)	DE 0006275001
Reuters code	AROG.DE
Bloomberg code	ARO GR
Weight in MDAX (as at 30.09.2007)	2.22 %

VARIED ACTIVITIES SUPPORT INTENSIVE COMMUNICATION WITH THE CAPITAL MARKET

In the 2007 financial year, we continued the intensive communication with our institutional investors, analysts and private investors. The primary focus of investor interest was the successful realignment of the Group with the three strong operating and independent divisions Thomas Cook, Primondo and Karstadt.

The great interest of Anglo-Saxon and American investors increased further in the last financial year. At numerous roadshows in New York, Boston, London, Dublin, Paris, Zurich and Frankfurt/Main, the management was in direct contact with institutional investors and buy-side analysts.

At the important international investor conferences such as the German Investment Conference organized by Dresdner Kleinwort in New York, the Cheuvreux German Corporate Conference and the Deutsche Bank German Corporate Conference as well as the investors’ conference of Bank am Bellevue in Switzerland, we presented the strategic and operating development at Arcandor and provided more detail in subsequent one-on-one meetings.

In addition to our analysts meeting in Düsseldorf, we provided information on Arcandor AG to investors and analysts in conference calls and numerous one-on-one meetings in our corporate headquarters in Essen. In the past financial year, over 20 sell-side analysts covered the Arcandor share.

At a number of equity forums of the Deutsche Schutzvereinigung für Wertpapierbesitz (DSW) we again presented the Group and its growth strategy to a large number of private investors. At the Annual General Meeting in May 2007, we provided extensive information to our shareholders on the 2006 financial year and the further development of the Group.

We accompanied the name change to Arcandor with a new and topical Internet presence.
At www.arcandor.com in the Investor Relations section, the key publications and information are presented in a clear and comprehensive manner.

In September 2007, the management issued invitations to the first Arcandor AG Investors' Day in Berlin. Numerous international investors and analysts accepted the invitation to obtain information on changes in the Group, the successful realignment and the improved operating performance. There was intensive dialog with the management of Arcandor AG and the three business units. The very successful day was rounded off with a joint store visit to KaDeWe, our global department store. Here the management of the renowned traditional store was able to demonstrate effectively the success in the premium alignment of our department stores.

Public Relations

NEW NAME – STRONG PRESENCE

Up-to-date and ongoing information of the media in accordance with the long-term corporate strategy featured prominently in our communications work during the period under review.

There is great public interest, also from abroad, in all the change processes within the Group. Naturally the focus was on the new holding name Arcandor, developed in cooperation with a Düsseldorf naming agency, a name which expresses value and reliability. The name change was prepared by the Corporate Communications department from January 2007 and implemented as of July 1, 2007. Parallel to the introduction of the new name, there was a campaign in the specialist media to establish the name in the financial community.

The large mergers in the Tourism division were the focus of the Public Relations work in February and September 2007. First of all, the creation of the LSE listed (FTSE 100) Thomas Cook Group plc which resulted from the merger of Thomas Cook and MyTravel. At a joint press conference in September, Dr. Thomas Middelhoff and Manny Fontenla-Novoa, CEO of Thomas Cook, announced the merger of Condor and Air Berlin to form one of the largest European airlines.

Extremely important was the agreement with the Jewish Claims Conference announced in Düsseldorf at a press conference on March 30, 2007. This concluded a comprehensive and final regulation of all claims from the Wertheim heirs, a press conference which attracted attention beyond the borders of Europe.

In addition, there were the annual and quarterly results press conferences which provided information on the current business development, as well as a large number of smaller press events.

Particular importance was attached to integrating electronic media, television, radio and web into the reporting. The press conferences were broadcast in Internet, TV connections ensured rapid, more detailed explanations from the corporate management.

In a survey conduced by the FAZ-Institut, the Public Relations work at Arcandor AG was placed at a level with the considerably larger DAX companies. CEO Dr. Thomas Middelhoff was one of the top ten in the German business world in terms of media presence.

Environmental and social affairs

At Arcandor, business success is closely related to social responsibility and vigorous protection of the environment. In all decisions made by the Group holding, ecologically and socially responsible principles are taken into account, thus securing economic growth and long-term success.

PROCUREMENT AND PRODUCT POLICY

As a mediator between manufacturers and consumers, Arcandor is able to impact markets in matters of environmentally and socially compatible goods. On the basis of its purchasing power, the Group plays a decisive role in ensuring that appropriate consideration is given by manufacturers to environmental, social and health aspects of the production processes at suppliers. Even after the transfer of the procurement organization for global imports to the Li & Fung buying agents in 2006, Arcandor meets the requirements of the Business Social Compliance Initiative (BSCI) for maintaining minimum social standards. Li & Fung also ensures that the social standards of the Arcandor Code of Conduct are complied with at suppliers.

DIALOG AND CULTURAL DIVERSITY

Active involvement in society is an important area of activity for Arcandor: Thus the Group has a commitment in international and national sustainability initiatives, such as the Global Reporting Initiative (GRI), the Deutsches Netzwerk Wirtschaftsethik (DNWE) or the Gesellschaft für technische Zusammenarbeit (GTZ). Arcandor also participates in the discussion on matters of monitoring social standards. One of the forums is the German Round Table Code of Conducts initiative, where the participants include representatives of the German government, business decision-makers, union and non-governmental organizations. Furthermore, the Group supports the 10 principles of the Global Compact on securing ethical and responsible business.

As an international corporation, Arcandor regards cultural diversity in the Group as an opportunity: National, regional and religious differences are accepted and valued as they make a valuable contribution to corporate culture. Arcandor is developing the dialog for more tolerance between cultures on an ongoing basis and has intensified the intercultural cooperation between corporate management and subsidiaries. Furthermore, the Group participates in projects of Culture Counts, a partner initiative of the German UNESCO Commission.

CUSTOMER ORIENTATION AND RESPONSIBILITY IN SOCIETY

At Arcandor, rigorous customer alignment is not only a fundamental axiom of sustainable business, but also a principle of corporate success. Customers can place their trust in stringent environmental and social standards being applied in all business areas. For example, Karstadt Warenhaus GmbH has supported the products of the TransFair organization for many years, in addition to many other projects. In the Mail Order and Tourism business units, Arcandor supports numerous initiatives which are committed to fair working conditions in the textile and carpets industry, sustainable forestry and ecological standards in hotel purchasing. Our customers and business partners, politics and society, as well as investors and employees can count on the sustained commitment of Arcandor, also in the future.

ARCANDOR SHARE

Key figures Arcandor share

		30.09.2007	30.09.2006	Change in %
Earnings				
Earnings per share	€	0.08	2.39	-96.7
Dividends				
Dividend per no-par value share (30.09.2007/31.12.2006)	€	0.00	0.00	0.0
Subscribed capital				
Subscribed capital	mill. €	551.1	514.6	7.1
Individual no-par value shares on the reporting date	number in mill.	221.0	212.2	4.1
Share price information				
Share price on the reporting date	€	23.48	18.75	25.2
highest price	€	29.21	25.37	15.1
lowest price	€	17.96	12.93	38.9
Market capitalization on the reporting date[1]	mill. €	5,188.4	3,978.4	30.4
Stock exchange sales (average daily retail volume)	number of shares in th.	840	1.040	-19.2
Beta 250 on the reporting date		0.8480	1.2716	-

[1] Including own no-par value shares.

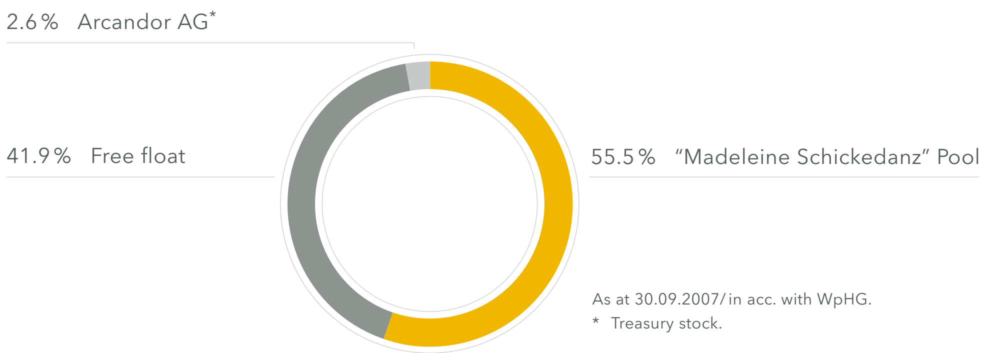
POSITIVE PERFORMANCE

As at the reporting date, Arcandor shares achieved a performance of 25.2 % year-on-year, thereby outperforming the MDAX which increased by 20.9 %.

Stock exchange price performance in €

In the short 2007 financial year, the shares continued their positive performance, gaining 6.9 %, reaching their high for the year of 29.21 € on April 16. After the annual low of 17.96 € on August 30, a price gain of 11.4 % was achieved on the next day. This was triggered by the market’s positive reaction to the second quarter reporting. On September 30, 2007, Arcandor shares closed at 23.48 €.

Against the previous year, the market capitalization (including treasury stock) increased by 1.21 bill. € year-on-year, reaching a figure of 5.19 bill. € on September 30, 2007.



As at 30.09.2007/in acc. with WpHG.
* Treasury stock.

STABLE SHAREHOLDER STRUCTURE

In the reporting year, the partial exercise of the convertible bond increased the number of issued shares against the previous year by 8,789,947 to 220,970,370. The main shareholder remains the "Madeleine Schickedanz" pool with a stake of 55.5 % (based on reports in line with the German Securities Trading Act). Arcandor holds 5.7 million shares as treasury stock, equal to 2.6 % of the total. The amount of treasury stock declined considerably against the previous year. This is because in June 2007 Arcandor used around 5.5 million shares as acquisition currency in acquiring the TV channel HSE24. As of the end of September, the free float was 41.9 %. Arcandor's shares are continuing to attract great interest from international investors. In 2007, three renowned American institutional investors reported that they had exceeded the 5 % threshold: Janus Capital (Denver), Julius Bär (Zurich/New York) and Wellington (Boston).

HIGHER WEIGHTING IN THE MDAX

Arcandor shares are represented in a number of indices. The most important index is the MDAX, in which Arcandor had a weighting of 2.22 % at the end of September, an increase of 0.9 percentage points on the previous year. On June 18, 2007, the share was included in the Dow Jones STOXX 600 index family.

During the reporting period, an average of around 840,000 Arcandor shares were traded daily on the German stock exchanges. The shares thus remain highly liquid. The most important trading platform is the XETRA electronic exchange.

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

In this report, the Supervisory Board of Arcandor informs you about its activities in the short 2007 financial year (January 1, 2007 to September 30, 2007).

EMPHASIS OF THE SUPERVISORY BOARD'S ACTIVITY

The emphasis of the Supervisory Board work was consultation and passing resolutions on the acquisition of the remaining 50 % Deutsche Lufthansa stake in Thomas Cook AG and the subsequent transfer of 100 % in Thomas Cook AG to the new company Thomas Cook Group plc, refinancing the Arcandor Group by concluding a new loan agreement for 1.5 bill. € with a staggered duration, the acquisition of the HSE Group and concluding a settlement with the JCC/Wertheim heirs. It also discussed other matters such as corporate governance, the annual statement, the consolidated annual statement, the dependent companies report and the work of the committees.

During the 2007 short financial year, the Supervisory Board of Arcandor AG discharged its duties as required by law and the articles of incorporation, audited the annual statement and the dependent companies report and continuously monitored and supported the managerial activity of the Management Board. In an advisory capacity, the Supervisory Board constructively accompanied, supported and monitored the implementation of the Group realignment, with particular attention being devoted to the changing Group structure resulting from the purchase of the Thomas Cook stake and the transfer of this holding to Thomas Cook Group plc. The Management Board regularly kept the Supervisory Board fully informed both orally and in writing.

MEETINGS, OBJECT AND METHODS OF THE EXAMINATION BY THE SUPERVISORY BOARD

At five Supervisory Board meetings and in the context of a written resolution, the Supervisory Board was kept informed by the Management Board about all important questions of planning, business performance, the risk situation and risk management, the economic situation and business policy.

The Chairman of the Supervisory Board maintained close contact with the Chairman of the Management Board. Information was regularly exchanged at regular monthly meetings and over the telephone. The Supervisory Board was then given a full report on the content of these exchanges.

The Supervisory Board was kept informed about the state of business and important business transactions at all times. Between meetings the Supervisory Board was also kept fully informed about all projects of especial importance for the company by written report. For example, there was written information on the trends in the tourism market, on the merger of Thomas Cook and MyTravel, on human resources matters, particularly in respect to members of the Management Board, on various publications in line with the Securities Trading Act and on the Thomas Cook Group plc IPO on the London Stock Exchange.

Furthermore, the Management Board informed the Supervisory Board about the most important key financial ratios by monthly reports and duly submitted to it for resolution matters requiring approval. At its meetings, it examined in detail and discussed proposals put forward by the Management Board and granted them all necessary approvals. Approval was particularly required during the financial year for:

- Acquisition of the remaining 50% Deutsche Lufthansa AG stake in Thomas Cook AG.
- Conclusion of a loan contract for interim financing of the acquistion of the stake in Thomas Cook.
- Transfer of the 100% stake in Thomas Cook AG to the new Thomas Cook Group plc (merger Thomas Cook/MyTravel).
- Founding myby GmbH & Co. KG with the two partners Axel Springer AG (25.1%) and Arcandor AG (74.9%).
- Acquistion of the HSE Group.
- Conclusion of a general settlement with JCC/Wertheim heirs for 88 mill. € to cover all demands and claims.
- Refinancing the company by concluding a new loan agreement for 1.5 bill. €.

Members of the Supervisory Board were sent in advance comprehensive documents summarizing the main points of the matters requiring resolution.

Unless specifically stated in this report, the Supervisory Board carried out its controlling activity by receiving and discussing oral and written reports from the Management Board, the Audit Committee, employees and external auditors and consultants.

At all its meetings, the Supervisory Board discussed in detail the business performance, corporate planning and strategy, as well as the financial and liquidity situation of the Arcandor Group. The meetings focused on implementing the program for reorganizing and realigning the Group. The following topic areas dealt with at Supervisory Board meetings should be mentioned:

- Acquisition of the remaining 50% stake in Thomas Cook AG from Deutsche Lufthansa AG (on January 21, 2007 and February 7, 2007). After detailed discussion of the advantages and disadvantages, the Supervisory Board gave this acquisition its approval. In a joint meeting on February 7, 2007, the Audit Committee and the Standing Committee discussed the transaction in detail, the suitability of the purchase price and the underlying contracts and recommended that the Supervisory Board grant its approval.
- Intensive discussion of the various options for the further development of Thomas Cook AG and presentation of various growth initiatives (on January 21, 2007 and February 7, 2007).
- Conclusion of a loan contract on a loan of up to 900 mill. € – of which however only 600 mill. € was utilized – for the interim financing of the remaining 50% of the Deutsche Lufthansa AG stake in Thomas Cook AG (on February 7, 2007). The Supervisory Board was given a résumé of the essential points of the loan agreement to enable it to prepare its decision. After intensive examination, in a joint meeting on February 7, 2007, the Audit Committee and the Standing Committee recommended the Supervisory Board to grant its approval.
- Transfer of 100% in Thomas Cook AG to the new company Thomas Cook Group plc on the condition that all shares of MyTravel were transferred to this company and that Arcandor AG had control of at least 51% of the shares in the new company (on January 21, 2007 and February 7, 2007). After detailed discussion of various aspects, the Supervisory Board approved the transfer. In a joint meeting on February 7, 2007, the Audit Committee and the Standing Committee recommended approval. In particular, the committees examined the DCF valuation methods, the synergies and the valuation of the share ratios and were convinced of the appropriateness.

- Approval for founding myby GmbH & Co. KG with the two partners Axel Springer AG (25.1%) and Arcandor AG (74.9%) (on March 21, 2007). In its meeting on March 21, 2007, the Standing Committee examined the founding models and recommended that the Supervisory Board grant its approval.
- Acquisition of 100% of the HSE Group at a purchase price not exceeding 200 mill. €, payable up to an amount of 160 mill. € in company shares, at the same time agreeing a possible reduction of the purchase price on the basis of a CVR (Contingent Value Right) structure (on March 21, 2007).
- Approval to conclude a general settlement with the Jewish Claims Conference/Wertheim heirs for 88 mill. € to cover all demands and claims (on March 21, 2007).
- Introduction of a management participation program for a defined group of executives (on June 11, 2007). With reference to the decision of the Standing Committee, which had approved this model after coordination by telephone with the Chairman of the Supervisory Board, the Supervisory Board also granted its approval.
- Report on IT strategies and partnerships (on March 21, 2007 and June 11, 2007).
- Refinancing the company on the basis of concluding a new loan agreement for 1.5 bill. € with a staggered duration, at the same time discharging the current loan agreements of 400 mill. € and 600 mill. € (on June 11, 2007). After detailed examination of the loan documentation, in its meeting on June 11, 2007 the Standing Committee recommended that the Supervisory Board grant its approval. After its own examination, the Supervisory Board granted its approval.
- Report on restructuring Mail Order (on June 11, 2007 and September 17, 2007).
- Reports on M & A projects, especially the sale of neckermann.de GmbH (on September 17, 2007).
- Report on ongoing real estate disposal processes (on June 11, 2007 and September 17, 2007).
- Report on the planned merger of Condor and Air Berlin (on September 17, 2007).
- Presentation of the CTA concept and the asset liability study (on September 17, 2007).
- Change of the articles of incorporation to be presented for resolution to the Annual General Meeting on May 10, 2007, including the change of the company name and the creation of conditional capital (on March 21, 2007).
- Resolution on changes to the articles of incorporation in relation to the change of name (on June 11, 2007).

- Strategic options for the further development of the Group, such as strengthening of the growth areas specialty mail order, international mail order, e-commerce, higher-value department stores as well as streamlining the portfolio of low-growth and low-earning segments (at all meetings).

All the members of the Supervisory Board attended at least half of the Supervisory Board meetings in 2007 during their period of membership.

Following the examination of the efficiency of the Supervisory Board conducted by external consultants presented at the meeting on March 21, 2006, the Supervisory Board implemented a self-evaluation in the form of a questionnaire-based efficiency examination. The results were discussed in detail at the meeting on December 14, 2007.

CORPORATE GOVERNANCE

At its meetings, the Supervisory Board discussed the German Corporate Governance Code and approved its realization in the Arcandor Group. Corporate Governance will be examined at regular intervals and developed further.

On January 16, 2008, the Management Board and Supervisory Board updated the Declaration of Compliance issued in accordance with the German Corporate Governance Code. The Management Board and Supervisory Board declared that since last year's Declaration of Compliance of March 21, 2007 (supplemented by the declaration of September 17, 2007), all the recommendations of the German Corporate Governance Code in the version of June 12, 2006, had been met, with the exception of the retention in the case of the D&O insurance (Code Subsection 3.8 Paragraph 2) and the publication deadlines for the Group financial statements and the interim financial statements (Code Subsection 7.1.2 Paragraph 3). They furthermore declared that they will comply with all the recommendations of the German Corporate Governance Code in the version of June 14, 2007, with the exception of the retention in the case of the D&O insurance (Code Subsection 3.8 Paragraph 2). This Declaration of Compliance has been made continuously accessible to shareholders on the company's website, together with earlier Declarations of Compliance. Further information on Corporate Governance at Arcandor is given in the joint report of the Management Board and Supervisory Board on pages 37 to 48 of this Annual Report.

WORK AND MEETINGS OF THE COMMITTEES

The Supervisory Board set up a Standing Committee, an Audit Committee and an Arbitration Committee (in accordance with Section 27 of the Codetermination Act). In addition it established a Nomination Committee at its meeting on December 14, 2007. In individual cases the Supervisory Board's powers of decision were transferred to the committees. For the current constitution of the committees and their chairpersons, please see the list on page 36. The meetings, the work and in particular the resolutions of the committees were reported on in detail at the plenary meetings.

- In a joint meeting on February 7, 2007, the Standing Committee and the Audit Committee dealt with the acquistion of the remaining 50% stake in Thomas Cook AG, the conclusion of a loan agreement for the interim financing of this acquisition and the transfer of 100% in Thomas Cook AG to the new company Thomas Cook Group plc.
- The Standing Committee met four times alone during the reporting period. It discussed mainly Management Board matters, including the structure and amount of the remuneration. It prepared the Supervisory Board's respective resolutions on Management Board matters and made recommendations. In particular, the Standing Committee prepared the already stated resolutions of the Supervisory Board on founding myby GmbH & Co. KG, on introducing a management participation program and on refinancing the company by concluding a new loan agreement.
- The Audit Committee also met four times alone during the reporting period. In the presence of the auditor and the Management Board, it discussed the annual statement of Arcandor AG, the consolidated statement, the management reports, the proposal for the appropriation of the profit and the dependent companies report. It also analyzed the quarterly reports, issued the audit instruction to the auditor, laid down the main points of the audit, agreed on the fee and monitored the impartiality of the auditor. The Audit Committee also kept itself informed about risk management and its further development in the company. Finally, the audit committee audited the efficiency of its own activity and refined the regulations for its future work as well as reporting by the Management Board. With effect of the day of the Supervisory Board meeting on December 14, 2007, Dr. Breipohl resigned his office as Chairman and member of the Audit Committee for personal reasons. With effect of the same day, the Supervisory Board elected Prof. Dr. h. c. Hornung as member of the Audit Committee, at the same time appointing him as Chairman.
- There was no occasion for the Arbitration Committee to meet.
- The Nomination Committee was only established after the end of the 2007 short financial year.

The committees' methods of examination were identical to those applied in the plenary meetings. The committee chairpersons in the plenary meetings reported fully on the committee meetings and the work of the committees.

ANNUAL STATEMENT, CONSOLIDATED STATEMENT AND DEPENDENT COMPANIES REPORT

The BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the annual statement for the short 2007 financial year, the management report of Arcandor AG, the consolidated statement in line with IFRS, the consolidated management report as well as the dependent companies report in accordance with a resolution of the Annual General Meeting of May 10, 2007, and gave each of them its unqualified approval. The Audit Committee of the Supervisory Board had issued the audit instruction on June 11, 2007 in accordance with the resolution of the Annual General Meeting. It had also laid down areas of emphasis for the audit. The annual statement and management report of Arcandor AG, the consolidated statement, the consolidated management report, the audit reports of BDO and the proposal for the appropriation of the profits were duly submitted to all the members of the Supervisory Board.

The Audit Committee conducted a preliminary examination of the statements, the associated management reports and the audit reports, and the proposal for the appropriation of the profits. These documents were discussed in detail at the meeting of the Supervisory Board on January 16, 2008. The auditor was also present at this meeting, reported on the most significant results of his audit and answered questions put to him by members of the Supervisory Board. In accordance with the findings of its own examination, the Supervisory Board finds no cause for objection and approves the auditor's findings. It examined the documents and found them to be complete, orderly and plausible. At its meeting on January 16, 2008, the Supervisory Board approved the accounts of the short 2007 financial year of Arcandor AG and the Group prepared by the Management Board for the period ending September 30, 2007; the annual account of Arcandor AG has therefore been adopted.

Because of the Groups reorganization no dividend payments of Arcandor AG are planned for the short 2007 financial year.

The Management Board submitted to the Supervisory Board the report on relations with associated companies prepared by the Management Board pursuant to Section 312 of the German Stock Corporation Act (dependent companies report) and given an unqualified auditor's opinion, the annual account records and the auditor's report. The auditor reported on the findings of his audit at the Supervisory Board meeting on January 16, 2008, and after intensive discussion answered all the Board's questions in detail. In accordance with the findings of its own examination, the Supervisory Board finds no cause for objection in the Management Board's concluding remarks in its report pursuant to Section 312 of the German Stock Corporation Act and approves the auditor's findings.

AUDITOR'S OPINION OF THE DEPENDENT COMPANIES REPORT

The auditor's opinion of the Management Board's report on relations between Arcandor AG and the associated companies is as follows:

We know of no circumstances which under Section 313 Paragraph 4 of the German Stock Corporation Act might have given cause to qualify or refuse an auditor's opinion. In accordance with the final result of our audit, no objections are to be raised to the dependent companies report. We issue the following unqualified auditor's opinion pursuant to Section 313 Paragraph 3 of the German Stock Corporation Act:

"We have duly audited and assessed the dependent companies report and confirm that the factual information given in it is correct."

Düsseldorf, January 2, 2008
BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dyckerhoff (Public auditor)

Rauscher (Public auditor)

CHANGES TO SUPERVISORY BOARD AND MANAGEMENT BOARD

In the short 2007 financial year there was one change in the composition of the Management Board.

With effect from the end of January 14, 2007, Harald Pinger retired from the Management Board. Dr. Peter Diesch was appointed to succeed him with effect from January 15, 2007.

The Management Board members' areas of responsibility and duty are shown in the overview on page 9 of this Annual Report.

There was no change in the composition of the Supervisory Board in the short 2007 financial year. With effect from October 31, 2007, Holger Lampatz resigned his mandate as shareholders' representative. By resolution of December 12, 2007, the Essen District Court appointed Prof. Dr. h. c. Karlheinz Hornung as shareholders' representative in the Supervisory Board.

The Supervisory Board thanks the retired members of the managerial bodies for their work.

A THANK YOU TO OUR MANAGEMENT AND STAFF

The Supervisory Board would like to express its thanks to the Management Board, managerial staff and staff of the Arcandor Group both in Germany and abroad for their commitment on behalf of the company during the 2007 short financial year.

Essen, January 16, 2008

For the Supervisory Board

Hero Brahms
Chairman

The Supervisory Board

MEMBERS

Hero Brahms
Chairman

Wolfgang Pokriefke*
Deputy Chairman

Wilfried Behrens*
Udo Behrenwaldt
Dr. Diethart Breipohl
Bodo Dehn*
Leo Herl
Ulrich Hocker
Prof. Dr. h. c. Karlheinz Hornung
Peter Kalow*
Franz Lajosbanyai*

Margret Mönig-Raane*
Dr. Hans Reischl
Rita Rodenbücher*
Juergen Schreiber
Christa Schubert*
Michael Stammler
Gertrud Tippel-Kluth*
Werner Wild*
Dr. Klaus Zumwinkel

Committees

STANDING COMMITTEE

Hero Brahms, Chairman
Leo Herl
Peter Kalow*
Wolfgang Pokriefke*
Dr. Hans Reischl
Michael Stammler

AUDIT COMMITTEE

Prof. Dr. h. c. Karlheinz Hornung,
Chairman since December 14, 2007
Hero Brahms
Dr. Diethart Breipohl,
until December 14, 2007
Leo Herl
Peter Kalow*
Wolfgang Pokriefke*

ARBITRATION COMMITTEE
(Section 27 Para. 3 Codetermination Act)

Hero Brahms, Chairman
Leo Herl
Peter Kalow*
Wolfgang Pokriefke*

NOMINATION COMMITTEE

Hero Brahms
Leo Herl
Dr. Hans Reischl
Michael Stammler

* representing the employees.
Complete information about the members of the Supervisory Board and Management Board in accordance with Section 285 Para. 10 HGB (German Commercial Code) is given on pages 158 to 160.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

In the Arcandor Group corporate governance means a responsible corporate management and control aimed at long-term value enhancement. This increases the confidence of national and international investors, the finance markets, business partners and staff and the public in the Arcandor Group.

BASES AND FRAMEWORK OF CORPORATE GOVERNANCE

The general legal conditions for corporate governance are to be found mainly in stock corporation law. In addition, in February 2002 the government commission formulated in the German Corporate Governance Code uniform principles for German corporations to make the regulations for good corporate governance transparent, particularly for foreign investors. The Corporate Governance Code was extended in May 2003, and most recently in June 2006 and June 2007.

In the reporting period, Arcandor AG complied with the recommendations of the version of the German Corporate Governance Code dated June 12, 2006 with two exceptions:

The interim report for the calendar half year was not published within 45 days and the consolidated financial statements were not published within 90 days because Thomas Cook Group plc, which was newly created by the merger of Thomas Cook AG with My Travel plc, and its affiliated companies had to be included for the first time in the consolidated financial statements of Arcandor AG. This required not only greater work and time, but was compounded by the fact that the financial year for Thomas Cook Group plc did not end at the same time as Arcandor AG on September 30, 2007, but only on October 31, 2007.

The D & O insurance concluded for members of Arcandor executive bodies does not include a retention. We remain of the opinion that the agreement of a retention is hardly suitable for increasing the sense of responsibility with which the members of the Management Board and the Supervisory Board discharge the duties and functions entrusted to them. Furthermore, a retention is not usual in other countries or at many German companies.

In this context, Arcandor AG will adhere to all recommendations of the version of the German Corporate Governance Code dated June 14, 2007 in future – with the exception of the retention for D & O insurance.

MANAGEMENT AND CONTROL STRUCTURE

Arcandor has a dual management and control structure in the Management Board and Supervisory Board in accordance with German stock corporation law. The Management Board and Supervisory Board work closely together on the basis of a balanced division of duties and responsibility for the benefit of the corporation. The legal framework for the cooperation is provided by the corporation's articles of incorporation and the Supervisory Board's and Management Board's rules of procedure.

THE SUPERVISORY BOARD

The Supervisory Board comprises 20 members in accordance with the articles of incorporation. In accordance with the German Codetermination Act it is made up of equal numbers of shareholders and employees' representatives. Whereas the shareholders' representatives are elected by the Annual General Meeting, the employees' representatives are appointed in accordance with the German Codetermination Act. Seven employees' representatives are employees of the Group, a further three are union representatives. The present Supervisory Board's period of office lasts until the end of the Annual General Meeting which decides on approval of the Management Board's acts for the 2007 financial year (April 23, 2008). The introduction of different periods of office for shareholders' representatives on the Supervisory Board, as recommended in the code, is not envisaged at present. Instead, to encourage efficient Supervisory Board activity, we think it sensible to keep a uniform period of office.

Following the examination of the efficiency of the Supervisory Board conducted by external consultants, the Supervisory Board implemented a self-evaluation in the form of a questionnaire-based efficiency examination in 2007. According to the result of this examination the expectations were fulfilled.

Under the Supervisory Board's rules of procedure every member of the Supervisory Board is subject to the principle of independence. Some representatives of the shareholders on the Supervisory Board occupy or occupied a senior position with other companies during the past year. Transactions conducted by Arcandor AG with these companies are conducted on the same terms and conditions as with third-party companies. In our judgment these transactions do not affect the independence of the members of our Supervisory Board associated with these companies.

COMMITTEES ON THE SUPERVISORY BOARD

Under its rules of procedure the Supervisory Board forms several committees.

The **Standing Committee** is made up of the Chairman of the Supervisory Board, his representative and at least three further members to be chosen from amongst the Supervisory Board. At present the Standing Committee consists of six members. The Standing Committee is responsible for the regulation of matters between Management Board members and the corporation. In urgent matters the Standing Committee may further, if a resolution of the Supervisory Board cannot be passed in due time at a meeting, in its stead decide on Management Board business requiring approval.

The **Audit Committee** is made up of the Chairman of the Supervisory Board, two representatives of the shareholders and two representatives of the employees. Dr. Diethart Breipohl, Chairman of the Audit Committee until December 14, 2007 and Prof. Dr. h. c. Karlheinz Hornung, Chairman since December 14, 2007, have special knowledge of and experience in the application of accounting principles and internal control procedures. As required, the Audit Committee prepared the Supervisory Board's decision about the approval of the financial statements and the approval of the consolidated financial statements for the period to September 30, 2007, and in particular a preliminary examination of the financial statements, the consolidated financial statements and the summarized management report and the proposal for appropriation of the profit. This meeting of the Audit Committee was attended by the auditor. Finally, the Audit Committee implemented the agreement to be reached annually with the auditor.

The duties of the **Arbitration Committee**, which is made up of two shareholder and two employee representatives, are determined in Section 27, Paragraph 3 of the German Codetermination Act. In accordance with it the Arbitration Committee submits proposals to the Supervisory Board for the appointment of Management Board members, if the necessary majority of two thirds of the votes of the Supervisory Board members is not achieved in the first ballot.

As the fourth committee of the Supervisory Board, the **Nomination Committee** was established in December 2007. This thus implements a new recommendation in the German Corporate Governance Code. The task of this committee is the preparation of election proposals to the Annual General Meeting for candidates to the Supervisory Board. The final decision for the election proposal remains with the entire Supervisory Board. The Nomination Committee is made up of four shareholder representatives.

THE MANAGEMENT BOARD

The Management Board of Arcandor AG consists of six members. Following the retirement of Harald Pinger, with effect from January 15, 2007, Dr. Peter Diesch was appointed new Management Board member responsible mainly for the tax, controlling, accounting and finance sectors. In line with the recommendation in the German Corporate Governance Code the rules of procedure for the Management Board regulate its work, particularly the responsibilities of the individual Management Board members, the matters which are the responsibility of the whole Management Board and the necessary majorities for Management Board resolutions.

TRANSPARENCY

Since the introduction of the Corporate Governance Code, Arcandor AG has published a financial calendar on its website. This gives prompt information about relevant dates and events. Furthermore, all IR, press and ad-hoc reports released since 2004 are accessible on the Internet. Finally, all Declarations of Compliance with the code of the company have been made accessible on the Website (even those which are no longer valid). Insider information directly concerning Arcandor AG is published immediately in the form of ad-hoc releases, unless later publication is advisable owing to special corporate interests.

RISK MANAGEMENT, ACCOUNTING, LIABILITY AUDIT

To enable early identification of material risks, Arcandor AG has set up a risk management system. A detailed account is given in the Group Management Report on pages 95 to 98.

Consolidated accounting is in accordance with IFRS (International Financial Reporting Standards).

The Supervisory Board has appointed BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft to be the auditors for the 2007 financial year. The Supervisory Board first ascertained that no business, financial, personal or other relations which could give rise to doubts about the auditor's impartiality existed between the auditor and its executive bodies and audit managers, on the one hand, and the corporation and the members of its executive bodies, on the other. The main points of the audit were fixed with the auditor and it was agreed that any possible grounds for exclusion or partiality would be removed or made known during the audit.

INCENTIVE SYSTEMS BASED ON SHARE PRICE

In March 2007, a phantom stock option program was implemented for a select group of executives. The phantom stock program is a remuneration program based on the share price, which rewards a considerable increase in the enterprise value of Arcandor. Detailed information on the structure and the scope of the program can be found on pages 124 and 125 of the Group Notes.

DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

On January 16, 2008, we issued and subsequently made continuously accessible to the shareholders on the corporation's Internet site at www.arcandor.com: Investor Relations/Corporate Governance/Declaration of Compliance:

"The Management Board and Supervisory Board of Arcandor AG declare in accordance with § 161 Company Law:

1. Since the last Declaration of Compliance on March 21, 2007 (supplemented by the declaration on September 17, 2007), Arcandor AG has complied with the recommendations of the version of the German Corporate Governance Code dated June 12, 2006 with the following exceptions:

   a) The D & O insurance taken out by Arcandor AG does not include a retention (Code section 3.8 (2)).

   b) The interim report for the calendar half year was not published within 45 days and the consolidated financial statements were not published within 90 days (Code section 7.1.2 (3)) because Thomas Cook Group plc, which was newly created by the merger of Thomas Cook AG with My Travel plc, and its affiliated companies had to be included for the first time in the consolidated financial statements of Arcandor AG.

2. Arcandor AG will comply with all the recommendations of the version of the German Corporate Governance Code dated June 14, 2007, with the exception of the retention for D & O insurance (Code section 3.8 (2))."

REMUNERATION REPORT

This remuneration report is an integral part of the audited consolidated management report.

The remuneration report explains the bases for fixing the remuneration of the Management Board and Supervisory Board and its level and structure.

It also provides information about the shareholdings of the Management Board and Supervisory Board and transactions with shares of Arcandor AG to be disclosed under the Securities Trading Act.

The report follows the recommendations of the German Corporate Governance Code and contains information which is required under the provisions of German commercial law, extended by the Management Board Remuneration Disclosure Act, pursuant to Sections 314, 315 of the German Commercial Code.

Remuneration of the Management Board

REMUNERATION STRUCTURE

The fixing of the Management Board's remuneration is the responsibility of the Standing Committee of the Supervisory Board which includes as members the Supervisory Board Chairman Hero Brahms and his deputy Wolfgang Pokriefke.

The Management Board's remuneration is determined by the size of the segment controlled, its economic and financial situation and the level and structure of the remuneration at comparable companies. In addition, the duties of and contribution made by the respective Management Board member are taken into account.

In the 2007 financial year (January 1 to September 30, 2007), the total remuneration comprises the following components:

- Fixed remuneration
- Variable bonus
- Dividend-related remuneration (management bonus)
- Special remuneration
- Contribution to retirement pension
- Fringe benefits

The total remuneration for the members of the Management Board thus includes non-performance-related and performance-related components. The non-performance-related parts of the remuneration comprise a fixed remuneration (including the guaranteed part of the dividend-related profit-sharing payment) and fringe benefits as well as the contribution to the retirement pension, while the performance-related components are divided into a variable bonus, special remuneration and a profit-sharing payment.

The individual components of the remuneration:

- The fixed remuneration comprises the fixed salary and a guaranteed part of the management bonus and is paid monthly, as well as a guaranteed annual payment for one member of the Management Board.
- The members of the Management Board also receive as fringe benefits non-monetary and other benefits, which include the private use of company cars, inclusion in the Group accident and D&O insurance cover as well as travel to and from home and housing costs under the two-households provision. For use of the company car the value to be applied in accordance with tax guidelines is applied.
- The variable bonus is dependent on the company's achieving a result annually agreed beforehand and the level of fulfillment of an individual target agreement to be concluded yearly. Under the reconstruction concept these two components were combined into a "performance target" for each of the 2005 to 2007 financial years. The performance target comprises 50% from the EBITDA and 50% from the operating cash flow subcomponents. The bonus is limited to a maximum of 200% of the agreed basic amount. If the performance target for the years 2005 – 2007 is fulfilled to an average target fulfillment level of 90% or more, a results-related graduated special bonus will be granted in 2008. In addition, the members of the Management Board participate in the Arcandor AG phantom stock program which was implemented in March 2007. This is described in detail in the Group Notes on pages 124 and 125. The special bonus and phantom stock program are remuneration elements with the character of a long-term incentive. Members of the Management Board were not granted any share options in the 2007 financial year.
- Additionally, in cases of special performance the Supervisory Board may at its obligatory discretion fix a special remuneration. The Standing Committee laid down the amount of the bonuses and special remunerations at its meeting on December 14, 2007, after examining the fulfillment of the targets set at the beginning of the financial year.
- The profit-sharing payment depends on the amount of the dividend per no-par value share paid to shareholders for the respective financial year. However, part of this remuneration component is guaranteed as a fixed salary independently of the actual payment of a dividend and is paid out monthly (see above). Since no dividend is being paid for the 2007 financial year (January 1 to September 20, 2007), the members of the Management Board will receive no profit-sharing payment over and above the guaranteed amount.
- Under the reconstruction concept the members appointed to the Management Board up until the end of 2005 agreed to a reduction by 15% of all the aforementioned remuneration components for the 2005 to 2007 financial years.
- The fixed remuneration, the profit-sharing payment and the bonus are examined at regular intervals of up to three years. During the examination the company's economic position and future prospects and the general growth of income in German industry and trade are taken into consideration, as well as the Management Board member's performance and duties.

AMOUNT OF REMUNERATION

The following remuneration resulted for individual members of the Management Board for the 2007 financial year (January 1 to September 30, 2007):

The Management Board's remuneration in detail
for the 2007 financial year (January 1 to September 30, 2007)

Amounts shown in th. €	Fixed remuneration (fixed salary, guaranteed renumeration, guaranteed profit-sharing remuneration, fringe benefits)[3]	Variable monetary remuneration with short-term incentive effect (bonus, profit-sharing remuneration, special remuneration)	Total	Provisions phantom stock program	Transfer to pension provisions/ pension fund
Dr. Thomas Middelhoff – Chairman –	727	1,898	2,625	71	56
Dr. Matthias Bellmann	393	469	862	18	28
Dr. Peter Diesch [1]	841	1,027	1,868	74	25
Prof. Dr. Helmut Merkel	392	765	1,157	46	-69
Harald Pinger [2]	45	40	85	-	-
Marc Sommer	911	1,400	2,311	55	81
Peter Wolf	656	840	1,496	52	17
	3,965	**6,439**	**10,404**	**316**	**138**

[1] Member of the Management Board since January 15, 2007.
[2] Member of the Management Board until January 14, 2007.
[3] Including remuneration for executive body activities in the Thomas Cook segment.

The variable monetary remuneration with a short-term incentive in the above table also shows the share in the variable bonus which due to the phantom stock program is not paid in the 2007 financial year, but at the latest when the program ends in 2012.

Furthermore, the above table shows the transfer to pension provisions in the financial year ended individually for each member of the Management Board. Members of the Management Board have a right to future retirement pension payments after the end of their service contract and on reaching the age limit or because of permanent unfitness for work.

The retirement pension for Management Board members appointed by January 1, 2006 is determined according to a percentage share of the last fixed salary payment which the member received before the end of his service contract. This percentage share of 25% rises by 2 percentage points for every year of membership of the Management Board from the time of the first re-appointment of the Management Board member. The maximum percentage share is limited to 50%. In a service contract the initial percentage share amounts to 32%, which rises by 2 percentage points for every year of membership of the Management Board from the time of initial appointment. The maximum percentage share here is limited to 60%.

If the service contract ends because

- the appointment to the Management Board is not repeated or the period of office is not extended or
- the appointment is revoked and no reason exists for termination without notice or
- the appointment and the service contract are terminated prematurely at the earliest on the 62nd birthday, the Management Board member will receive a retirement pension under the foregoing provisions from the end of the service contract, if he has reached his 55th birthday. If the service contract ends before the member's 55th birthday and any of the foregoing conditions is fulfilled, he is entitled to a retirement pension under the provisions of the Occupational Pension Schemes Act (BetrAVG). In this case the company will waive adherence to the periods for vested entitlement under the Occupational Pension Schemes Act.

Until his 65th birthday the Management Board member must have amounts earned from regular employment of his services elsewhere credited against the pension, if these earnings, together with the pension, exceed the total earnings last received from the company.

The system of income- and service-time-related pension rules was discontinued for Management Board members appointed after January 1, 2006, and replaced with a yearly contractually fixed payment into a fund, which in the insured event is paid out in a capitalized form.

The defined benefit obligation – DBO – of all pension commitments to active members of the Management Board amounts to 2.9 mill. € (previous year: 3.4 mill. €).

For the case of premature termination of the service contract the Management Board contracts – with the exception of the following ruling on the change of control clauses – contain no express severance pay guarantee. Severance pay may, however, result from an individually reached severance agreement.

Management Board members who were appointed for the first time before August 1, 2006, are entitled to transitional payments for 12 months, if they retire from the Management Board after their 55th birthday. The transitional payments are equal to the fixed salary in the year of retirement and the average of the paid performance-related payments and variable bonuses of the last three years before retirement. Only then do the retirement pension rules apply.

Three employment contracts of serving Management Board members contain change of control clauses. In the event of a change of control two Management Board members have the right to termination of the employment contract within six months without notice. If the right to termination is exercised, the Management Board member has a claim to severance pay equal to the remuneration that he would have received on the basis of his yearly target income for the remainder of the contractual term or at least equal to an annual target income for 100 % target fulfillment for the variable remuneration. A change of control in this sense has taken place, if on grounds of direct or indirect participation or attribution under section 30 of the German Securities Acquisition and Takeover Act (WpÜG) another shareholder or company member than the Madeleine Schickedanz pool acquires at least half of the shares or voting rights. A change of control has also taken place if this shareholder or company member acquires a shareholding which procures him the majority of votes at the Annual General Meeting, taking into account the average capital represented at the last three Annual General Meetings, or the Madeleine Schickedanz pool transfers to another Group company a material holding in the company. Similar rules apply if Arcandor AG shares are delisted or the company changes its legal form.

If a Management Board member loses his Management Board seat through changes in majority relations at Arcandor AG, Quelle GmbH and neckermann.de GmbH, he will continue to receive the remuneration under his employment contract for the remainder of the contractual term. Here a 100 % target fulfillment will be assumed for the variable components of the remuneration. In such cases the Management Board member has the right to terminate his employment contract without forfeiting his claim to remuneration for the remainder of the term of the contract.

Members of the Management Board do not receive remuneration for mandates relating to the Group’s own companies with the exception of executive body activities in the Thomas Cook segment.

No loans or advance payments were granted to Management Board members during the year under review. During the period under review, no Management Board member was granted or promised payments by third parties in respect of his activity as a member of the Management Board.

Remuneration of the Supervisory Board

REMUNERATION STRUCTURE

The remuneration of the Supervisory Board is fixed by the Annual General Meeting and is regulated in Article 13 of the articles of incorporation of Arcandor AG. There was an alignment to this regulation in 2007. The remuneration is aligned to the size of the company and the associated responsibility of the Supervisory Board members and the economic situation and performance of the corporation. As well as the refund of their expenses, members of the Supervisory Board receive an annual fixed remuneration of 20,000 €, which increases by 650 € for each profit share of 0.01 € per share resolved by the Annual General Meeting and paid to shareholders over and above a profit share of 0.10 €.

The chairmanship, deputy chairmanship as well as the membership of a committee are additionally remunerated. The Chairman of the Supervisory Board received twice this amount, the Chairman of the Audit Committee 1.75 times the amount, the Deputy Chairman and each member of a committee 1.5 times the amount of the remuneration determined for members of the Supervisory Board. If a member of the Supervisory Board at the same time holds a number of offices for which a higher remuneration is allowed, he receives only the remuneration for the most highly remunerated office. Supervisory Board members who serve on the Supervisory Board for only a part of the financial year receive proportionately lower remuneration.

