

KARSTADT QUELLE^{AG}



ANNUAL REPORT 2000

KARSTADT QUELLE GROUP – AT A GLANCE

			2000	1999	Change in %
Sales	Over-the-counter retail	mill. €	7,587.2	7,478.1	1.5
	Mail order	mill. €	7,550.9	7,273.9	3.8
	Services / Other	mill. €	587.9	303.7	93.6
	less cross-segment inter-company sales	mill. €	486.0	212.7	-
	Group sales	mill. €	15,240.0	14,843.0	2.7
Earnings	EBIT	mill. €	332.2	280.8	18.3
	EBIT margin	in %	2.2	1.9	-
	EBT	mill. €	272.8	225.4	21.0
	EBT margin	in %	1.8	1.5	-
	Net income	mill. €	248.7	218.6	13.8
	Return on capital employed	in %	10.0	8.8	-
	Return on equity	in %	13.3	12.9	-
Financial situation and dividend	Gross cash flow	mill. €	643.1	699.8	- 8.1
	Liquid funds	mill. €	236.7	217.3	8.9
	Depreciation/amortisation	mill. €	357.9	367.9	- 2.7
	Dividend	mill. €	78.8	72.9	8.1
Structure of the balance sheet	Balance sheet total	mill. €	8,191.8	7,925.0	3.4
	Capital and reserves	mill. €	1,866.7	1,698.7	9.9
	Equity ratio	in %	22.8	21.4	-
	Fixed assets	mill. €	3,462.5	3,280.8	5.5
	Current assets	mill. €	4,705.4	4,614.6	2.0
Other information	Employees on 31.12.	number	112,516	113,490	- 0.9
	Full-time staff on annual average	number	88,163	88,171	0.0
	Staff costs	mill. €	3,216.8	3,169.5	1.5
	Investments	mill. €	569.9	481.7	18.3
	Department stores and specialty stores in over-the-counter retail	number	358	383	-
	Sales space on 31.12. in over-the-counter retail	th. m ²	2,369.9	2,388.3	- 0.8
KARSTADT QUELLE AG Share	Dividend per individual share certificate	€	0.67	0.62	8.1
	Dividend per individual share certificate incl. tax credit	€	0.96	0.89	7.9
	Net earnings per share	€	1.57	1.59	- 1.3
	Gross cash flow per share	€	5.47	5.95	- 8.1
	Market price at end of the year	€	32.90	39.80	- 17.3
	Highest price	€	40.73	48.70	-
	Lowest price	€	27.30	30.55	-
	Market value at end of the year	mill. €	3,867.4	4,678.5	- 17.3



OVER-THE-COUNTER RETAIL

Department store • Specialty store

The KarstadtQuelle group, with department and specialty stores, mainly in 1-A locations of city centres, occupies an excellent market position in the over-the-counter retail sector in Germany. With 189 department stores operated under Karstadt, Hertie, Wertheim, Alsterhaus and KaDeWe we are market leaders in the department store segment. We operate in strong growth sectors with a total of 169 specialty stores under the brand names, Runners Point (sports), Schaulandt (entertainment electronics and technology), Wehmeyer (fashion) und WOM World of Music (visual and sound media).

		2000	1999	Change in %
Sales	mill. €	7,587.2	7,478.1	1.5
Locations	number	358	383	-
Employees on 31. 12.	number	72,253	74,112	- 2.5
Segment assets	mill. €	4,943.1	4,517.6	9.4

Further information from page 64 on.

MAIL ORDER

Universal home shopping • Special mail order

KarstadtQuelle with its strong Quelle and Neckermann brands is market leader in the German mail-order sector. We are represented in 13 European countries and offer our customers a broad range of products in four main catalogues and more than 178 specialty catalogues. Quelle and Neckermann offer an e-business capability, long experience in logistics, and perfected and efficient process chains. This ensures optimal service to the customer and reliable, secure mail-order processing.

		2000	1999	Change in %
Sales	mill. €	7,550.9	7,273.9	3.8
thereof foreign	mill. €	1,519.2	1,310.0	16.0
Employees on 31. 12.	number	36,687	36,396	0.8
Segment assets	mill. €	3,806.0	3,799.7	0.2

Further information from page 84 on.

TRAVEL S

C & N

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Sales
Customers
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Employees
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Further inform

THE COMPANY SEGMENTS



TRAVEL SERVICES

C & N

We are represented in the growing travel market mainly by our 50 % participation in C & N Touristic AG. C & N was created by the fusion of the airline Condor with the travel operator Neckermann in 1997. Today C & N is already Europe's second-largest travel group and, as a vertically integrated marketer, covers all stages in the travel value-added chain.

With its strong brand names, comprehensive sales network and modern fleet of aircraft C & N fits seamlessly into the strategy of the KarstadtQuelle Group.

		01.11.1999 to 31.10.2000	01.11.1998 to 31.10.1999	Change in %
Sales	mill. €	4,980	4,639	7.4
Customers carried	in th.	10,896	10,375	5.0
Employees on 31. 10.	number	12,197	9,913	23

Further information from page 104 on.

SERVICES/OTHER

IT • E-business • Logistics • Customer service • Catering

The services segment supports KarstadtQuelle's development into an integrated trading and service group. Our service companies concentrate specifically on the IT solution, e-business, financial services, logistics and imports sectors; they also operate in the insurance, restaurants and catering sectors. The range of services offered is not restricted to group companies. More and more third-party customers from the most varied sectors of the old and new economy are profiting from the know-how of our service companies.

		2000	1999	Change in %
Sales	mill. €	587.9	303.7	93.6
Employees on 31. 12.	number	3,576	2,982	19.9
Segment- assets	mill. €	449.4	308.2	45.8

Further information from page 118 on.

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SUPERVISORY BOARD

DR. HANS MEINHARDT

Chairman

WOLFGANG POKRIEFKE*

Deputy chairman

WILFRIED BEHRENS*

DR. DIETHART BREIPOHL

JÜRGEN DAMM*

BODO DEHN*

HUBERT GARTZ*

DR. JUR. FRIEDHELM GIESKE

LEO HERL

ULRICH HOCKER

PETER KALOW*

DR. H. C. MARTIN KOHLHAUSSEN

DR. INGO RIEDEL

CHRISTA SCHUBERT*

GÜNTER STROHMEIER*

DR. GUNTER THIELEN

DR. BERND W. VOSS

**DIPL.-ING. DR.-ING. H. C.
JÜRGEN WEBER**

DR. FRANZISKA WIETHOLD*

RÜDIGER WOLFF*

*) representing employees

Complete details regarding the members of the Supervisory Board and the Management Board in accordance with Art. 285 No. 10 HGB are given on pages 158 to 161.

MANAGEMENT BOARD



WOLFGANG URBAN, CHAIRMAN

Corporate planning and development, corporate communications, investor relations, controlling, law, audit



PETER GERARD

New media and services (e-business, data management) financial services



PROF. DR. HELMUT MERKEL

Information systems and technology, logistics, personnel, organisation



NORBERT NELLES

Finance, balance sheets, taxes, real estate



WERNER PIOTROWSKI

Chairman of the Management Board of Neckermann Versand AG

REPORT OF THE SUPERVISORY BOARD

DEAR SHAREHOLDERS,

the Supervisory Board continuously monitored and advised the Management Board during the 2000 financial year. It was kept informed by the Management Board about the progress of business, the economic situation, significant business events, business policy and corporate planning at seven Supervisory Board meetings and by written report.

Furthermore, the chairman of the Supervisory Board maintained close contact with the chairman of the Management Board, who kept him informed at all times about important business affairs, planning and decisions of the Management Board.

The Supervisory Board was duly kept fully informed about measures requiring its approval. In all instances the Supervisory Board gave the required approval after a thorough examination and discussion of the various applications made by the Management Board.

Key topics in the 2000 financial year

At its seven meetings the Supervisory Board discussed in detail the strategic orientation and prospects for the development of the group.

At its seven meetings, in addition to the development of the business at the Karstadt Group and its companies at home and abroad, the Supervisory Board discussed important individual business operations. Amongst others, the following topics were dealt with:

- The 10-Point Value-Added Programme and its further implementation. Here the following matters were uppermost:
 - the acquisition of SINN LEFFERS AG
 - the process optimisation project for the sustained improvement of results in the department stores segment
 - the further development of the theme store concept
 - the development of e-business operations
 - the growth strategies in the fashion and sports segments
 - the real estate strategy
 - acquisitions in the mail-order and travel services segment
- Finance, investment and personnel planning.
- The 2001 investment programme.

The Supervisory Board appointed a Standing Committee and the Arbitration Committee required under Art. 27 Para. 3 of the German Law on Codetermination.

In particular, the Standing Committee discussed Management Board matters and passed the necessary resolutions. Detailed discussions were conducted about the introduction of additional remuneration components for members of the Management Board and senior management to secure their participation in the long-term added value of the company.

The Standing Committee met four times during the year under review.

No occasion was found for the Arbitration Committee to meet.

Annual account and group account

BDO Deutsche Warentreuhand Aktiengesellschaft, accountants and public auditors, Düsseldorf, who were elected by the General Meeting of Shareholders, examined the annual account of KarstadtQuelle AG, the group account, the combined management reports of KarstadtQuelle AG and the group and the dependent company report and awarded each of them an unqualified auditor's certificate.

In accordance with the requirements of the German Law on Corporate Control and Transparency (KonTraG) the risk management system was also included in the annual audit.

The final accounts, the combined management reports of the group and KarstadtQuelle AG, the dependent company report and the auditor's reports were duly submitted to all the members of the Supervisory Board and discussed in detail at the meeting of the Supervisory Board on May 14, 2001. The auditor also attended this meeting and reported on the most important findings of his audit and answered questions put to him by members of the Supervisory Board.

In accordance with the findings of its own examinations the Supervisory Board finds no cause for objection and approves the auditor's findings. The Supervisory Board has noted the annual account of KarstadtQuelle AG prepared by the Management Board for the period to December 31, 2000, and given it its final approval. The Supervisory Board approves the proposal of the Management Board for the appropriation of the net profit.

REPORT OF THE SUPERVISORY BOARD

The Management Board has prepared a report on relations with subsidiary companies pursuant to Art. 312 of the German Stock Corporation Law. The auditor has examined this report, reported on the findings of his examination both in writing and orally at the meeting of the Supervisory Board on May 14, 2001, and awarded the report an unqualified auditor's certificate.

In accordance with the findings of its examination the Supervisory Board finds no objections to the Management Board's concluding remarks in its report pursuant to Art. 312 of the German Stock Corporation Law and approves the auditor's findings.

Changes in the Supervisory Board and Management Board

Mr. Heinz Rätz retired from the Supervisory Board on conclusion of the Annual General Meeting on July 20, 2000. Dr. Gunter Thielen, member of the Board of Directors of Bertelsmann Aktiengesellschaft and chairman of the Board of Directors of Bertelsmann Arvato AG, was appointed by the General Meeting to succeed him on the Supervisory Board.

Likewise, Mrs. Ulrike Wuhrer retired from the Supervisory Board on September 30, 2000. Mr. Peter Kalow, chairman of the Plenary Works Council of Quelle Aktiengesellschaft, was judicially appointed to succeed her as an employees' representative on the Supervisory Board.

The Supervisory Board thanks Mrs. Wuhrer and Mr. Rätz for their constructive cooperation.

The Supervisory Board has with effect from September 30, 2000, complied with Dr. Walter Deuss's request to terminate his executive activity as Chairman of the Management Board. Mr. Wolfgang Urban was appointed to succeed him as Chairman of the Management Board.

Mr. Peter Gerard was appointed an ordinary member of the Management Board with effect from October 17, 2000.

As of March 28, 2001 Mr. Reinhard Koep retired for health and personal reasons as member of the Management Board and labour-relations director.

The Supervisory Board thanks Dr. Deuss and Mr. Koep for their many years of excellent work.

Thanks and appreciation

The Supervisory Board would like to express its thanks and appreciation to the Management Board, the senior management and all the employees of the KarstadtQuelle Group in Germany and abroad for their commitment and outstanding achievement during the financial year just ended.

Essen, May 14, 2001

For the Supervisory Board

Dr. Hans Meinhardt
Chairman

FOREWORD BY THE CHAIRMAN OF THE MANAGEMENT BOARD

DEAR SHAREHOLDERS,

the KarstadtQuelle Group is looking back on an eventful 2000 financial year. It marked the beginning of changes and so was not an easy year, but it was ultimately a successful one. Your company is on the point of a new departure. We have set ourselves ambitious goals for the future.

The KarstadtQuelle Group achieved a growth in sales of 2.7% in a still difficult economic environment in the 2000 financial year. We thus bettered the average trend in the retail trade (+1.8%) and gained further shares of the market as well.

At the same time we increased our earnings before tax (EBT) by 21% to 273 million €. The percentage return on sales improved to 1.8% compared with 1.5% the previous year.

Our percentage return on sales is still too low compared with our competitors

Viewed in isolation, the two-figure percentage increase in earnings reflects a favourable development. However, the return on sales of 1.8% is not satisfactory. It shows that we still have great potential for improvement in comparison with other German and international competitors. We want to selectively unlock this potential.

Competition in the retail trade has further intensified in recent years. For this reason we have redefined our strategy.

Our strategy

KarstadtQuelle has soundly based future prospects. This is clearly shown by our 10-Point Value-Added Programme with the following points of emphasis:

- **Restructuring and optimisation:**
We are getting leaner, faster and stronger.
- **Growth:**
We are establishing our position in future markets.
- **Value management:**
Increasing value determines our corporate action.

Our aim is to increase the percentage return on sales from 1.8% to 4% by the year 2003

Our medium-term Value-Added Programme will achieve its full positive effect in 2003. Our aim is to virtually triple our earnings before tax from 273 million € in the 2000 financial year to 729 million € in 2003. This represents an increase from 1.8% to 4% in the return on sales.

The 10-Point Value-Added Programme is consistently aimed at meeting the interests of our shareholders, the needs of our staff and the requirements of our customers and will, according to our plans, contribute additional annual earnings of 384 million € from 2003 on.

To help achieve these earnings, in the 2000 financial year we took future-oriented action for restructuring in the framework of the implementation of the 10-Point Value-Added Programme in the department stores segment. This non-recurring expenditure was offset by extraordinary revenue from revaluation of tangible fixed assets in virtually the same amount.

Our restructuring and optimisation is aimed in particular at markedly reducing the excessively high business system costs in the department stores and mail order sectors. We are concentrating functions and tightening up business processes to remedy competitive disadvantages. At the same time we are modernising and optimising our systems. This will also give rise to strategic decisions which will alter our organisational structure

and result in the reduction as well as the creation of new jobs. I am aware of the responsibility for these difficult decisions. However, secure jobs are possible only in a competitive and efficient company.

The growth concept will build on our leading position in the areas of over-the-counter retailing, mail order and e-business and in sectors with future potential such as fashion, sports, technology and tourist services.

Our Multi-Channel Network is the core of the growth concept

The core of our growth concept is our Multi-Channel Strategy. This will strengthen our already excellent position in the market. As Europe's largest department store and mail order group, we have the most customer relationships in the decisive sales channels of the old and new economy. In our Multi-Channel Network the customer can take advantage of ranges from different trade sectors or areas of consumption through the sales channel that he individually prefers. Within the framework of our customer relationship management we shall further extend our customer relations and exploit to the full cross selling potential between the sales channels.

FOREWORD BY THE CHAIRMAN OF THE MANAGEMENT BOARD

The third area of our Value-Added Programme is our value management. It includes an intensive dialogue with the financial community. Accordingly we have markedly stepped up our investor relations activities. Furthermore, we are introducing into the KarstadtQuelle Group the EVA (Economic Value Added) management system as a corporate control and management system. EVA will make results more measurable, more visible and more communicable. At the same time we are increasing the commitment of our staff by new incentives on the basis of EVA. We have decided, with the approval of the shareholders' meeting, to launch programmes for the issue of employee shares to all our staff as well as a stock option programme for the management.

We are pursuing ambitious aims in the 2001 financial year

In the course of further implementation of the 10-Point Value-Added Programme we shall be concentrating in particular on the rapid implementation of our restructuring and optimisation potential in the group and the expansion of our Multi-Channel Network. We shall be pressing ahead with in particular the management of our customer relationships and the use of the information obtained from them for an integrated concept.

The year 2001 will also see the completion of the integration of Karstadt, Neckermann and Quelle. The integration of the organisational and corporate structure of the principal company areas has today largely been completed since the legal merger in the 1999 financial year. The size and strength acquired thereby open up to us a large number of opportunities.

Thus we are continuing to expand our excellent market position in e-business. At the same time we are increasingly profiting from the high customer-retaining and sales potential offered by the Internet and are making selective use of the resulting freedom of growth and development, the flexibility and the cost-reducing potential linked to it.

KarstadtQuelle will, on the basis of its excellent market position, even more actively help to shape the development of the German retailing scene. In many towns and cities our Karstadt department stores form the focal point of local market activities and are thus pivotal for trade and communication. Our successful theme store concept is contributing decisively to this. Accordingly we shall further develop this with specific effect for the return on sales. Through our trade segment concepts, particularly in the Fashion and Sports segments, we want to carry on growing in many towns and cities.

The high locational quality of our real estate portfolio will in the next few years enable us to expand our position in a number of locations by the development of inner-city shopping centres. This will also boost growth at Karstadt department stores. In Erfurt we have already realised this potential; in Kassel we are on the way to realising it.

We are profiting in the further development of our business from our decades of experience and are setting trends by creatively responding to changes in the mood of the times and rapidly exploiting them.

The initiatives introduced at the end of last year to increase value in the KarstadtQuelle Group are already yielding markedly higher earnings in the 2001 financial year.

I should like at this point to thank our members of staff for their exceptional work during the financial year just passed. I also thank them for their commitment, their loyalty to the company and their willingness to grasp the opportunities and rise to the challenges that the future is bringing with it. From the many discussions I have had I have gained the impression that our new strategic orientation and our new departure

are regarded favourably. The tremendous energy and effort which all the members of staff have put into the implementation of our aims confirm this impression. I am aware that the radical changes that our group has undergone are a challenge for all concerned.

I and my fellow members of the Management Board also thank you, Dear Shareholders, for your confidence. It is our foremost aim to sustainably increase the corporate value of KarstadtQuelle by earnings-focused action. We are convinced that we have laid all the necessary foundations for this.

Yours sincerely

Wolfgang Urban

THE 10-POINT VALUE-ADDED PROGRAMME

A pure trading company is being turned into a highly efficient trading and service group

**Aim 2003: Increase of sales return from 1.8 % to 4 %
Tripling of earnings to 729 million €
Increase of sales from 15.2 billion € to 18.4 billion €**

RESTRUCTURING AND OPTIMISATION

**Aim 2003: 256 Mio. € increase of earnings
Strategy: KarstadtQuelle will become leaner, faster and stronger**

1 Department stores: we are streamlining our business and administrative processes

- We are reducing dual functions and costs by increased centralisation.
- We are optimising our logistics and so halving storage space.
- We are concentrating our real estate portfolio in a separate company and establishing a position as one of the largest real estate companies.

2 Mail order business: we are increasing synergies at Quelle and Neckermann

- The two strong brands Quelle and Neckermann will form a shared service and logistics platform.
- We are extending our value-added chain as a powerful service provider in the future logistics market.

GROWTH

Aim 2003: 128 million € increase of earnings

Strategy: KarstadtQuelle will establish a position in future markets

3

Our Multi-Channel Strategy sets new standards in European trade

- As Europe's largest department store and mail-order group, we support customers through all the sales channels of the old and new economy.
- By setting up a network of 18 million qualified customer addresses we are creating unique cross selling potential.

4

On course for growth with the theme store concept

- We shall develop our successful theme store concept further - thereby increasing the dynamics of our earnings growth.
- The planned clear increase in the number of our Karstadt Club Customer Cards from 4 million in 2000 to 10 million in 2002 will boost our cross selling effects.

5

Clear expansion of our top position as market leader in the fashion and sports market by 2005

- Fashion: We want to increase our market share from 4.9% to 7.4%.
The SinnLeffers fashion business will consolidate our position in the medium- and high-price segment.
- Sport: We aim to double our sales to 1.3 billion €.

6

Specialisation and internationalisation as a high-yield, high-growth operator in the mail-order business

- Sales abroad and in special mail-order must grow by 10% annually.
- Collaborations and acquisitions will support our expansion.

7

The strongly expanding C & N travel business is creating outstanding concern-wide potential for growth and synergy

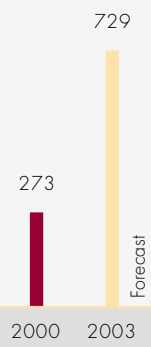
- Through the takeover of Thomas Cook and Havas Voyages C & N has become the third-largest travel group in the world.
- Combined product and travel ranges are increasing our opportunities in the multi-channel business.

8

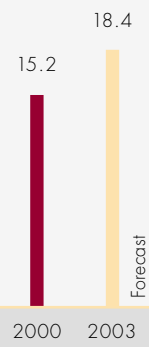
On the basis of our leading position in e-business we plan to increase sales from 450 million € in 2000 to around 1.5 billion € in 2003

- We are using our strong brand names for successful Internet portals.
- The combination of the traditional department store and mail-order business on the Internet, mobile phone network and TV will increase value-added for customers.
- By our involvement in electronic B2B marketplaces we are revolutionising our process management and reducing procurement costs.

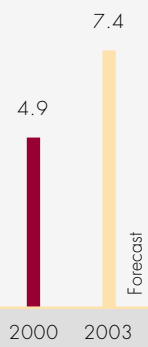
EBT in million €



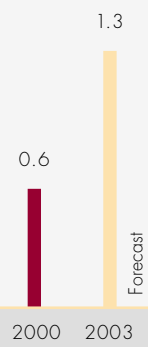
Sales in billion €



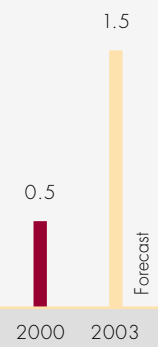
Fashion market share in %



Sports sales in billion €



Online demand in billion €



VALUE MANAGEMENT

Strategy: **Added value determines corporate action**

9

**Implementation of economic added value (EVA)
as a new management and incentive system**

- Results will become more measurable, more visible, more communicable.
- Employee motivation will be increased through payment by results.

10

Intensive dialogue with the financial markets

- We have strengthened our investor relations team and greatly expanded our dialogue with the capital markets.
- Our accounting system will be changed over to IAS in 2002 at the latest.
- We are publishing quarterly reports with detailed information about the group and the segments.

MANAGEMENT REPORT*



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*] This Management Report includes both the Group Management Report and the Management Report of KARSTADT QUELLE AG.

IN BRIEF: EARNINGS AND PROSPECTS

Karstadt Quelle looks back on a successful financial year

The 2000 financial year was a successful one for the KarstadtQuelle Group. Sales were increased by 2.7% to 15.2 billion €. Earnings before tax rose from 225.4 million € to 272.8 million €. This represents an increase of 21%. Annual net profit rose from 218.6 million € to 248.7 million €. The Management Board proposes that the dividend per individual share certificate be increased from 0.62 € to 0.67 €.

Good prospects for the retail trade

The Main Association of the German Retail Trade (HDE) assesses the prospects for the 2001 financial year optimistically and forecasts a growth of 2%. The Federal Working Party for Medium-Sized and Large Companies (BAG) anticipates a growth in sales of between 1.5% and 2%.

KarstadtQuelle is planning for a growth in EBT of more than 25%

The KarstadtQuelle Group is planning for a growth in sales of just on 7% for the 2001 financial year. After adjustment for the SinnLeffers acquisition this amounts to an increase in sales of 2.5%. A rise of over 25% is planned for earnings before tax (EBT).

tores • Strengthen fashion and sport • Specialise and internationalise mail order • Expand travel services

ECONOMY AND CONSUMPTION

Strong impulse for growth

Germany's economic situation developed positively during the year under review. Gross domestic product rose by a clear +3.0% in real terms on the previous year.

The powerful economic upswing was helped by the sound condition of the world economy. In particular the continuing strength of the American economy supported the revival of growth over the entire European economic area.

Appreciable positive impulses for the German economy resulted from the weak value of the Euro abroad. Exports of investment goods in particular benefited from improved conditions for export to countries outside the Euro area.

Rising incomes with increased pressure on prices

The available income of private households in Germany rose by 2.9% during the year under review. This rise is also due to the positive trend in the jobs market.

At the same time pressure on prices increased markedly during the year under review.

The cost of living in Germany rose by 1.9% and thus markedly more than in 1999 (+0.6%). Behind the price rise are mainly external and to a lesser extent domestic economic factors. The significant increase in crude oil prices in conjunction with a weak Euro exerted considerable pressure on the level of prices. At home, amongst other things, the second stage of the eco-tax reform depressed buying power.

Retail trade prices rose by 1.1% in the year under review (1999: +0.2%). Due to the continuing high pressure of competition and the rise in energy prices not included the rise was not as great as that of the cost of living at 1.9%.

services • Increase e-business • Implement EVA • Intensify dialogue with finance markets • Streamline k

Slight increase in consumer spending

Private consumer spending rose by 1.6 % in real terms in 2000. It was lower than forecast and lower than the rise in 1998 and 1999.

Sales in the "true" retail business were nominally 1.8 % above those of the previous year.

At the beginning of the year there were signs of a marked revival in consumption. As the year wore on the mood of consumers increasingly deteriorated due to the significant rise in energy prices combined with psychological negative effects. Likewise increasingly negative was the influence on the climate of private consumption of the mood of restraint on share markets and the associated change in the value of private means.

The share of consumer spending in the "true" retail trade continued to decline. It fell by 0.4 percentage points to 31.8 % (1999: 32.2 %).

Altogether the retail trade turned over around 504 billion € of business during the year under review. This represents a growth of around 1.3 %. Sales in the "true" retail trade came to around 375 billion € and were thus nominally up by 1.8 % on those of the previous year.

Varied sales trends in the retail trade

The organisational forms of the retail trade record varied sales trends.

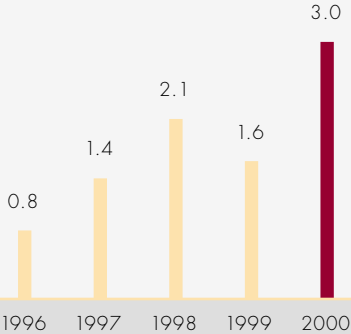
Supermarkets and food discounters continued the positive sales trend of 1999 into 2000. The specialist retail trade and the mail-order trade again recorded a slight increase after the setbacks of the previous year. Sales in the department stores segment, on the other hand, showed a downward trend, losses of 2 % being recorded.

business processes • Set up synergies • Network sales channels • Perfect theme stores • Strengthen fashion

ECONOMY AND CONSUMPTION IN GERMANY

Gross domestic product

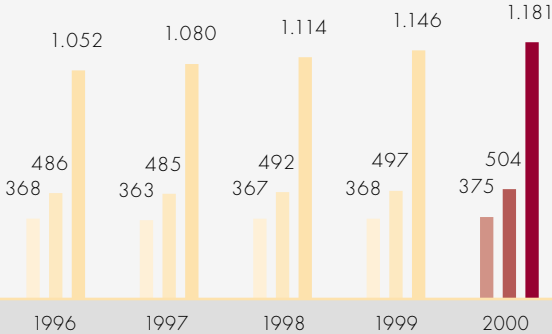
real change compared with previous year as a percentage



Source: Federal Statistics Office

Retail trade sales/private consumer expenditure

in then current prices, billion €



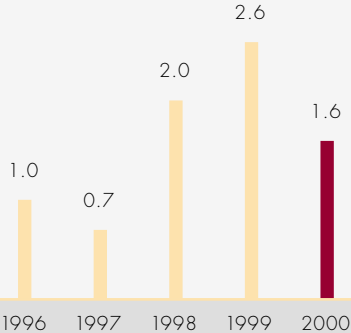
- "True" retail trade*
- Retail trade as a whole
- Private consumer expenditure**

*) not including sales of motor vehicles, fuels and combustibles and excluding sale of pharmaceuticals
 **) including non-profitmaking organisations

Source: BAG, Federal Statistics Office

Private consumer expenditure

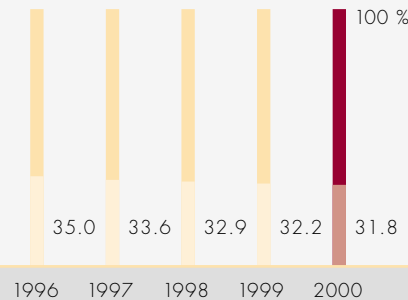
real change compared with previous year as a percentage



Source: Federal Statistics Office

Share of "true" retail trade in consumer expenditure

in then current prices, in %



- Private consumer expenditure*
- thereof "true" retail trade**

*) incl. private non-profitmaking organisations
 **) not including sales of motor vehicles, fuels and combustibles and not including sale of pharmaceuticals

Source: BAG, Federal Statistics Office

fashion and sport • Specialise and internationalise mail order • Expand travel services • Increase e-bus

THE KARSTADTQUELLE GROUP

Strategic orientation: expansion of the excellent position due to the multi-channel network

The linchpin of the Karstadt Quelle Group's strategy is the multi-channel network. Unlike almost any other company, KarstadtQuelle has leading positions in all the important sales channels. This applies to the over-the-counter retail trade with emphasis on the department stores, mail-order trade, travel agents and the group-wide e-business segments. At the same time we are excellently positioned in strong and growth sectors like fashion, sport, technology and tourism. The decisive added-value is created by the intermeshing of these positions in the framework of the multi-channel network. The catalyst is the large number of customer relationships and the management of these customer relationships (CRM - Customer Relationship Management). Within the framework of the CRM we utilise the available customer information to interlink the different sales channels and thus to fully utilise a high cross selling potential.

