On track to becoming a

retail and service group

KARSTADT QUELLE AG

Annual Report 2001

			2001	2000	Change in %
Sales	Over-the-counter retail	mill. €	8,069.1	7,581.0	6.4
	Mail order	mill. €	7,812.7	7,665.0	1.9
	Services	mill. €	1,123.4	666.1	68.6
	Real estate	mill. €	483.8	487.8	- 0.8
	Transitional account	mill. €	- 1,421.9	- 995.4	-
	Group sales	mill. €	**16,067.1**	**15,444.5**	**4.0**
Earnings	EBITA	mill. €	680.2	562.3	21.0
	EBITA margin	in %	4.2	3.6	-
	EBIT	mill. €	630.7	533.7	18.2
	EBIT margin	in %	3.9	3.5	-
	EBTA	mill. €	382.3	266.8	43.3
	EBTA margin	in %	2.4	1.7	-
	EBT	mill. €	332.8	238.2	39.7
	EBT margin	in %	2.1	1.5	-
	Net profit for the year after minority shareholdings	mill. €	234.9	165.2	42.2
	Return on capital employed	in %	8.8	8.1	-
	Return on equity	in %	13.0	10.0	-
Financial situation and dividends	Gross cash flow	mill. €	1,092.3	784.7	39.2
	Liquid funds	mill. €	343.2	253.1	35.6
	Depreciation/amortisation (not including goodwill)	mill. €	462.3	453.6	1.9
	Dividend	mill. €	83.6	78.8	6.2
Structure of the balance sheet	Balance sheet total	mill. €	10,510.0	9,814.9	7.1
	Capital and reserves	mill. €	1,803.4	1,653.2	9.1
	Equity ratio	in %	17.2	16.8	-
	Fixed assets	mill. €	5,450.7	4,846.0	12.5
	Current assets	mill. €	5,000.6	4,915.0	1.7
Other information	Employees on 31.12.	number	112,141	113,120	- 0.9
	Full-time staff on annual average	number	89,379	88,697	0.8
	Staff costs	mill. €	3,157.2	3,109.8	1.5
	Investments	mill. €	1,230.9	676.9	81.8
	Net debt	mill. €	2,801.6	2,459.9	13.9
	Working capital	mill. €	2,885.3	3,051.4	- 5.4
	Department stores and specialty stores in over-the-counter retail	number	465	390	-
	Sales space on 31.12. in over-the-counter retail	th. sq. m.	2,613.8	2,390.2	9.4
KarstadtQuelle AG share	Dividend per individual share certificate	€	0.71	0.67	6.0
	Net earnings per share	€	2.00	1.41	41.8
	Gross cash flow per share	€	9.29	6.68	39.1
	Share price on 31.12.	€	44.40	32.90	35.0
	Highest price	€	44.85	40.73	-
	Lowest price	€	30.15	27.30	-
	Market value at end of year	mill. €	5,228.4	3,867.4	35.2

OVER-THE-COUNTER RETAIL

Department stores • Specialty stores

With its 188 department stores and 277 specialty stores, mainly at the best inner-city locations, the KarstadtQuelle Group enjoys a leading position in the over-the-counter retail sector in Germany. Karstadt, Hertie, Wertheim, Alsterhaus and KaDeWe brand department stores are market leaders in the European department store business. In accordance with the motto “Retail is local” we concentrate on the German market, provide full geographical coverage and enjoy a market share of around 36%. In sectors with a promising future we are represented by specialty stores for the Runners Point and Golf House (sports), SinnLeffers and Wehmeyer (fashion), as well as Schaulandt/Schürmann, WOM World of Music (multimedia) brands and LeBuffet (system catering).

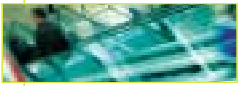
		2001	2000	Change in %
Sales	mill. €	8,069.1	7,581.0	6.4
Employees on 31.12.	number	70,716	72,499	- 2.5
Segment assets	mill. €	3,171.4	2,187.6	45.0

MAIL ORDER

Universal mail order • Special mail order

With its successful Quelle and Neckermann brands and a market share of around 30% KarstadtQuelle is Number One in the German retail sector. Both brands enjoy a familiarity rating of over 90%. With the Quelle and Neckermann main catalogues, which are issued twice yearly, we offer our customers a diverse range of products in universal mail order. This is supplemented by 178 specialty catalogues which focus product ranges for specific target groups such as exclusive women’s fashion, baby products, kitchens or children’s clothing. Through more than 120 subsidiary companies Quelle and Neckermann already achieve 22.3% of sales abroad and enjoy an excellent position in 17 European countries.

		2001	2000	Change in %
Sales	mill. €	7,812.7	7,665.0	1.9
Employees on 31.12.	number	36,922	36,687	0.6
Segment assets	mill. €	4,125.8	3,978.6	3.7



SERVICES

Information and Finance services

Customer-Card services • Back-End services • Travel services

The service companies of the KARSTADT QUELLE Group provide service and advisory services for group companies and, to an increasing extent, for outside clients. Their areas of operation include the provision of information and financial services, loyalty card services, back-end services and tourism. Thanks to success factors such as information on 19 million active customers, more than 8.3 million loyalty cards and their own bank the information and financial service sectors have developed into new strategic fields of activity. Under a joint venture with Deutsche Lufthansa AG KarstadtQuelle has a 50% holding in the Thomas Cook AG tourist group. As Number Two in Europe, Thomas Cook is ideally positioned in the tourism market of the future.

		2001	2000	Change in %
Sales *)	mill. €	1,123.4	666.1	68.6
Employees on 31.12.	number	4,303	3,806	13.1
Segment assets	mill. €	1,195.2	842.5	41.9

*) not including the Thomas Cook group

REAL ESTATE

Property • Development • Financing

KARSTADT Immobilien AG & Co. KG is the management company for the group's real estate segment. Since January 2001 the real estate formerly shown under Over-the-counter retail has been concentrated in this company. The real estate portfolio comprises department stores at best locations in German inner city areas as well as land and administrative and storage buildings. Under a value- and profit-oriented real estate strategy new, modern stores are being built and department stores developed into shopping centres. In December 2001 the range of services for the group was extended to include the centre management.

		2001	2000	Change in %
Sales	mill. €	483.8	487.8	- 0.8
Employees on 31.12.	number	48	-	-
Segment assets	mill. €	3,559.0	3,229.6	10.2

Wolfgang Urban
Chairman
Corporate planning and development, corporate communications, investor relations, law, auditing

Born in 1945. After studying business management, Wolfgang Urban began his career at Kaufhof AG in 1973 in Cologne, was, amongst other things, spokesman of the management board of Kaufhof Holding AG and finally co-spokesman of the management board of Metro AG, Düsseldorf. In 1998 he joined Schickedanz Holding-Stiftung & Co. KG, Fürth as a member of the management board. In June 1999 he was appointed a member of the management board of Karstadt AG, Essen, now KARSTADT QUELLE AG. In January 2000 he became chairman of Karstadt Warenhaus AG, Essen, and in October 2000 chairman of the management board of KARSTADT QUELLE AG.

“We are gradually transforming KARSTADT QUELLE AG into an integrated retailing and service group. The 10-Step Value Enhancement Programme is our maxim for orienting the company towards higher growth, higher value-creation and sustained growth of profit.”

Dr. Christoph Achenbach
Chairman of the management board of Quelle AG and Neckermann Versand AG

Born in 1958. After studying business management Christoph Achenbach was research fellow in the department of “Retailing and Sales” at Cologne University. He began his professional career at Quelle Schickedanz AG & Co. in 1989. In 1997 he was appointed to the management board of Quelle AG, becoming chairman in March 2001. Since May 2001 he has also been a member of the management board of KARSTADT QUELLE AG and since January 2002 chairman of the management board of Neckermann Versand AG.

“Quelle and Neckermann are moving closer and closer together. This will enable us to position ourselves better in the tough mail-order market, while retaining the well-known Quelle and Neckermann brand names. At the same time we are pursuing the sustained expansion of the high-growth special mail-order business in Germany and abroad.”

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

Born in 1947. Peter Gerard began his career as systems engineer at IBM Germany in 1966. In 1989 he moved to the Deutsche Bank AG. In 1990 he was appointed managerial agent and in 1996 a member of the management board of the Group Services Division. In 1999 he was appointed to the management board of Mannesmann AG in Düsseldorf. As of October 17, 2000, he has been a member of the management board of KARSTADT QUELLE AG as well as chairman of the management board of KARSTADT QUELLE New Media AG.

“We have at our disposal a unique combination of customer relations, brands and sales channels. The challenge lies in the networking, the opportunity in added value for customers. Here new media and services play a vital role. They are a decisive growth factor for our business operation of tomorrow.”

Prof. Dr. Helmut Merkel

Personnel, information systems, logistics and organisation

Born in 1949. After studying business management and obtaining his doctor's degree (1980) Prof. Dr. Helmut Merkel was appointed to the management board of the SEMA Group in 1986 and in 1989 chairman of the management board of DAT AG, Ratingen. From 1993 to 1999 he was a member of the senior management of the Deichmann international trading group. Since 1990 he has taught in the department of general business management, logistics and business information technology of the University of Mannheim. In October 2000 he was appointed to the management board of KARSTADT QUELLE AG.

"We are on the right track with our strategy of gradually implementing up-to-date services in the area of information, logistics and organisation and are consequently creating synergy potential that will contribute to a sustained increase of efficiency."

Norbert Nelles

Finance, controlling, balance sheet accounting, tax, insurance, real estate

Born in 1948. After studying business management at the University of Cologne Norbert Nelles worked in financial management at the Ford Group from 1972, before moving to Kaufhof Holding AG / Metro AG in 1989. As of November 1, 1999, he has been a member of the management board of KARSTADT QUELLE AG.

"By making real estate an autonomous segment at start of 2001 we have created the conditions for substantially improving earnings, and at the end of 2001 we consistently continued the process of realising our potential by introducing new functions such as portfolio management, real estate development, centre management and financing."

Werner Piotrowski

Member of the management board of KARSTADT QUELLE AG

Born in 1932. Werner Piotrowski began his career with commercial training in the central administration of Karstadt AG, Essen in 1953. In 1977 he was appointed to the management board of the new subsidiary Neckermann Versand AG. In June 1999 he became chairman of the management board of Neckermann Versand AG, retiring from this post at the end of 2001. Since November 1999 he has been a member of the management board of KARSTADT QUELLE AG.

"Through the close cooperation of Neckermann and Quelle we are paving the way to an even more successful future for mail order in our group."

Dear Shareholders,

"Create value, increase value" was the maxim for the KarstadtQuelle Group during the 2001 financial year. On the basis of our strategic 10-Step Value Enhancement Programme we have re-aligned the company and lastingly strengthened its assets. At the same time we reached all our sales and earnings targets and increased our competitiveness. This is absolutely essential for ensuring long-term job security at Karstadt Quelle.

We also increased transparency and improved the international comparability of our group figures. Thus, for the first time, we are presenting a group account prepared in accordance with the principles of International Accounting Standards (IAS).

Excellent share price performance

The confidence that you, dear shareholders, showed in KarstadtQuelle in 2001 has paid off. This is shown both by an increased dividend and an excellent share price performance. In a weak year for the stock market the KarstadtQuelle share outperformed the comparative index ratings by no less than 35%.

Good performance despite difficult economic situation

We achieved this good performance in what was once again a difficult year for the German retail trade in general. Thus the optimism expressed by economic research institutes and retail associations at the beginning of 2001 with regard to the development of sales in the retail trade proved to be unfounded. The forecasts had to be substantially revised during the year. Consumers reacted with growing uncertainty to the visibly weak growth in the German economy and the worsening international economic environment. The tragic events in the USA on September 11 accelerated this trend.

Despite these difficult underlying conditions we achieved our forecast target, which was adjusted in November 2001 to the current economic situation, precisely with a growth in sales of 4% to 16.1 billion €.

Our earnings performance demonstrates the success of our 10-Step Value Enhancement Programme launched at the end of 2000.

Earnings before income tax (EBT) according to International Accounting Standards (IAS), which were applied for the first time, grew by 39.7% from 238.2 million € to 332.8 million €. The EBT margin rose from 1.5% to 2.1%.

We have realised our earnings target. In our planning, according to the principles of German HGB accounting hitherto applied, we proceeded on the assumption that EBT would rise by at least

25%. We achieved this target with an earnings increase on an HGB basis of 26.1% from 272.8 million € to 343.9 million €.

Earnings per share rose from 1.41 € to 2.00 €. This represents an increase of 41.8%.

Dividend up by 6%

You, dear shareholders, will share in our success during the 2001 financial year in the form of an increased dividend. The Management Board and the Supervisory Board propose raising the dividend from 0.67 € to 0.71 €. This represents an increase of 6%. At the same time it also results in an adjustment to the changed conditions within the scope of the tax reform.

2-phase strategy to determine future growth

A 2-phase strategy will form the basis of our growth in the next few years:

Phase 1: Benchmarking and re-alignment

At present we are in phase 1. This will be completed by 2003. We are concentrating on improving our competitiveness by benchmarking and are accelerating the realignment of the group.

At the same time we are implementing "step by step" the 10 phases of our value-enhancing programme and are increasingly reducing our costs to the level of our competitors. Although meanwhile the cost structure has been clearly improved in the process of restructuring, there is room for further optimisation to put us ahead of the competition. Moreover, in phase 1 we are paving the way for entry into new profitable growth markets.

One of the most important bases for this is our many, diverse long-standing customer relations and our successful loyalty card programmes. No company in our field has more information about customers' wishes and preferences at its disposal than the KarstadtQuelle Group. A further advantage is our substantial assets. Thus, our valuable real estate portfolio with sites at first-class city locations forms an outstanding basis for the development of a new high-yield business segment.