AMOUNT OF REMUNERATION

In view of the fact that the 2007 financial year contains only nine months, the following remuneration resulted for the individual members of the Supervisory Board in the reporting period. No loans or advance payments were granted to Supervisory Board members during the reporting period.

Supervisory Board remuneration in detail

for the 2007 financial year (January 1 to September 30, 2007)

Amounts shown in th. €	Fixed remuneration	Additional remuneration**	Total	Changes in membership
Hero Brahms – Chairman –	15.0	15.0	30.0	
Wolfgang Pokriefke* – Deputy Chairman –	15.0	7.5	22.5	
Wilfried Behrens*	15.0	-	15.0	
Udo Behrenwaldt	15.0	-	15.0	
Dr. Diethart Breipohl	15.0	11.3	26.3	
Bodo Dehn*	15.0	-	15.0	
Leo Herl	15.0	7.5	22.5	
Ulrich Hocker	15.0	-	15.0	
Prof. Dr. h. c. Karlheinz Hornung	-	-	-	since 12.12.2007
Peter Kalow*	15.0	7.5	22.5	
Franz Lajosbanyai* 1)	19.5	-	19.5	
Holger Robert Lampatz	15.0	-	15.0	until 31.10.2007
Margret Mönig-Raane*	15.0	-	15.0	
Dr. Hans Reischl	15.0	7.5	22.5	
Rita Rodenbücher*	15.0	-	15.0	
Juergen Schreiber	15.0	-	15.0	
Christa Schubert*	15.0	-	15.0	
Michael Stammler	15.0	7.5	22.5	
Gertrud Tippel-Kluth* 1)	19.5	-	19.5	
Werner Wild*	15.0	-	15.0	
Dr. Klaus Zumwinkel	15.0	-	15.0	
	309.0	**63.8**	**372.8**	

* Representing the employees.
** For membership of Standing Committee and Audit Committee and for chairmanship/deputy chairmanship of Supervisory Board.
1) Includes also the remuneration for other Supervisory Board seats in the Arcandor Group.

The members of the individual Supervisory Board committees are shown in the Report of the Supervisory Board.

SHAREHOLDINGS OF MANAGEMENT BOARD AND SUPERVISORY BOARD

The holding of securities in Arcandor AG by members of the Management Board and Supervisory Board of the corporation must be disclosed in accordance with the German Corporate Governance Code, if it directly or indirectly exceeds 1% of the shares issued by the company. If the total of shares held by all Management Board and Supervisory Board members exceeds 1% of the shares issued by the company, the totals of shares held by Management Board and Supervisory Board must be disclosed separately.

As of September 30, 2007, the members of the Supervisory Board together are allocated 46.64% of the shares issued by the company. Of these 46.64% (103,052,336 shares) are allocated to Leo Herl. The members of the Management Board do not hold any shares in the company.

SHARE TRANSACTIONS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Members of the Management Board and Supervisory Board are required under Section 15a German Securities Trading Act (WpHG) to disclose the acquisition or disposal of securities of Arcandor AG, if the value of transactions conducted by the member or his associates within one calendar year amounts to or exceeds 5,000 €. Arcandor AG was not notified of any such transactions in the past financial year.

OTHER INFORMATION

The members of the executive bodies are, in so far as the law permits, released by Arcandor AG from claims by third parties. To this end, Arcandor AG maintains group asset liability insurance (D & O insurance) for the members of its executive bodies.

OPERATING SEGMENTS

THOMAS COOK

Positioning

LEADING TOURISM GROUP WITH STRONG MARKET POSITIONS

The Thomas Cook Group plc is an internationally leading tourism group. The leading market position was further extended as a result of the merger with MyTravel, the UK's third largest tour operator. The Group is today the No. 1 (Scandinavia) or No. 2 (Germany, Europe, UK, Canada) in its relevant markets.

Thomas Cook operates an extensive portfolio of highly regarded travel brands in key markets in Europe, Eastern Europe and North America. 73 % of tourism spending worldwide is generated in these regions. Thanks to its long history in the UK, the Thomas Cook brand also has a strong presence in the Commonwealth and its developing markets. These regions generate a further 8 % of global tourism spending.

The Thomas Cook Group plc offers its customers mainstream package holidays, independent travel and travel-related financial services. The Group uses an asset-light, highly flexible business model aligned to the relevant local competitive environment. In the UK and Ireland, Northern Europe and North America, the Thomas Cook Group plc favors a vertically integrated model, while in Continental Europe it is positioned primarily as a pure-play tour operator.

Every year, Thomas Cook Group plc has roughly 19 million travel customers who can use three primary and mutually supporting distribution channels: The over-the-counter retail with 3,000 owned or franchised travel stores, the Internet and dedicated call centers. The high service quality is ensured by 33,000 employees in the Thomas Cook Group plc.

Key figures*

		Pro forma			Pro forma Quarter III		
		01.11.2006 – 31.10.2007	01.11.2005 – 31.10.2006	Change in %	**01.07.2007 – 31.09.2007**	01.07.2006 – 31.09.2006	Change in %
Sales	mill. €	**8,447.8**	**8,523.0**	-0.9	**5,357.6**	**5,589.3**	-4.1
Earnings							
EBITDA (adjusted)	mill. €	**708.6**	**622.9**	13.8	**722.8**	**633.6**	14.1
EBITDA margin	*in %*	*8.4*	*7.3*	-	*13.5*	*11.3*	-
Full-time employees at the balance sheet date	number	**29,070**	**31,914**	-8.9	**29,070**	**31,914**	-8.9

* On a like-for-like pro forma basis.

Segment performance

THOMAS COOK ACHIEVES RECORD RESULT

As a result of the full consolidation of the listed Thomas Cook Group plc, consolidated sales of the tourism group increased to 8.45 bill. € (2.50 bill. € in the previous year). In the reporting year, adjusted consolidated EBITDA of Thomas Cook Group plc totaled 708.6 mill. € (previous year: 45.5 mill. €). This represents an increase of 663.1 mill. €. If Thomas Cook Group plc had been part of the Arcandor Group in 2006 (previous year pro forma: 622.9 mill. €), the Thomas Cook pro forma earnings would have increased by 13.8%.

POSITIVE TRENDS IN ALL SEGMENTS

With record earnings in the North Europe, Continental Europe and Airlines Germany segments, Thomas Cook considerably exceeded market expectations in 2007. Overall there was a positive trend in all segments:

In the UK the strong run at the end of the summer season and successful cost reductions counteracted the difficult market conditions at the beginning of the year.

The Northern Europe region posted a good performance, both in the winter and in the summer season. This was achieved primarily by successful capacity management, while at the same time better satisfying customer requirements.

Thomas Cook further extended its strong market position and is today placed number one or number two on its relevant markets.

In the Continental Europe segment, the Belgium and France markets generated the best performance. As expected, the German market remained difficult over the whole year. Even so, the target figure was reached, as a result of successful cost management and selective capacity reduction.

In North America, the smallest segment in the Group, the result was impacted by difficult market conditions with significant overcapacity. Currently there are increasing indications of the market situation improving.

In the Airlines Germany segment, represented by the Condor airline, the result increased despite difficult conditions on the German market. Condor developed especially strongly in its long-haul business, benefiting from the focus on profitable routes and successful cost management.

Important events during the financial year

ARCANDOR CREATES GLOBALLY LEADING TOURISM GROUP

In February 2007, Arcandor acquired Deutsche Lufthansa AG's remaining 50% stake in Thomas Cook AG. Only a few days later, it announced the merger of Thomas Cook AG with the British MyTravel plc. This laid the foundation for a globally leading tourism group. The merger was completed as early as June 19, 2007 and the resulting Thomas Cook Group plc was listed on the London Stock Exchange. Thus Arcandor successfully floated its largest segment on the stock exchange, and did so in a very short time period. Since then, Arcandor has held 52% of shares in the new group and former MyTravel shareholders hold 48%. As early as half a year after this listing, Thomas Cook Group plc was included in the blue chip index of the London Stock Exchange and has been part of the FTSE 100 since December 24, 2007.

RAPID IMPLEMENTATION OF THE INTEGRATION MEASURES

As a result of the rapid progress of the merger, the new company also implemented the further planned steps quickly. The top management levels at the Thomas Cook Group were in place by August 31, 2007. Parallel to this, the new structures for the international business within the Group were established, initially for the UK and Ireland segments. There was thus an early start in rationalizing the British airline fleet – the most important individual measure in realizing synergies. Shortly after the merger, the Group also announced detailed plans for the intended closure of branches and the relocation of all important operating functions. This also included establishing new Group headquarters. By the end of October 2007, the Thomas Cook Group also successfully concluded the move to a uniform package tour reservation system in the UK.

EXPANSION IN EASTERN EUROPE CONTINUED

Furthermore, Thomas Cook Group continued its expansion in Eastern Europe. The Czech tour operator Travel Plus was acquired in August 2007. The Thomas Cook Group is thus strengthening its position in a strongly growing market with seven travel agencies in large cities and the two tour operators Dusek Tours and Allround-Service.

HURRICANE DEAN – AN EXAMPLE OF SUCCESSFUL CRISIS MANAGEMENT

When hurricane Dean struck the Lower Antilles, the south of Jamaica and Mexico in August 2007, a total of 7,000 Thomas Cook customers were in the affected regions. With its successful crisis management, the Group showed its ability to cope with unforeseen events and crises. The Thomas Cook Group introduced immediate measures to evacuate its guests from the vacation areas which were primarily endangered with the result that neither guests nor employees were negatively impacted. Prospective travelers were kept up-to-date on possible delays or cancellations. As a result of these measures, the storm had no material impact on customer satisfaction or earnings.

Outlook

EXPANSION OF THE KEY STRENGTHS

Thomas Cook Group plc is starting its first full year after the merger from a strong position. The key strengths of the Group are its very strong financial position, an almost unparalleled size with short decision-making paths, a portfolio of well-known brands as well as margins which lead the industry.

The Thomas Cook Group continues to rely on a less capital-intensive, highly flexible business model. In an industry prone to global, geopolitical risks, the ability to increase, reduce or shift capacity as quickly as possible is a key factor in generating success. The target of achieving greater flexibility in the business model has already been achieved. By the 2009/2010 financial year, half of all Thomas Cook aircraft leasing contracts come close to the end of their contract period. Depending on the market situation, the Group can then decide either to extend the contracts, re-negotiate them or to let them expire.

Furthermore, in Germany with the merger of the Group Condor airline with Air Berlin intended for 2009/2010, a leading national airline is emerging which is a long-term strategic partner for the Thomas Cook Group. Once the merger is concluded, the Thomas Cook Group will receive new Air Berlin shares with a value of between 380 mill. € and 475 mill. € plus approximately 120 mill. € in cash, a total of between 500 mill. € and 595 mill. €. As shareholder of Air Berlin, the Thomas Cook Group will benefit from a strong brand position, a clear growth strategy and potential synergies with an annual value of at least 70 mill. €.

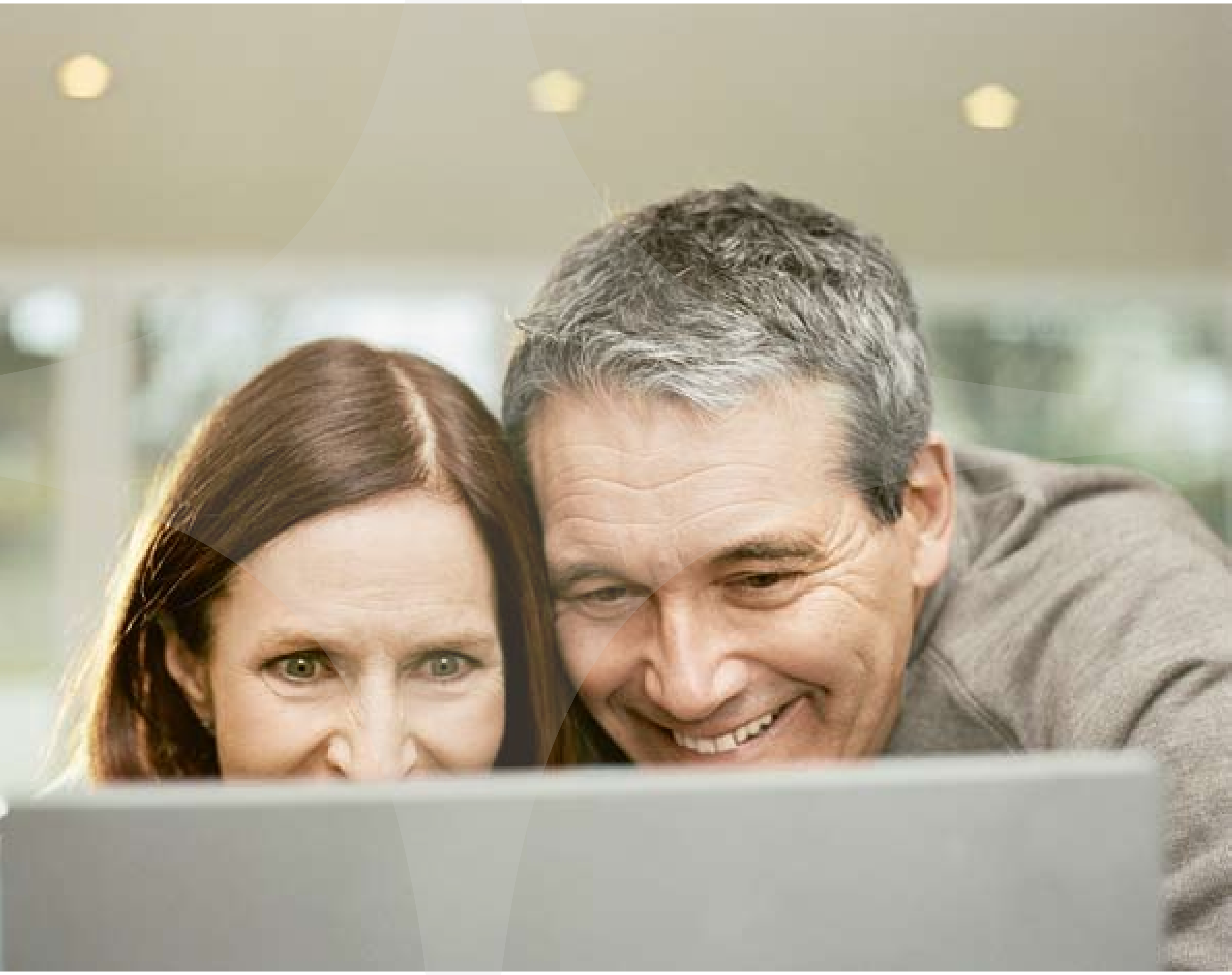
After approval by the Annual General Meeting, Thomas Cook intends to implement a share buyback program of approximately 375 mill. €.

At least 200 mill. € in synergy effects by the year 2010.

To date, the success of Thomas Cook has always been based on a detailed knowledge of customer wishes. A further factor driving success in the future is the flexible alignment to changes in the tourism market. The Thomas Cook Group is determined to lead the field in this respect.

As a result of the merger with MyTravel synergies of at least 200 mill. € will be are expected by to 2010. The Thomas Cook Group thus has an excellent positioning to benefit from growth on all relevant markets. At the same time, all the conditions are in place for achieving the target of EBITDA exceeding 800 mill. € in the 2009/2010 financial year.

PRIMONDO



Positioning

Multi-channel companies are the strongest players in modern mail order. Primondo is the leading multi-channel provider in Europe and has an excellent positioning in this growing market. No competitor has comparable distribution clout made up of catalogues, Internet, teleshopping and branches. With its mail order companies, Primondo services a total of approximately 25 million customers in 24 European countries, maintains some 100 shopping domains and sends out a total of over 1,400 catalogues a year with total print runs of over 800 million.

Primondo companies have leading positions in the local mail order markets in numerous European countries. In Germany, Quelle is the market leader in universal mail order. Privileg, the company brand, is the most sold brand for such equipment as washing machines, driers and microwaves. What is more, Quelle generates the highest sales in Germany's kitchen trade. In ten countries in the Central-Eastern Europe region, Quelle is the number one or two in the respective market and by far the market leader in terms of e-commerce.

Due to their specific target group orientation and customer address, specialized mail orders companies are one of the strongest growing players in the European retail sector. Primondo has a portfolio of twelve specialty mail order companies. The products range from a baby line, ecological fashion to classical menswear and women's fashion as well as street wear. In addition to the catalogues which are coordinated precisely to the respective target group, a total of 65 shopping domains are used to communicate with customers.

Key figures*

					Quarter III (01.07. – 30.09.)		
		30.09.2007	30.09.2006	Change in %	**2007**	2006	Change in %
Sales (adjusted)	mill. €	**2,889.4**	**2,778.0**	4.0	**1,019.5**	**890.0**	14.6
Earnings							
EBITDA (adjusted)	mill. €	**-72.9**	**-73.7**	1.1	**-23.2**	**-38.4**	39.4
EBITDA margin (adjusted)	*in %*	*-2.5*	*-2.7*	-	*-2.3*	*-4.3*	-
Full-time employees at the balance sheet date	number	**16,837**	**18,067**	-6.8	**16,837**	**18,067**	-6.8

* The figures have been adjusted. The adjustments relate to special factors and divestments.

Segment performance

PRIMONDO BACK ON GROWTH TRACK

In the 2007 short financial year, Primondo developed overall in a positive fashion. Sales in continued operations rose by 4.0 % to 2.89 bill € (previous year: 2.78 bill. €). Thus Primondo generated positive growth rates for the first time since 2002, developing better than planned.

QUELLE GERMANY WITH IMPRESSIVE TREND REVERSAL

Business at Quelle Germany became increasingly stable during the year. In the months of June, July, August and September sales were up considerably. In the third quarter, Quelle with an upturn of 2 % finally posted sales growth for the first time in five years. The trend reversal is now clearly evident. Overall, Quelle developed better than its key competitors, regaining market share in the process.

This trend was achieved especially with significant improvements of key performance ratios. Quelle achieved an increase in new customers for the first time since 2003. The number of active customers was also clearly up, both year-on-year and on the budgeted figures. Ability to deliver improved strongly in the key product areas.

SPECIALTY MAIL ORDER WITH PROFITABLE GROWTH

With an above-average sales upturn (adjusted) of approximately 6 % in the reporting year, the Specialty Mail Order unit again generated profitable growth. Across the board, international specialty mail order companies such as Afibel, Elégance, Walz or the TriStyle Group (Madeleine, Peter Hahn, Atelier Goldner Schnitt) posted pleasing growth rates and good profitability.

HIGH SALES RISE IN INTERNATIONAL BUSINESS

In the reporting year, the Quelle subsidiaries in Central and Eastern Europe and Russia achieved ongoing high growth momentum with an increase of 40.4 %. Quelle achieved an outstanding result in Russia where sales more than doubled. In Austria, Quelle also gained considerable ground, with the company extending its leading position. In Switzerland, Quelle acquired Ackermann, the renowned mail order brand, as of the beginning of the year. From the very start, both the Ackermann catalogues and the Internet shop posted a positive business trend. Sales in Switzerland also grew.

RESULT UP ON PREVIOUS YEAR

Successes in restructuring were also evident in earnings. After the end of the 9-month short financial year, Primondo posted a seasonally related negative earnings of 72.9 mill. €. This is a slight improvement against the previous year (previous year: minus 73.7 mill. €).

Important events during the financial year

"80 YEARS OF QUELLE" – NEW MARKET SUCCESSES IN THE ANNIVERSARY YEAR

In the fall of 2006, Quelle started a new and promising market positioning, placing the focus on the life world of the women and families target group. Successful in-house brands, well-known manufacturer brands, innovative product ideas and pronounced quality management are resulting in an attractive range offering. Quelle has become more modern, faster and more contemporary. An outstanding success in the anniversary year was the "Firework Campaign" for the 80th brand birthday in September 2007, which consistently cross-linked all distribution channels.

Quelle also used the anniversary year to extend its leading position as a multi-channel provider. These measures related primarily to the catalogue, e-commerce and teleshopping distribution channels.

Primondo is a leading multi-channel provider with a high-quality portfolio of European universal and specialty mail order companies.

INNOVATIVE MONTHLY CATALOGUES

With a print run of ten million, the around 1,400-page-long main catalog offers a competent comprehensive view of the fashion, technology, living and kitchen profiling product lines. As an innovative supplement, monthly catalogues were introduced at the beginning of 2007. These were received by households on the last Friday of the month. The monthly catalogues present seasonal, topical articles in three cross-range theme worlds, thus generating demand directly.

E-COMMERCE SHARE GROWING STEADILY

In 2007, the quelle.de portal generated an average of over 30 million visitors a month and is one of the three online shops with the strongest reach in the German-speaking Internet. Quelle now generates roughly 40% of its demand online, continually setting new benchmarks with innovations and customer-friendly services. The number of available articles and the breadth and depth of its range are being increased on a targeted basis, thus advancing the expertise and appeal of quelle.de. To do this quelle.de also enters into cooperations, such as with Mexx in the fashion area or with Weltbild for media. Overall, Quelle already offers some 650,000 products via Internet. Quelle will expand its Internet activities with great vigor, integrate additional well-known partners on its platform and introduce further Web 2.0 elements. Successful and new cooperation partners will push the number of articles in 2008 to over one million.

In October 2007, myby was launched. This is a joint venture between Arcandor (74.9 %) and Axel Springer AG (25.1 %). With permanently low prices, an outstanding service offering and the expertise of its two partners, myby is set to become the leading electronic online specialist market on the Internet.

TELESHOPPING – A GROWTH DRIVER

In June 2007, Primondo acquired the television shopping channel, HSE24. With the acquisition, Primondo becomes the second-largest provider in Germany in the growing teleshopping market and opens up new potential for profitable growth. Also, the corporate group is thus rigorously continuing its strategic realignment and is pushing the announced expansion of Quelle as a universal mail order company to become the leading multi-channel provider in Germany and Europe. For HSE24 Primondo is targeting not only steady sales growth, but also a double-digit EBITDA margin. Primondo also plans to expand its home shopping presence across Europe over the next few years. The focus here is on the markets in Central and Eastern Europe, with a particular accent being Russia. In the reporting year, HSE24 had a successful business development, achieving considerable gains in market share: Sales increased by 10 %, EBITDA increased disproportionately stronger.

By acquiring the TV channel HSE24 Primondo opens up new potential for profitable growth.

SUCCESSFUL REALIGNMENT OF THE SPECIALTY MAIL ORDER PORTFOLIO

In Specialty Mail Order, Primondo consistently advanced its strategic realignment, orienting its portfolio to the three growth segments “Premium”, “Golden Ager” and “Communities”. In a scheduled process, specialty mail order companies which are no longer part of the core business were sold. Primondo sold the specialty mail order companies Krähe, NeBus, Saalfrank and the Mercatura Group to new owners.

In Spring 2007, Primondo and Redcats together successfully launched the French special mail order brand Vertbaudet onto the German market. The first catalogues of the French market leader in special mail order for baby equipment, children’s wear and fashion for mothers-to-be considerably outstripped expectations.

As of October 1, 2007, Primondo made a new acquisition in Specialty Mail Order, acquiring Planet Sports GmbH in Starnberg County. With the integration of the leading e-commerce mail order company for board sports and street wear in Germany, the Primondo Group has strengthened its “Communities” growth segment. The focus on Internet business, the leading position in the market segment combined with the high authenticity and credibility of the Planet Sports brand supplement existing Primondo activities in an ideal fashion.

INTERNATIONAL BUSINESS FOCUSED ON GROWTH REGIONS

Quelle is concentrating its international activities on dynamically growing markets in Central and Eastern Europe as well as Russia and German-speaking countries. As a result of the strategic realignment, the Quelle France subsidiary – including the Spanish mail order business – was sold to the industrial holding Aurelius AG as of January 1, 2007. In addition, all other West European activities outside German-speaking territories were either sold or discontinued.

COMPETITIVE STRENGTH OF THE SERVICE GROUP INCREASED

In 2007, the reorganization of the Service Group was advanced vigorously with a large number of individual measures. The most important task in reorganizing the internal services group is to establish competitive strength, consolidate structures and reduce cost levels. Activities which no longer form part of the core business or which cannot be operated on a competitive basis have been successively discontinued as had been announced. This includes servicelogiQ GmbH and Fox Markt Handelsgesellschaft mbH & Co. KG.

In 2007, the competitive edge of the logistics center in Leipzig and the returns operation in Fürth was secured on the basis of new working time models. Primondo established modern customer centers in Berlin and Magdeburg. The new structures allow considerably improved processes and work flows in customer service. At the same time, both centers operate at a competitive cost level. In 2008, it is planned to establish a further customer center in Cottbus. Other locations such as Nuremburg and Padborg (Denmark) will discontinue operations as had been announced.

Outlook

Primondo will expand the strong market positions it has established in a targeted fashion. It will do this on the basis of international expansion of the Quelle brand in Central and Eastern Europe as well as in Russia, accelerated growth of E-Commerce and the alignment of Specialty Mail Order to the three growth segments of “Premium”, “Golden Ager” and “Communities”. After the acquisition of the HSE24 shopping channel, Primondo will also be expanding the teleshopping distribution channel and extending its international range.

In the 2007/2008 financial year, Primondo will vigorously continue down its track of growth, transformation and reorganization. The progress achieved in the reporting year will be secured and strengthened. The strategic realignment of Primondo which is targeted over a period of several years with a concentration and focus on growth areas will unleash the intended effects. For the 2007/2008 financial year, Primondo plans further sales growth. The medium-term objective is the stock market viability, chiefly characterized by sustained and profitable growth across all business areas.

KARSTADT

Positioning

KARSTADT – CLEAR POSITIONING AND SUSTAINED FOCUS ON THE MODERN MARKET PLACE

In the 2007 short financial year, Karstadt rigorously pursued its realignment and the related establishment of its new business model. Through its cross category theme marketing initiated in March, Karstadt has been expanding its competitive position as a modern market place in German city centers.

With the differentiation into four sales units, the increased level of individual responsibility and decentralized management, Karstadt is reacting in an even more targeted fashion to its customers, their wishes and demands. The Premium Group (which includes KaDeWe, Alsterhaus), the department stores under the Karstadt brand, Karstadt sports (Karstadt sports stores) and karstadt.de (online shopping) thus operate as sales lines with an independent format. At the same time, the company presents itself with a new corporate design across all formats. From the middle of the year, we introduced the gradual implementation of category management as a further element of the realignment. With holistic, demand-oriented planning and management the best possible product range is determined. This results in considerably higher levels of customer orientation and thus a better sales and earnings performance.

Key figures*

					Quarter III (01.07.-30.09.)		
		30.09.2007	30.09.2006	Change in %	**2007**	2006	Change in %
Sales (adjusted)							
Core department stores	mill. €	**2,354.3**	**2,389.3**	-1.5	**806.6**	**824.3**	-2.2
Karstadt sports	mill. €	187.4	215.7	-13.1 2)	61.4	69.8	-11.9 2)
Segment total 1)	mill. €	2,861.6	2,940.4	-2.7	977.0	1,005.2	-2.8
Earnings							
EBITDA (adjusted)	mill. €	**-34.0**	**-35.9**	5.3	**0.9**	**0.1**	-
EBITDA margin (adjusted)	*in %*	*-1.2*	*-1.2*	-	*0.1*	*0.0*	-
Full-time employees at the balance sheet date	number	**24,304**	**25,453**	-4.5	**24,304**	**25,453**	-4.5

* The figures have been adjusted. The adjustments apply to special factors and divestments as well as restructuring expenses in EBITDA.
1) Including Karstadt fine food and LeBuffet.
2) Comparison with the previous year possible only to a limited degree due to increased sales during the 2006 soccer world cup.

Segment performance

SALES TREND MARKED BY NO WORLD CUP (SOCCER) SALES, THE INCREASE IN SALES TAX AND A HUGE REALIGNMENT

In the 2007 short financial year, adjusted sales at the Karstadt core department stores came to 2.35 bill. € (previous year: 2.39 bill. €). Part of the 1.5% decline against the first three quarters of the comparative year was actively driven by the reduction of particularly low-margin sales. In addition, further factors which are to be considered are the basis effect of the anniversary in 2006 which impacted sales and the impact of the increase in sales tax. In the first nine months, Karstadt sports (independent sports stores) generated adjusted cumulative sales of 187.4 mill. €. The downturn of 13.1% is due especially to the lack of the successful non-recurring sales resulting from the World Cup (soccer) in 2006. Overall, the Karstadt segment achieved adjusted sales of 2.86 bill. € in the 2007 short financial year. By closing unprofitable locations, the self-operated sales space was reduced by 3.7% to 1,600.8 th. sq. m. Furthermore, in the third quarter of 2007 alone, upgrading und converting branch space of approximately 40,000 sq. m. temporarily impaired sales.

Through the theme marketing, customer demand took considerably greater account of higher value and more profitable ranges. The holistic presentation had a strong stimulating impact on sales. With cross-selling improving, the average basket increased year-on-year by 2.7%. What is now the very well established theme marketing has proved to be an additional lever for the new marketing approach with the claim “Karstadt – Schöner shoppen in der Stadt”.

Other information

		30.09.2007	30.09.2006
Branches			
Premium	number	4	4
Karstadt			
Boulevard Plus	number	62	62
Boulevard	number	25	26
Department stores	number	**91**	92
Karstadt sports	number	28	28
Project branches	number	10	12
Total	number	**129**	132
Sales space			
Group-operated space without third-party leasing	th. sq. m.	**1,600.8**	1,662.9

PREMIUM SEGMENT GROWS BY 5.0%

The Karstadt Premium Group continues to develop in a very pleasing fashion. The four Premium stores posted a sales upturn of 5.0% in the 2007 short financial year. In the reporting year, the online business of karstadt.de generated a double-digit sales increase of 16.4%.

EARNINGS RISE BY 5.3%

Seasonally negative earnings (adjusted EBITDA) were minus 34.0 mill. € in the 2007 short financial year (previous year: minus 35.9 mill. €). This represents an earnings upturn of 5.3%. This positive trend was achieved by rigorous margin and cost management and extending higher-value sales, at the same time streamlining product groups with low profitability on a targeted basis (e.g. considerable reduction of the wholesale business with Hertie) and locations generating losses. In addition, the earnings quality is being secured on the basis of a sustained cost structure program. The budgeted figures were achieved. In this respect, all quarters of the 2007 short financial year made a positive contribution.

Karstadt is successfully continuing to expand its high-profile competitive position as a modern market place in Germany’s city centers.

EXPANSION OF HIGH-MARGIN CONSUMER AREAS CONTINUED

The holistic theme-related assortment also pushed higher margin articles into the customer focus. Particularly positive here was the concentration on the core areas of the Karstadt range with the Fashion, Personality and Living consumer areas. The up-market presentation and the clear positioning resulted in a further increase of the adjusted gross margin at a high level. It was further expanded to 43.1% (previous year: 41.4%).

The realignment at Karstadt is reflected particularly in the strong development of the core **Fashion** range. With the further expansion of important fashion brands and exclusive in-house brands, the largest consumer area developed better than the industry as a whole. Despite the difficult sales situation due to the weather, Karstadt continued at the level of the previous year with sales of 1.02 bill. €. In the reporting year, the brand profile and the fashion competency of the department stores was strengthened by setting up 423 additional brand shops in the up-market fashion segment. Karstadt thus defended its leading market position.

The **Personality** consumer segment, with sales of 495 mill. €, includes important high-quality personal requisite product lines. These include beauty products, watches/jewelry, leather goods and books. Of the individual areas, as a result of attractive concepts Watches (+ 3.6%) and Fragrances (+ 5.2%) gained considerable sales against the previous year. Due to the intensified competition and further concentration on the supplier side, the Books area posted a sales downturn of 6%. Overall sales in the Personality consumer segment declined by 1.4%. However, account should also be taken of the targeted space reduction in the drugstore range.

The **Living** consumer segment, which covers the Home and Food, Kitchen and Bath segments, generated sales of 355 mill. €. It was particularly the YornCasa lifestyle brand which continued to move strongly, generating a double-digit sales upturn. The new Kitchen offer which was started in a pilot branch also posted considerable improvements in sales and results directly after being implemented in the third quarter.

Theme-related assortment and higher-quality presentation.

A key element in the entire **Sports** consumer segment (sport departments and independent sports stores) was the lack of the non-recurring sales generated by the 2006 World Cup (soccer). Another negative factor was the almost entire loss of the winter sport business due to the mild weather at the beginning of the reporting period. There was a positive trend in the Golf and Bicycle categories. Overall, sales in the Sport consumer segment declined by 15.4% to approximately 300 mill. €.

Important events during the financial year

KARSTADT STRENGTHENS ITS BRAND

With a new corporate design and the new claim "Karstadt – Schöner shoppen in der Stadt", the successful realignment and profiling of the department store formats was given a clear market presence. Since March 2007, the focus of the new positioning was regularly changing themes which were staged on a holistic basis in the department stores and online at karstadt.de.

CUSTOMER ORIENTATION DETERMINES VALUE-ADDED CHAIN

The strong customer orientation which finds expression in the target group oriented structure with four sales units was extended in purchasing by establishing category management. With its purchasing areas of Fashion, Personality, Living and Sports, central Category Management reflects the customer worlds in the Karstadt department stores. The first Category Management processes have been implemented as of the second quarter of 2007. Here there was close intermeshing of purchasing, sales, marketing, merchandising/ space planning and purchase management. This process extends to streamlining the product range, a clear price and brand structure to the space concept in the branches.

WITH ITS ANNIVERSARY, KADEWE PUTS THE PREMIUM GROUP CENTER STAGE AND GENERATES STRONG SALES

The stores in the Premium Group are particularly successful. Outstanding here is KaDeWe, which celebrated its 100th anniversary from March 2007 with numerous spectacular events and a strong sales performance. An anniversary gala on October 10 with numerous VIP guests was the highlight of the many events that attracted a great deal of attention. Since September 28, the Munich County Premium store has shown that it is part of the Premium Group with its designation as Oberpollinger. By the Spring of 2008, Oberpollinger will add further top international brands to its range.

EXPANSION OF THE FASHION EXPERTISE WITH EXCLUSIVE DESIGNER COLLECTION

The Karstadt New Generation Award awarded at the Berlin Fashion Week brought important fashion impulses for Karstadt together with a large media response. The winner, the Kaviar Gauche label, will create a designer collection on an exclusive basis which will be sold in the 20 Top Karstadt stores from Spring 2008.

RENEWAL OF THE BRANCH NETWORK MAKES RAPID PROGRESS

In Hamburg the second of the three construction stages was finished in the largest Karstadt store Mönckebergstraße. In Berlin, Wertheim Steglitz was upgraded in March, with new products, brands and shops. The nearby Karstadt store (Schlossstraße) was closed from April 1, 2007 for a complete makeover and expansion to be reopened in Spring 2009. Two topping-out ceremonies in city center shopping malls at the location of Group headquarters in Essen and Duisburg signal the new presence of Karstadt in the Ruhr Area, the largest European conurbation. In Essen a shopping center with 70,000 sq. m. of useable space is being built on Limbecker Platz in conjunction with ECE and Union Investment Real Estate. Here Karstadt, as the anchor tenant, will operate a modern department store with 20,000 sq. m. of sales space and also an approximately 4,000 sq. m. sports store. Finished as a shell is the Duisburg “Forum”, a shopping mall with 57,000 sq. m. in which Karstadt will also open a department store as main tenant from Fall 2008.

Karstadt is strengthening its brand and establishing a clear market presence with its new claim “Karstadt – Schöner shoppen in der Stadt”.

MANAGEMENT TEAM COMPLETE

On September 1, 2007, the management team was reinforced by Heinz Thünemann (previously Management Board member at Katag AG) who assumed responsibility for Purchasing (Category Management) and Own Brands at Karstadt Warenhaus GmbH. Together with Peter Wolf (CEO), Jan-Christoph Maiwaldt (CFO) and Dr. Emmanuel Siregar as Human Resources director responsible for Human Resources and Organization, the Karstadt Warenhaus GmbH management team is now complete.

Outlook

PROFILING PRODUCT RANGES MEET EXPECTATIONS IN CHRISTMAS BUSINESS

The theme marketing which has met with a positive customer response, also in emotional terms, is also buttressing Karstadt in its Christmas business. Additional shopping possibilities on Sundays and the extended opening hours during the Christmas period are also increasing customer visits. Other factors increasing customer visits were the extensive marketing campaign at the start of Christmas business as well as numerous services. Overall this resulted in higher-quality purchases in the Christmas period which is so important for our business model. This primarily benefited the strong margin segments such as Fashion, Toys and Fragrances. Furthermore, winter temperatures in November resulted in good sales of the winter Fashion range.

STRATEGIC PARTNERSHIPS STRENGTHEN EXPERTISE IN SUPPLEMENTARY AREAS

In its Book and Multimedia areas Karstadt launched strategic cooperation with expert partners in the Fall. In the Book business, it is thus planned to cooperate with the finance holding DBH Buch Handels GmbH and its book stores Hugendubel and Weltbild in a total of 52 department stores. After approval of the anti-trust authorities and the realization of the first departments, these two strong suppliers are to manage the Book business at Karstadt in formats tailored for individual locations. In the Multimedia area it is planned to cooperate with Gravis, the market leader for Apple. In December, the first store was opened in the Düsseldorf Karstadt department store. In purchasing its drugstore articles, Karstadt is also treading new paths. Since August 2007, the goods are procured via the Müller drugstore chain, which has therefore assumed the wholesaler function for all drugstore articles at leading Karstadt department stores.

FURTHERMORE IMPROVEMENT OF THE EARNINGS PERFORMANCE

The focus of the 2007/2008 financial year is on further improving the earnings performance by successively implementing category management processes and the holistic implementation of staged themes of interest to customers. In October, Karstadt launched its realignment in the product range of all the 28 sports stores and the 73 sports departments in the department stores. With a new positioning as Karstadt sports and the new claim “enjoy sport and style”, lifestyle fashion and wellness topics will supplement the expertise in sports apparel and equipment. By March 2008, seven flagship sports stores will have the new styling. Within two years, the share of lifestyle articles in the Karstadt sports ranges is to be extended considerably to over 40 %.

INSIGHTS 2007

February

01.02.2007
Announcement of the disposal of the mail order business in France and Spain to Aurelius AG.

09.02.2007
Arcandor acquires the 50% stake in Thomas Cook from Lufthansa.

12.02.2007
Arcandor creates a globally leading tourism group: Thomas Cook merges with the British travel company MyTravel.

21.02.2007
Arcandor and Axel Springer set up a joint e-commerce company. myby starts in October 2007.

26.02.2007
Karstadt takes up a new positioning: The department store becomes a customer and idea store with a selected and high-quality range of goods. The new claim is "Karstadt – Schöner shoppen in der Stadt".

March

01.03.2007
KaDeWe celebrates its 100th anniversary.

01.03.2007
The mail order activities receive a future-driven management structure and a separate name – Primondo. As the holding company, Primondo bundles the brands of the universal and specialty mail order and aligns them to profitable growth in the context of a modern mail order strategy.

30.03.2007
The dispute lasting many years on the Wertheim properties is concluded: Arcandor reaches agreement with the Jewish Claims Conference.

May

07.05.2007
Arcandor concludes a strategic partnership with Electronic Data Systems (EDS), the IT service provider, and sells 74.9% of its IT subsidiary Itellium to EDS.

09.05.2007
With the acquisition of the TV channel, HSE24, Quelle strengthens its position as the leading multi-channel provider in Germany.

June

19.06.2007
Thomas Cook Group plc is floated on the London Stock Exchange successfully and in record time.

July

01.07.2007
KarstadtQuelle becomes Arcandor.

15.07.2007
Karstadt expands its fashion expertise with exclusive designer collection. Kaviar Gauche wins the first Karstadt New Generation Award.

August

06.08.2007
Sale of the Mercatura Group as part of the strategic realignment of the specialty mail order portfolio.

September

20.09.2007
Thomas Cook announces the transfer of Condor into Air Berlin and will become the largest individual Air Berlin shareholder.

27.09.2007
First Arcandor Investors' Day takes place in Berlin.

CONSOLIDATED MANAGEMENT REPORT

KEY POINTS

Systematic continuation of realignment process

- Further improvement in portfolio quality.
- Realignment of operating segments.
- Thomas Cook Group plc goes public in a very short time period.
- Primondo completes portfolio optimization;
  focus on growth areas (Specialty Mail Order, Central and Eastern Europe, teleshopping);
  Quelle turnaround picks up speed in the third quarter.
- Karstadt presses ahead with repositioning as “modern marketplace”.

Sales and earnings position

- Adjusted consolidated sales up 71.9 % to 14.3 bill. €.
- Adjusted EBITDA in the operating segments up 665.8 mill. € to 601.7 mill. €.
- All three operating segments with earnings growth (adjusted EBITDA).

Improvement in key figures

- Equity ratio up 2.8 percentage points to 17.4 % in the period under review.
- Negative working capital of 567.5 mill. € due to new Group structure
  (Thomas Cook Group) and operational improvements in the trading segments.

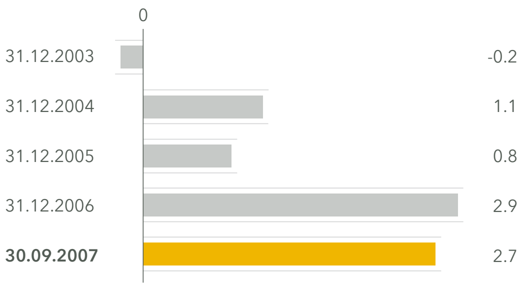
Outlook

- Continuation of successful realignment in the 2007/2008 financial year.
- Consolidated sales of more than 23 bill. € and adjusted EBITDA in excess of 1.3 bill. €
  forecast for the 2008/2009 financial year.

GENERAL ECONOMIC CONDITIONS

Overall economic situation

Gross domestic product
Real change on previous year in %



Source: Destatis (Federal German Statistics Office)

FOREIGN TRADE CONTINUES TO SUPPORT THE ECONOMIC REVIVAL

In the first nine months of 2007, real GDP increased by 2.7% year-on-year. This development was primarily driven by the highly dynamic growth in foreign trade.

SLIGHT DECLINE IN PRIVATE CONSUMPTION, GROWTH IN AVAILABLE INCOME

In real terms, private consumption fell slightly by 0.2% in the first nine months of 2007 compared with the same period of the previous year. This development was attributable in particular to the reduction in sales of passenger cars and lower levels of spending on food. By contrast, private expenditure on clothing and shoes increased.

The income available to private households rose by 1.8% year-on-year. Net wages and salaries also increased by 3.1%. This development was driven in particular by the higher number of people in employment and growth in wages and salaries. The savings ratio of private households increased slightly to 9.3% in the third quarter of 2007 (previous year: 9.0%).

COST OF LIVING IMPACTED BY ENERGY PRICES

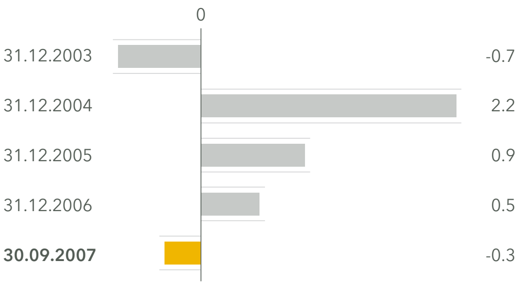
The cost of living increased by 1.9% in the first nine months of 2007. In particular, household energy prices grew above-average by 3.0%. Retail prices (excluding motor vehicles and gas stations) increased by an average of 1.3% in the first three quarters of the year. Here, too, the growth trend has intensified over recent months due to the sharp rise in food prices.

Industry situation

DECLINE IN RETAIL SALES

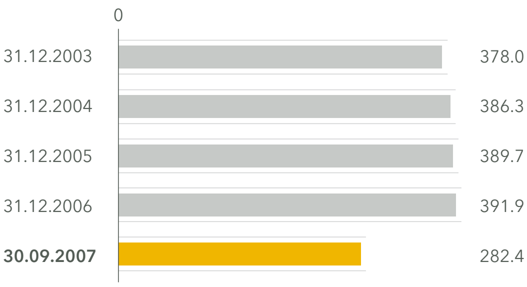
According to the German Federal Statistical Office, retail sales fell by 1.6% in nominal terms and 2.8% in real terms during the period under review. Retail sales in the narrow sense (excluding motor vehicle sales, pharmacies, petrol stations and fuel sales, but including vehicle components) declined by 0.3% in nominal terms and 1.3% in real terms in the first nine months of 2007. This development was primarily driven by the rising cost of energy and certain foods, which led to a reduction in purchasing power in other areas.

Performance of sales in the true retail trade
(nominal) Change on previous year in %



Source: Destatis (Federal German Statistics Office), Hauptverband des deutschen Einzelhandels (Main Association of the German Retail Trade, HdE)

Performance of sales in the true retail trade
(nominal) in bill. €



Source: Hauptverband des deutschen Einzelhandels (Main Association of the German Retail Trade, HdE)

DECLINING SALES AT LARGE STORES AND DEPARTMENT STORES

The general performance of large stores and department stores in Germany as a whole serves as a standard of comparison for the Arcandor Group. At the end of September 2007, these stores recorded a nominal decline in sales of 4.1% (minus 5.0% in real terms).

SALES DECLINING IN THE MAIL ORDER MARKET

As of September 2007, mail order sales in Germany fell by 2.1% in nominal terms and 2.5% in real terms compared with the same period of the previous year. The third quarter of 2007 had a cushioning effect on this development, with a decline in sales of 1.2% (nominal) or 1.7% (real).

FURTHER GROWTH IN TOURISM

The tourism sector remains robust. Thomas Cook is forecasting average sales growth in its core markets of 4.6 %, from 132 bill. € in 2006 to 165 bill. € in 2010. Within this segment, sales of package holidays are projected to increase by 2.1 % to 55 bill. €, while individual travel is expected to grow 6 % to reach 110 bill. €.