The strategic orientation of the individual business segments is explained in the relevant reports.

REPORT ON THE FINANCIAL YEAR

Sales trend

Rise of 2.7 %

The KarstadtQuelle Group increased its sales by 2.7 % to 15.2 billion € (previous year: 14.8 billion €) in the 2000 financial year. We thus outperformed the growth of 1.8 % in the retail trade sector as a whole by 0.9 %-points.

After an excellent sales performance in the first nine months of the year a disappointing fourth quarter prevented an even better performance. The last weeks of the year - and particularly the Christmas business - were marked by consumer restraint. The positive effects of the tax reform generally forecast were diminished by the negative influence of external factors like rises in energy prices on the mood of consumers.

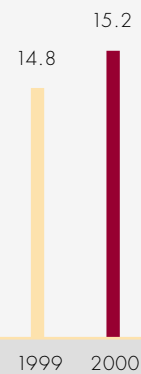
business • Implement EVA • Intensify dialogue with finance markets • Streamline business processes • Set

In the retail sector, moreover, the lower number of sales days compared with the previous year had a negative effect on Christmas business.

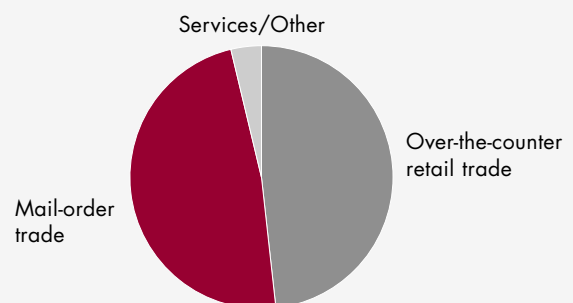
The **over-the-counter retail sector** achieved a sales plus of 1.5 %. Sales rose from 7.48 billion € to 7.59 billion €.

The **mail-order trade** achieved an increase in sales of 3.8% to 7.55 billion €. In the domestic sector 6.03 billion € worth of goods were sold. This represents a rise of 1.1%. Growth in foreign business stood at 16%. Sales rose to 1.52 billion €. The foreign share of mail-order business increased by 2.1 %-points to 20.1%.

Group sales in billion €



Sales by segment



	in million €	in %
Over-the-counter retail trade	7,587	48.2
Mail-order trade	7,551	48.0
Services/Other	588	3.8

up synergies • Network sales channels • Perfect theme stores • Strengthen fashion and sport • Speciali

Group earnings (EBT) in million €



Earnings

EBT up by 21 %

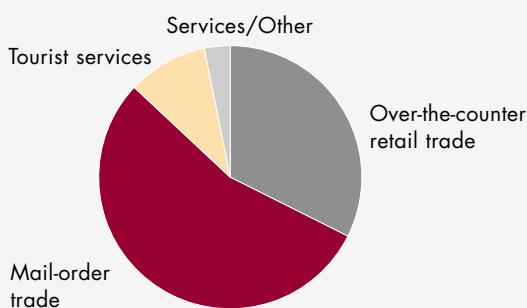
The KarstadtQuelle Group considerably improved its earnings in the year under review.

Group earnings (EBT) rose by 21 % from 225.4 million € to 272.8 million € in the year under review. The decisive factors were the setting up of synergies throughout the entire group and the reduction of system costs in the department store sector. These positive effects were partly offset by the weakness of the market in the textile sector in the fourth quarter and a lower than expected earnings trend at Quelle.

The EBT margin rose to 1.8%. We were able to improve it by 0.3%-points above the previous year.

Earnings before interest and tax (EBIT) rose by 18.3 % to 332.2 million €.

Earnings (EBT) by segment



	in million €	in %
Over-the-counter retail trade	92	32.4
Mail-order trade	155	54.6
Tourist services	28	9.9
Services/Other	9	3.1

se and internationalise mail order • Expand travel services • Increase e-business • Implement EVA • Int

Over-the-counter retail trade markedly increases earnings

Earnings before tax in the **over-the-counter retail** sector developed positively. This business segment markedly increased its share of group earnings. The over-the-counter retail segment achieved a rise in EBT of 52.8 million € to 91.6 million €. Earnings in the department stores segment developed disproportionately well, while specialist stores recorded decreased earnings.

In the **mail-order** segment EBT rose from 145.8 million € to 154.8 million €. This represents an increase of 6.2%. This result is, however, influenced by special effects which have operated positively on balance at 20.8 million €.

Earnings from our **tourist operations** at C & N amount to 28.1 million € (previous year: 39.1 million €). The result is a book-value decrease of 11 million € on the previous year. The year-on-year comparison is complicated by the fact that the amount for the previous year includes a tax credit of 8.6 million €.

The **Services/Other** segment contributed earnings before tax of 9.1 million € (previous year: 11.1 million €).

Notes to individual items of the profit and loss account

Gross profit amounts to 6,940 million € as against 6,820 million € the previous year. This yields a gross earnings margin of 45.5% (previous year: 45.9%).

Staff costs came to 3,217 million €. Their share of sales fell by 0.3%-points and stood at 21.1%.

The earnings tax ratio is only 8.8%

Both in the year under review and the previous year the earnings tax ratio was influenced by special factors. In the year under review we were able to limit the tax ratio relative to EBT to 8.8% mainly by tax-exempt revaluations. In the previous year we showed a tax ratio of only 3% due to tax-exempt carry-forward of losses.

The over-the-counter retail trade markedly increased its contribution to group earnings.

Intensify dialogue with finance markets • Streamline business processes • Set up synergies • Network s

High restructuring expenditure

We return an extraordinary result (expenses) of 7.5 million €. This includes expenditure amounting to 140.8 million € mainly for restructuring measures in connection with the implementation of the 10-Point Value-Added Programme. We were able to set this debit off, however, with revenue of 133.3 million € from tax-exempt revaluations of fixed assets. A charge on earnings was thus substantially offset by non-recurring expenditure.

Net income rises to 248.7 million €

The net income rose from 218.6 million € to 248.7 million €. This represents an increase of 13.8 %.

ROCE substantially improved

The return on capital employed (ROCE) rose by 1.2 %-points and is 10 %.

Earnings per share

Earnings per share came to 1.57 € as against 1.59 € the previous year.

We have adjusted the extraordinary expenditure for restructuring measures resulting from our 10-Point Value-Added Programme and the extraordinary income from write-ups in tangible fixed assets when calculating the earnings per share.

These are non-recurring effects, the adjustment of which contributes to an improved periodic comparability and a clarification of the actual operative earning power.

We have, incidentally, carried out the adjustments to calculate the earnings per share in accordance with the joint recommendation of the Deutsche Vereinigung für Finanzanalyse und Anlageberatung e.V. (DVFA) and the Schmalenbach Gesellschaft.

ales channels • Perfect theme stores • Strengthen fashion and sport • Specialise and internationalise ma

EARNINGS PER SHARE

	2000 th. €
Net income	248,691
Adjustments	35,605
Adjusted net income	284,296
Adjusted items	- 92,297
Group earnings for the undertaking as a whole	191,999
Shares of earnings contributed by third-parties	7,493
Earnings for the shareholders of KARSTADT QUELLE AG	184,506
Number of shares taken as a basis	117,550,400
Earnings per share in €	1.57

Financial position

Solid Basis

The cash flow from current business activity amounted to 400.1 million € and was 84.4 million € lower than in the previous

year. The drop compared with the previous year results from the selective reduction of trade debtors. As in the previous year, the cash flow exceeded the use of funds for investments in tangible and intangible assets, which amount to 398.9 million €.

mail order • Expand travel services • Increase e-business • Implement EVA • Intensify dialogue with fin

CASH FLOW ACCOUNT (SUMMARY)

	2000 mill. €	1999 mill. €
Cash flow from current business activities	400.1	484.5
Cash flow from investment activities	- 351.9	- 330.1
Cash flow from financing activities	- 18.2	- 245.9
Changes in cash and cash equivalents affecting cash flow	30.0	- 91.5
Changes in cash and cash equivalents due to exchange rates, consolidated companies and valuation	- 4.9	34.3
Cash and cash equivalents at the beginning of the period	220.0	277.2
Cash and cash equivalents at the end of the period	245.1	220.0

Investments

The aim of our investment policy is the sustained increase of growth and earnings. Besides a capital increase at C & N, the emphasis of our investment policy during the year under review was on the modernisation of our department stores, the expansion of the logistics centre and intensified commitment to e-business.

Investments in the 2000 financial year amounted to 569.9 million € (previous year: 481.7 million €).

We have undertaken the following major investment projects:

- Conversion of 16 Karstadt stores to theme stores
- Conversion and extension of the Berlin Hermannplatz department store
- Construction of the Anger 1 shopping arcade in Erfurt
- Extension of the usable space at the Frankfurt Mail-order Logistics Centre
- Construction of the Call Center at the Heideloh Mail-order Logistics Centre
- E-business: setting up and extension of communication and shopping portals on the Internet.

ance markets • Streamline business processes • Set up synergies • Network sales channels • Perfect the

Assets situation

Assets and capital structure improved

The balance sheet total for the KarstadtQuelle Group increased by 3.4 % to 8,191.8 million €.

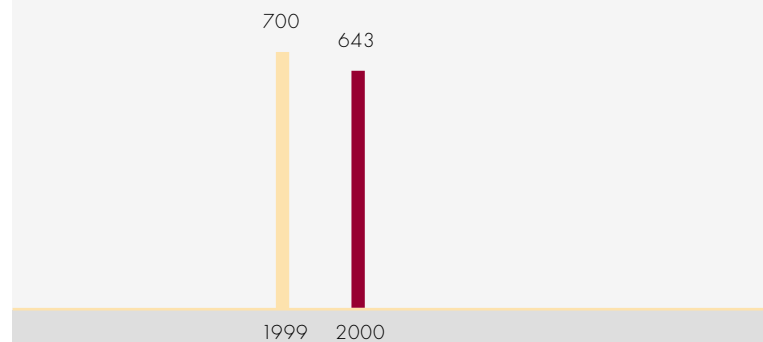
Tangible assets stand at 3,462.5 million €. They increased due mainly to a capital increase of 5.5 % or 181.7 million € at C & N Touristic AG. The share contributed by fixed assets to the balance sheet total (fixed assets intensity) increased to 42.3 % as against 41.4 % in the previous year.

We have invested 569.9 million € (including financial assets) in the growth of the group. These investments were balanced by write-downs of 357.9 million €.

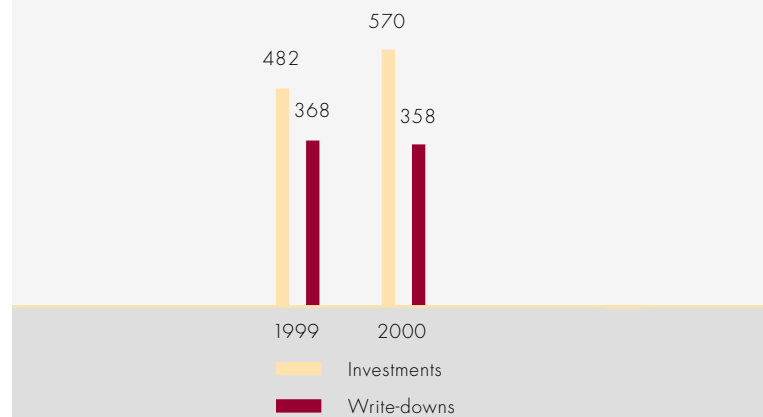
Current assets increased slightly (+ 2.0 %) and stand at 4,705.4 million €. Stocks increased due to an increase in the volume of business to 2,573.3 million € (+ 4.6 %). The rate of stock turnover is at 5.9 virtually unchanged from the previous year.

Capital and reserves amount to 1,866.7 million €. Capital resources rose 9.9 % in the year under review, due mainly to transfers from current earnings to the profits reserves.

Gross cash flow in million €

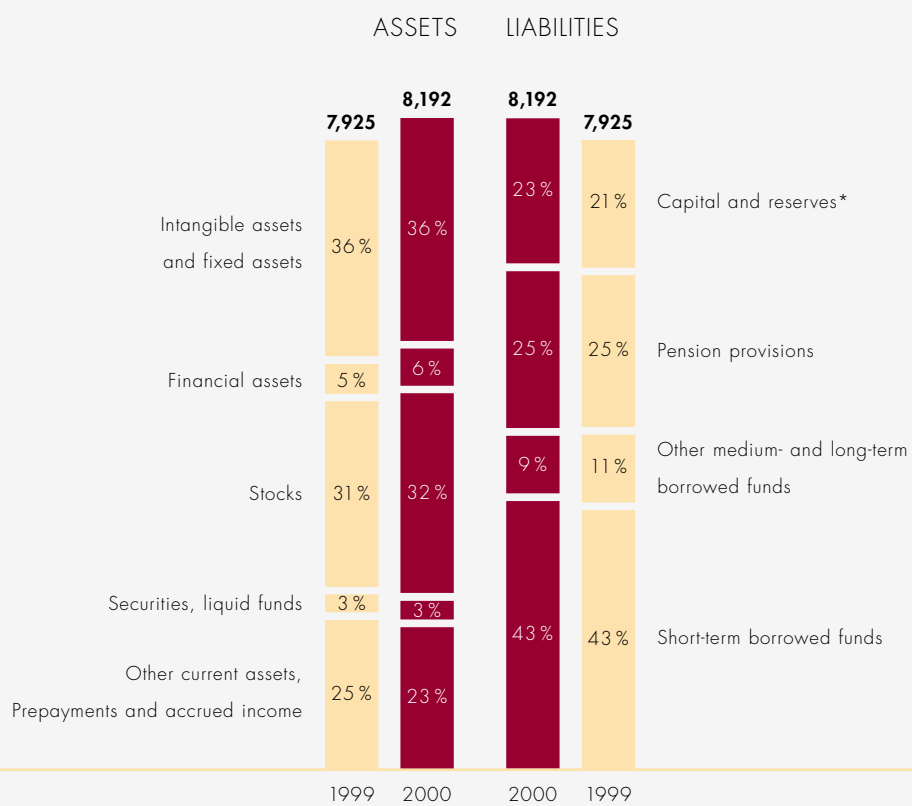


Investments and write-downs in million €



theme stores • Strengthen fashion and sport • Specialise and internationalise mail order • Expand travel

Structure of balance sheet in million €



*) The capital and reserves include the dividend of KARSTADT QUELLE AG to be paid out.

KEY BALANCE SHEET FIGURES

		2000	1999	Change in %
Balance sheet total	mill. €	8,192	7,925	3.4
Capital and reserves	mill. €	1,867	1,699	9.9
Equity ratio	%	22.8	21.4	-
Pension provisions	mill. €	2,074	2,007	3.3
Other medium- and long-term borrowed funds	mill. €	745	821	- 9.3
Short-term borrowed funds	mill. €	3,506	3,398	3.2
Fixed assets	mill. €	3,463	3,281	5.5
Current assets, prepayments and accrued income	mill. €	4,729	4,644	1.8

el services • Increase e-business • Implement EVA • Intensify dialogue with finance markets • Streamline

The equity capital ratio rose by 1.4 %-points and reached 22.8 %. The fixed asset ratio (the ratio of equity capital to tangible assets) rose by 2.1 %-points to 53.9 %.

Of borrowings of 6,325 million € 33 % went to pension provisions and 67 % to other outside funds. The share of total borrowings contributed to short-term outside funds increased slightly and amounted to 55.4 % (previous year: 54.6 %).

Provisions in total rose 5.6 % to 2,966.3 million €. The decisive factor for the rise in provisions is, amongst other things, provision for restructuring measures.

Net indebtedness fell by 39 million € to 1,442 million €. We have reduced liabilities to banks by 12.8 % by partly utilising additional funds from the sale of debtors. They amount to 1,413.7 million €. By contrast capital market commitments shown under Other liabilities rose by 186.4 million € to 265.1 million €. At the same time liquid funds increased and now stand at 236.7 million € as against 217.3 million € in the previous year.

Points of emphasis

Purchasing: share of imports 26 %

The value of merchandise carried in the KarstadtQuelle Group rose to 8.3 billion € (1999: 8 billion €) in the year under review. Purchase of the goods was effected by an interlinked system of international purchasing offices. Of the total volume of purchases 74 % are accounted for by domestic suppliers. The import share is to 26 %.

Of the imports 48 % come from Europe, Turkey and Italy being the main source countries. A further 42 % of imports come from by the Far Eastern region, mainly China and Hongkong. The remaining 10 % of imported products are imported from other areas. 52 % are textiles and 48 % hard goods.

Synergies amounting to 87 million € utilised

In the course of the merger of the Karstadt and Quelle Group in 1999 we identified a significant synergy potential mounting over time. We are constantly monitoring the achievement of this potential as part of our synergy management.

Streamline business processes • Set up synergies • Network sales channels • Perfect theme stores • Stre

After we were able to set up synergies of 53 million € in the 1999 financial year, in the year under review these amount to 87 million € or 85 % of the synergies originally planned. 40 % were accounted for by the over-the-counter retail and 60 % by the mail-order trade.

ABS programme: customer debts of 0.8 billion € sold

In the year under review KarstadtQuelle implemented an asset-backed securitisation programme (ABS) for the sale of customer debts. This transaction is the largest ABS measure of its kind in Europe and generated additional liquidity of around 0.8 billion €, which we have used to reduce short-term bank liabilities.

E-business: new sales channel augments sales fourfold

Especially gratifying in the 2000 financial year was the development of our e-business operation. Online demand rose to 450 million €. We thus exceeded last year's figure of 109 million € more than fourfold. The overwhelming share of online demand was recorded by Quelle and Neckermann.

As an integral part of the multi-channel network, the communication and sales channel Internet is performing an increasingly important function. In the year under review we therefore consistently continued the optimisation of the Internet portals for the group's core brands and further expanded our Internet presence. The existing www.quelle.de shopping portal was modernised and technically optimised. The www.wom.de portal went online with an attractive assortment of merchandise in the audio and video segment. We furthermore began the development of the new portal www.karstadt.de, which will present the multimedia, large electrical appliances, books, travel, music/video/DVD and wine verticals with an internet-specific assortment of 650,000 products.

This site will be supplemented by the product assortment of www.karstadtsport.de. This portal also offers the customers a continuous sports news update.

The technical complexity of the www.karstadt.de project and our high standards of user friendliness and reliability meant that the portal could not be opened until 2001. Originally the launch was planned for autumn 2000.

We are continuing to consistently optimise the Internet portals for the group's core brands.

ngthen fashion and sport • Specialise and internationalise mail order • Expand travel services • Increase

High potential through intensive customer relations

Our many different customer relations and extensive and varied information about the customer are our most important competitive advantages.

There are essentially three reasons for this:

1. High customer frequency

Our stores are visited by about 2.5 million customers and our Internet websites by about 65,000 potential customers every day.

2. Scope and quality of our address list

The KarstadtQuelle Group has highly qualified information on 18 million German addresses. That is around 50 % of all households in Germany. Of these addresses 14 million are for mail-order and more than 4 million for the Karstadt Club Customer Card. They include information about customers who have purchased or ordered from us within the last 12 months and with whose buying habits and preferences we have been familiar

partly for a long time. We shall be building up or intensifying specific relations with these customers in strict adherence to data protection requirements.

During the year under review we invested consistently in our customer card base. Consequently not only did the number of holders of our successful customer card rise to over 4 million, but also purchases by our card holders contributed more than 1.6 billion € and thus just on 23 % to our department store sales.

3. Very well established brands

Our successful brand portfolio represents an important asset for the KarstadtQuelle Group. Three brands alone – Karstadt, Quelle and Neckermann – enjoy a public awareness level of more than 90 %. This is, particularly in a time of increasing information glut, a great competitive advantage. KarstadtQuelle is also supremely well positioned amongst consumers because of its brand strength. This has applied to our core brands throughout all age groups for decades and represents a good basis for transfer to the public within our multi-channel network.

We have invested in the further expansion of our customer card base.

Increase e-business • Implement EVA • Intensify dialogue with finance markets • Streamline business pr

Future-oriented commitments

The Internet revolutionises process management

The development and further development of process sequences, systems and services are an important instrument for limiting competition. The further development of existing business processes is attaining a hitherto unknown quality through the potential offered by the Internet. Particularly in process management systems and structures can be made considerably more efficient. For example, a future-oriented purchasing policy can be pursued more and more in electronic B2B marketplaces. In future electronic marketplaces will considerably change buying behaviour in the commercial sector. They accelerate the international standardisation of communication between trade and industry, significantly shorten purchasing operations and offer the companies involved more favourable prices and conditions.

Participation in online trading portal

KarstadtQuelle attaches great importance to presence in this market of the future. For this reason we have acquired an interest in

the TexYard online trade portal, London, the operator of an electronic marketplace specialising in the textile segment. We have also reached an agreement to collaborate with TexYard.

One of our strategic goals is to cover all the important consumer segments within the group with trading platforms. We shall therefore be entering into further commitments in the electronic marketplace segment.

New platform for business start-ups

The dialogue between science and practice is a decisive factor for progress in retailing. In the 3rd quarter of 2000 we launched within KARSTADT QUELLE New Media AG a development centre, the "KQ Lab". This organises and coordinates contact with universities and thus ensures the transfer of theoretical knowledge to business practice. The "KQ Lab" also provides a platform for those who want to set up in business with KarstadtQuelle as their powerful partner in the goods and services sector.

processes • Set up synergies • Network sales channels • Perfect theme stores • Strengthen fashion and sp

Euro preparations on schedule

We have made it our aim to support customers as far as possible with the changeover to the Euro and to maintain a high standard of service and information.

KarstadtQuelle will have converted all its business processes to the Euro by January 1, 2002. Preparatory measures in the areas of organisation, process adaptation, adaptation of EDP systems, training and communication are going according to plan.

We are preparing our staff for the launch of the Euro cash system with comprehensive information and training events and by advising and supporting our customers in this connection, as required.

The cost of the entire Euro changeover will amount to around 33 million € at group level.

Effective risk management system

The group-wide risk management system in the KarstadtQuelle Group ensures that the measures decisive for business development increase future corporate results and

that risks are as far as possible avoided through pro-active activity or made manageable by a suitable set of instruments. We see this as active support of a value-oriented company management. The risk management system is based on the totality of all organisational controls and measures for risk identification and so ensures that risks which threaten the continued existence of the company or the achieving of value-added goals are managed responsibly.

Within the framework of our risk management system we have created a comprehensive self-regulating control system covering all corporate activities which will systematically and permanently ensure the recording, monitoring and control of factors posing a risk to the company.

The risk management strategy in the KarstadtQuelle Group is determined by the following core principles:

1. The strategic management and investment holding company will monitor all group risk-management activities.

We are fully preparing our employees for the arrival of Euro cash.

2. The risk management is an integral part of and a supplement to the existing planning, control and reporting systems.
3. The risk management takes in all corporate activities at home and abroad.
4. The responsibility for the implementation of the risk management in the areas of the company and processes lies with the operational management.

The risk management system established in the KarstadtQuelle Group was examined by the auditor of the annual accounts and certified as compatible with the requirements of the Law on Corporate Control and Transparency (KonTraG). Risks which threaten the existence of the group are at present and will in future be identifiable.

During the 2001 financial year the risk management system will be further refined, expanded and continuously updated. Specifically we shall be examining even more rigorously the existing reporting system, including its communication channels, and standardising management and control processes in the group even more rigorously.

KARSTADT QUELLE AG

Department stores business transferred

During the year under review the structure of KARSTADT QUELLE AG changed substantially from that of the previous year. With economic effect from January 1, 2000, the Karstadt department store operation was transferred to Karstadt Warenhaus AG. The Hertie Department Stores operation is being leased by KARSTADT QUELLE AG to Karstadt Warenhaus AG under a separate leasing agreement.

Business trend

Due to the transfer of the department store business neither sales or the cost of sales are shown for the year under review. Earnings from long-term investments amount to 143.6 million € as against 165.3 million € in the previous year. In the year under review they include mainly the payment of the dividend from Karstadt Warenhaus AG, Quelle AG, Neckermann Versand AG and Kepa Kaufhaus GmbH. In the previous year they also included a dividend payment from C & N Touristic AG of 30.2 million €. In the year under review C & N transferred current earnings to reserves.

ment EVA • Intensify dialogue with finance markets • Streamline business processes • Set up synergies

Extraordinary earnings in the year under review included mainly revaluations and post-capitalisations on land and buildings for the purposes of adjustment of the commercial to the tax balance sheet. In the previous year mainly a loss was shown from the merger of Hertie Waren- und Kaufhaus GmbH with KARSTADT QUELLE AG.

KARSTADT QUELLE AG shows a net income of 117.7 million €. After transfer of 38.9 million € to the other revenue reserves there remains a balance sheet profit of 78.8 million €. The balance sheet total of KARSTADT QUELLE AG fell from 4,565 million € to 3,803 million €. This decrease is mainly due to the transfer of the department store business.

Dividend increased from 0.62 € to 0.67 €

The Management Board of KARSTADT QUELLE AG will propose to the meeting of shareholders on July 12, 2001, that a dividend of 0.67 € (1999: 0.62 €) per individual share certificate, that is, 8.1 % higher than the previous year, be paid out of the balance sheet profit. With inclusion of the tax credit of 3/7 or 0.29 € the gross dividend for domestic shareholders will amount to 0.96 € (1999: 0.89 €). In total a total dividend of 78.8 million € will be paid out on a dividend-bearing capital of 300.9 million €. Our shareholders will thus profit from the utilisation of the fiscal advantages from equity capital charged with 45 per cent corporation tax.

Network sales channels • Perfect theme stores • Strengthen fashion and sport • Specialise and internati

Balance Sheet of KARSTADT QUELLE AG at December 31, 2000

	2000* th. €	1999 th. €
ASSETS		
A. Fixed assets		
Intangible assets	187	35,712
Tangible assets	1,119,797	1,251,212
Financial assets	1,492,272	921,314
	2,612,256	2,208,238
B. Current assets		
Stocks	-	1,211,108
Debtors and other assets	1,169,031	1,006,951
Securities	4,091	-
Liquid funds	12,499	134,313
	1,185,621	2,352,372
C. Prepayments and accrued income	5,445	4,135
Balance sheet total	3,803,322	4,564,745
LIABILITIES		
A. Capital and reserves		
Issued capital	300,929	300,929
Capital reserve	482,031	482,031
Revenue reserves	400,754	361,770
Balance sheet profit	78,759	72,881
	1,262,473	1,217,611
B. Untaxed special reserves	39,895	53,194
C. Provisions for liabilities and charges	1,118,208	1,590,392
D. Creditors	1,381,292	1,701,904
E. Accruals and deferred income	1,454	1,644
Balance sheet total	3,803,322	4,564,745

*) The "Warenhaus business" and the "Information Management" operations were hived off effective January 1, 2000 and transferred to Karstadt Warenhaus AG and ITELLIUM Systems & Service GmbH, respectively.