Phase 2: Growth and expansion

In 2004 the second phase of our future strategy, that of growth and expansion, will begin. It will centre on our transformation from a pure retail company into an integrated retail and service group.

The new KarstadtQuelle Group will support its customers not only with a highly varied and attractive product range but also with high growth and future-oriented services. In this way we shall increase added value per customer.

A word of thanks to our employees

I thank our employees most sincerely for their excellent performance and high level of commitment – particularly in view of the way in which demands have grown through intensifying competition.

In the 2001 financial year we were obliged to cut jobs by optimising processes, particularly in the department store sector. This measure, which we have implemented with the agreement of the employees' representatives, is essential to ensure competitiveness and the future of our department stores. On the other hand, we have begun creating jobs in the new business segments, particularly in the services sector, as part of the realignment of our group.

New group structure

The KarstadtQuelle Group gained strongly in identity in the 2001 financial year. This is demonstrated by the clear focus on four core business segments at the beginning of the year. The traditional operational business segments Over-the-counter retailing and Mail order are now flanked by the new strategic business segments Services and Real estate. Both offer an above-average growth and earnings potential.

Growth segment Services

We extended the restructured business segment Services, which so far has comprised the Tourism, Logistics and Fulfillment, IT and Purchasing segment, to include Financial and Information services.

In the Financial services segment, in March 2002 we launched a joint venture with the ERGO insurance group, a major ceding insurer. This strategic partnership combines the multi-channel selling power of Karstadt Quelle with the brand and product diversity of ERGO. The product range comprises attractive insurance and bank products with a focus on individualised customer approach.

The joint venture is setting new standards in financial services and because of the uniqueness of the two partners is unique in Germany.

The Information services segment has not yet been really developed in Germany and promises high growth potential. We offer companies services in the fields of risk, marketing and payment management.

Real estate management as a value driver

We see strong future potential in our Real estate segment. With a portfolio of real estate in the best locations in German towns and cities our value-oriented real estate management will contribute even more substantially to the positive development of earnings in the KarstadtQuelle Group. We are committing ourselves increasingly as a developer and operator of large and well frequented shopping centres. Consequently, in future we will be playing a still greater role in proportion to its assets in the German retailing real estate market than before.

Lufthansa, Deutsche Telekom, Starbucks and ERGO: Growth through strong strategic partnerships

The strategy of opening up growth segments jointly with market-leading partners is of great importance for our future. At the same time it is essential to establish leading positions with innovative concepts or strong brands. One example is our Thomas Cook joint venture in which we have a joint interest with Deutsche Lufthansa AG.

Another is the joint undertaking with Deutsche Telekom AG on the "HappyDigits" loyalty card bonus programme. This joint venture is best placed to position itself as a market leader in this rapidly growing field of business. A further example is our cooperative venture with the American coffee house specialist Starbucks. Our first major partnership with a market-leading and innovative US company group offers very good prospects commercially. At the same time our employees will profit from the unique Starbucks spirit, which is enriching our corporate culture by stimulating creativity and personal commitment. We shall establish Starbucks as a successful brand in Germany too and we are making great strides towards market leadership in the area of coffee houses.

The latest example of partnership is the above mentioned joint venture with the ERGO insurance group, which has enabled us to enter the high-yield business in financial services.

Successful implementation of the 10-Step Value Enhancement Programme

In the implementation of our 10-Step Value Enhancement Programme we are ahead of schedule.

The **restructuring** of our operational business segments is progressing rapidly. In the department stores segment we are realigning logistics, optimising business processes and systems and streamlining the administration. The Mail-order segment is concentrating even more strongly on increasing the synergetic potential of the two strong brands Quelle and Neckermann than originally planned.

We further stimulated **growth** by, amongst other things, innovative marketing projects such as "(K)aufregung" at Karstadt. The response here was good, because Karstadt department stores showed themselves from a completely new side and with a great deal of humour.

The driving force behind our **growth** was, moreover, the further consistent expansion of our multi-channel network. Attention here focused on our customer relationship management, particularly on the basis of our Karstadt loyalty card. In 2001 the number of customers using the card grew by more than 50% to 6.3 million. We are promoting this powerful expansion in the current financial year by involving further group companies in the loyalty card bonus programme and by our joint venture with Deutsche Telekom AG.

In the growth segment Fashion our expansion was affected by the weak economic environment.

Our Internet business developed even better than envisaged in our already stringent planning. Online demand at the 65 e-shops throughout the group rose by 80% to 814 million €. The B2C market offers a big opportunity for the future of the retail business. For this reason the significance of e-shops as a distribution and communications channel is for us beyond question. In the past we have not allowed ourselves to be dazzled by the exaggerated forecasts for this market segment. Nevertheless, on the basis of our market-leading position in the traditional retailing sector, we developed step by step to become No. 1 on the Internet, too. The company will harvest the fruits of these labours in years to come.

In **Value Management** we reached virtually all our targets. We markedly improved communication with the financial markets and increased our transparency by detailed and up-to-date information. At the same time we changed – one year earlier than planned – to International Accounting Standards (IAS) in our accounting.

We are strengthening our employees' motivation and commitment to increasing the value of our undertaking by means of further performance incentives such as, for instance, employees' shares for all our staff. We launched a stock option programme for top management, imposing stringent conditions for the exercise of the option. In this way your interests as shareholders were brought into close accord with those of our staff and management.

EVA as an instrument of control

The introduction of the economic value-added system (EVA) for the central group control guarantees the clear measurability of the success of management and staff. In this way we ensure that, where decisions have to be reached on investment or disinvestment, their contribution is decisive for increasing the value of our company.

During the year under review Karstadt Quelle's value according to EVA calculation has risen. This is shown by the EVA improvement of 20 million €.

The 2002 financial year

New challenges

In the first months of the current financial year we in the retail business are facing a major challenge. Consumers are uncertain and very reluctant to spend. In particular our department stores business has been affected by a decline in sales hitherto not experienced in the past. The management has responded to this weakness in the market to prevent lasting damage to Karstadt Warenhaus AG. We have therefore taken a very careful look at our entire value-added chain with a view to exploiting further potential for improvement and increase our freedom of action. In this connection we have also decided to curtail a part of the fringe benefits in the area of department store staffing. I am aware that this measure will have painful consequences for Karstadt employees. However, we have no choice, if we are to secure earnings. It is our primary aim, wherever possible, to avoid reducing jobs in response to the weakness in the market. If the sales situation once more improves, we shall consider introducing other forms of flexible personal fringe benefits conditional on the achievement of targets.

Important measures

The 2002 financial year is marked by the continued implementation of the 10-Step Value Enhancement Programme and thus by the improvement of our competitive position.

We are also concentrating on the development and expansion of information and financial services and the development and optimisation of the real estate segment. Decisive impetus for growth is provided by the continued expansion in the Sport and Fashion segments and by the expansion of the loyalty card bonus programme.

A word of thanks to our shareholders

I thank you, dear shareholders, also on behalf of my fellow management board members and all our staff, for the confidence you have shown in KarstadtQuelle at this time of change. As the arrangement for the new KarstadtQuelle Group demonstrates, we shall be continuing our dynamic development. However, if the economic environment continues to suffer, it will naturally also affect our performance. We shall maintain our chosen course and do all in our power to continue to earn the confidence you have shown in us.

On behalf of the management board,

Yours faithfully
Wolfgang Urban

Restructuring and optimisation

Target by 2003: earnings up by 256 million

1 Department stores: We are streamlining our business and administration processes

We are reducing double functions and costs by increased centralisation.

- Combination of purchasing and strategic functions. ✓
- 70% of all measures are being implemented; 50% of these have already been completed. ✓
- Reduction by 3,948 full-time employees on annual average. ✓
- Joint management for fashion and technology. ✓

By optimising our logistics we are halving warehouse space.

- Closure of 14 of the altogether 36 warehouse sites. ✓
- Reduction of warehouse space by 165,000 sq. m. ✓
- Streamlining logistics by increasingly stockless goods supply (cross-docking). ✓

We are concentrating our real estate portfolio in a separate company and positioning ourselves as one of the largest real estate groups.

- Setting up of KARSTADT Immobilien AG & Co. KG to control group real estate. ✓
- Setting up of KARSTADT Hypothekenbank AG to finance the expansion of the real estate portfolio. ✓
- Successful development of shopping centres. ✓
- Disposal of real estate not necessary for operations. ✓

2 Mail-order business: We are increasing the synergies of Quelle and Neckermann

The two strong brands Quelle and Neckermann represent a joint service and logistics platform.

- Installation of a joint service and logistics platform. ✓
- Joint management of the Quelle and Neckermann mail-order companies. ✓
- Joint use of address and marketing data. ✓
- Supplier concentration and joint purchasing. ✓
- Reduction of warehouse space by reduction of stocks. ✓
- Reduction of transport costs. ✓
- Standardisation of IT processes and IT systems. ✓

We are expanding our value-added chain as a high-performance service provider in the logistics market of the future.

- Setting up of joint logistics and fulfillment services. (expansion of servicelogiQ's business) ✓

Growth:
KarstadtQuelle is positioning itself in future markets

Target by 2003: earnings up by 128 million

3 Our multi-channel strategy is setting new standards in the European retail sector

As Europe's largest department store and mail order retailing group, we support customers through all channels of the old and new economy.

- Partnership with Starbucks reinforces positioning in the high-growth lifestyle segment. ✓
- Full exploitation of cross-selling potential between over-the-counter retail and mail-order retail. Example: first joint Karstadt and Quelle sports catalogue in February 2002. ✓

By networking 18 million qualified customer addresses we are creating unique cross-selling potential.

"HappyDigits" joint loyalty card bonus programme with Deutsche Telekom (January 2002). ✓

Setting up of "KARSTADT QUELLE Information Services GmbH" (January 2002): exploiting growth market for information services. ✓

Setting up of "KARSTADT QUELLE Financial Services GmbH" (March 2002) in strategic partnership with the ERGO insurance group for the distribution of insurance, finance and bank products. ✓

4 On course for growth with the theme store concept

We are continuing to develop our successful theme store concept – and so increasing the dynamics of our earnings growth.

New innovative distribution concepts to further develop our market presence:

Reorientation: symbiosis of department store and shopping centre with a growing proportion of outside companies increases attractiveness. ✓

Focusing of smaller department stores on the Fashion, Sports and Technology growth sectors. ✓

The planned boost in the number of our Klub-Karstadt loyalty cards from 4 million in 2000 to 10 million in 2002 will strengthen our cross-selling effects.

Around 6.3 million loyalty cards at end of 2001. ✓

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

Fashion: We are aiming to increase our market share from 4.9% to 7.4%.	Expansion of market-leading position in the German fashion market by the acquisition of Sinn Leffers AG. ✓
The SinnLeffers fashion company is strengthening our position in the medium- and high-price segment.	Synergies through utilisation of a joint service and logistics platform for the Karstadt department stores and the Wehmeyer and SinnLeffers specialty stores. ✓
Sports: We are aiming to double our sales to 1.3 billion €.	Expansion of market leadership in the German sports market by the acquisition of GOLF HOUSE Direktversand GmbH. ✓
	Opening of Europe's largest outdoor centre in Munich. ✓
	Opening of two sports stores in 2001; a further five planned for 2002. ✓

6 Specialisation and internationalisation as high-yield growth generators in mail order

Sales abroad and in specialty mail order to grow by 10% annually.	Takeover of AFIBEL S.A. strengthens market position in France. ✓
Cooperation and acquisitions support our expansion.	Acquisition of Hess Natur-Textilien GmbH & Co. KG, the market leader in natural product mail order. ✓
	Takeover of Fritz Berger GmbH & Co. KG, the market-leading mail-order supplier of camping/caravaning and leisure/outdoor products. ✓

7 Rapidly expanding Thomas Cook (formerly C&N) tourism business offers outstanding growth and synergy potential group-wide and beyond

Through the takeover of Thomas Cook UK and Havas Voyages Thomas Cook AG is the world's third-largest tourism group.

The change of name from C&N to Thomas Cook AG to symbolise a high-performance pan-European integrated tourism group.

Programme to secure earnings in a difficult tourism environment.

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

We utilise our strong brands for successful Internet portals.

Online demand was increased in 2001 to 814 million € (+ 80%).

Successful launch of karstadt.de as communications and shopping portal.

The combination of traditional department store and mail-order business on the Internet, mobile phone and TV boosts added value for customers.

Participation in MHP initiative (multimedia home platform) for interactive TV shopping.

By our participation in electronic B2B market places we are revolutionising our process management and reducing procurement costs.

Participation in GlobalNetXchange (GNX), the world's leading open online market place in the Living, Personality, Electronics and Food segments.

Participation in or cooperation with Texyard Ltd. as a future-oriented commitment for the purchase of clothing.

Value management:
Increasing value determines corporate activity

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

Results become more measurable, more visible and more communicable.	Implementation of EVA as management and incentive system with the aim of increasing the value of the undertaking.	✓
Staff motivation rises through results-based remuneration.	Issue of employees' shares and stock options for the management.	✓

10 Intensive dialogue with the finance markets

We have markedly expanded our dialogue with the capital markets.	Informative annual report.	✓
	Regular road shows at European finance centres and in the USA.	✓
	Internet-supported telephone conferences.	✓
	Analysts' meetings and their transmission on the Internet.	✓
	Continuously updated bulletins at our karstadtquelle.com Internet site.	✓
Our accounting system to change to IAS in 2002 at the latest.	Changeover to IAS already achieved in the 2001 financial year – transparency and international comparability increased.	✓
We are publishing quarterly reports with detailed information about the group and the segments.	Additional information over and above the quarterly report given out on the Internet.	✓

Calculation EVA KarstadtQuelle Group

		2001	2000
Business assets	mill. €	9,671	8,643
WACC	in %	7	7
Capital costs	mill. €	**677**	**605**
Operating result	mill. €	603	511
Capital costs	mill. €	- 677	- 605
EVA	mill. €	**- 74**	**- 94**
Delta EVA	mill. €	**20**	**-**

ECONOMIC VALUE ADDED® (EVA)

Focus on value-oriented corporate management

In its 10-Step Value Enhancement Programme the KarstadtQuelle Group has put value-oriented corporate management at the centre of its activities. The entire corporate activity in our group, from strategic planning to operational control, is focused on increasing the value of the undertaking and thus on creating value. We have fixed on economic value added (EVA) as the decisive operative indicator of the increase in the value of our business.