Outlook

CONTINUED ECONOMIC UPSWING IN GERMANY

For 2007 as a whole, the German Institute of Economic Research, Berlin, is forecasting real GDP growth of 2.5%. However, the effects of the sales tax increase and rising energy and food prices are expected to lead to stagnation in real private consumption in 2007 (minus 0.2%).

By contrast, 2008 is likely to see a noticeable increase in private consumption, driven in particular by the continued improvement in employment figures and the positive wage trend. Private consumption is expected to grow by 2.1% in real terms.

BUSINESS PERFORMANCE IN THE 2007 SHORT FINANCIAL YEAR

(January 1 – September 30, 2007)

SIGNIFICANT TRANSACTIONS

On February 9, 2007, Arcandor AG acquired Deutsche Lufthansa AG's equity interest in Thomas Cook AG. The Supervisory Board of Deutsche Lufthansa AG approved the sale in March 2007. In a simplified procedure, the EU antitrust authorities approved the acquisition of the 50% stake in Lufthansa on March 27, 2007. The transaction was closed on April 2, 2007 in accordance with the terms of the agreement.

On February 12, 2007, an agreement was concluded on the merger of Arcandor AG's tourism subsidiary Thomas Cook and the British tour operator MyTravel. The EU antitrust authorities approved the planned merger of Thomas Cook and MyTravel on May 4, 2007. The transaction was closed on June 18, 2007. The new company, which trades as "Thomas Cook Group plc", has been listed on the London Stock Exchange since June 19, 2007. As a result of the share swap, the Arcandor Group holds 52% of the shares of the new company, with the remaining 48% held by the former shareholders of MyTravel.

At the end of March 2007, the Arcandor Group reached a settlement with the Jewish Claims Conference (JCC), acting on behalf of the Wertheim heirs, following legal proceedings lasting for several years. The agreement primarily focuses on the regulation of the legal dispute concerning the so-called "Lenné Dreieck" in Berlin and all other properties previously belonging to the Wertheim department store group, including the "Post-Block" in Berlin-Mitte. The agreement settled all of the unresolved issues between the parties, including the revocation of the actions for damages initiated by members of the Wertheim family in the U.S. and compensation payments.

On April 3, 2007, an agreement on the sale of Quelle Region West was concluded with Industrieholding Aurelius. Under the terms of the agreement, Aurelius, which is domiciled in Munich County, acquired 100% of the shares of Quelle's French subsidiary Quelle S.A.S., Saran, including the company's Spanish operations. The new owner intends to continue to operate the mail order business in France and Spain under the "Quelle" brand. The transaction was closed on July 31, 2007.

On May 7, 2007, Arcandor AG entered into a strategic partnership with the leading global IT service provider EDS with the aim of optimizing, modernizing and further developing the IT systems of Arcandor AG and its subsidiaries. Under the terms of the partnership agreement, 74.9% of the shares of the IT service provider ITELLIUM Systems & Services GmbH were sold to EDS.

On May 9, 2007, Arcandor AG concluded an agreement on the acquisition of the home shopping channel HSE24. The contracts were closed on June 19, 2007. HSE24 represents an additional sales platform for the Group alongside the quelle.de Internet portal and Quelle catalogues, shops and technology centers.

The following discontinued operations and disposal groups that had been reclassified in accordance with IFRS 5 were sold as part of the strategic reorientation of the Group's Specialty Mail Order portfolio:

On June 19, 2007, the assets and liabilities of Krähe Versand GmbH were sold to the BTI Group. The contract was implemented on July 3, 2007.

On August 6, 2007, an agreement on the sale of the Mercatura Group was concluded with Kwintet A.B., Malmö, Sweden. The transfer of the Mercatura Group to the new owner and the closing of the corresponding agreements took place on September 30, 2007.

On September 21, 2007, all of the shares of Saalfrank Qualitätswerbeartikel GmbH were sold to AVIDA Versand Holding GmbH. The purchase agreement was closed on September 24, 2007.

CHANGE IN FINANCIAL YEAR

On May 10, 2007, the Annual General Meeting of Arcandor AG resolved to change the annual reporting date from December 31 to September 30. This means that the 2007 financial year is a short financial year.

CONTINUING AND DISCONTINUED OPERATIONS

Key figures

	Continuing operations		Discontinued operations		Total	
Amounts shown in mill. €	**01.01.2007 – 30.09.2007**	01.01.2006 – 30.09.2006*	**01.01.2007 – 30.09.2007**	01.01.2006 – 30.09.2006*	**01.01.2007 – 30.09.2007**	01.01.2006 – 30.09.2006*
Sales	14,594.0	8,892.4	1,280.6	1,409.3	15,874.6	10,301.7
Special factors	-313.1	-586.1	-	-	-313.1	-586.1
Sales adjusted	**14,280.9**	**8,306.3**	**1,280.6**	**1,409.3**	**15,561.5**	**9,715.6**
EBITDA	1,177.6	779.1	-82.9	-45.0	1,094.7	734.1
Special factors	-650.9	-736.3	39.5	4.7	-611.4	-731.6
EBITDA adjusted	**526.7**	**42.8**	**-43.4**	**-40.3**	**483.3**	**2.5**

* The figures has been adjusted.

In 2006, the Arcandor Group announced the planned sale of its neckermann.de and Quelle Region West (France, Spain and Belgium) divisions, as well as some non-core specialty mail order operations and various mail order-related service companies. In accordance with IFRS 5, the results of the neckermann.de and Quelle Region West divisions and the Specialty Mail Order companies no longer forming part of the Group's core business were only reported under "Results from discontinued operations" in the income statements for 2006 and 2007. In addition to discontinued operations, noncurrent assets and liabilities classified as disposal groups and available-for-sale noncurrent assets are reported under "Assets classified as held for sale" and "Liabilities relating to assets classified as held for sale" in the balance sheet.

The criteria for the classification of non-current assets, disposal groups and discontinued operations are assessed at each reporting date.

At the reporting date, it was clear that the disposal of the mail order-related service companies within the twelf-month period from initial classification was highly unlikely. Accordingly, the classification of the corresponding assets and liabilities was reversed. There were no other significant changes to the planned disposals compared with the previous year.

ADJUSTMENTS AND PRO FORMA DISCLOSURES

In addition to the separate disclosure of discontinued operations and noncurrent assets classified as held for sale/disposal groups, the figures for the 2006 and 2007 financial years were impacted by non-recurring factors relating to the restructuring and reorientation of the Arcandor Group, the change in the annual reporting date to September 30 and various transactions (acquisition of 50% stake in Thomas Cook from Deutsche Lufthansa AG, merger of Thomas Cook with MyTravel, acquisition of HSE24).

The income and expenses of Thomas Cook for the period from November 1, 2005 to July 31, 2006 were included in the consolidated financial statements for the year ended September 30, 2006. As a result of the change in the annual reporting date, the income and expenses of Thomas Cook for the period from November 1, 2006 to October 31, 2007 were included in the consolidated financial statements for the 2007 short financial year.

In addition, prior-period amounts were restated to reflect the changed accounting policies for sales relating to the 14-day returns period for "try before you buy" offers in the Primondo segment.

This means that a comparison of periods in the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the segment information is only possible to an extremely limited extent. Accordingly, comparative sales and earnings disclosures generally refer to adjusted amounts and to September 30, 2006, which was not a regular annual reporting date. With regard to the first-time full consolidation of Thomas Cook and MyTravel (Thomas Cook Group plc) and HSE24, the effects of first-time consolidation are also disclosed.

Sales and earnings performance

Adjusted sales by business segment

Amounts shown in mill. €	**01.01.2007 – 30.09.2007**	01.01.2006 – 30.09.2006	Change in %	01.01.2006 – 31.12.2006
Thomas Cook	8,447.8	2,503.1	237.5	3,886.7
Primondo	2,889.4	2,778.0	4.0	3,984.2
Karstadt	2,861.6	2,940.4	-2.7	4,372.6
Operating sectors	**14,198.8**	**8,221.5**	72.7	**12,243.5**
Services	192.9	213.1	-9.5	282.6
Reconciliation account	-110.8	-128.3	-	-169.2
	14,280.9	**8,306.3**	71.9	**12,356.9**

SALES PERFORMANCE

In the 2007 short financial year, the operating segments of the Arcandor Group recorded sales of 14.20 bill. € (previous year: 8.22 bill. €). Of this sales growth, 5.60 bill. € is attributable to consolidation effects relating to Thomas Cook, MyTravel and HSE24.

In the **Thomas Cook** segment, sales increased by 237.5%, from 2.50 bill. € to 8.45 bill. €. The effect of the first-time full consolidation of Thomas Cook amounted to 5.52 bill. €. Business development in Continental Europe varied. While booking volumes declined in Germany in particular, the company recorded sales growth in Belgium and France; however, this was not enough to fully offset the downturn in Germany. Sales in Northern Europe increased slightly compared with the same period of the previous year, whereas the UK and Ireland recorded a slight decline in sales. All in all, however, Thomas Cook outperformed the market in this segment. North America saw a downturn in sales on the back of a planned reduction in business volumes. However, sales in the Airlines segment increased in spite of reduced capacities.

In the 2007 short financial year, the **Primondo** segment increased sales by 4.0% to 2.89 bill. € (previous year: 2.78 bill. €). This figure includes 74.5 mill. € from the first-time full consolidation of Home Shopping Europe. Adjusted for this effect, segment sales increased by 1.3%. Business development at Quelle Germany became increasingly stable throughout the course of the year. During the period under review, key indicators such as the active rate (individual customers) and the number of new customers (individual customers) increased for the first time since 2003. In the third quarter of 2007, Quelle GmbH recorded sales growth of around 2% for the first time in a number of years. The campaign celebrating the 80th anniversary of the Quelle brand also had a positive impact. All in all, the adjusted sales of the Quelle Group for the first nine months of 2007 remained essentially unchanged year-on-year at 2.05 bill. €.

In its international business, Quelle generated particularly strong growth in Central and Eastern Europe and Russia, with sales in these countries increasing by 40.4% in the first nine months of 2007. Quelle enjoyed excellent performance in Russia, but also expanded its position in Austria with further sales growth of 3.5%.

Specialty Mail Order generated adjusted sales growth of 5.7% in the 2007 short financial year. The Specialty Mail Order companies Afibel, Elégance, Walz and the TriStyle Group in particular increased their sales figures. In terms of the individual sales channels, online demand in the Primondo segment increased by 16.4% in the first nine months of 2007. With an average of 30 million hits per month, Quelle now generates around 40% of its customer demand via the Internet. In addition to traditional sales channels and e-commerce, Primondo added a new, high-growth outlet with the acquisition of the TV shopping channel HSE24 in June 2007, thereby allowing it to further expand its position as a multi-channel provider.

Sales development at **Karstadt** in the 2007 short financial year continued to be significantly impacted by the company's repositioning. Karstadt pressed ahead with the expansion of higher-margin consumer lines, while at the same time further streamlining its portfolio of low-margin products. As part of the continued optimization process, four unprofitable stores were closed in mid-April. As a result of this repositioning, the sales tax increase and lower sales of fashion lines due to unfavorable weather conditions at the start of the year, adjusted sales in the Karstadt segment in the first nine months of 2007 fell from 2.94 bill. € to 2.86 bill. €.

Sales in Karstadt's core department stores (excluding project branches and discontinued stores) declined by 1.5% in the first nine months of 2007. However, sales development in the Karstadt Premium Group was positive, with growth of 5.0% compared with the first nine months of the previous year. karstadt.de also recorded encouraging year-on-year sales growth of 16.4%. As expected, sales at KarstadtSports decreased significantly from the high level recorded in the previous year as a result of the 2006 FIFA World Cup, with the overall decline amounting to 13.1%.

Adjusted sales in the **Services** segment amounted to 192.9 mill. € in the 2007 short financial year (previous year: 213.1 mill. €). Sales development in 2007 was again primarily influenced by the focus on core activities. Accordingly, 74.9% of the shares in the IT service provider Itellium were sold in the second quarter.

Non-recurring factors and adjustments: The sales figures for the year under review have been adjusted for non-recurring effects relating to the implementation of Group restructuring and reorientation measures in the amount of minus 313.1 mill. € (previous year: minus 586.2 mill. €). The adjustments made in the first nine months of 2007 related in particular to the Mail Order segment (disposal/discontinuation of Fritz Berger, thirty and more versand, Happy-Size, 4 Wände Wohnversand and some mail order service providers) in the amount of minus 115.6 mill. € (previous year: minus 193.3 mill. €) and the Karstadt segment (wholesale business and sales from project branches and discontinued stores) in the amount of minus 189.3 mill. € (previous year: minus 379.6 mill. €). Due to the imminent sale of the Real Estate segment, the corresponding sales in the amount of 99.7 mill. € (previous year: 261.4 mill. €) were eliminated in full. No adjustments were made for Thomas Cook or the Services segment.

EARNINGS PERFORMANCE

EBITDA adjusted by segments*

Amounts shown in mill. €	**01.01.2007 - 30.09.2007**	01.01.2006 - 30.09.2006	Change in %	01.01.2006 - 31.12.2006
Thomas Cook	708.6	45.5	-	199.2
Primondo	-72.9	-73.7	1.1	-40.9
Karstadt	-34.0	-35.9	5.3	145.9
Operating sectors	**601.7**	**-64.1**	-	**304.2**
Other segments [1], Reconciliation account/Holding	-75.0	107.0	-	95.7
	526.7	**42.9**	-	**399.9**

* The data has been adjusted. The adjustments relate to special factors and divestments.
[1] The Other Segments comprises the segments Services and Real estate.

In the 2007 short financial year, adjusted EBIT in the Group's **operating segments** (Thomas Cook, Primondo and Karstadt) increased by 665.8 mill. €, from minus 64.1 mill. € in the previous year to plus 601.7 mill. €. This includes the effects of first-time consolidation, which amounted to 485.6 mill. €. Thomas Cook recorded a significant growth trend in the 2007 short financial year. The Primondo segment recovered substantially in the second and third quarters to achieve the same level of earnings as in the previous year, while Karstadt succeeded in recording a slight year-on-year improvement.

The first-time full consolidation and successful restructuring of **Thomas Cook** helped to improve significantly adjusted EBITDA in the Tourism segment by 663.1 mill. € to 708.6 mill. €. Although market conditions remained difficult, earnings improved in Continental Europe, the United Kingdom, Northern Europe and the Airlines segment. In particular, the restructuring measures implemented at Thomas Cook in the United Kingdom started to bear fruit. The general reduction in administrative expenses and selling costs also contributed to the improvement in earnings, thereby more than offsetting the impact of rising fuel prices and lower margins, particularly in the Continental Europe market.

The **Primondo** segment recorded adjusted EBITDA of minus 72.9 mill. € in the 2007 short financial year (previous year: minus 73.7 mill. €). The lower level of gross profit and the increase in selling expenses were largely offset by the reduction in staff and infrastructure costs. In the second and third quarters in particular, adjusted EBITDA increased by around 15 mill. € as against the previous year. Quelle Germany recorded encouraging earnings growth towards the end of the financial year, with EBITDA increasing by 11.7 mill. € in September 2007 compared with September 2006. All in all, however, this positive development was not enough to offset the poor results in the first quarter of 2007. Quelle's subsidiaries in Germany and abroad made a positive contribution to overall earnings, accounting for a year-on-year improvement in adjusted EBITDA of 5.0 mill. €. The home shopping channel HSE24, which was acquired in June 2007, recorded adjusted EBITDA of 3.6 mill. € in the third quarter of 2007.

Adjusted EBITDA in the **Karstadt** segment amounted to minus 34.0 mill. € (previous year: minus 35.9 mill. €), representing a year-on-year improvement of 5.3 %. This development was driven by systematic margin and cost management and the expansion of higher-value sales accompanied by the streamlining of less profitable product groups. This meant that the reduction in gross profit due to the lower level of sales was offset by improved margins and lower staff costs. The Premium Group and Boulevard Plus segments recorded a year-on-year increase in earnings, whereas earnings from the smaller Boulevard stores declined slightly. Earnings at Karstadt sports also fell by 7.6 % due to the impact of the 2006 FIFA World Cup in the previous year.

As a result of the outsourcing of the procurement organization in late 2006 and the continued focus on core business areas, adjusted EBITDA from **Other Segments** fell to minus 75.0 mill. € in the 2007 short financial year (previous year: plus 107.0 mill. €). The **Real Estate** segment recorded a particularly significant fall in adjusted EBITDA, from 136.0 mill. € to 0.4 mill. €; this was largely due to the sale of properties and the loss of the corresponding rental income.

Non-recurring factors and adjustments: In the 2007 short financial year, the continued implementation of Group reorientation and restructuring measures led to significant non-recurring income and expense items. All in all, EBITDA from continuing operations was positively impacted by non-recurring effects of 650.9 mill. € (previous year: 736.3 mill. €). In the Primondo segment, an adjustment was made for restructuring expenses in the 2007 short financial year in the amount of 28.3 mill. € (previous year: 113.0 mill. €). In the same period, non-recurring effects relating to restructuring and redundancy payments at Karstadt amounted to 27.4 mill. € (previous year: 48.3 mill. €). Non-recurring effects for restructuring, redundancy payments and other expenses in connection with the integration of Thomas Cook and MyTravel amounted to 190.9 mill. € in the period under review (previous year: 5.0 mill. €). In the first nine months of 2007, eliminations in Other Segments and Reconciliation/ Holding related in particular to income from non-recurring effects in the amount of 897.5 mill. € (previous year: 902.6 mill. €) in connection with the sale of real estate to Highstreet.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

Amounts shown in mill. €	**01.01.2007 – 30.09.2007**	01.01.2006 – 30.09.2006	Change in %	01.01.2006* – 31.12.2006
Sales	14,594.0	8,892.4	64.1	13,143.0
Cost of sales and expenses for tourism services	-9,638.5	-5,254.7	-83.4	-7,862.9
Gross income	4,955.5	3,637.7	36.2	5,280.1
Gross income margin in %	*33.96*	*40.91*	-	*40.17*
Operating income	1,595.7	1,696.8	-6.0	2,100.7
Operating expenses	-3,225.9	-2,896.2	-11.4	-4,193.5
Staff costs	-2,162.6	-1,627.8	-32.9	-2,196.6
Share of sales in %	*14.82*	*18.31*	-	*16.71*
Net interest income	-137.7	-192.8	28.6	-226.0
Tax on income	-260.1	189.5	-237.3	132.0
Earnings from continuing operations	399.6	555.6	-28.1	572.9
Earnings from discontinued operations	-264.4	-74.7	-	-240.6
Net profit attributable to minority interests	-118.9	-1.8	-	-1.9
Net profit/loss after minority interests	16.3	479.0	-96.6	330.3

* The data has been adjusted.

In the 2007 short financial year, the gross profit from continuing operations increased by 1.32 bill. € to 4.96 bill. € (previous year: 3.64 bill. €). This improvement was primarily attributable to the first-time full consolidation of Thomas Cook and MyTravel. The gross profit margin for the first nine months of 2007 was 34.0% (previous year: 40.9%). This development was due to the full consolidations of Thomas Cook and MyTravel, which significantly increased the share of the Group's business attributable to the lower-margin tourism segment.

Operating income, which amounted to 1.60 bill. € in the first nine months of 2007 (previous year: 1.70 bill. €), primarily resulted from the disposal of the real estate portfolio in 2006. The sale of property to Whitehall resulted in the recognition in income of 928.9 mill. € in 2006, corresponding to 51 % of the total earnings. Due to the loss of control over Highstreet GbR, which has held the corresponding real estate assets since the transaction, the elimination of intercompany profits that was carried out in the previous year in the amount of 49 % of the total proceeds of the sale was reversed and a gain of 911.4 mill. € was recognized in the income statement. Adjusted for consolidation effects in the amount of 49.6 mill. €, operating income totaled 1,546.1 mill. €.

In the first nine months of 2007, operating expenses amounted to 3.23 bill. € (previous year: 2.90 bill. €). This development was primarily attributable to the increase in rental and lease expenses as against the previous year, which was offset by the significant reduction in interest expenses as a result of the aforementioned real estate transaction. Operating expenses were also impacted by higher administrative expenses and selling costs, which were largely due to the first-time consolidation of MyTravel and the full consolidation of Thomas Cook. Operating expenses also included non-recurring effects from the integration of MyTravel and Thomas Cook and the corresponding restructuring measures. Adjusted for consolidation effects in the amount of 498.7 mill. €, operating expenses totaled 2.73 bill. €.

Staff costs in the period under review amounted to 2.16 bill. € (previous year: 1.63 bill. €). This increase was due in particular to the effects of the full consolidation of Thomas Cook and HSE24 and the first-time inclusion of MyTravel, which totaled 681.8 mill. €. Expenses for partial retirement arrangements and redundancy payments in the Group’s operating segments also impacted staff costs by 139.6 mill. € (previous year: 29.2 mill. €).

In the period under review, adjusted net interest expense amounted to minus 137.7 mill. € (previous year: minus 192.8 mill. €). In the first nine months of 2007, interest expenses (excluding the interest component of additions to pension provisions) fell by 85.1 mill. € year-on-year. This development was primarily due to the reduction in net debt as a result of the sale of real estate. Adjusted for the effects of the first-time full consolidations and the inclusion of MyTravel, net interest income for the 2007 short financial year totaled 128.4 mill. €.

Taxes on income amounted to 260.1 mill. € in the 2007 short financial year (previous year: tax income of 189.5 mill. €). Non-taxable depreciation and amortization and the recognition of tax provisions had a particularly negative impact on this item in 2007.

Earnings from continuing operations amounted to 399.6 mill. € in the period under review (previous year: 555.6 mill. €).

Results from discontinued operations relate in particular to the results of the Neckermann Group, Quelle Region West (France and Spain) and the Specialty Mail Order companies that no longer form part of the Group’s core business. All in all, earnings from discontinued operations totaled 264.4 mill. € in the 2007 short financial year; this figure includes an extraordinary write-down on the assets of the Neckermann Group in the amount of 173.4 mill. €.

In the 2007 short financial year, the Arcandor Group reported consolidated earnings after minority interests in the amount of 16.3 mill. € (previous year: 479.0 mill. €). In addition to the positive effect of the reversal of the elimination of intercompany profits in connection with the real estate transaction in 2006, earnings were impacted in particular by additional taxes and an extraordinary write-down on the assets of the Neckermann Group.

Investments and financing

Investments by segment*

Amounts shown in mill. €	01.01.2007 – 30.09.2007	01.01.2006 – 30.09.2006	Change in %	01.01.2006 – 31.12.2006
Thomas Cook	93.0	16.4	-	30.7
Primondo	91.5	43.3	111.2	68.7
Karstadt	62.3	100.2	-37.9	119.8
Operating sectors	**246.8**	**159.9**	54.3	**219.2**
Other segments	5.2	6.2	-	9.9
Holding	3.0	1.3	123.7	4.6
	255.0	**167.4**	52.3	**233.7**

* Investments in intangible and tangible assets.

Depreciation and amortization (not including amortization of goodwill)

Amounts shown in mill. €	01.01.2007 – 30.09.2007	01.01.2006 – 30.09.2006	Change in %	01.01.2006 – 31.12.2006
Thomas Cook	243.5	58.6	-	83.1
Primondo	49.0	56.5	-13.4	129.2
Karstadt	75.3	71.1	5.9	95.1
Operating sectors	**367.8**	**186.2**	97.4	**307.4**
Other segments	19.3	29.2	-33.8	37.2
Holding/Reconciliation account	1.9	1.0	-	1.4
	389.0	**216.4**	79.8	**346.0**

INVESTMENTS TOTAL 255.0 MILL. €

The investment volume in the Arcandor Group in the first nine months of 2007 (excluding financial assets and goodwill) totaled 255.0 mill. € (previous year: 167.4 mill. €). This development was primarily attributable to the first-time full consolidation of Thomas Cook and MyTravel. At the same time, depreciation and amortization expense in the Arcandor Group increased by 172.6 mill. € to 389.0 mill. € (previous year: 216.4 mill. €).

Investments at Thomas Cook amounted to 93.0 mill. € (previous year: 16.4 mill. €) and related primarily to adjustments and new developments in the company's IT systems. Investments were also made in aircraft (general inspections) and technology to a lesser extent.

Investments in the Primondo segment, which amounted to 91.5 mill. € (previous year: 43.3 mill. €), primarily related to the continued development of the systems and infrastructure of the mail order-related service companies. The increase in the investment volume is largely attributable to the modernization of the systems environment.

Investments in the Karstadt segment in the amount of 62.3 mill. € (previous year: 100.2 mill. €) related to product line presentation and store modernization measures. In the 2007 short financial year, the second of three construction phases at the Karstadt store on Mönckebergstraße in Hamburg was completed, while topping-out ceremonies were held for two shopping malls in Essen and Duisburg in the Ruhr Area at which Karstadt will operate modern department stores as the anchor tenant. In the field of product line presentation, Wertheim Berlin Steglitz in particular was upgraded with new products, brands and shops. Investments were also made in the FORWARD enterprise resource planning system. The reduction in the investment volume compared with the same period of the previous year is primarily attributable to the conversion measures at the Alsterhaus in Hamburg and the Oberpollinger store in Munich County that were completed in 2006.

NET FINANCIAL LIABILITIES/ASSETS

Amounts shown in mill. €	30.09.2007	31.12.2006	Change in %
Non-current financial liabilities	1,204.0	1,148.0	4.9
thereof from discontinued operations	13.0	147.1	-91.2
Current financial liabilities	1,276.7	192.6	-
thereof from discontinued operations	0.5	0.5	-
Gross financial liabilities	**2,480.7**	**1,340.6**	85.0
Cash & cash equivalents and securities	1,516.4	1,203.7	26.0
thereof from discontinued operations	10.7	51.6	-79.3
Other financial instruments*	335.4	285.8	17.4
thereof from discontinued operations	4.6	0.9	-
Net financial receivables	**-**	**148.9**	-
Net financial liabilities	**-628.9**	**-**	-

* Other financial instruments include purchase price receivables and issued loans.

At the balance sheet date, the net financial liabilities of the Arcandor Group amounted to 628.9 mill. € (previous year: net financial assets of 148.9 mill. €). The increase in net financial liabilities was primarily driven by the financing of the 100% acquisition of Thomas Cook AG in 2007. In addition, a cyclical increase in net financial liabilities as of September 30 is to be expected due to the fact that the fourth quarter is traditionally accompanied by strong retail sales. The first-time full consolidation of Thomas Cook and MyTravel served to offset this development to an extent.

In order to increase the security of the Group's financing and to ensure the availability of a guarantee and documentary credit facility, a syndicated loan of 1.5 bill. € was concluded on June 12, 2007, thereby replacing the previous syndicated loan facility of up to 400 mill. € and the bridging loans provided for the acquisition of the 50% interest in Thomas Cook.

The Arcandor Group defines net financial liabilities or assets as the balance of interest-bearing liabilities, other financial instruments, securities and cash and cash equivalents. This does not include silent partnerships under the terms of contractual trust arrangements (CTA), as the interest from these partnerships is profit-based and they are available to the relevant beneficiaries among the Group's employees.

CASH FLOW STATEMENT
– abridged –

Amounts shown in mill. €	01.01.2007 – 30.09.2007	01.01.2006 – 30.09.2006	Change in %	01.01.2006 – 31.12.2006
Cash flow from operating activities	14.5	-182.1	-85.7	101.5
Cash flow from investing activities	-21.8	2,858.8	-100.7	2,917.4
Cash flow from financing activities	334.7	-2,401.9	-113.3	-2,524.7
Changes in cash and cash equivalents affecting cash flow	**327.4**	**274.8**	-33.7	**494.2**
Changes in the flow of cash due to changes in exchange rates or other changes in cash and cash equivalents caused by the consolidated companies	-14.7	-16.3	-711.6	2.4
Cash and cash equivalents at the beginning of the period	1,203.7	707.1	70.2	707.1
Cash and cash equivalents at the end of the period	**1,516.4**	**965.6**	26.0	**1,203.7**

In the 2007 short financial year, net cash from operating activities amounted to 14.5 mill. € (previous year: net cash used in operating activities of 182.1 mill. €). The cash flow from operating activities was positively impacted by the year-on-year increase in operating income and the increase in noncurrent provisions at Thomas Cook in particular. The changes in other assets/liabilities are primarily attributable to seasonal fluctuations in advance payments received in the Tourism segment

Net cash used in investing activities amounted to minus 21.8 mill. € in the 2007 short financial year (previous year: net cash from investing activities of plus 2,858.8 mill. €). In the previous year, this item was impacted to a large extent by the inflow of funds from the sale of real estate. Cash inflows in the 2007 short financial year totaled 255.7 mill. €. This figure was offset by investments in intangible assets and property, plant and equipment in the amount of 254.4 mill. € (previous year: 167.4 mill. €).

Net cash from financing activities in the amount of 334.7 mill. € is primarily attributable to the loans assumed in connection with the acquisition of the 50% interest in Thomas Cook AG.

Asset and capital structure

BALANCE SHEET STRUCTURE

Amounts shown in mill. €	**30.09.2007**	31.12.2006*	Change in %	**30.09.2007 in %**	31.12.2006 in %
Balance sheet total	**14,210.0**	**7,970.8**	78.3	**100.00**	**100.00**
Assets					
Intangible and tangible assets	6,395.4	1,997.8	220.1	45.01	25.6
Other non-current assets	1,406.8	880.9	59.7	9.90	11.05
Inventories	1,288.7	1,242.5	3.7	9.07	15.59
Trade receivables	685.9	397.4	72.6	4.83	4.99
Other current assets	3,229.2	2,150.0	50.2	22.72	26.97
Assets classified as held for sale	1,204.0	1,302.2	-7.5	8.47	16.34
Equity and liabilities					
Equity	2,478.1	1,164.8	112.8	17.44	14.61
Pension provisions	1,024.6	821.1	24.8	7.21	10.30
Non-current financial liabilities	1,191.0	1,000.9	19.0	8.38	12.56
Other non-current liabilities	1,977.2	1,071.4	84.5	13.91	13.45
Current financial liabilities	1,276.2	192.1	-	8.98	2.41
Trade payables	2,671.1	1,404.1	90.2	18.80	17.61
Other current liabilities	3,011.7	1,429.0	110.8	21.20	17.93
Liabilities from assets classified as held for sale	580.1	887.4	-34.6	4.08	11.13

* The data has been adjusted.

Equity ratio increases to 17.4%

The total assets of the Arcandor Group increased by 78.3% year-on-year to 14.21 bill. € (previous year: 7.97 bill. €) as a result of the acquisition of Deutsche Lufthansa AG's 50% interest in Thomas Cook and the latter's merger with MyTravel plc.

The acquisitions made in 2007 (Thomas Cook, MyTravel and HSE24) mean that the figures for the period under review are only comparable with the previous year to an extremely limited extent.

Assets

Non-current assets amounted to 7.80 bill. € at the balance sheet date (previous year: 2.88 bill. €), representing an increase of 171.0%. This was primarily attributable to the acquisition of the 50% interest in Thomas Cook as well as the acquisitions of MyTravel and HSE24. This had a particularly pronounced impact on intangible assets, with the recognition of additional goodwill of 2.20 bill. € and trademarks, customer bases, order books and other intangible assets totaling 1.53 bill. €.

Current assets (including inventories) increased by 1.41 bill. € to 5.20 bill. € (previous year: 3.79 bill. €). This was largely due to the increase in trade receivables, cash and cash equivalents and securities following the first-time consolidations as of June 30, 2007.

The reduction in assets classified as held for sale is primarily due to the disposal of Quelle Region West and the Specialty Mail Order companies Krähe, Mercatura and Saalfrank, as well as an extraordinary write-down on the assets of the Neckermann Group. This was offset by the measurement of Highstreet GbR at its current fair value.

Equity and liabilities

At the end of the 2007 short financial year, the equity of the Arcandor Group amounted to 2.48 bill. € (previous year: 1.16 bill. €). As a result, the equity ratio increased from 14.6 % in the previous year to 17.4 % at the balance sheet date. This increase in equity is attributable in particular to the 100 % acquisition of Thomas Cook AG and its merger with MyTravel, as well as the acquisition of HSE24 in exchange for Treasury shares. Equity was also positively impacted by the increase in the revaluation reserve as a result of the measurement of Highstreet GbR at its current fair value.

The 52.8% increase in noncurrent liabilities to 3.17 bill. € (previous year: 2.07 bill. €) is primarily due to the first-time full consolidation of Thomas Cook and MyTravel and the resulting increase in lease liabilities, as well as aircraft maintenance obligations under the terms of operating leases.

Current liabilities increased by 3.93 bill. € to 6.96 bill. € (previous year: 3.03 bill. €). This was primarily due to the higher level of trade payables and advance payments received in the Tourism segment as a result of the acquisitions made in the 2007 short financial year.

WORKING CAPITAL

Working capital amounted to minus 567.5 mill. € at the balance sheet date (previous year: plus 358.6 mill. €). This significant reduction was due in particular to the increase in trade payables in connection with the acquisitions made in the 2007 short financial year. The Group receives advance payments in the Tourism segment in particular. At the same time, successful working capital management and, to a lesser extent, the inclusion of some foreign Primondo companies in the factoring program had a positive impact.

Working capital

Amounts shown in mill. €	30.09.2007	31.12.2006	Change in %
Inventories	1,288.7	1,242.5	3.7
Trade receivables[1]	932.4	548.4	70.0
Trade payables[2]	-2,788.6	-1,432.3	94.7
	-567.5	**358.6**	-

[1] Including non-current trade receivables.
[2] Including non-current trade payables.

Key figures on financial situation

		30.09.2007	31.12.2006
Equity	mill. €	2,478.1	1,164.8
Equity ratio	in %	17.4	14.6
Equity-to-fixed-assets ratio	in %	37.5	53.5
First-degree liquidity	in %	16.0	36.0
Second-degree liquidity	in %	31.5	50.5
Third-degree liquidity	in %	50.0	92.5
Working capital	mill. €	-567.5	358.6

Value-oriented management

The portfolio and process improvements that have been implemented as part of the reorientation of the Arcandor Group will form the basis for its future growth. The principles of value-oriented management are aimed at generating a sustainable increase in enterprise value and cash flow. All of the Group's segments will contribute towards the achievement of these objectives.

Non-financial performance indicators

Ecologically and socially responsible actions serve to ensure the Group's economic growth and long-term success. In the area of procurement and product range policy, the Arcandor Group's purchasing power allows it to play a decisive role in ensuring that suppliers give due consideration to the environmental, social and health aspects of their production processes.

In the area of social responsibility, the Arcandor Group is actively involved in various national and international sustainability initiatives. Arcandor also participates in the debate on the monitoring of social standards, including the German Round Table Codes of Conduct initiative, and is committed to upholding the ten principles of the Global Compact aimed at ensuring ethically responsible business activity.

Strict environmental and social standards are observed across all segments of the Group. For example, Karstadt supports the Trans-Fair organization, while Primondo and Thomas Cook promote initiatives aimed at ensuring fair working conditions in the textiles and carpet industry and have implemented ecological standards in the area of hotel purchasing.

Remuneration of the Management and Supervisory Boards

The remuneration report, which can be found in the "Corporate Governance" section on pages 41 to 48, contains details of the individual remuneration and pension commitments of members of the Management and Supervisory Boards.

The remuneration report, which has been audited, forms part of the management report.

Disclosures in accordance with Section 315 (4) HGB

COMPOSITION OF SUBSCRIBED CAPITAL

The composition of subscribed capital is presented on page 104.

The outstanding share capital in the amount of 565.7 mill. € is divided into 220,970,370 (previous year: 201,012,790) no-par value bearer shares each with a proportionate interest in the share capital of 2.56 €. Excluding the 5,697,827 Treasury shares held by the Company (previous year: 11,167,633), the share capital recognized on the face of the balance sheet amounts to 551,098 th. € (previous year: 514,952 th. €).

The increase in the share capital is attributable to the exercise of the conversion right relating to the convertible bond (8,789,947 shares, Contingent Capital I) and the delivery of Treasury shares for the acquisition of HSE24 (5,469,806 shares).

RESTRICTIONS RELATING TO VOTING RIGHTS OR THE TRANSFER OF SHARES IN EXCESS OF 10 % OF THE TOTAL VOTING RIGHTS

There are no restrictions relating to voting rights or the transfer of shares.

DIRECT OR INDIRECT EQUITY INTERESTS

A total of 103,052,336 shares of the Company are attributable to Mr. Leo Herl, Chairman of the Management Board of Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG, Forsthausstrasse 3 – 5, 90768 Fürth-Dambach, Germany, in his capacity as a member of the Supervisory Board of Arcandor AG. This represents 46.64 % of the total share capital.

HOLDERS OF SHARES CARRYING SPECIAL RIGHTS

Arcandor AG has not issued any shares carrying special rights.

CONTROL OF VOTING RIGHTS ATTRIBUTABLE TO EMPLOYEE SHARES

The Company is not aware of whether individual employees hold shares in the Company and exercise their rights of control directly.

LEGAL PROVISIONS AND ARTICLES OF ASSOCIATION RELATING TO THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The appointment and dismissal of members of the Management Board is governed by sections 84 and 85 of the German Stock Corporation Act. Amendments to the Articles of Association are governed by sections 133 and 179 of the German Stock Corporation Act.

MANAGEMENT BOARD AUTHORIZATIONS WITH REGARD TO THE ISSUE AND REPURCHASE OF SHARES

Authorized Capital III

On July 11, 2002, the Annual General Meeting resolved the creation of Authorized Capital III.

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the share capital of the Company on one or more occasions until June 30, 2007 by a total of up to 4 mill. € through the issue of up to 1,562,500 new no-par value bearer shares to employees of the Company or subordinate affiliated companies against cash contributions with shareholders' subscription rights disapplied. Accordingly, the option to increase the Company's share capital through the utilization of Authorized Capital III expired prior to the reporting date.

Contingent Capital I (Convertible bonds and/or warrant bonds)

The Management Board was authorized to issue registered convertible and/or warrant bonds with a total nominal volume of up to 600 mill. € and a term of not more than 20 years on one or more occasions until June 30, 2005, and to grant conversion rights to the bearers and creditors of convertible bonds and options to the bearers or creditors of warrant bonds relating to new shares of the Company with a proportionate interest in the share capital of up to 50 mill. € in accordance with the terms defined more precisely in the conditions of the convertible and/or warrant bonds.

Accordingly, the Company's share capital was contingently increased by up to 50 mill. €. The purpose of this contingent capital increase is to grant rights to the bearers or creditors of convertible and warrant bonds issued until June 30, 2005 in accordance with the authorization described above.

In December 2004, Arcandor AG, acting via its Dutch subsidiary Karstadt Finance B.V., Hulst/Netherlands, issued a convertible bond guaranteed by Arcandor AG on the Luxembourg Stock Exchange with a nominal volume of 170.0 mill. € (DE000A0DH5H7).

The convertible bond yields nominal interest of 4.5 % and has a term of five years. During the exercise period detailed below, creditors of the convertible bonds are entitled to convert their respective partial bonds, totaling 3,400 bonds each with a nominal value of 50 th. € and representing a proportionate interest in the share capital of Arcandor AG of 49.7 mill. €, into shares of Arcandor AG. The number of shares per bond is 5,707.76 (representing a total of 19,406,392 shares).

The conversion price as specified in conditions of the bond is 8.76 €. However, the conversion price may be adjusted under certain circumstances (e.g. protection against dilution for capital increases from retained earnings, protection against changes in control). In the period until September 30, 2007, a total of 10,171,220 shares were converted, resulting in an increase in the Company's share capital of 26.0 mill. €.

In the 2004 financial year, an appropriation was made to capital reserves in the amount of 33.4 mill. € in order to enable the granting of conversion rights in accordance with the provisions relating to Contingent Capital I. For calculation purposes, the convertible bond was divided into bond and option components in accordance with a market price model, with the bond components accounting for 80.38 % of the proceeds of the issue and the option components accounting for the remaining 19.62 %. The transaction costs incurred (3.7 mill. €) were charged to capital reserves in the amount of 716 th. €. Transaction costs relating to debt capital are expensed over the term of the bond. The debt component of the issued bonds, which amounts to 72.1 mill. € (previous year: 135.7 mill. €), is recognized as a liability. The effective interest method is applied in calculating the debt component. The annual effective interest rate is 9.97 %. The effective interest expense amounts to 9.1 mill. € (previous year: 13.0 mill. €), of which 4.7 mill. € (previous year: 7.3 mill. €) relates to standard interest.

The claims against Arcandor AG for the payment of an amount equivalent to all of the claims relating to the loan have been assigned to the central conversion office acting on the bond debtor's account as security for the claims for payment of capital arising from the bonds.

On December 22, 2009, the bond debtor will redeem the bond through the payment of the nominal amount plus accrued interest or the delivery of shares of Arcandor AG unless the respective bond has already been redeemed, converted or repurchased and cancelled. The option to redeem the bond by delivering shares of the Company may be exercised subject to the condition subsequent that the current value of the shares is not less than 63.15 % of the conversion price on the third trading day immediately preceding the date of final maturity.

From December 22, 2007 onwards, the bond debtor is entitled to redeem the bond in full at any time by delivering shares of Arcandor AG. However, early redemption may only be performed if, on 15 of the 30 consecutive trading days on the Frankfurt Stock Exchange prior to the announcement of the early redemption date, the Xetra share price defined in the agreement multiplied by the current conversion ratio exceeds 130 % of the nominal amount on the same 15 trading days.

Conversion rights may be exercised by a bond creditor during a period starting on the 60th calendar day after the date of issue and ending on the 16th trading day prior to the date of final maturity. In the event of early redemption, the exercise period shall end at midnight on the fourth business day preceding the announced redemption date.

Conversion rights may not be exercised

- during the five business days prior to the final date stipulated for depositing shares or for notification and on the business day following the Annual General Meeting of Arcandor AG,
- during the 14 calendar days after the end of Arcandor AG's financial year,
- from the day on which an offer from Arcandor AG to its shareholders concerning subscriptions for shares or subscription rights or a similar offer is published in an official national journal of the German stock exchanges until the final day of the period stipulated for exercising the respective subscription rights.

With the exception of the convertible bond, the Arcandor Group has not issued any other compound financial instruments.

Contingent Capital II (Incentive Stock Option Plan)

The Annual General Meeting on July 12, 2001 resolved the creation of Contingent Capital II.

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the share capital of the Company through the issue of up to 6,380,000 new no-par value bearer shares to executives of the Company with shareholders' subscription rights disapplied.

This contingent capital increase will only be implemented to the extent that subscription rights are exercised.

Authorization to acquire Treasury shares

The Annual General Meeting on July 11, 2002 authorized the Management Board to acquire Treasury shares for the purposes of launching the Company's shares on foreign stock exchanges on which they had not previously been admitted to trading, or for offering shares of the Company to third parties as consideration for mergers or the acquisition of companies or equity interests in these companies.

The Management Board is also authorized to acquire Treasury shares to be subsequently offered to executives of the Company under the terms of the aforementioned Incentive Stock Option Plan in order to service the resulting subscription rights.

In addition, the Annual General Meeting on May 4, 2004 resolved to authorize the Management Board to use Treasury shares to service conversion and/or subscription rights (see Contingent Capital I above).

This authorization is limited to shares with a value of up to 10% of the Company's share capital on July 11, 2002, which totaled 301,459,904 €. This represented 11,775,777 no-par value shares. Shareholders' subscription rights for Treasury shares are disapplied to the extent that such shares are used in accordance with the authorizations listed above.

The Company bought back a total of 11,424,883 shares. The number of Treasury shares held by the Company was reduced to 5,697,827 as a result of the exercise of subscription rights under the Incentive Stock Option Plan in 2006 (4,290 th. €) and the acquisition of HSE Home Shopping Europe GmbH & Co. KG (141,668 th. €) in the year under review. This represents 2.6% of the Company's current share capital.

Share-based remuneration

In 2001, the Group launched an Incentive Stock Option Plan with a total term of eight years, to be implemented in several tranches. For each tranche, the Plan provides for an exercise period that begins following the acquisition of subscription rights and the observation of the two-year statutory vesting period. During the exercise period, which has a duration of two years, the beneficiaries of the Plan may exercise their options subject to the standard provisions on insider trading and providing that

a) the average closing price for Arcandor AG's shares is at least 30% higher than the respective subscription price of 16.68 € on at least ten consecutive trading days, and

b) the aforementioned closing price outperforms the DAX 30 index by at least 10% in respect of the subscription price on at least ten consecutive trading days over the same period after the date on which the respective options are granted.

The subscription price was recalculated in 2004 to reflect the capital increase.

Subscription rights held by employees expire when their employment relationship ends or the employee's company no longer forms part of the Arcandor Group.

The first tranche, which was issued in 2001 with more than 1,000 subscribers, expired at the end of the 2005 financial year without the conditions for exercising the options having been fulfilled.

The second tranche was issued in September 2002. A total of 726 employees each generally received 1,000 stock options. Of the 725,500 stock options thus issued, a total of 257,250 have been exercised and 468,250 have expired. As of December 31, 2006, options issued as part of the second tranche were no longer exercisable. No further tranches were issued in the 2007 short financial year.

Contingent Capital V and VI

The Annual General Meeting of Arcandor AG on May 10, 2007 authorized the Management Board to issue convertible and/or warrant bonds either with shareholders' subscription rights or with such subscription rights disapplied.

In both cases, the Management Board is authorized, subject to the approval of the Supervisory Board, to issue registered convertible and/or warrant bonds with a total nominal volume of up to 900 mill. € and a term of not more than 20 years on one or more occasions until May 9, 2012, and to grant conversion rights to the bearers and creditors of convertible bonds and options to the bearers or creditors of warrant bonds relating to new no-par value bearer shares of the Company with a proportionate interest in the share capital of up to 60 mill. € in accordance with the terms defined more precisely in the conditions of the convertible and/or warrant bonds.