Personalise mail order • Expand travel services • Increase e-business • Implement EVA • Intensify dialogue

Profit and loss account for the year ended December 31, 2000 – KARSTADT QUELLE AG

	2000* th. €	1999 th. €
1. Turnover	-	6,902,881
2. Other operating income	410,925	431,426
3. Cost of sales	-	- 3,877,558
4. Staff costs	- 111,784	- 1,853,567
5. Depreciation and amortization	- 126,448	- 235,608
6. Other operating expense	- 193,463	- 1,223,448
7. Income from investments	143,649	165,312
8. Amounts written off investments	- 27,447	- 15,799
9. Net interest	- 61,369	- 60,984
10. Profit on ordinary activities	34,063	232,655
11. Extraordinary income	97,361	- 615,809
12. Taxes on income	- 217	30,063
13. Other taxes	- 13,464	- 14,689
14. Profit/Loss for the year	117,743	- 367,780
15. Transfer to earnings reserves	- 38,984	-
16. Transfer from earnings reserves	-	440,661
Net profit for the year	78,759	72,881

*) The "Warenhaus business" and the "Information Management" operations were hived off effective January 1, 2000 and transferred to Karstadt Warenhaus AG and ITELIUM Systems & Service GmbH, respectively.

The complete annual accounts of KARSTADT QUELLE AG, which were awarded an unqualified auditor's certificate by the auditors BDO Deutsche Warentreuhand Aktiengesellschaft, Düsseldorf, will be published in the Federal Official Gazette and deposited with

the Commercial Register of the Essen District Court, HRN 1783. A copy may be requested from KARSTADT QUELLE AG or obtained on the Internet at www.karstadtquelle.com.

with finance markets • Streamline business processes • Set up synergies • Network sales channels • Pe

Dependent company report

KARSTADT QUELLE AG is a dependent company of Schickedanz-Holding AG & Co. KG within the meaning of Art. 312 of the German Companies Act. Accordingly the Management Board has submitted to the Supervisory Board a dependent company report for the 2000 financial year – furnished with an unqualified auditors' certificate by BDO Deutsche Warentreuhand Aktiengesellschaft, Auditors and Accountants, Düsseldorf – on all the company's relationships with Schickedanz-Holding AG & Co. KG, Fürth, and its subsidiary companies.

The Management Board declares at the end of the report:

Our company has under the circumstances known to the Management Board at the time at which legal business was transacted with Schickedanz-Holding AG & Co. KG as controlling company and its associated companies or whenever measures were taken or not taken received an adequate return from each legal transaction and not suffered loss or detriment from any measures taken or not taken.

SUPPLEMENTARY REPORT

Important events during the new financial year

The first months of the 2001 financial year were dominated by the continued implementation of the 10-Point Value-Added Programme.

January 2001:

Internal transfer of real estate

As at January 1, 2001, KARSTADT QUELLE AG transferred real estate with a book value of 1.6 billion € to real estate management companies. The real estate management will be controlled in future through the newly floated KARSTADT Immobilien AG & Co. KG, Essen. The new real estate structure will promote transparency within the group and form the basis for active development of the real estate by extended financing options. The real estate management will form a further strategic business segment to effectively support the generation of added value in the KarstadtQuelle Group.

perfect theme stores • Strengthen fashion and sport • Specialise and internationalise mail order • Expand

Quelle acquires Afibel S.A.

As part of the focus on internationalisation and specialisation, as at January 1, 2001, Quelle took over the stock exchange-listed French specialist mail-order supplier Afibel S.A., Lille. Afibel is well positioned in the market for classical fashions and last achieved sales of 113.1 million €. With this acquisition Quelle is further expanding its existing strong position in France.

Neckermann acquires market leaders in natural textiles

As of January 1, 2001, Neckermann acquired Hess Natur Textilien GmbH, Bad Homburg. Hess is positioned as a specialist mail-order supplier in the natural clothes for women, men and children segment and, as market leader in natural goods mail-order, achieved sales of a good 50 million € in the 2000 financial year. Through this acquisition Neckermann is consistently further expanding its specialist mail-order business.

February 2001: takeover of SinnLeffers

The expansion of the market-leading position in the fashion segment is a basic component of the trade segment concept.

In the process of this strategy we acquired by the takeover of M+T Mode- und Textildruck-Beteiligungs Gesellschaft m.b.H 85 % of shares in SINN LEFFERS AG, Hagen. At the same time a purchase offer was made to outside SinnLeffers shareholders with regard to the remaining 15 % of the shares. This was accepted by 72.87 % of the outside shareholders. We have thus acquired 11.25 % of shares in SINN LEFFERS AG. Taking into account additional purchases and a sale of shares, our total holding amounts to 91.25 %. SinnLeffers operates 43 fashion shops and achieved net sales of around 0.6 billion € in the 2000 financial year.

Participation in Golf House

To consolidate the sports segment concept we acquired 50 % of the shares in Golf House Direktversand GmbH, Hamburg. By its participation in the second-largest undertaking in the golf clothing and equipment market segment in Germany KarstadtQuelle is further expanding its market leadership in this segment.

travel services • Increase e-business • Implement EVA • Intensify dialogue with finance markets • Strea

Launch of EVA implementation

**With EVA
all activities
and decisions
will be
focused on
value added.**

An important component of the 10-Point Value-Added Programme is value-oriented company management and, linked to it, the setting up of a value management system. We took the decision on the EVA (Economic Value Added) concept in autumn 2000 and the implementation phase was launched in February 2001. By the introduction of the EVA we are creating an integrated management and incentive system which will focus all the corporate activities and decisions on adding value. The EVA concept will supplement the existing set of instruments for internal and external reporting and corporate control. The corporate value created over a certain period of time will be made immediately identifiable by the introduction of the new EVA code number and thus create additional transparency for the finance markets.

Participation in GNX

KarstadtQuelle acquired an interest in GlobalNetXchange (GNX), San Francisco, the internationally leading open online marketplace for manufacturers, suppliers and trade in the living, personality, electronics and food segments. As part of a global joint venture, as well as KarstadtQuelle, seven major companies in the international retail trade are participating as partners in GNX. The total purchasing volume of all GNX partners amounts to approximately 400 billion US \$.

March 2001: Neckermann acquires Fritz Berger AG

With retroactive effect from November 1, 2000, Neckermann acquired all the shares in Fritz Berger AG, Neumarkt, the leading specialist mail-order supplier of camping/caravanning and leisure/outdoor equipment. This specialist mail-order supplier operates subsidiary companies in Germany, France and Austria and achieved sales of around 50 million € during the 1999/2000 financial year.

online business processes • Set up synergies • Network sales channels • Perfect theme stores • Strengthen

FORECAST REPORT

Current topics in the retail trade

Repeal of the Rebates Law and Gift Ordinance

The Rebate Law and Gift Ordinance are due for repeal in autumn 2001. KarstadtQuelle regards the new legal situation and in particular the freedom of movement thus created for the trade as positive. The experience of our foreign subsidiaries in the Netherlands, France and Austria show that after the repeal of comparable regulations additional sales potential can be opened up by creative marketing.

Interesting prospects will be created for companies like KarstadtQuelle that have at their disposal a large amount of customer information. As the law will stand in future, new, individualised marketing strategies can be implemented. Holders of customer cards may be courted, for example, with gifts and services. Bonuses and gifts have a privileged status and serve to strengthen the strong emotional ties with Karstadt. The successful Karstadt Club Customer Card will gain even more in importance as a result.

Tax reform positive for trade

Through the business tax reform the Federal government intends to increase the competitiveness of Germany as an industrial location, amongst other things, by reducing the level of corporation tax and to increase the Europe-compatibility of the tax system. Whilst the tax reform will not benefit the retail trade direct, it will have a sales-promotive effect through the stepwise reduction of income tax and the thus increased purchasing power of consumers. Citizens of the Federal Republic will be granted a good 33 billion € in tax relief between 1999 and 2005.

It cannot, however, be foreseen which part of the additional available income will be spent on retail goods and what effect, at the same time, consumption-damping factors like the eco-tax increase will have.

Interesting prospects are opened up for companies like KarstadtQuelle.

Strengthen fashion and sport • Specialise and internationalise mail order • Expand travel services • Inc

We assess the anticipated effects of the tax reform fundamentally as positive, but at the same time as merely a supporting element. What is just as important is that the prevailing psychological attitude of consumers changes for the better. A friendlier climate of consumption is ultimately brought about basically by consumers whose thinking is marked by positive future expectations and optimism.

Outlook

Retail trade sales 2001: optimistic forecasts by the HDE and BAG

The Federal Statistics Office anticipates an increase of 4.5 % in available income for 2001. The Main Association of the German Retail Trade (HDE) views the development as positive for the retail trade and forecasts a growth in sales of 2 % - the biggest increase for 8 years. The German Working Party for Medium-Sized and Large Companies (BAG) anticipates an increase in sales of between 1.5 and 2 %. Research institutes and banks are unanimous that despite low expectations for German economic growth consumption will rise due mainly to the tax reform and increased employment. The ifo Institute, for instance, anticipates that private expenditure will rise by 2.5 % (nominal: 4.1 %) in real terms. The delayed effects of the rise in oil prices and the increase in other cost of living could offset this.

increase e-business • Implement EVA • Intensify dialogue with finance markets • Streamline business processes

**KarstadtQuelle Group:
EBT increase of more than 25% planned**

We assess our prospects for the 2001 financial year as positive.

A rise in sales of just on 7% is planned for. After adjustment for the sales of SinnLeffers, which is included for the first time, a growth in sales of 2.5% is calculated. In the e-business segment we further anticipate appreciable rates of growth. We anticipate online demand of 665 million €, representing an increase of around 50% on the 2000 financial year. We have planned for investments in fixed assets and intangible assets of 475 million €.

Based on our present planning, we shall once more markedly increase our group earnings during the 2001 financial year. An increase of more than 25% in earnings before tax is planned.

Risks to our forecasts lie, in particular, in the factors previously mentioned.

Furthermore, the effects on growth in Germany of the economic downturn in the United States of America and the extensive inflationary effects of a continuingly weak Euro on our imports could negatively affect the trend of business.

THE KARSTADTQUELLE SHARE

processes • Set up synergies • Network sales channels • Perfect theme stores • Strengthen fashion and

KEY FIGURES ON THE KARSTADTQUELLE SHARE

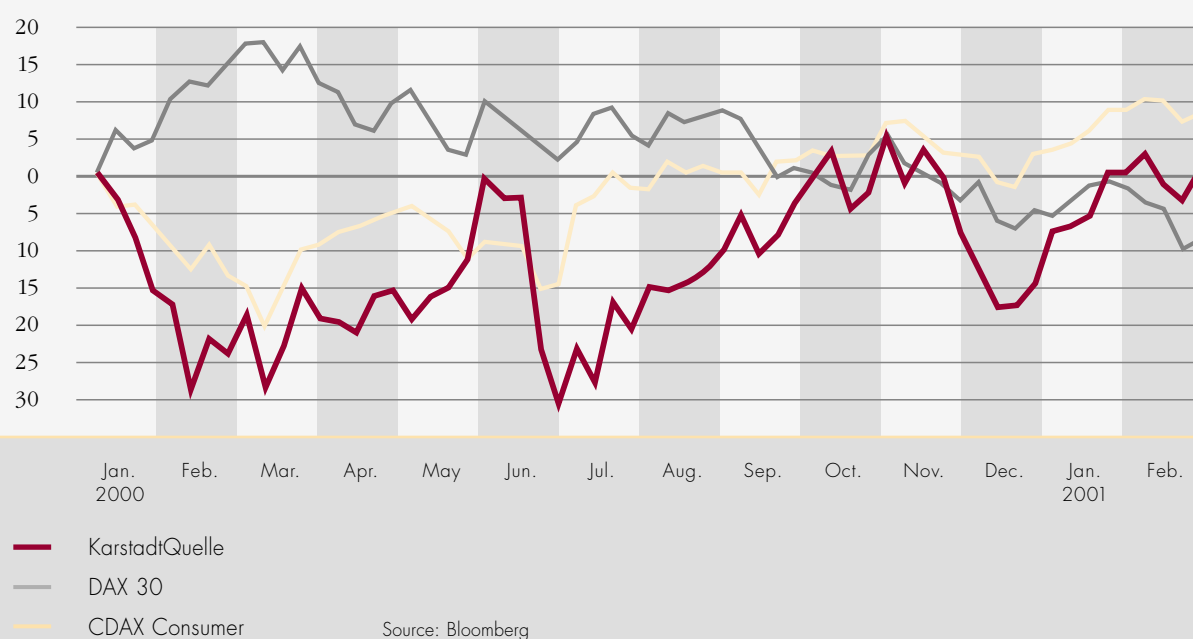
		2000	1999
Earnings per share	€	1.57	1.59
Gross cash flow	mill. €	643.1	699.8
Gross cash flow per share	€	5.47	5.95
Return on capital employed	%	10.0	8.8
Return on equity	%	13.3	12.9
Dividend per individual share certificate	€	0.67	0.62
Dividend per individual share certificate, incl. tax credit	€	0.96	0.89
Dividend yield (price at end of year)	%	2.9	2.2
Dividend	mill. €	78.8	72.9
Authorised capital	mill. €	300.9	300.9
Issued individual no-par-value share certificates	mill.	117.6	117.6
Market capitalisation/market value at end of year	mill. €	3,867.4	4,678.5
Share price			
Market price at end of year	€	32.90	39.80
highest price	€	40.73	48.70
lowest price	€	27.30	30.55
Price-earnings ratio (end of year)		21.0	25.0
Price-cash flow ratio (end of year)		6.0	6.7

Strongly fluctuating share price

2000 was a difficult year for the stock exchange. The German Share Index closed at an index level of 6,434 points and thus fell by 4.7% during the year under review.

The price trend of the KarstadtQuelle share was marked by strong fluctuations. After a good start at prices of approximately 40 € the quoted price fell to 27.61 € by mid-February. The KarstadtQuelle share recovered markedly from this low point in the following months until the beginning of July. In May the market responded to the presentation of the earnings figures for the

Development of stock exchange prices (index)



1999 financial year with restraint. The price fell sharply and reached a yearly low at 27.30 € on June 30. In the following months a continuous upward movement once more set in, sustained by the positive expectation of the market with regard to a strategic reorientation of the KarstadtQuelle Group. Shortly after the publication of the 10-Point Value-Added Programme the KarstadtQuelle share reached a yearly high at 40.73 € on November 3.

The last weeks of the 2000 stock exchange year were dominated by a weak trading environment and uncertainty about the trend of retailing business in Germany. The KarstadtQuelle share could not escape the effects of these environmental conditions. The price drifted down to 32.90 € at the last day of the year. In the first months of the year the price once more began to move up under difficult economic conditions.

KarstadtQuelle combines the advantages of the old economy with the strong opportunities offered by the new.

KarstadtQuelle changes over to M-DAX

On 14. 2. 2001 Deutsche Börse AG decided to remove KarstadtQuelle from the list of companies in the DAX 30. The KarstadtQuelle share was transferred to the M-DAX segment with effect from 19. 3. 2001. KarstadtQuelle is listed there with a weighting of just under 3% and is amongst the top-selling and, from the point of view of market capitalisation, major securities.

KarstadtQuelle share has high potential

The KarstadtQuelle share has high future potential. Like virtually no other company, KarstadtQuelle combines the advantages of the old with the strong growth opportunities of the new economy. Besides the favourable earnings trends resulting from the implementation of the 10-Point Value-Added Programme, the change from pure trading group to integrated trading and services company will positively affect the future valuation of the KarstadtQuelle share.

Investor relations:

Dialogue-oriented information policy

The intensive communication with the financial community is an important part of our value management. During the year under review, therefore, the investor relations team was expanded.

For KarstadtQuelle as trading group the needs and expectations of customers is at the centre of its daily work. "Customer and services orientation" towards the target group of financial market participants will therefore be a feature of our investor relations.

During the year under review we sought an intensive dialogue with institutional and private investors as well as financial analysts and markedly expanded the information offering.

Particularly after publication of the 10-Point Value-Added Programme demand by institutional investors for background information combined with the desire to get to know the new KarstadtQuelle management considerably increased. Accordingly, in autumn 2000 we presented and discussed our future programme in the context of a comprehensive roadshow around the European financial centres and the USA. Furthermore, the new strategy was set out in presentations, conferences and a large number of separate discussions.

At the same time we intensified our dialogue with our private investors in all ways. For example, during the 2000 financial year for the first time we used the Internet for an online chat with private investors.

The exchange of information and views with financial analysts was expanded during the year under review by conferences and numerous group and individual discussions.

**www.karstadtquelle.com:
comprehensive range of information**

The range of information offered at our new website is also meeting with a good response in the target group of financial market participants. As well as information about the KarstadtQuelle Group presentation documents, speeches and other statements relating to the financial market can be accessed. The dialogue orientation is supported with pro-active tools eg. for questions and answers and a method of requesting information material.

Our accounting system will be changed over to IAS by the end of the 2002 financial year at the latest.

Extended quarterly reports

Beginning with the report for the first half of 2000, we significantly improved the information content of our quarterly reports. As well as detailed information about the trend of business we shall be publishing a comprehensive segment report. This will markedly increase the transparency of the KarstadtQuelle group and provide a contemporary view of our development.

Changeover to IAS

By the 2000 financial year at the latest our accounting system will be changed over to International Accounting Standards (IAS). This will facilitate international comparison in particular.

Share option programme planned

Participation by employees and management will in future attain greater importance in the KarstadtQuelle Group. It is planned to offer employees' shares to all employees. A stock-option plan, which will likewise come into effect this year, is being developed for the management. These measures will increase identification with the company and strengthen the orientation to output, performance and share price development.

Resolutions of the shareholders' meeting increase freedom of action

By a resolution on July 20, 2000, we were given the opportunity to carry out capital increases. These took the form of Approved Capital I and Approved Capital II of up to 40 million € each. The KarstadtQuelle Group is thus increasing its freedom of action as regards investments, acquisitions and other capital-intensive projects.

At the same time the shareholders' meeting resolved to authorise the issue of up to 600 million € of loan and/or convertible debenture stock and the granting of associated rights to bearers or creditors of this. This measure will enable KarstadtQuelle to take advantage of attractive financing options and increase the flexibility of the financing according to the current market situation.

FURTHER INFORMATION

dialogue with finance markets • Streamline business processes • Set up synergies • Network sales channels

ENVIRONMENT REPORT

We let economic reason decide our actions

For the KarstadtQuelle Group environmental protection is much more than merely the fulfilment of legal requirements. Rather, the development of our own initiatives and their implementation is at the forefront of our activities.

For us environmental protection is a corporate challenge, which we meet with the same degree of commitment as in other areas of business.

In our considerations of and plans for company- and product-related environmental protection we are guided by the principle of “sustainable development”. This means meeting the requirements of today, while guaranteeing the livelihood of the generations of tomorrow. We thus let economic reason decide our actions. When planned with foresight and implemented with determination, environmentally friendly business management means savings and higher operating profits.

We are aware that, as a trading company, we will always be caught between the demands of the law, economics, society and ecology. At the same time, in consensus with all interest groups, we are looking for solutions which will enable us to be faithful to our guiding principle.

Also, at a time when environmental protection is being pushed down the list of priorities by other issues such as unemployment and low growth, at least in the public arena, we are holding fast to a method of economic management which maintains ecological standards and are continuing to work systematically and constantly to achieve our own environmental aims. We have taken this decision in the knowledge that environmental problems will not lessen because other problems have gained in importance.

With us environmental protection is more than merely the fulfilment of legal requirements.

channels • Perfect theme stores • Strengthen fashion and sport • Specialise and internationalise mail or

Karstadt department stores: Acting, not reacting, to protect the environment

As early as 1989 environmental protection was made part of the strategy of Karstadt department stores, thus initiating a continuous process of ecological development. We were able to realise optimisation potential in many ways both in our product range and in services.

The guiding principle of “sustainable development” includes here the continuous further development of processes, e.g. in the disposal, recycling and avoidance of waste, by which the intensity of materials and resources in the case of sales articles and consumer materials is reduced. Added to this is the effective use of energy both in the management of our business premises and in the area of the logistics functions. A corresponding development of awareness amongst employees and the motivating of our customers towards environmentally friendlier consumption are likewise among the functions which make up a sustained method of economic management.

Quelle: Sales of eco-ranges risen markedly

Quelle recorded sales of around 500 million € with ecologically improved products in the 2000 financial year. Quelle is thus one of the leading suppliers of ecologically oriented articles in Germany.

In the spring/summer 2000 main catalogue the topic of “Ecology” has acquired an important status. The sales achieved per page for eco-ranges in both the technology and consumer durables and the textiles segment were markedly above the average sales per page of the entire main catalogue. Large domestic appliances with the efficiency classifications A and B took up more than two thirds of the eco-range. Also very successful was business in solar products and solar systems for photovoltaic and solar-thermic energy generation.

order • Expand travel services • Increase e-business • Implement EVA • Intensify dialogue with finance m

Neckermann: a long tradition of environmental protection

Neckermann developed into a pioneer of environmental protection by intensive commitment in the 90's. On the basis of an ecological critical point analysis it was clearly determined at what point an environmentally friendly method of management should begin.

Neckermann looks at the whole life-cycle of a product - that is, from manufacture through use to disposal - with reference to its product ranges. Neckermann introduced an eco-pass for all articles offered for sale, thus laying the foundation for comprehensive ecological product evaluation and influencing. The effectiveness and the holistic approach of the environmental management system built up by Neckermann are also confirmed by the successful certification to DIN Standard ISO 14001 and by the validation of the 1998 environmental declaration in accordance with the strict requirements of the EU Eco-Audit Ordinance.

markets • Streamline business processes • Set up synergies • Network sales channels • Perfect theme st

THE COMPANY IN THE PUBLIC EYE

A new group. A new name.

A new style.

With the merger of Karstadt and Quelle the group suddenly became the focus of public interest. We therefore planned and implemented a broadly based communications campaign during the period under review.

Important measures to present the group to the public were the introduction of the new corporate design, widely noticed image and positioning campaign and the completely revised company Internet website.

New corporate design enhances profile

The new group has been given a new face. The independent company logo KarstadtQuelle AG stands for the merging of the two traditional names “Karstadt” and “Quelle” to form a single strong company group, while the superscribed “AG” indicates power and potential.

Our company logo stands for the merging of Karstadt and Quelle to form a strong company group.

The advertising campaign

“KarstadtQuelle AG. Wir handeln.”

In mid-2000 we launched a classical advertising campaign in national daily newspapers, magazines and economics periodicals. It was aimed at opinion-formers in economics, finance and public life, business partners, the media and not least group employees. Seven motifs stressed the capability and success factors of the KarstadtQuelle group with regard to the business sectors, product range diversity and levels of customer retention and contact.

The advertising campaign ran at high frequency until the end of the year and straightaway attained high levels of recognition and appeal.

karstadtquelle.com Internet website with top ratings

During the year under review we completely redesigned and expanded the karstadtquelle.com website. The website offers users a wealth of information and background knowledge for Internet users on around 250 pages. Two major economics periodicals evaluated the Internet websites of the largest German companies. They put karstadtquelle.com in the top flight for content and up-to-dateness.

tores • Strengthen fashion and sport • Specialise and internationalise mail order • Expand travel service

EMPLOYEES (annual average/full-time employees)

	2000	thereof domestic	thereof abroad	1999
Department stores	52,567	52,567	-	52,725
Specialty stores	2,785	2,775	10	2,916
Over-the-counter retail	55,352	55,342	10	55,641
Universal home shopping	25,568	19,923	5,645	26,214
Special mail order	4,086	3,142	944	3,799
Mail order	29,654	23,065	6,589	30,013
Services/other	3,157	3,150	7	2,517
Group	88,163	81,557	6,606	88,171

EMPLOYEES

More than 112,000 employees work for the group

At the end of the 2000 financial year the KarstadtQuelle group employed 112,516 persons. This is just on 1 % fewer than the 113,490 of the previous year. The number of staff employed abroad stood at 7,846 (previous year: 6,736). The share of employees abroad rose to 7%.

On annual average the number of employees stood at 88,163 working full-time, that is, the same as the previous year. At home the

number of employees fell by 917 to 81,557, while abroad it rose by 909 to 6,606.

Personnel development in the business segments

72,253 persons were employed in the retail segment at the balance sheet date. This is 1,859 fewer than at the same time the previous year. Besides branch closures, the discontinuation of carpet centres and the optical goods segment were responsible for the reduction of personnel.

On annual average the number of employees at 55,352 was 289 lower than the previous year. In the department stores segment the number of employees fell slightly. On annual average the structural adjustments and the measures initiated to reduce personnel levels will not take effect until the 2001 financial year.

In the mail-order segment the number of employees at 31.12.2000 stood at 36,687. This represents, compared with the key date the previous year, a drop of 291. While at home the number of employees was reduced by 822 to 28,861, abroad – mostly at Quelle – it increased by 1,113 to 7,826. Most of these employees work at the parent companies Quelle AG and Neckermann Versand AG.

On annual average the number of full-time employees in the mail-order business stood at 29,654, compared with 30,013 the previous year. The greater part of the employees at 25,568 were employed in the universal home shopping segment. 4,086 employees were employed in the specialty mail-order segment. The number of employees was thus increased by 287 on the previous year. 6,589 persons were employed abroad. This represents a share of 22.2 % as against 18.9 % on annual average for 1999.

The services sector employed 3,576 persons at the balance sheet date. Compared with the previous year, the number of employees rose by 594 – mainly due to the expansion of the services provision.

On annual average the number of persons employed in the services segment stood at 3,157 as against 2,517 the previous year.

Staff productivity up

Employee costs in the retail segment came to 1.98 billion €. This represents a share of 26.1 % of the revenue from sales and is the same as the previous year. In the department stores 157,746 € (including VAT) were turned over per full-time employee; labour productivity was thus up by 3 % on the previous year.

business processes • Set up synergies • Network sales channels • Perfect theme stores • Strengthen fashion

Better opportunities for younger employees due to increase in the numbers of older employees taking the part-time employment option

In the over-the-counter retail segment, at Quelle AG and Neckermann Versand AG 1,586 employees went into retirement during the year under review. Moreover, 1,063 employees (previous year: 469) took advantage of the older employees part-time employment option. As early as 1999 a suitable company employees' welfare agreement was reached with the Plenary Works Council. This arrangement increases the number of job opportunities open in particular to younger employees

Increased investment in training

82.4 million € (previous year 78.3 million €) were invested in company training and further training at the above mentioned companies in 2000. The greater part of the expenditure, 40.5 million € (previous year 37.4 million €), was spent on training fees.

At the key date the number of persons undergoing training in the group stood at 5,196. The number of training places thus rose by 6.2 % on the previous year. The proportion of trainees to full-time employees works out at 5.1 %.

Intensive management development

Management development in the year under review focused on the topics of "Dialogue" und "New departure". In spring the Management Board faced questions from more than 350 senior staff in ten half-day, moderated round-table discussions. These intensive discussions provided guidance on the future course of the company and the requirements to be made of managerial staff in future.

The discussions were understood by all those attending to be a clear signal for a new open and solution-oriented communication between company management and employees.

Management development was governed by the themes of "Dialogue" and "New departure".

fashion and sport • Specialise and internationalise mail order • Expand travel services • Increase e-bus

During the year under review, in conjunction with the INSEAD, Ashridge and Henley business schools as well as the Gottlieb Duttweiler Institute, we continued the management symposia developed the previous year. Managerial staff who, by their performance, have shown potential for further progress in their career are invited to attend these two-day events. The management symposia provide a platform to enable talent to be recognised early and prospects to be opened up to high performers.

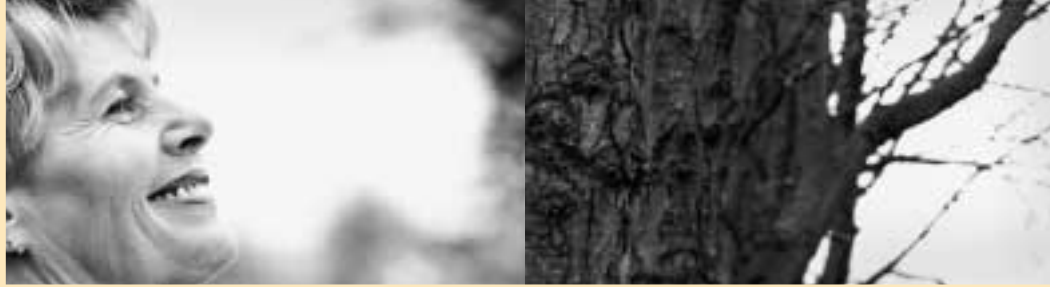
The KarstadtQuelle Group attaches great importance to the farsighted recruitment of managerial staff. Accordingly, as part of university marketing we attended the largest German congress of university graduates in Cologne. Representatives from a number of group companies were available for students to speak to.

Thank you for your commitment

The Management Board thanks all employees at home and abroad for the excellent work they have done during the 2000 financial year.

Our thanks are also due once again to all works councils, members of economic and spokespersons' committees and trainee and youth representatives for their good and loyal cooperation. The decisions and measures associated with the restructuring of the group require the support and active assistance of these bodies to effectively further the development of the KarstadtQuelle group.