Calculating EVA

EVA = operating result – capital costs

The operating result represents the profit from current business activity (before interest and after tax). It is modified by special effects, such as neutral earnings and amortisation of goodwill.

The capital costs represent the right of all capital investors to a return on the equity and borrowed capital invested. They are calculated with the formula:

Capital costs = business assets x WACC.

The business assets measure the amount of capital tied up in the company to generate operating performance.

The starting point for calculating the business assets is the balance sheet total. To lastingly promote a value-increasing decision-making process and represent the creation of value transparently, various adjustments are made, such as adjustment by the cash value of the rent commitments.

The WACC (weighted average cost of capital) is calculated from the anticipated supplementary tax yield, that is, from the interest rates of capital lenders and the opportunity cost of equity capital investors.

A company creates value if it generates EVAs which rise from year to year (positive change in EVA).

EVA basis established in the financial year

Since the project began early in 2001, the definition of the EVA indicators and the conception of the EVA management system has been of central significance. At the same time

– the adjustments for calculating the EVA input values, operating result or business assets have been fixed,
– the weighted average capital cost (WACC) calculated uniformly for the whole group, and
– the core elements defined and the time schedule for the introduction of EVA drawn up uniformly for the group.

On completion of the conceptual preliminary work we calculated the EVA indicators for the group and for the business segments for the 1999 and 2000 financial years in accordance with German commercial law. As a consequence of the changeover of the accounting system to IAS for the 2001 annual account, the calculation scheme was modified.

EVA = management and incentive system

EVA serves as an indicator for the external accounting system and offers a high information content. EVA also has an important function as a management and incentive system – both in the KarstadtQuelle holding company and in the operational units. In preparation for implementation we extended the introduction of EVA in Karstadt Warenhaus AG and Quelle AG to include further levels of the hierarchy. Here the emphasis was on

– the definition of EVA centres and their EVA calculation,
– the integration of EVA indicators into the regular reports and the management processes,
– the establishment of a value driver system as a means of control.

At the same time we designed an EVA-based investment guideline uniform for the group.

Further stages of development

During the current financial year we are intensifying the measurement of EVA performance. Thus, for example, the regular reports made by the subsidiary companies to the holding company are EVA-focused.

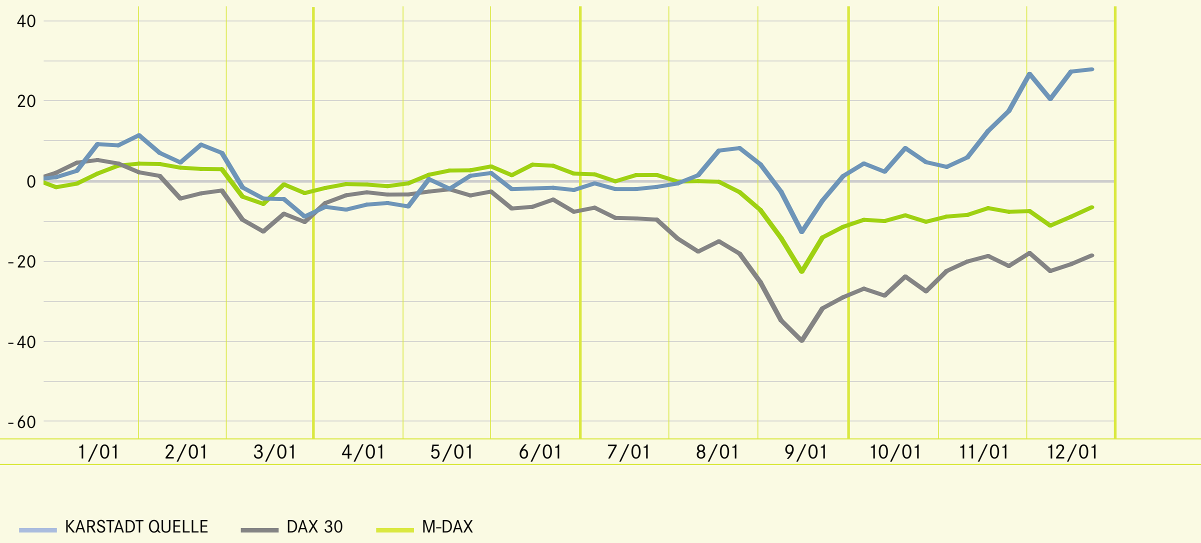
We are also continuing the preparatory work for the planned introduction of an EVA remuneration system in 2003.

Moreover, we are focusing group activities still more closely on the expectations of the capital market and integrating value orientation into strategic group planning. To this end we are currently developing instruments for analysing value gaps and for strategic benchmarking.

Key figures on the KarstadtQuelle share

			2001	2000
Earnings	Earnings per share	€	2.00	1.41
	Gross cash flow	mill. €	1,092.3	784.7
	Gross cash flow per share	€	9.29	6.68
	Return on capital employed	%	8.8	8.1
	Return on equity	%	13.0	10.0
Dividend	Dividend per individual share certificate	€	0.71	0.67
	Dividend yield (price at end of year)	%	1.6	2.0
Authorised capital	Authorised capital	mill. €	301.5	300.9
	Issued individual no-par-value share certificates	number	117.8	117.6
Share price information	Share price			
	at end of year (cash market price)	€	44.40	32.90
	highest price	€	44.85	40.73
	lowest price	€	30.15	27.30
	Market capitalisation/ market value at end of year	mill. €	5,228.4	3,867.4
	Exchange turnover (average daily trading volume)	number	256,012	313,395
	Price-earnings ratio (end of year)		22	23
	Price-cash flow ratio (end of year)		4.8	4.9

Stock market price performance indexed



Strong market position

The KarstadtQuelle Group is very well positioned in its core business segments Over-the-counter retail and Mail-order. Besides this, the group has at its disposal powerful assets – based on the traditional retailing business. On the basis of qualified information about more than 19 million active customers group-wide we are developing new, profitable business models for financial and information services.

Thanks to the value-oriented management of our comprehensive and valuable real estate portfolio a further business segment offering high future potential has been created.

The consistent utilisation of our group assets gives added stimulus to the further performance of our share. At the same time high asset values safeguard the price of the KarstadtQuelle share.

Price performance 2001: KarstadtQuelle up 35%

2001, like 2000 before it, was a weak year on the stock market. The German Share Index (DAX) closed at a level of 5,160 points and lost around 20% of its value. The M-DAX, which lists shares with medium market capitalisation, fell by over 7% and ended the year at 4,326 points. Thus, for the first time since the introduction of the DAX price drops were recorded for two years in succession.

General information KarstadtQuelle share

Securities identification number	627500
International Securities Identification Number (ISIN)	DE 0006275001
Reuters shortname	KARG.F
Bloomberg shortname	KAR GF
Weighting in M-DAX	4.77%
Designated Sponsor	Dresdner Kleinwort Wasserstein

Performance of important indices

		31.12.2001	31.12.2000	Change in %
KarstadtQuelle share	€	44.40	32.90	35.0
DAX 30	points	5,160.1	6,433.6	- 19.8
M-DAX	points	4,326.1	4,675.3	- 7.5
CDAX Retail	points	248.2	259.7	- 4.4
Dow Jones EURO STOXX Retail	points	301.1	357.9	- 15.9
MSCI World Retailing	USD	101.7	96.1	5.8

Recommendations of the analysts

Bank/investment company	Recommendation
CAI Cheuvreux	outperform
Commerzbank AG	buy
Dresdner Kleinwort Wasserstein	add
Bayerische Hypo- und Vereinsbank	outperform
M.M. Warburg	buy
Société Générale	strong buy
UBS	hold
Credit Suisse First Boston	hold
Goldman Sachs	underperform
Schroder Salomon Smith Barney	underperform

As of April 2002

The KarstadtQuelle share stoutly defied the trend by gaining 35% and thus markedly outperformed both DAX and M-DAX. Prices mainly between 35 € and 40 € characterised the gratifying start to the 2001 stock exchange year. Following the transfer to the M-DAX in mid-March the KarstadtQuelle share came under pressure, but only for a brief spell. From then on, despite the difficult stock market and consumption environment, it performed well.

This was supported by the annual account for the 2000 financial year presented at the end of May, which showed a growth in earnings of 21%. By the end of August the price once more drifted up to over 38 €. In the wake of sharply falling stock market prices following the terrorist attacks of September 11, the KarstadtQuelle share fell to its yearly low on September 21 at 30.15 €. As part of a continuous upward trend, however, prices afterwards once more rose rapidly – added lift being given by the third-quarter report, which showed clearly the restructuring effects of our 10-Step Value Enhancement Programme. This was acknowledged by the financial markets, as were the numerous measures to aid growth, which, in the third quarter, too, impressively demonstrated the reorientation of KarstadtQuelle.

On December 27 the KarstadtQuelle share reached its yearly high at 44.85 €.

In the first few months of the current year the price fell below 40 €. Thus, the generally weak start to the year in the German retail trade was reflected in the share price.

KarstadtQuelle: one of the biggest and highest-selling M-DAX investments

With effect from March 19, 2001, the KARSTADT QUELLE share was transferred to the M-DAX. There, with a weighting of 4.77% and measured by market capitalisation, it is ranked amongst the highest-selling and biggest investments.

Company shareholdings increase identification and motivation

For the first time in the KarstadtQuelle Group capital-market-linked instruments were used to incentivise management and staff. In this way we are increasing the motivation and commitment of our employees and managers. We are also strengthening their relationship and identification with the company.

Employees' shares for staff

In the 2001 financial year KARSTADT QUELLE AG offered its employees 14 KarstadtQuelle shares each at preferential tax rates in accordance with the regulations for employees' shares. Of the total of 97,689 employees in the KarstadtQuelle Group entitled 15,605 have acquired 207,375 shares. Thus 16.6% of the capital approved at the general meeting of shareholders has been utilised.

Stock options raise earnings and value-enhancing potential

The KarstadtQuelle Group's Incentive Stock Options plan links the top managers' performance-related remuneration still more closely to corporate results. The linking of management interests and those of the shareholders demonstrates the orientation of our group in accordance with the principles of the shareholder value concept. Thus, the share option programme is helping to further increase our earning power and thus increases the value-enhancing potential of the KarstadtQuelle share.

67% of the shares held by major investors

The KarstadtQuelle Group has a sound shareholder structure. A total of 67.05% of the shares are in firm hands. 32.95% are free float.

Free float widely spread internationally

The KarstadtQuelle share free float is to a considerable extent held in the portfolios of international investors. Thus, for example, of the top 50 institutional investors 24% are from Great Britain, 21% from the USA and 15% from the rest of Europe outside Germany. This demonstrates the positive response to the open dialogue begun with institutional investors at numerous road shows about a year and a half ago.

Shareholders structure

in %

"Madeleine Schickedanz" pool	36.12
Riedel Holding GmbH & Co. KG	12.24
Schickedanz-Holding AG & Co. KG	5.35
Allianz	13.34
free float	32.95

As of April 15, 2002

Breakdown of institutional investors by region

in %

Germany	40
Great Britain	24
USA	21
other European countries	15

Source: Carson / Top 50 institutional investors
As of January 2002

Share repurchase programme resolved

In 2001 the general meeting of shareholders authorised the management board to acquire up to 10% of its own shares. We thus have at our disposal a further, flexible financial marketing instrument which can put to various uses. For example, own shares can be used as a "currency" for participations and acquisitions. There are no specific plans to exercise the authorisation.

Company calendar

Important financial dates for the current and coming financial year are shown on the company calendar on the inside back cover.

Information on the Internet: karstadtquelle.com

Essential information about the KarstadtQuelle Group, presentations, current investor relations and much more is available at www.karstadtquelle.com.

Ulrich Mattner, financial journalist from Frankfurt am Main,
interviews Detlef Neveling, investor relations manager of KARSTADT QUELLE AG

The interview

What goals are you pursuing with your investor relations policy?

Our maxim is "Value for Investors and Company" (V4IC). Investor relations are an integral part of our 10-Step Value Enhancement Programme. Our primary aim is to make the high value-enhancing potential of KarstadtQuelle transparent to shareholders, future investors and financial markets.

Detlef Neveling

What does that mean exactly?

We are creating value for the investor by an intensive dialogue which clearly sets out the KarstadtQuelle vision and enables investors to assess the assets and earnings potential as well as the competence of the management as accurately as possible. However, at the same time we want to create value for KarstadtQuelle by increasing confidence in our share, increasing familiarity and improving our profile.

Are you satisfied with what you achieved in 2001?

We are quite satisfied. We have done a lot for our image on the capital market. Our performance is good. But it is just as important to convince our investors of the new spirit at KarstadtQuelle. The economic and mental transformation of the group is an important part of our equity story. For this reason alone the personal dialogue with investors is of great importance.

What have you offered the investor?

First and foremost, what the investor wants above all else: besides share price performance, higher returns. Moreover, we have been getting around, seeing investors and presenting our company at various well attended congresses. Our CEO, Wolfgang Urban, and other members of the Executive Board have invested a lot of time, despite their heavy operational commitments. We have maintained a constant presence at the European finance centres. Moreover, we have been to the USA on numerous occasions. I am especially pleased that there we were able to establish a base of top-grade investors. Of the top 50 of our institutional investors no less than 21% are from the USA.