In the first case, the Management Board is authorized, subject to the approval of the Supervisory Board, to disapply shareholders' subscription rights in relation to the issue of partial bonds meeting certain conditions, providing that these bonds are issued against cash contributions and the Management Board is satisfied, based on the results of the required examination, that the issuing price of the partial bonds is not significantly lower than their theoretical market value calculated in accordance with recognized investment techniques.

The Annual General Meeting of Arcandor AG on May 10, 2007 resolved the creation of Contingent Capital V and Contingent Capital VI. In both cases, the Management Board is authorized to increase on a contingent basis the share capital of the Company by up to 60 mill. € through the issue of up to 23,437,500 new no-par value bearer shares each with a notional interest in the share capital of 2.56 €. The purpose of this contingent capital increase is to grant rights to the bearers or creditors of convertible and warrant bonds issued up until May 9, 2012 by Arcandor AG or a direct or indirect subsidiary. The conditional capital increase will only be implemented to the extent that these rights are exercised.

MATERIAL AGREEMENTS SUBJECT TO THE CONDITION OF A CHANGE OF CONTROL OFFER

As a matter of principle, all material agreements include a change of control clause. In particular, the 1.5 bill. € syndicated loan facility and the convertible bond include a clause that comes into force in the event of the acquisition of Arcandor AG.

COMPENSATION AGREEMENTS WITH MEMBERS OF THE MANAGEMENT BOARD AND EMPLOYEES

Three current members of the Management Board are entitled to terminate their employment contract in the event of a change of control. Members of the Board of Management who exercise this right of termination shall be entitled to receive severance pay in the amount of their expected annual income for the remaining term of their contract. Further details can be found in the remuneration report, which is contained in the "Corporate Governance" section as detailed above. No agreements including a change of control clause have been entered into with employees.

Product ranges, purchasing, marketing and sales

IMPROVED COMPETITIVE STRENGTH IN THE GROUP'S RETAIL SEGMENTS

Arcandor has entered into a long-term agreement in order to secure the purchasing services of the world's largest procurement company, Li & Fung Ltd, Hong Kong. As part of the Group's global procurement network, Li & Fung performs services such as follow-up work on purchase orders, quality assurance, supplier training, fabric purchasing and financial services. Arcandor focuses on retail-specific functions that allow it to set itself apart from the competition, such as product design, product line management and product presentation.

In early 2007, Arcandor opened its first international design center, the Norintra House of Fashion in Hong Kong. Norintra designs fashion products for Karstadt, Quelle and the Group's Specialty Mail Order companies. Norintra cooperates closely with Li & Fung Ltd in the production process, allowing new designs to be rapidly produced and marketed by Arcandor Group companies.

STRONG BRAND PORTFOLIO AND DIVERSIFIED SALES CHANNELS

The **Thomas Cook Group** owns a large number of high-profile brands, such as Thomas Cook, Airtours, Neckermann Reisen, Condor, Bucher Last Minute, Ving, Direct Holidays and Sunquest. The tourism group offers package tours, individual components for customized travel, and travel-related services. These products are marketed across a large number of proprietary and third-party channels, via partnerships, and on the Internet.

Primondo has a high-quality portfolio of leading European brands in the area of universal and specialty mail order. In its Universal Mail Order division, Primondo focuses on the market leader, Quelle. The target groups for the relaunch of Quelle are women and families, with a corresponding product range consisting of successful own brands and well-known manufacturer brands. The offering of the multi-channel mail order company is permanently available via catalogs, Internet portals and mobile devices, as well as teleshopping and stationary sales.

Primondo's European specialty mail order companies focus on three target groups: "Premium", "Golden Agers" and "Communities". Products are marketed via catalogs and Internet portals, as well as some stationary sales.

Karstadt is positioned as a modern marketplace with a focused, high-quality product range. Products are marketed via stationary sales in the shape of the company's three department store formats – Premium, Karstadt and Karstadt sports – as well as online via the karstadt.de portal. The Premium Group stores, which are modeled on the KaDeWe in Berlin, offer an international shopping experience with cosmopolitan style, luxury and designer brands and a high level of service. The Karstadt department stores provide a modern ambience with brands in the middle to upper bracket and a high proportion of own-brand designer products. In 2007, Karstadt launched a new marketing concept with regularly changing themes across all product lines that were communicated via all of the company's advertising media.

Employees

As a result of the acquisition of Deutsche Lufthansa AG's 50% stake in Thomas Cook AG and the subsequent merger of Thomas Cook AG and MyTravel plc, the number of employees in the Group increased significantly compared with the previous year. The number of employees in the operating segments rose by 17,755 to 87,300 as of the reporting date, representing growth of 25.5%. The growth rate for the Arcandor Group as a whole, including other segments, was slightly lower at 23.4%; this was primarily attributable to the sale of the IT service provider Itellium to EDS. All in all, the workforce increased by 16,651 to 87,772 as of the reporting date.

The collective agreements entered into with the works councils and ver.di for the restructuring of Quelle GmbH and Karstadt Warenhaus GmbH expired on December 31, 2007 as planned. The additional costs incurred as a result of these agreements were planned at an early stage and reduced by way of corresponding measures where possible.

Key figures Employees at the balance sheet date*

Number	30.09.2007	30.09.2006	Change in %	31.12.2006
Thomas Cook[1)]	32,286	11,237	187.3	10,724
thereof international	27,794	8,413	230.4	8,413
Primondo	21,332	22,848	-6.6	22,611
thereof international	4,024	4,116	-2.2	3,541
Karstadt	33,682	35,460	-5.0	36,206
Operating segments	**87,300**	**69,545**	25.5	**69,541**
thereof international	31,818	12,529	154.0	11,954
Other segments	472	1,576	-70.1	1,621
thereof international	24	32	-25.0	73
Total	**87,772**	**71,121**	23.4	**71,162**
thereof international	**31,842**	**12,561**	153.5	**12,027**

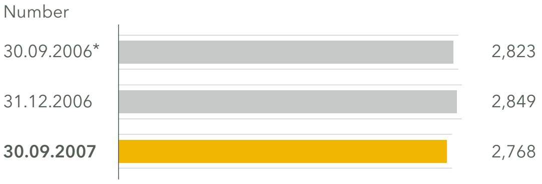
* Including trainees, not including discontinued operations.
1) Data as of October 31, 2007.

In terms of FTEs, the number of employees at the balance sheet date increased by 28.4% to 70,637 (previous year: 55,008 FTEs).

The number of people employed outside Germany increased by 159.3% to 28,458 at the reporting date. This was also attributable to the merger of MyTravel and Thomas Cook.

Trainees at the balance sheet date

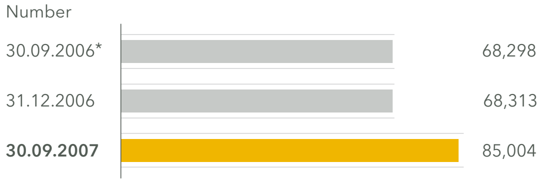
Number



* The data has been adjusted.

Employees at the balance sheet date[1)]

Number



* The data has been adjusted.
1) Excluding trainees and discontinued operations.

Full-time employees at the balance sheet date*

Number	30.09.2007	30.09.2006 2)	Change in %	31.12.2006
Thomas Cook 1)	29,070	10,089	188.1	9,548
thereof international	25,032	7,479	234.7	7,480
Primondo	16,837	18,067	-6.8	17,966
thereof international	3,405	3,469	-1.8	3,171
Karstadt	24,304	25,453	-4.5	26,608
Operating segments	**70,211**	**53,609**	31.0	**54,122**
thereof international	28,437	10,948	159.7	10,651
Other segments	426	1,399	-69.5	1,450
thereof international	21	28	-25.0	67
Total	**70,637**	**55,008**	28.4	**55,572**
thereof international	**28,458**	**10,976**	159.3	**10,718**

* Including trainees, excluding discontinued operations.
1) Balance sheet date October 31, 2007.
2) The data has been adjusted.

THOMAS COOK: REALIGNMENT DRIVEN BY NEW THOMAS COOK GROUP PLC

The number of employees at Thomas Group plc increased by 21,049 as of the balance sheet date (October 31, 2007), from 11,237 in the previous year to 32,286. This development was driven by the merger of Thomas Cook AG and MyTravel plc. By contrast, the rapid implementation of integration measures, such as the amalgamation of the headquarters of MyTravel and Thomas Cook UK, the closure of travel agencies and the transfer of Group functions to London, led to a reduction in the total number of employees. The number of trainees also increased to 366.

An employee survey was carried out in early 2007 in the Continental European markets and throughout the global field sales organization. The implementation of the measures derived from the results of the survey in the areas of management and cooperation has already begun across all markets.

PRIMONDO: PROFESSIONALLY MANAGED CHANGE PROCESSES BEAR FRUIT

In the 2007 short financial year, the Primondo's mail order business was dominated by a continuous and consistent market and customer focus across all companies and divisions.

Staff cost structures were further optimized in a systematic manner. The planned closures are proceeding as planned and have been largely completed. As part of the necessary workforce adjustment measures, reconciliations of interests and redundancy plans were agreed with the relevant codetermination partners.

The realigned processes in the areas of category management, supply chain management and customer contact led to an improvement in the new customer rate and sales performance. The higher number of new appointments of employees and trainees also served to reinforce the company's realignment.

In the areas of contact and logistics, changes in contractual structures have enabled improved flexibility in terms of fixed remuneration components in particular, thereby allowing staff costs to be adjusted to reflect the earnings situation. In successful periods, the remuneration paid may even exceed the previous fixed remuneration. In both areas, competitiveness was improved through the introduction of a 42-hour working week, thereby ensuring the future of employees in Germany.

At the reporting date, the number of employees at Primondo decreased by 6.6% year-on-year to 21,332 (previous year: 22,848).

KARSTADT: OPPORTUNITIES FOR EXTENDED STORE OPENING HOURS SUCCESSFULLY LEVERAGED

The number of people employed at Karstadt department and sports stores decreased by 5.0% as of the balance sheet date. At September 30, 2007, a total of 33,682 people were employed (previous year: 35,460); this corresponds to 24,304 full-time employees.

In 2007, new legislation on opening hours was introduced in all German federal states except Bavaria, allowing extended opening after 8:00 p.m. and on Sundays in some cases.

Karstadt Warenhaus GmbH leveraged the resulting opportunities in line with location-specific conditions and the local competitive situation and in responsible cooperation with employee representatives. The additional sales generated as a result, including from a total of almost 200 Sunday openings, made an important contribution to the Company's sales and earnings performance.

Customer orientation reinforced by adoption of Company-wide team uniform

As part of the reorientation of Karstadt as a modern marketplace and the trading-up of its department stores, the Company is constantly striving to improve its customer service with the aim of meeting the demands and expectations of its customers in an even more targeted manner. In order to make its sales staff more visible to customers and to reinforce its new corporate identity, a Company-wide team uniform was introduced across all department stores and at Karstadt sports prior to the 2007 Christmas period. The uniform consists of carefully selected own brands with impressive patterns and a high material and processing quality.

Continued investment in training young people

Training young people traditionally enjoys a high level of priority at Karstadt. Reflecting its social responsibility, the scope of the Company's training program has always far exceeded its own needs, and this feature has been retained in the collective agreement for the restructuring process.

In 2007, Karstadt again invested heavily in the next generation, appointing a total of 435 new trainees; the total number of trainees thus employed by the Company was 1,813.

In order to reward and further advance our stores' training performance, we introduced the Karstadt Training Prize in 2007. This year, the efforts of two trainers and an entire branch were singled out for special recognition.

DIVERSITY – ARCANDOR APPLIES MODERN CORPORATE MANAGEMENT CONCEPT

Diversity management is the ability to utilize the wide-ranging skills and characteristics of our employee base in accordance with the spirit of our corporate goals and to the benefit of those involved. As well as ensuring equal opportunities and a lack of discrimination, diversity management aims to increase employees' intercultural awareness and to encourage the transfer of expertise between generations and cultures. Promoting a climate of open communication and corporate culture is a key factor in the Arcandor Group's positioning as a global player. This helps to establish new ways of thinking and acting, thereby improving our employees' ability to solve problems and increasing their innovative ability and customer orientation.

ARCANDOR ACADEMY DEVELOPS INTO AN ESTABLISHED INSTITUTION

The Arcandor Academy, which was formed in 2006, has introduced a range of new, target group-specific programs. The Group has recognized the importance of e-commerce with the creation of the e.campus, an innovation network for new business ideas.

The Academy's innovative learning concept, the Business Talents Program, was carried out for the second time. In future, this program will be aimed at all of the Group's employees around the world.

The Academy has already enjoyed global recognition for its Business Impact Project approach, which combines individual learning with operational success.

THANKS TO OUR EMPLOYEES

The Management Board would like to take this opportunity to express its thanks to all of the Group's employees in Germany and abroad, whose individual commitment and expertise make a valuable contribution to our collective success and help us to achieve our goals on a sustainable basis.

Our thanks are also due to all of the works councils, the members of plenary works councils and spokespersons' committees, as well as the youth and trainee representatives for the spirit of confidence and cooperation that we have enjoyed over the past year. This has been a key factor in the successful implementation of the Arcandor Group's restructuring. In future, the active cooperation of these groups will remain necessary in order to allow us to adapt to the flexible and rapidly evolving conditions in which we operate.

Risk report

Preliminary remarks

The 2007 risk report analyses and discusses the "material" risks and "risks requiring monitoring" that are currently identifiable within the Arcandor Group. It has been prepared on the basis of the legal Group structure at the reporting date.

Risk management system

The Arcandor Group is exposed to various risks in its business segments. The Group-wide risk management system is responsible for recognizing risks in good time, systematically recording them and communicating them to management, thereby forming the basis for the implementation of measures aimed at preventing or minimizing risk. The planning, reporting, monitoring and early warning systems that are coordinated throughout the Group serve to ensure an end-to-end risk analysis and control process.

Corporate management at the Arcandor Group is performed on a Group-wide basis in accordance with a uniform, strictly defined management and reporting concept. The timely monitoring of economic and strategic targets is ensured through the standardized presentation of key income, expense and strategic indicators. The Group performs medium-term strategic and financial planning on the basis of a rolling annual process with a three-year planning horizon, including precise monthly or quarterly forecasts for the first year. Decisions on proposed investments and projects are taken within the framework of a uniform Group-wide assessment.

The risk management system is a key element of the Group's control systems. The operational business units independently manage the risks arising in their own areas of responsibility. Segment risks that may accumulate in the Group as a whole are recorded and managed centrally. Risks are transferred to third parties where this is possible and economically practicable.

Audit of the risk early warning system

The risk early warning system that forms part of the Group's risk management system was included in the audit by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf.

BUSINESS RISKS

Risks relating to macroeconomic conditions/industry risk

The acquisition of Deutsche Lufthansa AG's 50% stake in Thomas Cook AG and the subsequent merger with MyTravel plc served to increase the international nature of the Arcandor Group's business activities further, as well as giving a significantly higher weighting to the tourism industry. Accordingly, the Group's business development is now dependent on tourism-related activities to a greater extent than previously, and hence is exposed to the associated risks, such as terrorism, war, environmental disasters, etc. The Group's tourism activities are focused on Germany, the United Kingdom and Scandinavia, and are affected by the demand situation and domestic economic development in these regions. The optimization of the commission model, in particular, is expected to lead to a further improvement in sales incentives. The planned implementation of the "Globe" project in 2008 (see "IT risks" below), which will create optimal conditions for target group- and demand-oriented travel offers, will also make a key contribution to this development.

Germany is the largest stationary sales and mail order market. In order to stimulate local consumer demand, the Group intends to press ahead with the projects it has initiated, such as category management, theme-based marketing campaigns and sales controlling. However, other factors may also have a negative impact on the quality of the Group's earnings forecasts. For example, it may not be possible to ensure the availability of goods at all times. This might be due to late deliveries by third parties on which the Group depends or the misjudgment of the required quantities of goods or of market or fashion trends and seasonal cycles. The Group aims to combat these undesirable developments through the continuous observation of business developments, systematic product line analysis and planning, and careful supplier selection.

Stationary retail sales, mail order and tourism are subject to increased business risk as a result of changing consumer behavior, growing competitive pressure and the emergence of alternative forms of product offering in particular. The Arcandor Group aims to counteract this intensified competitive situation through diversification into new business types, the flexible use of discount campaigns and the realignment of its business segments.

According to current economic forecasts, domestic demand, consumer behavior and the propensity to travel in our key markets are expected to continue to enjoy stable development. However, these forecasts are subject to a degree of risk and have frequently been incorrect in the past. Due to these imponderables, the sales, earnings and operating cash flow targets included in our planning are naturally also subject to risk.

Risks relating to the realignment of the business segments and restructuring

The merger of Thomas Cook and MyTravel is progressing as planned, with significant synergy effects expected in the United Kingdom and at subgroup level in particular. It is now clear that the original forecast of synergies in the region of 140 mill. € will be significantly exceeded. According to current estimates, the synergy effects from the wide range of measures that have been implemented will total at least 200 mill. €. The successful implementation of the complex integration process is naturally subject to a degree of risk.

These risks, as well as those presented in the following sections, are the inevitable side-effects of any kind of entrepreneurial activity. The systematic monitoring, controlling and reporting that is performed within the Group's established risk management system serves to ensure that risks are identified at an early stage and that corresponding risk management measures are initiated in order to guarantee the achievement of the stated business targets.

The realignment of the existing business segments relates in particular to the retail segments of the Arcandor Group, i.e. Karstadt and Primondo. In the area of stationary sales, the Group is focusing in particular on the realignment of department store category management, the further expansion of the Premium segment, the continued development of business activities with licensees, the implementation of fundamental changes in procurement policy, and the reorientation of its structural and process organization. At Primondo, the key targets in the 2007/2008 financial year will be the completion of the restructuring measures, the continued fundamental reorientation of the segment's universal mail order companies in Germany and abroad with a systematic brand focus, the intensification of e-commerce activities and the generation of further yield-oriented growth in the area of Specialty Mail Order. To this end, extensive measures are being developed and implemented, including the relaunch of Quelle, workforce adjustment measures and an analysis of advertising material distribution and design in particular. The realignment of the segments has also been incorporated into the Group's business planning in the form of corresponding measures. The complexity of the related processes means that the targets included in planning are inevitably subject to a degree of risk in terms of timing and content.

Financial risks

Financial risks include interest rate and exchange rate risks, as well as risks relating to financing. Under the terms of the Group's financing arrangements, lenders are granted a typical right of termination in the event that certain contractually agreed financial commitments (covenants) are not observed. The Group is also required to meet standard market requirements in terms of providing regular information to lenders. The breach of such obligations may result in early termination.

Even assuming the guaranteed availability of Group financing, it must be ensured that limits are not exceeded as a result of negative influences and deviations from financial planning (e.g. with regard to the planned divestments and capital measures).

The optimization of liquidity requirements in the case of peaks in financing during the year is achievable through the systematic implementation of the improved liquidity planning and monitoring system (monitoring of bottom-up liquidity requirements within the Group combined with rolling monthly financial planning). We also actively manage the available credit facilities.

The financial effects of these risks are reduced by the use of appropriate financial instruments. For example, Thomas Cook's hedging policy is geared in particular towards hedging 95% of the company's fuel requirements for its current flight schedule, as well as hedging currency risk through the conclusion of forward currency transactions. As is typical for such instruments, the risk that the Group will be required to recognize write-downs at its reporting dates cannot be fully excluded.

The Karstadt and Primondo retail segments are dependent on third-party providers of goods and services. The majority of suppliers in these segments have safeguarded their trade receivables from Arcandor Group companies by concluding corresponding trade credit insurance. Any reduction in or termination of the coverage provided by the corresponding insurers could lead to these suppliers requiring delivery against cash in advance, as well as the loss of sales through the non-delivery of goods. In order to guarantee the trade credit insurance commitment, insurers must be kept regularly informed about the course of business, and the payment terms agreed with suppliers must be consistently observed. We expect the cooperation with Li & Fung Ltd to result in positive liquidity effects. By concentrating the purchasing volumes for specific channels via Li & Fung, a significant cumulative improvement in working capital is forecast until 2010.

The incomplete or delayed transfer of these purchasing volumes to Li & Fung could result in deviations from the forecast liquidity requirements, and hence could adversely affect the planned improvement in working capital. In order to support this process, a control system for the planned measures has been introduced with the aim of monitoring the working capital effect of the cooperation by way of near-real-time results analysis.

If the Group's business performance does not develop according to plan or there are significant changes in the capital market environment, risks may arise in connection with the balance sheet measurement of intangible assets (goodwill, trademarks and other intangible assets) and assets classified as held for sale. However, timely countermeasures based on solid management and controlling data mean that these risks can be reduced.

The various outsourcing agreements entered into by the Group, particularly in the areas of IT, logistics and purchasing, give rise to risks concerning the failure to meet minimum order quantities and other commitments.

Litigation risks

The risk presented in the 2006 Annual Report in connection with the legal proceedings initiated by various members of the Wertheim family and the Jewish Claims Conference (JCC) no longer applies. In March 2007, Arcandor AG reached a settlement with the JCC, acting on behalf of the Wertheim heirs, following legal proceedings lasting several years. This agreement settled all of the unresolved issues between the parties, including the revocation of the actions for damages initiated by members of the Wertheim family in the U.S.

IT risks

The key service processes within the Arcandor Group are largely IT-based. We have implemented a comprehensive range of measures and backup and security systems in order to prevent data loss and the failure of IT systems in the tourism, stationary sales and mail order segments.

At the same time, we restructured our IT risk portfolio in the short financial year under review with the transfer of our IT operations to EDS and the integration of an intragroup IT governance function. By entering into this cooperation with a high-performance global partner, we expect to be able to make significant savings as a result of more efficient process design and increased purchasing power in the IT sector. To this end, a range of measures have been defined and are currently being implemented. The successful execution of these complex measures is naturally subject to a degree of realization risk.

In the Thomas Cook segment, we are integrating state-of-the-art developments into our travel booking and offering platforms as part of the Group-wide "Globe" IT project. On account of its importance for Thomas Cook's future development, the "Globe" IT project is being managed by a special organizational team and closely controlled and monitored by a specific risk monitoring system.

Tax risks

The Arcandor Group recognizes provisions for potential tax risks resulting from external tax audits and finance court and out-of-court proceedings. The external tax audits that are currently in progress at a number of Arcandor Group companies could result in backpayments of taxes. There is also a fundamental risk that the Group's tax burden could be adversely affected by changes in tax legislation or court rulings. Changes in tax legislation could also affect deferred tax assets and liabilities.

Dependent companies report

The Management Board of Arcandor AG assumes that the Company has been dependent on its partners in a voting rights pool within the meaning of section 312 of the German Stock Corporation Act since December 11, 2001. As of September 30, 2007, the voting rights attributable to Arcandor AG amounted to 55.5477%.

The following parties are members of the voting rights pool:

- Madeleine Schickedanz
- Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG
- Leo Herl
- Grisfonta AG
- Martin Dedi
- Martin Dedi Vermögensverwaltungs GmbH & Co. KG

Accordingly, the Management Board has prepared a dependent companies report for the 2007 financial year containing information on all of the relationships between the Company and the members of the voting rights pool. This dependent companies report was issued with an unqualified audit opinion by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf.

The statement by the Management Board at the end of the report reads: “Our Company has not conducted any legal transactions or taken or failed to take any measures that it is required to report.”

Report on expected developments

The opportunities for the future development of the Arcandor Group are provided in particular by the performance of its operating segments.

In the 2007/2008 financial year, we expect to see a positive trend in all three operating segments. Thomas Cook will be fully consolidated for the whole financial year for the first time as Thomas Cook Group plc. However, the adjustment of the tourism group’s financial year to reflect the Arcandor Group’s annual reporting date (September 30) means that it will only be included in the consolidated financial statements for eleven months.

Thomas Cook Group plc is extremely well positioned in the first full financial year following its IPO. The group generates a strong cash flow and has a sound balance sheet structure. With its asset-light business model, Thomas Cook enjoys a high degree of flexibility and is able to adjust rapidly its capacities to reflect changing conditions. This makes it less susceptible to external factors. Following the successful integration of the operations of Thomas Cook and MyTravel, the key objectives for the 2007/2008 financial year will be expansion and an improvement in profitability, with a particular focus on optimizing and strengthening the package tour business, expanding the individual travel offering and Internet-based business, and generating growth in the area of financial services. In addition to organic growth, the company’s strong financial situation means that further acquisitions are also possible. Subject to approval by the Annual General Meeting, Thomas Cook intends to implement a share buyback program with a volume of around 375 mill. €. The target for the 2009/2010 financial year is EBITDA in excess of 800 mill. €.

Primondo is also set to record further growth in the current financial year, with the key levers including the expansion of the multichannel network with a focus on e-commerce and teleshopping, a further increase in the number of customers, efficient marketing,

an improvement in the trade margin on the back of more favorable buying conditions and a further reduction in infrastructure costs. Within a few years, e-commerce and teleshopping are set to generate the same level of sales in the Primondo Group as is currently the case for traditional catalogue-based business. Sales in the Specialty Mail Order segment are also expected to increase over the coming years. Internationally, Primondo is pressing ahead with its expansion in Central and Eastern Europe, where it intends to expand its market position systematically.
As well as traditional mail order business, teleshopping will be a further growth pillar.

Karstadt intends to make rapid advances in its repositioning, with a focus on service orientation, innovative marketing, the further implementation of category management and the realignment of the stores with the aim of creating a "modern marketplace" and "ideal stores". To this end, Karstadt is concentrating on high-margin, extremely profitable consumer lines where it enjoys a strong market position and a high degree of in-house expertise. In particular, this includes Fashion, Beauty and Living. For consumer lines where Karstadt is unable to achieve a sufficient degree of market differentiation, the space utilized will be reduced or, alternatively, may be leased or transferred to licensees in accordance with international standards.

At the same time as implementing operational improvements, Arcandor's management aims to continue to advance actively the process of market consolidation in its core business areas. In all of our segments, there are a wide range of options allowing us to increase the value of the Group through targeted M&A activities. One key objective will be to prepare the trading segments for a potential entry into the capital markets.

On account of the Arcandor Group's realignment, consolidated sales for the 2008/2009 financial year are expected to exceed 23 bill. €, with adjusted EBITDA of more than 1.3 bill. €.

Report on post-balance sheet date events

PRIMONDO SELLS NEBUS TO ANDLINGER & COMPANY

In October 2007, the NeBus Group was sold to the investment and management group Andlinger & Company. The NeBus Group, which is domiciled in the Netherlands, is a specialist provider of customer retention and sales incentive programs in its home country as well as in Belgium, Germany, France, Italy, the Czech Republic, Switzerland, Slovakia and Spain.

LOI ON DISPOSAL OF 49 % INTEREST IN HIGHSTREET SIGNED

In December 2007, Arcandor AG signed a letter of intent on the disposal of its 49 % interest in the real estate company Highstreet. Arcandor intends to sell its 49 % stake to a consortium of buyers headed by the Deutsche Bank subsidiary DB RREEF, Pirelli RE, Milan, and the Borletti Group. Following the sale of its interest in Highstreet, Arcandor will have disposed of its entire department store real estate portfolio.

SALE OF 51 % INTEREST IN NECKERMANN.DE

In a further measure, Arcandor AG entered into an agreement on the sale of 51 % of the shares of neckermann.de in December 2007. The buyer is the financial investor Sun Capital Partners, Florida/U.S. The operational management of neckermann.de will be transferred to the new majority shareholder as planned.

CONSOLIDATED FINANCIAL STATEMENTS

Auditor's report

Responsibility statement

CONSOLIDATED INCOME STATEMENT

for the period between January 1 and September 30, 2007

Amounts shown in th. €	Item Notes	**01.01.2007 -30.09.2007**	01.01.2006 -31.12.2006*	Change in %
Sales	1	14,594,024	13,142,954	11.0
Cost of sales and expenses for tourism services	2	-9,638,552	-7,862,806	-22.6
Gross income		**4,955,472**	**5,280,148**	-6.1
Other capitalized own costs	3	28,966	61,412	-52.8
Operating income	4	1,595,672	2,100,720	-24.0
Staff costs	5	-2,162,595	-2,196,583	1.5
Operating expenses	6	-3,225,860	-4,193,461	23.1
Other taxes	7	-14,062	-29,030	51.6
Earnings before interest, tax and depreciation and amortization (EBITDA)		**1,177,593**	**1,023,206**	15.1
Depreciation and amortization (not including amortization of goodwill)	8	-388,955	-346,000	-12.4
thereof impairment loss		-17,907	-71,043	74.8
Earnings before interest, tax and amortization of goodwill (EBITA)		**788,638**	**677,206**	16.5
Amortization of goodwill	9	-	-21,817	-
Earnings before interest and tax (EBIT)		**788,638**	**655,389**	20.3
Income from investments	10	6,226	-15,660	139.8
Income from investments in associates	11	12,677	5,672	123.5
Net interest income	12	-137,704	-226,026	39.1
Other financial results	13	-10,147	21,513	-147.2
Earnings before tax (EBT)		**659,690**	**440,888**	49.6
Taxes on income	14	-260,124	132,006	-
Earnings from continuing operations		**399,566**	**572,894**	-30.3
Result from discontinued operations	15	-264,386	-240,618	-9.9
Group earnings before minority interests		**135,180**	**332,276**	-59.3
Profit due to minority interests	16	-118,886	-1,933	-
Group earnings after minority interests		**16,294**	**330,343**	-95.1
Earnings per share (undiluted) in €	17	**0.08**	**1.65**	-95.2
thereof from continuing operations		1.36	2.85	-52.3
thereof from discontinued operations		-1.28	-1.20	-6.7
Earnings per share (diluted) in €	17	**0.10**	**1.55**	-93.8
thereof from continuing operations		1.29	2.65	-51.4
thereof from discontinued operations		-1.19	-1.10	-8.3

* The data has been adjusted.

CONSOLIDATED BALANCE SHEET

for the year ended September 30, 2007

ASSETS

Amounts shown in th. €	Item Notes	30.09.2007	31.12.2006*	Change in %
Intangible assets	18	4,507,666	973,233	-
Tangible assets	19	1,887,686	1,024,549	84.2
Shares in associates	20	157,510	96,852	62.6
Other financial assets	21	407,631	388,649	4.9
thereof securities		12,643	11,648	8.5
Non-current income tax receivables		5,410	21,763	-75.1
Other non-current assets	22	159,863	110,777	44.3
Deferred taxes	23	676,404	262,901	157.3
Non-current assets		**7,802,170**	**2,878,724**	171.0
Inventories	24	1,288,746	1,242,458	3.7
Trade receivables	25	685,856	397,376	72.6
Current income tax receivables		54,105	26,545	103.8
Other receivables and other assets	26	1,669,461	971,373	71.9
Cash and cash equivalents and securities	27	1,505,643	1,152,091	30.7
Current assets		**5,203,811**	**3,789,843**	37.3
Assets classified as held for sale	28	1,204,040	1,302,191	-7.5
Balance sheet total		**14,210,021**	**7,970,758**	78.3

EQUITY AND LIABILITIES

Amounts shown in th. €	Item Notes	30.09.2007	31.12.2006*	Change in %
Subscribed share capital		551,098	514,592	7.1
Reserves		1,205,783	639,102	88.7
Minority interests		721,247	11,073	-
Equity	29	**2,478,128**	**1,164,767**	112.8
Non-current financial liabilities	30	1,191,000	1,000,927	19.0
Other non-current liabilities	31	1,017,175	712,078	42.8
Pension provisions	32	1,024,557	821,145	24.8
Other non-current provisions	33	555,435	353,205	57.3
Deferred taxes	23	404,622	6,043	-
Non-current liabilities		**4,192,789**	**2,893,398**	44.9
Current financial liabilities	30	1,276,164	192,148	-
Trade payables	34	2,671,050	1,404,136	90.2
Current tax liabilities	31	10,011	28,749	-65.2
Other current liabilities	31	2,296,858	952,132	141.2
Current provisions	35	704,969	447,982	57.4
Current liabilities		**6,959,052**	**3,025,147**	130.0
Liabilities related to assets classified as held for sale	28	580,052	887,446	-34.6
Balance sheet total		**14,210,021**	**7,970,758**	78.3

* The data has been adjusted.

STATEMENT OF CHANGES IN EQUITY

for the period between January 1 and September 30, 2007

			Revenue reserves						
Amounts shown in th. €	Subscribed share capital	Additional paid-in capital	Other revenue reserves*	Reserve for intercompany profit and loss elimination	Revaluation reserve	Revaluation reserve for gradual acquisition	Cumulative foreign currency differences	Minority interests	**Group equity Total**
Opening balance 01.01.2006	**510,398**	**629,424**	**-854,239**	**-**	**26,479**	**-**	**-9,868**	**16,745**	**318,939**
Differences from foreign currency translation	-	-	-	-	-	-	750	526	1,276
Changes resulting from disposals and the measurement of primary and derivative financial instruments	-	-	-	-	-43,306	-	-	-	-43,306
Changes in consolidated companies	-	-	-	-	1,352	-	-713	-7,099	-6,460
Equity capital changes without effect for income	**-**	**-**	**-**	**-**	**-41,954**	**-**	**37**	**-6,573**	**-48,490**
Consolidated earnings	-	-	330,343	-	-	-	-	1,933	332,276
Intercompany profit and loss elimination	-	-	-	548,674	-	-	-	-	548,674
	-	**-**	**330,343**	**548,674**	**-41,954**	**-**	**37**	**-4,640**	**832,460**
Exercise of convertible bond/stock options	4,194	10,206	-	-	-	-	-	-	14,400
Dividends								-1,032	-1,032
Closing balance 31.12.2006	**514,592**	**639,630**	**-523,896**	**548,674**	**-15,475**	**-**	**-9,831**	**11,073**	**1,164,767**
Opening balance 01.01.2007	**514,592**	**639,630**	**-523,896**	**548,674**	**-15,475**	**-**	**-9,831**	**11,073**	**1,164,767**
Differences from foreign currency translation	-	-	-	-	-	-	-27,583	-25,793	-53,376
Changes resulting from disposals and the measurement of primary and derivative financial instruments	-	-	-	-	-9,682	-	-	-	-9,682
Fair value measurement in line with IAS 39	-	-	-	-	277,782	-	-	-	277,782
Changes in consolidated companies	-	-	-	-	-	-	-	11,252	11,252
Addition to gradual acquisition	-	-	-	-	-	258,237	-	-	258,237
Effect of share swap with MyTravel	-	-	427,094	-	-	-	-	610,255	1,037,349
Equity capital changes without effect for income	**-**	**-**	**427,094**	**-**	**268,100**	**258,237**	**-27,583**	**595,714**	**1,521,562**
Consolidated earnings	-	-	16,294	-	-	-	-	118,886	135,180
Intercompany profit and loss elimination	-	-	-	-548,674	-	-	-	-	-548,674
	-	**-**	**443,388**	**-548,674**	**268,100**	**258,237**	**-27,583**	**714,600**	**1,108,068**
Exercise of convertible bond	22,503	45,548	-	-	-	-	-	-	68,051
Issue of Treasury stock	14,003	127,665	-	-	-	-	-	-	141,668
Dividends	-	-	-	-	-	-	-	-4,426	-4,426
	36,506	**173,213**	**-**	**-**	**-**	**-**	**-**	**-4,426**	**205,293**
Closing balance 30.09.2007	**551,098**	**812,843**	**-80,508**	**-**	**252,625**	**258,237**	**-37,414**	**721,247**	**2,478,128**

* The data has been adjusted.

CONSOLIDATED CASH FLOW STATEMENT

for the period between January 1 and September 30, 2007

Amounts shown in th. €	Item Notes	01.01.2007 – 30.09.2007	01.01.2006 – 31.12.2006*
EBITDA		**1,177,593**	**1,023,206**
Profit/loss from the disposal of fixed assets		-977,536	-1,041,644
Profit/loss from foreign currency		1,808	-10,347
Changes in non-current provisions (not including pension and tax provisions)		122,076	-42,928
Utilization of/addition to the provision for restructuring effects		-87,039	-194,739
Other expenses/income not affecting cash flow		-72,822	-280,919
Gross cash flow		**164,080**	**-547,371**
Changes in working capital		62,861	380,965
Changes in other assets and equity and liabilities		-137,824	337,282
Dividends received		14,427	2,981
Payments/refunds of taxes on income		-89,019	-72,384
Cash flow from operating activities	38	**14,525**	**101,473**
Cash payments/cash receipts for acquisition of subsidiaries less acquired cash & cash equivalents		8,649	-479
Payments received for divestment of subsidiaries less cash & cash equivalents sold		9,419	108,714
Purchase of tangible and intangible assets		-254,422	-233,730
Purchase of investments in non-current financial assets		-51,166	-178,604
Cash receipts from sale of tangible and intangible assets		255,666	3,202,967
Cash receipts from sale of non-current financial assets		10,011	18,516
Cash flow from investing activities	39	**-21,843**	**2,917,384**
Free cash flow	40	**-7,318**	**3,018,857**
Interest received		81,059	107,734
Interest paid		-118,422	-271,767
Pension payments		-82,162	-72,960
Take-up/reduction of (financial) loans		536,899	-2,267,704
Payments of liabilities due under finance lease		-78,199	-24,308
Cash payments/cash receipts for dividends and capital increase		-4,426	4,291
Cash flow from financing activities	41	**334,749**	**-2,524,714**
Changes in cash and cash equivalents affecting cash flow		**327,431**	**494,143**
Changes in the flow of cash due to changes in exchange rates or other changes in cash and cash equivalents caused by the consolidated companies		-14,769	2,415
Cash and cash equivalents at the beginning of the period		1,203,721	707,163
Cash and cash equivalents at the end of the period	42	**1,516,383**	**1,203,721**

* The data has been adjusted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Segment report

BREAKDOWN BY SEGMENT

	Arcandor Group		Reconciliation account 1)		Thomas Cook	
Amounts shown in th. €	**30.09.2007**	31.12.2006*	**30.09.2007**	31.12.2006*	**30.09.2007**	31.12.2006*
Sales	15,525,206	15,125,737	-	-	8,557,194	3,956,187
Interest from lending business	96,339	131,584	-	-	-	-
Internal sales	-1,027,521	-2,114,367	-202,327	-470,117	-109,357	-69,460
Group sales	**14,594,024**	**13,142,954**	**-202,327**	**-470,117**	**8,447,837**	**3,886,727**
Group sales (adjusted)	***14,280,909***	***12,356,854***	***-110,857***	***-169,264***	***8,447,837***	***3,886,727***
Cost of sales and expenses for tourism services	-9,638,552	-7,862,806	8,444	39,280	-6,371,317	-2,771,349
Gross income	**4,955,472**	**5,280,148**	**-193,883**	**-430,837**	**2,076,520**	**1,115,378**
Other capitalized own costs	28,966	61,412	24,476	57,349	-	-
Operating income and costs	-1,630,188	-2,092,741	79,069	251,317	-629,085	-477,897
Staff costs	-2,162,595	-2,196,583	-21,855	-24,511	-923,837	-431,044
Other taxes	-14,062	-29,030	-5,042	-4,072	-5,919	-3,417
EBITDA	**1,177,593**	**1,023,206**	**-117,235**	**-150,754**	**517,679**	**203,020**
EBITDA (adjusted)	***526,709***	***399,855***	***-71,734***	***-70,284***	***708,623***	***199,162***
EBITDA margin in % (adjusted)	*3.7*	*3.2*	-	-	*8.4*	*5.1*
Depreciation and amortization (not including goodwill)	-388,955	-346,000	-1,831	-1,406	-243,510	-83,124
Amortization of goodwill	-	-21,817	-	-	-	-
EBIT	**788,638**	**655,389**	**-119,066**	**-152,160**	**274,169**	**119,896**
Income from investments in associates	12,677	5,672	-	-	6,259	2,421
Earnings from discontinued operations	-264,386	-240,618	-	-	-	-
Segment assets	10,431,342	4,947,735	71,271	86,506	6,452,572	1,412,176
Segment liabilities	7,165,665	3,845,516	174,710	162,288	3,977,012	942,826
Gross cash flow	164,080	-547,371	-71,496	-174,902	699,412	195,376
Investments 2)	254,950	233,730	2,998	4,547	92,981	30,717
Employees (average) 3) number	95,501	87,436	187	192	32,938	21,015

* The data has been adjusted.
1) The reconciliation account also includes the activities of the holding company and Karstadt Finance B. V.
2) Not including additions to finance leases, capitalized restoration liabilities or goodwill.
3) In line with HGB; including trainees and discontinued operations, Thomas Cook pro forma.

SEGMENT REPORT BY REGION

	Arcandor Group		Reconciliation account		Domestic	
Amounts shown in th. €	**30.09.2007**	31.12.2006*	**30.09.2007**	31.12.2006*	**30.09.2007**	31.12.2006*
Sales	15,525,206	15,125,737	-	-	9,093,182	11,985,663
Interest from lending business	96,339	131,584	-	-	88,170	119,489
Internal sales	-1,027,521	-2,114,367	-313,647	-333,682	-689,187	-1,779,856
Group sales	**14,594,024**	**13,142,954**	**-313,647**	**-333,682**	**8,492,165**	**10,325,296**
Cost of sales and expenses for tourism services	-9,638,552	-7,862,806	282,376	298,346	-5,416,452	-6,107,661
Gross income	**4,955,472**	**5,280,148**	**-31,271**	**-35,336**	**3,075,713**	**4,217,635**
EBITDA	1,177,593	1,023,206	2,636	-5,520	748,896	912,000
EBIT	788,638	655,389	2,708	-5,505	467,313	585,414
Earnings from discontinued operations	-264,386	-240,618	395	3,546	-267,735	-183,527
Segment assets	10,431,342	4,947,735	-230,600	-70,702	3,959,256	3,405,799
Segment liabilities	7,165,665	3,845,516	-25,556	-26,737	3,748,984	3,002,948
Investments	254,950	233,730	-	-12,875	182,808	209,443

* The data has been adjusted.

Primondo		Karstadt		Services		Real estate	
30.09.2007	31.12.2006*	**30.09.2007**	31.12.2006*	**30.09.2007**	31.12.2006*	**30.09.2007**	31.12.2006*
3,610,036	5,609,599	3,078,627	4,945,953	179,683	299,529	99,666	314,469
82,440	114,715	-	-	13,899	16,869	-	-
-687,401	-1,493,848	-27,719	-47,109	-717	-33,833	-	-
3,005,075	**4,230,466**	**3,050,908**	**4,898,844**	**192,865**	**282,565**	**99,666**	**314,469**
2,889,445	***3,984,189***	***2,861,619***	***4,372,637***	***192,865***	***282,565***	-	-
-1,477,680	-2,127,448	-1,747,184	-2,883,637	-50,815	-119,652	-	-
1,527,395	**2,103,018**	**1,303,724**	**2,015,207**	**142,050**	**162,913**	**99,666**	**314,469**
2,215	1,478	1,640	2,369	635	216	-	-
-1,108,929	-1,722,311	-708,979	-987,774	-109,730	-11,542	847,466	855,466
-519,370	-682,685	-657,739	-947,098	-39,203	-107,046	-591	-4,199
-2,492	-15,075	-48	-88	-1	-442	-560	-5,936
-101,181	**-315,575**	**-61,402**	**82,616**	**-6,249**	**44,099**	**945,981**	**1,159,800**
-72,907	***-40,942***	***-34,014***	***145,850***	***-3,631***	***23,051***	***372***	***143,018***
-2.5	*-1.0*	*-1.2*	*3.3*	*-1.9*	*8.2*	-	-
-48,979	-129,191	-75,286	-95,092	-4,812	-19,073	-14,537	-18,114
-	-2,034	-	-	-	-19,073	-	-
-150,160	**-446,800**	**-136,688**	**-12,476**	**-11,061**	**5,243**	**931,444**	**1,141,686**
41	-647	-	-	6,439	3,298	-62	600
-264,386	-240,618	-	-	-	-	-	-
2,208,639	1,679,864	1,284,780	1,345,585	176,531	192,884	237,549	230,720
1,855,319	1,524,705	855,827	882,105	41,219	72,442	261,578	261,150
-357,703	-645,974	-95,494	-30,935	-8,699	7,232	-1,940	101,832
91,533	68,701	62,252	119,842	5,186	9,531	-	392
28,537	29,519	32,986	34,275	838	2,371	15	64

Western Europe		Eastern Europe		Other countries	
30.09.2007	31.12.2006*	**30.09.2007**	31.12.2006*	**30.09.2007**	31.12.2006*
6,035,548	2,869,051	274,275	236,380	122,201	34,643
8,043	11,808	126	287	-	-
-24,144	-1,342	-543	-188	-	701
6,019,447	**2,879,517**	**273,858**	**236,479**	**122,201**	**35,344**
-4,230,025	-1,916,436	-170,038	-136,813	-104,413	-242
1,789,422	**963,081**	**103,820**	**99,666**	**17,788**	**35,102**
420,242	101,894	7,325	7,778	-1,506	7,054
314,424	66,966	5,714	5,976	-1,521	2,538
1,067	-56,532	1,887	-4,105	-	-
6,244,489	1,556,451	81,828	46,093	376,369	10,094
3,233,583	845,191	38,836	22,608	169,818	1,506
64,774	33,904	5,352	2,491	2,016	767

Accounting

GENERAL INFORMATION

As the controlling company of the Group, Arcandor AG is registered as ARCANDOR Aktiengesellschaft with the Essen District Court, Germany (HRB 1783). The company is domiciled in Essen under the address of Arcandor AG, Theodor-Althoff-Strasse 2, 45133 Essen, Germany.