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WE ARE MULTIPLYING OUR SELLING POWER WITH OUR MULTI-CHANNEL STRATEGY

- The driving force for our future growth is our Multi-Channel Strategy, on the basis of which we shall more closely link and synchronise our sales channels with our leading positions in over-the-counter retailing, mail order and e-business.
- Through our Multi-Channel Network we open up to many millions of consumers the entire range of sales channels: department stores, specialty stores, travel service, universal home shopping and specialty catalogue, call centre, mail, fax and website (Internet) and, in the medium term, also mobile business and TV. We offer KarstadtQuelle customers – whether they are at home, away or in one of our stores – access to our comprehensive range of products, right around the clock.

Find out about it on the Internet, try it on or try it out at the department store

- At, for example, our websites our customers will find broad and varied information about current fashion, sports and lifestyle trends as well as new additions to our range of products. Anyone who finds something that suits him or her can order it at once or try it on or out

in any of our
358 depart-
ment and
specialty stores.



Conversely, our e-business range offers visitors to our department and specialty stores the freedom to choose a particular product later rather than there and then. Then a few clicks on our website will suffice, and we shall deliver the required goods to your door - within a very short time.

- The Multi-Channel Network helps us deepen and further expand our existing customer relationships. On the basis of customer data from our department store, mail-order and e-business we can ascertain the suitable target groups for our ranges. On request, we send anyone who, for example, buys golf or tennis gear at Karstadt information about the latest product trends in these sporting fields, C & N travel offers of specific interest to golf and tennis players and new additions to our sports ranges.

- In this way the Multi-Channel Strategy multiplies our selling power and offers us the best opportunities of expanding our leading position in all sales channels.

OVER-THE-COUNTER RETAIL TRADE

e-business • Implement EVA • Intensify dialogue with finance markets • Streamline business processes

KEY FIGURES – OVER-THE-COUNTER RETAIL TRADE

			2000	1999	Change in %
Sales performance	Sales	th. €	7,587,232	7,478,066	1.5
	Earnings				
	EBIT	th. €	144,394	94,614	52.6
	EBIT margin	in %	1.9	1.3	-
	EBT	th. €	91,591	38,821	135.9
	EBT margin	in %	1.2	0.5	-
	Equity	th. €	1,070,274	1,044,672	2.5
	Net financial indebtedness	th. €	842,695	599,325	40.6
	Capital employed	th. €	1,912,969	1,643,997	16.4
	Return on capital employed	in %	7.6	5.8	-
	Return on equity	in %	9.9	6.1	-
Other information	Investments	th. €	422,736	323,424	30.7
	Depreciation/amortisation	th. €	241,125	251,544	- 4.1
	Gross cash flow	th. €	381,521	387,627	- 1.6
	Branches	number	358	383	-
	Sales space	th. m ²	2,369.9	2,388.3	- 0.8
	Full-time staff on annual average	number	55,352	55,641	- 0.5

• Set up synergies • Network sales channels • Perfect theme stores • Strengthen fashion and sport • Spe

The market environment: growth up 1.8 %

The indicator for the development of the over-the-counter retail trade in Germany is the “true” retail trade, i.e. retail sales as a whole, not including sales of motor vehicles, fuels and combustibles and pharmaceuticals. This segment accounted for a sales volume of 375 billion € in the year under review. Germany is thus the largest retail market in Europe, followed by France and Italy.

The “true” retail trade recorded a nominal rise in sales of 1.8% and is slightly above the trend in the retail trade as a whole (+ 1.3%).

Strategy and position: 358 department and specialty stores

The KarstadtQuelle group is well positioned in the over-the-counter retail trade sector, with 189 department stores, situated mainly in 1-A locations in inner cities. Added to these are 169 specialty stores under the brand names Runners Point, Schaulandt, Wehmeyer und WOM (World of Music). The presence is being expanded by the e-business segment. The expenditure and

earnings of the investment and management holding company KarstadtQuelle AG are also included in this segment.

In conformity to the concept “Retail is local”, we are concentrating in our retail operation on Germany. Expansion into the foreign market or participation in foreign department stores seems to us at present not advisable from the point of view of risk and profitability. However, we do see possibilities for collaboration with international partners, e.g. in the form of joint purchasing.

As regards the specialty stores which Karstadt operates likewise almost exclusively in Germany, the future aim will be internationalisation. International ranges and brands can also be offered in other European countries. This applies e.g. in the fashion and sports segments.

The direction of growth in our over-the-counter retail segment will in future be decisively determined by expansion with successful segment concepts like fashion and sports, the further development of our theme store concept, the strengthening of our customer relationships on the basis of a marked increase in the number of customer cards held and the increased integration of the e-business operation by the presence on the Internet of the strong karstadt.de brand name.

**Germany
is the largest
retail market
in Europe.**

REPORT ON THE FINANCIAL YEAR

Sales performance: up 1.5%

The over-the-counter retail trade achieved revenue from sales of 7.59 billion € in the year under review. This represents a growth in sales of 1.5%.

The sales increase more or less matched our planning. After the first three quarters of the year we were able to show a markedly higher rise in sales, but the 4th quarter and in particular Christmas business did not come up to our expectations, because the mood of consumers was negatively influenced by external factors, such as higher energy prices. Added to this were the unfavourable weather conditions, which led to a sluggish sales performance in October and November.

Earnings: disproportionate rise

Earnings performed disproportionately well. Earnings before tax (after extraordinary charges) rose to 91.6 million € (previous year: 38.8 million €). Earnings in the Department store segment developed markedly positively, while those for the specialty stores fell short of the previous year's. The EBT margin increased from 0.5% to 1.2%.

Gross income came to 3.30 billion € as against 3.24 billion € the previous year. The gross income margin rose from 43.3% to 43.5%.

Staff costs amounted to 1.98 billion €. This represents a share of 26.1% of sales, the same as the previous year.

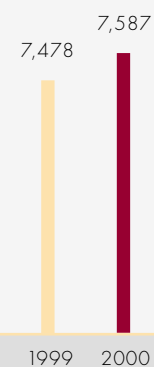
VA • Intensify dialogue with finance markets • Streamline business processes • Set up synergies • Network

Earnings include extraordinary components, resulting in a charge on earnings of 7.5 million €. On the one side, extraordinary earnings of 133.3 million € are included. These result from revaluations in fixed assets from adjustments of trade balance to tax balance items. On the other side, we show extraordinary expenses amounting to 140.8 million € for restructuring. These arose mainly through implementation of the 10-Point Value-Added Programme and relate to the reorganisation of the storehouses and personnel reduction measures within the framework of our POWER project.

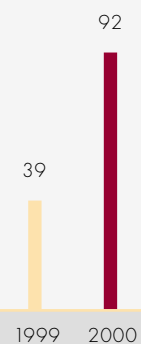
ROCE up

The return on capital employed (ROCE) likewise rose markedly and came to 7.6%, as against 5.8% the previous year.

Sales in million €



Earnings (EBT) in million €



Network sales channels • Perfect theme stores • Strengthen fashion and sport • Specialise and internat

KEY FIGURES – DEPARTMENT STORES

			2000	1999	Change in %
Sales performance	Sales	th. €	7,023,826	6,939,272	+ 1.2
	- after adjustment for space*	in %	-	-	+ 1.2
Earnings	EBIT	th. €	141,963	88,397	60.6
	EBIT margin	in %	2.0	1.3	-
	EBT	th. €	91,444	34,300	166.6
	EBT margin	in %	1.3	0.5	-
Other information	Sales space productivity*	€	3,656	3,591	1.8
	Staff productivity*	€	157,746	153,083	3.0
	Investments	th. €	406,679	308,696	31.7
	Depreciation/amortisation	th. €	229,058	238,997	- 4.2
	Branches	number	189	208	-
	Sales space	th. m ²	2,235.9	2,261.8	- 1.1
	Full-time staff on annual average	number	52,567	52,725	- 0.3

*) Karstadt Warenhaus AG only

REPORT ON THE FINANCIAL YEAR: DEPARTMENT STORES

The location concept: The theme store is central

The 189 (previous year: 208) Karstadt department stores account for a 36 % share of German department store business and are thus market leaders. In the year under

review we opened two new branches: the sports store in Wildau with 3,000 m² and the department store in Erfurt with 11,600 m² of sales space. We closed 18 stores with 45,100 m² of sales space. Amongst these were nine carpet centres alone with around 12,800 m² and three “know-house” software stores with a total of 800 m² of sales space. Three additional carpet centres were annexed to existing Karstadt branches.

Personalise mail order • Expand travel services • Increase e-business • Implement EVA • Intensify dialogu

We divide the department stores into the two categories, “theme stores” und “smaller branches”.

The theme stores contributed just on 90 % or 6.25 billion € to sales in the department stores segment. In the theme stores we offer products in a demand context rather than in a functional departmental arrangement based on traditional purchasing structures. The product ranges are set out consistently in six areas of consumption – fashion, personality, living, multimedia, sports, and food and drink. This marketing approach, which is concentrated on the middle and upper price bracket, is backed up by a more attractive product presentation and by optimisation of the organisational and administrative processes. 120 of our 189 stores meet the requirements for conversion to the theme store concept. In the year under review we changed 16 stores over to this concept. The number of theme stores has thus risen to a total of 73. Within this group our top representative stores must be specially mentioned. They each have sales space of more

than 20,000 m² and are the top stop in retailing in their respective regions. They offer an interlinking of merchandise trade, services, food and drink, entertainment and events. Included in this group are KaDeWe in Berlin, the Alsterhaus in Hamburg, the Oberpollinger store in Munich and the Karstadt store in Hanover.

The smaller branches achieved sales of 0.77 billion € in the year under review. The 69 stores with a sales space of less than 7,000 m² each are mainly situated at good locations in city areas or medium-sized towns. They offer customers product ranges in lower and middle price brackets and because of their smaller sales space offer a smaller range of goods than the theme stores.

Although the stores are mainly situated at attractive locations, the range had only a partial appeal for customers. Accordingly we are working on a future-oriented concept for the future strategic orientation of the smaller branches. Some of the smaller locations, with a range consistently tailored to the needs of customers, offer good growth potential.

The theme stores contributed just on 90% of sales in the department stores segment.

Sales performance: up 1.2 %

During the year under review revenue from sales in the department stores segment came to 7.02 billion €, as against 6.94 billion the previous year. This represents a rise of 1.2 %. Sales on comparable space were also increased by 1.2 %.

Earnings: marked rise

Earnings show a marked rise, too. Earnings before tax rose from 34.3 million € in the previous year to 91.4 million € in the 2000 financial year.

The rise in earnings is based on the gross profit margin increased by 0.2 %-points to 43.5 % on sales. The increase in the margin in the fashion and food & drink segments had a positive effect. The increased share of sales achieved by the low-margin multimedia segment had a corresponding offsetting effect.

The rise in earnings is furthermore based on an improved cost situation. Business system costs were consistently reduced, the merchandise inventory management improved and the full utilisation of synergies continued.

Sales space productivity up

Sales space at the end of the year totalled 2,235,904 m² not including rentals to group companies. This represents a reduction of 25,856 m² or 1.1 % on the previous year. On annual average self-used sales space in the department stores decreased by 18,399 m² or 0.8 % to 2,158,916 m². The share of space stood at 96.5 %. Around 3.5 % of sales space was let to non-group specialty suppliers, particularly in the food segment.

Sales per m² of self-used space rose by 1.8 % to 3,656 €, including sales tax. After deduction for the price rises on the ranges sales space productivity rose by 1.2 % in real terms.

The department stores turned over their merchandise stocks 3.4 times, which is as much in the year under review as in the previous year.

• Perfect theme stores • Strengthen fashion and sport • Specialise and internationalise mail order

SALES BY CONSUMER SEGMENT

	2000 mill. €	1999 mill. €	Change in %	Share in sales in 2000 in %
Fashion	1,948	1,948	0.0	28.4
Personality	1,275	1,285	- 0.8	18.6
Living	1,122	1,117	0.4	16.3
Sport	575	531	8.3	8.4
Multimedia	572	514	11.3	8.3
Food & drink	842	834	0.9	12.3
Other	532	567	- 6.2	7.7
Karstadt Warenhaus AG	6,866	6,796	1.0	100.0
Reconciliation account	158	143	-	-
Total	7,024	6,939	-	-

Karstadt price index only slightly up

We calculate the Karstadt price index on the basis of the goods offered for sale in Karstadt branches. The prices of these ranges rose by 0.6 % during the year under review and thus considerably less than the index of retail trade prices, which rose by 1.1 % on annual average.

Investments

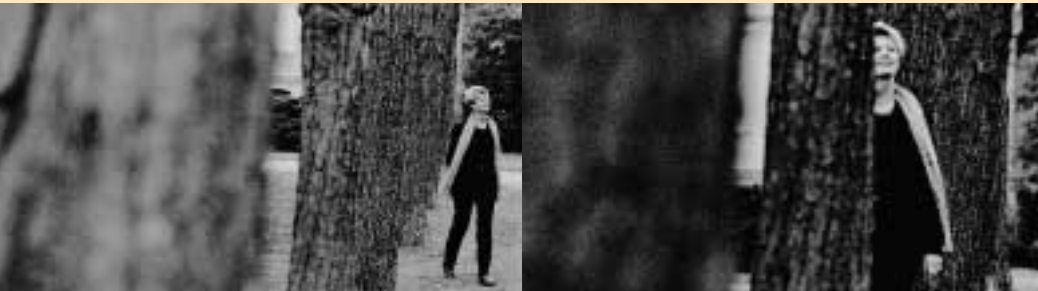
The volume of investments came to 406.7 million €, including financial investments. The emphasis of investment in tangible assets was on the conversion of 16 Karstadt stores into theme stores, the

conversion and extension of the department store at Hermannplatz in Berlin and the construction of the Anger 1 shopping arcade in Erfurt.

Consumer sectors: mostly positive sales performance

The breakdown of the sales figures by consumer sector in the department stores segment is shown in the table above.

Expand travel services • Increase e-business • Implement EVA • Intensify dialogue with finance markets



slightly (-0.8%) and achieved sales of 1.28 billion €. Perfumes performed positively, the departments in the converted

Fashion: better than the market

Fashion, our strongest segment by volume, achieved sales of 1.95 billion €, unchanged from the previous year. With this level of sales Karstadt has outperformed the clothing sector as a whole, which recorded a drop in sales of 0.8%.

Unfavourable weather conditions in the important months of October and November led to low demand, particularly in the outdoor segments. Karstadt performed positively in the Young Fashion segment, the own brand InScene in particular proving popular. Men's ready-made clothing also showed an upward trend. In particular the business segments and brand-shop concepts performed positively.

Personality: varied performance

The personality consumer sector (i.a. perfumes, jewellery, stationery and books) fell

theme stores making a particular contribution to this.

Sales in the jewellery segment stagnated due to the customers' marked reluctance to buy in the fourth quarter. Sales of stationery fell, due almost exclusively to a drop in trend ranges right across the market. In bookselling we were able to strengthen our position among the highest selling companies in Germany.

Living: sales at previous year's level

In the living segment (i.a. electrical appliances, household products and lighting), as last year, we achieved sales of 1.12 billion € (+0.4%). Extraordinary growth was recorded by electrical appliances. Here in particular an aggressive advertising strategy, the increase in telephone sales of large electrical appliances and the increased entry into starting price brackets with different merchandise groups. As a result of selective sales space reduction the household products and lighting segments returned falling sales.

• Streamline business processes • Set up synergies • Network sales channels • Perfect theme stores • S

Sports: expansion of market lead

In the sports segment we were able to further expand our market lead with 23 sports stores and 164 sports departments in department stores by a sales increase of 8.3% to 0.58 billion €. On comparable sales space the sales increase came to 6.5%. Business in the women fitness, outdoor, running and golf segments was especially good. The sports stores in Wildau and Bochum newly opened in the year under review likewise performed positively.

Multimedia: two-figure sales increase

The multimedia segment (i. a. computers, mobile telephone) increased its sales by 11.3% to 0.57 billion €. We achieved very good returns by expanding the portfolio within the framework of the PC hardware range. Also the expansion of the mobile telephone segment with a range extended to all branches made a positive contribution.

Food & drink: sales increase 0.9%

The food & drink consumer sector includes the food, beverages and tobacco segments as well as restaurants and catering. Sales grew by 0.9% to 0.84 billion €. The market situation in foods, beverages and tobacco continued to be dominated by sharp competition. Only the fourth quarter brought a slight easing of the pressure, particularly in the sales of basic foodstuffs. Because of the BSE problem sales of meat and sausages during the Christmas period shifted to fish. Fruit and vegetables, delicatessen, cheese and sweets recorded increased sales. Restaurants and catering performed gratifying. New concepts with regard to design of the restaurants and presentation were well received by customers.

Under Other we group segments like toys and games, furniture and home tech not included in consumer segments. A decisive factor for the fall in sales of 6.2% to 0.53 billion € is the reduction in sales space, particularly in the furniture sector.

Strengthen fashion and sport • Specialise and internationalise mail order • Expand travel services • Inc

The strengthening of our own-brand capability is one of our strategic aims.

Traditional branch at Hermannplatz, Berlin, reopened

In September after a conversion period of two and a half years we reopened the traditional store at Hermannplatz, Berlin (built 1929). The sales space in the customer-oriented theme store was extended from 28,000 m² to 34,000 m² with the aid of investments amounting to just on 100 million €. By undertaking this major project KarstadtQuelle is underpinning its outstanding market position in the capital, where it operates 15 branches.

Own-brand capability markedly strengthened

The strengthening of our own-brand capability is one of the strategic aims in the Karstadt department stores. The building up and expansion of strong, well positioned own brands, which was continued in the new year, puts Karstadt ahead of the competition, increases customer retention and continuously creates added-value.

The YORN brand represents very successfully business fashion at Karstadt and represents an elegant and modern life-style combined with a high quality standard. In the Young Fashion market the **InScene** brand is proving especially successful. The direct appeal to the target group has been further strengthened and the development of the brand positively influenced with the support of efficient marketing measures. In the ladies underwear segment **Desirée** has been successfully positioned. The awareness level of 27% for Desirée is, amongst other things, the basis of a high performance potential, e.g. in the form of an own over-the-counter retail presence. The **MyLine** brand concentrates on a collection for women with a fuller figure. MyLine stands for fashion variety, fun with clothes and unlimited development of one's own personality. **Alex** is an authentic, active, high-quality sports brand. It owes its origins to heavy athletics. We have in the meantime extended the range to cover all areas of sport.

increase e-business • Implement EVA • Intensify dialogue with finance markets • Streamline business processes

Number of customer cards held substantially increased

The Karstadt Club Customer Card is a central marketing and means of retaining customers. In the 2000 financial year sales to cardholders came to 1.6 billion €. This already represents 23% of department store sales. The number of cards issued was increased by 1.96 million to 4.12 million. When the card is used, the customer spends almost twice the amount per purchase transaction.

E-business: new shopping portals strengthen good market position

In e-business we shall in future be banking on the power of the strong brand name Karstadt. The decisive factors here are the outstanding awareness of this brand and the associations with it like confidence, security and reliability. On this basis we shall consolidate our leading position amongst the e-business ranges in Germany. We see the best opportunities of transferring the strength of the brand name Karstadt to the new communications and sales channels in offering ranges which focus on the special requirements of Internet users.

In the year under review we began setting up the new online ranges of the department store at www.karstadt.de and www.karstadt-sport.de. More than 9,000 Internet pages with products, information and services were set up. The new karstadt.de shopping and information portal integrates six verticals with an Internet-specific range of products. It is supplemented by the online karstadtsport.de website, which because of the great significance of the sports theme in the KarstadtQuelle group is positioned on the net with its own website.

karstadt.de and karstadtsport.de will offer services as only a company with an extensive branch coverage can. It is e.g. planned to install e-service points in Karstadt branches and sports stores where the customers will be able to place online orders or without complication change and return articles ordered on the Internet. Technical reliability and user friendliness have the highest priority. Accordingly the portals were tested in an extended test phase. The launch was therefore not possible in autumn 2000, as planned, but will be in the 2001 financial year.

Sales on the customer card already make up 23% of department store sales.

processes • Set up synergies • Network sales channels • Perfect theme stores • Strengthen fashion and

KEY FIGURES – SPECIALTY STORES

			2000	1999	Change in %
Sales performance	Sales	th. €	563,406	538,794	4.6
	- after adjustment for space*	in %	-	-	+ 5.0
Earnings	EBIT	th. €	2,431	6,217	- 60.9
	EBIT margin	in %	0.4	1.2	-
	EBT	th. €	147	4,521	- 96.7
	EBT margin	in %	0.0	0.8	-
Other information	Investments	th. €	16,057	14,728	9.0
	Depreciation/amortisation	th. €	12,067	12,547	- 3.8
	Branches	number	169	175	-
	Sales space	th. m ²	134.0	126.5	5.9
	Full-time staff on annual average	number	2,785	2,916	- 4.5

REPORT ON THE FINANCIAL YEAR: SPECIALTY STORES

Sales performance: up 4.6%

The specialty stores in the KarstadtQuelle group increased their sales by 4.6% to 0.56 billion €. On comparable space sales rose by 5%. Sales space comes to 134,016 m², as against 126,492 m² the previous year.

Earnings: falling

Earnings before tax fell from 4.5 million € to 0.1 million €. The decisive factor here is mainly the drop in earnings at Schaulandt GmbH and the WOM Group. Earnings at Runners Point improved.

sport • Specialise and internationalise mail order • Expand travel services • Increase e-business • Imple

The specialty store brands

In the specialty store sector we are positioned with the following brands:

Wehmeyer GmbH & Co. KG concentrates on the sale of women's, men's and children's clothing. The company expanded its branch network by four stores during the year under review and operates 32 branches. Wehmeyer managed to hold its own in a difficult market environment. Sales rose to 207.3 million €. This represents a rise of 10 % (- 0.2 % on comparable space). EBT came to 8.0 million €, as against 8.4 million € the previous year.

Runners Point Warenhandels-gesellschaft mbH specialises in the sale of shoes and clothing, mainly for sports and leisure. The company achieved revenue from sales of 70.5 million € (previous year: 65.7 million €) at 100 branches (previous year: 106). This represents a sales rise of 7.3 % (on comparable space: + 10.7 %). Following completion of a restructuring process the previous year, earnings in the company went well according to plan in the year under review. EBT came to plus 0.7 million €, as against a loss of 1.5 million € the previous year.

Schaulandt GmbH is a specialist in entertainment electronics and communications technology equipment, EDP soft- and hardware and sound media. Schaulandt achieved revenue from sales of 216.3 million €, as against 174.4 million € the previous year. This represents a rise of 24.1 % (on comparable space: + 10.5 %). The branch network was expanded by three specialty stores to 19 in the year under review. Sales space increased to 41,102 m² (previous year: 34,850 m²). A loss of 5.5 million € is shown after a loss of 1.3 million € the previous year. The drop in earnings is, besides start-up costs for the new branches and increased marketing expenses in the occasion of the 25-year company anniversary, due mainly to reduction of the trade margin.

Implement EVA • Intensify dialogue with finance markets • Streamline business processes • Set up syne

The WOM World of Music group achieved sales of 59.5 million € in 16 (previous year: 21) branches specialising in sound media, videos and DVD's in the 2000 financial year. This represents a fall of 22.2% (-2.3% on comparable space) on the previous year (76.5 million €). The drop in sales is mainly due to the transfer of five branches in compliance with the requirements of cartel legislation. WOM returns EBT of minus 2.3 million €, as against a virtually balanced account the previous year.

**FORECAST REPORT:
OVER-THE-COUNTER RETAIL TRADE**

**Points of emphasis in the 2001
financial year**

Expansion of the trade segment concepts

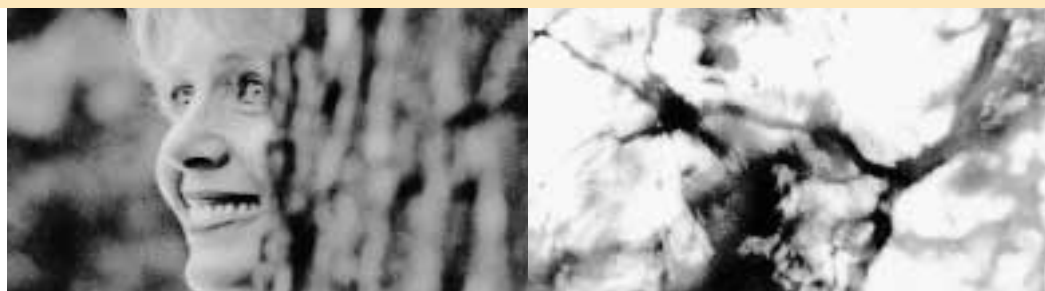
We shall step up our expansion into trade segments with a strong market position and a high market attraction. These include particularly fashion, sports and technology.

Through our trade segment concepts we shall achieve a fuller utilisation of customer potential. On the basis of our excellent position in department stores we shall expand the concept through the specialty stores and e-business sales channels.

The segment-oriented control includes two decisive elements. One the one hand, we can position brands like Karstadt, SinnLeffers and Wehmeyer in the fashion segment in different price brackets and so cover the market as fully as possible. On the other hand, despite separate brand management all the sales channels will be coordinated and supported through a uniform platform. In this way, particularly in the

ergies • Network sales channels • Perfect theme stores • Strengthen fashion and sport • Specialise and in

background services, functions can be grouped together and synergies fully utilised.



We stepped up implementation of the fashion and sports segment concepts (after the balance sheet date) by two acquisitions.

In the fashion segment, at the beginning of the new financial year we acquired SINN LEFFERS AG, Hagen. SinnLeffers is the largest textiles trading company listed on the stock exchange in Germany. This company operates 43 fashion stores with a sales space of between 2,000 and 10,000 m² and achieved in the 2000 financial year net sales of around 0.6 billion €. SinnLeffers employs more than 4,200 staff and as a full range supplier defines the core strengths in the women's, men's and children's clothing and young fashion and underwear segments. The addition of SinnLeffers will further expand the range of our fashion segment and also enables synergies to be set up in the purchasing, marketing, logistics, administration and facility management sectors. By this acquisition KarstadtQuelle is sustainably consolidating its leading market position in the fashion segment.

In the sports segment, in February 2001, we acquired 50% of the shares in Golf House Direktversand GmbH, Hamburg. Golf House is number 2 in the golf clothing and golf equipment segment and achieved in the 2000 financial year net sales of around 22 million €. By the investment in Golf House we are markedly strengthening our already existing market lead in the golf segment.

We stepped up implementation of the fashion and sports segment concepts by two acquisitions

Golf is one of the most important sports markets of the future and in the next ten years will develop from a luxury sport for a few into a leisure sport for the many.

The German golf market represented a retail volume of 184 million € in the 2000 financial year. This is expected to virtually triple to around 460 million € by 2010.

Because of the joint register of around 100,000 customer addresses in the highly attractive golf segment customer group the market activity of Karstadt Sport and Golf House is opening up interesting cross selling potential both in the retail trade and the tourist services segment.

New location concepts

The development of new location concepts plays an important role in the KarstadtQuelle group within the framework of the restructured real estate management. For example, there is the “Anger 1” shopping arcade in Erfurt, which we opened in the year under review. By dint of investment of around 60 million € the existing Karstadt department store was extended and converted to form the core of a newly created shopping centre. The department store with 12,000 m² of sales space has been integrated into a series of small to medium-sized specialty stores with a further 11,000 m² of sales space. Department store and specialty stores complement each other and increase the attractiveness and thus the sales at the location. Furthermore, KarstadtQuelle as landlord profits from the rents, which are linked to sales.

The renting of department store space will assume greater proportions in future. The integration of successful dealers will increase the profitability of the properties and also increase customer frequency.

dialogue with finance markets • Streamline business processes • Set up synergies • Network sales channels

Further increase in number of customer cards issued

The number of customer card holders will continue to grow appreciably in the 2001 financial year. In February we increased the planned figures. We want to increase the number of cards issued to 6.5 million at the end of the year through internal growth. At the same time we are working on concepts to put the number of cards on a considerably broader base by external growth.

Outlook

Clear rise in earnings planned

We are planning to further markedly increase earnings in the over-the-counter retail segment. The boosting of earning power is based primarily on the restructuring programme being implemented. This will result in substantial cost reduction, particularly in staff costs. Moreover, the tightening up and centralisation of administrative processes and the reduction in merchandise stocks combined with the simultaneous reduction in storage space will have cost-cutting effects.

In addition it will do away with a number of non-recurring debits incurred through restructuring costs during the 2000 financial year.