Ulrich Mattner

And beyond that ...?

We have prepared an annual report tailored to investors' information requirements – which was well received by investors and the relevant rankings. In the "World's Best Annual Report" competition in the USA we were awarded a prize for the best annual report in the retail class.

Our detailed quarterly reports are supplemented by additional information on the Internet. Internet-supported teleconferences following publications are now standard, as is the transmission of our analysts' conferences over the Internet.

To keep our private investors informed, we have a steadily growing mailing list of over 1,000 interested contributors. Our website www.karstadtquelle.com has been redesigned visually and textually and, as well as diverse current information about the company, also offers, for example, live recordings, presentations and lectures. Thus, the private investor now has access to events which once were reserved only to analysts and institutional investors.

And how have the analysts reacted?

In October 2000, when the new management came in, there was a lot of scepticism at first. But the ice was soon broken. Since then the number of buy recommendations has grown steadily, while the number of sell recommendations has fallen.

You have been taken off the DAX 30, mainly because of liquidity.

That was indeed the reason. It is important that the free float should once more increase and the liquidity of our share rise. Our major shareholders are aware of this. No longer being represented in the DAX 30 has not exactly helped our image, but it has not damaged our price performance at all.

I have read that the market value of your real estate portfolio is estimated at over 5 billion . This alone is more than your current market capitalisation. It shows that the investor in KarstadtQuelle acquires a substantial asset.

It is true that KarstadtQuelle has high net asset value. The market value of our real estate is much higher than its book value. The group thus has at its disposal significant hidden reserves which are not indicated by the figures. Their realisation is a demanding task and an important part of our value-oriented real estate management. Moreover, the group has at its disposal assets which are not shown on the balance sheet, such as brands, customer contacts and information about customers. For this reason the KarstadtQuelle share must have a lot of potential.

What have you planned for 2002?

In the early months of the current year we are operating in a weak retailing environment in Germany. For this reason many investors in general are playing a waiting game as regards retail shares. We shall point out the opportunities that set us apart from others in this environment because of the high potential created by the reorientation of the group.

We shall be extending our already comprehensive road show programme to cover further markets. In this way we shall acquire new groups of potential investors. In April of the current year, for the first time, we visited investors in Japan. Our share did not enjoy a high level of familiarity there. Japanese investors showed great interest in our equity story. We shall be intensifying the dialogue we have begun by making regular visits to investors in Japan. In the USA we shall be mounting our first nation-wide road show, probably in the second half of the year.

Management Report

The KarstadtQuelle Group can look back on a good 2001 financial year. We increased sales by 4% to 16.1 billion €.

Value-added targets achieved: sales and earnings rise

At the same time we increased earnings before tax (EBT) in accordance with HGB* by 26.1% to 343.9 million €. Under first-time application of IAS** EBT rose by 39.7% to 332.8 million €. The return on sales rose by 0.6 percentage points to 2.1%. Net income rose by 42.2% to 234.9 million €. The Management Board proposes raising the dividend from 0.67 € to 0.71 €.

* German Commercial Code
** International Accounting Standards

Economic background

Gross domestic product grows by 0.6% in real terms

The economic situation in Germany – as in the whole of Europe – underwent a slowdown in 2001.

The gross domestic product in Germany rose by only 0.6% (3.0% in 2000) in real terms during the year under review. This represents the lowest growth since 1993.

Besides the slowdown in the world economy, the main cause of the weakening of economic performance is, amongst other things, weak domestic demand. Reduced buying power caused by inflation and the rise in unemployment inhibited consumption. Moreover, the tax reform did not have the anticipated stimulating effect on the economy.

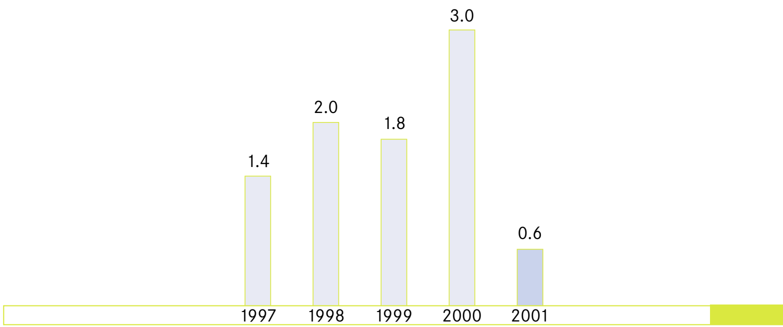
Available income up by 3.5%

The available income of private households rose by 3.5%. This results mainly from the tax relief at the start of 2001 and the increase in the child allowance. However, only around 20% of the additional available income, 45.5 billion € was spent on retail goods. By far the greater part of the available means, 26.7 billion €, went on services. A further 10.3 billion € went on savings. The savings ratio accordingly rose to 10.2% (9.8% in 2000).

Energy and food prices risen

The cost of living in Germany rose by 2.5% in 2001 (1.9% in 2000). The cause of this price rise was mainly higher prices of energy and food and the price rise on administered services. Retail prices rose by only 1.6% (1.1% in 2000), owing to fierce competition, and remained at a low level.

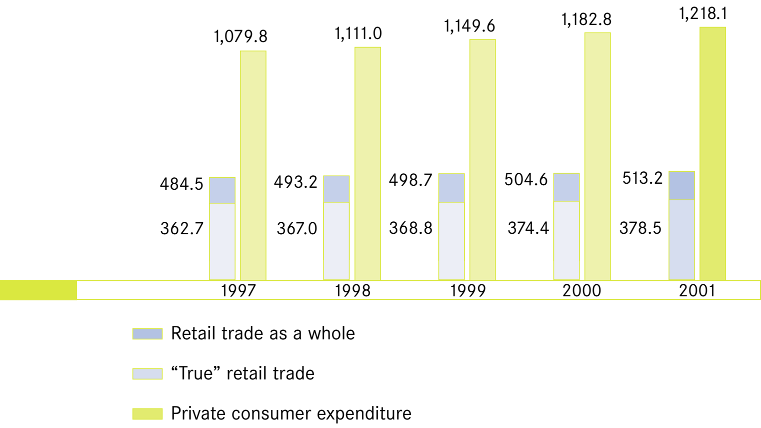
Gross domestic product real change in % on previous year



Source: Fed. Statistics Office

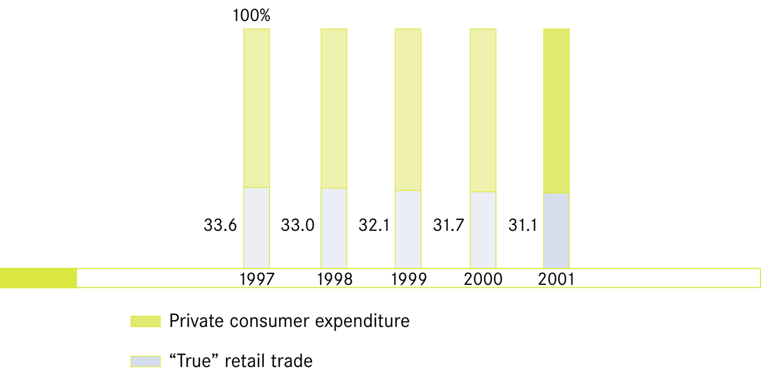
Retail sales/Private consumer expenditure

in then current prices in billions of €



Source: BAG, Fed. Statistics Office

Share of the "true" retail trade in private consumer expenditure in then current prices in %



Source: BAG, Fed. Statistics Office

Consumption remains lower than expected

The 1.1% rise in private consumer expenditure in 2001 was lower in real terms than in the previous year (1.4% in 2000). The higher rise in consumption forecast for 2001 as a result of the tax reform did not, however, materialise.

Retail sales rose nominally by 1.7% to around 513 billion €.

For the KarstadtQuelle Group the development of turnover in the "true" retail trade – that is, not including the sales of motor vehicles, fuels, combustibles and pharmaceuticals – is decisive. This rose by 1.1% to 378.5 billion € and shows a lower rate of increase than the previous year (+1.5%). The share of private consumer expenditure accounted for by the retail trade fell by 31.1% (31.7% in 2000).

Types of companies in the retail trade under pressure

The benchmark for the KarstadtQuelle Group is developments in the individual types of company operating in the German retail trade. The nominal rates of change are based on the provisional statistics issued by the Federal Statistics Office.

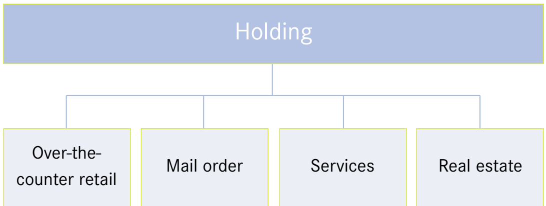
According to these sales at retail and department stores in Germany fell by 4.4%.

The specialist retail trade was likewise affected by the trend of restraint and recorded a 2.2% fall in sales. The mail-order trade shows a fall in sales of 2.4% according to the calculations of the Federal Association of German Mail-Order Retailers (BVH).

BUSINESS PERFORMANCE IN THE GROUP AND THE SEGMENTS

The KarstadtQuelle Group

New group structure: real estate and services as own business segments



The KarstadtQuelle Group restructured its business segments at the beginning of 2001.

Over-the-counter retail and mail order are still the key operational segments. We have hived off KARSTADT QUELLE AG, which has so far been included under over-the-counter retail. As a strategic management and holding company, it controls the operational segments. We also show as an independent business segment our group-owned real estate portfolio, which until recently was likewise grouped under over-the-counter retail.

In addition, there is also a further new segment, services. Here we have concentrated so far the formerly independent tourism sector (50% holding in Thomas Cook AG, Europe's second largest tourism group) and our financial services, information services, loyalty card bonus programme and back-end services (purchasing, logistics and fulfillment, and IT) operations.

Strategy: from traditional retail group to retail and service group

At the centre of the KarstadtQuelle strategy is the increase in the value of the undertaking. The focus is on the transformation of our company from a traditional retailing to an integrated trading and service group.

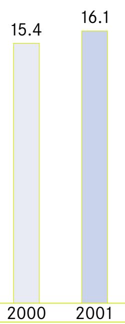
The broader set-up enables us to reduce our dependence on trade cycles and at the same time guarantee entry into new high-profit sectors such as financial services and information services.

In the years to come we shall be further expanding our leading position in the traditional over-the-counter retail and mail-order segments as well as in e-business. Here we shall be supported by innovative marketing concepts and the expansion and tightening of our multi-channel network.

At the same time we are profiting from the expansion of the target-group-oriented management of our customer relations. Thus we are consolidating existing customer contacts and at the same time addressing new consumer segments. Further competitive advantages are offered by the exploitation of the high cross-selling potential between our various distribution channels.

The growth driver in our new services segment is our many and diverse customer contacts and relations as well as the information about purchasing and product preferences. On this basis we can, without the need for high investment, open up new fields of business such as finance and information services and position ourselves in these areas as one of the leading German providers.

Group sales in billion €



Sales breakdown by business segment

	in million €	in %
Over-the-counter retail	8,069	50.2
Mail order	7,813	48.6
Services	1,123	7.0
Real estate	484	3.0
	17,489	**108.8**
Transitional account	- 1,422	- 8.8
Group sales	**16,067**	**100.0**

Just as important for the business strategy is the further development of the value of our extensive retailing real estate portfolio at top locations in German towns and cities. Here the emphasis is mainly on the development, construction and management of inner-city shopping centres.

Trend of sales

Group sales rise by 4%

The KarstadtQuelle Group increased its sales in the 2001 financial year by 4% to 16.1 billion € (15.4 billion € in 2000). Thus, we achieved our sales target, which was adjusted in November 2001 to allow for changes in the economic environment. After adjustments for acquisitions and disinvestment sales was slightly below that of the previous year.

Our planning at the beginning of 2001 provided for a growth in sales of 2.5%, not including acquisitions. Including the acquisition of the textile retailing company SinnLeffers and a number of special mail-order suppliers, we took as our basis a growth of just on 7%. In the course of the second and, in particular, the third quarter, however, it became clear that this target could hardly be reached owing to the worsened economic situation. In October and November, after the attacks of September 11, consumer demand fell still further. In December consumers partially relaxed their restraint. Christmas business, which was on the whole satisfactory, finally stabilised our sales performance.

Over-the-counter retail achieves rise in sales by 6.4%

The over-the-counter retail segment (department stores and specialty stores) gained further shares of the market and achieved a sales rise of 6.4% to 8.1 billion € (7.6 billion € in 2000). This represents a share of OTC in the group sales of 50.2% (49.1% in 2000).

Mail-order business growing abroad and in the specialty segment

After a rather restrained start mail-order business recorded a marked recovery in the second half of the year. Sales rose by 1.9% to 7.8 billion € (7.7 billion in 2000).

Whereas sales in universal mail order (big book business) fell by 2.0% to 6.5 billion €, special mail order shows a rise in sales of 28.6% to 1.4 billion €.

Domestic sales stood at 6.1 billion € and are virtually at the same level as the previous year.

Growth abroad with a sales rise of 9.4% was once again gratifying. The foreign share rose by 1.5 percentage points to 22.3%. Mail order contributed 48.6% (49.6% in 2000) to group sales.

Services growing strongly

In the services segment Optimus Logistics GmbH markedly expanded its business. Sales for the services segment accordingly rose by 68.6% to 1.1 billion €.

Real estate sales falling slightly

Owing to the closure of branches in the department store segment income from rents in the real estate segment fell by 0.8% and stood at 483.8 million €.