By way of resolution by the Annual General Meeting on May 10, 2007, the former KARSTADT QUELLE Aktiengesellschaft was renamed ARCANDOR Aktiengesellschaft. The change in the company's name took effect on its entry in the Commercial Register on June 22, 2007. With its Karstadt and Primondo divisions, Arcandor AG is one of the largest department store and mail order groups in Europe and is also one of the world's largest travel companies with its Thomas Cook tourism division.

The Management Board prepared the consolidated financial statements and the consolidated Management Report for the period to September 30, 2007, on January 3, 2008, and approved them for presentation to the Supervisory Board.

BASIS OF ACCOUNTING

The consolidated financial statements of Arcandor AG and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) in force at the balance sheet date and to be applied in the European Union as well as the supplementary commercial regulations to be observed under Section 315 of the German Commercial Code (HGB) and Section 315a, Paragraph 1, HGB.

The IFRS comprise IFRS issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). Apart from one regulation on portfolio hedge accounting under IAS 39, all of the obligatory standards and interpretations at the balance sheet date have been adopted in EU law by the European Commission. The respective regulation is not relevant for Arcandor AG in the reporting period. The consolidated financial statements of Arcandor AG hence comply with IFRS.

The consolidated financial statements comprise the consolidated income statement, the consolidated balance sheet, the statement of changes in equity, the consolidated cash flow statement and the notes. There is also a Group Management Report.

The consolidated financial statements were prepared in euros. All amounts are expressed in thousands of euros (th. €) unless otherwise specifically indicated. Assets and liabilities are classified as long-term and short-term assets or liabilities in accordance with their maturity. The consolidated income statement is structured in accordance with the nature of expense method.

In the reporting period, the financial year of Arcandor AG and its included subsidiaries was changed from the calendar year to the year ending September 30. On the one hand, this is to relieve staff from having to prepare annual financial statements during Christmas business and, on the other, better estimates of earnings will be possible in future due to the inclusion of Christmas business in the first quarter of the financial year. Financial year 2007 is therefore a short financial year and comprises nine months. The same period of the previous year comprised twelve months and ended on December 31, 2006. From financial year 2007/2008, the reporting period of the Arcandor Group will therefore run from October 1 to September 30.

Thomas Cook Group plc, formed by the merger of Thomas Cook AG and MyTravel plc, has been included in the consolidated financial statements of Arcandor AG as at September 30, 2007 on the basis of the sub-group financial statements of Thomas Cook Group plc prepared as at October 31, 2007. Interim financial statements were not prepared due to organizational restrictions. Material changes in the period between October 31, 2007 and September 30, 2007 were included in the consolidated financial statements.

On account of their financial year running from November 1 to October 31 and thereby differing from the reporting date of Arcandor AG, Thomas Cook AG and its subsidiaries were included for the 2006 financial year on the basis of the Thomas Cook sub-group financial statements as at October 31, 2006. Interim financial statements were not prepared due to organizational restrictions. Material transactions in the period between October 31, 2006 and December 31, 2006 were included in the consolidated financial statements.

In contrast to the previous year, the consolidation of Thomas Cook Group plc in the reporting period includes all assets and liabilities of Thomas Cook AG and its subsidiaries at values as at October 31, 2007. The income and expenses of Thomas Cook AG and its subsidiaries were reported at 50% for the period from November 1, 2006 to April 1, 2007 on account of proportionate consolidation and at 100% for the period from April 2 to October 31, 2007. The effects of the merger of Thomas Cook and MyTravel and their different inclusion on the Group's net assets, financial position and results of operations have been explained on pages 120 and 121.

The merger of Thomas Cook AG and MyTravel plc was effected by way of a share exchange. The Arcandor Group received 52% of the outstanding shares of Thomas Cook Group plc on account of the transfer of Thomas Cook AG to Thomas Cook Group plc. Under IFRS 3.10, the transfer of Thomas Cook AG to Thomas Cook Group plc is classified as a transaction under common control and thereby expressly excluded from the scope of IFRS 3. The change in the ownership structure was recognized directly in equity. The income and expenses of MyTravel plc and its subsidiaries were included for the period from June 19 to October 31, 2007.

Revised or new IFRS and resulting changes to reporting, recognition or valuation

As against the consolidated financial statements as at December 31, 2006, the following standards and interpretations have either changed or became mandatory for the first time on account of being endorsed in EU law or as a result of the regulation coming into effect:

IFRS 7 "Financial Instruments: Disclosures"

IFRS 7 was published on August 18, 2005 and endorsed in EU law on January 11, 2006; it is to be applied for the first time in the financial years starting on or after January 1, 2007. IFRS 7 replaces IAS 30 "Disclosures in the Financial Statements of Banks and Similar Institutions" and incorporates and modifies IAS 32 regulations on "Financial Instruments: Disclosure and Presentation". IAS 32 is thus reduced to rules on recognition. With IFRS 7, redundant and inconsistent requirements in IAS 30 and IAS 32 are eliminated and disclosures for risks relating to financial instruments are set out. IFRS 7 was applied by the Arcandor Group for the first time for the short financial year beginning January 1, 2007. As IFRS 7 is a standard that solely relates to disclosures, its first-time adoption had no impact on recognition or measurement.

Amendments to IAS 1: "Capital Disclosures"

The amendments to IAS 1 were published on August 18, 2005, endorsed in EU law on January 11, 2006 and are to be applied for the first time in the financial year starting on or after January 1, 2007. The amendments are related to IFRS 7 "Financial Instruments: Disclosures" and require companies to provide qualitative information on objectives, methods and processes in terms of equity management. The amendments to IAS 1 were applied by the Arcandor Group for the first time for the short financial year beginning January 1, 2007. As this is a standard that solely relates to disclosures, first-time adoption had no impact on recognition or measurement.

IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflation Economies"

IFRIC 7 was published on November 24, 2005 and endorsed in EU law on May 8, 2006; it is to be applied for the first time in financial years starting on or after December 1, 2005. IFRIC 7 regulates how comparative figures have to be adjusted for IFRS financial statements if the country whose currency represents the functional currency of the reporting company becomes a hyperinflation country (for the first time). IFRIC 7 regulations are not relevant for the Arcandor Group at present.

IIFRIC 8 "Scope of IFRS 2"

IFRIC 8 was published on January 12, 2006 and endorsed in EU law on September 8, 2006; it is to be applied for the first time in financial years starting on or after May 1, 2006. IFRS 2 "Share-Based Payments" regulates the treatment of granting shares or share options on the balance sheet for goods or services received and determines that benefits to non-employees should be valued at fair value of the goods or services received. IFRIC 8 clarifies that IFRS 2 may also be applied in such cases in which no directly identifiable, adequate return is evident. IFRIC 8 regulations are not relevant for the Arcandor Group at present.

IFRIC 9 "Reassessment of Embedded Derivatives"

IFRIC 9 was published on September 8, 2006 and endorsed in EU law on January 11, 2006; it is to be applied for the first time in financial years starting on or after June 1, 2006. IAS 39.11 specifies that, under certain conditions, embedded derivatives are to be separated from the host contract. Until now it has been questionable whether such an assessment should be carried out at every balance sheet date over the entire term of the agreement. IFRIC 9 now concludes that re-assessment is prohibited over the term of an agreement unless the contract terms and the resulting payments have changed significantly. IFRIC 9 was applied by the Arcandor Group for the first time for the short financial year beginning January 1, 2007. The effects resulting from first-time application were not material.

IFRIC 10 "Interim Financial Reporting and Impairment"

IFRIC 10 was published on July 20, 2006 and endorsed in EU law on June 1, 2007; it is to be applied for the first time in financial years starting on or after November 1, 2006. IFRIC 10 specifies that any impairment of goodwill during the period in accordance with IAS 36, which is to be included in interim financial statements prepared in accordance with IAS 34, may not be reversed in the following annual financial statements or interim financial statements, even if the reason for an impairment loss no longer exists. This regulation also applies for an impairment loss recognized for an investment in an equity instrument or a financial asset valued at fair value in accordance with IAS 39. IFRIC 10 was applied by the Arcandor Group for the first time for the short financial year beginning January 1, 2007. First-time application did not have any effect in the reporting period.

Outlook on IFRS – Changes in 2007/2008

The following IFRS were published by the IASB or the IFRIC by the balance sheet date. They are, however, only obligatory for later reporting periods or have not yet been endorsed in EU law. The Arcandor Group has decided not to early adopt the standards when the requirement for adoption applies only for later reporting periods.

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"
IFRIC 11 was published on November 2, 2006 and endorsed in EU law on June 1, 2007; it is to be applied for the first time in financial years starting on or after March 1, 2007. IFRIC 11 requires that a share-based payment agreement under which the company receives goods or services (this includes staff services) in consideration for its own equity instruments should be classified as "equity-settled". This applies irrespective of how the equity instruments are obtained by the company. Furthermore, IFRIC 11 regulates whether share-based payment agreements of a consolidated company are to be classified as "equity-settled" or as "cash-settled" if equity instruments of the parent company are granted. In this case it must be distinguished whether share options are granted by the parent company or by a consolidated company. IFRIC 11 has not yet been endorsed in EU law. The regulations of IFRIC 11 are relevant to the Arcandor Group and will be applied for the first time to the financial year beginning October 1, 2007.

IFRS 8 "Operating Segments"
IFRS 8 was published on November 30, 2006 and endorsed in EU law on November 14, 2007; it is to be applied for the first time in the financial years starting on or after January 1, 2009. IFRS 8 replaces IAS 14 "Segment Reporting" and is almost identical to SFAS 131. The previous primary and secondary reporting format, which distinguishes between business and geographic segments, will no longer be used and has been changed to a single report format which presents segments on the basis of information used by the management in controlling the company. Details are also to be provided on geographic segments, products and important customers. The regulations of IFRS 8 are relevant to the Arcandor Group and will be applied in accordance with the standard in future.

IFRIC 12 "Service Concession Arrangements"
IFRIC 12 was published for the first time on November 30, 2006 and is to be first applied in financial years starting on or after December 31, 2007. The subject of the interpretation is the recognition of service agreements under which companies are commissioned by government bodies to offer public services such as the construction of roads, airports or energy supply infrastructures. While control over the assets remains with the government, the company is contractually obliged in terms of construction, operation and maintenance. IFRIC 12 deals with the question of how the rights and obligations resulting from such contractual agreements are to be presented in the financial statements. IFRIC 12 has not yet been endorsed in EU law. IFRIC 12 regulations are also not relevant for the Arcandor Group at present.

Amendments to IAS 23 "Borrowing Costs"
The amendments to IAS 23 were published on March 29, 2007 and are to be applied for the first time in financial years starting on or after January 1, 2009. The amendments eliminate the option to recognize interest on borrowing costs in the acquisition or production of qualified assets directly as an expense. In future, this interest must be included in the cost of qualified assets. The amendments to IAS 23 are relevant to the Arcandor Group but had not yet been endorsed in EU law at the balance sheet date.

IFRIC 13 "Customer Loyalty Programs"
IFRIC 13 was published on June 28, 2007 and is to be first applied in the financial years starting on or after July 1, 2008. IAS 18.13 regulates the separate application of recognition criteria for sales for each individual transaction. In certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. Such transactions are then referred to as multi-component agreements and the corresponding sales are recognized at different times. IFRIC 13 now clarifies that customer loyalty programs that reward customers with redeemable award credits such as points or travel miles must be recognized as multi-component agreements. The regulations of IFRIC 13 are relevant to the Arcandor Group but had not yet been endorsed in EU law at the balance sheet date.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"
IFRIC 14 was published on July 5, 2007 and is to be first applied in the financial years starting on or after January 1, 2008. IAS 19.58 limits the measurement of a defined benefit plan asset to the present value of its economic benefit in the form of reimbursement from the plan or a reduction of future contributions to the plan ("asset ceiling"). IFRIC 14 regulates the effects of minimum finance provisions for pension plans on the measurement ceiling stipulated in IAS 19.58 for defined benefit assets or liabilities and clarifies various aspects in this context. In particular, the specification of the ceiling for the surplus amount of a pension fund that can be recognized as an asset under IAS 19, the effect of statutory or contractual minimum finance provisions on the assets or liabilities of a plan and the conditions for the recognition of a liability from minimum finance obligations have been clarified. The regulations of IFRIC 14 are relevant to the Arcandor Group but had not yet been endorsed in EU law at the balance sheet date.

Amendments to IAS 1 "Presentation of Financial Statements: A Revised Presentation"
The amendments to IAS 1 were published on September 6, 2007 and are to be applied for the first time in financial years starting on or after January 1, 2009. The amendments primarily relate to the changes in the names of the income statement, balance sheet and cash flow statement, the introduction of a disclosure for certain changes in equity ("statement of comprehensive income") and the obligation to disclose an opening balance sheet for the first period shown affected by a retrospective change in accounting. The amendments to IAS 1 are relevant to the Arcandor Group but had not yet been endorsed in EU law at the balance sheet date.

The Arcandor Group does not anticipate that the application of standards which were published but not effective on the balance sheet date will have any material effect on the Group's net assets, financial position and results of operations.

GENERAL ACCOUNTING POLICIES

Changes in accounting policies

With the exception of the change described below, the accounting policies are the same as those in the last consolidated financial statements as at the end of financial year 2006.

Since January 1, 2007, sales relating to the 14-day returns period for "purchases on approval" in the Primondo segment are deferred in line with the historically established returns rate in accordance with IAS 18.16d in conjunction with IAS 18 Appendix 2 (b). Thus, the deferral now includes the return rates for "buying on approval", the recall period under the Fernabsatzgesetz (FernAbsG - German Distance Selling Act) and returns on warranty.

Deferral in line with the historically established return rate provides more reliable and more relevant information as this reflects the actual economic risk and is consistent with industry practice. This change has also been made in light of administrative adjustments in the Primondo segment.

The following items were adjusted for the **comparative periods**:

Amounts shown in mill. €	31.12.2006
Assets	
Deferred tax assets	-9.6
Inventories	-38.2
Tade receivables	9.6
Other receivables and other assets	28.6
Assets classified as held for sale	-12.0
Equity and liabilities	
Revenue reserves	13.6
Other non-current liabilities	-23.7
Liabilities related to assets classified as held for sale	-11.5
Income statement	
Sales	-7.2
Cost of sales and expenses for tourism services	5.2
Gross income	**-2.0**
Operating expenses	-7.0
Earnings before interest, tax and depreciation (EBITDA)	**-9.0**
Earnings before interest and tax (EBIT)	**-9.0**
Earnings before tax (EBT)	**-9.0**
Taxes on income	1.6
Earnings from continuing operations	**-7.4**
Result from discontinued operations	-7.9
Group earnings before minority interests	**-15.3**
Group earnings after minority interests	**-15.3**

The previous year adjustments did not have any material effect on the earnings per share.

However, changes may also result from the obligatory first-time application of new or revised standards and interpretations. Further information is available in the section on "revised or new IFRS and resulting changes to reporting, recognition or valuation" insofar as these changes were relevant to the Group in the reporting period or have resulted in changes to the previous year's figures.

Recognition of income and expenses

Sales are measured at the fair value of a consideration received and represent amounts for goods supplied and services performed during the normal course of business excluding discounts, value-added tax and other taxes relating to sales. Sales and other operating income are not recognized until the services have been provided or the goods or products delivered so that material risks and rewards have been passed to the customer.

Operating expenses are recorded when a service is provided or when they are incurred.

Interest income is recognized based on the outstanding amounts borrowed and the applicable effective interest rate. The effective interest rate is the rate of interest by means of which the present value of estimated future cash inflows equals the carrying amount of the asset. Dividend income is recorded when the legal right to payment arises.

In line with IAS 18, earnings from service agreements are recognized according to the percentage of completion provided that IAS 18.20 criteria are met. In contrast to this, sales and expenses directly attributable to holidays are recognized on travel departure.

Long-term development projects

For real estate development projects proportionate results are recognized according to the percentage of completion of the project, unless a loss is anticipated. Anticipated losses are recognized immediately for the full amount through impairments or provisions. Realization of profits is based on a calculation of the costs incurred as a percentage of the total estimated costs.

Goodwill

Goodwill, as an intangible asset with an indefinite useful life, is not amortized. In an impairment test, any goodwill acquired within a business combination is allocated to those cash-generating units that are likely to benefit from the synergies. Goodwill is tested once a year for impairment and also if there is any indication of an impairment loss. If the carrying amount of a cash-generating unit exceeds the realizable value of the unit, goodwill allocated to this cash-generating unit is impaired; impairment losses are not reversed in this case.

If an impairment loss of a cash-generating unit exceeds the carrying amount of the associated goodwill, the excess impairment loss is to be allocated proportionately to the respective assets of the cash-generating unit. The recoverable amount of a cash-generating unit is determined on the basis of fair value less costs to sell. Fair value less costs to sell is calculated by application of DCF models. In this case calculations are based on forecasts approved by the management and used for internal purposes.

When a subsidiary, associate or jointly controlled entity is sold, the attributable value of goodwill is included in profit or loss from the sale.

Intangible assets not including goodwill

Intangible assets with a limited useful life are measured at amortized cost. Amortization is calculated on the basis of the following useful lives:

Assets	Useful life
Software	3 – 5 years
Licenses, tenancy rights, rights of use and similar rights	Duration of agreement or shorter economic life
Other intangible assets	3 – 15 years

In addition to amortization, an impairment test is carried out when there are indications that impairment losses exceed normal amortization. If the carrying amount of an asset exceeds its realizable value, the asset is impaired. This may also apply to cash-generating units.

Intangible assets with an indefinite useful life are not amortized. An impairment test is carried out if there is any indication of an impairment loss; this may also apply to cash-generating units. An impairment is recognized if the carrying amount of an intangible asset or an associated cash-generating unit exceeds the respective realizable value.

Impairment losses on assets other than goodwill are reversed if the reason for impairment losses previously recorded no longer exists.

As far as the requirements of IAS 38.51 ff. are met, development costs which are based mostly on intragroup services are recognized as internally generated assets at cost. Costs also include reasonable portions of overheads. Borrowing costs are not included when determining manufacturing costs.

Tangible assets

Assets	Useful life
Buildings	25 – 50 years
Aircraft and replacement engines	12 – 20 years (or shorter duration of rent agreement)
Major inspections	4 – 5 years
Plant and machinery	5 – 15 years (or shorter duration of rent agreement)
Other plant, fixtures, furniture and office equipment	2 – 15 years
Store fixtures and fittings	7 years (or shorter duration of rent agreement)

Tangible assets are measured at amortized cost. Borrowing costs are not included when determining manufacturing cost.

In addition to depreciation, an impairment test is carried out on tangible assets for which there are indications that impairment losses exceed normal depreciation. If the carrying amount of an asset exceeds its realizable value, the asset is impaired. This may also apply to cash-generating units. Impairment losses are reversed if the reason for impairment losses previously recorded no longer exists.

Obligations recognized in accordance with IAS 37 for restoring, for example, leasehold improvements are capitalized as a component of cost. These are depreciated over the shorter of the respective useful life of the asset or the rental agreement.

Major inspections (C4 checks) of aircraft are capitalized as separate components and depreciated over the period until the next scheduled inspection.

Land and buildings held as financial investments (investment property) include property held to generate rental income or for long-term capital appreciation. They are measured at cost under IAS 40 in conjunction with IAS 16 and depreciated on a straight-line basis over the expected useful life. Investment property is reported under other non-current assets.

Maintenance expenses are generally recognized in profit or loss. They are capitalized if they substantially improve the respective asset.

Leases

Leases are classified as finance leases under IAS 17 if all of the material risks and rewards pertaining to ownership of the lease asset are transferred to the lessee. All other leases are classified as operating leases. Arcandor AG acts as both a lessor and a lessee.

Payments due from lessees resulting from finance leases are reported as receivables to the amount of the net cash investment resulting from the lease. Income from finance leases is allocated over the lease term to reflect consistent periodical returns on outstanding net cash investment. Rental income from operating leases is recognized on a straight-line basis in profit or loss over the term of the corresponding lease.

Assets held as finance leases are capitalized at fair value at the inception of a lease or at the lower present value of respective minimum lease payments and are then written down on a straight-line basis. The corresponding liability to the lessor is shown as a finance lease obligation. Lease payments are proportionately allocated to financial expenditure and to the reduction of a lease obligation to result in a consistent return on the remaining balance of obligations for each reporting period. Rental payments for operating leases are recognized on a straight-line basis in profit or loss over the term of the corresponding lease.

Financial instruments

A financial instrument is an agreement which results in a financial asset for one party to the transaction while at the same time resulting in a financial liability or an equity instrument for another party. Financial instruments are recognized when the Group enters into a corresponding agreement. However, for standard market purchases or sales, the date of settlement is relevant for initial recognition or disposal.

A financial asset is derecognized when IAS 39.17 f. requirements are fulfilled. Insofar as the Group transfers its contractual rights to cash flows arising from an asset and essentially neither transfers nor retains all the risks and rewards incident to ownership of this asset and also retains the power to dispose of the transferred asset, the Group will continue to recognize the asset to the extent of its continuing involvement.

Financial assets mainly include cash and cash equivalents, trade receivables, loans granted and other receivables, financial investments held to maturity, as well as normal and derivative financial assets held for trading. Financial liabilities normally include securities and other secured liabilities, trade payables, liabilities to banks, finance lease liabilities, loans against a promissory note and derivative financial instruments. Financial assets and financial liabilities are only offset for reporting purposes if there is a right of offset and the intention to settle on a net basis. The liability and equity components of compound financial instruments are separated and shown separately under the respective issuer.

Financial instruments are valued at fair value on initial recognition. In this case transaction costs directly attributable to acquisition are included for all financial assets and liabilities which are subsequently not recognized in profit or loss. Fair values shown on the balance sheet are generally equivalent to the market value of financial assets and liabilities. Accepted valuation methods and the application of current market parameters are used to calculate fair values which are not directly available.

Subsequent measurement depends on whether financial instruments are held for trading or until maturity or whether they are available for sale, or whether they are loans and receivables issued by the company. Financial instruments held for trading are reported at fair value with changes recognized in profit or loss. Financial instruments intended to be held to maturity are valued at amortized cost under the effective interest rate method. The remaining primary financial assets and liabilities, if not loans and receivables, are classified as available for sale and measured at fair value. Increases and decreases resulting from valuation at fair value are recognized in equity. This does not apply in the case of permanent or significant impairment losses or for currency-related changes in the value of borrowed capital. Profits or losses accumulated in equity are recognized in the income statement subsequent to the disposal of financial instruments.

Inventories

Inventories are recognized at the lower of cost or net realizable value. Manufacturing cost comprises all of the directly attributable costs for materials and production costs as well as overheads incurred in bringing inventory to its present location and condition. Borrowing costs are not included in cost. Net realizable value comprises estimated proceeds less estimated costs for production and costs incurred up to sale or disposal.

Non-current assets held for sale and discontinued operations

A discontinued operation is a significant business division or Group component which has been classified as held for sale. Individual assets or groups of related assets and liabilities which do not concurrently constitute a significant business unit, for example, due to their size or significance, are non-current assets held for sale or disposal groups. They are reported separately on the balance sheet. Specific accounting rules also apply for the income statement and the cash flow statement in the case of discontinued operations.

Non-current assets and groups of assets are classified as held for sale if they are immediately available for disposal, if the sale is planned at customary terms and if proof can be provided that disposal is highly probable. If the sale is also part of a single plan and if it also concerns one or several significant lines of business or geographic areas which can be separated in operative terms and for accounting purposes, the items for sale are to be classified as a discontinued operation.

Non-current assets held for sale, disposal groups and discontinued operations are measured at the lower of the carrying amount and fair value less costs to sell. Depreciation is suspended and any impairment losses are recognized in profit and loss.

The requirements for classification as non-current assets held for sale, disposal groups and discontinued operations are reviewed at each balance sheet date. Impairment in the reporting period is recognized in profit and loss. Any increase in the fair value less costs to sell is only reversed in profit and loss up to the amount of the respective cumulative impairment loss.

Receivables and other assets

Trade receivables are non-interest bearing and are recognized at nominal value. Uncollectable or doubtful receivables are written down. For mail order receivables sold in the context of factoring possible write-downs are recognized by discounting the purchase price of the receivables. Thus, there is no separate allowance account.

Expenses for catalogs for periods after the reporting date are capitalized and reported under other assets.

Deferred taxes

Deferred taxes are anticipated income tax payables or reimbursements resulting from differences between the carrying amounts of assets and liabilities in the annual financial statements and the respective tax bases applied in calculating taxable earnings.

Deferred taxes are recognized for all taxable temporary differences using the balance sheet-related liability method. Deferred taxes are not recognized on temporary differences resulting from goodwill or from first-time recognition of other assets and liabilities in a transaction (which is not a business combination) that affects neither taxable earnings nor IFRS earnings. Deferred taxes are measured at the tax rates which are expected to apply in the periods in which an asset is realized or a liability is settled. Deferred taxes are reported as tax income or tax expenditure in the income statement unless they are related to items reported directly in equity, in which case the deferred taxes are also reported in equity.

Deferred tax liabilities are recognized for taxable temporary differences. This also includes differences resulting from shares in subsidiaries or associated companies and shares in joint ventures, unless the parent company can influence the reversal of a temporary difference and the temporary difference is unlikely to be reversed in the near future.

Deferred tax assets are reported to the extent that it is probable that taxable income against which the deductible temporary difference can be utilized will be available. Deferred tax assets are also recognized for tax losses carried forward which can be used in later years provided that their realization is guaranteed with sufficient certainty. The carrying amount of deferred tax assets will be reviewed on each balance sheet date and reduced to the extent to which it is no longer probable that sufficient taxable income for the year will be available against which the asset may be utilized.

Liabilities

Liabilities are recognized at amortized cost under IAS 39.

Directly attributable transaction costs are deducted on recognition of the liabilities and are amortized over the contractual terms.

Deferred income

Payments from outsourcing transactions made for future service and purchase obligations are accrued at the time of the cash inflow and released over the term of the agreement through profit and loss.

Government grants for tangible assets are recognized as deferred income and are released over the expected useful life of the respective asset.

Provisions

Provisions comprise all legal and constructive obligations with uncertain timing or amount and which the Group cannot avoid fulfilling. In this case only obligations to third parties which will probably result in an outflow of economic resources are included. Provisions are measured using best estimates. In the event of different scenarios to which different probabilities can be allocated an expected value of the settlement amount is carried as liability; non-current provisions are discounted. Netting the amount of obligations with any claims for reimbursement is not permissible. Netting is always permissible for the income statement, irrespective of balance sheet treatment. The carrying amount of provisions is reviewed on each balance sheet date.

Pension provisions under defined benefit plans are calculated using actuarial assumptions under the projected unit credit method and recognized on the basis of an actuarial valuation as at the balance sheet date. Assets are transferred to two external non-profit associations and the plan assets recognized (direct investments of liquid funds) serve to secure future pension payments.

Pension obligations are recognized at the present value of defined benefit obligations adjusted by past service costs and actuarial gains or losses. The fair value of the plan assets is deducted. Actuarial gains and losses are only included and allocated over the average future service period to the extent that they exceed a corridor corresponding to the higher of 10% of the respective obligation or 10% of the plan assets.

Defined contribution plan commitments are recognized as an expense. Payments not yet made for a period are recognized on an accrual basis.

Other provisions are recognized for uncertain liabilities and onerous contracts.

Share-based payment

The Arcandor Group has agreed various share-based payment agreements as an element of total remuneration with the members of its Management Board and selected executives. The remuneration received is indirectly measured on the basis of the fair values of the equity or debt instruments used and recognized pro rata as staff costs and in equity or as a provision. The fair values are calculated for the first time on the grant date and, for cash-settled share-based payment agreements, recalculated at each subsequent balance sheet date applying a suitable option pricing model. Changes in fair values are recognized in profit and loss for cash-settled share-based payment agreements.

Management of insurance and financial risk

Incidental to its main business, the Thomas Cook Group, through its subsidiary White Horse Insurance Ireland limited, issues contracts that transfer significant insurance risk and that are classified as insurance contracts. As a general guideline, the Thomas Cook Group defines as significant insurance risk the possibility of having to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

Business written includes standard commercial risks for the Group and travel insurance for both the Group and non-Group customers. The principal nature of travel insurance risks is one of short term, low value and high volume. Underwriting performance is monitored on an ongoing basis and pricing reviewed annually for each individual contract. Exposure is capped by specific limits within the insurance policy and by using reinsurance contracts for any claims in excess of these retention limits. Commercial policies with the Group are subject to policy excesses and single event and aggregate limits. Insurance risk is spread across several European countries where the Group operates including the UK, Ireland and Scandinavia.

When estimating the cost of claims outstanding at the year end, the principal assumption underlying the estimates is the Group's past development pattern. This includes assumptions in respect of historic claims costs, average claims handling expenses and market developments. The Group uses an independent actuary to review its liabilities to ensure that the carrying values are adequate. Any changes to these variables are not expected to have a material effect on the Group financial statements.

The Group operates a reinsurance policy approved by the Board which ensures that reinsurers have a financial stability rating of B+ (A M Best) or above. The Group has assessed these credit ratings as being satisfactory in diminishing the Group's exposure to credit risk of its reinsurance receivables.

Derivative financial instruments

The derivative financial instruments used in the Group comprise hedging instruments used to control risks arising from interest rate and foreign currency fluctuations and to hedge the fuel price risk at Thomas Cook. The Arcandor Group primarily uses interest rate swaps, forward exchange contracts, foreign currency options and crude oil spread options and hedge combinations. Derivative financial instruments are neither held nor issued for speculative purposes, they serve solely to hedge current underlying transactions or planned transactions. Their use by the Group is only possible in line with internally defined responsibilities and controls within a clearly defined scope.

All derivative financial instruments are recognized at market value. First-time recognition is on the trading date. Available information on markets and suitable valuation methods are applied for measuring the market value of derivative financial instruments employed. The fair value of options is determined with help of recognized option pricing models and the fair value of interest-rate derivatives is determined allowing for remaining maturities on the basis of current market interest rates and the interest rate structure.

When recognizing hedging transactions a distinction is made between fair value hedges and cash flow hedges.

In the case of cash flow hedges contracted as a hedge against the risk of fluctuating cash inflows and outflows, changes in market value are, if risk limitation and documentation are sufficient, recognized directly in equity under “Changes resulting from the measurement of derivative financial instruments”. Ineffective elements and components of the hedge excluded from the derivative are recognized in profit and loss (spot rate method).

In the case of fair value hedges contracted as a hedge against the risk of market value fluctuations in recognized assets or liabilities, the changes in market value of the derivatives are recognized in profit and loss under other financial results; the adjustment not affecting net income is the result of recognized changes in the value of the hedged underlying transaction, which is also recognized in the income statement.

The market value fluctuations of individual commercially necessary hedging transactions, some of which do not fulfill the specific definitions of effectiveness under IAS 39, are recognized in profit and loss.

Positive market values of derivative financial instruments are reported under other assets and negative market values are reported under other liabilities.

Assumptions and estimates

Assumptions and estimates were applied in preparing the consolidated financial statements. They had an effect on the recognition and measurement of assets, liabilities, earnings, expenses and contingent liabilities. Assumptions and estimates relate mainly to the Group-wide determination of useful economic lives, assumptions with regard to the value of land, buildings, goodwill, receivables, participating interest, the valuation of provisions and the realizability of future tax relief. Actual values may in individual cases differ from the assumptions and estimates made. When more reliable information is available, changes are taken into account and recognized in profit and loss.

Contingent liabilities

Contingent liabilities are possible obligations which arise from past events and whose existence depends on future events not under the company’s control as well as existing obligations which cannot be recognized since either an outflow of resources is not probable or the amount of the obligation cannot be estimated with sufficient reliability. Contingent liabilities are disclosed to the extent of the possible obligation at the balance sheet date. Financial guarantee contracts issued are carried as liabilities under IAS 39 and are measured at fair value.

Consolidation

CONSOLIDATION PRINCIPLES

Business combinations are accounted for in accordance with the purchase method. The purchase price is allocated to the assets and liabilities of the subsidiary acquired. The values at the date at which control was established over the subsidiary are used. Irrespective of the share in the investment any assets that qualify for recognition and liabilities assumed are recognized at fair value. Any positive difference remaining between the purchase price and equity is recognized as goodwill. Any badwill is recognized directly in profit or loss. In the periods following the business combination, any fair value adjustments are treated in line with the corresponding assets and liabilities.

Uniform accounting policies are applied to all the financial statements included in the consolidated financial statements of Arcandor AG. All expenses and income, receivables and liabilities and intercompany results are eliminated.

Joint ventures are included proportionately, i.e. assets, liabilities, expenses and earnings are included in accordance with the participating interest. Where necessary, interim financial statements were prepared for different balance sheet dates.

Interests in associates accounted for using the equity method are recognized at the amount of their proportionately revalued assets (including any goodwill) and liabilities. Goodwill resulting from application of the equity method is not amortized; instead it is tested for impairment at least once a year. The equity value is generally adjusted for the pro rata net profit for the period. Unrealized profits and losses from transactions with these companies are eliminated proportionately. Where necessary, interim financial statements were prepared for different balance sheet dates.

The following table shows the pro rata non-current and current assets and liabilities, as well as the sales, income and earnings for the joint ventures consolidated proportionately. These amounts are included in the individual line items of the consolidated balance sheet and income statement:

Proportionate items of joint ventures consolidated proportionately

Amounts shown in th. €	**30.09.2007**	31.12.2006
Non-current assets	65,773	1,479,193
Current assets	168,702	846,359
Non-current liabilities	17,695	653,363
Current liabilities	64,601	1,040,114
Sales	366,984	4,417,188
Gross income	151,422	1,330,347
EBITDA	3,039	206,398
EBIT	2,401	116,032
Contribution to consolidated earnings	2,048	93,379

Other investments and subsidiaries, joint ventures and at-equity investments, which are immaterial and are therefore not consolidated, are recognized under IAS 39 at fair market value unless they are financial investments held to maturity or financial assets that have no quoted market price in an active market and whose fair value cannot be reliably estimated.

FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are translated into the functional currency at the exchange rate on the transaction date. On the balance sheet date monetary items are translated at the closing rate and non-monetary items are translated at the rate applying on the transaction date. Resulting translation differences to the amount of plus 1.8 mill. € (previous year: plus 10.5 mill. €) were recognized in profit or loss.

The financial statements of consolidated companies outside the European Monetary Union whose functional currency is not the euro are translated under the modified closing rate method.

In the consolidated financial statements, assets and liabilities of consolidated companies are translated into euros at the average closing date rates. Income statements of foreign consolidated companies whose functional currency is not the euro are translated at the average rates for the reporting period, as well as the corresponding net incomes for the year. Translation differences are recognized in equity. The most important rates have developed relative to the euro as follows:

Most important exchange rates to €

		Average rate		Rate applying at the balance sheet date	
Amounts shown in €	As at	**2007**	2006	**2007**	2006
1 Canadian Dollar	31.10.	0.677	0.698	0.728	0.711
100 Danish kroner	30.09./31.12.	13.425	13.406	13.416	13.412
1 English pound	31.10.	1.476	1.465	1.435	1.494
1 English pound	30.09./31.12.	1.478	1.467	1.435	1.489
100 Hongkong Dollar	30.09./31.12.	9.528	10.251	9.086	9.765
100 Japanese Yen	31.10.	0.627	0.685	0.600	0.637
100 Norwegian kroner	30.09./31.12.	12.405	12.428	12.958	12.136
100 Polish zlotys	30.09./31.12.	26.093	25.618	26.456	26.033
100 Swedish kroner	30.09./31.12.	10.826	10.806	10.852	11.058
100 Swiss francs	30.09./31.12.	61.089	63.566	60.237	62.232
100 Slowakian korunas	30.09./31.12.	2.959	2.687	2.966	2.908
100 Thai Baht	31.10.	2.241	2.091	2.184	2.142
100 Czech korunas	30.09./31.12.	3.566	3.532	3.640	3.645
1 Turkish Lira	31.10.	0.552	0.568	0.588	0.540
1 Tunisian dinar	31.10.	0.574	0.604	0.560	0.592
1 US Dollar	31.10.	0.744	0.809	0.692	0.787
1 US Dollar	30.09./31.12.	0.744	0.796	0.705	0.759

CONSOLIDATED COMPANIES

The financial statements of the parent company and of all major subsidiaries under direct or indirect control are included in the consolidated financial statements of Arcandor AG as at September 30, 2007. Control is presumed to exist when the parent company either legally or constructively has the opportunity to govern the financial and operating policies of a company so as to derive an economic benefit.

Companies are first included in the consolidated financial statements from the point in time when control can be exercised or when the criteria for joint ventures and associated companies have been met. Companies not consolidated are immaterial in terms of quantitative and qualitative aspects on an individual and joint basis and are recognized in line with IAS 39.

On September 30, 2007, the Group of consolidated companies was made up as follows:

Consolidated companies

	Total 30.09.2007	thereof domestic	thereof international	Total 31.12.2006
Number of fully consolidated companies (subsidiaries)				
As at 01.01.	383	283	100	390
Addition	234	20	214	9
Disposal	-52	-6	-46	-13
Merger	-10	-5	-5	-4
Change in type of consolidation	116	19	97	1
As at 30.09./31.12.	**671**	**311**	**360**	**383**
Number of proportionately included joint ventures				
As at 01.01.	150	31	119	168
Addition	4	4	-	3
Disposal	-2	-	-2	-22
Change in type of consolidation	-118	-20	-98	1
As at 30.09./31.12.	**34**	**15**	**19**	**150**
Number of companies recognized at equity (associates)				
As at 01.01.	25	8	17	31
Addition	-	-	-	6
Disposal	-12	-4	-8	-10
Change in type of consolidation	2	1	1	-2
As at 30.09./31.12.	**15**	**5**	**10**	**25**

The significant subsidiaries included in the consolidated financial statements are listed on page 122. The complete list of investments of Arcandor AG will be filed at the operator of the electronic Federal Gazette and, following this filing, be published in the Federal Gazette.

On April 2, 2007, the agreement to acquire a 50 % share in Thomas Cook AG from Deutsche Lufthansa AG, which was concluded with Deutsche Lufthansa AG on February 9, 2007, was fulfilled. By way of the acquisition of Lufthansa's share, 118 companies that were previously proportionately included in the consolidated financial statements were fully consolidated for the first time. The cash purchase price for the shares was 800.0 mill. €. Including other non-cash components of the purchase price and incidental costs of acquisition, the total recognized carrying amount was 886.0 mill. € (including incidental costs of 20.1 mill. €).

The allocation of fair value adjustments to balance sheet items in the context of purchase price allocation in line with IFRS 3 can be seen in the table below. On account of the business combination achieved in stages, fair value adjustments resulted in a revaluation reserve of 258.2 mill. €. The acquisition resulted in a goodwill of 858.4 mill. €.

On February 12, 2007, Arcandor AG concluded an agreement on the merger of its tourism business unit Thomas Cook with the UK travel provider MyTravel. The merger took place by way of share swap to create a new company named Thomas Cook Group plc. Following approval by the shareholders of MyTravel plc, all the conditions for closing the transaction were fulfilled on June 18, 2007 and Thomas Cook Group plc has been listed on the London Stock Exchange since June 19, 2007. In the share swap, the Arcandor Group received 52% of outstanding Thomas Cook Group plc shares in return for all shares in Thomas Cook AG. The exchange of MyTravel plc shares was effected by way of a scheme of arrangement, in which one MyTravel share was converted into a Thomas Cook Group share. Following the share swap, former MyTravel shareholders held 48% of Thomas Cook Group plc. As a result of the share swap, the Arcandor Group gained control of Thomas Cook AG, MyTravel plc and their subsidiaries.

With the first-time consolidation of Thomas Cook Group plc as at June 19, 2007, 211 fully consolidated companies were added to the Group of consolidated companies for the first time. As part of the share swap, the Group acquired the assets and liabilities of MyTravel at a fair value of 2.19 bill. €. The net assets of Thomas Cook at the time of the swap amounted to 1.48 bill. €. The share swap therefore generated a profit of 427.1 mill. €, which was appropriated to the reserves in equity, and an increase in minority interests of 1.76 bill. €. The total cost of the acquisition of MyTravel plc including 62.3 mill. € incidental costs incurred previously was 2.25 bill. €. The allocation of fair value adjustments to balance sheet items in the context of purchase price allocation in line with IFRS 3 can be seen in the table on page 120. The difference between the cost of acquisition and the net assets at fair value was 2.40 bill. €, of which 52% (1.25 bill. €) was reported as goodwill and 48% (1.15 bill. €) was offset against minorities.

By way of the conclusion of the purchase agreement on May 9, 2007, Arcandor AG acquired all shares in and thereby control over HSE Home Shopping Europe GmbH & Co. KG on June 19, 2007. Including the incidental costs incurred previously of 4.2 mill. €, the total cost of acquisition was 170.4 mill. €. 141.7 mill. € of the purchase price was paid by 5,469,806 shares of Arcandor AG Treasury stock at the transaction price of 25.90 € per share. In addition, depending on the performance of Arcandor shares, up to 53.7 mill. € will be payable in cash after three years. The allocation of fair value adjustments to balance sheet items in the context of purchase price allocation in line with IFRS 3 can be seen in the table on page 120. The difference between the cost of acquisition and the net assets at fair value of 97.0 mill. € was reported as goodwill.

Other changes in fully consolidated companies and joint ventures primarily relate to planned disposals and restructuring in the Primondo segment. In addition, 74.9% of shares in the IT service provider ITELLIUM Systems & Services GmbH were sold. On account of the loss of control, this company is now accounted for under the equity method instead of being fully consolidated. In associated companies accounted for under the equity method, there were further changes in the Thomas Cook segment primarily relating to restructuring in the context of the merger.

Therefore, due to the material changes in the consolidated companies in the reporting period, comparisons with previous periods are only possible to a limited extent.

The carrying amounts immediately before business combinations of the assets and liabilities acquired and the corresponding fair values relate to the individual acquisitions as shown below:

Assets and liabilities acquired at the time of first-time consolidation

	Thomas Cook 50 % Date of acquisition: April 2, 2007		MyTravel Date of acquisition: June 19, 2007		HSE24 Date of acquisition: June 19, 2007	
Amounts shown in th. €	**Carrying amounts** [1]	Fair values [2]	**Carrying amounts**	Fair values	**Carrying amounts**	Fair values
Assets						
Intangible assets (not including goodwill)	36,802	854,702	17,732	524,632	7,731	55,198
Tangible assets	411,682	529,582	525,208	444,608	5,942	5,942
Shares in associates	18,424	42,224	11,231	11,231	-	-
Other financial assets	28,000	29,400	396	20,396	280	280
Other non-current assets	102,030	102,030	75,432	75,432	6	6
Deferred taxes	137,681	137,681	16,015	218,315	8,064	8,064
Non-current assets	**734,619**	**1,695,619**	**646,014**	**1,294,614**	**22,023**	**69,490**
Inventories	5,382	5,382	13,941	13,941	30,972	30,972
Trade receivables	103,067	103,067	104,118	104,118	28,121	28,121
Other receivables and other assets	319,280	319,280	423,176	418,776	5,321	5,321
Cash and cash equivalents and securities	467,843	467,843	339,799	339,799	5,207	5,207
Current assets	**895,572**	**895,572**	**881,034**	**876,634**	**69,621**	**69,621**
Assets classified as held for sale	23,171	18,369	-	-	-	-
Balance sheet total assets	**1,653,362**	**2,609,560**	**1,527,048**	**2,171,248**	**91,644**	**139,111**
Equity and liabilities						
Net assets	**-231,766**	**27,579**	**-590,432**	**-146,953**	**44,341**	**73,463**
Revaluation reserve from gradual acquisition	**-**	**258,237**	**-**	**-**	**-**	**-**
Minority interests	**15,645**	**23,634**	**79**	**79**	**-**	**-**
Non-current financial liabilities	383,129	418,329	297,019	297,019	707	707
Pension provisions	118,298	307,313	8,665	8,665	-	-
Other non-current provisions	652	652	9,043	9,043	-	-
Deferred taxes	1,868	269,380	29,014	64,314	3,307	21,652
Non-current liabilities	**503,947**	**995,674**	**343,741**	**379,041**	**4,014**	**22,359**
Current financial liabilities	61,466	61,466	40,624	40,624	706	706
Trade payables	530,018	530,018	907,571	907,571	29,871	29,871
Other current liabilities	677,754	615,354	745,969	891,469	8,187	8,187
Current provisions	75,616	75,616	79,496	99,496	4,525	4,525
Current liabilities	**1,344,854**	**1,282,454**	**1,773,660**	**1,939,160**	**43,289**	**43,289**
Liabilities related to assets classified as held for sale	20,682	21,982	-	-	-	-
Balance sheet total equity and liabilities	**1,653,362**	**2,609,560**	**1,527,048**	**2,171,248**	**91,644**	**139,111**

[1] 50 % of carrying amount.
[2] On account of the gradual acquisition, 100 % of fair value changes were recognized and 50 % of the recognized amount was taken to the revaluation reserve.

In financial year 2007, the net sales of Thomas Cook AG and its subsidiaries amounted to 7.83 bill. €. MyTravel and HSE24 generated net sales of 3.88 bill. € and 227.5 mill. € respectively in the 2007 financial year.

Acquisitions and divestments had the following effects on the income statement and the balance sheet of the Arcandor Group:

Acquisitions/Divestments

	Acquisitions		Divestments	
Amounts shown in th. €	**30.09.2007**	31.12.2006	**30.09.2007**	31.12.2006
Sales	5,597,557	-	4,739	33,008
Gross income	1,432,821	-	2,550	26,262
Earnings before interest, tax and depreciation (EBITDA)	295,192	-	785	-19,602
Earnings before interest, tax (EBIT)	89,586	-	-1,058	25,202
Earnings before tax (EBT)	87,379	-	-902	25,057
Earnings from discontinued operations	-	-	-86,190	-
Non-current assets	4,958,337	4,156	12,021	42,512
Current assets	1,503,345	19,455	7,010	46,518
Assets classified as held for sale	9,074	-	761,854	-
Assets	**6,470,756**	**23,611**	**780,885**	**89,030**
Non-current liabilities	1,384,621	311	16,605	5,634
Current liabilities	2,599,253	14,971	28,226	27,366
Liabilities relating to assets classified as held for sale	4,847	-	446,919	-
Liabilities	**3,988,721**	**15,282**	**491,750**	**33,000**

Acquisitions in the financial year primarily relate to the acquisition of the 50% interest in Thomas Cook AG from Deutsche Lufthansa AG, the merger of Thomas Cook AG and MyTravel plc to form Thomas Cook Group plc and the acquisition of all shares in HSE Home Shopping Europe GmbH & Co. KG (HSE24).