We are planning an increase of 10 % on sales, not including SinnLeffers 2 %.

MAIL-ORDER BUSINESS

channels • Perfect theme stores • Strengthen fashion and sport • Specialise and internationalise mail or

KEY FIGURES – MAIL-ORDER BUSINESS

			2000	1999	Change in %
Sales performance	Sales	th. €	7,550,911	7,273,918	3.8
	thereof foreign sales	th. €	1,519,243	1,310,033	16.0
	share foreign sales	in %	20.1	18.0	-
Earnings	EBIT	th. €	158,902	143,733	10.6
	EBIT margin	in %	2.1	2.0	-
	EBT	th. €	154,769	145,779	6.2
	EBT margin	in %	2.0	2.0	-
	Equity	th. €	466,545	416,834	11.9
	Net financial indebtedness	th. €	505,084	776,616	- 35.0
	Capital employed	th. €	971,629	1,193,450	- 18.6
	Return on capital employed	in %	16.4	12.0	-
	Return on equity	in %	24.8	20.2	-
Other information	Investments	th. €	185,907	184,703	0.7
	Depreciation/amortisation	th. €	113,565	126,991	- 10.6
	Gross cash flow	th. €	206,143	226,177	- 8.9
	Full-time staff on annual average	number	29,654	30,013	- 1.2

order • Expand travel services • Increase e-business • Implement EVA • Intensify dialogue with finance m

REPORT ON THE FINANCIAL YEAR

Good market environment

According to the Federal Association of the German Mail-Order Trade (BVH) the mail-order trade in Germany sold goods worth 21.2 billion € in the 2000 financial year. In comparison with 1999 this represents a growth of 1.7%. The share contributed by the mail-order trade to the German retail trade as a whole rose slightly and stands at 5.6%.

The volume of the European mail-order market is just on 50 billion €. Germany represents with around 42% the largest share of the market in Europe, followed by Great Britain with around 25% and France with about 16%. The mail-order trade has around 150,000 direct employees. Around the same number again work indirectly in the areas of printing, transport, complementary computer operations and agencies.

The world's largest mail-order market is the United States of America. Germany is, with regard to sales volume, worldwide in second place.

The consumer in Germany is very mail-order-oriented. In no other country is so much bought by mail-order per person

as in Germany. The average mail-order sales per head came to 256 € in 2000.

Strategy and position: two strong brands

The KarstadtQuelle group is pursuing a two-brand strategy and is with Quelle and Neckermann market leader in the German mail-order trade. Worldwide we are in second place.

The level of awareness for both the Quelle and the Neckermann brand in Germany is over 90% and is thus exceptionally high.

Both brands cover both the universal home shopping and special mail-order sectors. Both companies have built up a strong image over decades and enjoy a reputation amongst customers as suppliers of the highest standard. Qualities decisive for the mail-order trade such as wide product diversity, good price-performance ratio, reliability in performance, e-business competence and good service characterise both Quelle's and Neckermann's image. Added to this are further qualities such as adherence to demanding environmental and quality standards.

markets • Streamline business processes • Set up synergies • Network sales channels • Perfect theme st

The Quelle Group: market leader in the German mail-order trade

The Quelle brand name stands for a unique diversity of merchandise and sales channels.

The Quelle Group is market leader in the German mail-order trade with a market share of more than 20%. The portfolio of Quelle participations includes more than 100 subsidiary and associated companies. The greater share of sales is accounted for by the domestic market.

The brand name Quelle stands for a unique diversity of merchandise and sales channels. With a range of goods encompassing around 160,000 to 180,000 items per season Quelle is Europe's leading full-range supplier. The range extends from fashion through technical consumer goods and furniture to products for family, work, leisure time and health. Quelle enjoys leading positions in numerous product groups - for example, the company is the top-selling kitchen marketer in Germany.

A still important medium is the Quelle main catalogue, which appears twice a year. The Quelle range is supplemented and rounded off by target group-oriented specialty catalogues and numerous seasonally oriented intermediate catalogues. The successful e-business operation is based on the www.quelle.de shopping portal, which was completely revised in the year under review. Quelle customers are responding well to the range. Sales reached a record level in the financial year just ended.

In over-the-counter retailing Quelle is internationally represented by a sales network of around 10,000 units supporting mail-order. The Quelle shops, franchising partners, technology centres, customer services and bargain sections ensure a strong market presence.

tores • Strengthen fashion and sport • Specialise and internationalise mail order • Expand travel services

**The Neckermann Group:
third-largest German mail-order house**

The Neckermann Group with a market share of a good 9% is the third-largest mail-order company in Germany and is represented in 13 European countries by its domestic and foreign subsidiary companies.

The main catalogue presents a comprehensive range comprising i.a. fashion for women, men and children and home textiles, living, sports and technology. In past years Neckermann has developed a special competence in the living and men's fashion segments. Both are outstanding for their much increased sales levels.

Neckermann has furthermore established itself as a specialist in several segments. The growing market for special sizes has been one of its specialities for more than ten years. The market for senior citizens is a further high-growth segment due to the reversal of the age pyramid in society.

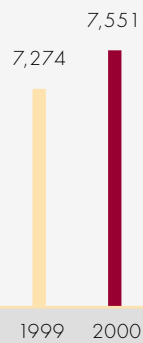
Neckermann also operates an over-the-counter retail business under the name "KatalogWelt + Reisebüro". The 92 sales outlets take orders for the catalogue and arrange package tours. Added to this are 67 FOX markets which market for Neckermann remaindered goods from earlier catalogue periods.

In spring 2000 Neckermann celebrated its 50th anniversary. On the occasion of this anniversary the marketing operation was expanded and supported by TV advertising. Customers profit from attractive product ranges. In the anniversary season a large number of new customers were acquired and many already existing customer relationships expanded. The trend of sales resulting from the anniversary activities was very satisfactory.

**Neckermann
has established
itself as a
specialist in
several segments.**

services • Increase e-business • Implement EVA • Intensify dialogue with finance markets • Streamline k

Sales in million €



Sales performance: up 3.8 %

The mail-order segment achieved revenue from sales of 7.55 billion € (previous year: 7.27 billion €) in the year under review. Sales were thus increased up by 3.8%.

In Germany we sold goods worth 6.03 billion €, as against 5.96 billion € in the previous year. This represents a growth in sales of 1.1%. Abroad we increased sales by 16% to 1.52 billion €. The foreign contribution to sales in the mail-order segment increased by 2.1 %-points to 20.1%.

Earnings: 6.2% growth – influenced by special effects

Earnings before tax increased by 6.2% to 154.8 million €, as against 145.8 million € the previous year.

Earnings were influenced by special effects. The formation of additional provisions for older employees part-time work of 15.5 million € was a charge on earnings. Revenue of 36.4 million € from the sale of the mail-order centre in Nuremberg made a positive contribution.

Result (EBT) in million €



business processes • Set up synergies • Network sales channels • Perfect theme stores • Strengthen fashion

After adjustments for these special effects earnings before tax were down just on 10 %. The deciding factor here was in particular the drop in the gross profit margin from 48.4 % to 47.3 %. Return on the capital employed came to 16.4 %, as against 12 % the previous year.

Volume of investments up slightly

The volume of investments amounted to 185.9 million €, as against 184.7 million € in the previous year. The following large investment projects were undertaken in the year under review:

Quelle invested in the conversion and extension of the Quelle shopping centre in Fürth and extended the sales space by over 10,000 m² to 20,000 m². Additional product groups like furniture and sports were included and further outside service providers integrated.

In April 2000, Neckermann began the construction of a new building in the Frankfurt Logistics Centre in order to ensure even more economical goods processing on greater space in future. The new mail-order building is due to come into operation at the beginning of 2002. Investments for the year under review amount to approx. 15 million €. The total amount invested will be approx. 45 million €.

Quelle and Neckermann's strengths

Perfected fulfilment system

Quelle and Neckermann have at their command a perfected and reliable fulfilment process chain. This includes in particular the call center, logistics, data management and invoice processing segments. In e-business this represents a decisive competitive advantage.

Efficient and service-oriented logistics are one of Quelle and Neckermann's core competences. Here efficiency and the employment of leading-edge technology at the customer's service are the basic success factors.

The high logistics capability is exemplified by the logistics centres.

Leipzig logistics centre: World-wide model

Quelle operates a very modern logistics centre in Leipzig. It was built between 1991 and 1995, carries out over 90 % of the company's parcel despatching and is regarded all over the world as a model of modern logistics problem-solving and leading edge technology.

fashion and sport • Specialise and internationalise mail order • Expand travel services • Increase e-bu

During the financial year Quelle despatched from Leipzig goods consignments with over 100 million items. We offer customers a 24-hour and a 48-hour delivery service as well as delivery at a time of their choice.

The primary object of the Neckermann Logistics Centre in Frankfurt am Main is compact goods processing. All logistics functions are performed, including processing of returning goods. The fulfilment of 24-hour delivery, the order for delivery at a time requested by the customer and an uncomplicated, friendly service are paramount.

Quelle and Neckermann between them despatch approx. 65 million goods consignments in Germany every year.

14 million qualified customer addresses

Quelle and Neckermann maintain a register of 14 million mail-order customer addresses. These addresses obtained without overlap include the number of households with whom an active customer relationship exists, i.e. with whom a purchasing transaction was concluded in the past 12 months.

The addresses contain high-quality information obtained from years-long business relationships. The knowledge of customer preferences resulting from this enables the customer to be offered added value according to his personal wishes and requirements.

Successful own-brand policy

KarstadtQuelle mail-order suppliers have been consistently taking advantage of the opportunities offered by own brands for decades.

Quelle's most successful own brand is "PRIVILEG". This own brand is very well established and positioned in the "white goods" segment. With two-figure market shares in refrigerators, washing machines, freezers and sewing machines Quelle occupies the leading position in the German market.

Likewise successful in the market is the own brand "UNIVERSUM". Quelle has been selling audio and video equipment, or "brown goods", under this brand name for 40 years. Since 1960 Quelle has sold more than 10 million television sets, 2 million video-recorders and 8 million audio-systems under the brand, "UNIVERSUM".

business • Implement EVA • Intensify dialogue with finance markets • Streamline business processes • Se

Neckermann carries altogether more than ten own brands in the textile and consumer durables segments, which are achieving levels of awareness of up to 78%. Particularly pronounced are the own-brand shares of 56% in “white goods” and 74% in do-it-yourself & garden articles. In entertainment electronics the own brand “Palladium”, in white goods e.g. “Lloyds” and in the textile segment “John F. Gee” are successful sellers.

Our own brands stand for continuous high quality, consumer-oriented design and contemporary styling. The conception and design of the products are carried out in close cooperation with the manufacturers. In this way it is ensured that the merchandise range is both technically perfected and marketable. Our strong market position is also a result of this proven strategy.



High growth abroad

Our foreign business is characterised by high rates of growth. An increase of 16% was achieved during the 2000 financial year.

The largest Quelle company abroad is Quelle La Source in France with subsidiaries in Belgium, Spain, Portugal and Denmark. Quelle La Source has developed in recent years into a universal home-shopping supplier with emphasis on women’s outer clothing and underwear and operates its own range and business policy strongly oriented to local conditions and trends. The Quelle La Source group publishes catalogues in six languages and achieved sales worth 470.9 million € in the 2000 financial year (previous year: 444.3 million). This represents a rise of 6%.

Our foreign business stands out by its high growth.

Set up synergies • Network sales channels • Perfect theme stores • Strengthen fashion and sport • Spec

Our Multi-Channel Strategy focuses consistently on the wants and needs of our customers.

Besides the subsidiaries in the Netherlands and Austria the **Bon'A Parte group** is the most important foreign commitment of Neckermann. Its offices and origins are in Denmark, from where it controls activities in the home market and in Sweden, the Netherlands and in Germany. Bon'A Parte covers the women's, men's and children's clothing market segments and bedding and corsetry. The development of the group is characterised by dynamic growth. It achieved revenue from sales of 49.2 million € in the year under review and thus increased sales by 33 %.

E-business demand exceeds expectations

We are pursuing a goal- and future-oriented multi-channel strategy in mail order: the different sales channels form a network which both on- and offline is consistently keyed to the demands and needs of customers. Catalogue, over-the-counter retail and Internet increasingly complement each other.

Our mail-order suppliers have been represented in the Internet trade at www.quelle.de and www.neckermann.de since 1995 and have occupied a leading position in Germany since then. Furthermore, a series of special mail-order suppliers successfully sell further ranges on the world wide web. Quelle and Neckermann meet all the infrastructural requirements for employing electronic business for further company growth. Online selling is nothing other than trade at a distance - and that is the core business of the mail-order trade.

Specialise and internationalise mail order • Expand travel services • Increase e-business • Implement EVA •

Nearly all the items in the German Quelle and Neckermann catalogues can be ordered through the Internet. The proven services, such as customer service, punctual delivery and returned-goods processing, are, of course, also guaranteed over the Internet. Online additional services, such as immediate assurance of delivery, order status and account information complete the range. Furthermore, the customer can find at the web sites additional product information, animated pictures and three-dimensional views, which give more detailed information about the product.

Demand in our online business is growing at extraordinary rates. In the 2000 financial year and particularly over the Christmas period the breakthrough was made for a high-volume Internet business. Range and response achieved levels which established electronic business as a further equal ranking sales channel. Online demand rose from 104.3 million € in the previous year to 439.7 million € in the year under review and was thus quadrupled. Demand exceeded even our high internal targets.

Confidence and security are regarded as important success factors for online shopping. It is in these areas that our basic strengths lie. The basis of trust which has grown through our many and varied customer relationships and which has been built up over decades is ideally complemented by the high, confidence-building brand awareness and the sound brand image. Problems with security in the payment procedure from customer to Quelle do not occur. The customer can safely and conveniently purchase on account.

Intensify dialogue with finance markets • Streamline business processes • Set up synergies • Network s

KEY FIGURES – UNIVERSAL HOME SHOPPING

			2000	1999	Change in %
Sales performance	Sales	th. €	6,448,163	6,422,583	0.4
	thereof foreign sales	th. €	1,250,299	1,197,812	4.4
	share foreign sales	in %	19.4	18.7	-
Earnings	EBIT	th. €	116,119	103,824	11.8
	EBIT margin	in %	1.8	1.6	-
	EBT	th. €	117,723	109,262	7.7
	EBT margin	in %	1.8	1.7	-
Other information	Investments	th. €	150,360	157,307	- 4.4
	Depreciation/amortisation	th. €	96,555	111,711	- 13.6
	Full-time staff on annual average	number	25,568	26,214	2.5

REPORT ON THE BUSINESS YEAR: UNIVERSAL HOME SHOPPING

Mainly the business with the Quelle and Neckermann main catalogues is grouped in the universal home-shopping segment. This is also described as the classical mail-order business.

The main catalogues are about 1500 pages long and are keyed to spring/summer and autumn/winter requirements.

ales channels • Perfect theme stores • Strengthen fashion and sport • Specialise and internationalise ma

The Quelle main catalogue appears in an edition numbering about 12 million copies and is delivered to every third household in Germany. The catalogue presents about 80,000 items per season.

The Neckermann main catalogue is issued in an edition numbering around 7 million copies. The core target group for Neckermann mail order is the young family.

Sales performance: up 0.4 %

During the financial year we were able to increase net sales in universal home shopping from 6.42 billion € to 6.45 billion €. This represents an increase of 0.4%. Universal home shopping accounts for 85% of total mail-order sales and is thus the most important sales contributor.

Abroad we sold 1.25 billion €, as against 1.20 billion € the previous year. Foreign sales rose by 4.4% and contributed 19.4% to total universal home-shopping sales.

Earnings: up 7.7 %

Earnings before income tax came to 117.7 million €. This represents a rise of 7.7% as against the previous year's total of 109.3 million €.

The special effects already explained which result from the formation of provisions for older employees part-time work and from the sale of the mail-order centre in Nuremberg affected universal home-shopping earnings.

Universal home shopping accounts for 85% of total mail-order sales.

mail order • Expand travel services • Increase e-business • Implement EVA • Intensify dialogue with fin

KEY FIGURES – SPECIAL MAIL ORDER

			2000	1999	Change in %
Sales performance	Sales	th. €	1,102,748	851,335	29.5
	thereof foreign sales	th. €	269,953	110,929	143.4
	share foreign sales	in %	24.5	13.0	-
Earnings	EBIT	th. €	42,783	39,909	7.2
	EBIT margin	in %	3.9	4.7	-
	EBT	th. €	37,046	36,517	1.4
	EBT margin	in %	3.4	4.3	-
Other information	Investments	th. €	35,547	27,396	29.8
	Depreciation/amortisation	th. €	17,010	15,280	11.3
	Full-time staff on annual average	number	4,086	3,799	7.6

REPORT ON THE FINANCIAL YEAR: SPECIAL MAIL ORDER

Our special mail-order business is developing more and more into the driving force for growth in our mail-order business.

Quelle and Neckermann are positioned internationally with 178 specialty catalogues.

Sales performance: up 29.5%

During the 2000 financial year we achieved revenue from sales of 1.10 billion €, as against 0.85 billion € the previous year. This represents a rise of 29.5%.

Earnings: EBT up 1.4%

EBT came to 37.0 million €, as against 36.5 million € the previous year. This represents a rise of 1.4%.

The gross profit margin at 55.3% is unchanged from the previous year. Gross profit was increased by 139.9 million €. This rise in profit was set against a number of costs which have risen to virtually the same amount due to the high growth.

ance markets • Streamline business processes • Set up synergies • Network sales channels • Perfect the

Special mail-order suppliers continue successful

The **TriStyle group** includes the special mail-order suppliers of well designed, high-quality women's and men's fashions Peter Hahn, Atelier Goldner Schnitt and Madeleine. This company group, which is represented in seven European countries, increased its sales by 6.3 % to 425.9 million €. Foreign commitments accounted for a sales share of around 30 %. Earnings before tax came to 20 million €, as against 19.9 million € for the same period the previous year.

The **Walz group**, Europe's biggest special mail-order company for the young family, markets baby articles under the name "Baby Walz" in Germany, Austria, Switzerland, Belgium and the Netherlands. The Baby Walz range is also sold in a chain of 21 specialty discount stores. Practical household products are sold in the above mentioned countries through the "Die moderne Hausfrau" catalogue. Sales increased by 13.8 % to 189 million €. EBT rose in proportion to sales and came to 18 million €, as against 15.8 million € the previous year.

The **Mercatura group**, specialising in professional clothing and fashion ranges, with its mail-order suppliers Bragard, clinic+job-dress, Walter Schuhversand and DK group, achieved sales of 118.1 million € in 2000. This represents a drop of 4.7 %. In its core business, the professional clothing segment, it maintained its very clear lead in Europe. Sales in the fashion segments, however, failed to meet expectations. EBT were 6.5 million € (8.5 million € the previous year).

Elégance is a marketer of exclusive women's fashions and high-quality materials of couture standard. The domestic mail-order operation is supported by an international export and licence business with subsidiaries in six countries. Exclusive, internationally represented boutiques complete the market operation. Elégance recorded a marked increase in sales of 11.7 % to 86.4 million €. EBT came to 4.1 million € (previous year: 4.6 million €).

theme stores • Strengthen fashion and sport • Specialise and internationalise mail order • Expand travel

Happy Size has successfully sold young women's fashion in the outsize segment on the basis of an innovative communication concept since 1997. As part of a concept aimed at high growth sales in the year under review were nearly doubled and came to 50.1 million €. EBT stood at 4.6 million €.

Our back-office services are being more closely coordinated to set up synergies.

We reinforced the special mail-order business in the year under review by taking over three marketers in the pet product mail-order and house pet article segment. We thus secured the market lead in this segment, too.

FORECAST REPORT – MAIL-ORDER BUSINESS

Points of emphasis in the 2001 financial year

Pushing the integration of Quelle and Neckermann

An integral part of our 10-Point Value-Added Programme in the area of restructuring is the further integration of Quelle and Neckermann.

Quelle and Neckermann will continue to apply the two-brand strategy and go separate ways in the marketing, range design and sales sectors. The back-office services, i.e. those processes that the customer does not immediately notice, will, however, be steadily be merged with the aim of setting up synergies. This applies particularly to the logistics/transport, order processing and back office sectors.

In the year under review we combined Quelle and Karstadt/Neckermann purchasing offices worldwide and set up a joint competence centre for purchasing. We moreover combined the technical customer services of

el services • Increase e-business • Implement EVA • Intensify dialogue with finance markets • Streamli

both companies to form a single unit in February 2000. There is joint cash pooling in the financing sector. Furthermore, Quelle and Neckermann launched an asset-backed securitisation (ABS) programme which includes the joint sale of customer debts and secured added funds of around 0.8 billion €.

In the 2001 financial year we shall be pressing rapidly ahead with the integration process begun in the defined areas of activity.

Expansion of the excellent position in e-business

Internet and e-business are resulting in major changes in the mail-order scene.

This opens up to our classical mail-order companies more than any other branch of business good opportunities of increasing profitability: with every customer who switches from traditional communication and ordering methods to electronic ones the customer-related sales costs fall owing to the high level of automation.

E-business will lastingly alter organisational structures in the mail-order business. Many functions and systems, particularly in the back-office sector, will be reorganised. In particular the order management can also be made substantially more efficient and cost-effective.

The Internet will moreover ensure markedly more flexible one-to-one marketing. The customer can, for example, be quickly notified of the latest special offers and sent advertising information tailored to his requirements. This will reduce coverage losses in advertising and at the same time contribute to cost reductions. The Internet will, moreover, open up a new sales channel for the flexible and efficient marketing of stock remainders from past catalogue periods.

Quelle and Neckermann will continue to rapidly expand their e-business and will have the best opportunities of sustaining the strong growth in this sector.

We plan to increase e-business sales for the 2001 financial year to 0.61 billion €. This would represent a growth of more than 50% on the previous year.

Sales costs sink every time a change is made to electronic communication and ordering methods.

Streamline business processes • Set up synergies • Network sales channels • Perfect theme stores • Stre



High growth through internationalisation and specialisation

One of our most important goals in the mail-order business is increased internationalisation. The target markets are Scandinavia, Great Britain and Eastern Europe. Here expansion can also be effected through collaboration and acquisition. We plan for the growth of foreign sales an increase of around 10% p.a. in the next few years. The share contributed by foreign sales of the two mail-order suppliers will increase by 4% points to 24% by 2003.

Sales in special mail order will likewise rise by around 10% p.a. This will, amongst other things, be realised by expanding the e-business. The transfer of the catalogue of a specialist with a highly appropriate product range to the Internet is very promising.

We are also stepping up the expansion of the over-the-counter presence of strong specialists like Baby Walz. The Baby Walz concept can be successfully transferred to the next age group. The customer information

gathered up until now forms an ideal basis for the gaining of new target groups. The return in special mail order will

grow successively. An EBT margin of 6% (2000: 3.4%) is planned for 2003. This is far above the group average, as a result of which special mail order will gain additional strategic importance.

As part of the strategy of increased internationalisation and specialisation we undertook three acquisitions after the balance sheet date.

Quelle acquired the French stock exchange-listed special mail-order supplier Afibel S.A., Lille. This company is positioned in the classical, middle-price bracket fashion market for older women and men. Afibel has around 1.25 million active customers and achieved sales worth 113.1 million € in the 1999/2000 financial year. By this acquisition Quelle is supplementing the special mail-order suppliers already represented in France and is thus expanding its strong market position.

Strengthen fashion and sport • Specialise and internationalise mail order • Expand travel services • Increase

Neckermann acquired all the shares in Hess Natur-Textilien GmbH, Bad Homburg. Hess has a firm pool of regular customers and offers a comprehensive range in the natural women's, men's and children's clothing segment. As market leader in natural product mail order, the company achieved revenue of a good 50 million € from sales in the 2000 financial year.

Neckermann further acquired all the shares in Fritz Berger AG, Neumarkt, the leading special mail-order supplier of camping/ caravanning and leisure/outdoor equipment. The company is represented by subsidiaries in Germany, France and Austria and earned revenue of around 50 million € from sales in the 1999/2000 financial year.

Expansion of third-party customer business as mail-order service provider

With the increased collaboration of the fulfilment sectors of Quelle and Neckermann the cornerstone is being laid for a new strategic field of business and the value-added chain of the mail-order business substantially expanded.

The companies are further expanding their capability in the fulfilment sector and are also offering this service to third-party customers. ServicelogiQ is already established today as a fulfilment service provider. This company is providing, amongst others, services for the home-shopping TV channel H.O.T. and in the 2000 financial year met all the technical and logistic requirements for performing fulfilments for the Internet shops at www.christ.de und www.vedes.de.

Outlook

Sales rise of 3 % planned

The outlook for the mail-order market in Germany for the 2001 financial year is characterised by cautious optimism. The Federal Association of the German Mail-Order Trade (BVH) forecasts a sales growth of 2.2%, while universal home-shopping suppliers anticipate a growth of 1.5% and the special mail-order suppliers a rise of 5.8%.

Quelle and Neckermann once again aim to perform better than the market. They have planned for a sales increase of 3%.

TRAVEL SERVICES

Increase e-business • Implement EVA • Intensify dialogue with finance markets • Streamline business pr

KEY FIGURES – C & N TOURISTIC GROUP

			01.11.1999 to 31.10.2000	01.11.1998 to 31.10.1999	Change in %
Sales trend	Sales	mill. €	4,980	4,639	7.4
	thereof operators	mill. €	4,274	3,943	8.4
	thereof air flight	mill. €	634	601	5.6
	thereof online	mill. €	14	1	-
	Customers carried	in th.	10,896	10,375	5.0
Earnings	EBT	mill. €	110.5	103.8	6.5
	EBIT	mill. €	117	105	11.7
	Earnings from ordinary activities	mill. €	113	107	5.2
	Net income	mill. €	56	62	- 10.4
	DVFA earnings per share	€	7.58	12.08	- 37.3
Other information	Investments	mill. €	435	364	19.4
	Cash flow to DVFA/SG	mill. €	246	249	- 1.5
	Balance sheet total	mill. €	2,580	1,989	29.7
	Equity ratio	%	21.7	17.4	-
	Employees on 31.10.	number	12,197	9,913	23
	Group-owned sales outlets	number	2,191	1,606	36.4

Processes • Set up synergies • Network sales channels • Perfect theme stores • Strengthen fashion and sp

The market environment

The European travel industry profited from the favourable economic environment in the year under review. This did not, however, apply to all the European markets to the same extent. In Germany the high growth expectations were not fulfilled. The result was overcapacities which led to a severe price-cutting and reduced margins.

Moreover, perceptible changes in customers' travel habits made heavier demands of travel companies' capacity management. Package holidaymakers are booking at increasingly shorter term; travel intensity is increasing, while at the same time the length of holidays is getting shorter and shorter. Furthermore, the advance of new sales channels is increasing the pressure of competition amongst the marketers, while at the same time also opening up new opportunities to well positioned and strategically consistently oriented companies.

The process of expansion in international markets is largely completed. Competition in the travel industry shifted to the European level in the financial year just ended. The three

largest groups in Germany alone command a market share of over 70%. International mergers and acquisitions precipitate further concentration and consolidation processes.

Strategy: expansion in the most important European markets.

C & N Touristik AG, as a vertically integrated pan-European travel group, is actively meeting market needs. The strategic aim is market leadership in all the important European growth markets.

With its strategy for sustained value increase the C & N Group successfully established a good position in a dynamic competitive environment and strengthened its excellent market position during the year under review.

Holidays are increasingly becoming brand products. Holiday management throughout the value-added chain is markedly increasing customer retention. C & N offers customers all the elements of the package holiday from a single provider: air flight, hotel, sales, service and events at the final destination.

Today C & N is the second-largest travel group in Europe and number three worldwide.

Holidays are increasingly becoming brand products.

sport • Specialise and internationalise mail order • Expand travel services • Increase e-business • Impl

Sales in million €



REPORT ON THE FINANCIAL YEAR

Sales performance: up 7.4 %

The companies of the C & N group achieved sales of 4.98 billion € in the financial year just ended (1. 11. 1999 to 31. 10. 2000). This represents an increase of 7.4 % on the previous year. After adjustment for the sales of Havas Voyages included for four months and the sales contribution made by Aquatour and Belvilla the sales increase amounted to 4.3%. C & N's development into an international travel group is buttressed by the increase in the foreign share from 22.8% to 23.9%.

Spain continued to be the favourite holiday destination country with a sales share of over 42%, followed by Greece with 9.7%. Turkey once again markedly increased its contribution to sales (+ 61.4%). More than 5% of sales revenue was accounted for by this destination area.