Earnings

Earnings up

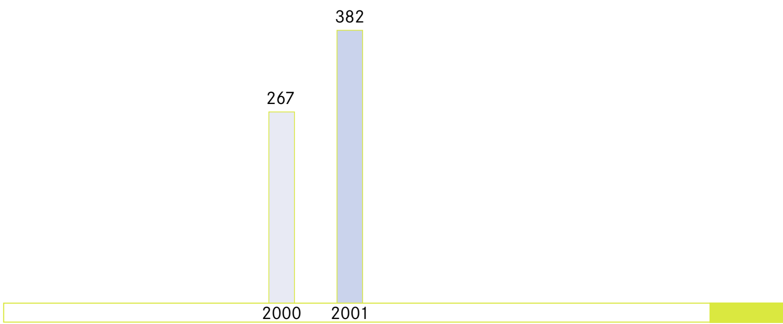
The KarstadtQuelle Group considerably improved its income situation in the year under review.

Group earnings (EBT) rose by 39.7% from 238.2 million € to 332.8 million €. Department store earnings went up, while specialty stores and mail order recorded falling earnings.

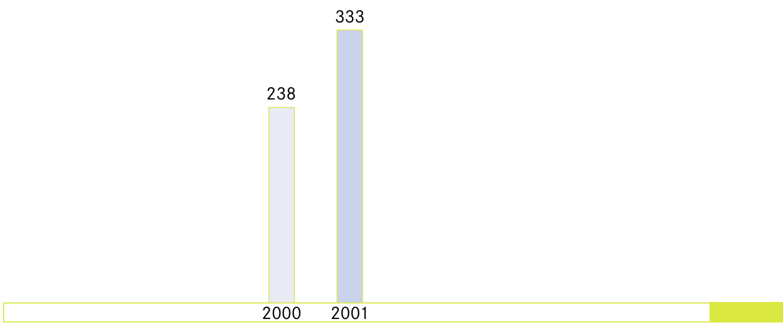
The return from sales (EBT margin) rose to 2.1%. This represents an improvement of 0.6 percentage points on 2000.

Earnings before amortisation of goodwill and income tax (EBTA) rose by 43.3% to 382.3 million €. The EBTA margin rose by 0.7 percentage points to 2.4%.

Group EBTA in million €



Group EBT in million €



EBT by business segment

	in million €	in %
Over-the-counter retail	59.5	12.2
Mail order	103.7	21.2
Services	54.7	11.2
Real estate	270.2	55.4

Group profit and loss account in brief
for the year ended December 31, 2001

	2001 in million	2000 in million
Sales	16,067.1	15,444.5
Cost of goods sold	- 8,681.7	- 8,226.0
Gross earnings	7,385.4	7,218.5
Earnings before interest, taxes and depreciation and amortisation (EBITDA)	1,142.5	1,016.0
Earnings before interest, taxes and amortisation of goodwill (EBITA)	680.2	562.3
Earnings before interest and taxes (EBIT)	630.7	533.7
Earnings before taxes (EBT)	332.8	238.2

Over-the-counter retail markedly increases earnings contribution

With an increase of 136.4 million € in earnings before tax to 59.5 million € the over-the-counter retail segment contributed substantially more to group earnings than in 2000. In the department stores segment, as well as current income from restructuring measures, the rise in earnings due to the discontinuance of restructuring costs for the 2000 financial year showed its effects. Earnings in specialty stores decreased.

In mail order EBT fell by 16 million € to 103.7 million €. This represents a fall of 13.4%. The decisive factor was mainly the weakness of the market in the textiles sector.

Earnings in the services segment at 54.7 million € remained virtually at the same level as 2000 (55.7 million €). The earnings contribution from the tourism business of Thomas Cook fell to 30.3 million € owing to an increase of 14.1 million € in the amortisation of goodwill.

The real estate segment, with earnings of 270.2 million € (281.6 million € in 2000), contributed substantially to group earnings. The fall in earnings of 4,1% is due to reduced income from the sale of real estate.

Notes to individual items of the profit and loss account

Gross yield stands at 7,385.4 million €, as against 7,218.5 million € in 2000. The gross yield margin fell to 46% (46.7% in 2000).

Staff costs amount to 3,157.2 million €. Their share of sales fell by 0.5 percentage points and stands at 19.6%.

Amortisation of goodwill rose by 72.8% to 49.5 million €. The decisive factor here was the markedly higher write-downs on goodwill at Thomas Cook.

Earnings tax ratio 28.2%

The earnings tax ratio stands at 28.2% (28.0% in 2000) and was reduced in the year under review mainly due to trade-tax-exempt income in the real estate segment. Moreover, 2000 was positively affected by reductions in corporation tax due to the distribution of capital charged at 45%.

Net income rises to 234.9 million

The net income after minority shareholdings rose from 165.2 million € to 234.9 million €. This represents a growth of 42.2%.

ROCE increased

The return on capital employed (ROCE) rose by 0.7 percentage points and stands at 8.8%.

Earnings per share rises by 41.8%

Earnings per share reached 2.00 €, as against 1.41 € the previous year. This represents a growth of 41.8%.

Financial situation

Cash flow up

The cash flow from current business activity amounted to 702.3 million € and rose by 235.3 million on 2000. The decisive factor for the rise was the increase in earnings before tax.

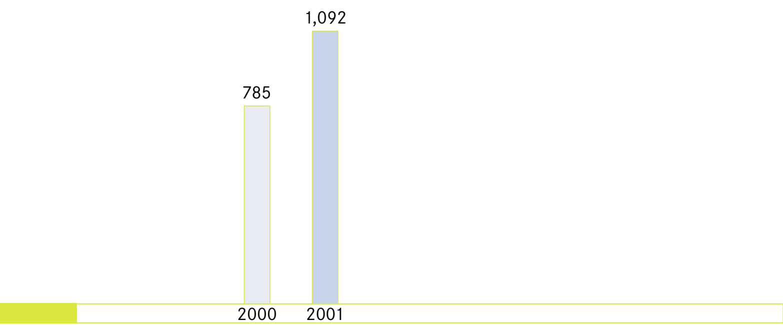
Group EBIT by segment

	2001 th.	2000 th.
Over-the-counter retail	101,594	- 65,773
Mail order	196,934	220,688
Services	51,073	50,188
Real estate	315,966	336,259
Holding	- 33,553	- 9,952
Transitional account	- 1,285	2,282
	630,729	**533,692**

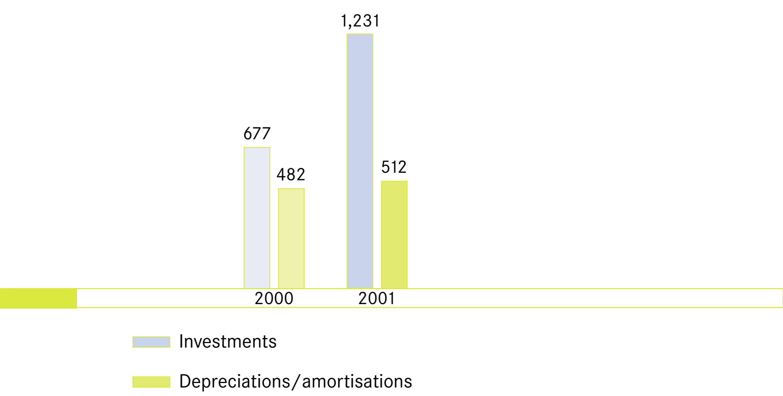
Group cash flow account in brief

	2001 in million	2000 in million
Cash flow from current business activities	702.3	467.0
Cash flow from investment activities	- 980.1	- 444.0
Cash flow from financing activities	356.4	- 15.3
Changes in cash and cash equivalents affecting cash flow	**78.6**	**7.7**
Changes in cash and cash equivalents due to exchange rates or to other changes in the finance funds resulting from changes in consolidated companies	38.2	- 0.4
Cash and cash equivalents at the beginning of the period	261.5	254.2
Cash and cash equivalents at the end of the period	**378.3**	**261.5**

Gross cash flow in million €



Investments and depreciations/amortisations in million €



Investments by business segment

	in million €	in %
Over-the-counter retail	548.9	48.7
Mail order	304.6	27.0
Services	227.6	20.2
Real estate	46.3	4.1

The cash flow from investment activity stands at minus 980.1 million € owing to acquisitions. It thus exceeds the cash flow from current business activity by 277.8 million €.

Investments increased by 81.8%

Investments rose in the 2001 financial year to 1,230.9 million € (676.9 million € in 2000).

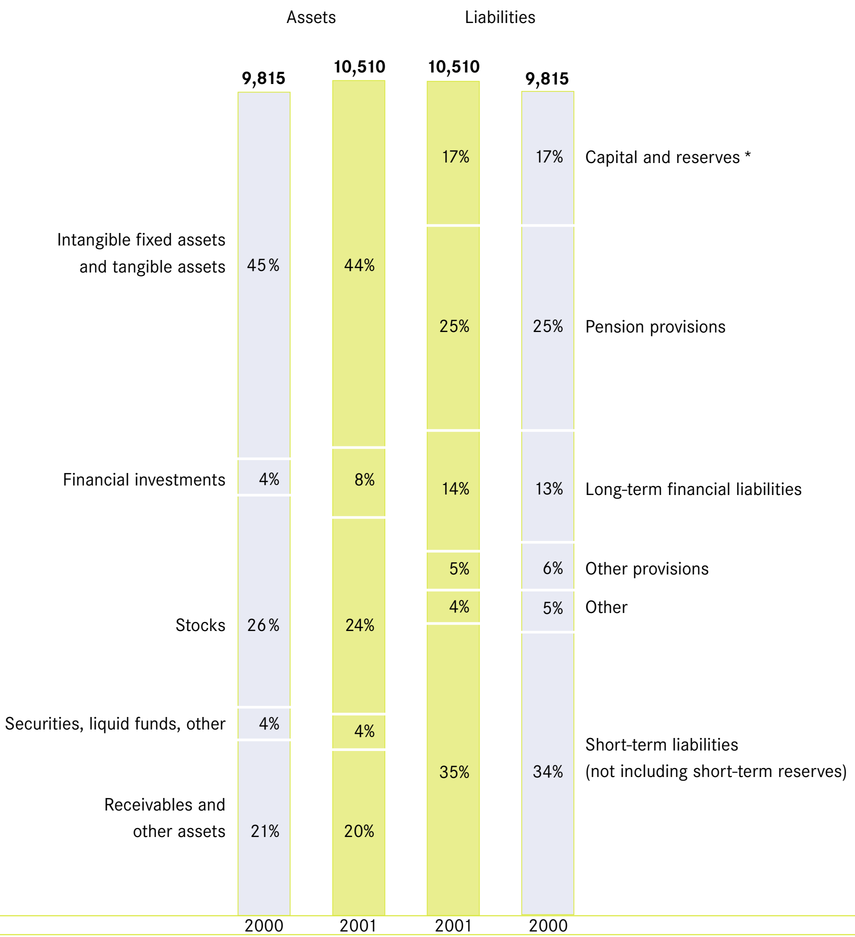
The aim of our investments is a sustained increase in growth and earnings. In the year under review investments were made in the expansion of the market-leading position in the German fashion and sports market by the acquisition of the M + T/SinnLeffers Group and the acquisition of GOLF HOUSE. Investments were also made in the profitable high-growth specialisation and internationalisation segments by the acquisition of further special mail-order suppliers.

Further points of emphasis were the following projects:

- Construction of a new mail-order return storage unit at the Frankfurt/Main location
- Construction of new logistics centres for two special mail-order suppliers
- Conversion and extension of a department store in Berlin
- Conversion and extension of two sports stores and specialty stores

Net Worth Position

Structure of the balance sheet in million €



* In addition to minority shareholdings, Capital and reserves also includes the dividends of KARSTADT QUELLE AG to be paid out.

Key balance sheet figures

		2001 in million	2000 in million	Change in %
Balance sheet total		10,510	9,815	7.1
Capital and reserves		1,803	1,653	9.1
Equity ratio	in %	17.2	16.8	-
Pension provisions		2,584	2,500	3.3
Long-term financial liabilities		1,425	1,324	7.1
Fixed assets		5,451	4,846	12.5
Working capital				
Stocks		2,524	2,556	- 1.2
Trade receivables		1,291	1,315	- 1.8
Trade payables		- 930	- 820	13.5
		2,885	**3,051**	**- 5.4**

Assets and capital structure

Balance sheet total up by 7.1%

The balance sheet total of the KarstadtQuelle Group rose by 7.1% to 10,510 million €.

Fixed assets amount to 5,450.7 million €. They rose by 12.5%, or 605 million €, owing mainly to a capital increase at Thomas Cook AG. The share contributed by fixed assets to the balance sheet total (capitalisation ratio) grew to 51.9% (49.4% in 2000).

Including financial investments, we invested a total of 1,231 million € in group growth. Set against these investments are write-downs of 511.8 million €.

Current assets rose slightly by 1.7% to 5 billion €. Stocks went down by 31.3 million €, or 1.2%, to 2.5 billion €. Not including stocks worth 109 million € attributable to the acquired companies, stocks were reduced by 5.5%. Here the reduction of storage space and inventories as part of the reorientation of logistics in the department stores segment in particular made itself felt. The rate of stock turnover increased by 0.4 to 6.4 on 2000.

Capital ratio rises to 17.2%

Capital and reserves amounts to 1,803.4 million €. Own funds rose by 9.1% in the year under review. The decisive factor here is mainly the transfer to profit reserves from current earnings.

The capital ratio rose by 0.4 percentage points to 17.2%.

The KarstadtQuelle Group's excellent assets and capital structure is shown by, for example, the following key figures:

– The ratio of capital to fixed assets is 33.1% (34.1% in 2000).
– Fixed assets were financed at 112.7% (119.2% in 2000) by long-term capital investment.