74.5 mill. € of net sales and 3.5 mill. € of earnings before taxes (EBT) relate to HSE24. HSE24 also accounts for assets of 226.9 mill. € and liabilities of 57.8 mill. €.

Divestments relate to ITELLIUM Systems & Services GmbH and the disposals of companies in the context of the restructuring of the Primondo segment.

Significant subsidiaries, joint ventures and associates
(as at 30.09.2007)

Corporation name and registered office	Capital holding in %	Equity* in th. €	Sales* in th. €	Employees[1] number
Thomas Cook				
Thomas Cook Group plc, Peterborough, England[4]	52	4,713	-	-
Thomas Cook AG, Oberursel[2][4]	52	838,303	7,831,499	12,247
MyTravel plc, Rochdale, England[2][4]	52	-172,178	3,883,000	18,019
Primondo				
Primondo GmbH, Essen[3]	100	1,337,785	-	1
Primondo Specialty Group GmbH, Fürth[3]	100	638,754	566	-
Quelle GmbH, Fürth	100	377,669	1,743,960	3,271
neckermann.de GmbH, Frankfurt/Main	100	212,548	760,255	1,239
TriStyle Mode GmbH & Co. KG, Fürth[2][5]	51	36,552	439,846	651
Neckermann B.V., Hulst, Netherlands	100	71,703	166,893	538
Quelle Aktiengesellschaft, Linz, Austria[2]	100	40,974	151,856	966
Versandhaus Walz GmbH, Baby-Walz, Die moderne Hausfrau, Bad Waldsee	100	17,157	196,160	1,027
Neckermann Versand Österreich AG, Graz, Austria[2]	100	32,170	158,035	306
AFIBEL S.A., Villeneuve d'Ascq, France	99.49	49,785	119,420	532
Mode & Preis Versandhandels GmbH, Lörrach[2]	100	13,564	86,342	111
Bon' A Parte Postshop A/S, Ikast, Denmark	100	10,341	23,334	278
Profectis GmbH Technischer Kundendienst, Nuremberg	100	714	69,481	1,077
Elegance Rolf Offergelt GmbH, Aachen[2]	100	14,106	78,075	309
NeBus Loyalty B.V., Hulst, Netherlands[2]	100	3,891	55,018	199
Fox,Markt Handelsgesellschaft mbH & Co. KG, Fürth	100	-766	49,185	613
Happy Size-Company Versandhandels GmbH, Frankfurt/Main	100	5,201	66,350	59
Hess Natur-Textilien GmbH, Butzbach	100	17,824	39,905	204
servicelogiQ GmbH logistische Dienstleistungen, Nuremberg	100	-9,136	24,510	595
Quelle Versand AG, St. Gallen, Switzerland	100	16,967	35,518	116
KARSTADT QUELLE Information Services GmbH, Essen	100	181,598	60,667	316
Home Shopping Europe Holding GmbH, Ismaning	100	169,096	74,821	464
Karstadt				
Karstadt GmbH, Essen[3]	100	454,056	-	-
Karstadt Warenhaus GmbH, Essen	100	528,101	2,863,123	21,867
Karstadt Feinkost GmbH & Co. KG, Cologne[5]	74.90	67,631	262,873	2,195
Le Buffet System- Gastronomie und Dienstleistungs-GmbH, Essen	100	4,480	18,611	283
Services				
KARSTADT QUELLE Service GmbH, Essen[3]	100	1,378,300	-	-
KARSTADT QUELLE Kunden-Service GmbH, Essen[3]	100	1,405,950	-	-
KARSTADT QUELLE Business Services GmbH, Essen[3]	100	147,191	-	-
KarstadtQuelle Finanz Service GmbH, Düsseldorf[5]	50	104,917	10,243	112
Real estate				
KARSTADT Immobilien AG & Co. KG, Essen[3]	100	-1,200,044	4,176	11
KarstadtQuelle Joint Venture GmbH & Co. KG, Essen	100	174,076	-	-

* Data based on IFRS values.
1) Annual average, not including trainees.
2) Including subsidiaries.
3) Intermediate holding.
4) Financial year from 01.11.2006 to 31.10.2007.
5) Joint ventures.

Notes to the consolidated income statement

PRELIMINARY REMARKS

Due to the following circumstances only a limited comparison of the consolidated income statement for the short financial year 2007 (January 1, 2007 to September 30, 2007) with the consolidated income statement for the financial year 2006 (January 1, 2006 to December 31, 2006) is possible:

In the reporting period, the financial year of the Arcandor Group was changed from the calendar year to the year ending September 30. Financial year 2007 is therefore a short financial year and comprises nine months. The previous financial year comprised twelve months and ended on December 31, 2006.

The income and expenses of Thomas Cook AG have been included at 50% for the period from November 1, 2006 to April 1, 2007 on account of proportionate consolidation and at 100% for the period from April 2 to October 31, 2007. In the previous year, the period from November 1 to October 31 was included at 50%.

On February 12, 2007, Arcandor AG concluded an agreement on the merger of its tourism subsidiary Thomas Cook with the UK travel provider MyTravel. The newly formed company Thomas Cook Group plc was included in the consolidated financial statements of Arcandor AG for the first time as at June 19, 2007. Thus, the income and expenses of MyTravel have only been included for the period from June 19 to October 31, 2007.

1 SALES

The breakdown of sales by segment and region and the detailed notes are set out in the segment report.

Sales also include other operating income in the form of interest from installment credit operations of mail order companies in the amount of 82,440 th. € (previous year: 114,715 th. €).

Interest and commission from credit business at KarstadtQuelle Bank AG amounting to 13,899 th. € (previous year: 16,869 th. €) are also reported here.

Sales also include commission from the purchase and sale of foreign currencies at Thomas Cook AG exchange offices.

2 COST OF SALES AND EXPENSES FOR TOURISM SERVICES

Amounts shown in th. €	**01.01.2007 – 30.09.2007**	01.01.2006 – 31.12.2006*
Cost of tourism services	6,371,317	2,766,012
Cost of purchased goods	3,191,773	4,990,248
Cost of purchased services	75,462	106,546
	9,638,552	**7,862,806**

* The data has been adjusted.

Expenses for tourism services result mainly from the third-party purchase of advance materials and services. These include stopover services, flight and engineering costs, commissions, fees, aircraft fuel and supplies, transfer and other transportation costs, in-flight services, on-board sales materials, etc.

Operators' expenses are allocated to other periods under expenses for tourism services in alignment with allocation of operators' proceeds to other periods under IAS 18.

3 OTHER CAPITALIZED OWN COSTS

Other capitalized own costs include own costs from internally generated non-current assets, provided these developments were carried out mainly by employees of consolidated companies.

4 OPERATING INCOME

Amounts shown in th. €	**01.01.2007 – 30.09.2007**	01.01.2006 – 31.12.2006*
Income from the disposal of assets classified as held for sale	949,163	1,068,676
Rental income and commissions	92,276	121,212
Income from advertising cost subsidies	89,894	162,011
Income from recharged goods and services	64,269	80,265
Income from the reversal of other provisions	59,416	104,358
Income from the release of other liabilities	20,979	59,213
Income from the release of allowances	16,589	16,521
Income from other services	11,092	16,883
Income from compensation	8,430	12,977
Income from the disposal of non-current assets	3,795	21,358
Income from exchange-rate differences	1,648	27,735
Income from deconsolidation	408	67,189
Other income	277,713	342,322
	1,595,672	**2,100,720**

* The data has been adjusted.

911,403 th. € of income from the disposal of assets held for sale in 2007 related to income from the reversal of elimination of intercompany results relating to the sale of real estate to Highstreet in 2006. 731,408 th. € of this resulted from the reversal of the reserve for intercompany profit and loss elimination and 179,995 th. € resulted from the allocation to the investment.

In the third quarter of 2007, the Arcandor Group had lost its significant influence on Highstreet Holding GbR, with the result that the elimination of intercompany profit carried out in 2006 had to be reversed.

Other income mainly related to income from credit card business and on-charged costs.

5 STAFF COSTS

Amounts shown in th. €	01.01.2007 – 30.09.2007	01.01.2006 – 31.12.2006*
Wages and salaries	1,829,567	1,809,918
Social-security contributions and cost of pensions and welfare benefits	327,516	368,261
thereof for pensions	58,786	34,138
Other staff costs	5,512	18,404
	2,162,595	2,196,583

Wages and salaries included redundancy payments and costs of partial retirement arrangements amounting to 139,617 th. € (previous year: 44,596 th. €). Expenses for retirement benefits comprise service costs not including the corresponding interest component, which is recognized as other interest and similar expenses.

Other staff costs mainly include training and educational costs.

The average number of employees in the financial year was 86,005 (previous year: 87,436). Of these, 4,957 employees (previous year: 26,092 employees) are attributable to joint venture companies consolidated proportionately and 7,007 employees (previous year: 5,990 employees) to discontinued operations.

Phantom stock program Arcandor AG

		Plan Tranche 1 as at 30.09.2007
Commitment date	date	23.08.2007
Phantom stock	number	997,069
Term of tranche	from – to	21.03.2007 – 21.03.2009
Share price on commitment	in €	25.25
Exercise price	in €	30.55
Fair value of one phantom stock	in €	2.33
Fair value of plan	in th. €	2,323
Expense for period	in th. €	581
Carrying amount of provision	in th. €	581
Outstanding phantom stock	number	997,069
Expired phantom stock	number	-
Exercisable phantom stock	number	-

On March 21, 2007, the responsible committee of the Supervisory Board of Arcandor AG resolved to create a phantom stock program (PSP) for selected executives of the Group and the Management Board members of Arcandor AG.

Participation in the program is linked to the non-recurring investment of a bonus claim. The invested bonus claim is converted into phantom stocks in line with a prescribed formula and based on the price of Arcandor AG shares. A conversion rate of 25.25 € (60-day average price of Arcandor AG shares prior to March 21, 2007) was used for the first tranche. Participants receive eight phantom stocks for each notionally acquired share.

Each of these phantom stocks entitles the holder to payment of a cash amount immediately after a two-year vesting period and after achieving a performance target (increase in the price of Arcandor AG shares by at least 10% p.a. over the term of the plan). The claim to payment arises from the difference of the basis price and the exercise price, whereby the basis price is the conversion price on allocation and the exercise price is the identically calculated price for determining the achievement of the target.

The invested bonus can be claimed at any time and in any amount during the term of the program. Claims to phantom stocks for the exercised portion of the bonus claim lapse without replacement. This also occurs if the vesting condition is not met or the holder leaves the company during the vesting period.

Starting with effect as at March 21, 2007, the program will be offered in four annual tranches with a maximum total term for the program of six years. The basis price for allocation and the performance target for each tranche will be calculated individually using the same scheme. The responsible committee of the Supervisory Board will decide separately on whether or not to grant the individual tranches and can also limit the maximum payment amount per tranche. Thus, each future tranche is measured separately and on the basis of the respective grant date and basis price.

The phantom stock plan is a cash-settled share-based payment as defined by IFRS 2.30 ff. The remuneration received is measured indirectly on the basis of the fair values of the debt instruments and is recognized pro rata over the vesting period both as staff costs and a provision. For the period between the start of the tranche's term and the grant date it will be assumed that the remuneration has already been paid. Thus, provisions will be recognized for the full claim already vested for this period as at the reporting date.

The fair value of the plan was calculated using a binomial model. Volatility is calculated in the amount of 30 %, which was derived from the historical one-year volatility of Arcandor shares in XETRA trading. In addition, the distribution of an annual dividend in the amount of the risk-free interest rate of 4.09 % was assumed. A hypothetical zero-coupon bond with no risk of default and a two-year term was used for the risk-free interest rate.

Thomas Cook Group plc 2007 stock option plan

		30.09.2007
Commitment date	date	12.07.2007
Stock options	number	2,869,648
Term of tranche	years	3
Share price on commitment	in pence	297
Fair value of one stock option	in pence	214
Expense for period	in mill. €	0.9
Outstanding stock options	number	2,869,648
Expired stock options	number	-
Exercisable stock options	number	-

The Company has established a Performance Share Plan under which Executive Directors and senior management of the Company and its subsidiaries are granted options over ordinary shares in the Company. The options granted under the plan will vest if performance targets for earnings per share (EPS) and total shareholder return (TSR) are met during the three years following the date of grant. Subject to vesting conditions, the options are exercisable up to ten years after the date of grant.

The stock option plan qualifies as an equity-settled share-based payment transaction in accordance with IFRS 2.10 ff. Services received are measured indirectly by reference to the fair value of the equity instruments granted and are further recorded as personnel expense in future periods.

The fair value of the options subject to EPS performance targets was determined by the use of a Black-Scholes model and the fair value of the options subject to TSR performance targets was determined by the use of a Monte Carlo simulation.

Expected volatility has been based on the historic volatility of the shares of MyTravel Group plc and the shares of other companies in the same or related sectors and has been set at 32 %. In addition, the distribution of an annual dividend of 3.0 % was assumed. The risk-free interest rate was set at 5.7 %.

6 OPERATING EXPENSES

Amounts shown in th. €	01.01.2007 – 30.09.2007	01.01.2006 – 31.12.2006*
Operating and office/workshop costs	763,439	785,173
Logistics costs	642,938	1,016,911
Administrative costs	464,694	438,199
Advertizing	438,973	442,179
Catalog costs	415,760	555,397
Restructuring costs	195,272	361,615
Allowances on and derecognition of trade receivables	96,528	162,801
Losses from the disposal of fixed assets	15,009	19,294
Outside staff	14,565	23,346
Losses from the disposal of assets classified as held for sale	9,635	36,888
Expenses due to currency differences and losses	3,455	17,198
Other expenses	165,592	334,460
	3,225,860	4,193,461

* The data has been adjusted.

Operating and office/workshop costs mainly include leases, maintenance and service costs, and energy costs.

In addition to costs for logistics services resulting from outsourcing agreements with Deutsche Post AG, the logistics costs also include commissions and other distribution and mail-order costs.

Other expenses include charges due from intercompany transactions and deconsolidation losses. Furthermore, costs for the purchase of energy are reported on a gross basis.

7 OTHER TAXES

Other taxes mainly include property tax, excise tax and transfer taxes.

8 DEPRECIATION AND AMORTIZATION (NOT INCLUDING AMORTIZATION OF GOODWILL)

Amounts shown in th. €	01.01.2007 – 30.09.2007	01.01.2006 – 31.12.2006
Depreciation/amortization on tangible and intangible assets	371,048	274,957
Impairment of tangible assets	6,110	30,083
Impairment of intangible assets	5,626	39,833
Impairment of current assets	6,171	1,127
	388,955	346,000

The impairment in the reporting period primarily relates to the tangible and intangible assets in the Thomas Cook segment. In the previous year, there were write-downs on non-current assets held for sale in particular.

9 AMORTIZATION OF GOODWILL

There was no impairment of goodwill in the reporting period. Impairment in the previous year mainly related to the goodwill of HSM Direkt GmbH, Karlsruhe (13,083 th. €) and Multibus AG, Filderstadt (6,700 th. €).

10 INCOME FROM INVESTMENTS

Amounts shown in th. €	01.01.2007 – 30.09.2007	01.01.2006 – 31.12.2006
Income from shares in related companies	8,723	3,888
Income from other investments	3,482	1,977
thereof affiliated companies	42	90
Income from profit and loss transfer agreements	290	443
Expenses from the assumption of losses	-1,857	-10,567
Impairment of financial assets	1,431	24
Write-downs on financial assets	-5,843	-11,425
	6,226	**-15,660**

The write-downs on financial assets mainly related to the investment in the department store WERTHEIM Gesellschaft mit beschränkter Haftung, Berlin in the 2007 short financial year. In the previous year, write-downs on financial assets mainly related to InFoScore Consumer Data GmbH, Baden-Baden.

11 INCOME FROM INVESTMENTS IN ASSOCIATES

This item includes the pro rata annual result from investments in associates measured under the equity method as well as impairment of carrying amounts and expenses from the assumption of losses. This includes 2,441 th. € (previous year: 207 th. €) for the pro rata share of CAP GmbH, Bonn, and the pro rata share of investments accounted for under the equity method of the KarstadtQuelle Finanz Service subgroup amounting to 3,748 th. € (previous year: 3,092 th. €).

The breakdown of income from investments in associates by segment is shown in the segment report on pages 106 and 107.

12 NET INTEREST INCOME

Amounts shown in th. €	01.01.2007 – 30.09.2007	01.01.2006 – 31.12.2006
Interest expense on additions to pension provisions	-132,505	-123,519
Other interest and similar income	161,824	197,763
thereof associates	1,179	1,004
Other interest and similar expenses	-167,023	-300,270
thereof associates	-858	-964
Net interest income	**-137,704**	**-226,026**
thereof from financial instruments of the measurement categories in line with IAS 39:		
Loans and receivables	70,311	54,071
Held to maturity financial assets	891	1,564
Financial liabilities measured at amortized cost	-141,733	-247,446

Other interest and similar income includes 61,065 th. € (previous year: 98,297 th. €) in expected returns on plan assets and 3,820 th. € (previous year: 41,912 th. €) in income from interest rate swaps.

13 OTHER FINANCIAL RESULTS

Amounts shown in th. €	01.01.2007 – 30.09.2007	01.01.2006 – 31.12.2006
Other financial expenses	-25,351	-63,076
Other financial income	15,204	84,589
	-10,147	**21,513**

Other financial expenses and other financial income relate mainly to valuation gains or losses from the valuation of interest-rate swaps.

14 TAXES ON INCOME

Taxes on income comprise current income taxes paid or owed and deferred taxes. Taxes on income include corporation tax, solidarity surcharge, trade tax and comparable income taxes in foreign countries. As in the previous year, corporations located in Germany are subject to the following effective tax rates: a corporation tax rate of 25.0% and a 5.5% solidarity surcharge, as well as a trade tax whose amount is determined based on the individual municipal trade tax rates. Owing to the corporate tax reform in Germany in 2008, deferred taxes are subject to corporation tax of 15%, a solidarity surcharge of 5.5% and trade tax, the amount of which is based on the individual municipal trade tax rates. The income tax for foreign companies ranged between 15% and 34% (previous year: between 10% and 34.5%).

Taxes on income are broken down as follows according to their origin:

Amounts shown in th. €	01.01.2007 – 30.09.2007	01.01.2006 –31.12.2006*
Current taxes on income and earnings		
Germany	84,826	86,558
Other countries	44,306	12,806
	129,132	**99,364**
Deferred taxes		
from changes in temporary differences	41,279	83,745
from losses carried forward	89,713	-315,115
	130,992	**-231,370**
Tax expense in consolidated income statement	**260,124**	**-132,006**
Tax expenses shown under income from discontinued operations	-16,966	245
	243,158	**-131,761**

* The data has been adjusted.

Expected taxes on income, which would have resulted from applying the average domestic tax rate of 39% to IFRS consolidated earnings before taxes, can be reconciled to taxes on income in the consolidated income statement as follows:

Reconciliation from expected to actual tax expense

Amounts shown in th. €	01.01.2007 – 30.09.2007	01.01.2006 – 31.12.2006*
Net profit/loss for the year before taxes on income (incl. discontinued operations)	**378,338**	**200,515**
Expected tax expense (39%)	147,552	78,201
Trade tax additions/reductions	-83,533	-153,814
Tax on income for previous years	51,937	80,357
Effects of differing tax rates	-25,081	-12,733
Effects of tax-free income	-34,081	-61,062
Permanent differences	80,380	43,190
Operating expenses which are not tax deductible	77,114	78,278
Effects of changes in tax rates	5,512	-
Non-capitalized losses carried forward	22,004	-188,396
Other differences	1,354	4,218
tax expenses in consolidated income statement including discontinued operations	**243,158**	**-131,761**

* The data has been adjusted.

15 RESULT FROM DISCONTINUED OPERATIONS

Amounts shown in th. €	01.01.2007 – 30.09.2007	01.01.2006 – 31.12.2006*
Sales and operating income	1,459,726	2,208,187
Operating and other expenditure	-1,567,678	-2,324,094
Earnings before taxes	**-107,952**	**-115,907**
Attributable tax income/expense	16,966	-245
Earnings after taxes	**-90,986**	**-116,152**
Loss from the revaluation of assets classified as held for sale	-173,400	-124,466
Result from discontinued operations	**-264,386**	**-240,618**
thereof from deconsolidation	1,204	-
Cash flow		
from operating activities	-42,502	39,056
from investing activities	3,119	24,253
from financing activities	-1,507	-31,459

* The data has been adjusted.

16 PROFIT/LOSS DUE TO MINORITY INTERESTS

Amounts shown in th. €	01.01.2007 – 30.09.2007	01.01.2006 – 31.12.2006
Shares of profit	1,195	439
Shares of loss	-120,081	-2,372
	-118,886	**-1,933**

17 EARNINGS PER SHARE

		01.01.2007 – 30.09.2007	01.01.2006 – 31.12.2006*
Group earnings after minorities	th. €	**16,294**	**330,343**
Earnings per share (undiluted)			
Average shares (01.01.–30.09./31.12.)	number	206,674,488	200,610,311
Earnings per share	€	**0.08**	**1.65**
thereof from continuing operations	€	1.36	2.85
thereof from discontinued operations	€	-1.28	-1.20
Earnings per share (diluted)			
Average shares (01.01.–30.09./31.12.)	number	222.076.257	218.930.717
Earnings per share	€	**0.10**	**1.55**
thereof from continuing operations	€	1.29	2.65
thereof from discontinued operations	€	-1.19	-1.10

* The data has been adjusted.

Earnings per share are calculated in accordance with IAS 33 by dividing the net profit/loss attributable to the Arcandor Group and the weighted average number of outstanding shares during the financial year. A pro rata temporis increase in the number of shares was taken into account for exercising options and bond conversions. The increase against the previous year is due to the distribution of own shares (weighted: 2,063,700 shares) and exercised conversion rights (weighted: 9,067,805 shares).

Dilution of earnings per share may result from so-called potential shares. A dilution effect must be expected due to the issuing of the convertible bond by Karstadt Finance B.V., Hulst/Netherlands. Subscription rights to the convertible bond which had not yet been exercised were taken into account in calculating diluted earnings per share on the balance sheet date. In calculating diluted earnings per share, interest expense after taxes of 4,861 th. € (previous year: 8,335 th. €) was not included.

On December 27, 2007, the option right to discharge the convertible bond was exercised by delivering shares. Thus, the possible dilutive effect for this convertible bond will no longer exist from December 2007.

Notes to the consolidated balance sheet

18 INTANGIBLE ASSETS

Performance 01.01. – 30.09.2007

Amounts shown in th. €	Acquired intangible assets	Internally generated intangible assets	Goodwill	Manufacturing costs	Total
Historic purchase and manufacturing costs					
As at 01.01.2007	457,380	153,743	770,965	55,717	1,437,805
Addition to/derecognition from consolidated companies	1,496,296	33,257	2,202,199	1,291	3,733,043
Translation differences	-5,574	-97	-54,863	1	-60,533
Additions	49,064	39,109	1,973	37,685	127,831
Reclassifications	23,055	8,381	-	-31,436	-
Reclassification of assets classified as held for sale	23,649	31,434	-	1,944	57,027
Disposal	-20,237	-642	-5,420	-2,740	-29,039
As at 30.09.2007	**2,023,633**	**265,185**	**2,914,854**	**62,462**	**5,266,134**
Accumulated depreciation					
As at 01.01.2007	282,302	95,885	86,385	-	464,572
Addition to/derecognition from consolidated companies	93,879	14,596	-	-	108,475
Translation differences	-2,855	-98	-61	-	-3,014
Additions	148,535	29,745	-	-	178,280
Reclassifications	-	-	-	-	-
Reclassification of assets classified as held for sale	22,295	5,331	-	-	27,626
Disposal	-17,265	-206	-	-	-17,471
As at 30.09.2007	**526,891**	**145,253**	**86,324**	**-**	**758,468**
Book value as at 30.09.2007	**1,496,742**	**119,932**	**2,828,530**	**62,462**	**4,507,666**

Performance 01.01. – 31.12.2006

Amounts shown in th. €	Acquired intangible assets	Internally generated intangible assets	Goodwill	Manufacturing costs	Total
Historic purchase and manufacturing costs					
As at 01.01.2006	436,081	185,481	857,470	128,322	1,607,354
Addition to/derecognition from consolidated companies	3,524	-	-22,021	3	-18,494
Translation differences	178	-101	1,177	5	1,259
Additions	48,910	10,514	641	36,624	96,689
Reclassifications	90,665	10,987	-	-98,796	2,856
Reclassification of assets classified as held for sale	-108,881	-51,774	-65,636	-7,168	-233,459
Disposal	-13,097	-1,364	-666	-3,273	-18,400
As at 31.12.2006	**457,380**	**153,743**	**770,965**	**55,717**	**1,437,805**
Accumulated depreciation					
As at 01.01.2006	308,903	109,603	84,017	-	502,523
Addition to/derecognition from consolidated companies	1,108	-	-7,656	-	-6,548
Translation differences	150	-97	-44	-	9
Additions	55,745	24,575	21,818	-	102,138
Reclassifications	16,601	-16,053	-	-	548
Reclassification of assets classified as held for sale	-92,389	-21,432	-11,029	-	-124,850
Disposal	-7,816	-711	-721	-	-9,248
As at 31.12.2006	**282,302**	**95,885**	**86,385**	**-**	**464,572**
Book value as at 31.12.2006	**175,078**	**57,858**	**684,580**	**55,717**	**973,233**

Significant additions to the consolidated companies in acquired intangible assets related to the trademarks, customer base and order book of Thomas Cook in the amount of 1.30 bill. € and the trademarks and customer base of Home Shopping Europe GmbH, in the amount of 47.5 mill. €. The trademarks of 1.01 bill. € are intangible assets with an unlimited useful life. On the basis of the analysis of the relevant factors (planning for the future use of assets, expected market behavior, etc.), there is no foreseeable end to the period in which the trademarks are expected to generate net cash flows. 975.5 mill. € of these relate to Thomas Cook and 34.3 mill. € relate to Primondo and will be included in the respective impairment tests.

All corporate acquisitions are accounted for under the purchase method. Allocation of goodwill by segment is as follows:

Carrying amounts of goodwill

Amounts shown in th. €	**30.09.2007**	31.12.2006
Thomas Cook	2,624,407	572,327
Primondo	204,123	112,253
	2,828,530	**684,580**

Goodwill was allocated to the cash-generating units (CGUs) in accordance with the Group's management structure. The following are therefore treated as CGUs: Karstadt, Universal Mail Order, the CGUs Golden Ager, Community and Premium within Special Mail Order, Services and Real Estate. Within Thomas Cook, following the merger with MyTravel, the CGUs were identified as Continental Europe, North Europe, the UK and Ireland, North America and Airline (Germany).

Within Thomas Cook, significant goodwill is included in the UK CGU and, within Primondo, in the Universal Mail Order CGU.

On examining goodwill for any impairment loss under IAS 36, the recoverable amount of cash-generating units is determined at fair value less costs to sell or value in use.

Fair value is calculated on the basis of a discounted cash flow model. Calculation of fair value and value in use are based on cash flow plans approved by the Management Board which are in turn based on detailed medium-term planning for a period of four years.

These plans result from past experience and from anticipated future market trends. Growth rates which reflect the assumed average growth in the market or in the sector of the businesses concerned are applied for the period after the detailed planning horizon. Cash flows for periods beyond the planning period are always extrapolated on the basis of a growth rate of 1 %. Discount rates after tax are determined on the basis of market data and range between 4.6 % and 8.2 % for the cash-generating units (previous year: 5.4 % and 11.8 %).

Of the additions to goodwill due to changes in consolidated companies, 97.0 mill. € relates to Home Shopping Europe GmbH and 2,105.1 mill. € to Thomas Cook.

No impairment was recognized in the short financial year (previous year: 2,035 th. € for the Universal Mail Order CGU and 19,783 th. € for the Services CGU).

19 TANGIBLE ASSETS

Performance 01.01. – 30.09.2007

Amounts shown in th. €	Land and buildings	Aircraft and replacement engines	Technical plant and machinery	Other plant, fixtures, furniture and office equipment	Advance payments and construction in progress	**Total**
Historic purchase and manufacturing costs						
As at 01.01.2007	1,085,663	771,045	44,525	1,828,607	6,592	3,736,432
Addition to/derecognition from consolidated companies	306,461	1,474,447	15,576	375,581	2,640	2,174,705
Translation differences	-1,917	-26,307	12	-8,430	-3	-36,645
Additions	44,231	5,016	1,972	63,232	11,482	125,933
Reclassifications	472	514	-	787	-1,773	-
Reclassification of assets classified as held for sale	-8,299	-	56,830	158,841	1,003	208,375
Disposal	-12,358	-20,095	-34	-65,138	-5,097	-102,722
As at 30.09.2007	**1,414,253**	**2,204,620**	**118,881**	**2,353,480**	**14,844**	**6,106,078**
Accumulated depreciation						
As at 01.01.2007	612,314	453,895	26,314	1,619,360	-	2,711,883
Addition to/derecognition from consolidated companies	74,506	853,094	9,256	276,502	-	1,213,358
Translation differences	-1,446	-15,086	14	-6,643	-2	-23,163
Additions	50,078	77,287	6,137	67,740	3,262	204,504
Reclassifications	-	-	-	-	-	-
Reclassification of assets classified as held for sale	-1,265	-	46,958	152,966	-	198,659
Disposal	-12,149	-12,454	-25	-62,221	-	-86,849
As at 30.09.2007	**722,038**	**1,356,736**	**88,654**	**2,047,704**	**3,260**	**4,218,392**
Book value as at 30.09.2007	**692,215**	**847,884**	**30,227**	**305,776**	**11,584**	**1,887,686**

Performance 01.01. – 31.12.2006

Amounts shown in th. €	Land and buildings	Aircraft and replacement engines	Technical plant and machinery	Other plant, fixtures, furniture and office equipment	Advance payments and construction in progress	**Total**
Historic purchase and manufacturing costs						
As at 01.01.2006	4,028,478	779,843	184,474	2,189,457	25,483	7,207,735
Addition to/derecognition from consolidated companies	-32,018	-	-4,926	-29,609	-1,368	-67,921
Translation differences	-1,718	266	60	286	3	-1,103
Additions	143,928	2,683	2,195	83,566	12,518	244,890
Reclassifications	12,375	-29	136	226	-15,564	-2,856
Reclassification of assets classified as held for sale	-3,034,722	-	-135,399	-342,505	-11,227	-3,523,853
Disposal	-30,660	-11,718	-2,015	-72,814	-3,253	-120,460
As at 31.12.2006	**1,085,663**	**771,045**	**44,525**	**1,828,607**	**6,592**	**3,736,432**
Accumulated depreciation						
As at 01.01.2006	2,262,867	416,264	141,073	1,933,351	1,341	4,754,896
Addition to/derecognition from consolidated companies	-20,727	-	-3,827	-20,052	-1,337	-45,943
Translation differences	-295	265	49	256	3	278
Additions	70,019	47,366	10,941	84,542	-	212,868
Reclassifications	20	-	-30	-538	-	-548
Reclassification of assets classified as held for sale	-1,673,377	-	-119,174	-299,051	-	-2,091,602
Disposal	-26,193	-10,000	-2,718	-79,148	-7	-118,066
As at 31.12.2006	**612,314**	**453,895**	**26,314**	**1,619,360**	**-**	**2,711,883**
Book value as at 31.12.2006	**473,349**	**317,150**	**18,211**	**209,247**	**6,592**	**1,024,549**

As at the balance sheet date, Thomas Cook had 97 (previous year: 67) aircraft. Of the 46 aircraft (previous year: 36) reported under fixed assets of the Thomas Cook Group at the balance sheet date 20 (previous year: 18) are legal property, of which 13 (previous year: 11) aircraft are debt financed. The 26 remaining aircraft recognized (previous year: 18) are economic property, with legal ownership being held by lessors outside the Group. 51 aircraft (previous year: 31) are leased under operating lease agreements and are owned neither legally nor economically by the Group.

Major inspections of aircraft are capitalized in accordance with IAS 16.14 and are amortized over the period until the next scheduled inspection. After three major technical events and six major inspections were conducted and capitalized at 3,660 th. € in the previous year, there were no further major inspections in the current financial year.

Financial investments in land and buildings (investment property) are recognized and measured at amortized cost. As at September 30, 2007, their carrying amount is still 93 th. €. In comparison, market values, which are mainly based on internally adjusted assessments by third parties (independent appraisal reports), amount to 200 th. € (previous year: 1,972 th. €). The decline as against the previous year is due to adjustments for market development.

The income statement includes recognition of lease income from financial investments in land and buildings in the amount of 102 th. € (previous year: 295 th. €) and the associated operating expenditure of 137 th. € (previous year: 115 th. €) of which 0 th. € (previous year: 24 th. €) relates to depreciation. There were no disposals of investment property in the short financial year (previous year: income of 682 th. €).

Significant additions in the financial year relate to the Thomas Cook segment in the amount of 41.0 mill. €, Karstadt at 44.5 mill. € and Primondo at 35.8 mill. €.

Material disposals relate to Thomas Cook in the amount of 7.3 mill. €, Karstadt at 1.4 mill. € and Arcandor AG at 2.3 mill. €.

The translation differences in tangible assets mainly relate to the Thomas Cook segment. These predominantly arise from GBP/euro conversion.

As at the balance sheet date it was foreseeable that a disposal of the mail order-related service companies within the twelve months after first-time classification under IFRS 5 was extremely unlikely. The reclassification of assets held for sale mainly includes reverting the assets of these companies to their original classification as continued operations.

The economic ownership of leased property is assessed in accordance with IAS 17. If this is to be assigned to a Group company, the leased object is capitalized at fair value or the lower present value of lease payments when the property is first used. At the same time a corresponding amount is shown as a liability.

Finance lease agreements all have a contractually agreed minimum lease period of between 15 and 25 years, or in the case of Thomas Cook of between 7.5 and 12.5 years as well as a purchase option for the lessee after expiry of the minimum lease period.

Commitments under finance and operating lease agreements

	Total		Remaining term of up to 1 year		Remaining term of 1 to 5 years		Remaining term of over 5 years	
Amounts shown in th. €	**30.09.2007**	31.12.2006	**30.09.2007**	31.12.2006	**30.09.2007**	31.12.2006	**30.09.2007**	31.12.2006
Finance lease agreements								
Lease payments due in future	1,134,309	747,606	173,682	55,004	628,537	353,754	332,090	338,848
Discount	-320,015	-296,058	-52,296	-32,532	-118,824	-102,938	-148,895	-160,588
Present value	**814,294**	**451,548**	**121,386**	**22,472**	**509,713**	**250,816**	**183,195**	**178,260**
thereof IFRS 5	**-**	**4,368**	**-**	**4,368**	**-**	**-**	**-**	**-**
Lease payments under subleases	25,484	33,771	3,092	2,842	12,203	13,746	10,189	17,183
Operating lease agreements								
Lease payments due in future	6,658,978	5,543,982	771,527	457,710	2,441,539	1,690,706	3,445,912	3,395,566
thereof IFRS 5	171,563	157,927	16,025	157,927	66,640	-	88,898	-
Lease payments under sublease	664,501	555,385	113,975	91,502	313,618	259,624	236,908	204,259

Assets under finance lease agreements have a carrying amount of 408,735 th. € (previous year: 302,660 th. €) at the balance sheet date. These assets mainly relate to buildings, aircraft and spare engines for which the present value of the future minimum lease payments covers the material purchase costs. For aircraft financing a purchase option for the residual value plus an amount equivalent to 25% of the amount by which the market value exceeds the residual value normally exists after expiry of the lease period. If the purchase option is not exercised the aircraft is sold by the lessor. If the sale proceeds are less than the residual value, the lessee must reimburse the difference to the lessor. The lessee is entitled to up to 75% of the amount by which the sales proceeds exceed the residual value.

Operating lease agreements mainly comprise building leases without purchase options or aircraft leases where the assessment of IAS 17 criteria resulted in classification as an operating lease. See also Item 30 "Financial liabilities" for securities provided for consolidated liabilities and restrictions on availability.

20 SHARES IN ASSOCIATES

Shares in associates refer to companies under significant influence of the Group. These companies are accounted for at equity in the consolidated financial statements.

In the third quarter of 2007, the Arcandor Group lost its significant influence over Highstreet Holding GbR. As at September 30, 2007, Highstreet Holding GbR is therefore measured at fair value in line with IAS 39. As the Group intends to sell the company, it is reported under non-current assets held for sale.

Financial information relating to associates

Amounts shown in th. €	**30.09.2007**	31.12.2006
Assets	1,196,537	2,145,706
Liabilities	1,074,750	1,856,739
Sales revenue/income	301,842	406,001
Profit/loss	12,677	9,504

Of the carrying amounts, 75.0 mill. € (previous year: 26.7 mill. €) relates to the Thomas Cook segment, 65.9 mill. € (previous year: 59.9 mill. €) to Services and 16.6 mill. € (previous year: 10.3 mill. €) to the Real Estate segment.

21 OTHER FINANCIAL ASSETS

Amounts shown in th. €	**30.09.2007**	31.12.2006
Loans and receivables granted	311,972	318,963
Financial assets available for sale	95,626	69,560
Other assets	33	126
	407,631	**388,649**

Other financial assets include receivables from installment credit business, non-consolidated shares in affiliated companies and participating interests and loans.

22 OTHER NON-CURRENT ASSETS

Other non-current assets include security deposits as well as hotel prepayments, receivables from other taxes and prepaid expenses.

23 DEFERRED TAXES

Deferred taxes are calculated on the basis of tax rates applicable in the individual countries in accordance with current law or when they are expected to be realized. In Germany a tax rate of approximately 31% (previous year: approximately 39%) was applied, comprising corporation tax of 15.0% (previous year: 25%), a solidarity surcharge of 5.5% and an average trade tax rate of 15.18%. Companies organized in the legal form of an unincorporated company or partnership are always liable to pay trade tax. Unincorporated companies engaged in real-estate management are not liable to pay trade tax. Trade tax reduces its own basis for assessment; for corporations the basis for corporate tax assessment is reduced. In Germany, tax losses carried forward can only be used to a limited extent within the scope of minimum taxation according to which a positive basis of tax assessment of up to 1 mill. € is without limitation and amounts exceeding this basis are to be reduced by an existing loss carried forward up to a maximum of 60%. Tax rates in foreign countries ranged between 15% and 34% (previous year: between 10% and 34.5%).

Deferred tax assets and liabilities result from temporary differences and tax loss carryforwards as follows:

Deferred tax assets and liabilities

	Assets		Liabilities	
Amounts shown in th. €	**30.09.2007**	31.12.2006*	**30.09.2007**	31.12.2006
Non-current assets	143,554	92,827	502,392	97,122
Current assets	43,329	21,378	159,859	144,839
Non-current liabilities	340,575	343,860	291,271	539,495
Current liabilities	99,390	77,237	39,864	25,284
Losses carried forward	638,320	528,296	-	-
Set off	-588,764	-800,697	-588,764	-800,697
Consolidated balance sheet	**676,404**	**262,901**	**404,622**	**6,043**
Relating to assets and liabilities classified as held for sale	5,397	41,862	28,669	45,089

* The data has been adjusted.

Deferred tax assets on temporary differences and tax loss carryforwards are recognized insofar as their realization is guaranteed with sufficient certainty for the near future. In the year under review, deferred tax assets were capitalized on trade tax losses for the first time in the amount of 82.4 mill. €. Deferred tax assets were not recognized for tax loss carryforwards of 110,450 th. € for corporate tax purposes (previous year: 306,712 th. €) and for trade tax purposes in the amount of 3,837,763 th. € (previous year: 3,537,954 th. €). There are no restrictions under current law in Germany for tax loss carryforwards. Tax loss carryforwards in foreign countries are eligible for carryforward purposes in the amount of 66,630 th. € (previous year: 34,156 th. €) within the next five years.

The deferred tax liabilities recognized in equity in the amount of 10,718 th. € (previous year: deferred tax assets of 187,135 th. €) primarily related to the recognition of Highstreet GbR at fair value. In the previous year, the deferred tax assets taken to equity mainly arose from the elimination of intercompany profit in connection with the sale of real estate to Highstreet Holding GbR.

Deferred tax assets and liabilities are offset against one another in the total amount of 588,764 th. € (previous year: 800,697 th. €).

24 INVENTORIES

Amounts shown in th. €	**30.09.2007**	31.12.2006*
Raw materials and supplies	35,293	17,684
Merchandise	1,251,776	1,222,794
Advance payments	1,677	1,980
	1,288,746	**1,242,458**

* The data has been adjusted.

Breakdown by business segment

Amounts shown in th. €	**30.09.2007**	31.12.2006*
Thomas Cook	27,470	5,257
Primondo	520,767	452,050
Karstadt	719,185	763,800
Other	21,324	21,351
	1,288,746	**1,242,458**

* The data has been adjusted.

Due to the measurement of the inventories in accordance with the current retrograde method, it is not possible to state the carrying amount of inventories which are reported at their net realizable value.

The carrying amount of inventories pledged as collateral is 994 mill. € (previous year: 306 mill. €).

Total cumulative depreciation on inventories amounted to 268.3 mill. € in the year under review (previous year: 311.9 mill. €).

25 TRADE RECEIVABLES

Breakdown by business segment

Amounts shown in th. €	**30.09.2007**	31.12.2006*
Thomas Cook	292,698	70,791
Primondo	298,881	217,511
Karstadt	39,881	60,569
Services	48,863	41,350
Other	5,533	7,155
	685,856	**397,376**

* The data has been adjusted.

Maturities of unimpaired trade receivables

Amounts shown in th. €	**30.09.2007**	31.12.2006
Trade receivables	**685,856**	**397,376**
thereof neither impaired nor overdue as at the balance sheet date:	454,981	224,451
thereof with a remaining term of less than 1 year	454,981	224,451
thereof not impaired as at the balance sheet date and due in the following periods:		
less than 30 days	61,816	49,368
between 30 and 90 days	23,377	13,147
between 91 and 360 days	51,770	33,560
more than 360 days	93,912	76,850

Changes in allowances on trade receivables

Amounts shown in th. €	**30.09.2007**	31.12.2006
As at 01.01.	216,845	731,226
Appropriation*	49,971	100,793
Utilization	-152,596	-598,653
Reversal	-16,589	-16,521
As at 30.09./31.12.	**97,631**	**216,845**

* Expenses for allowances.

Expenses/income

Amounts shown in th. €	**30.09.2007**	31.12.2006
Expenses for the full derecognition of receivables	46,537	62,008
Income from recoveries on loans previously written off	6,492	9,201

Factoring in the Primondo subgroup

Various German and foreign companies in the Primondo subgroup sell mail order receivables that satisfy specific suitability criteria either directly or indirectly on an ongoing basis as part of a factoring program to VALOVIS Bank AG and ABN Amro as factors. As at September 30, 2007, the total receivable volume sold (nominal value) for Germany and abroad was 1.82 bill. €.

Suitable receivables are purchased on a daily basis and cleared as at the end of the month. The actual transfer of receivables is effected by a general assignment by way of security without assuming guarantees for credit-related default by the receivable seller. Various, standard purchase price discounts with a total amount of 547.0 mill. € were deducted from the nominal value of the mail order receivables. In addition, cash collateral of 120.0 mill. € has been retained.

All purchase prices calculated after the deduction of risk premiums are provisional. The nominal values include nominal amount credit fees as an interest component of total receivables until the repayment date of the last installment. Retained collateral discounts are adjusted on a portfolio basis depending on actual incoming payments either as a premium or a second purchase price installment. Receivables forwarded to collection companies can be surrendered to the receivable seller at fair value without giving rise to a buyback obligation.

There is no allowance account as defined by IFRS 7.16 for receivables sold in the factoring program.

On account of the partially variable purchase price discounts, not all the risks and rewards are transferred or retained with the sale of the receivables (continuing involvement). The variable discount is only paid out when and if the payments from the sold receivables are received that exceed the reduced purchase price. As at September 30, 2007, a receivable for payment of the remaining purchase price and an associated liability were each recognized in the amount of the remaining risk position of 279.0 mill. €. As at the balance sheet date, a liquidity effect of 1.15 bill. € was generated from the total amount of the receivables sold.

Other than the continuing involvement in the Primondo subgroup, the Arcandor Group has no other partial derecognition of financial assets as defined by IFRS 7.13.

In addition to the continuing involvement, the Group has also recognized unsuitable current mail order receivables and bought back doubtful receivables. The cost of the doubtful receivables bought back in the receivables selling program is 40 % of their original nominal value.

The impairment requirements for current mail order receivables is calculated using group assessments on the basis of historical data with portfolios formed according to defined characteristics. Portfolios are formed either by age and arrears classes or individually calculated credit ratings for individual customers.

Mail order receivables passed on to collection agencies are classified as doubtful receivables and broken down by the years in which collection proceedings were initiated. Impairment requirements are calculated on a portfolio basis for each year group. At each balance sheet date, the realization rates are forecast for the receivables based on historical data. Deviations of actual incoming payments from historical data lead to adjustments of the entire forecast response rate for that year group.

The measurement of uncollectable receivables in classic collection proceedings (long-term monitoring portfolios) is as for doubtful receivables.