Earnings (EBT) in million €



ement EVA • Intensify dialogue with finance markets • Streamline business processes • Set up synergies

Earnings: increased, but influenced by special effects

Earnings before tax (EBT) rose from 103.8 million € to 110.5 million € (+6.5%). This result was diminished by a reduction of the gross profit margin to 27.4% of sales revenue (previous year: 28.6%). Decisive factors in this development were the drop in the average length of holiday, the margin reduction due to competition and the rise in the price of kerosene due to foreign currency rates. Moreover, higher write-downs on goodwill – resulting in particular from the acquisition of Havas Voyages – negatively affected earnings. This additional expenditure was balanced out, on the one hand, by consistent cost management, which was introduced early on in reaction to the foreseeable low level of earnings, while, on the other, book profits resulting from the strategic fleet renewal programme and revenue resulting from the sale of the shares – temporarily held in the period under review – of the Thomson Travel Group plc contributed positively to earnings.

Current profit is being transferred to reserves. This measure will in future contribute to the improved financing of the ambitious C & N expansion programme.

Assets: equity ratio rises to 21.7%

C & N's balance sheet total increased by 29.7% to 2.58 billion € in the period under review. The investments of 434.8 million € were refinanced at matched maturities by a capital increase (204.5 million €) and open-market credit (150 million €). The ratio of equity capital to fixed assets improved from 27.6% the previous year to 38.9% at the balance sheet date. The equity ratio rose 4.3%-points to 21.7%.

Financial situation: net indebtedness falls to 170.1 million €

The cash flow at 245.5 million € remained at the level of the previous year. Liquidity reached its highest level at 498.0 million € on the balance sheet date. Net financial indebtedness was reduced to 170.1 million € (previous year: 452,5 Mio. €). Customer deposits amounting to 230.9 million € were fully covered by available cash.

synergies • Network sales channels • Perfect theme stores • Strengthen fashion and sport • Specialise c

Strategic acquisitions expand sales network

The acquisition of Havas Voyages S.A. in June, 2000, expanded the sales network in France from 23 to 394 travel agencies. Havas Voyages has a share of 20 % of tourist travel agency sales there. France is Number Three amongst the European travel markets as regards volume. It is an attractive growth market, particularly for package holidays, because there only one in five holidays is sold as a package. In Germany it is already every second holiday.

Moreover, the participation in the Dutch direct-sales operator Belvilla Vakantie-woningen B.V. was increased and in July 2000, capital at the participation Öger Tours GmbH was increased.

The acquisition of Thomas Cook represents a further expansional step towards becoming a European group.

The acquisition of the British travel company Thomas Cook after the end of the financial year represents a further strategic expansional step towards becoming a European group, because Great Britain is, after Germany, the second most important travel sales market in Europe. Thomas Cook is market leader in the British Isles and, with its 2,100 travel agencies worldwide – of which 700 are in Great Britain –, increases C & N's international presence.

Group integration successfully continued

The market leaders in Europe are vertically integrated travel groups which cover the entire value-added chain with their business segments. C & N pressed ahead decisively with the integration of the individual stages during the year under review. The group's share in the European value-added chain in the travel sector increased markedly during the financial year just ended.

and internationalise mail order • Expand travel services • Increase e-business • Implement EVA • Intensi

C & N has created a central unit for capacity and process management. The object of this is to bring about an optimal balance of individual interests throughout all the stages of the value-added chain. This includes the group-wide management of planned flight seats. Moreover, booking levels, current capacity figures and commercial risks will be included in integrated decision-making process by the yield and revenue management. The availability of hotel beds in the destination areas will be balanced against planned flight capacities.



C & N operators: good performance in a difficult market environment

More than 6 million customers (+ 2.5 %) travelled on their holidays with a German C & N operator. The number of holiday flights shows an increase of 1.8 % in the number of customers during the financial year ended. Measured against the 1.5 % growth in the package holiday market, German C & N operators have performed comparatively well in a difficult market environment. The market share in Germany was increased to 25.5 % (25.4%). In Belgium and the Netherlands the increase in the number of customers at 11.2 % and 11.3 % respectively was notably above the market average. In Austria and Hungary the market shares were increased to 23 % and 23.5 % by a growth of 2 % in each case. In Poland an increase in the number of customers to 45,000 (+ 81.3 %) is proof of the enormous regional potential for development.

Intensify dialogue with finance markets • Streamline business processes • Set up synergies • Network s

	October 31, 2000		October 31, 1999	
	Hotel/Clubs	Beds	Hotel/Clubs	Beds
Spain	22	16,771	12	9,531
Portugal	3	988	-	-
Bulgaria	6	1,742	-	-
Tunesia	3	1,781	3	1,781
Germany	5	4,895	-	-
Austria	5	868	1	311
Italy	4	685	-	-
Other	7	3,469	5	1,969
C & N total	55	31,199	21	13,592

Earnings-oriented growth at hotels and agencies

Under the earnings-oriented growth concept the C & N Group strengthened its commitment in the hotel sector and further increased its quota of beds in strategically important holiday areas.

The emphasis of the growth operations is on the higher-quality four-star segment, which makes a large contribution to the value-added process. Qualitative growth is of great importance, because competition amongst marketers is increasingly taking the form of

attractive hotel offers. At the balance sheet date the C & N participation portfolio contained 55 complexes with a total of 31,199 beds. A further 40 complexes with 29,884 beds are managed by partners of the C & N group.

The table above shows a breakdown by destination area.

ales channels • Perfect theme stores • Strengthen fashion and sport • Specialise and internationalise ma

Condor: more than 8 million passengers

Condor carried more than 8 million passengers in the financial year just ended. With 74 destinations worldwide the airline further expanded its flight programme in the 2000 summer season. In the high season Condor aircraft were taking off on holiday flights from one of the 21 departure airports more than 500 times a week. The seat occupancy factor - the ratio of transported to offered passenger kilometers - was kept at a constant 82 % despite the difficult economic environment.

The Condor's modern fleet of aircraft guarantees economical and environmentally friendly flight. The average age of the 46 aircraft (previous year: 44) is under five years. Fuel consumption in the financial year just ended came to only 2.8 litres per passenger over a hundred flying kilometres.

Investments ensure future growth

Investment by the C & N group rose by 19.4 % to 434.8 million €. They are thus about twice as high as the write-downs of 199.5 million €. A large share of the investments (59.8 %) went to expansion in important European sales markets. Also 28.6 % of the group-own investment volume relate to hotels and hotel participations. The remainder relate to aircraft and technology and the expansion of the IT infrastructure, in particular Internet activities. Online sales increased tenfold during the year under review. Their share of the total sales, however, amounted to only 0.3 % and thus has considerable expansion potential.

Rise in number of employees

The expansional trend of business at the C & N group is accompanied by a rise in the number of employees of 2,284 to 12,197. The increase results mainly from acquisitions, but also from increases in the number of flight and ground staff for the Condor fleet.

mail order • Expand travel services • Increase e-business • Implement EVA • Intensify dialogue with fin

NUMBER OF SALES OUTLETS

	31.10.2000	in %	31.10.1999
Neckermann	216	9.9	198
Alpha	42	1.9	38
Holiday Land	466	21.3	328
Havas Voyages	394	18.0	0
Other	162	7.4	163
C & N Sales	1,280	58.4	727
Karstadt/Hertie	186	8.5	188
Neckermann Versand AG	94	4.3	91
Reise Quelle	164	7.5	165
LHCC	423	19.3	391
Other	44	2.0	44
Taxable sales	911	41.6	879
Group sales	2,191	100.0	1,606

However, not only was the number of employees increased, but also training and further training was intensified to improve the qualification of all concerned.

Europeanisation of sales continued

C & N sales were expanded in the financial year ended. The number of sales outlets in Europe rose by over 35 % to 2,191. C & N is represented in 10 countries with different travel agency brands. One in three travel agencies is in a foreign country.

ance markets • Streamline business processes • Set up synergies • Network sales channels • Perfect the

C & N supports the Multi-Channel Network

The integration of the travel services growth segment into the KarstadtQuelle group's Multi-Channel Network is being stepped up. The large number of customer relationships in group companies is an ideal basis for linking products and services with C & N services. The group's own travel sales chains are working closely with C & N on product development and sales management.

FORECAST REPORT

Points of emphasis in the 2000/2001 financial year

Improvement of the quality and efficiency of forecasting, planning and control processes is being given special emphasis by C & N in its operations in the new financial year. Plans are being worked on to provide an up-to-the-day forecast of the anticipated demand for each flight as early as three months in advance. A more closely coordinated liaison between travel operators and airlines will, moreover, prevent misrouting of capacities along the value-added chain. C & N will continue to consistently press ahead with its optimised pan-European integration of the travel value-added chain and will position itself in further strategically important markets. To reduce capital tie-ups and lower the investment risk expansion will also take place on the basis of partnerships and strategic alliances.

theme stores • Strengthen fashion and sport • Specialise and internationalise mail order • Expand travel



Quality holidays from a single provider are becoming a decisive factor for success.

C & N's capacity to offer quality holidays by a single provider is becoming an increasing factor in determining results and increasing added-value for the customer. Contributing to the integration of the stages in the value-added chain are the continued further development of new sales channels (e-business and TV) and a cross-segment quality management. The share of customers booking with a C & N operator and flying by Condor is to grow to 86 % (previous year: 61 %) in the financial year.

The integration of Havas Voyages and the operator Belvilla will be further pressed ahead with in the current financial year. Furthermore, one of the major tasks will be the integration of Thomas Cook and, linked to it, the fastest possible utilisation of synergies and marketing potential.

The setting up and utilisation of electronic sales channels will form the basis for further interactive and sales channels to

the customer. Sale of products via specialist travel TV stations and the consistent expansion of Internet operations will guarantee even more flexible control of demand and create new customer relationships.

el services • Increase e-business • Implement EVA • Intensify dialogue with finance markets • Streamlin

Outlook

Sales and earnings to increase 10 %

Business in the first quarter of the new financial year (1.11.2000 - 31.1.2001) made successful progress. Sales were increased by 10 % to 0.77 billion €. C & N recorded 1.4 million customers (+9.7%). Capacity utilisation of the Condor fleet rose to 81 % (previous year: 76.4%). Also the level of bookings - both for the winter and the current summer season - gives grounds for optimism.

The weaker underlying economic conditions and concentration and consolidation at a European level will continue to negatively affect margins in the travel industry - regardless of the fact that travel services remain one of the growth markets. Capacity and capacity utilisation risks, also in future, cannot be completely prevented. While changes in travel patterns are taken into consideration from the strategic point of view, environmental or political risks cannot be foreseen.

Thanks to a solid earnings and financial basis, C & N will continue to consolidate its market position. It is planned to increase sales and earnings from ordinary activities - regardless of the Thomas Cook acquisition - by around 10 % in the 2000/2001 financial year.

SERVICES

Streamline business processes • Set up synergies • Network sales channels • Perfect theme stores • Stre

REPORT ON THE FINANCIAL YEAR

The demand for new services within the KarstadtQuelle group is growing all the time. This is being met by a selective expansion of the services offered in all segments in which the relevant services and know-how can be offered at appropriate market prices. Moreover, the cost structure of the service providers must be at least comparable with the cost structures of outside providers. Surpluses are refunded internally to contracting group companies. Earnings contributions made by the services segment thus mainly derive from business with third-party customers.

In the services segment we are creating conditions important for KarstadtQuelle's development into an integrated trading and service group within the framework of the Multi-Channel Strategy. Services concentrate primarily on the IT solution, e-business, financial services, customer service, logistics and imports segments.

Further services are provided in the insurance, restaurants and catering segments.

KarstadtQuelle New Media: consistently opening up new opportunities in e-business

By setting up KarstadtQuelle New Media AG on May 19, 2000, we created the organisational conditions for the optimal deployment of group assets in e-business and the effective utilisation of the business opportunities existing in this growth segment.

KarstadtQuelle New Media AG is the germ cell from which new e-business operations will grow. It is the capability and business development centre and the owner and operator of digital market places. In its interaction with the operational e-business units of the group subsidiaries, such as www.quelle.de and www.neckermann.de, KarstadtQuelle New Media controls the strategic orientation of the group's e-business operations. Here activities follow a clear principle: the creation of real and appreciable value for the customer, on the one side, and thereby for the group, on the other side.

Under this motto the company supports, in an advisory capacity, the development and optimisation of the existing B2C market presence of the core brands. Its integration into available logistics and fulfilment systems is being accelerated and the networking of existing CRM systems stepped up.

lengthen fashion and sport • Specialise and internationalise mail order • Expand travel services • Increase

KarstadtQuelle New Media sees the setting up of future-oriented operations as one of its core capabilities.

Example of this are the successful KQ Lab, Streamevent and Texyard projects.

KQ Lab came into operation in the third quarter of 2000. This forum organises and coordinates contact with universities and thus ensures the transfer of theoretical knowledge to practice. Moreover, the KQ Lab provides a platform for persons wishing to set up in business to do so with KarstadtQuelle as their strong partner.

Streamevent AG, in which, alongside KarstadtQuelle New Media, the strategic partners M. Dumont Schauberg and the film production company Würth&Würth have a participating interest, specialise in the production of and information on digital travel film and online licensing. By the setting up of a digital videostream archive for the travel industry an important basis is being created for further successful activity in a travel market increasingly influenced by Internet technologies.



In the group's fashion segment KarstadtQuelle New Media in August 2000, undertook a future-oriented commitment by participation in and collaboration with Texyard Ltd. Texyard operates a virtual marketplace for the purchase of clothing. Dealers send their orders to suppliers via the Internet, and the best supplier for the respective order is determined by an auction procedure. Internet-based purchasing promises to lastingly improve the efficiency of purchasing processes. Auctions have already begun on a large scale.

In the 2001 financial year KarstadtQuelle New Media is consistently continuing to apply the strategy begun. The 450 million € of group sales from the e-business in 2000 represent an excellent basis for development here. In an e-business environment increasingly governed by rationality the company will be concentrating on business opportunities created by the unique combination of available assets in the KarstadtQuelle group with new process chains and expertise in the handling of new media and technologies.

KarstadtQuelle New Media sees the setting up of future-oriented operations as one of its core capabilities.

Increase e-business • Implement EVA • Intensify dialogue with finance markets • Streamline business pr



ITELLIUM Systems & Services offers services throughout the entire life-cycle of IT solutions

In order to further utilise synergy potential, at the beginning of the year 2000 we combined the IT segments of Karstadt, Quelle and Neckermann with their over 1,200 employees to form ITELLIUM Systems & Services GmbH with its registered office in Essen. The company is responsible for the conception, realisation and operation of information technology systems.

ITELLIUM offers a comprehensive and consistent range of services throughout the life-cycle of IT solutions. At the same time ITELLIUM functions as a system integrator for the over-the-counter retailing, mail order,

travel services and financial services segments. Furthermore, it also functions as an outsourcing and application service

provider. In projects and in the operation of IT systems it contributes to the optimisation of business systems in the KarstadtQuelle group.

In the 2000 business year the company provided IT services at the Essen, Frankfurt and Nuremberg locations with a sales volume of 224.5 million €. ITELLIUM Systems & Services GmbH's major customers were the group companies and C & N Touristic AG. In addition to this, already sales worth 33.6 million € were achieved with outside customers. Despite the starting up costs the company already achieved a balanced result in its first financial year.

In 2001 the scope of the IT services for group companies is being expanded to meet demand. The creation of synergies is resulting in greater and greater efficiency, the benefits of which are being passed on to customers. The extension of business relationships to third-party customers represents a further point of emphasis.

processes • Set up synergies • Network sales channels • Perfect theme stores • Strengthen fashion and sp

Optimus Logistics – integration of the transport segment in the KarstadtQuelle group

We have combined under the name Optimus Logistics GmbH the transport departments of the KarstadtQuelle group and the freight forwarding and transport services linked to it. The company has sites in Nuremberg, Frankfurt and Essen.

In the 2000 financial year Optimus Logistics performed further transport operations and forwarding services for group companies. At the same time non-group business was increased.

The further expansion of the e-business and increasing sales in the mail order sector will influence Optimus Logistics' sales and earnings positively in future. This also applies to additional transport services for group companies in the procurement and inter-company transport sector.

The considerably increased cost of diesel fuel is resulting in substantially higher expenses for freight carriers. This development is intensifying the fierce price competition in the transport market.

KarstadtQuelle International – coordinating group-wide purchasing

KarstadtQuelle International is the holding company for seven international purchasing companies. During the year under review the company assisted restructuring within the group by amalgamating the Karstadt, Quelle and Neckermann purchasing offices. The company bears the entire costs of the organisation abroad and in return collects commissions from group customers.

Profectis Technical Customer Service – adaptation to changes in the market successful

The underlying conditions for service companies have been changing constantly for some years. The entertainment electronics, information technology and telecommunications industries are slowly coalescing. The pace of innovation in the development of new products is speeding up due to digitalisation. Falling primary product prices, in the customer's view, mean relatively higher repair costs. As a result, the consumer's attitude to purchasing and repair is changing. On the other hand, there is an increasing demand for individual services in the areas of systems installation and configuration.

**The services
segment
is creating the
conditions
important for
an integrated
trading and
service group.**

During the year under review Profectis GmbH Technischer Kundendienst adapted extremely successfully to structural changes in the market. The revenue of 108.9 million € earned from sales in the 2000 financial year exceeded that of the previous year by 1.3%. The decrease in the traditional customer-service sector was made up by opening up new areas of business. The fall in the numbers of orders and sales for the repair of white and brown goods and the discontinuation of the repair operation in the photography and jewellery segments was offset by the gaining of additional business partners in growth markets like PC technology and telecommunications.

Optimus Bank für Finanz-Service – services for a fast growing customer base

In the 2000 financial year the Optimus Bank für Finanz-Service GmbH recorded increased earnings in its two consumer credit and customer card business segments. The increase was due to a moderate growth in sales in the consumer credit and a positive trend of sales in the customer card business.

The bank's balance sheet total went up by 4.9% from 181 million € to 189.7 million €. At the same time the total portfolio of consumer credit business (instalment credit, financed purchase, variable-term credit and finance-card purchase) rose by 8.5% to 142.5 million €. The customer card segment was the major contributor here. Its volume rose by 13.5% from 30.1 million € in 1999 to 34 million € in the year under review.

The Optimus Bank anticipates – mainly because of the rapidly growing number of Karstadt Club customers – a marked growth in sales in the 2001 financial year too.

GROUP ACCOUNT



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Profit and loss account for the year ended December 31, 2000 – KARSTADT QUELLE group

	Text note	2000 th. €	1999 th. €
1. Turnover	(5)	15,240,032	14,842,966
2. Other operating income	(6)	603,962	521,198
3. Cost of sales	(7)	- 8,299,926	- 8,022,840
4. Staff costs	(8)	- 3,216,815	- 3,169,496
5. Depreciation and amortisation	(9)	- 357,898	- 367,850
6. Other operating expense	(10)	- 3,775,838	- 3,678,153
7. Income from investments	(11)	38,086	61,084
8. Amounts written off investments	(12)	- 119	- 311
9. Net interest	(13)	74,600	70,376
10. Profit on ordinary activities		306,084	256,974
11. Extraordinary income	(14)	- 7,498	-
12. Taxes on income	(15)	- 24,089	- 6,774
13. Other taxes	(16)	- 25,806	- 31,600
14. Profit for the year		248,691	218,600
15. Group profit/loss from previous year		72,881	- 1,398
16. Dividends paid out by KARSTADT QUELLE AG		- 72,881	- 47,243
17. Transfer to earnings reserves		- 162,439	- 88,767
18. Profit due to other shareholders		- 7,683	- 8,915
19. Loss due to other shareholders		190	604
20. Group profit for the year		78,759	72,881

Balance sheet for the year ended December 31, 2000 – KARSTADT QUELLE group

	Text note	2000 th. €	1999 th. €
ASSETS			
A. Fixed assets	(17)		
Intangible assets	(18)	127,628	123,022
Tangible assets	(19)	2,816,278	2,760,209
Financial assets	(20)	518,592	397,613
		3,462,498	3,280,844
B. Current assets			
Stocks	(21)	2,573,329	2,459,644
Debtors and other assets	(22)	1,886,973	1,934,927
Securities		8,376	2,688
Liquid funds	(23)	236,728	217,348
		4,705,406	4,614,607
C. Prepayments and accrued income	(24)	23,873	29,524
Balance sheet total		8,191,777	7,924,975
LIABILITIES			
A. Capital and reserves			
Issued capital of KARSTADT QUELLE AG	(25)	300,929	300,929
Capital reserve of KARSTADT QUELLE AG	(25)	482,031	482,031
Revenue reserves	(26)	954,296	796,921
Group profit		78,759	72,881
Compensations for shares of other shareholders	(27)	50,709	45,888
		1,866,724	1,698,650
B. Untaxed special reserves	(28)	10,875	15,020
C. Provisions for liabilities and charges	(29)	2,966,263	2,810,042
D. Creditors	(30)	3,340,453	3,359,814
E. Accruals and deferred income	(31)	7,462	41,449
Balance sheet total		8,191,777	7,924,975

Fixed assets movements schedule – KARSTADT QUELLE group

	Accumulated purchase or production cost at 01.01.2000 th. €	Change in consolidated group th. €	Additions* th. €
Fixed assets			
Intangible assets			
Similar rights	255,353	835	35,603
Goodwill	52,902	-	98
Advance payments	19,734	-	24,591
	327,989	835	60,292
Tangible assets			
Land, leasehold rights and buildings, including buildings on land owned by others	5,922,007	1,376	177,187
Plant and machinery	110,726	25	2,557
Other equipment, furniture and fixtures	2,326,672	1,507	192,024
Advance payments and construction in progress	70,396	-	36,018
	8,429,801	2,908	407,786
Financial assets			
Shares in subsidiaries	71,360	- 1,334	17,533
Loans to subsidiaries	1,478	- 1,478	2,180
Shares in associated companies	177,456	-	137,912
Participating interests held as long-term investments	133,445	-	8,766
Loans to companies in which investments are held	19,348	-	-
Securities of fixed assets	8,570	- 3	1,233
Other loans	19,569	-	3,350
	431,226	- 2,815	170,974
	9,189,016	928	639,052

*) Additions include adjustments of book values in the trade balance sheet to book values of 69,190 th. € in the tax balance sheet resulting from a tax audit.

Exchange differences	Reclassifications	Disposals	Accumulated depreciation/ amortization*	Net book value at 31.12.2000	Net book value at 31.12.1999	Depreciation/ amortization for the year	Revaluations for the year
th. €	th. €	th. €	th. €	th. €	th. €	th. €	th. €
248	14,436	29,790	191,860	84,825	88,646	34,120	-
- 33	-	-	41,316	11,651	14,642	3,091	-
1	- 12,270	904	-	31,152	19,734	-	-
216	2,166	30,694	233,176	127,628	123,022	37,211	-
677	57,219	119,600	3,632,391	2,406,475	2,312,052	133,626	69,396
114	- 695	2,290	91,037	19,400	22,563	5,621	-
488	1,543	164,925	2,010,910	346,399	355,198	181,440	-
3	- 60,233	2,180	-	44,004	70,396	-	-
1,282	- 2,166	288,995	5,734,338	2,816,278	2,760,209	320,687	69,396
623	53	1,455	19,876	66,904	51,579	31	-
-	-	-	-	2,180	1,479	-	-
-	-	31,030	-	284,338	177,456	-	-
-	- 53	13,938	8,284	119,936	125,160	-	-
-	-	354	2,988	16,006	16,031	-	-
-	-	632	573	8,595	7,978	13	-
1	-	639	1,648	20,633	17,930	75	-
624	-	48,048	33,369	518,592	397,613	119	-
2,122	-	367,737	6,000,883	3,462,498	3,280,844	358,017	69,396

*) During revaluation accumulated depreciation/ amortization amounting to 5,292 th. € was also adjusted in the case of post-capitalised items.

Cash flow account – KARSTADT QUELLE group

	2000	1999
	mill. €	mill. €
Profit for the year before extraordinary items	256.2	218.6
Depreciation and amortization/ revaluations fixed assets	357.9	368.2
Addition/disposal to provisions	29.0	113.0
Gross cash flow	643.1	699.8
Other items not affecting cash flow	71.0	116.4
Earnings/Loss from disposal of assets	- 49.7	- 15.8
Increase/Decrease of stocks, trade debtors as well as other assets not attributable to investment or financing activities	- 144.1	- 250.8
Increase/Decrease of trade creditors as well as other liabilities not attributable to investment or financing activities	- 111.5	- 65.1
Amounts paid out for extraordinary items	- 8.7	-
Cash flow from current business activities	400.1	484.5
Amounts paid in from disposal of fixed assets	140.9	49.6
Amounts paid out for investment in fixed assets	- 338.6	- 376.6
Amounts paid in from disposal of intangible assets	19.3	1.3
Amounts paid out for investment in intangible assets	- 53.0	- 38.7
Amounts paid in from disposal of financial assets	50.5	90.3
Amounts paid out for investment in financial assets	- 171.0	- 56.0
Cash flow from investment activities	- 351.9	- 330.1
Amounts paid out to shareholders and minority shareholders	- 75.6	- 47.2
Amounts paid in/out from the taking up/repayment of loans and (financing) loans	57.4	- 198.7
Cash flow from financing activities	- 18.2	- 245.9
Changes in cash and cash equivalents affecting cash flow	30.0	- 91.5
Changes in cash and cash equivalents due to exchange rates, consolidated companies and valuation	- 4.9	34.3
Cash and cash equivalents at the beginning of the period	220.0	277.2
Cash and cash equivalents at the end of the period	245.1	220.0

SEGMENT INFORMATION

The key figures to the segments are shown on pages 130 to 132.

Key figures – KARSTADT QUELLE group

	KARSTADT QUELLE group		Reconciliation	
	2000 th. €	1999 th. €	2000 th. €	1999 th. €
Turnover	16,422,502	15,490,397	-	-
Internal turnover	- 1,182,470	- 647,431	- 486,060	- 212,761
Group turnover	15,240,032	14,842,966	- 486,060	- 212,761
Cost of sales	- 8,299,926	- 8,022,840	208,085	135,597
Gross profit	6,940,106	6,820,126	- 277,975	- 77,164
Staff costs	- 3,216,815	- 3,169,496	- 413	753
Other operational earnings and expenses	- 3,171,876	- 3,156,955	255,372	49,780
Profit from investments in associated companies	36,237	45,016	-	-
Profit from investments in other companies	1,849	16,068	-	-
Other taxes	- 25,806	- 31,600	- 925	-
Profit from interest from instalment credit operations	126,363	125,466	-	-
EBITDA	690,058	648,625	- 23,941	- 26,631
Depreciation and amortization	- 357,898	- 367,850	13,183	17,188
EBIT	332,160	280,775	- 10,758	- 9,443
Profit from interest without instalment credit operations	- 51,882	- 55,401	40	-
EBT (before extraordinary earnings and expenses)	280,278	225,374	- 10,718	- 9,443
Extraordinary earnings and expenses	- 7,498	-	-	-
EBT	272,780	225,374	- 10,718	- 9,443
EBIT margin in %	2.2	1.9	-	-
EBT margin in % (after extraordinary earnings and expenses)	1.8	1.5	-	-
Segment assets	8,191,777	7,924,975	- 1,006,695	- 700,528
Segment liabilities	6,325,053	6,226,325	- 1,208,052	- 869,549
Capital employed	3,308,819	3,180,105	11,726	- 420
ROCE in %	10.0	8.8	-	-
Gross cash flow	643,104	699,800	- 21,781	26,498
Investments	569,862	481,709	- 79,373	- 33,164
Employees (annual average)	88,163	88,171	-	-

*) on annual average

**) adjusted as regards tax credit claim

Over-the-counter retail trade
Mail order

Department stores

Specialty stores

Universal home shopping

2000 th. €	1999 th. €	2000 th. €	1999 th. €	2000 th. €	1999 th. €
7,097,171	7,013,790	574,397	543,559	6,949,535	6,748,707
- 73,345	- 74,518	- 10,991	- 4,765	- 501,372	- 326,124
7,023,826	6,939,272	563,406	538,794	6,448,163	6,422,583
- 3,908,556	- 3,877,531	- 380,856	- 359,854	- 3,487,878	- 3,375,577
3,115,270	3,061,741	182,550	178,940	2,960,285	3,047,006
- 1,888,817	- 1,858,272	- 93,549	- 91,680	- 949,199	- 1,009,048
- 846,796	- 865,163	- 74,483	- 68,446	- 1,907,874	- 1,938,746
-	-	-	-	15	937
6,640	4,803	69	76	- 7,289	5,978
- 15,276	- 15,715	- 89	- 126	- 8,783	- 14,942
-	-	-	-	125,519	124,350
371,021	327,394	14,498	18,764	212,674	215,535
- 229,058	- 238,997	- 12,067	- 12,547	- 96,555	- 111,711
141,963	88,397	2,431	6,217	116,119	103,824
- 43,021	- 54,097	- 2,284	- 1,696	1,604	5,438
98,942	34,300	147	4,521	117,723	109,262
- 7,498	-	-	-	-	-
91,444	34,300	147	4,521	117,723	109,262
2.0	1.3	0.4	1.2	1.8	1.6
1.3	0.5	0.0	0.8	1.8	1.7
4,748,181	4,345,206	194,919	172,418	3,414,311	3,507,329
3,702,230	3,331,770	170,596	141,182	3,017,640	3,121,285
1,896,804	1,616,125	16,165	27,872	912,928	1,173,148
7.5	5.5	15.0	22.3	12.7	8.9
367,050	371,538	14,471	16,089	157,988	195,172
406,679	308,696	16,057	14,728	150,360	157,307
52,567	52,725	2,785	2,916	25,568	26,214

Special mail order	Travel services		Services/Other			
	2000 th. €	1999 th. €	2000 th. €	1999 th. €	2000 th. €	1999 th. €
	1,211,118	880,596	-	-	590,281	303,745
	- 108,370	- 29,261	-	-	- 2,332	- 2
	1,102,748	851,335	-	-	587,949	303,743
	- 492,415	- 380,895	-	-	- 238,306	- 164,580
	610,333	470,440	-	-	349,643	139,163
	- 133,611	- 119,605	-	-	- 151,226	- 91,644
	- 416,206	- 295,742	-	-	- 181,889	- 38,638
	-	-	28,086	39,127	8,136	4,952
	- 852	- 348	-	-	3,281	5,559
	- 715	- 672	-	-	- 18	- 145
	844	1,116	-	-	-	-
	59,793	55,189	28,086	39,127	27,927	19,247
	- 17,010	- 15,280	-	-	- 16,391	- 6,503
	42,783	39,909	28,086	39,127	11,536	12,744
	- 5,737	- 3,392	-	-	- 2,484	- 1,654
	37,046	36,517	28,086	39,127	9,052	11,090
	-	-	-	-	-	-
	37,046	36,517	28,086	39,127	9,052	11,090
	3.9	4.7	-	-	2.0	4.2
	3.4	4.3	-	-	1.5	3.7
	391,643	292,335	-	-	449,418	308,215
	321,769	261,545	-	-	320,870	240,092
	58,701	20,302	189,631*	169,441	222,864	173,637
	72.9	196.6	14.8*	18.0**	5.2	7.3
	48,155	31,005	28,086	39,127	49,135	20,371
	35,547	27,396	-	-	40,592	6,746
	4,086	3,799	-	-	3,157	2,517

PRINCIPLES OF THE GROUP ACCOUNT

1

General principles

KARSTADT QUELLE AG presents its group account in euros. Amounts have been translated at the fixed rate of 1.95583 DM for one euro.