Of the provisions totalling 3.1 billion € 90% (87.7% in 2000) were long-term. These include pension provisions amounting to 2.6 billion € (2.5 billion € in 2000).

Short-term provisions amounting to 313 million € fell by 66.9 million €, compared with 2000. The decisive factor in the reduction is the consumption of restructuring provisions in the department stores segment.

Net debt through acquisitions up

Net debt rose by 341.7 million € to 2.8 billion €. This is due mainly to the financing of acquisitions as well as the capital increase at Thomas Cook.

Working capital reduced by 5.4%

The working capital was selectively reduced. It fell by 5.4% to 2.9 billion €. The share contributed to sales by working capital fell by 1.8 percentage points to 18%.

Important transactions in the 2001 financial year

Growth through acquisitions and partnerships

KarstadtQuelle Group further improved its market position in the financial year through acquisitions and strategic partnerships.

SinnLeffers takeover expands No. 1 position in the fashion market

We consolidated our leading position in the German fashion market by the takeover of M + T Mode- und Textilhaus-Beteiligungs Gesellschaft m.b.H., Essen. This company holds 85% of the shares in Sinn Leffers AG, Hagen. By a lump-sum payment and further purchases we acquired a further 6.4% of shares in SinnLeffers. Our total share in SinnLeffers thus stands at 91.4% (as at 31.12.2001). This company operates 48 fashion stores and achieved sales worth 0.6 billion € in the 2001 financial year. The takeover of SinnLeffers represents an important basis for our fashion expansion strategy.

Three acquisitions strengthen special mail order

A mark of our strategy of further intensified internationalisation and specialisation in mail order business is three acquisitions in this product segment.

AFIBEL takeover expands market position in France

By the takeover of the stock exchange listed French special mail order supplier AFIBEL S.A., Lille, we further expanded our strong market position in France. AFIBEL is positioned in the traditional, medium-priced fashion market for the more mature woman and man. The company has over a million customers and achieved sales worth 125.9 million € in the 2001 financial year.

Hess Natur-Textilien GmbH & Co. KG: acquisition of the No. 1 in natural textiles mail order

In Hess Natur-Textilien GmbH & Co. KG, Bad Homburg, we acquired a market leader in the natural textiles special mail-order sector. Hess offers a comprehensive range of natural clothing for women, men and children and has a firm customer base. The company achieved sales worth 40.9 million € in 2001.

Fritz Berger GmbH & Co. KG: acquisition of the No. 1 in camping and outdoor mail order

The takeover of Fritz Berger GmbH & Co. KG, Neumarkt, the market-leading mail-order supplier of camping and caravaning as well as leisure and outdoor products, markedly strengthens our position in this specialty segment. This company is represented in France and Austria as well as Germany. In 2001 it achieved sales worth 38.6 million €.

Takeover of GOLF HOUSE Direktversand GmbH reinforces market leadership in the sports sector

To further expand the market leadership in the German Sports retailing sector, we acquired 74.9% of the company shares in GOLF HOUSE Direktversand GmbH, Hamburg. Measured by sales, after Karstadt GOLF HOUSE is Number Two in the golf outfitting and golf equipment segment. In 2001 the company achieved sales worth 21.1 million €.

Joint venture with Starbucks: 200 coffee houses by 2005

The joint venture started in the 2001 financial year with Starbucks, the No. 1 in the coffee house business world-wide, offers KarstadtQuelle great potential. On the basis of the two strong brands, Karstadt and Starbucks, complementary concepts and high gastronomic competence, we shall open around 200 coffee houses both at individual locations and in Karstadt department stores by 2005. The aim is to rapidly attain market leadership in the German coffee house business, which is characterised by a very low brand penetration. In the long term there is a potential for 1,500 coffee houses in this segment in Germany. Starbucks is already represented by 4,600 coffee houses world-wide. The joint venture offers attractive margins in the market for lifestyle-oriented consumption. It will make a significant contribution to earnings in the KarstadtQuelle Group in the future. We are expecting to break even as early as 2004.

KarstadtSport expanding strongly

KarstadtQuelle is market leader in the German sports market with a share of around 9%. We are very well positioned in this growth segment on the basis of our multi-channel strategy with the specialist sports departments in our department stores, inner-city sports stores, sports markets in shopping centres, specialty store chains such as Runners Point and GOLF HOUSE as well as in home shopping online and through sports catalogues. In the year under review we extended our branch network to include three sports stores in Erfurt, Paderborn and Freiburg as well as Europe's largest outdoor centre in Munich. A unique thematic display of trend sports ranges such as trekking, X sports, biking and skiing was mounted in 5,600 sq. m. of sales space. There are plans to open further outdoor centres in German cities in the next few years. Under our sports expansion strategy we are aiming for a market share of around 15% by 2006. Over this period the number of branches will grow by around 50% to more than 400.

Restructuring strengthens competitive position

In 2001 we took all the necessary structural decisions for restructuring in the two business segments over-the-counter retail and mail order. This created the essential conditions for a marked improvement in earnings.

Department store business: warehouse locations reduced from 36 to 22

Streamlining and increasing the efficiency of our logistic processes were central in our department store business in 2001. The points of emphasis were branch logistics, central store logistics and the supply chain management. As part of the systems optimisation and process streamlining 14 out of a total of 36 storage locations were cleared and storage space reduced by 165,000 square metres.

We also reduced employee levels by 3,948 persons in full-time terms on annual average in accordance with agreements reached with employees' representatives. As the employee cuts were made as a result of constructive optimisation measures, day-to-day business operations were not adversely affected by this measure. The cost reduction resulting from personnel adjustments to some extent already made itself felt in the 2001 financial year and will have a full effect for earnings in 2002.

Further points of emphasis for restructuring were the centralisation and standardisation of ranges and processes as well as the streamlining of the administration.

In over-the-counter retail we also stepped up the cooperation and organisational integration of department stores and specialist discount stores.

The expansion of our fashion holding, which forms a joint platform for KARSTADT department stores and the WEHMEYER and SinnLeffers specialty store chains, is progressing well. The main aim is the creation of synergies between the group companies concerned – in, amongst others, the areas of purchasing, logistics, range planning and administration. The very promising cooperation between the companies involved offers excellent opportunities.

We want to focus our efforts in a similar form in the technology sector. Accordingly, the technology departments of the department stores and the Schaulandt/Schürmann and WOM specialty store chains were combined in a "technology unit". The aim is, amongst other things, to exploit synergies by concentrating purchasing processes and strategic functions. The closure of the central offices of both specialty store chains reduced costs by combining administrative tasks.

Furthermore, we placed the fashion operation of the two distribution channels department stores and specialty discount stores under joint management. In the technology product sector we set up a management responsible for both distribution channels.

Quelle and Neckermann: two strong brands join forces

The mail-order business segment is undergoing a radical reorientation. The aim is to further intensify the cooperation between Quelle and Neckermann without changing the legal structure of the companies. This is being done by means of an organisational fusion in order to:

– continue to profit fully from the advantages of the two strong Quelle and Neckermann brands,
– to keep open options that would be closed by a legal merger,
– to utilise additional sales, earnings and cost reducing potential in the shortest possible term and lastingly.

Two companies with a joint management board

We also concentrated our efforts at the highest level and placed the Quelle and Neckermann companies under joint management. Dr. Christoph Achenbach was appointed management board chairman of both companies. Further cross-company functions are being discharged by the financial director Arwed Fischer, the director responsible for the personnel sector Friedrich Wilhelm Schlich and Ulrich Wiggers, director responsible for the logistics/IT sector.

The following sectors will profit especially from the organisational fusion:

– Marketing and distribution
– Purchasing
– Logistics and fulfillment

One of the most important advantages in the marketing and distribution sector is the joint utilisation of the address and marketing data of both brands. This creates great potential for the further consolidation of existing customer relations. Moreover, in future Neckermann customers will have access to the customer service at our more than 6,500 Quelle shops nation-wide. We anticipate further synergies from an increase in advertising efficiency, for example, through joint catalogue pages of both brands.

The most important advantages in purchasing are supplier concentration, joint procurement for Quelle and Neckermann ranges and product standardisation.

In the logistics and fulfillment sector the reduction in storage space is having positive effects. As a result of the reduction in the variety of products through standardisation inventories are being reduced. Other advantages are the reduction of transport costs and savings from the standardisation of IT processes and IT systems between Quelle and Neckermann.

B2C (business to consumer):
online demand up by 80% to 814 million

As well as the traditional distribution channels, over-the-counter retail and mail order, B2C (Internet business with the end consumer) is developing into a powerful distribution channel in our multi-channel network. In 2001 we further expanded our leading market position by organic growth. Thus, KarstadtQuelle is one of the few companies to show significant successes in this sector. We now operate 65 shopping portals and e-shops across the group.

Demand in our online business once more exceeded our stringent targets in 2001. As a result, we increased sales by 80% to 814 million € (450 million € in 2000). Thus, already more than 10% of our total sales in mail order are attributable to the Internet. Around 40 million visits, as against 10 million in 2000, emphasise the considerable attractiveness of our online ranges.

Many online customers are new customers

In the mail order segment a considerable number of our Internet customers are new customers. This underscores the success of our new customer acquisition measures. At the same time with every existing customer who switches to the Internet customer-related administrative costs fall. In over-the-counter retail the Internet is an important information and communications channel. By additional information and entertainment offerings we increase the efficiency of our advertising and customer satisfaction. The relaunch of the karstadt.de shopping portal, which has been online since May 2001, went off successfully.

B2B (business to business):
GNX and Texyard auction platforms

In the B2B segment (online business between companies) our emphasis is on product procurement through virtual auction platforms. The Karstadt Quelle Group is well positioned in this segment, which is becoming increasingly important for retailing. Through the share acquired in the textiles procurement platform Texyard in October 2000 we held initial trial auctions in Turkey in December 2000. In March 2001 we also invested in the international and cross-sector purchasing platform GNX.

Online auctions:
process times considerably reduced

Altogether 454 auctions with an extremely satisfactory total volume were held in the KarstadtQuelle Group in 2001. At the same time we achieved more favourable purchasing prices. Still more decisive, however, is the increase in efficiency and cost reduction owing to a marked reduction in the process times. These were reduced by up to 80%.

KARSTADT QUELLE Bank concentrates
banking business

Towards the end of the 2001 financial year the KarstadtQuelle Group concentrated its banking business for private customers throughout the group in the KARSTADT QUELLE Bank GmbH, Neu-Isenburg. The core business of the KARSTADT QUELLE Bank comprises consumer credits, goods financing and investment products as well as loyalty card transactions with payment and credit functions.

The bank will be markedly expanding its range of functions and its product portfolio. Thus, for example, in summer 2002 the existing loyalty card will be provided with an international credit card function (Mastercard).

As regards our banking business we are profiting from our many and varied customer relations. The KARSTADT QUELLE Bank offers its service both over the counter in Karstadt department stores and online. The bank will also expand its expertise in multi-channel distribution.

The decisive factor for the expansion of the banking business is first and foremost our expansion in the financial services sector. The KARSTADT QUELLE Bank was integrated into the joint venture with the ERGO insurance group, KARSTADT QUELLE Financial Services GmbH, in March 2002.

KARSTADT Hypothekenbank AG set up

In December 2001 we were granted permission by the German Office of Credit Control to operate mortgage banking services. The main function of KARSTADT Hypothekenbank AG is the financing of the real estate inventories and future investments of the group.

Changeover to euro went off on schedule

The changeover from the deutschmark to the euro went off on schedule throughout the KarstadtQuelle Group.

Preparations began as early as 1997 to ensure the smooth changeover of all systems and processes as part of a multi-stage introduction.

The changeover process was supported by an active information policy with regard to our customers and staff as well as security and quality measures.

In peak periods around 270 staff assisted with the changeover to the euro. Total costs were a good 30 million €, of which around 16.4 million € were attributable to 2001.

Procurement and distribution

Procurement through world-wide purchasing network

The cost of goods sold in the KarstadtQuelle Group amounted to 8.7 billion € in the year under review (8.2 billion € in 2000). Of this 75% are attributable to Germany and 25% to imports. For procurement of the products we have at our disposal a world-wide purchasing network.

The greater part of our imports, 57%, comes from Europe. The main suppliers are Turkey and Italy. The Far East, with a share of 41%, is a further main source of imports. The greater part of the products comes from China or Hong Kong. Of the total volume imported 52% is durable consumer goods and 48% textiles.

Gradual development of the TV commerce market of the future

As well as the already existing participation in Germany's most successful teleshopping station Home Shopping Europe AG (formerly H.O.T., Home Order Television AG), initial TV commerce pilot projects were launched to set up the necessary internal processes for TV sales. KarstadtQuelle is playing a leading role in development in the interactive TV shopping market of the future. As the world's first retailing company, we have joined the MHP initiative (Multi-Media Home Platform), a new standard for digital TV transmission. On the basis of this new technology we are developing jointly with equipment manufacturers and TV broadcasting stations customer-friendly TV shopping functionalities.

Successful exploitation of fusion synergies

As a result of the fusion of Karstadt and Quelle to form KARSTADT QUELLE AG in 1999 the group is profiting from earnings contributions resulting from synergetic effects which will continue to increase until 2002. Thus in the year under review we increased earnings from synergies to 126.9 million € (87.3 million € in 2000). This represents 91.8% of the synergy volume originally planned for. Of the synergetic effects 35.2% are attributable to over-the-counter retail and 64.8% to mail order.

All group companies are committed to the code of conduct

All companies of the KarstadtQuelle Group are committed to the introduction and observance of the code of conduct. The social and environmental standards laid down in this for, amongst other things, the avoidance of child labour, low pay and prevention of environmental damage are largely determined by international conventions and agreements.