26 OTHER RECEIVABLES AND OTHER ASSETS

Amounts shown in th. €	**30.09.2007**	31.12.2006*
Receivables from affiliated companies	7,428	15,565
Receivables from associates	41,531	39,337
Receivables from proportionately consolidated joint ventures	4,373	7,886
Receivables from related companies	11,517	6,789
Allocated catalog costs	101,756	92,216
Market values of derivative financial instruments	114,194	20,665
Receivables from security deposits	41,450	17,981
Other tax receivables	84,580	24,568
Other financing receivables	247,998	85,484
Other assets	1,014,634	660,832
	1,669,461	**971,323**

* The data has been adjusted.

Deferred catalog costs in the Primondo segment are written down over the period in which the respective catalogs are valid. In the other segments expenses are recognized on delivery.

Other receivables from financing include receivables from companies which are held by the KarstadtQuelle Pension Trusts and as such are treated as related companies which amount to 145,614 th. € (previous year: 27,964 th. €).

Other assets include the amount of 303,677 th. € (previous year: 281,023 th. €) withheld from factoring transactions. Furthermore claims for tax refunds, suppliers' debit balances and fixed deposits for securing settlement arrears resulting from partial retirement agreements are recognized under this item. These fixed deposits of 15.8 mill. € (previous year: 23.5 mill. €) are subject to a restriction on title by the Group.

27 CASH AND CASH EQUIVALENTS AND SECURITIES

Amounts shown in th. €	**30.09.2007**	31.12.2006
Checks	566	5,634
Cash and Bundesbank deposits	113,065	91,508
Deposits at banks	1,002,475	1,000,664
Securities	389,537	54,285
	1,505,643	**1,152,091**

Deposits at banks include balances under the agency collection at Thomas Cook UK travel agencies as well as balance sheet date related investments at banks.

Current asset securities are recognized at fair value. These are financial assets classified as held for sale. The market value of the securities at the balance sheet date corresponds to the amount recognized in the balance sheet. Foreign currency deposits are recognized at the closing rate.

Cash and cash equivalents and securities include an amount of 167.0 mill. € to which the Arcandor Group only has limited access owing to statutory or contractual conditions.

28 ASSETS CLASSIFIED AS HELD FOR SALE AND LIABILITIES

Amounts shown in th. €	30.09.2007	31.12.2006*
Assets classified as held for sale		
Intangible assets	17,895	19,198
Tangible assets	129,020	332,141
Other financial assets	512,870	5,106
Deferred taxes	5,397	35,962
Non-current assets	**665,182**	**392,407**
Inventories	54,120	224,296
Other current assets	484,738	685,488
Current assets	**538,858**	**909,784**
	1,204,040	**1,302,191**
Liabilities from assets classified as held for sale		
Provisions for pensions	44,759	64,628
Deferred taxes	28,669	45,089
Non-current liabilities	**73,428**	**109,717**
Current financial liabilities	12,997	147,066
Other liabilities	493,627	630,663
Current liabilities	**506,624**	**777,729**
	580,052	**887,446**

* The data has been adjusted.

The assets and liabilities classified as held for sale relate mainly to the Primondo and Real Estate segments. They relate to real estate not yet sold as well as to assets and liabilities relating to the planned sale of the neckermann.de member company and some non-core mail order operations.

The decline in assets and liabilities held for sale is mainly due to the disposal of the Quelle Region West member companies and some non-core mail order operations in the short financial year. In addition, the mail-order related service companies have been reclassified as their disposal within the twelve-month period is no longer considered likely.

Other financial assets include an amount of 510.0 mill. € from the fair value measurement of Highstreet Holding GbR. In connection with the planned disposal of the shares held by the Arcandor Group, the Group waived significant involvement rights at Highstreet Holding GbR and lost its significant influence in the third quarter of 2007. As a result, the investment was classified as available for sale as defined by IAS 39 and measured at fair value. The income from remeasurement of 330.0 mill. € was appropriated to the revaluation reserve taking into account deferred taxes.

Impairment has been recognized where the requirements have been satisfied. In the short financial year, impairment of 173.4 mill. € (previous year: 114.7 mill. €) was recognized for the Neckermann Group and of 6.2 mill. € for other assets.

29 EQUITY

The breakdown of equity is shown on page 104.

Outstanding share capital is divided into 220,970,370 (previous year: 201,012,790) no-par value bearer shares with a proportionate share in the share capital of 2.56 € per share. Not including the 5,697,827 Treasury shares (previous year 11,167,633), the share capital recognized on the balance sheet thus amounts to 551,098 th. € (previous year: 514,952 th. €).

The increase in share capital is due to the exercise of the conversion right pertaining to the convertible bond (8,789,947, Contingent Capital I) and the transfer of Treasury shares for the acquisition of HSE24 (5,469,806).

Authorized Capital III

On July 11, 2002 the Annual General Meeting authorized an Authorized Capital III.

The Management Board is authorized, subject to the approval of the Supervisory Board and under exclusion of shareholders' subscription rights and by the issuance of up to 1,562,500 new registered no-par value shares to employees of the company or subordinate affiliated companies, to increase the share capital in one or more parts to a total not exceeding 4 mill. € by June 30, 2007. Therefore, as at the reporting date, the Group can no longer exercise this option to increase its share capital in the context of Authorized Capital III.

Contingent Capital I

(Convertible bonds and/or warrant bonds)

The Management Board was authorized to issue in one or more parts by June 30, 2005, convertible bearer bonds and/or warrant bearer bonds to a total nominal value of up to 600 mill. € and with a term of not more than 20 years and to grant bearers and creditors of convertible bonds conversion rights or bearers or creditors of warrant bonds option rights on new company shares with a proportionate share of the share capital of up to 50 mill. € at terms defined more specifically in the conditions relating to convertible bonds and warrant bonds.

The share capital was accordingly contingently increased by up to 50 mill. €. The contingent capital increase serves to grant rights to the bearers or the creditors of convertible bonds and/or warrant bonds issued by June 30, 2005, subject to the aforesaid authorization.

In December 2004 Arcandor AG, through its Netherlands subsidiary Karstadt Finance B.V., Hulst/Netherlands, issued a convertible bond guaranteed by Arcandor AG with a nominal value of 170.0 th. € on the Luxembourg Stock Exchange (DE000A0DH5H7).

The convertible bond yields nominal interest of 4.5% and has a term of five years. During the exercise period indicated below, creditors of the convertible bonds are entitled to convert their respective partial bond, totaling 3,400 bonds at a par value of 50 th. € per bond with a proportionate shareholding in the share capital of Arcandor AG of 49.7 th. €, to shares in Arcandor AG. The number of shares per bond is 5,707.76 (a total of 19,406,392 shares).

The conversion price in accordance with the loan terms is 8.76 €. The conversion price may, however, be adjusted under certain circumstances (protection against dilution for increases in capital financed with corporate funds and protection in the case of changes in controlling methods). In the period up to September 30, 2007 a total of 10,171,220 shares were converted. This represents an increase in share capital of 26.0 mill. €.

In the financial year of 2004, an amount of 33.4 mill. € was allocated to capital reserves for the purpose of granting conversion rights in accordance with requirements pertaining to Contingent Capital I. The convertible bond was sub-divided into bond and share option components in accordance with a market price model. This resulted in an 80.38% proportion for bond components, while option components accounted for 19.62% of the proceeds from the issue. 716 th. € of the 3.7 mill. € transaction costs incurred were offset against the capital reserve. Any transaction costs relating to borrowed capital are recognized as expenses over the term. The proportion of borrowed capital in the bond issued in the amount of 72.1 mill. € (135.7 mill. € in the previous year) is recognized as a liability. The effective interest method is applied to calculate the proportion of borrowed capital. The effective interest rate is 9.97%; effective interest expenses amount to 9.1 mill. € (previous year: 13.0 mill. €) of which 4.7 mill. € (previous year: 7.3 mill. €) is ordinary interest.

The bond debtor assigned claims against Arcandor AG for payment of the amount equivalent to all of the associated claims relating to the loan to the central conversion office for securing claims for payment of capital from the bonds acting for the account of the bond creditors.

On December 22, 2009 the bond debtor will redeem the bond through payment of the nominal amount plus accrued interest or through delivery of shares in Arcandor AG unless the respective bond is redeemed, converted or repurchased beforehand and cancelled. The option to pay off shares may be exercised under the subsequent condition that the current share value is not less than 63.15% of the current conversion price on the third stock-exchange trading day immediately preceding the date of final maturity.

Effective December 22, 2007 the bond debtor is entitled at any time to redeem the bond in full by delivering shares in Arcandor AG. Early repayment may, however, only be made if the Xetra share price defined in the agreement multiplied by the current conversion ratio on 15 of the 30 consecutive trading days on the Frankfurt Stock Exchange prior to the date of publication of early repayment exceeds 130% of the nominal value on the date of each of these 15 stock-exchange trading days.

The right to conversion may be exercised by a bond creditor during a period which commences on the 60th calendar day after the date of issue and ends on the 16th stock-exchange trading day prior to the date of final maturity. In the event of early repayment the exercise period ends at midnight on the fourth business day preceding the date stipulated for repayment.

Exercising the right to conversion is excluded

- for a period of five business days prior to the final date stipulated for depositing shares or for notification and the business day after the Annual General Meeting of Arcandor AG,
- during a period of 14 calendar days which commences at the end of an Arcandor AG financial year
- during the period beginning on the day on which an offer from Arcandor AG to the shareholders of the company concerning subscription for shares, subscription rights or similar offers is published in an official announcement journal of the German stock exchanges up to the final day of the period stipulated for exercising the subscription right.

Other than the convertible bond, the Arcandor Group did not issue any other compound financial instruments.

Contingent Capital II
(Incentive Stock Option Plan)
On July 12, 2001, the Annual General Meeting authorized a Contingent Capital II.

The Management Board is authorized, subject to the approval of the Supervisory Board and under exclusion of the subscription right of shareholders, to increase the share capital by the issuance of up to 6,380,000 new bearer no-par value shares to executives of the company by September 30, 2009.

The contingent capital will be increased only to the extent that subscription rights are utilized.

Authorization to acquire Treasury stock
On July 11, 2002, the Annual General Meeting authorized the Management Board to acquire company shares in order to launch company shares on foreign stock exchanges on which, until then, they had not been licensed to trade, or to be able to offer company shares to third parties within the scope of company mergers or the acquisition of companies or participating interests in these companies.

The Management Board is also authorized to acquire company shares in order to offer these to executives of the company under the aforesaid Incentive Stock Option Plan in fulfillment of the resulting subscription rights.

Furthermore the Management Board was also authorized by a resolution passed at the Annual General Meeting on May 4, 2004, to appropriate Treasury stock in order to service conversion and/or subscription rights (see Contingent Capital I).

Authorization is limited to the purchase of shares whose value amounts to up to 10% of the share capital in the company amounting to 301,459,904 € on July 11, 2002. This represented 11,775,777 no-par value shares. The right of shareholders to subscribe for Treasury stock is precluded insofar as these shares are used in accordance with the aforesaid authorizations.

A total of 11,424,883 shares were bought back. Treasury stock was reduced to 5,697,827 shares (141,668 th. €) by the exercise of subscription rights under the Incentive Stock Option Plan in 2006 (4,290 th. €) and the acquisition of shares in HSE Home Shopping Europe GmbH & Co. KG (141,668 th. €). This represents 2.6% of the current share capital.

Share-based remuneration

In the 2001 financial year, the Group launched an Incentive Stock Options Plan with a total term of eight years, to be effected in several tranches. For each tranche, after acquisition of the options and the statutory two-year vesting period, a further two-year period has been provided for, during which those eligible to participate may exercise their options subject to standard insider trading regulations, provided that

a) the average stock exchange closing price for Arcandor AG shares is at least 30% higher than the respective subscription price of 16.68 € on at least ten consecutive days, and

b) from the date at which the option was granted the aforesaid stock exchange closing price, in relation to the subscription price and on at least ten consecutive days, is at least 10 percentage points higher than the value of the DAX-30 index price over the same period.

The subscription price was recalculated in 2004 taking the capital increase into account.

Options are forfeited upon termination of an employment relationship or if the company of employment separates from the Arcandor Group.

The first tranche, which was issued in 2001 with over 1,000 subscribers, expired at the end of the 2005 financial year without the conditions for exercising options having been fulfilled.

The second tranche was launched in September 2002. Under this authorization, as a rule, 726 employees have acquired 1,000 stock options. Of the 725,500 total options issued, 257,250 have been exercised and 468,250 were forfeited. At December 31, 2006, no options from the second tranche were exercisable. No further tranches were issued in financial year 2007.

Contingent Capital V and VI

On May 10, 2007, the Annual General Meeting of Arcandor AG authorized the Management Board to grant convertible and/or warrant bonds under exclusion of the subscription right of shareholders or not under exclusion of the subscription right of shareholders.

Specifically, the Management Board can, in both cases and subject to the approval of the Supervisory Board, issue in one or more parts by May 9, 2012, convertible bearer bonds and/or warrant bearer bonds to a total nominal value of up to 900 mill. € and with a term of not more than 20 years and to grant bearers and creditors of convertible bonds conversion rights or bearers or creditors of warrant bonds option rights on new company shares with a proportionate share of the share capital of up to 60 mill. € at terms defined more specifically in the conditions relating to convertible bonds and warrant bonds.

Subject to the approval of the Supervisory Board, under one alternative the Management Board is authorized to disapply the subscription rights of shareholders when issuing partial bonds that satisfy specific requirements if they are issued against cash and the Management Board, following due examination, is of the opinion that the issue price of the partial bonds is not significantly less than the theoretical market value of the partial bonds as calculated in line with recognized financial methods.

On May 10, 2007, the Annual General Meeting of Arcandor AG resolved Contingent Capital V and Contingent Capital VI. In both cases, the share capital can be contingently increased by up to 60 mill. € by issuing up to 23,437,500 new bearer shares with a pro rata amount of share capital of 2.56 €. The contingent capital increase is for issuing shares to bearers and creditors of convertible bonds conversion rights or bearers or creditors of warrant bonds issued by Arcandor AG or a direct or indirect subsidiary by May 9, 2012. The contingent capital will be increased only to the extent that subscription rights are utilized.

Capital management

Company law provisions form the framework for capital management in the Arcandor Group. In cases in which regulatory or contractual conditions must be complied with, equity is also managed in line with the principles stipulated in these conditions.

In cases where there are no special regulations, the equity to be managed consists of the equity carried on the balance sheet. Where necessary, equity is adjusted to the respective regulatory or contractual requirements.

Announcements pursuant to §§ 21 ff. of German Securities Trading Act (WpHG)
for the period from January 1 to December 31, 2007

Notification* from	Date of announcement	Announced threshold	Announced voting rights	Voting rights assigned to
Allianz SE, Germany	26.01.2007	Drop below 5 % und 3 %	2.64 %	Dresdner Bank AG, Allianz Finanzbeteiligungs GmbH (§ 22 WpHG), Allianz SE (§ 22 WpHG)
Wellington Management Company, LLP, U.S.	28.02.2007	Exceeded 3 %	3.13 %	Wellington Management, U.S.
Fidelity International, Great Britain	23.02.2007	Drop below 3 %	2.97 %	FMR Corp., U.S.
Fidelity International, Great Britain	05.03.2007[1)]	Drop below 3 %	2.97 %	FMR Corp., U.S.
Fidelity International, Great Britain	30.05.2007	Exceeded 3 %	3.04 %	FMR Corp., U.S.
Fidelity International, Great Britain	26.06.2007	Drop below 3 %	2.92 %	FMR Corp., U.S.
Arcandor AG, Germany	05.07.2007	Drop below 5 % und 3 %	2.63 %	Arcandor AG, Germany
Fidelity International, Great Britain	26.07.2007	Exceeded 3 %	3.07 %	FMR Corp., U.S.
Fidelity International, Great Britain	17.09.2007	Drop below 3 %	2.15 %	FMR Corp., U.S.
Julius Bär Holding AG, Switzerland	14.09.2007	Exceeded 5 %	5.26 %	Julius Bär Holding AG, Switzerland
Janus Capital Management LLC, U.S.	18.09.2007	Exceeded 3 %	3.05 %	Janus Capital Management LLC, U.S.
Janus Capital Management LLC, U.S.	18.09.2007	Exceeded 5 %	5.54 %	Janus Capital Management LLC, U.S.
Janus Capital Management LLC, U.S.	20.09.2007[1)]	Exceeded 3 %	3.08 %	Janus Capital Management LLC, U.S.
Janus Capital Management LLC, U.S.	24.09.2007[1)]	Exceeded 5 %	5.45 %	Janus Capital Management LLC, U.S.
Wellington Management Company, LLP, U.S.	17.10.2007	Exceeded 5 %	5.12 %	Wellington Management, U.S.
Wellington Management Company, LLP, U.S.	14.12.2007	Drop below 5 %	4.91 %	Wellington Management, U.S.
Morgan Stanley, U.S.	28.12.2007	Exceeded 3 %	4.52 %	Morgan Stanley, U.S.

* The Announcements were published in accordance with § 26 WpHG.
[1)] Changed Announcements

The following notice was issued under Sections 21 ff. WpHG (German Securities Trading Act) during the 2005 financial year: Mrs. **Madeleine Schickedanz, Fürth**, **Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG, Fürth**, Mr. **Leo Herl, Fürth**, **Grisfonta AG, Landquart/Schweiz, Martin Dedi Vermögensverwaltungs GmbH & Co. KG, Fürth**, and Mr. **Martin Dedi, Freudenstadt**, announced that as of May 23, 2005, their shares in our company, including assignable votes in accordance with Section 22 (2) WpHG, exceeded the threshold of 50 % and now totaled 50.0015 %. Their share of voting rights on September 30, 2007 was 55.5477 %. No other notifications were received in the year under review or the previous year.

Capital reserve

The capital reserve increased by 45,548 th. € as a result of the exercise of options to the convertible bonds and by 127,665 th. € as a result of the transfer of Treasury shares for the acquisition of HSE24.

Equity treatment of profits/losses from derivative financial instruments

Amounts shown in th. €	Before tax	Tax effect	Net
Unrealized profits/losses from derivative financial instruments			
as at 01.01.2007	-28,945	9,745	-19,200
Reversal	18,480	-6,426	12,054
Appropriation	-210	-4,923	-5,133
Changes in consolidated companies	-26,505	9,339	-17,166
As at 30.09.2007	**-37,180**	**7,735**	**-29,445**

Under IAS 39, all derivative financial instruments are allocated to the category "financial assets and liabilities held for trading". Changes in value must be reported in profit or loss unless the changes result for derivatives which are part of a hedging transaction.

A distinction must be made between fair value hedges and cash flow hedges in terms of recognition and measurement. Changes in the value of cash flow hedging transactions are recognized in equity if they are related to the effective part of a hedge accounting transaction. Non-effective parts of hedge accounting are recognized in profit or loss.

Non-derivative financial instruments contributed 282,070 th. € (previous year: 4,110 th. €) to changes in the value of equity, including deferred taxes of minus 52,569 th. € (previous year: minus 385 th. €). These changes were mainly due to the measurement of Highstreet GbR at fair value.

Dividend proposal

There will be no dividend payments by Arcandor AG for the short financial year 2007.

Minority interests

Minority interests relate mainly to the Thomas Cook Group.

30 FINANCIAL LIABILITIES

	Total		Remaining term of up to 1 year		Remaining term of 1 to 5 years		Remaining term of more than 5 years	
Amounts shown in th. €	**30.09.2007**	31.12.2006	**30.09.2007**	31.12.2006	**30.09.2007**	31.12.2006	**30.09.2007**	31.12.2006
Convertible bonds	72,073	135,727	-	-	72,073	135,727	-	-
Liabilities to banks	1,105,138	134,007	906,127	37,525	168,612	79,810	30,399	16,672
Payable to affiliated companies	28,576	28,630	19,267	19,613	9,129	7,015	180	2,002
Lease liabilities	814,294	447,180	121,386	22,035	509,713	348,293	183,195	76,852
Other financial liabilities	447,083	447,531	229,384	112,975	158,317	42,192	59,382	292,364
	2,467,164	**1,193,075**	**1,276,164**	**192,148**	**917,844**	**613,037**	**273,156**	**387,890**

Contractually agreed payments of derivative and non-derivative financial liabilities

Amounts shown in th. €	**30.09.2007**	31.12.2006
Bookvalues financial liabilities	6,301,832	3,491,280
Cash flows/maturities		
Up to 1 month	3,511,681	1,423,118
Between 1 to 12 month	467,148	428,962
Between 1 to 5 years	701,944	485,417
Over 5 years	1,986,983	1,462,241

The cash flows are undiscounted cash flows at the respective due dates. In addition to the financial liabilities described in section (30), financial liabilities also include trade payables. In addition, they also include primary financial liabilities and derivative financial liabilities not reported under financial liabilities.

A credit agreement for 600 mill. € was signed on February 9, 2007 to provide interim finance for the acquisition of 50% of shares in Thomas Cook AG from Deutsche Lufthansa AG.

On June 12, 2007, a syndicated credit facility with a term of several years of up to 1,500 mill. € was concluded to secure the establishment of intra-year working capital, to provide guarantee and letter of credit lines and to finance the acquisition of Thomas Cook AG. This credit facility replaced the syndicated credit facility of June 29, 2006 in the amount of up to 400 mill. € and the credit agreement of February 9, 2007.

The **credit facility** comprises five smaller facilities:

Facility	Volume in mill. €	Interest rate in % above EURIBOR/ LIBOR	Drawn amounts as at 30.09.2007 in mill. €
A	450	1.25 - 1.90	- [1]
B	200	1.40 - 1.90	-
C	400	1.75	400
D	100	1.75	100
E	350	1.75 - 5.75	270

[1] Partially used for Bank Guarantees and Letter of Credits.

Shares in significant affiliated companies and bank accounts as well as receivables of Arcandor AG from certain subsidiaries with a total carrying amount of 3.60 bill. € were pledged as collateral.

Tranches A and B have a remaining term of more than one year and a prolongation option of one further year. Tranches C, D and E are payable within the next twelve months after the reporting date. Tranche E has a prolongation option for a further year under different conditions.

Regular commission, fees for funds not utilized, insurance fees and commission amounting to 1,593 th. € were paid for providing the credit in the financial year. The amounts to be paid are each calculated as a percentage (0.125% to 0.75%) as well as in relation to facilities which were not utilized. In addition, one-time transaction costs in the amount of 15,845 th. € were paid and spread over the term of the facilities.

Granting credit is subject to various conditions. In addition to general requirements, financial conditions specify that consolidated key ratios for each quarterly reporting date may not fall below or exceed a stipulated level.

The loans secured by mortgages carry annual interest rates of between 3.06% and 5.39%. Interest-bearing bank loans and overdrafts are recognized at the amount paid less directly attributable issuing costs. Borrowing costs including premium costs which become payable on repayment or redemption are reported in recognition of profit or loss appropriate to the period.

Liabilities from finance leases are recognized at the point in time of initial use corresponding with the capitalized lease property at fair value or the lower present value of the lease payments. Lease payments are proportionately allocated to financial expenditure and to the reduction of a lease obligation to result in a consistent interest rate over the periods on the remaining balance of obligations for each reporting period.

Financial obligations also include liabilities to customers of KarstadtQuelle Bank resulting from savings deposits, call deposits, credit on card accounts, promissory notes and savings certificates in the amount of 83,789 th. € (previous year: 87,130 th. €) and the convertible bond in the amount of 72,073 th. € (previous year: 135,727 th. €).

In addition to the collateral for the credit facilities, VALOVIS Bank AG has property mortgages of 88.9 mill. €. Thomas Cook has issued aircraft mortgages of 96.0 mill. € and property mortgages or similar collateral of 78.7 mill. €.

In addition, Arcandor AG has assumed a guarantee for VALOVIS Bank AG for loans by Karstadt Finance B.V., Hulst/Netherlands, in the amount of 300 mill. €, measured at 202 mill. € as at the reporting date.

Lease obligations carried as a liability are effectively secured by the rights of the lessor to the buildings or aircraft specified in the financial lease.

There were no payment defaults on financial liabilities in the reporting period.

31 OTHER LIABILITIES

Amounts shown in th. €	Total 30.09.2007	Remaining terms up to 1 year	1 to 5 years	more than 5 years
Payable to affiliated companies	5,243	5,243	-	-
Previous year (31.12.2006)	5,846	5,846	-	-
Payable to proportionately consolidated companies	4,711	4,711	-	-
Previous year (31.12.2006)	4,032	4,032	-	-
Payable to associates	38,403	38,403	-	-
Previous year (31.12.2006)	4,110	4,110	-	-
Payable to companies in which investments are held	3,334	3,334	-	-
Previous year (31.12.2006)	636	636	-	-
Advance payments received	1,081,711	1,080,820	891	-
Previous year (31.12.2006)	250,923	250,458	263	202
Derivative financial instruments	207,024	174,402	32,622	-
Previous year (31.12.2006)	39,439	31,453	7,986	-
Liabilities under social security	20,370	20,370	-	-
Previous year (31.12.2006)	19,606	19,606	-	-
Other liabilities related to staff	218,369	218,074	263	32
Previous year (31.12.2006)	130,203	129,378	797	28
Deferred income	253,899	153,680	72,629	27,590
Previous year (31.12.2006)	173,730	65,652	97,484	10,594
Liabilities from withholdings	329,021	245,774	82,128	1,119
Previous year (31.12.2006)	173,604	173,604	-	-
Other liabilities	1,151,948	352,047	752,827	47,074
Previous year (31.12.2006)	862,081	267,357	548,540	46,184
	3,314,033	**2,296,858**	**941,360**	**75,815**
Previous year (31.12.2006)*	**1,664,210**	**952,132**	**655,070**	**57,008**
Taxes on earnings	10,011	10,011	-	-
Previous year	28,749	28,749	-	-
As at 30.09.2007	**3,324,044**	**2,306,869**	**941,360**	**75,815**
Previous year (31.12.2006)*	**1,692,959**	**980,881**	**655,070**	**57,008**

* The data has been adjusted.

The carrying amounts of recognized financial liabilities are their market values.

Liabilities arising from long-term real estate development projects recognized by the percentage-of-completion method are also reported under other liabilities. The amount of 2,109 th. € (previous year: 4,764 th. €) reported is the net amount resulting from job order costs amounting to 20,431 th. € (previous year: 26,641 th. €), realized profits in the amount of 6,810 th. € (previous year: 8,400 th. €) and installment payments received in the amount of 29,350 th. € (previous year: 39,806 th. €); earnings from job orders amounted to 1,435 th. € (previous year: 2,045 th. €).

Other liabilities include typical silent partnerships of 490.0 mill. € (previous year: 500.0 mill. €). The silent partnerships provide for interest based on the EBITDA of the Primondo Speciality Group subgroup as calculated under IFRS. The minimum and maximum interest are 5.0% and 8.0% respectively on deposits.

The shares in Primondo Specialty Group GmbH were pledged to Pension Trusts to secure the silent partnerships.

Prepaid expenses

During the past financial year, as in previous years, the Group entered into outsourcing agreements from which up-front payments resulted. These were allocated to deferred income and are recognized on a straight-line basis in income over the term of the agreements. The carrying amount of this deferred income is 102.2 mill. € (previous year: 106.9 mill. €).

32 PENSION PROVISIONS

Provisions are recognized for obligations arising from future pension claims and ongoing payments to active and former employees and surviving dependents.

Pension provisions are accounted for in accordance with IAS 19. Future obligations are measured using actuarial methods (projected unit credit method) and conservative estimations of the future development of relevant influencing factors, such as salary and pension trends. The 10% corridor regulation is used to measure pension provisions. Actuarial gains and losses are not recognized in profit or loss unless they exceed 10% of the higher of defined benefit obligation or market value of the plan assets. The amount by which the corridor is exceeded is amortized over the average remaining service period of active employees and recognized in profit or loss.

Corporate pension schemes in the Arcandor Group are mainly defined benefit plans and are generally based on employees' duration of employment and remuneration.

There are also the following defined benefit and defined contribution schemes:

- A defined benefit pension system for senior staff members in the form of deferred compensation.
- A defined contribution system through a pension fund.
- Defined benefit systems for various companies of the Thomas Cook Group subgroup, which are managed by third-party pension funds. The respective companies pay contributions to these pension funds. If there is not sufficient cover for the fund assets on the reporting date, an obligation is reported under pension obligations.
- The general pension obligation of the Versorgungsanstalt des Bundes und der Länder (VBL, German Federal and State Government Employees Retirement Fund) is being maintained as a company pension obligation for employees who joined companies of the Condor Group before 1995. Flight staff members also receive transitional benefits for the period between termination of flight crew contracts and the commencement of statutory/company retirement pension payments. In either case defined benefits depend on the final salary received prior to retirement (final salary schemes).

Individual defined benefit plans on an individual contractual basis were agreed for active members of the Management Board. Please also see the information on page 44. Information on former members of the Management Board and their surviving dependents can be found on page 152.

Prof. Klaus Heubeck's 2005 G mortality tables are applied as a biometric calculation basis. The probability of fluctuation was estimated on an age and gender-related basis.

In addition to assumptions of life expectancy, the following accounting parameters were applied for domestic companies in the Group:

Accounting parameters (domestic companies)

Amounts shown in th. €	**30.09.2007**	31.12.2006
Interest rate for calculation purposes	5.5	4.6
Salary increase trend	2.0 - 3.21	2.0
Pension increase trend	1.75 - 2.25	1.8
Anticipated return on plan assets	4.0 - 5.58	3.3
Average fluctuation	1.5 - 8.29	5.0

The pension obligations of foreign subsidiaries are determined on the basis of respective national parameters:

Accounting parameters (foreign companies)

Amounts shown in th. €	**30.09.2007**	31.12.2006
Interest rate for calculation purposes	3.75 - 5.75	4.0 - 4.95
Salary increase trend	1.0 - 4.5	1.5 - 6.0
Pension increase trend	0.25 - 5.0	1.5 - 2.8
Anticipated return on plan assets	4.0 - 7.10	2.4 - 6.3
Average fluctuation	5.0	5.0

Expected income from plan assets is essentially determined on the basis of current multi-year forecasts for the participating interests. If assets are invested in securities, the anticipated income is calculated on the basis of current long-term investment income from loan issues. In this case adequate risk surcharges are taken into account on the basis of historical capital market yields and current capital market prospects taking into account the structure of the plan assets.

The following table provides an overview of the performance of the benefit schemes: The liabilities in connection with assets held for sale and the assets held for sale include a defined benefit obligation of 66.0 mill. € (previous year: 67.9 mill. €) and a fair value of the plan assets of 16.4 mill. € (previous year: 16.7 mill. €). Thus, a plan shortfall of 49.6 mill. € relates to discontinued operations and disposal groups.

Development of benefit schemes

Amounts shown in th. €	30.09.2007	31.12.2006	31.12.2005
Present value of performance-related defined benefit obligations (DBO)	3,370,589	3,068,917	2,990,061
Fair value of plan assets	2,393,885	1,845,778	1,772,680
Deficit of the plan	976,704	1,223,139	1,217,381

In the financial year, experience adjustments of plan liabilities in the Thomas Cook segment amounted to plus 7.7 mill. € and minus 30.0 mill. € (previous year: plus 4.8 mill. €) in the rest of the Group. Adjustments to plan assets on the balance sheet date amounted to plus 14.9 mill. € and in the Thomas Cook segment minus 8.5 mill. € (previous year: plus 25.1 mill. €) in the rest of the Group.

The amount recognized for **pension obligations** on the balance sheet date is determined as follows:

Development of defined benefit obligation (DBO)

Amounts shown in th. €	Obligations financed from funds	Obligations financed from provisions	30.09.2007	31.12.2006
As at 01.01.	2,050,208	1,018,709	3,068,917	2,990,061
Cost of pension claims acquired in the financial year	15,671	8,869	24,540	27,211
Borrowing costs	76,706	35,204	111,910	126,699
Pension payments	-78,548	-45,779	-124,327	-151,913
Actuarial gains/losses	-181,470	-122,262	-303,732	73,308
Beneficiary contributions from the benefit schemes	2,706	-	2,706	2,822
Currency alignment	-10,871	4	-10,867	5,195
Past service cost	122	25	147	446
Addition from consolidated company and other changes	479,615	121,680	601,295	-4,912
As at 30.09.2007/31.12.2006	**2,354,139**	**1,016,450**	**3,370,589**	**3,068,917**

The **amount recognized for pension obligations on the balance sheet date** is determined as follows:

Amounts shown in th. €	Obligations financed from funds	Obligations financed from provisions	30.09.2007	31.12.2006
Present value of defined pension obligations (DBO)	2,354,139	1,016,450	3,370,589	3,068,917
Unrecognized actuarial gains/losses	40,301	52,544	92,845	-336,938
Unrecognized costs for amendments to claims from previous years	-293	60	-233	-428
Market value of plan assets	-2,393,885	-	-2,393,885	-1,845,778
	262	**1,069,054**	**1,069,316**	**885,773**

Pension costs for the Group in the financial year comprise the following components:

Amounts shown in th. €	Obligations financed from funds	Obligations financed from provisions	30.09.2007	31.12.2006
Cost of pension claims acquired in the financial year	15,671	8,869	24,540	27,211
Borrowing costs	76,706	35,204	111,910	126,699
Anticipated returns on plan assets	-60,370	-	-60,370	-99,867
Actuarial gains/losses reported in recognition of profit or loss	4,995	2,903	7,898	-6,183
Past service cost	191	25	216	545
Changes in scope of consolidation and other changes	9,219	13,453	22,672	-
	46,412	**60,454**	**106,866**	**48,405**

4.1 mill. € (previous year: 2.7 mill. €) of pension costs for the 2007 short financial year relate to discontinued operations.

Expenses of 4,970 th. € relate to defined contribution plans (previous year: 7,188 th. €).

The cost of pension claims acquired in the financial year, interest and expected income from plan assets and actuarial losses recognized in income in connection with plan assets are reported under staff costs.

In financial year 2002, the Arcandor Group formed an internal pension fund in line with the contractual trust arrangement (CTA) concept to finance its pension obligations. The assets that qualified as plan assets as defined by IAS 19 were transferred in trust to two pension funds by the Arcandor Group as the trustor. The pension funds are managed by an independent third party.

In the two-tier trust model, II. KarstadtQuelle Pension Trust e.V. acts as the security trustor and II. KarstadtQuelle Mitarbeitertrust is the administrative trustor. In the year under review, I. KarstadtQuelle Pension Trust e.V. was merged with II. KarstadtQuelle Pension Trust e.V. and I. KarstadtQuelle Mitarbeitertrust was merged with II. KarstadtQuelle Mitarbeitertrust.

Assets transferred to the pension fund* performed as follows

Amounts shown in th. €	30.09.2007	31.12.2006
Fair value of assets		
As at 01.01.	1,904,283	1,757,917
Anticipated return on assets	61,065	99,867
Actuarial gains/losses	16,409	41,026
Currency adjustments	-13,826	5,079
Contributions paid by the employer	28,289	89,994
Beneficiary contributions from the benefit schemes	2,706	2,821
Pensions paid	-79,815	-92,421
Changes in scope of consolidation and other changes	458,363	-
	2,377,474	**1,904,283**

* Without IFRS 5.

For assets of 16.4 mill. € transferred to the pension funds which relate to discontinued operations and disposal groups the following amounts were recognized in the reporting period: expected asset income of 695 th. €, actuarial losses of 730 th. €, contributions paid by the employer of 262 th. €, pensions paid of 263 th. € and changes in consolidated companies and other changes of 219 th. €.

Actual income from plan assets* is calculated as follows:

Amounts shown in th. €	30.09.2007	31.12.2006
Anticipated return on assets	61,065	99,867
Actuarial gains/losses	16,409	41,026
Changes in scope of consolidation and other changes	37,681	-
	115,155	**140,893**

* Without IFRS 5.

Expected contributions of 1.4 mill. € were added to plans for the 2007/2008 financial year.

The following is an **overview of the composition of plan assets*** as at the balance sheet date:

Amounts shown in th. €	30.09.2007	31.12.2006
Real estate incl. shares in real-estate companies	812,849	532,514
Participating interests	268,200	464,500
Silent partnerships	497,642	430,000
Banking investments	522,438	325,132
Fund investments	150,298	89,849
Other	126,047	62,288
	2,377,474	**1,904,283**

* Without IFRS 5,

The Group utilizes most of the real estate itself. Rent is paid on the basis of prevailing market rates.

In the financial year, real estate with a market value of 213.1 mill. € was sold and gains on disposal of 229.7 mill. € were generated. Of the real estate sold, gains on disposal of 218.8 mill. € related to the “Highstreet” transaction.

Prior to their disposal, these properties generated rental income from Group companies of 512 th. € (previous year: 25,429 th. €) and from third parties in the amount of 61 th. € (previous year: 1,193 th. €). The real estate still included in plan assets generated rental income of 6,588 th. € in the financial year (previous year: 6,834 th. €).

In particular, participating interests include the interest in VALOVIS Bank AG. The company purchased accounts receivable of the Group totaling 1,537 mill. € in the financial year (previous year: 1,588 mill. €).

As at June 11, 2007, two typical silent partnerships between Karstadt-Quelle Mitarbeitertrust e. V. and II. KarstadtQuelle Mitarbeitertrust e. V. on the one hand and Primondo Specialty Group GmbH on the other were agreed with a total value of 500 mill. €.

In accordance with their charters, pension trusts may lend up to 10% of their assets to the Group in the form of cash and cash equivalents. As at the reporting date, there was no reportable amount in this context (previous year: 12.3 mill. €).

Other assets mainly include receivables from Group companies resulting from profit entitlements and investment earnings and imputable taxes.

33 OTHER NON-CURRENT PROVISIONS

Amounts shown in th. €	30.09.2007	31.12.2006
Tax provisions (income taxes)	81,301	31,213
Other tax provisions (other taxes)	53,388	55,762
Other non-current provisions	420,746	266,230
	555,435	**353,205**

Movements of other non-current provisions

Amounts shown in th. €	Staff	Guarantees/ warranties	Contingent losses from pending transactions	Restructuring effects	Other	**Total**
As at 01.01.2007	9,696	1,122	-	218,130	37,282	266,230
Changes in consolidated companies	-2,536	-45	125,407	-1,428	9,669	131,067
Currency differences	6	-	-1	-1	-390	-386
Recourse	-447	-46	-48	-19,974	-3,734	-24,249
Reversal	-309	-	-30	-7,277	-10,425	-18,041
Appropriation	532	61	57	46,432	11,154	58,236
IFRS 5 and other reclassifications	3,166	-286	211	-1,958	6,756	7,889
As at 30.09.2007	**10,108**	**806**	**125,596**	**233,924**	**50,312**	**420,746**

Staff provisions include provisions for severance payments and anniversary and death benefit income. In addition to provisions for pre-retirement part-time work arrangements, the restructuring effects also include provisions for negative net rental income risks in the Real Estate subgroup in the amount of 148,371 th. € (previous year. 150,428 th. €). Other provisions mainly relate to litigation risks and liabilities for restoring sites.

The provisions for onerous contracts primarily exist for hotel bookings and aircraft liabilities due to the first-time inclusion of Thomas Cook Group plc.

34 TRADE PAYABLES

Breakdown to business segments

Amounts shown in th. €	30.09.2007	31.12.2006
Thomas Cook	1,705,885	496,290
Primondo	439,559	358,540
Karstadt	468,212	478,324
Services	23,896	33,895
Other	33,498	37,087
	2,671,050	**1,404,136**

The carrying amounts of financial liabilities are their market values.

In the 2007 short financial year, senior collateral was pledged for inventories for the Group's suppliers' commercial credit insurance.

35 CURRENT PROVISIONS

Amounts shown in th. €	30.09.2007	31.12.2006
Tax provisions (income taxes)	108,199	30,879
Other tax provisions (other taxes)	46,368	29,454
Other current provisions	550,402	387,649
	704,969	**447,982**

Movements of other current provisions

Amounts shown in th. €	Staff	Guarantees/ warranties	Contingent losses from pending transactions	Restructuring effects	Other	**Total**
As at 01.01.2007	3,298	58,625	13,439	246,263	66,024	387,649
Changes in consolidated companies	-	2,138	4,368	5,683	54,219	66,408
Currency differences	-3	-243	-41	5	-1,006	-1,288
Recourse	-245	-33,157	-16,812	-70,984	-57,577	-178,775
Reversal	-914	-1,698	-4,796	-27,659	-17,585	-52,652
Appropriation	142	39,166	24,690	167,097	49,772	280,867
IFRS 5 and other reclassifications	88	742	-1,428	54,505	-5,714	48,193
As at 30.09.2007	**2,366**	**65,573**	**19,420**	**374,910**	**88,133**	**550,402**

Restructuring effects include provisions for redundancy payments (229,421 th. €), pre-retirement part-time work arrangements (6,081 th. €) and other obligations in the amount of 36,844 th. €. Other provisions mainly relate to litigation risks and restoration liabilities.

36 CONTINGENT LIABILITIES AND OTHER FINANCIAL LIABILITIES

Amounts shown in th. €	**30.09.2007**	31.12.2006
Liabilities resulting from guarantees	422,491	408,628
Liabilities under warranty agreements	592	57
Liability resulting from the provision of collateral for third-party liabilities	9,529	10,987
	432,612	**419,672**

Liabilities resulting from guarantees include 300.0 mill. € to VALOVIS Bank. Arcandor AG also issued an exemption declaration in line with Section 5 (10) of the Deposit Fund Statutes to the deposit guarantee fund of the Bundesverband deutscher Banken e. V.

Other financial obligations

Purchase commitments for goods purchased amount to 785,860 th. €.

There is also still an obligation to contract exclusive logistics services to DHL stemming from service contracts concluded between DHL Solutions Großgut GmbH and the companies Karstadt Warenhaus GmbH, Quelle GmbH and neckermann.de. The minimum sales obligation for a remaining term of eight years amounts to 2.8 bill. €.

In addition, a framework agreement has been concluded between the Arcandor Group and ATOS Origin GmbH, which provides for a minimum volume of orders to be placed with Group companies in the period until 2010 in the amount of 508.0 mill. €. This volume is reduced when companies leave the Group. Thus no clear financial liability can be attributed to Arcandor AG as at the balance sheet date.

Following the sale of 74.9 % of shares, there is also a minimum sales obligation with EDS ITELLIUM until 2010 for IT services for Arcandor Group companies. In addition, a minimum sales agreement has been concluded with Primondo companies until 2015, which amounts to an obligation volume of 79.6 mill. € discounted to the reporting date (the total gross obligation by 2015 is 99.3 mill. €).

Current real estate development projects have other financial liabilities of 809.8 mill. €.

Other liabilities for Thomas Cook within the scope of providing IT services amount to 291,612 th. €. Obligations from tourism guarantees amount to 117,794 th. €; and relate in particular to the guarantee obligations of Thomas Cook UK and Thomas Cook North Europe.

Thomas Cook also has other financial obligations of 346,237 th. € that primarily relate to redemption payments and maintenance obligations for leased aircraft.

The Group complies with all the standards relevant to consumer information and formal requirements in respect of package tour contracts and has all the necessary licences for the various sales markets. The customer's right to reimbursement of the return travel costs and amounts paid in case of insolvency or bankruptcy on the part of the tour operator or travel agency is guaranteed in all Thomas Group sales markets in line with local legislation and within the framework of the various guarantee systems applied. Customer rights in relation to Thomas Cook Group in Germany, Belgium and Austria are guaranteed via an insolvency insurance system, in Great Britain, Ireland, Scandinavia and France via guarantees provided by banks and insurance companies, in the Netherlands via a guaranteed fund.

The external tax audits currently being carried out may also result in tax expenses or income that cannot yet be discerned.

37 FINANCIAL INSTRUMENTS

Hedging of risks with derivative financial instruments

Risk management is responsible for all hedging and financing activities in the Arcandor Group and operates a financial reporting system covering the entire Group. The financial reporting system enables currency, interest-rate and liquidity risks affecting the Group to be identified and appropriate measures and strategies to be adopted to counteract these risks. The risks are controlled centrally in accordance with guidelines laid down by the Management Board.

Derivative financial instruments can never be used for speculative purposes; they serve exclusively to hedge current underlying transactions or forecast transactions. Hedges are used to minimize the risk of default and are only concluded with leading financial service providers. Identified risks are assessed on the basis of simulation calculations taking into consideration various worst case and market scenarios.

The information available on markets and suitable valuation methods are used to measure the market value of the derivative financial instruments used. The fair value of options is determined using recognized option pricing models and the fair value of interest-rate derivatives is determined allowing for remaining maturities on the basis of current market interest-rates and the interest rate structure.

IAS 39 distinguishes between two types of hedges: cash flow hedges and fair value hedges. A cash flow hedge is used to hedge the risk of fluctuating cash flows. A fair value hedge is for hedging the risk of changes in the fair value of balance sheet items.

Cash flow hedges – currency risks

On account of its international focus, the Arcandor Group is subject to currency risks in connection with payments in currencies other than its functional currency in its ordinary activities. These primarily arise from exchange rate fluctuations for cash flows for receivables, pending transactions, expected transactions, payments for the procurement of goods, fuel and supplies and for investments in and the financing of aircraft.

In particular, in order to limit currency risks, the Group uses currency forwards and options with terms of up to 19 months or until 2011 for aircraft finance, as well as collar options, which are a combination of a purchase and simultaneous sale of options in the same currency. Collar options are normally concluded in such a form that the premium to be paid is equal to the premium resulting from the option sale. Additional fuel price hedges take the form of fixed price and option transactions on the crude and heating oil market. Gas oil and kerosene derivatives can also be used to a small extent.

On account of these hedging activities, the Arcandor Group was not subject to any significant currency risks on the reporting date. Currency risks arising from the conversion of the assets and liabilities of foreign Group companies to the Group's reporting currency and that do not relate to cash flows are not hedged.