The group account was prepared in accordance with the requirements of the German Commercial Code (HGB) and

the German Stock Corporation Law (AktG) in DM and translated into euros.

Furthermore, we adhere to German Accounting Standards No. 2 and No. 3 (DRS 2 and DRS 3) of the German Accounting Standards Committee (DRSC).

2

Consolidated companies

In addition to KARSTADT QUELLE AG, the group account includes those domestic and foreign subsidiaries in which KARSTADT QUELLE AG directly or indirectly holds the majority of voting rights.

The subsidiary company OPTIMUS Bank für Finanz-Service GmbH, Neu-Isenburg, was not included in the consolidation on account of its divergent activity.

We have not included Karstadt Unterstützungsfonds GmbH, Essen, in the consolidation pursuant to Art. 296 Para. 1 No. 1 German Commercial Code (HGB), because its funds have been earmarked for a special purpose.

A company is also not included, if the parent company's rights are substantially and continuously limited. Further, 91 companies (previous year: 91) were not included for reasons of immateriality.

Companies in which KARSTADT QUELLE AG directly or indirectly holds between 20 % and 50 % of the voting rights and exerts a material influence on financial and business policy are consolidated as associated companies, using the equity method.

The consolidated companies comprise 94 domestic and 93 foreign companies. 8 are valued using the equity method. 13 were consolidated for the first time in the 2000 financial year. 7 companies included the previous year were not included in the financial year.

The important subsidiary and associated companies are listed on pages 144 to 146. The complete list of investments will be filed with the Commercial Register of the Essen District Court HRB 1783. The protection-of-interest clause was applied to four companies pursuant to Art. 313 Para. 3 GCC.

3

Principles of consolidation

The annual accounts for the companies included in the group account have been prepared using uniform methods of balance-sheet accounting and valuation. For consolidation by the equity method, methods diverging from those uniformly applied in the group continued to be applied to the annual accounts of the associated companies.

Capital is consolidated by applying the net book-value method at the time of acquisition or initial consolidation. The initial cost for the subsidiary companies is set off against the pro-rata equity capital. In accordance with legal requirements differences occurring thereby are, after the allocation of hidden charges, allocated to hidden reserves.

Amounts exceeding these are set off against equity capital and reserves. Credit differ-

ences which possess the character of equity have been allocated to the differences arising on capital consolidation which are included in the equity capital and reserves. Consolidation by the equity method follows the same principles.

Shares in the equity of companies included in the consolidation held by other shareholders are disclosed separately under equity and reserves pursuant to Art. 307 Para. 1 of the German Commercial Code.

Untaxed special reserves were entered from the individual account in accordance with Art. 308 Para. 3 S. 1 of the German Commercial Code.

Sales, expenses and income as well as debtors and creditors or provisions between consolidated companies have been eliminated. Intercompany earnings from the supply of goods and services within the group are eliminated where they have not been realised through sale to third parties.

Principles of balance-sheet accounting and valuation, translation of foreign currencies

Fixed assets

Intangible assets are shown at cost, tangible assets at cost less scheduled and unscheduled depreciations and special depreciation allowances for tax purposes. Depreciation is applied in the case of buildings in accordance with the principles of Art. 7 Income Tax Act, in the case of movable fixed assets applying the declining balance and later the straight line method of accounting. Low-value economic goods are written down in full in the year of addition. In the case of movable fixed assets the full rate of depreciation is applied to additions of the first half-year and half the rate to additions of the second half year.

As in previous years, additional depreciation has been taken and untaxed special reserves set up or released according to tax requirements during the year under review. As a result of these measures annual earnings have risen by around 8%; the additional depreciation applied during the year under review will result in higher tax charges in future years, which will be spread over up to 45 years and will therefore not have a material effect on any individual future year.

Financial assets are shown at cost. Accelerated amortisations are applied to lower attributable values where the value adjustment may be regarded as lasting.

Loans are shown at nominal value. Interest-free loans or loans at low rates of interest are discounted to present value.

Current assets

Stocks are shown at cost less cash discounts and carefully assessed provisions for price risks. At Karstadt Warenhaus AG cost is usually arrived at by deducting the trade mark-ups from the stocks, which are counted at their selling price. At Quelle AG and Neckermann Versand AG stocks are valued at the rolled forward cost of the individual items.

Debtors and Other assets are shown at nominal value. Risks to debtors were provided against by individual discounts. Interest-free debtors were discounted. Overall value adjustments were made for general credit risks.

Securities of current assets are valued at cost or lower of market or attributable value.

Provisions and liabilities

Adequate provisions are set up for contingent liabilities and losses resulting from pending transactions.

Pension provisions are actuarially calculated applying a rate of 6%.

Creditors are shown at the amounts payable.

Derivative financing instruments

Derivative financing transactions are used to secure interest charges and to control interest commitments. Provisions are set up for contingent losses arising from these transactions. Non-realised losses are set off against non-realised income within valuation units. Adequate provisions are made for excessive losses, while excessive income is not shown on the balance sheet.

Currency-related financing transactions are valued at the mean of buying and selling price applying at the balance-sheet date.

Foreign currency translation

The annual accounts of consolidated foreign companies are prepared in the respective national currency and translated into euros. Assets and liabilities are translated at the rate applying at the balance-sheet date, expenses and income at the annual average rate. Currency differences resulting in differences on consolidation are set off against reserves.

NOTES TO THE PROFIT AND LOSS ACCOUNT

5 Sales revenue

The breakdown of sales revenue by business segment is shown under the segment information on pages 130 to 132, the break-down

by geographical feature under the notes to the segments on page 156.

6 Other operating income

Other operating income includes:

	2000	1999
	th. €	th. €
Income from the release of untaxed special reserves	5,513	6,078
Rents and commissions	79,022	81,659
Income from the release of provisions	56,760	35,574
Income from the disposal of fixed assets	54,099	23,306
Other income	408,568	374,581
	603,962	521,198

The largest single item of income from the disposal of fixed assets is income of 36,402 th. € from the sale of the Nuremberg mail-order centre of Quelle AG.

Other income includes income from advertising cost participations, renting of parking space and passed on costs.

7 Cost of sales

The cost of sales includes:

	2000 th. €	1999 th. €
Purchased merchandise and supplies	8,166,186	7,935,722
Services	133,740	87,118
	8,299,926	8,022,840

8 Staff costs

Staff costs comprise:

	2000 th. €	1999 th. €
Wages and salaries	2,517,090	2,474,693
Social security levies and the cost of pension plans and related benefits	699,725	694,803
of which for pension plans	191,844	190,465
	3,216,815	3,169,496

9 Depreciation and amortisation

Depreciation and amortisation comprises:

	2000 th. €	1999 th. €
Amortisation of intangible assets	37,211	37,240
Depreciation of tangible assets	320,687	330,610
	357,898	367,850

10 Other operating expense

Other operating expense comprises:

	2000	1999
	th. €	th. €
Transfers to untaxed special reserves	1,109	3,658
Sales costs	2,256,311	2,186,157
Operating costs	483,333	593,056
Building expenses	320,456	253,242
Administrative costs	305,676	326,371
Other staff costs	48,277	40,835
Losses from the disposal of fixed assets	4,346	7,494
Losses from the impairment of value of current assets	710	131,790
Other	355,620	135,550
	3,775,838	3,678,153

Sales costs include cost of goods despatch, motor vehicles, advertising and catalogues.

Operating costs include rent charges, inventory repairs and maintenance.

11 Income from investments

Income from investments include:

	2000	1999
	th. €	th. €
Profits received under profit and loss transfer agreements	2,258	3,334
Income from investments	12,178	16,634
thereof from subsidiaries	7,502	10,761
Income from investments in associated companies	36,237	45,016
Expenses from transfer of losses	- 12,587	- 3,900
	38,086	61,084

Investments in companies on which a material influence is exerted and which are consolidated using the equity method include mainly earnings of 28,086 th. €

(previous year: 39,127 th. €) from C & N Touristic AG and 8,135 th. € from maul + co - Chr. Belser GmbH (previous year: 4,952 th. €).

12 Amounts written off investments

Amounts written off investments relate mainly to Other loans.

13 Net interest

Net interest includes:

	2000 th. €	1999 th. €
Earnings from long-term financial investments	1,743	2,220
Other interest and similar income thereof from subsidiaries	257,986 2,707	209,658 2,678
Other interest and similar expenses thereof to subsidiaries	- 185,129 1,376	- 141,502 1,278
	74,600	70,376

14 Extraordinary income

Extraordinary income includes:

	2000 th. €	1999 th. €
Extraordinary income Revaluations of tangible assets	133,294	-
Extraordinary expenditure Restructuring measures Other	- 121,003 - 19,789	- -
	- 7,498	-

Extraordinary income includes income from the revaluation of fixed assets and from the adjustment of commercial to tax-base net book values of land, leasehold rights and buildings, including buildings on land owned by others. This income is non-taxable.

Extraordinary income is balanced against extraordinary expenditure due to restructuring measures in the department stores business.

Furthermore, extraordinary expenditure from contributions to the compensation fund for victims of forced labour and expenses resulting from adjustments to financial assets are shown.

15 Taxes on income

Taxes on income include:

	2000 th. €	1999 th. €
Corporation and trade tax	14,355	16,912
Deferred taxes	9,734	- 10,138
	24,089	6,774

Taxes on income are shown in Germany as corporation and trade tax and outside Germany as comparable profit-related taxes. The basis for tax assessment is the proposal of the management board for the appropriation of the profit.

Deferred taxes for the year under review entered under liabilities relate mainly to KARSTADT QUELLE AG. Deferred taxes under assets are set off against deferred taxes under liabilities.

16 Other taxes

Other taxes include mainly real estate tax due from KARSTADT QUELLE AG and Quelle AG.

NOTES TO THE BALANCE SHEET

17 Fixed assets

The breakdown and movement of the fixed assets entered on the balance sheet are shown on pages 126 and 127.

18 Intangible assets

The additions of 60,292 th. € relate mainly to purchased software. Advance payments relate to uncompleted and new projects.

19 Tangible assets

The additions to tangible assets amounting to 407,786 th. € include post-capitalisations to the value of 69,190 th. € in accordance with the tax balance sheet and relate mainly to the conversion and modernisation of existing department stores. In the course of revaluation the accumulated depreciation/amortisation of post-capitalisations to the value of 5,292 th. € were also adjusted correspondingly.

Lower values of fixed assets were not applied during the financial year. Revaluations resulting from this measure amount to 69,396 th. €.

Depreciation/amortisation during the financial year include special depreciation allowances for tax purposes under Art. 6 b German Income Tax Law in conjunction with Art. 254 German Commercial Code. The annual profit is not materially affected by this measure.

20 Financial assets

The additions to financial assets relate mainly to the capital increase of 102,253 th. € at C & N Touristic AG.

**Most important subsidiary companies consolidated in the group account
(as at 31.12.2000 in th.€)**

Company name and registered office	Capital holding in %	Capital and reserves	Result	Sales	Number of employees ¹⁾
Over-the-counter retail					
Department stores					
KARSTADT QUELLE AG	(C) -	1,262,473	117,743	-	82
Karstadt Warenhaus AG, Essen	(C) 100	509,920	36,557	6,972,406	63,320
Kepa Kaufhaus GmbH, Essen	(C) 100	103,785	19,166	15,633	-
Warenhaus WERTHEIM GmbH, Berlin	(C) 100	15,364	7,453 *	3,067	-
Optimus Logistics GmbH, Nuremberg	(C) 100	500	1,031 *	64,490	266
Le Buffet System-Gastronomie und Dienstleistungs-GmbH, Dreieich	(C) 100	1,534	2,772 *	37,858	739
Karstadt Sport.com AG, Essen ²⁾	(C) 100	- 1,989	-2,039	1,378	17
Specialty stores					
WEHMEYER GmbH & Co. KG, Aachen	(C) 100	8,672	6,575	207,316	1,799
Schaulandt GmbH, Hamburg	(C) 100	- 3,894	- 4,501	216,326	528
»Schürmann Elektrohandels-gesellschaft« mbH, Hamburg	(C) 100	6,394	- 748 *	20,132	66
WOM World of Music Produktions- und Verlags-GmbH, Kiel	(C) 95	- 2	- 1,922	20,938	120
Runners Point Warenhandels-gesellschaft mbH, Essen	(C) 100	6,647	584 *	70,519	872
Mail-order					
Universal home shopping					
Quelle AG, Fürth	(C) 100	282,284	22,292	3,667,023	13,974
Neckermann Versand AG, Frankfurt/Main	(C) 100	219,928	22,497	1,533,957	6,545
Fonetix Call Center GmbH & Co. KG, Chemnitz	(C) 100	875	1,393	16,105	716
Neckermann B.V., Hulst, Netherlands	(C) 100	23,252	2,529	155,675	570
Neckermann Versand Österreich AG, Graz, Austria	(C) 100	35,731	4,985	111,326	417
Quelle AG, Linz, Austria ³⁾	(C) 100	56,046	6,318	275,960	1,612
Quelle S.A., Saran, France ³⁾	(C) 100	33,079	2,950	471,073	2,147
servicelogiQ GmbH logistische Dienstleistungen, Nuremberg	(C) 100	511	- 852	64,132	1,069

Company name and registered office	Capital holding in %	Capital and reserves	Result	Sales	Number of employees ¹⁾
Special mail-order					
Atelier Goldner Schnitt GmbH & Co. KG, Münchberg ³⁾	(C) 100	9,623	9,858	152,652	559
Bon A Parte Postshop A/S, Ikast, Denmark	(C) 100	1,881	398	33,302	241
Elégance Rolf Offergelt GmbH, Aachen ³⁾	(C) 100	11,203	3,515	86,360	424
Happy Size-Company Versandhandels GmbH, Frankfurt/Main	(C) 100	26	3,771	50,129	-
Krähe Versand GmbH & Co. KG, Schlierbach	(C) 100	5,113	1,035	22,202	140
Madeleine Mode GmbH, Fürth ³⁾	(C) 100	17,376	1,410	101,857	115
Mercatura Holding GmbH & Co. KG, Nuremberg ³⁾	(C) 100	27,015	3,763	118,142	1,289
Peter Hahn GmbH, Winterbach ³⁾	(C) 100	30,338	3,346	177,265	814
Versandhaus Walz GmbH, Baby-Walz, Die moderne Hausfrau, Bad Waldsee	(C) 100	5,113	12,782	188,994	1,005
Services/Other					
KARSTADT QUELLE Versicherungs-Vermittlung GmbH, Essen	(C) 100	1,376	2,532*	21,383	50
Euro-Papier N.V., Temse, Belgium	(C) 100	2,708	2,598	164,909	5
ITELLIUM Systems & Services GmbH, Essen	(C) 100	5,284	287	224,465	1,324
KARSTADT QUELLE International Einkaufsgesellschaft mbH, Essen	(C) 100	7,422	- 3,889	46,599	-
KARSTADT QUELLE New Media AG, Essen ⁴⁾	(C) 100	21,772	- 3,228	-	14
MC Immobilien Verwaltungs-GmbH & Co. Essen Mieslesheide KG, Essen	(C) 100	2,410	- 4,389	8,823	-
Profectis GmbH Technischer Kundendienst, Nuremberg	(C) 100	2,556	- 1,592	108,867	1,693

(C) fully consolidated

*) before transfer of result to KARSTADT QUELLE AG

¹⁾ annual average, not including trainees

²⁾ short financial year from 20.06.2000 to 31.12.2000

³⁾ including subsidiaries

⁴⁾ short financial year from 19.05.2000 to 31.12.2000

**Most important subsidiary companies of the KARSTADT QUELLE group
(as at 31. 12. 2000 in th.€)**

Company name and registered office	Capital holding in %	Capital and reserves	Result	Sales
“HOLM” Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Brieselang KG, Pöcking, Landkreis Starnberg ³⁾	99	- 19,671	- 599	6,087
C & N Touristic AG, Schwalbach am Taunus ¹⁾	(E) 50	444,573	67,915	-
H.O.T. Home Order Television Holding AG, Ismaning	10,01	52,524	12,274	242,937
maul + co. - Chr. Belser GmbH, Nuremberg ²⁾	(E) 25	36,138	4,150	176,230
MOSTIA Grundstücksgesellschaft mbH & Co. KG, Grünwald by Munich ³⁾	100	- 21,310	-3,721	17,397
NUR TOURISTIC GMBH, Oberursel/Taunus ¹⁾	(E) 50	115,961	16,750*	2,375,722
TRADO Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Dresden KG, Pöcking, Landkreis Starnberg ³⁾	99	- 72,617	- 93	18,794

(E) consolidated at equity

*) before transfer of result to C & N Touristic AG

¹⁾ financial year from 01.11.1999 to 31.10.2000

²⁾ short financial year from 01.07.2000 to 31.12.2000

³⁾ figures for previous year

21

Stocks

Stocks comprise:

	2000 th.€	1999 th.€
Materials and supplies	66,980	61,756
Merchandise	2,506,349	2,397,773
Advance payments	-	115
	2,573,329	2,459,644

22

Debtors and other assets

Debtors and other assets comprise:

	2000	1999
	th. €	th. €
Trade debtors	1,145,130	1,381,614
thereof with a remaining term exceeding 1 year	276,802	273,365
Amounts owed by subsidiaries	125,026	99,341
Amounts owed by companies in which investments are held	39,066	20,986
Amounts owed by associated companies	7,326	11,290
Other assets	570,425	421,696
thereof with a remaining term exceeding 1 year	24,738	36,563
	1,886,973	1,934,927

During the financial year Quelle AG and Neckermann Versand AG sold without recourse receivables to the value of 801 million € and 247 million € respectively under an asset-backed securitisation programme (ABS).

In addition to claims for refund of tax amounting to 142 million €, other assets relate mainly to retained receivables in connection with the ABS programme.

These have been adjusted to include returned merchandise, unpaid interest from the instalment payment business and discounts due to anticipated losses in the retained receivables.

This item also includes amounts owed by employees and amounts owed by creditors.

23

Liquid funds

Liquid funds include:

	2000	1999
	th. €	th. €
Cheques	8,600	8,451
Cash in hand	100,364	90,538
Cash at banks	127,764	118,359
	236,728	217,348

24

Prepayments and accrued income

Prepayments and accrued income include:

	2000 th. €	1999 th. €
Deferred taxes	871	10,605
Disagio and other deferred items	23,002	18,919
	23,873	29,524

Deferred taxes include debit items in the amount of 10,652 th. € (previous year: 1,444 th. €) from the individual accounts of the consolidated companies. Set against these are deferred taxes in the amount of 11,523 th. € (previous year: 12,049 th. €)

entered to assets from the elimination of intercompany profits or the consolidation.

Other deferred items include mainly advance payments of rent and motor vehicle tax.

25

Issued capital and capital reserve

The authorised capital of KARSTADT QUELLE AG remains unchanged at 300,929 th. €.

It is divided into 117,550,400 individual bearer share certificates with a value of 2.56 EUR each.

Approved capital I

On July 20, 2000, the General Meeting of Shareholders resolved on the raising of Approved Capital I. The Management Board is authorised, with the approval of the Supervisory Board, to increase by June 30, 2005, the authorised capital by up to 40 million € by the issue in one or more tranches of bearer shares against cash contribution.

At the same time shareholders will be offered the right to subscribe to the shares.

Approved capital II

On July 20, 2000, the General Meeting of Shareholders resolved on the raising of Approved Capital II. The Management Board is authorised, with the approval of the Supervisory Board, to increase by June 30, 2005, the authorised capital by up to 40 million € by the issue in one or more tranches of new bearer shares for cash and/or non-cash contribution. Where capital increases are for cash, shareholders will be offered the right to subscribe to the new shares.

Convertible bonds and/or bonds with warrant and creation of authorised unissued capital

The Management Board was further authorised to issue in one or more tranches by June 30, 2005, convertible loan and/or convertible debenture stock to a total nominal value of up to 600 million € and with a term of not more than 20 years and to grant bearers or creditors of convertible loan stock conversion rights or bearers or creditors of convertible debenture stock option rights on new company shares with a pro-rata share of the authorised capital of up to 50 million € on conditions defined more specifically in the conditions relating to convertible loan and debenture stock.

The authorised capital was accordingly conditionally increased by up to 50 million €. The conditional capital increase serves to grant rights to the bearers or creditors of convertible loan and/or convertible debenture stock to be issued by June 30, 2005, subject to the above mentioned authorisation.

Notices pursuant to Arts. 21 ff. WpHG (German Securities Trading Law)

Schickedanz Holding AG & Co. KG, Fürth, announced that as of October 25, 2000, its share of votes in KARSTADT QUELLE AG had fallen below the level of 25 % and was now

22.751 %. Schickedanz Holding AG & Co. KG has, as parent company of Schickedanz Handelswerte Gesellschaft bürgerlichen Rechts, further announced that as of October 25, 2000, this company's share of the votes in our company had fallen below 10 % and was now 5.359 %, that these votes of Schickedanz Handelswerte Gesellschaft bürgerlichen Rechts were assignable to Schickedanz Holding AG & Co. KG pursuant to Art. 21 Para. 1 No. 2 WpHG and that, including assignable votes, the share of votes held by Schickedanz Holding AG & Co. KG was 28.11 %.

Schickedanz Beteiligungs GmbH, Fürth, announced that as of October 25, 2000, it had acquired votes in KARSTADT QUELLE AG which exceeded the levels of 5 % and 10 % and now amounted to 21.837 %. It further announced that as of March 26, 2001, its share of the votes in our company had fallen below the level of 10 % and was now 6.01 %.

Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG, Fürth, announced that as of March 26, 2001, its share of the votes in our company had exceeded the levels of 5 % and 10 % and was now 10.92 %.

Mrs. Madeleine Schickedanz, Fürth, announced that as of March 26, 2001, including assignable votes, she had acquired votes in our company which exceeded the levels of 5 % and 10 %, that under Art. 22 Para. 1 No. 2 WpHG the votes under shares in our company which are held by Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG,

Fürth, controlled by her, are assignable to her, that the share of the votes held by Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG was now 10.92 % and that her share of the votes, included the assignable votes mentioned, now amounted to 11.23 %.

In a notice on October 20, 1999, **Allianz Aktiengesellschaft, Munich**, announced that as of October 15, 1999, its share of votes in KARSTADT QUELLE AG was 9.38 %. Of these pursuant to Art. 22 Para. 1 No. 2 WpHG 9.38 % of the votes are assignable to Allianz Aktiengesellschaft. At the same it announced that the share of the votes held by its subsidiary company AZ-KAR-Beteiligungsgesellschaft mbH & Co. KG, Munich, was 8.75 %.

In a notice on October 20, 1999, **Dresdner Bank AG, Frankfurt**, announced that as of October 15, 1999, its share of votes in KARSTADT QUELLE AG was 7.15 %. Pursuant to Art. 22 Para. 1 No. 2 WpHG these votes are assignable to Dresdner Bank AG through FGL Frankfurter Gesellschaft für Luftfahrtwerte mbH, Frankfurt.

Capital reserve

At December 31, 2000, the capital reserve remained unchanged at 482,031 th. € and included the agio from the authorised capital increases effected in previous years.

26

Revenue reserves

Revenue reserves developed as follows:

	2000 th. €	1999 th. €
Legal reserves	59,310	59,310
Other revenue reserves		
As at January 1 of KARSTADT QUELLE AG	302,460	743,419
Withdrawn from company fund for purposes of capital increase	-	- 298
Withdrawn from revenue reserves	-	- 440,661
Transfer from net income	38,984	-
As at December 31 of KARSTADT QUELLE AG	341,444	302,460
Revenue reserves/balance sheet profits of consolidated companies and profits arising on consolidation	858,248	735,961
Differences arising on capital consolidation	- 304,848	- 301,328
Provisions from currency translations	142	518
As at December 31	894,986	737,611
	954,296	796,921

27

Minority interests

The shares to the value of 50,709 th. € (previous year: 45,887 th. €) held by other shareholders relate to non-group minority

shares in the equity capital of consolidated companies. They are attributable mainly to the Quelle Group.

28

Untaxed special reserves

Untaxed special reserves are shown mainly under the Quelle Group and relate to investment subsidies granted under the German

Investment Subsidy Law (InvZulG). Other special items are attributable to foreign companies.

29

Provisions

Provisions include:

	2000 th. €	1999 th. €
Provisions for pensions and similar obligations	2,073,881	2,007,185
Tax provisions	139,228	140,449
Other provisions	753,154	662,408
	2,966,263	2,810,042

Pension provisions comprise direct contractual pension commitments to our employees and retired employees.

Other provisions include future costs arising from the collection of receivables sold under the ABS programme.

Other provisions include mainly costs for restructuring, part-time work for older employees, bonuses, risks arising in relation to the reutilisation of returned merchandise, staff holiday claims and anniversary bonuses and awards.

30

Creditors

	2000 th. €	thereof remaining term		
		up to 1 year th. €	1 to 5 years th. €	more than 5 years th. €
Bank loans and overdrafts thereof secured by mortgages	1,413,683 94,480	924,894	332,682	156,107
Previous year thereof secured by mortgages	1,620,114 151,961	1,052,244	314,608	253,262
Advance payments on orders	48,415	48,407	8	-
Previous year	39,876	39,871	5	-
Trade creditors	826,217	825,998	219	-
Previous year	889,356	889,356	-	-
Drafts	39,221	39,221	-	-
Previous year	37,131	37,131	-	-
Amounts owed to subsidiaries	40,813	35,467	5,138	208
Previous year	30,811	30,497	108	206
Amounts owed to associated companies	83,050	83,050	-	-
Previous year	6,902	6,902	-	-
Amounts owed to companies in which investments are held	6,974	6,974	-	-
Previous year	4,406	4,406	-	-
Other creditors thereof taxes thereof social security thereof secured by mortgage	882,080 247,056 86,497 74	779,444	46,642	55,994
Previous year thereof taxes thereof social security thereof secured by mortgage	731,218 251,384 78,306 78,191	631,713	42,629	56,876
As at 31. 12. 2000 thereof secured by mortgage	3,340,453 94,554	2,743,455	384,689	212,309
Previous year thereof secured by mortgage	3,359,814 230,152	2,692,120	357,350	310,344

In addition to amounts owing by KARSTADT QUELLE AG, bank loans and overdrafts comprise those of Quelle AG, Neckermann Versand AG, MC Immobilien Verwaltungs-GmbH & Co. Essen Miesheide KG and Neckermann Coördinatiecentrum N.V.