The obligations arising from the standards are a binding constituent of the purchasing conditions of KARSTADT QUELLE AG. They apply world-wide to the procurement of all goods.

Staff breakdown by business segment annual average in terms of full-time employees

	Total 2001	thereof domestic	thereof abroad	2000
Department stores	48,039	48,039	-	51,987
Specialty stores	7,424	7,417	7	3,519
Over-the-counter retail	**55,463**	**55,456**	**7**	**55,506**
Universal mail order	24,951	19,389	5,562	25,568
Specialist mail order	5,056	3,791	1,265	4,086
Mail order	**30,007**	**23,180**	**6,827**	**29,654**
Services	**3,748**	**3,743**	**5**	**3,455**
Real estate	**26**	**26**	**-**	**-**
Holding	**135**	**134**	**1**	**82**
	89,379	**82,539**	**6,840**	**88,697**

Employees

At the end of 2001 the KarstadtQuelle Group employed 112,141 persons, 979 fewer than at the 2000 balance sheet date. The number of persons employed abroad rose by 208 to 8,050.

On annual average and in full-time terms the number of employees rose by 682 to 89,379.

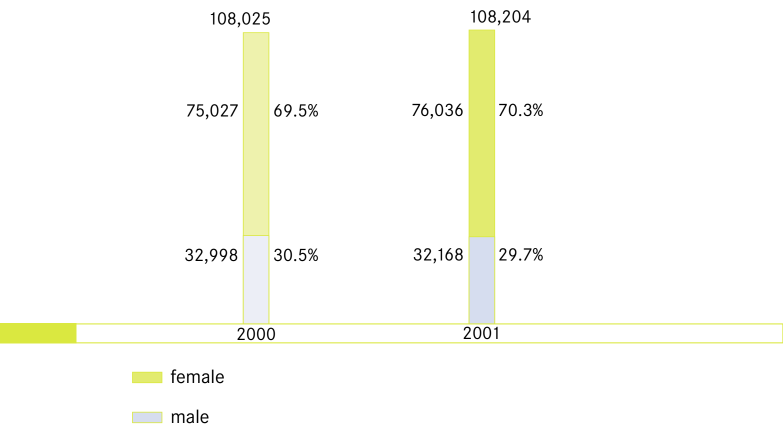
The reason for this contradictory development is the reduction of staff in the department stores, which made itself felt primarily in the second half of the year.

Around 70% of the KarstadtQuelle workforce are female.

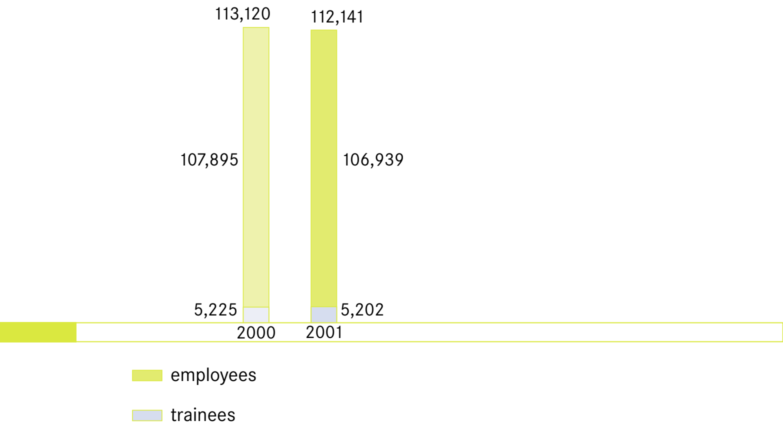
Karstadt Warenhaus AG cuts 3,948 full-time jobs

At the balance sheet date there were 70,716 persons employed in the over-the-counter retail segment. That is 1,783 fewer than at the same time the previous year. Here it must be borne in mind that, as a result of the inclusion of M + T Mode- und Textilhaus-Beteiligungs Gesellschaft m.b.H. (SinnLeffers) and GOLF HOUSE Direktversand, the number of employees has risen by 5,760. The M + T Mode- und Textilhaus-Beteiligungs Group (SinnLeffers) contributed 5,568 employees, GOLF HOUSE 192. The decisive factor for the reduction is mainly staff cuts in the Karstadt department stores. Here under our 10-Step Value Enhancement Programme we streamlined our logistics processes. We introduced a new management structure for the sales and administration sectors. In all 3,948 full-time jobs were cut. This represents a reduction of 7.6%. The other staff cuts are due to branch closures.

Staff on annual average



Staff as at 31.12.



To ensure that the staff reductions complied with social welfare requirements we passed a comprehensive social welfare programme. Thus, for example, we work closely with a nation-wide transfer company which prepares employees for new tasks in the jobs market by further training and qualification schemes. In 2001 652 employees benefited from this project.

Mail order:
number of employees rises as a result of acquisitions

At the balance sheet date, December 31, 2001, we employed 36,922 persons (36,687 at the balance sheet date, December 31, 2000). This represents an increase by 235 persons. The inclusion for the first time of the special mail-order companies AFIBEL, Hess Natur-Textilien and Fritz Berger increased the number of employees by 923. Not including acquisitions, the number of employees fell by 688. In the 2001 financial year, as part of additional restructuring measures, we reduced the number of employees in universal mail order (big book business). At the same time staff adjustments, particularly in the logistics and distribution segments, were continued and the number of temporary staff reduced, while at the same time the part-time quota was increased. As a result the number of persons employed in universal mail order (big book business) fell by 943 to 30,414.

On annual average the number of full-time employees in mail order stood at 30,007 (29,654 full-time employees in 2000). Of these the greater number, 24,951 (617 fewer than in 2000), were in universal mail order. 5,056 persons were employed in special mail order on annual average.

The number of employees abroad rose by 238 to 6,827. This represents a share of 22.8%, as against 22.2% in 2000.

Services and Real estate create jobs

4,303 persons were employed in the new Services segment at the balance sheet date. That is a rise of 13.1%, or 497 employees. This is due mainly to the expansion of our services in the IT, Banking and technical customer service segments. On annual average the number of full-time employees in this segment rose from 3,455 to 3,748.

The increase in the number of employees will continue in the financial years to come as a result of the further great expansion of the segment.

The new Real estate segment employed 48 persons at the balance sheet date.

152 employees were engaged in holding duties at the end of the year (128 in 2000).

Restructuring takes effect: productivity up by 6.7%

In the department stores we achieved sales per full-time employee (not including trainees) of 146,380 €, not including VAT. Employee productivity thus rose by 6.7% on the previous year.

From employee to co-owner

To strengthen commitment and identification with the KarstadtQuelle Group, in the year under review for the first time we introduced an Employees' Share Plan (MAP) for our employees. The opportunity of acquiring a maximum of 14 KarstadtQuelle shares at a favourable price met with considerable interest amongst group employees. Of the altogether 97,689 persons entitled around 17% opted to purchase and, as KarstadtQuelle shareholders, now profit from the development in the value of the undertaking. As part of the measures to change our corporate culture, we have thus established an additional performance incentive.

Value-oriented management by means of stock options

By an Incentive Stock Options Plan (ISOP) for around 1,000 selected managerial staff of the KarstadtQuelle Group we are linking managerial tasks even more closely to corporate success. Performance-related remuneration by means of stock options is helping to increase the value and earnings power of KarstadtQuelle. At the same time the awareness of the demands of the capital market is increased. Moreover, participation in corporate results rewards the great responsibility and high level of commitment of top management.

Great interest in older employees' part-time work

As a result of staff adjustments the number of employees opting for older employees' part-time work increased. 763 employees (859 in 2000) at Karstadt Warenhaus AG, Quelle AG and Neckermann Versand AG took advantage of this opportunity of a gradual transition to retirement. The 3-year average term of contract ensures that know-how is not lost and the posts falling vacant can be taken by younger employees.

High investment in training and further training

We invested 77.9 million € (82.6 million € in 2000) in the training of young and committed employees in the year under review. The greater part of this, 55.6%, went on training fees.

At the end of the year we employed 5,202 trainees in the group, nearly the same number as in 2000.

The Management Board thanks employees

The Management Board thanks all employees in Germany and abroad for their great commitment and the work they did in 2001.

Thanks are also due to all employees councils, members of joint management-employee economics committees and spokespersons' committees as well as the young persons and trainees representatives for their loyal and constructive cooperation. The decisions linked to the restructuring of the group continue to depend on the support and active cooperation of these groups for their successful implementation on behalf of the group and the safeguarding of jobs in the long term.

Environmental protection

Environmental protection shapes corporate culture

As a leading retail group, the responsibility for human beings and nature is central to our corporate culture. Environmentally protective management determines our corporate philosophy. Whether it is product purchasing or waste disposal, packaging or transport, building installations, conversions or new constructions – in all areas of the group the protection of the environment determines our activity. For many years we have been among the pioneers in the implementation of the environment concept in retailing. The proof of this is the more than 30 environmental awards as well as partnerships with well-known environmental protection organisations like the German Bund für Umwelt und Naturschutz Deutschland e. V. (BUND).

Karstadt Warenhaus AG: environmental products on growth course

In the past ten years we have continuously achieved successes in environmental protection. Particularly in the area of textiles and durables sales and the wide variety of environmentally friendly products record continued growth. Amongst others, the climate protection campaign conducted jointly with the German Department of the Environment and BUND during the 2001 financial year contributed to this.

In procurement, too, protection of the environment is being continuously improved: nearly 500 suppliers use the re-usable transport boxes developed by Karstadt. Around 60% of staple goods consignments are transported by rail.

Internal environmental protection measures such as energy and water saving and the use of ecological durable and consumable materials have formed an integral part of our day-to-day business for a long while, not least for reasons of cost.

Quelle AG: 500 million from sale of eco-products

Quelle AG's environmental commitment is based on the commitment, established under the eco-audit in 1999, of all the relevant areas of the company to observe the basic principles of ecological protection.

This includes in particular the establishment of environmental management systems.

Quelle, with sales of ecologically oriented products worth 500 million €, has been one of Germany's leading providers for years. The range of tested textiles conforming to the Eco-Tex standard 100 alone takes up around 300 pages in the main catalogue.

Neckermann Versand AG:
Eco-pass guarantees environmental compatibility

With Neckermann Versand AG, too, ecological practice has traditionally been an important principle. This applies both to the operational environmental protection and to product ranges and advertising media. As early as 1997 Neckermann became one of the first retailing companies to establish a certified holistic environmental management system.

The environmental compatibility of Neckermann products is guaranteed by an eco-pass. This provides information about the material content, manufacturing processes and recyclability of around 40,000 products in all ranges annually. In addition, we work continuously to ensure that our suppliers are responsive to ecological issues.

In 2001 we sold 160 million € worth of products bearing the Neckermann environment mark. Most of these were household and home textile products.

Public relations

Corporate profile strengthened,
media response amplified

Media interest in KarstadtQuelle continued to grow during the year under review. This was due to, amongst other things, the success of the 10-Step Value Enhancement Programme and the above-average share performance. Added to this were numerous activities by our group companies, which attracted the strong attention of consumers. The announcement of the joint venture with the US company Starbucks drew a particularly strong response from the media.

Communications strengthens group image

Our intensive and up-to-date communications are increasingly reinforcing KarstadtQuelle's positive image with the public. This is aided by the strong branding practice of the subsidiaries, as well as the corporate design and the corporate identity.

At the same time we concentrated our communications on selected target groups. Thus, for example, we intensified our political communication in particular. The focus was on approaches to and need for reform. The repeal of the Rebate Law, the amendment of the law of guarantee and the discussion about the Law on Unfair Competition make this clear. Furthermore, we extended the communication to draw attention early to Quelle AG's 75th anniversary and anniversary activities in summer and autumn 2002.

Top ratings for karstadtquelle.com

Our further improved karstadtquelle.com website was cited by several major business publications for, amongst other things, its clearly structured design and the informative and up-to-date contributions with top ratings in Internet rankings. The up-dated online range released for access in December 2001 is with 300 pages more comprehensive and more user-friendly. Every month an average of around 24,000 potential customers access our constantly updated website information.

KARSTADT QUELLE AG Balance sheet

as at December 31, 2001

ASSETS	2001 th.	2000 th.
Fixed assets		
Intangible assets	1,028	187
Tangible assets	7,252	1,119,797
Financial investments	3,250,674	1,492,272
	3,258,954	**2,612,256**
Current assets		
Receivables and other assets	1,750,750	1,169,031
Securities	4	4,091
Liquid funds	4,535	12,499
	1,755,289	**1,185,621**
Prepayments and deferred expenses	**4,298**	**5,445**
Balance sheet total	**5,018,541**	**3,803,322**

LIABILITIES	2001 th.	2000 th.
Capital and reserves		
Issued capital	301,460	300,929
Capital reserve	488,521	482,031
Revenue reserves	514,669	400,754
Balance sheet profit	113,916	78,759
	1,418,566	**1,262,473**
Untaxed special reserves	**30,010**	**39,895**
Provisions for liabilities and charges		
Pension provisions	983,660	978,375
Other provisions	123,452	139,833
	1,107,112	**1,118,208**
Liabilities		
Financial liabilities	1,840,312	973,066
Other liabilities	621,951	408,226
	2,462,263	**1,381,292**
Accruals and deferred income	**590**	**1,454**
Balance sheet total	**5,018,541**	**3,803,322**

KARSTADT QUELLE AG Profit and loss account

for the year ended December 31, 2001

	2001 th.	2000 th.
Other operating income	61,924	410,925
Staff costs	- 117,099	- 111,784
Depreciation and amortisation on intangible fixed assets and tangible assets	- 2,028	- 126,448
Other operating charges	- 56,244	- 193,463
Income from investments	409,603	143,649
Amounts written off investments	- 16,290	- 27,447
Net interest	- 51,313	- 61,369
Profit on ordinary activities	**228,553**	**34,063**
Extraordinary income	-	97,361
Taxes on income	- 653	- 217
Other taxes	- 69	- 13,464
Profit for the year	**227,831**	**117,743**
Transfer to earnings reserves	- 113,915	- 38,984
Net profit for the year	**113,916**	**78,759**

KARSTADT QUELLE AG

In accordance with the regulations of the German Commercial Code and the German Stock Corporation Law the annual account for KARSTADT QUELLE AG for the 2001 financial year was prepared in euros.