As of September 30, 2007, there were currency hedges for obligations not yet shown on the balance sheet on account of currency fluctuations. In particular, the underlying transactions are planned payments in US dollars, GBP and HK dollars for the procurement of goods and tourism services. The periods in which the underlyings are recognized in the consolidated financial statements and the payments associated with the hedges received are generally up to 19 months.

Cash flow hedges – interest rate risks

Interest rate risks arise from the sensitivity of financial instruments to changes in market interest rates. The Arcandor Group limits such risks by using interest rate swaps, futures, FRAs and caps, taking into consideration its current and planned future financing structure. Coordinated interest rate hedging measures are carried out separately by the respective risk management teams of Arcandor AG and Thomas Cook Group plc.

Cash flow hedges – commodity price risks

Thomas Cook has concluded hedging transactions to limit the risk of unfavorable developments in the price of fuel. Its hedging policy provides for hedging of 95% of the fuel requirements for the current flight schedule. Under the Thomas Cook hedging schedule, lower minimum hedging levels are to be secured for up to three consecutive flight schedule periods. As at October 31, 2007, hedging transactions for a fuel quantity of up to 1,675.6 th. tons (previous year: 673.1 th. tons) for periods up to September 2009 had been concluded. Crude oil price range options and hedge combinations were mainly used as hedging instruments; to a lesser extent gas oil and kerosene derivatives and derivatives for hedging price differences between the various product groups (cracks) were used.

There were no fair value hedges as at September 30, 2007.

The nominal value of derivative financial instruments as at the reporting date was 2.43 bill. € (previous year: 671.1 mill. €). The total fair values were 63.7 mill. € (previous year: 12.3 mill. €).

Risks from financial instruments

Net income from financial instruments

Amounts shown in th. €	01.01.2007 - 30.09.2007	01.01.2006 - 31.12.2006
Loans and receivables granted	239,117	188,345
Available for sale	5,425	-16,169
Held to maturity	902	1,609
Held for trading	-190	7,030
Derivatives	-19,462	-2,784
Leases	-10,411	-10,831
Liabilities at amortized cost	-135,965	-223,655
	79,416	**-56,455**

Carrying amounts by category

Amounts shown in th. €	01.01.2007 - 30.09.2007	01.01.2006 - 31.12.2006
Loans and receivables granted	3,645,919	3,181,614
Available for sale	998,767	128,919
Held to maturity	1,012	65
Held for trading	-541	-1,560
Derivatives	-63,683	-12,293
Leases	-814,294	-447,180
Liabilities at amortized cost	-5,975,785	-3,591,617
	-2,208,605	**-742,052**

In its international business areas, the Arcandor Group is subject to various risks. For a detailed presentation of these risks and their management, please see the risk report on pages 95 to 98 of the Management Report.

The Group essentially uses derivative financial instruments in hedges to manage interest rate, currency and price risks.
The risks arising as at the reporting date from the use of non-derivative and derivative financial instruments are also the subject of risk management in the Arcandor Group. The risks relating to the holding company and the Karstadt and Primondo subgroups are largely managed centrally by Arcandor AG. Specific risks affecting Thomas Cook are managed there on the basis of an overall uniform Group strategy.

The risks resulting from the financial instruments relate to credit risks, liquidity risks and market risks.

Credit risks exist in the form of the risk of default on financial assets. Liquidity risks represent refinancing risks and therefore the risks of meeting the Group's payment obligations on time. Market risks occur in the Group in the form of interest rate risks, currency risks and price risks.

The maximum default risk in the Group is equal to the carrying amounts of its financial assets. For derivatives, this is the total of all positive fair values and for non-derivative financial instruments the total of the carrying amounts. Default risks are taken into account by write-downs. In the Primondo division, certain mail order receivables are sold to a factor and derecognized in the amount of the transferred risks and rewards at the time of sale. Thus, the Group has a default risk here in the amount of its continuing involvement. To minimize the risk of default of derivative financial instruments, the corresponding transactions are only concluded with counterparties with first class credit ratings. In particular, there are no specific risk concentrations due to high-volume business. In light of this, the risk of default is rated as low.

The findings of the Group strategy and Group planning process are used to enable an early assessment of the future liquidity situation. The complex financial planning instruments used there show the expected liquidity development over a planning horizon of up to three years. Twelve-month liquidity planning is updated on an ongoing basis using current data.

IFRS 7 requires sensitivity analyses to show market risks. Hypothetical changes in past risk variables are used to reveal the effects on earnings and equity. The main risks that are relevant to the Arcandor Group are the interest rate risk and risks of currency fluctuations. Fuel price risks are also analyzed in the Thomas Cook subgroup.

The levels of financial instruments as at the balance sheet date are representative for the financial year as a whole. In order to calculate the effects on earnings and equity, the levels of financial instruments are calculated as at the balance sheet date with increases and decreases in risk variables.

Currency risks

In the Arcandor Group, currency risks as defined by IFRS 7 arise from financial instruments not denominated in Group currency. This does not affect differences from the conversion of financial statements into Group currency to prepare the consolidated financial statements. All currencies other than the Group currency in which the Arcandor Group uses financial instruments are considered to be risk variables.

The following premises apply to sensitivity analyses for currency risks: Exchange rate changes are not a risk for primary financial instruments such as cash and cash equivalents, financing receivables, securities, bonds or interest-bearing or non-interest-bearing liabilities as they are either not in a foreign currency or are transformed into the relevant foreign currency by derivative instruments. Therefore, primary financial instruments do not have any effect on earnings or equity. The interest expenses and income arising from these instruments are either not in a foreign currency or are also converted into this currency by derivatives.

Therefore, the Arcandor Group only has currency risks from specific currency derivatives. On the one hand, these are derivatives in an effective cash flow hedge for cash flow fluctuations due to changes in exchange rates. Changes in the exchange rates for the corresponding currencies affect the fair value of hedges and reserves in equity. On the other hand, they are currency derivatives intended to hedge forward transactions and therefore do not hedge an underlying. Changes in the exchange rates for the corresponding currencies result in a gain or loss on measurement due to the adjustment of financial assets to fair value and are reported under other net financial income.

Sensitivity analysis currency HKD

Amounts shown in th. €	30.09.2007	31.12.2006
Fair values derivatives	**-60**	**-**
Change hedging reserve	**-**	**-**
Exchange rate +5 %	-65	-
Exchange rate -5 %	65	-
Income statement	**-**	**-**
Exchange rate +5 %	-	-
Exchange rate -5 %	-	-

Sensitivity analysis currency USD

Amounts shown in th. €	30.09.2007	31.12.2006
Fair values derivatives	**-73,212**	**-26,310**
Change hedging reserve		
Exchange rate +5 %	-65,351	-71,856
Exchange rate -5 %	78,228	71,856
Income statement		
Exchange rate +5 %	649	-475
Exchange rate -5 %	-1,654	475

Sensitivity analysis fuel prices

Amounts shown in th. €	30.09.2007	31.12.2006
Fair values derivatives	**78,970**	**18,052**
Change hedging reserve		
Price +20 %	49,691	40,322
Price -20 %	-62,454	-44,445
Income statement		
Price +20 %	-	-
Price -20 %	-	-

Interest rate risks

Interest rate risks result from changes in market interest rates. The company limits these risks by using interest rate derivatives such as interest rate swaps and interest rate futures.

IFRS 7 requires sensitivity analyses to present interest rate risks. These show the effects of changes in market interest rates on interest payments, interest expenses and interest income, other types of income and equity.

The following premises apply to sensitivity analyses for interest rate risks: Non-derivative financial instruments with fixed interest rates are only subject to interest rate risks if they are measured at fair value. Financial instruments measured at cost are not subject to risks due to changes in market interest rates.

In effective fair value hedges, the earnings effects on underlyings and hedges caused by changes in interest rates almost completely offset each other, with the result that no risks arise in this area. In cash flow hedges to hedge fluctuations due to interest rates, changes in the market interest rate can affect reserves in equity. Therefore, these financial instruments are included in the sensitivity analysis.

Non-derivative financial instruments with variable interest rates are subject to market interest rate risks and are also included in the sensitivity analysis. Analyses also include changes in the market interest rates affecting interest rate derivatives that are not incorporated in a hedge in line with IAS 39 as changes in interest rates can affect other net financial income.

The intra-year monthly levels of floating rate financial instruments were used as a basis for the following sensitivity analysis.

Sensitivity analysis variable rate financial instruments

Amounts shown in th. €	30.09.2007	31.12.2006
Variable rate financial instruments at reporting date	**-571,289**	**549,091**
Change hedging reserve		
Interest rate +1 %	-	-
Interest rate -1 %	-	-
Income statement		
Interest rate +1 %	-2,266	-9,447
Interest rate -1 %	2,266	9,447

Other information on financial instruments

In the reporting period, no financial assets were reclassified to a different measurement category of IAS 39.

In the reporting period, no financial assets or liabilities were designated as at fair value through profit or loss.

The fair values of non-current receivables and financial investments held to maturity are the net present values of the cash flows resulting from the financial instruments. Current interest parameters are used in the calculation of net present values that reflect changes in conditions and forecasts for markets and partners.

For current financial assets and liabilities that are not derivatives, the respective carrying amount is an appropriate approximation of the fair value as defined by IFRS 7.29 (a).

Additional disclosures financial instruments

		Classification as per IAS 39							
Amounts shown in th. €	**Book value as at 30.09.2007**	Loans & receivables	Available for sale	Held to maturity	Held for trading	Derivate	Leases	Liabilities at amortized cost	No financial instrument
Assets									
Other financial assets	407,631	311,972	95,626	33	-	-	-	-	-
Other non-current assets	159,863	77,692	-	723	-	29,914	-	-	51,534
Trade receivables	685,856	685,856	-	-	-	-	-	-	-
Other receivables and other assets	1,669,461	979,513	766	224	99	114,095	-	-	574,764
Cash and cash equivalents and securities	1,505,643	1,116,106	389,505	32	-	-	-	-	-
Assets classified as held for sale	1,204,040	474,780	512,870	-	-	-	-	-	216,390
Equity and liabilities									
Non-current financial liabilities	1,191,000	-	-	-	-	-	692,908	498,092	-
Other non-current liabilities	1,017,175	-	-	-	-	32,622	-	865,126	119,427
Current financial liabilities	1,276,164	-	-	-	-	-	121,386	1,154,778	-
Trade payables	2,671,050	-	-	-	-	-	-	2,671,050	-
Other current liabilities	2,296,858	-	-	-	640	173,762	-	508,327	1,614,129
Liabilities related to assets classified as held for sale	580,052	-	-	-	-	1,308	-	318,048	260,696

Additional disclosures financial instruments

		Classification as per IAS 39							
Amounts shown in th. €	**Book value as at 31.12.2006**	Loans & receivables	Available for sale	Held to maturity	Held for trading	Derivate	Leases	Liabilities at amortized cost	No financial instrument
Assets									
Other financial assets	388,649	318,963	69,560	33	-	-	-	-	93
Other non-current assets	110,777	82,915	-	-	-	5,971	-	-	21,891
Trade receivables	397,376	397,376	-	-	-	-	-	-	-
Other receivables and other assets	971,373	721,457	-	-	85	20,580	-	-	229,251
Cash and cash equivalents and securities	1,152,091	1,097,806	54,253	32	-	-	-	-	-
Assets classified as held for sale	1,302,191	572,697	5,106	-	-	-	-	-	724,388
Equity and liabilities									
Non-current financial liabilities	1,000,927	-	-	-	-	-	425,145	575,782	-
Other non-current liabilities	712,078	-	-	-	1,645	6,341	-	585,016	119,076
Current financial liabilities	192,148	-	-	-	-	-	22,035	170,113	-
Trade payables	1,404,136	-	-	-	-	-	-	1,404,136	-
Other current liabilities	952,132	-	-	-	-	31,453	-	354,685	565,994
Liabilities related to assets classified as held for sale	887,446	-	-	-	-	1,050	-	501,885	384,511

Notes to the consolidated cash flow statement

The consolidated cash flow statement can be found on page 105. It shows the changes in the cash and cash equivalents of the Arcandor Group in the 2007 short financial year. In accordance with IAS 7 cash flows are broken down into cash flow from business activities (gross cash flow) and cash flow from operating activities, investing activities and financing activities.

38 CASH FLOW FROM OPERATING ACTIVITIES

Beginning with earnings from operational activities (earnings before interest and tax, depreciation and amortization, EBITDA), expenditure and non-cash income are eliminated to show gross cash flow. In particular, for the purpose of greater comparability, the effects resulting from appropriations to restructuring provisions are shown on a separate line.

The effects on cash resulting from the change in working capital and from changes in other short-term assets and liabilities are shown below gross cash flow.

In the 2007 short financial year, cash flow from operating activities amounted to 14,525 th. € (previous year: 101,473 th. €). In particular, factors having a positive effect on cash flow from operating activities included the year-on-year increase in operating earnings and the rise in non-current provisions at Thomas Cook. The changes in other assets/equity and liabilities are essentially due to the seasonal change in advance payments received in the Thomas Cook segment.

39 CASH FLOW FROM INVESTING ACTIVITIES

In the 2007 short financial year, cash flow from investing activities amounted to minus 21,843 th. € (previous year: plus 2,917,384 th. €). In the previous year, this figure was largely influenced by the proceeds from the sale of tangible, intangible and non-current assets of 3,221,483 th. € as part of the disposal of real estate and the divestment program. In the 2007 short financial year, proceeds amounted to 266,677 th. €. Cash amounting to 254,422 th. € (previous year: 233,730 th. €) was used for investments in intangible and tangible assets.

The cash and cash equivalents acquired in the acquisitions of Thomas Cook, MyTravel and HSE24 of 812,849 th. € was offset against investments.

40 FREE CASH FLOW

The free cash flow resulting from cash flows from operating activities and cash flows from investing activities amounts to 7,318 th. € (previous year: 3,018,857 th. €).

Including interest received and paid and the change in pension provisions and plan assets, net free cash flow amounts to minus 126,843 th. € (previous year: 2,781,864 th. €).

41 CASH FLOW FROM FINANCING ACTIVITIES

In the 2007 short financial year, cash flow from financing activities amounted to plus 334,749 th. € (previous year: minus 2,524,714 th. €). The cash flow from financing activities is essentially dominated by the borrowing of loans to acquire the 50% share in Thomas Cook AG.

42 CASH AND CASH EQUIVALENTS

Amounts shown in th. €	**30.09.2007**	31.12.2006
Cash and cash equivalents	1,126,846	1,149,436
thereof discontinued operations	10,740	51,630
Current securities	389,537	54,285
	1,516,383	**1,203,721**

Segment reporting

Information on the segments is shown on pages 106 and 107. The segment report was prepared in accordance with the regulations of IAS 14 and breaks down the primary report format into business divisions and the secondary report format into regions.

NOTES TO THE SEGMENT REPORT

The Holding segment (Arcandor AG and Karstadt Finance B.V.) does not represent any material value added in comparison to the operative segments on the basis of the “risk and reward” principle. For this reason information on the Holding segment has been included in the reconciliation account.

Intercompany sales relate to sales relationships between the Group companies. Internal prices are always equivalent to those charged by outside third parties.

Segment assets and segment liabilities are as follows:

Amounts shown in th. €	30.09.2007	31.12.2006*
Segment assets		
Balance sheet total	14,210,021	7,970,758
Investments and shares in subsidiaries and associates	-240,525	-154,797
Deferred taxes	-676,404	-262,901
Intragroup receivables/loans	-80,789	-82,848
Cash and cash equivalents, non-current and current securities and other loans	-1,576,920	-1,220,286
Assets classified as held for sale	-1,204,040	-1,302,191
	10,431,343	**4,947,735**
Segment liabilities		
Balance sheet total	14,210,021	7,970,758
Equity	-2,478,128	-1,164,767
Financial liabilities	-2,467,164	-1,193,075
Pension provisions	-1,024,557	-821,145
Other interest-bearing liabilities	-38,142	-38,142
Intragroup liabilities	-51,691	-14,624
Deferred taxes	-404,622	-6,043
Liabilities from assets classified as held for sale	-580,052	-887,446
	7,165,665	

* The data has been adjusted.

Investments comprise intangible assets (not including acquired goodwill) and tangible assets. They do not include additions to finance leases or capitalized restoration liabilities.

Gross cash flow comprises earnings before income taxes, depreciation, amortization of goodwill and financial income after adjustment for earnings or losses from the disposal of assets, changes in non-current provisions and other expenses and earnings not recognized in cash.

Segment expenses include non-cash expenses of 339,103 th. € (previous year: 345,711) from the addition to provisions.

Segment expenses also include non-cash expenses of 107,441 th. € for the Thomas Cook segment, 46,882 th. € for the Primondo segment and 22,764 th. € for Karstadt, most of which is in connection with pension provisions. The expenses for the Real Estate segment include non-cash expenses of 11,076 th. € and mainly relate to write-downs on current assets and pension provisions. The non-cash expenses of the Services segment amount to 1,231 th. €.

Other information

CLAIMS AND LITIGATION

There were no significant legal disputes as at the balance sheet date. The risk detailed in the 2006 Annual Report relating to suits by some Wertheim heirs and the Jewish Claims Conference (JCC) no longer exists. In March 2007, Arcandor AG reached an agreement with the JCC, acting as the representative of the Wertheim heirs, after a dispute lasting for several years. This agreement resolved all open disputes between the parties. This also includes the members of the Wertheim family withdrawing their suits in the U.S.

EVENTS AFTER THE BALANCE SHEET DATE

Primondo sells NeBus to Andlinger & Company

The sale of the NeBus Group to the investment and management group Andlinger & Company took place in October 2007. The NeBus Group is a specialist provider of customer loyalty and sales promotion programs based in the Netherlands with other activities in Belgium, Germany, France, Italy, the Czech Republic, Switzerland, Slovakia and Spain.

LOI to sell 49 % interest in Highstreet signed

In December 2007, Arcandor AG signed a letter of intent on the sale of its 49 % interest in the real estate company Highstreet. Arcandor will sell its 49 % share in the company to a syndicate of bidders led by DB RREEF, a subsidiary of Deutsche Bank, the Milan-based Pirelli RE and the Borletti Group. By selling its shares in Highstreet, Arcandor will have disposed of its entire department store real estate portfolio.

Sales of 51 % in neckermann.de

In another move, Arcandor AG reached an agreement to sell 51 % of shares in neckermann.de in December 2007. The buyer is the financial investor Sun Capital Partners, Florida/U.S. As planned, the operating management of neckermann.de will be handed over to the new majority owner.

TOTAL REMUNERATION OF THE MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Amounts shown in th. €	30.09.2007	31.12.2006
Management Board		
Fixed remuneration	3,965	3,868
Variable components	6,439	4,215
	10,404	**8,083**
Provision for phantom stock program	**316**	-
Additions to pension obligations	**138**	**667**
Supervisory Board		
Fixed remuneration	364	152
For other positions held in the Arcandor Group	9	21
	373	**173**
Former members of the Management Board and their surviving dependents		
Payments	**4,117**	**5,865**
Pension obligations (DBO)	**59,818**	**65,812**

A description of the remuneration system and the individualized remuneration of the members of the Management Board and the Supervisory Board is shown on the audited remuneration report (pages 41 to 48) which is part of the Group Management Report.

AUDITORS' FEES

The following table shows the fees paid to BDO Deutsche Warentreuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as the auditors for Arcandor AG:

Amounts shown in th. €	01.01.2007 - 30.09.2007	01.01.2006 - 31.12.2006
Annual audit	1,080	1,220
Certification and/or valuation services	715	838
Tax consultancy	2	4
Other services	96	104
	1,893	**2,166**

RELATED PARTY TRANSACTIONS

The Arcandor Group maintained the following business relationships with related parties in 2007 and 2006:

Amounts shown in th. €	30.09.2007	31.12.2006
Goods and services supplied	12,956	11,391
Goods and services received	17,231	110,502
Receivables	190,007	78,073
Payables	616,082	821,648

Mail order companies sold trade receivables to VALOVIS Bank AG which had been transferred to the Group pension fund without recourse. As at September 30, 2007, assigned receivables amounted to 1,537 mill. € gross (previous year: 1,588 mill. €). Under the sale VALOVIS Bank AG set up a contingency account which is paid back to the Group as long as actual losses on outstanding receivables do not exceed this amount. The reserve account showed a balance of 173 mill. € (previous year: 178 mill. €) on the balance sheet date.

Service relationships exist with companies of the KarstadtQuelle Pension Trust e. V. and II. KarstadtQuelle Pension Trust e. V. for the leasing of real estate. The related lease costs for the Group total 6,555 th. € (previous year: 32,263 th. €).

As at June 11, 2007, two typical silent partnerships between KarstadtQuelle Mitarbeitertrust e. V. and II. KarstadtQuelle Mitarbeitertrust e. V. on the one hand and Primondo Speciality Group GmbH on the other were agreed with a total value of 500 mill. €.

Liabilities include mortgage bonds passed on from VALOVIS Bank AG in the amount of 13 mill. € (previous year: 242 mill. €).

In addition to services and goods supplied, the Group and non-consolidated companies maintain relationships resulting from the reciprocal use of services. In these cases services are invoiced at cost. Relationships with related companies are maintained on the same basis as those between third parties.

In the 2005 financial year, individual Group companies sold assets to Deutsche Post World Net AG or its affiliated companies and entered into long-term service agreements with companies of this group, of which the Chairman of the Management Board is a member of the Supervisory Board of Arcandor AG.

The Chairman of the Management Board and his wife hold shares in closed-end real estate funds which maintain contractual relations to the Arcandor Group. No influence is expected to be exercised due to the minor nature of the shareholding.

DECLARATIONS OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The Management Board and the Supervisory Board last issued a Declaration of Compliance in accordance with Section 161 on March 21, 2007. One item of this declaration was supplemented on September 17, 2007. The declarations were made permanently available to the shareholders on the website at www.arcandor.com. The Declaration of Compliance for the 2007 short financial year is shown in the section on Corporate Governance on page 41 of the Annual Report.

EXEMPTION UNDER SECTION 264, PARAGRAPH 3 AND SECTION 264B OF THE GERMAN COMMERCIAL CODE (HGB)

The following German subsidiaries having the legal form of a corporation or commercial partnership in terms of Section 264a, HGB have satisfied the requirements of Section 264, Paragraph 3 and Section 264b, HGB for exemption from publishing financial statements under commercial law.

AXOS Vermögensverwaltung GmbH & Co. KG, Essen
Corporate Service Group GmbH, Essen
DIV Deutsche Immobilienfonds Verwaltungsgesellschaft mbH & Co. Essen KG, Frankfurt
ECM EuroCenter Management GmbH, Essen
Elegance Rolf Offergelt GmbH, Aachen
Foto Quelle GmbH & Co. OHG, Nuremberg
Fox.Markt Handelsgesellschaft mbH & Co. KG, Fürth
Happy Size-Company Versandhandels GmbH, Frankfurt/Main
Hess Natur-Textilien GmbH, Butzbach
Holm Beteiligungs GmbH & Co. KG, Pöcking, Starnberg County
„HOLM“ Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Brieselang KG, Pöcking, Starnberg County
„Holm“ Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Limburg KG, Pöcking, Starnberg County
HOLSTENFLOR-Beteiligungs-GmbH, Fürth
Holstenflor Beteiligungs GmbH & Co. Holding KG, Fürth
HSM Direkt GmbH, Karlsruhe
Karstadt GmbH, Essen
KARSTADT Immobilien AG & Co. KG, Essen
KARSTADT Immobilien GmbH & Co. Objekt Bad Homburg KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Bamberg, Grüner Markt KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Bamberg, Maximiliansplatz KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Berlin, Antonstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Berlin, Hermannplatz KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Berlin, Köpenick KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Berlin, Kurfürstendamm KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Berlin, Müllerstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Berlin, Schloßstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Berlin, Tauentzienstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Berlin, Tempelhofer Damm KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Berlin, Turmstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Bielefeld, Bahnhofstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Bochum, Im Steinhof KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Bottrop, Hansa-Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Braunschweig, Schuhstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Bremen, Obernstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Bremen, Sögestraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Bremerhaven KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Celle, Bergstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Celle, Mauernstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Cuxhaven KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Deggendorf, Heiglstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Deggendorf, Oberer Stadtplatz KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Delmenhorst KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Dessau, Ratsgasse KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Detmold KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Dortmund, Aplerbecker Marktplatz KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Dortmund, Ostenhellweg KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Dortmund, Strickerstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Dortmund, Westenhellweg KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Dresden, Birkigter Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Dresden, Pragerstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Duisburg Mitte KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Duisburg, Am Buchenbaum KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Duisburg, Kirchstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Duisburg, Münzstraße I. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Duisburg, Tonhallenstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Dillenburger Weg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Emil-Barth-Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Liesegangstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Schadowstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Tonhallenstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Waagenstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Elmshorn KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Erkrath KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Eschwege KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Altenessener Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Friedrich-Ebert-Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Gerichtsstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Haedenkampstr. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Hafenstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Limbecker Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Rüttenscheider Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Theodor-Althoff-Str.II KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Theodor-Althoff-Straße III KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Westendstraße 2 KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Wüstenhofer Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Essen, Zweigertstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Esslingen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Flensburg, Holm KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Frankfurt, Brönnerstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Fulda KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Garbsen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Geldern KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Gelsenkirchen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Gießen, Rodheimer Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Gießen, Seltersweg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Gießen, Westanlage KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Gladbeck KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Görlitz, An der Frauenkirche KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Goslar, Rosentorstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Goslar, Woldenbergstr. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Göttingen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Gronau KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Gummersbach KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Halle, Große Märkerstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Halle, Mansfelder Str. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Eppendorfer Landstr. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Hamburger Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Krohnstieg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Kümmelstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Marktpassage KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Möllner Landstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Mönckebergstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Osterstraße I KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Pinkertweg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Schloßmühlendamm KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Wandsbeker Königstr.I KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Wandsbeker Königstr.II KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Wandsbeker Marktstr. I KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Wandsbeker Marktstr.II KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hanau KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hannover, Georgstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hannover, Georgstraße 24 KG i.L., Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hannover, Große Packhofstr. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hannover, Kl. Packhofstr. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hannover, Schillerstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hattingen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Herdecke KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Holzwickede KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hoyerswerda KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Hückelhoven KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Husum KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Idar-Oberstein KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Iserlohn KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Itzehoe, Breite Straße I KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Itzehoe, Breite Straße II KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Kaiserslautern KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Kamen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Karlsruhe, An der Roßweid KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Karlsruhe, Zähringer Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Kiel, Eggerstedterstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Kiel, Holstenstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Köln, Breite Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Köln, Florenzer Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Köln, Friedrich-Ebert-Platz KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Köln, Rudolf-Diesel- Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Laatzen, Mannheimer Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Laatzen, Robert-Koch-Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Landshut, Landgasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Leonberg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Limburg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Lübeck, Holstenstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Lübeck, Königstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Lübeck, Wehdehof KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Ludwigsburg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Lüneburg, Am Berge KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Lüneburg, Auf den Wüstenort KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Lüneburg, Finkstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Lüneburg, Große Bäckerstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Lünen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Magdeburg, Breiter Weg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Mannheim, K1 KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Marl KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Mettmann KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Mölln, Hauptstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Mölln, Seestraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Mönchengladbach KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Muggensturm KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Mülheim KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Munich County, Bahnhofplatz KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Munich County, Fürstenrieder Str. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Munich County, Neuhauser Str. KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Munich County, Riesstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Munich County, Synagogenplatz KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Munich County, Theresienhöhe KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Münster, Salzstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Neumünster, Großflecken II KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Neustadt, Bachgängel KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Niebüll KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Norderstedt KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Nuremberg, Oppelner Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Nuremberg, Vordere Insel Schütt KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Peine KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Potsdam KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Recklinghausen, Markt II KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Recklinghausen, Schaumburgstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Remscheid KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Rendsburg, Altstädter Markt KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Rheine KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Rosenheim KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Schleswig KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Siegen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Singen KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Stade, Steile Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Stade, Wallstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Stuttgart, Königstraße I KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Stuttgart, Königstraße II KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Trier, Fahrstraße 1 KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Unna, Gießerstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Unna, Hammerstraße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Velbert KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Viernheim KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Wesseling KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Wiesbaden, Kirchgasse KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Wilhelmshaven KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Wismar KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Wolfenbüttel KG, Grünwald, Munich County

KARSTADT QUELLE Business Services GmbH, Essen

KARSTADT QUELLE Freizeit GmbH, Essen

KARSTADT QUELLE Information Services GmbH, Essen

KARSTADT QUELLE Kunden-Service GmbH, Essen

KARSTADT QUELLE Service GmbH, Essen

KarstadtQuelle Joint Venture GmbH & Co. KG, Essen

KARSTADT Vermietungsgesellschaft mbH, Essen

Karstadt Warenhaus GmbH, Essen

KATEC Leasing GmbH & Co. Vermietungs KG, Pöcking, Starnberg County County

Krähe Versand GmbH, Fürth

Le Buffet System- Gastronomie und Dienstleistungs-GmbH, Essen

Mirabeau Versand GmbH, Fürth

Mode & Preis Versandhandels GmbH, Lörrach

MOSTIA Grundstücksgesellschaft mbH & Co. KG, Grünwald, Munich County

Myby GmbH & Co. KG, Düsseldorf

Neckermann Management Service GmbH, Frankfurt am Main

Neckermann.Contact Heideloh GmbH, Fürth

neckermann.de GmbH, Frankfurt/Main

Noris International Trading Verwaltungs-GmbH, Nuremberg

OPTIMUS Beteiligungs GmbH & Co. Objekt Karl-Marx-Straße KG, Pöcking, Starnberg County

OPTIMUS Beteiligungs GmbH & Co. Vermietungs-KG, Pöcking, Starnberg County

Optimus Grundstücksgesellschaft mbH & Co. KG Objekt Kiel KG, Pöcking, Starnberg County

Optimus Logistics GmbH, Nuremberg

Optimus Verwaltung GmbH & Co. Objekt Berlin-Neukölln KG, Pöcking, Starnberg County

OPTIMUS Verwaltung GmbH & Co. Objekt Berlin-Spandau KG, Pöcking, Starnberg County

OPTIMUS Verwaltung GmbH & Co. Objekt Berlin-Wilmersdorfer-Straße KG, Pöcking, Starnberg County

OPTIMUS Verwaltung GmbH & Co. Objekt Leipzig KG, Pöcking, Starnberg County

OPTIMUS Verwaltung GmbH & Co. Objekt Munich County-Schwabing KG, Pöcking, Starnberg County

OPTIMUS Verwaltung GmbH & Co. Objekt Ratingen KG, Pöcking, Starnberg County

OPTIMUS Verwaltung GmbH & Co. Objekt Wiesbaden KG, Pöcking, Starnberg County

Primondo GmbH, Essen

Primondo Management Service GmbH, Fürth

Primondo Neue Geschäftsfelder GmbH, Fürth

Primondo Operations GmbH, Fürth

Primondo Specialty Group GmbH, Fürth

Producta Daten-Service GmbH, Frankfurt/Main

Profectis GmbH Technischer Kundendienst, Nuremberg

Quelle Communication Center Berlin GmbH, Berlin

Quelle Communication Center Magdeburg GmbH, Magdeburg

Quelle GmbH, Fürth

Quelle Online GmbH, Fürth

Quelle South East Asia Service GmbH & Co. KG, Fürth

QUELLE.Contact Center GmbH, Nuremberg

Quelle.Contact Customer Services GmbH, Fürth

Quelle.Contact GmbH, Chemnitz

Quelle.Contact Holding GmbH, Fürth

Quelle.Contact Vertrieb GmbH, Fürth

QuelleNeckermann Logistik GmbH, Fürth

QuelleNeckermann SV Beteiligungs GmbH, Fürth

RISAL Beteiligungs GmbH & Co. Objekt Berlin-Industriestraße KG, Pöcking, Starnberg County

RISAL Beteiligungs GmbH & Co. Objekt Berlin-Ansbacher und Passauer Straße KG, Pöcking, Starnberg County

RISAL Beteiligungs GmbH & Co. Objekt Berlin-Hauptstraße KG, Pöcking, Starnberg County

RISAL Beteiligungs GmbH & Co. Objekt Dinslaken KG, Pöcking, Starnberg County

RISAL Beteiligungs GmbH & Co. Objekt Emden KG, Pöcking, Starnberg County

RISAL Beteiligungs GmbH & Co. Objekt Flensburg KG, Pöcking, Starnberg County

RISAL Beteiligungs GmbH & Co. Objekt Gütersloh KG, Pöcking, Starnberg County

RISAL Beteiligungs GmbH & Co. Objekt Konstanz KG, Pöcking, Munich County

RISAL Beteiligungs GmbH & Co. Objekt Lörrach KG, Pöcking, Starnberg County

RISAL Beteiligungs GmbH & Co. Objekt Mainz KG, Pöcking, Starnberg County

RISAL Beteiligungs GmbH & Co. Objekt Wolfsburg KG i.L., Pöcking, Starnberg County

RWA Regina Werbeagentur GmbH, Essen

SB-Gross Handels-GmbH C+C Großhandel Objektausstattung, Fürth

servicelogiQ GmbH logistische Dienstleistungen, Nuremberg

TARUS Beteiligungs GmbH & Co. Objekt Leipzig KG i.L., Pöcking, Starnberg County

TRADO Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Dresden KG, Pöcking, Starnberg County

TRI Kottmann GmbH, Bad Waldsee

Universum Inkasso GmbH, Frankfurt/Main

Versandhaus Walz GmbH, Baby-Walz, Die moderne Hausfrau, Bad Waldsee

Corporate officers and their supervisory function in accordance with KonTraG

SUPERVISORY BOARD

Hero Brahms
Chairman
Management Consultant

- Deutsche Post AG
- Georgsmarienhütte Holding GmbH (Deputy Chairman)
- Live Holding AG
- Wincor Nixdorf AG
- M.M. Warburg & Co. Gruppe KGaA
- M.M. Warburg & Co. KGaA

Wolfgang Pokriefke*
Deputy Chairman
Chairman of the Central Works Council of Karstadt Warenhaus GmbH

Wilfried Behrens*
Managing Director of Karstadt Warenhaus GmbH, Gießen branch

Udo Behrenwaldt
Self-employed management consultant in the field of financial strategy, formerly spokesman for the management of DWS Investment GmbH

- Deutsche Asset Management Investmentgesellschaft mbH (Deputy Chairman)
- Deutsche Bank Privat- und Geschäftskunden AG
- Deutsche Börse AG
- Deutsche Vermögensbildungsgesellschaft mbH (Chairman)
- Feri Finance AG
- DWS Investment S.A., Luxembourg (Member of the Board of Directors)
- BioCentive Ltd., UK (Member of the Board of Directors)
- InCentive Investment Ltd., UK (Member of the Board of Directors)

Dr. Diethart Breipohl
Member of various supervisory boards

- Continental AG
- KM Europa Metal AG (Chairman)
- Atos Origin, France
- Crédit Lyonnais, France
- EULER & Hermes, France

Bodo Dehn*
Chairman of the Works Council of Karstadt Warenhaus GmbH, Mönchengladbach-Rheydt branch

- Karstadt Warenhaus GmbH

Leo Herl
Chairman of the Management Board of Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG

- Quelle Bauspar AG (Chairman)

Ulrich Hocker
Managing Director of the Deutsche Schutzvereinigung für Wertpapierbesitz e.V.

- Deutsche Telekom AG
- E.ON AG
- Feri Finance AG (Deputy Chairman)
- ThyssenKrupp Stainless AG
- Gartmore SICAV, Luxembourg
- Phoenix Mecano AG, Switzerland (President of the Administrative Board)

Prof. Dr. h. c. Karlheinz Hornung since December 12, 2007
Chief Financial Officer of MAN AG

- Demag Cranes AG
- MAN Diesel SE**
- MAN Ferrostaal AG**
- MAN Nutzfahrzeuge AG**
- MAN Roland Druckmaschinen AG
- MAN TURBO AG**
- RENK AG (Deputy Chairman)**
- MAN Capital Corporation, USA**

Peter Kalow*
Formerly Chairman of the General Works Council of Quelle GmbH; Systems Developer

Franz Lajosbanyai*
Chairman of the Central Works Council of neckermann.de GmbH

- neckermann.de GmbH (Deputy Chairman)

Holger Robert Lampatz until October 31, 2007
Formerly Chairman of the Management Board of MAXDATA AG

Margret Mönig-Raane*
Vice President of the Vereinte Dienstleistungsgewerkschaft (ver.di) service-sector union and Director of its National Commerce Sector

- Rewe Deutscher Supermarkt KGaA

Dr. Hans Reischl
Formerly Chairman of the Management Board of REWE-ZENTRAL AG

- Alte Leipziger Holding AG
- Alte Leipziger Versicherungsverein aG
- MAXDATA AG

Rita Rodenbücher *
Chairwoman of the Works Council of Karstadt Warenhaus GmbH, Duisburg branch, Commercial Assistant

- ip69 internet solutions AG

Juergen Schreiber
President & Chief Executive Officer, Shoppers Drug Mart

- GfK AG

Christa Schubert *
Deputy Chairwoman of the Works Council of Karstadt Warenhaus GmbH, Recklinghausen branch, Commercial Assistant

Michael Stammler
Chairman of the Management Board of Feri Finance AG

- eCapital New Technologies Fonds AG
- Quelle Bauspar AG

Gertrud Tippel-Kluth *
Secretary to the Federal Executive Committee of the German trade union ver.di, Commerce Department

- Karstadt Warenhaus GmbH
- SinnLeffers GmbH

Werner Wild *
Deputy Regional Director, ver.di Baden-Württemberg

Dr. Klaus Zumwinkel
Chairman of the Management Board of Deutsche Post AG

- Deutsche Lufthansa AG
- Deutsche Postbank AG (Chairman) **
- Deutsche Telekom AG (Chairman)
- – Morgan Stanley, U.S.

* Employee representative
** Group companies
• Member of other supervisory boards required by law
– Member of comparable control bodies

MANAGEMENT BOARD

Dr. Thomas Middelhoff
Chairman

- Karstadt Warenhaus GmbH (Chairman) *
- neckermann.de GmbH (Chairman) *
- Quelle GmbH (Chairman) *
- Senator Entertainment AG (Chairman)
- – BHF-Bank
- – Fitch, France
- – Moneybookers Ltd., UK (Chairman)
- – New York Times Company, U.S.
- – NRW.Bank
- – Polestar Group Ltd., UK (Chairman)
- – RWE AG
- – Thomas Cook Group plc, UK (Chairman) *

Dr. Matthias Bellmann
Member of the Management Board

- neckermann.de GmbH *
- Quelle GmbH *
- Thomas Cook AG *

Dr. Peter Diesch
Member of the Management Board since January 15, 2007

- Delton AG
- KarstadtQuelle Bank AG (Chairman) *, since April 18, 2007
- KarstadtQuelle Krankenversicherung AG (Deputy Chairman), since March 1, 2007
- KarstadtQuelle Lebensversicherung AG (Deputy Chairman), since March 1, 2007
- KarstadtQuelle Versicherung AG (Deputy Chairman), since March 1, 2007
- Karstadt Warenhaus GmbH *, seit 24. Januar 2007
- neckermann.de GmbH *, since January 24, 2007
- Quelle GmbH *, since January 24, 2007
- – KarstadtQuelle Finanz Service GmbH (Chairman) *, since January 25, 2007
- – Thomas Cook Group plc, UK *

* Group companies
• Member of other supervisory boards required by law
– Member of comparable control bodies

Prof. Dr. Helmut Merkel
Member of the Management Board

- EDS ITELLIUM GmbH*
- Karstadt Warenhaus GmbH*
- Quelle GmbH*
- Bundesarbeitsgemeinschaft der Mittel- und Großbetriebe des Einzelhandels e.V. (President)
- Hauptverband des Deutschen Einzelhandels e.V., (Vice President)

Harald Pinger
Member of the Management Board until January 14, 2007

- ERGO Versicherungsgruppe AG
- KarstadtQuelle Bank AG (Chairman)*, until April 18, 2007
- KarstadtQuelle Krankenversicherung AG (Deputy Chairman), until January 23, 2007
- KarstadtQuelle Lebensversicherung AG (Deputy Chairman), until January 23, 2007
- KarstadtQuelle Versicherung AG (Deputy Chairman), until January 23, 2007
- Karstadt Warenhaus GmbH*, until January 23, 2007
- neckermann.de GmbH*, until January 23, 2007
- Quelle GmbH*, until January 23, 2007
- KarstadtQuelle Finanz Service GmbH (Chairman)*, until January 23, 2007

Marc Sommer
Member of the Management Board

- Karstadt Warenhaus GmbH*
- neckermann.de GmbH*
- Primondo Management Service GmbH (Chairman)*
- myby GmbH (voluntary member of the Supervisory Board)*
- Quelle AG, Austria (Chairman)*
- Quelle OÜ, Estonia (Chairman)*

Peter Michael Wolf
Member of the Management Board

- Thomas Cook AG*

* Group companies
• Member of other supervisory boards required by law
\- Member of comparable control bodies

ARCANDOR Aktiengesellschaft
Essen, January 3, 2008

THE MANAGEMENT BOARD

Dr. Thomas Middelhoff   Dr. Matthias Bellmann   Dr. Peter Diesch

Prof. Dr. Helmut Merkel   Marc Sommer   Peter Michael Wolf

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by ARCANDOR Aktiengesellschaft – comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group Management Report for the financial year from January 1, 2007 to September 30, 2007. The preparation of the consolidated financial statements and the Group Management Report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a para. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group Management Report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group Management Report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, January 3, 2008

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed	signed
Dyckerhoff	Rauscher
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Certified Auditor)	(German Certified Auditor)

RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim Management Report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year."

ARCANDOR Aktiengesellschaft
Essen, January 3, 2008

THE MANAGEMENT BOARD

Dr. Thomas Middelhoff	Dr. Matthias Bellmann	Dr. Peter Diesch
Prof. Dr. Helmut Merkel	Marc Sommer	Peter Michael Wolf

FURTHER INFORMATION

GLOSSARY

Asset-light model
Business model with low capital tie-up and correspondingly high flexibility.

Category management
Basing purchasing processes and thereby our product ranges and presentation of goods on the needs of our target customers.

Contractual trust agreement (CTA)
Contractually regulated, company trust fund for the transfer of assets to be used to finance pension payments.

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

EBITDA
Earnings before interest, taxes, depreciation and amortization. Earnings before financial results, income taxes and depreciation and amortization.

Fashion
Karstadt's Fashion consumer segment comprises ladies', men's and children's clothing.

Free cash flow
Specific indicator from the cash flow statement. Free cash flow is calculated from the cash flow from current business activity and the cash flow from investing activity. Calculation of net free cash flow takes into account interest received and paid and changes in pension provisions and plan assets.

KonTraG
German Act on Corporate Control and Transparency.

Living
The Karstadt Living consumer segment comprises the Living and Food and Drink, Kitchen and Bath segments and the YornCasa Lifestyle Concept.

M & A
Short for "mergers & acquisitions", corporate transactions through which companies merge or change owner.

Market capitalization
The valuation of a company on the stock exchange, obtained by multiplying the stock exchange price by the number of shares of a company.

Multi-channel
Strategy where a number of sales and communication channels complement one another. The important sales channels for Primondo are, for example, department stores, catalogs, e-commerce, teleshopping and over-the-counter retail.

Own brands
Own brands, or retail brands, are brands which are marketed by retailers themselves. Examples of Karstadt's own brands include Yorn, YornCasa, Inscene. Well-known Quelle brands are, for example, electrical household appliances of the Privileg brand and consumer electronics of the Universum brand.

Personality
The Karstadt Personality consumer segment includes personal requisite ranges such as fragrances, watches and jewelry, leather goods, toys and games, books and confectionery.

Phantom stock program
Virtual stock options served in cash.

Premium Group
Karstadt top locations offering an exclusive, international product range. As "Top of Europe" (KaDeWe) and "Top of the Region" (Alsterhaus), they are the first port of call for a particularly high-quality shopping experience.

Profiling product lines
Segments in which a product range standard comparable with that of specialists is offered. They are being extended to include compulsory and supplementary ranges.

Risk management
The company divisions of the Arcandor Group analyze and control their business risks independently on the basis of a Group-wide risk management system.

Shopping domain
Internet site at which customers can shop and find information around the clock. The Arcandor Group's online world offers a large number of portals.

Short financial year
A financial year of less than twelve months. Following the resolution by the Annual General Meeting in 2007, the end of the financial year of Arcandor AG was changed from December 31 to September 30. The 2007 financial year is therefore a short, nine-month financial year from January 1 to September 30. In future, the reporting period will run from October 1 to September 30.

Teleshopping
Teleshopping is a form of selling where products are presented to consumers through television and can be ordered by telephone.

Trading-up
Higher-quality alignment of product ranges, advice, services and store fittings.

Working capital
Sum of inventories and customer receivables less supplier liabilities.

WpHG
Securities Trading Act.

YornCasa
Karstadt Warenhaus GmbH Lifestyle Concept. The ideas- and inspiration-led YornCasa Concept offers trend products in the Bath, Bed, Living and Table segments.

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Important Investor Relations dates

Annual General Meeting (Düsseldorf)	April 23, 2008
Interim reports	
Quarter 1	February 14, 2008
Quarter 2	May 15, 2008

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Future-focused statements
Also to be found in this annual report are future-focused statements based on estimates by the Arcandor management. Such statements reflect Arcandor's view with regard to future events at the time at which they were undertaken and are subject to risks and uncertainties. Many factors may cause the actual results to deviate not inconsiderably from the estimates given here. Such factors include – besides other changes in general economic and business conditions – changes in exchange rates, prices of fuel and interest levels or changes in corporate strategy. Arcandor rejects any intention or obligation to update these statements about the future made at a specific point in time.