The higher amounts shown in Other creditors are due to the increase in capital market commitments.

31

Accruals and deferred income

Accruals and deferred income decreased markedly during the financial year due to the fall in unearned interest income from instalment credit business following the sale without recourse of receivables under the ABS programme. Of the receivables retained

from this business, shown under Other assets, Quelle AG and Neckermann Versand AG have directly deducted further deferred interest from credit instalment business amounting to 54,117 th. € and 15,034 th. € respectively.

32

Contingent liabilities, other financial commitments

	2000 th. €	1999 th. €
Contingent liabilities	46,975	58,027
Liabilities under warranty agreements	2,042	640,590
Collateral liabilities	1,125	224,475
Contributions due under Art. 15 a of the German Income Tax Law	212,559	202,334
	262,701	1,125,426

Contingent liabilities include mainly the joint liability under leasing agreements.

Liabilities under warranty agreements relate mainly to investment allowances paid to Quelle AG. The decrease is due mainly to the redemption of the partial factoring transaction through the ABS programme described under Text Note 22.

Collateral liability for the liabilities of third-parties in the previous year related mainly to the securing of a loan to a company not included in the consolidation by means of land charges in the amount of 224 million €.

Amounts owed for rented premises total 2,403,432 th. €, of which 1,052 th. € were to subsidiaries. Other financial commitments total 144,292 th. €.

Capital and other purchase commitments total 102,331 th. €.

Derivative financing instruments

We have concluded interest-swap transactions, Caps and Forward Rate Agreements and forward exchange purchase contracts and purchased currency call options in order to hedge against interest rate risks.

The following derivative financing instruments in the following nominal volumes and with the following current market values were in effect at the balance-sheet date:

	Nominal volume mill. €	Market value mill. €
Interest-related transactions		
Forward Rate Agreements	562.4	- 1.5
Interest swaps	967.9	- 8.8
Caps	1,430.6	0.9
Currency-related transactions		
Forward exchange purchase contracts	267.2	- 12.1
Currency call options	77.2	0.1
	3,305.3	- 21.4

The nominal volume is equivalent to the unbalanced total of the agreed purchase and sale values. Opportunities and risks are expressed by the market value corresponding to the repurchase value at the balance-sheet date. The negative market value is set off for the most part by positive changes in the

market values of the secured underlying transactions.

The Caps have a term of up to five years, the forward exchange purchase contracts and currency call options a term of up to one year.

NOTES TO THE CASH FLOW ACCOUNT

The cash flow account is shown on page 128. It was prepared in accordance with German Accounting Standard No. 2 (DRS 2).

Cash flow from current business activities

The cash flow from current business activities has fallen by 17,4 % or 84.4 million €. Trade debtors alone fell by 7.1 % or 63.1 million €.

Cash flow from investment activities

The cash flow from investment activities, 102,253 th. €, shows withdrawals relating to an increase of capital at C & N Touristic AG.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cheques and fixed-interest securities and cash at banks which at the time of purchase or deposit had a remaining term of less than three months.

NOTES TO THE SEGMENTS

The segment report is shown on pages 130 - 132. It was prepared in accordance with German Accounting Standard No. 3 (DRS 3).

The segment report relates to the internal control of and reporting at the group. As in the previous year, KARSTADT QUELLE AG has been assigned to the department stores segment.

Intercompany sales relate to sales relationships between the companies of the group. Internal prices are on principle equivalent to those charged by outside third parties.

The EBIT margin is the quotient of the earnings before interest and tax (EBIT) and group sales. In the mail-order segment EBIT have been adjusted by the net interest income from instalment credit business.

The EBT margin is the quotient of the earnings before tax (EBT) and group sales. Segment assets comprise the fixed assets, current assets and prepayments and accrued income.

Besides creditors, segment liabilities comprise the provisions, untaxed special reserves and accruals and deferred income.

The capital employed comprises the equity and reserves and amounts owed to banks and capital market commitments less liquid funds. The return on capital employed (ROCE) is the quotient of EBIT and capital employed.

The gross cash flow is obtained by the adjustment of the earnings for the period before extraordinary items by depreciation & amortisation/revaluations on fixed assets and the increase and decrease of provisions.

34 Revenue from sales by region (registered offices)

The revenue from sales by geographical segment includes:

	2000 th. €	1999 th. €
Germany	13,678,578	13,510,328
EU countries	1,379,534	1,195,320
Other foreign countries	181,920	137,318
	15,240,032	14,842,966

OTHER INFORMATION

35 Total remuneration of the members of the Supervisory Board and the Management Board

Fees to the members of the Supervisory Board of KARSTADT QUELLE AG for the financial year total 921 th. € (previous year: 839 th. €). Payments to members of the Management Board total 4,678 th. € (previous year: 6,523 th. €), those to former members of the Management Board and their surviving dependants total 3,141 th. € (previous year: 3,155 th. €).

Pension provisions for former members of the Management Board and their surviving dependants total 35,696 th. € (previous year: 32,347 th. €).

The members of the Supervisory Board and Management Board are listed on pages 2 and 3 and pages 158 to 161.

STATEMENT OF THE MANAGEMENT BOARD

The Management Board of KARSTADT QUELLE AG is responsible for preparing the Group Account and the Management Report of KARSTADT QUELLE AG as well as those of the Group. The Group Account was prepared in compliance with the accounting principles generally accepted in Germany and in accordance with the requirements of the Code of Commercial Law and the German Stock Corporation Law. The combined KARSTADT QUELLE AG and Group Management Report is consistent with the Group Account. The information given in the annual report accords with those in the Group Account.

The internal checking and control systems at the companies included in the Group Account ensure that the report procedure complies with the legal requirements. The adherence to the guidelines and the functionality of the checking systems are continuously inspected by internal audit. Our risk management system complies with the requirements of the Law on Corporate Control and Transparency (KonTraG). It is

aimed at recognising potential risks in due time to enable any measures required to be initiated.

BDO Deutsche Warentreuhand Aktiengesellschaft, public auditors, have examined the Group Account and combined Management Report of KARSTADT QUELLE AG and the Group and given them an unqualified auditor's certificate.

The Annual Account, the Group Account, the combined KARSTADT QUELLE AG and Group Management Report, the Dependent Company Report and the Auditor's Reports were discussed in detail at the meeting of the Supervisory Board, which was also attended by the auditor. The result of its examination is noted in the Supervisory Board Report (see Pages 4 to 7 of the Annual Report).

Essen, April 20, 2001
KARSTADT QUELLE Aktiengesellschaft

The Management Board

Urban

Gerard

Prof. Dr. Merkel

Nelles

Piotrowski

CORPORATE OFFICERS AND THEIR FUNCTIONS ACCORDING TO KONTRAG

Supervisory Board

Dr. Hans Meinhardt, Wiesbaden

Chairman

Chairman of the Supervisory Board of
Linde AG

Supervisory board seats by law:

Karstadt Warenhaus Aktiengesellschaft (Chairman)

Beiersdorf AG (Chairman)

Linde AG (Chairman)

Linde Gas AG (Chairman)

Comparable supervisory functions

nv W.A. Hoek's Machine- en Zuurstofffabriek

Wolfgang Pokriefke*, Bremen

Deputy Chairman

Chairman of the Works Council of
Karstadt Warenhaus Aktiengesellschaft,
Bremen branch

Commercial assistant

Supervisory board seats by law:

Karstadt Warenhaus Aktiengesellschaft

- until 26.09.2000 -

Wilfried Behrens*, Giessen

Managing Director of
Karstadt Warenhaus Aktiengesellschaft,
Giessen branch

Supervisory board seats by law:

Karstadt Warenhaus Aktiengesellschaft

- until 26.09.2000 -

Dr. Diethart Breipohl, Icking

Member of the Supervisory Board of Allianz AG

Supervisory board seats by law:

Allianz AG

Bayerische Hypo- und Vereinsbank AG

Beiersdorf AG

Continental AG

mg technologies ag

KM Europa Metal AG

Comparable supervisory functions:

Crédit Lyonnais

Banco Popular Español

BPI Banco Portugues de Investimento

Les Assurances Générales de France (AGF)

Jürgen Damm*, Grevenbroich

Chairman of the Works Council of
Karstadt Warenhaus Aktiengesellschaft,
Düsseldorf, Schadowstrasse branch

Electrician

Supervisory board seats by law:

Karstadt Warenhaus Aktiengesellschaft

- until 26.09.2000 -

Bodo Dehn*, Mönchengladbach-Rheydt

Chairman of the Overall Works Council of
Karstadt Warenhaus Aktiengesellschaft

Commercial assistant of

Karstadt Warenhaus Aktiengesellschaft,
Mönchengladbach-Rheydt branch

Supervisory board seats by law:

Karstadt Warenhaus Aktiengesellschaft

Hubert Gartz*, Hamburg

Member of the Board of the
German Salaried-Employees Union

Supervisory board seats by law:

Karstadt Warenhaus Aktiengesellschaft

Dr. jur. Friedhelm Gieseke, Essen
former Chairman of the Board of Directors
of RWE AG

Supervisory board seats by law:

MAN AG
National-Bank AG
RWE AG

Leo Herl, Fürth

Member of the Board of Directors of
Schickedanz-Holding AG & Co. KG

Supervisory board seats by law:

Enrium Direct Bankers AG (Chairman)
ICN Immobilien Consult Nürnberg AG**
Karstadt Warenhaus Aktiengesellschaft
Neckermann Versand Aktiengesellschaft
Quelle Aktiengesellschaft
Quelle Bauspar AG (Chairman)
Quelle Krankenversicherung AG (Chairman)**
Quelle Lebensversicherung AG (Chairman)**
Quelle Versicherung AG (Chairman)**
Quelle Versicherungen Holding AG (Chairman)**

Ulrich Hocker, Düsseldorf

Main Director of Deutsche
Schutzvereinigung für Wertpapierbesitz e.V.

Supervisory board seats by law:

Brau und Brunnen AG
CBB Holding AG (Chairman)
E.ON AG
Systracom Bank AG
Thyssen Krupp Steel AG

Comparable supervisory functions

Gartmore Capital Strategy Fonds Limited
Phoenix Mecano AG

Peter Kalow*, Schwabach

- w.e.f. 02.10.2000 -

Chairman of the Overall Works Council of
Quelle Aktiengesellschaft

Supervisory board seats by law:

Quelle AG

Dr. h. c. Martin Kohlhausen, Frankfurt/Main

Spokesman of the Board of Directors of
Commerzbank AG

Supervisory board seats by law:

Bayer AG
Heraeus Holding GmbH
Hochtief AG vorm. Gebr. Helfmann
Infineon Technologies AG
Linde AG
RHEINHYP Rheinische
Hypothekenbank AG (Chairman)**
Schering AG

Comparable supervisory functions:

Assicurazioni Generali S.p.A.
Commerzbank International S.A. (CISAL)
(Chairman Administrative Council)**
Commerzbank (Schweiz) AG
(President Administrative Council)**

Heinz Rätz, Basel/Switzerland

- until 20.07.2000 -

former Member of the Management of Hansa AG

Dr. Ingo Riedel, Fürth

Member of the Board of Directors of
Schickedanz-Holding AG & Co. KG

Supervisory board seats by law:

C & N Touristic AG
ICN Immobilien Consult Nürnberg AG (Chairman)**
Karstadt Warenhaus Aktiengesellschaft
Quelle Aktiengesellschaft
Quelle Bauspar AG
Quelle Krankenversicherung AG**
Quelle Lebensversicherung AG**
Quelle Versicherung AG**
Quelle Versicherungen Holding AG**
SinnLeffers Aktiengesellschaft**

*) representing the employees

**) group subsidiaries

Christa Schubert*, Recklinghausen
Deputy Chairman of the Works Council of
Karstadt Warenhaus Aktiengesellschaft
Recklinghausen branch
Commercial assistant
Supervisory board seats by law:
Karstadt Warenhaus Aktiengesellschaft
- until 26.09.2000 -

Günter Strohmeier*, Munich
Chairman of the Works Council of
Karstadt Warenhaus Aktiengesellschaft
Munich, Schleissheimer Strasse branch
Supervisory board seats by law:
Karstadt Warenhaus Aktiengesellschaft
- until 26.09.2000 -

Dr. Gunter Thielen, Gütersloh
- w.e.f. 20.07.2000 -
Member of the Board of Directors of
Bertelsmann Aktiengesellschaft
Chairman of the Board of Directors of
Bertelsmann Arvato Aktiengesellschaft
Supervisory board seats by law:
Leipziger Messe
Comparable supervisory functions
Hannoversche Leben
Saar LB

Dr. Bernd W. Voss, Kronberg im Taunus
Member of the Board of Directors of
Dresdner Bank AG
Supervisory board seats by law:
Continental AG
Deutsche Hyp Deutsche Hypothekenbank
Frankfurt-Hamburg AG**
Deutsche Schiffsbank AG (Chairman)
Dresdner Bauspar AG**
E.ON AG
Oldenburgische Landesbank AG (Chairman)**
Preussag AG
Quelle Aktiengesellschaft
VARTA AG
Volkswagen AG
Wacker Chemie GmbH
Comparable supervisory functions:
Bankhaus Reuschel & Co. (Chairman
Administrative Council)

Dipl.-Ing. Dr.-Ing. E. h. Jürgen Weber,
Hamburg
Chairman of the Board of Directors of
Deutsche Lufthansa AG
Supervisory board seats by law:
Allianz Lebensversicherungs AG
C & N Touristic Aktiengesellschaft
LSG Lufthansa Service Holding AG (Chairman)**
Lufthansa Cargo AG**
Lufthansa Systems GmbH (Chairman)**
Lufthansa Technik AG (Chairman)**
Sapient Corp. (Board of Directors)

Dr. Franziska Wiethold*, Düsseldorf
Member of the Managing Board of
Directors of the Union of Retail,
Bank and Insurance Employees
Supervisory board seats by law:
Karstadt Warenhaus Aktiengesellschaft
- until 26.09.2000 -
Quelle Aktiengesellschaft
REWE KGaA

Rüdiger Wolff*, Düsseldorf
Secretary to the Main Board of the
Union of Retail, Bank and Insurance Employees
Supervisory board seats by law:
Karstadt Warenhaus Aktiengesellschaft

Ulrike Wuhrer*, Konstanz
- until 30.09.2000 -
Chairman of the Works Council of
Karstadt Warenhaus Aktiengesellschaft
HERTIE Konstanz branch
Commercial assistant
Supervisory board seats by law:
Karstadt Warenhaus Aktiengesellschaft

*) representing the employees
**) group subsidiaries

Management Board

Wolfgang Urban, Bornheim

Chairman of the Management Board

- w.e.f. 01.10. 2000 -

Supervisory board seats by law:

C & N Touristic Aktiengesellschaft

KarstadtQuelle New Media AG (Chairman)**

Neckermann Versand AG (Chairman)**

Quelle Aktiengesellschaft (Chairman)**

SinnLeffers AG (Chairman)**

Comparable supervisory functions:

Wehmeyer GmbH & Co. KG (Chairman)**

Peter Gerard, Düsseldorf

- w.e.f. 17.10. 2000 -

Supervisory board seats by law:

Karstadt Warenhaus Aktiengesellschaft**

Quelle Aktiengesellschaft**

Comparable supervisory functions:

bonndata gesellschaft für datenverarbeitung mbH

manpower GmbH personaldienstleistungen

Prof. Dr. Helmut Merkel, Flomborn

- w.e.f. 01.04. 2000 -

Supervisory board seats by law:

CCG, Centrale für Coorganisation GmbH

Itellium Systems & Services GmbH (Chairman)**

Karstadt Immobilien Beteiligungs AG (Chairman)**

KarstadtQuelle New Media AG**

Karstadt Warenhaus Aktiengesellschaft**

Novasoft AG (Chairman)

Quelle Aktiengesellschaft**

Norbert Nelles, Rösrath

Supervisory board seats by law:

Karstadt Warenhaus Aktiengesellschaft**

Quelle Aktiengesellschaft**

Werner Piotrowski, Witzenhausen

Supervisory board seats by law:

Neckermann Lebensversicherungs AG

Neckermann Versicherungs AG

Comparable supervisory functions:

Neckermann B.V. (Chairman)**

Neckermann Versand Österreich AG (Chairman)**

Reinhard Koep, Mülheim

- until 28.03. 2001 -

Supervisory board seats by law:

Neckermann Versand Aktiengesellschaft**

Comparable supervisory functions:

Quelle Aktiengesellschaft,

Linz (Austria) (Chairman)**

Quelle Versand Aktiengesellschaft,

St. Gallen (Switzerland) (President)**

Dr. Walter Deuss, Mülheim

Chairman of the Management Board

- until 30.09. 2000 -

Supervisory board seats by law:

Gerling-Konzern Allgemeine Versicherungs-AG

RHEINHYP Rheinische Hypothekenbank AG

C & N Touristic Aktiengesellschaft (Chairman)

Neckermann Versand

Aktiengesellschaft (Chairman)**

- until 30.09. 2000 -

Quelle Aktiengesellschaft**

- until 30.09. 2000 -

Karstadt Warenhaus Aktiengesellschaft**

- until 30.09. 2000 -

Kaufhaus Ahrens AG

Manfred Ciesielski, Glashütten

- until 31.01. 2000 -

Supervisory board seats by law:

Neckermann Versand Aktiengesellschaft**

Willi Harrer,

Batzhausen Gem. Seubersdorf i. d. Oberpfalz

- until 31.03. 2000 -

Heinz Plagge, Lüneburg

- until 31.01. 2000 -

Supervisory board seats by law:

Le Buffet System-Gastronomie und
Dienstleistungs-GmbH (Chairman)**

- until 31.05. 2000 -

Karl-Heinz Schmidt, Dortmund

- until 31.01. 2000 -

Supervisory board seats by law:

Berlin Tourismus Marketing GmbH

CCG, Centrale für Coorganisation GmbH

C & N Touristic Aktiengesellschaft

- until 31.10. 2000 -

*) representing the employees

**) group subsidiaries

AUDITOR'S REPORT

The auditor's report covers:

- the Combined KARSTADT QUELLE AG and Group Management Report (pages 17 to 45)
- the Group Account (pages 123 to 156)
- and the List of Corporate Officers and their Supervisory Functions in accordance with KonTraG (pages 158 to 161)

BDO Deutsche Warentreuhand Aktiengesellschaft, public auditors, has given the annual accounts and the combined management reports of the group and KARSTADTQUELLE AG an unqualified auditor's certificate. A copy of the annual account is separately available from KARSTADT QUELLE AG.

"We have examined the group account prepared by KARSTADT QUELLE AG and its report on the situation of the company and its group for the financial year from January 1, 2000, to December 31, 2000. The preparation of these documents in accordance with the requirements of German commercial law and the supplementary regulations in the company statutes is the responsibility of the management board of the company. We are required to make an assessment of the group account and the group management report on the basis of our examinations.

We have carried out our examination of the group account in accordance with Art. 317 HGB and the principles of accounting laid down by the German Institute of Accountants (IDW). According to these the audit must be prepared and conducted so as to enable incorrect facts and irregularities which substantially affect a presentation of the fair view of the net worth, financial position and results afforded by the group account prepared in accordance with the principles of accounting and by the group management report to be recognised with a fair degree of certainty. When establishing the audit procedure, knowledge of the business activities and the economic and legal circumstances of the group and expectations of possible errors are taken into consideration. In the course of the audit the effectiveness of the internal control system

and the facts supporting the information given in the group account and group management report are assessed mainly on the basis of random samples. The audit comprises the assessment of the annual accounts of the companies included in the group account, the end-of-year adjustments of the consolidated companies, applied principles regulating the preparation of balance sheets and consolidation and the principal estimates of the management board and a consideration of the overall presentation of the group accounts and the group management report. We are of the opinion that our audit affords a sufficiently sound basis for our assessment.

Our audit has found no cause for objection.

Düsseldorf, April 24, 2001
BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
[A public auditing company]

Dyckerhoff
Wirtschaftsprüfer
[Public auditor]

In our opinion the group account presents a true and fair view of the net worth, financial position, earnings and payment transactions of the KARSTADT QUELLE GROUP in accordance with the principles of sound accounting practice. Overall, the company and group management report presents an accurate picture of the position of the group and sets out accurately the risks attending future developments.”

Horn
Wirtschaftsprüfer
[Public auditor]

5-YEAR SUMMARY

		1996	1997	1998	1999	2000
Group sales	mill. €	12,295.0	12,160.6	9,327.4	14,843.0	15,240.0
Earnings						
EBIT ¹⁾	mill. €	68.3	135.1	173.4	280.8	332.2
EBT	mill. €	34.3	113.0	139.9	225.4	272.8
EBT margin	in %	0.3	0.9	1.5	1.5	1.8
Net income	mill. €	30.0	83.9	101.9	218.6	248.7
Finances and dividend						
Gross cash flow	mill. €	484.7	489.3	465.8	699.8	643.1
Liquid funds	mill. €	303.5	397.4	277.2	217.3	236.7
Depreciation/amortisation	mill. €	441.0	347.8	301.1	367.9	357.9
Dividend	mill. €	42.9	42.9	47.2	72.9	78.8
Structure of balance sheet						
Balance sheet total	mill. €	5,883.2	5,861.2	5,474.0	7,925.0	8,191.8
Capital and reserves	mill. €	1,237.3	1,271.9	1,343.3	1,698.7	1,866.7
Equity ratio	in %	21.0	21.7	24.5	21.4	22.8
Fixed assets	mill. €	2,601.7	2,652.6	2,639.3	3,280.8	3,462.5
Current assets	mill. €	3,273.5	3,200.6	2,826.7	4,614.6	4,705.4
Other information						
Employees on 31. 12.	number	99,991	94,463	89,399	113,490	112,516
Staff costs	mill. €	2,621.4	2,483.5	2,300.0	3,169.5	3,216.8
Investments	mill. €	575.5	446.1	416.5	481.7	569.9
Department stores and specialty stores in Over-the-counter retail	number	487	465	389	383	358
Sales space in Over-the-counter retail on 31. 12.	th. m ²	2,586.2	2,489.7	2,395.9	2,388.3	2,369.9

		1996	1997	1998	1999	2000
KARSTADT QUELLE AG share²⁾						
Dividend per individual share certificate	€	5.11	5.11	5.62	0.62	0.67
Dividend per individual share certificate, incl. tax credit	€	7.31	7.31	8.03	0.89	0.96
Net earnings per share	€	- 10.70	2.88	8.40	1.59	1.57
Market price at end of year	€	261.78	318.02	444.82	39.80	32.90
Highest price	€	319.05	363.02	508.74	48.70	40.73
Lowest price	€	251.04	246.44	287.35	30.55	27.30
Market value at end of year	mill. €	2,199.07	2,671.50	3,736.52	4,678.5	3,867.4

¹⁾ EBIT from 1999 on, incl. interest from installment credit transactions

²⁾ 1996 to 1998 on 8.4 million Karstadt AG DM-50-shares
1999, 2000 on 117,550,400 individual share certificates

GLOSSARY

Asset-backed securitisation (ABS)

The sale of receivables to a company, which refinances itself by the issue of securities, to obtain liquidity.

At equity balance sheet accounting

A method of balance sheet accounting whereby the net book value of an investment is continuously adjusted. The balance sheet entry represents the proportion of this value to the net assets of the company shown at equity on the balance sheet.

B2B, B2C (business to business, business to consumer)

The classification of business relations between market partners in e-business (company to company, company to consumer).

Cap

An insurance against rises in interest rates. The seller of a cap guarantees the buyer in return for a premium that an interest charge arising from a current or future variable interest-bearing liability will not exceed a fixed upper limit (strike) during its life. The seller of the cap undertakes to compensate the buyer for any overcharge exceeding the strike.

Cash flow

An index number for assessing the financial and earnings power of a company. The cash flow provides information about the supply of liquid funds generated during a period.

Cash pooling

The central coordination of liquid funds to achieve financial advantages.

Consumer segments

Merchandise range presentation focussed on the consumption needs and buying habits of our customers. The fashion, personality, living, sports, multimedia and food & drink consumer segments are of central importance for our department store presentation.

Convertible bond

A security which, besides bearing interest at a fixed rate, offers the holder the right to subscribe to a certain number of shares in a company.

Cross selling potential

The possibility of marketing a number of products from different sales channels or service segments of a company on the basis of an existing customer relationship.

Customer relationship management (CRM)

The management of customer relationships. CRM is based mainly on information about customers and purchasing habits.

Deferred taxes

Adjustment for the difference between the tax payable on the commercial and the tax balance sheet.

Earnings before interest and tax (EBIT)

Earnings before interest and income tax.

Earnings before taxes (EBT)

Earnings before income tax.

EBT margin

Earnings before income tax relative to sales.

Economic Value Added (EVA)

A management and incentive system for increasing the value of companies.

Equity ratio

The percentage share of equity capital in the balance sheet total.

Forward rate agreement (FRA)

Also: futures rate agreement

An agreement between two parties under which, in return for a premium, one party undertakes to pay the other at a future time the difference between the fixed percentage rate and the market percentage rate on an agreed amount.

Gross cash flow

The adjustment of the periodic earnings before extraordinary items by the amount of depreciation/amortisation/write-ups on fixed assets and the increase or decrease of provisions.

International Accounting Standards (IAS)

Internationally recognised standards for the presentation of corporate accounts with emphasis on transparency and international comparability of annual accounts.

Interest swap

The exchange of fixed and variable interest commitments on usually identical and currency-congruent capital amounts.

KonTraG

German Law on Corporate Control and Transparency.

Market capitalisation

The valuation of a company on the stock exchange (market value), obtained by multiplying the stock exchange price by the number of shares of a company.

M-DAX

The Deutsche Börse AG (German Stock Exchange Co.) share index comprising seventy medium-sized companies. The criterion for inclusion in the index is the market capitalisation and stock exchange sales.

Multi-channel network

The interlinking of the sales channels of the KarstadtQuelle Group for the benefit of our customers. The customer decides when and where he gains access to the product and service range.

Passenger load factor

An index number indicating the ratio of carried passenger kilometers to the passenger kilometers offered by an airline.

POWER

Process **O**ptimisation of Karstadt **W**arenhaus AG for Sustained Increase of **EaR**nings).

Returned goods store

A store in which goods which have been sent back by customers or branches are processed.

Return on capital employed (ROCE)

EBIT relative to capital employed.

Return on equity (ROE)

Net income relative to equity capital.

Sales on comparable space

The comparison of two periods on the premise that the space on which the sales were achieved has not changed.

Share option programme

A results-linked form of remuneration by which managerial staff are offered the opportunity under certain conditions and on fixed terms to subscribe to shares in their own company.

Shopping portal

A website which enables customers to access the products and information offered in Internet trade.

Synergies

Positive economic effects (e.g. cost savings) obtained by merging companies or centralising individual operational areas (e.g. procurement).

Verticals

A special range- and theme-specific combination of products for trade on the Internet (sports, multimedia, music & video, books, wine, large electrical appliances, travel).

INVESTOR RELATIONS INFORMATION

Weights in selected indexes in %

As at March 31, 2001

MDAX	2.97
DAX 100	0.42
C-DAX Retail	8.99
DJ Euro STOXX Retail	2.30

Reuters key	KARG.F
Bloomberg key	KAR GR
Security code number	627500
Stock exchanges	Frankfurt/Main, Düsseldorf, Hamburg, Bremen, Munich, Berlin, Hanover, Stuttgart

Calendar

Analysts' Meeting (Düsseldorf)	May 30, 2001
Annual General Meeting (Düsseldorf)	July 12, 2001
Interim reports 2001	
1st quarter	May 30
2nd quarter	late August
3rd quarter	late November
Roadshows (scheduled)	June/Nov. 2001

Shareholder structure

As at March 31, 2001

Schickedanz Group	45.35 %
Allianz AG	9.38 %
Dresdner Bank AG	7.15 %
Independently held shares	38.12 %



At our shareholders' service are:
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IMPRINT

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in cooperation with KARSTADT QUELLE AG**

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GmbH & Co.

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