Department store real estate hived off

Since the beginning of 2001 KARSTADT QUELLE AG has been a pure management and investment holding company. Accordingly, as at January 1, 2001, department store real estate with a book value of around 1.1 billion € and the other asset items linked to it were hived off into various group companies in the real estate segment. A year-on-year comparison is possible only to a limited extent owing to this transfer. In particular the structure of the profit and loss account has changed considerably owing to the discontinuance of rent receipts and the expenditure connected with them.

Business performance at KARSTADT QUELLE AG

Income from investments rose from 143.6 million € to 409.6 million €. Earnings from investments included in this were increased by 193.3 million € to 323.8 million €. These include mainly the profit receipts of the real estate companies set up as part of the hive-off and the distributed profit of Karstadt Warenhaus AG and Kepa Kaufhaus GmbH. At the same time earnings from profit and loss transfer agreements went up by 76.8 million € to 91.4 million €. This is due mainly to the profit and loss absorption of Quelle AG and Neckermann Versand AG. Profit and loss transfer agreements were concluded with both companies with retroactive effect from January 1, 2001.

Set against this extraordinary earnings effects for 2000 of 97.4 million € – mainly write-ups on fixed assets – have been discontinued.

Net income rises to 227.8 million

KARSTADT QUELLE AG shows a net income of 227.8 million € (117.7 million € in 2000). After transfer of 113.9 million € to the other profit reserves there remains net profit of 113.9 million €.

Balance sheet total up

The balance sheet total for KARSTADT QUELLE AG rose by 1.2 billion € to 5.0 billion €.

The hiving off of real estate with a book value of around 1.1 billion € reduced fixed assets correspondingly and at the same time resulted in a rise in financial investments. These rose, furthermore, by 0.7 billion € owing to the acquisition of the holding in the M + T/SinnLeffers Group, a capital increase at Thomas Cook AG and a capital contribution to Karstadt Immobilien Beteiligungs AG.

Liabilities rose by 1.1 billion € to 2.5 billion €. The decisive factors here are the financing of acquisitions and the provision of funds for financing group companies.

Dividend increased from 0.67 to 0.71

On July 11, 2002, the Management Board of KARSTADT QUELLE AG will propose to the General Meeting of Shareholders that a dividend of 0.71 € (0.67 € in 2000) per individual share certificate, 6.0% higher than the previous year, be distributed from the net profit. Altogether 83.6 million € will be distributed on dividend-bearing capital of 301.5 million €.

The complete annual account of KARSTADT QUELLE AG, which was given an unqualified approval by the auditor, BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, will be published in the Federal Gazette and filed in the Commercial Register of the Essen District court, HRB 1783. It is obtainable from KARSTADT QUELLE AG as a separate publication and also on the Internet at www.karstadtquelle.com.

Dependent companies report

The Management Board of KARSTADT QUELLE AG assumes on the basis of the communications received in accordance with the German Securities Trading Law, WpHG, that the company was dependent on **Schickedanz-Holding AG & Co. KG** and **Schickedanz Beteiligungs GmbH** until March 26, 2001, and since December 11, 2001, has been dependent on the partners of the voting pool, **Madeleine Schickedanz, Leo Herl** and **Martin Dedi.**

Accordingly, the Management Board has submitted a dependent companies report for the 2001 financial year – which has been given unqualified approval by BDO Deutsche Warentreuhand Aktiengesellschaft Wirschaftsprüfungsgesellschaft, Düsseldorf – on all relations of the company pursuant to § 312 German Stock Corporation Act.

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 or whenever measures were taken or not taken – which business and measures are mentioned in the Dependent Companies Report – 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 after the end of the 2001 financial year

KARSTADT QUELLE Information Services GmbH set up: marketing of information

At the beginning of 2002 we restructured and expanded our services portfolio. For this we put all the existing operations in the marketing, and risk and debt management sectors under the control of the newly set up KARSTADT QUELLE Information Services GmbH. The services provided by the new service company concentrates on the qualification and processing of customer data. KARSTADT QUELLE Information Services' business customers include both the companies of the KarstadtQuelle Group and also outside companies. The range comprises services over the complete life cycle of a customer relationship. The company also provides consulting services relating to the management of customer data as well as corresponding systems solutions.

The market for information services has high growth potential in Germany and promises high returns. We see excellent opportunities for KarstadtQuelle here.

KARSTADT QUELLE Information Services GmbH thus offers its customers a comprehensive range of services for marketing, and risk and debt management.

Telekom and KarstadtQuelle aim at market leadership in loyalty card bonus programmes

As part of a strategic partnership KarstadtQuelle and Deutsche Telekom are amalgamating their bonus systems under the brand name “HappyDigits”.

The aim of the cooperation between Europe’s largest telecommunications company and Europe’s largest department store and mail-order group is in the medium-term market leadership in customer loyalty card programmes in Germany. The linking of the strong KarstadtQuelle and Telekom brands guarantees the high dynamism required for the rapid expansion of “HappyDigits”. One year after the launch a total of around 13 million customers will be benefiting from the loyalty card bonus system.

Bonus points stimulate sales

KarstadtQuelle expects the partnership to generate additional sales in the retail and services segment. The important thing here is that “HappyDigits” customers are further motivated by bonus points to buy at KarstadtQuelle. KarstadtQuelle is contributing many years of experience with loyalty cards to the joint undertaking. With 8.3 million loyalty cards group-wide, we have already set standards in this growth market in Germany.

Deutsche Telekom supports 41 million private customers on the fixed network as well as 23 million mobile phone customers and 9 million online customers in Germany.

The operator of the new customer retention programme is CAP Customer Advantage Program GmbH, in which KarstadtQuelle has a 49% holding. The company’s functions are the further development and realisation of a marketing and distribution concept under the “HappyDigits” brand name as well as the administration of the bonus points and the premium system.

Unique partnership in the financial services segment

The linking of retailing, insurance and banking in the financial services segment enables a completely new channel of access to the customer, particularly in direct marketing. We shall make consistent use of the interesting propects resulting from this and the high growth and value-adding potential.

To this end we launched a joint venture with the ERGO insurance group in March 2002. Under this joint venture through the KarstadtQuelle Financial Services GmbH we shall be working with one of the leading ceding insurers. The company, in which both partners hold a 50% share, is a marketing and distribution company for financial services.

Attractive insurance and bank products

The multi-channel strategy of KarstadtQuelle and the brand and product diversity of ERGO are combined in the strategic partnership. The product range includes attractive insurance and bank products. One emphasis of the marketing strategy is the individualised appeal to our customers.

As well as products by such well known brand names as Victoria, Hamburg-Mannheimer, DKV and D.A.S., the ERGO insurance group is contributing a company share of 45% in Quelle Versicherungen Holding Beteiligungs GmbH to the joint venture. With 1.7 million customers, Quelle Versicherungen is Germany's leading direct insurer.

KarstadtQuelle is contributing its considerable know-how in the field of multi-channel strategy, diverse close relationships with 19 million active customers and the KARSTADT QUELLE Bank.

KARSTADT QUELLE Financial Services GmbH plans income from net interest and commissions amounting to 240 million € for 2006. The company will already make a positive contribution to earnings after tax in 2004.

ECM EuroCenter Management GmbH expands its leading position in real estate

In January 2002 we set up the ECM EuroCenter Management GmbH, Essen. The company will in future be offering all the essential services for efficient real estate management. ECM is concentrating on the real estate development, leasing, centre management and facility management sectors. With 188 department stores and 277 specialty stores with space totalling around 2.6 million square metres and a real-estate-related purchasing volume of around 200 million € KarstadtQuelle has at its disposal a strong starting base in inner-city retailing.

Cross-selling: Karstadt and Quelle present first joint sports catalogue

In February 2002 we presented the first joint Karstadt and Quelle sports catalogue. The joint project underscores the varied prospects of our multi-channel strategy. It combines the strengths of both partners and at the same time creates high cross-selling potential with regard to purchasing conditions and range planning, provision of advertising media as well as logistics and fulfillment.

The catalogues contain around 200 joint product pages with identical ranges. There are also 16 marketing pages individually designed by Karstadt and Quelle. We anticipate that the new Karstadt and Quelle sports catalogues will break even after a year at the latest.

RISK MANAGEMENT

Overall risk

In its core business segments the KarstadtQuelle Group is exposed to very diverse risks. To identify, communicate, avert or minimise these early and continuously, we set up a group-wide risk management system. Planning, reporting, controlling and early warning systems coordinated across the group guarantee universal risk analysis and control.

The risk management system is a substantial constituent of the group's complex control system, which is focused on the sustained increase of value. Under it the respective operational business segments independently analyse and control the business risks to be assigned to them. Risks affecting the individual business segments which may accumulate in the group are recorded and controlled centrally as they arise. Where possible and economically advisable, we pass on risks to third parties.

Business risks

At present an important part of the business activity of the KarstadtQuelle Group is focused on the German retail sector and is thus significantly affected by the state of the domestic economy and demand situation.

In the 10-Step Value Enhancement Programme strategies for further development and multiplication of modern distribution formats, restructuring of the currently important business segments and the consistent expansion of new, promising fields of business are formulated. These will reduce the sensitivity of the KarstadtQuelle Group's earnings potential to conditions in the German economy.

The continuous analysis and control of the group portfolio is an important object of risk management. It is aimed decisively at further accelerating this process.

Operational risks

The group's individual business segments are characterised by internal processes of varying complexity. Operational disruptions due to faults can result in losses of sales and earnings. To counteract risks arising along the value-added chain, appropriate procedural and work instructions apply in the individual operational subsegments. Unavoidable risks of significant importance are hedged against via third parties.

Supplier risks

The group's broad and varied ranges require a large number of suppliers from different sectors and countries. This means a broad spread of risk and a breakdown into individual risks, each with a comparatively low damage potential.

For remaining residual risks, such as guarantee claims in the case of product defects or claims under the product liability law we generally ensure contractually that recourse is had to the supplier to shift the risk. Deviations from agreed delivery times or quantities are normally penalised by contractual penalties to settle claims.

Financial risks

The group's financial risks are controlled by the finance division of KARSTADT QUELLE AG for the entire group, using a systematic process defined in the relevant guidelines on risk policy. In this liquidity, interest, currency and credit risks are defined according to type of risk and the corresponding decision processes regulated in risk management. The risk strategies are decided on at least once a month on the basis of detailed reports and taking into consideration market developments and forecasts.

It is ensured by a central liquidity management that sufficient liquidity is available at any time for the operational business and for investments. A commercial paper programme to the amount of 2 billion €, an asset backed securities programme to the amount of 1.2 billion € and a new real-estate financing programme enable sufficient liquidity to be made available by the international money and capital markets. In addition, the group has at its disposal back-up facilities for the programmes and has confirmed credit lines with first-class banks.

Interest and currency risks are managed in accordance with treasury guidelines which must generally specify the principles of risk limitation and keep the margins of interest and currency risks to an acceptable range. To guard against risks derivative financial instruments are also deployed. The type of instruments and their use are fixed. They include mainly foreign exchange forward transactions and interest and currency swaps. The contracting banks and the upper limits for conclusion of the various types of transaction are likewise defined. Implementation, control and settlement are done on the principle of division of functions.

As part of the credit management minimum credit rating requirements and individual upper limits for commitment are fixed for all partners of the group.

Personnel risks

Employees are one of the decisive success factors for the group. This applies particularly also to the successful implementation of the 10-Step Value Enhancement Programme. For this motivated specialist and managerial staff who are closely tied to the company and its aims are required. To this end company training and further training projects have been stepped up. We are also increasing the motivation and identifiaction of employees and management with the company by the implementation of employees' share and stock options programmes.

OUTLOOK

Retail trade 2002:
zero growth anticipated

The trend of consumption in the first few months of the year was restrained. A general economic recovery which should encourage consumption is forecast for the second half of the year. For 2002 as a whole the committee of experts for assessing the development of the economy as a whole and the German Institute for Economic Research (DIW) assume at present with regard to the "true" retail trade zero growth nominally and a fall in sales in real terms.

Sales forecast only conditionally possible

Because of the current uncertain underlying conditions in Germany a reliable forecast is only conditionally possible. How we will perform will depend on whether consumption will revive as expected in the second half of the year or whether the purchasing restraint at the beginning of 2002 will spread and become a trend. For this reason we are prepared at a group level for a fall in the volume of sales for the year as a whole. We shall adjust our cost structure to market conditions accordingly.

Our sales development in the 2002 financial year is being positively influenced by, amongst other things, the following measures:

Quelle anniversary:
biggest ever marketing and sales offensive

Under the slogan "75 Years of Quality at Quelle Prices", during its 2002 anniversary year the mail-order company is concentrating on its traditional strengths and emphasising the impressive price-performance ratio of its ranges. With the biggest marketing and sales offensive in the history of the company and around 1,000 special anniversary items Quelle is aiming for a marked increase in sales.

Sports expansion:
five new sports stores

We are continuing to expand our market leadership in the sports sector in Germany in the current financial year. We believe there is high growth potential in the new German states in particular. For this reason in February 2002 we opened a sports market with 2,000 sq. m of sales space in Frankfurt/Oder. In March we opened the largest sports store (measuring 5,500 sq. m) in the new German states in Leipzig. There are plans to open five sports stores altogether by the end of 2002.

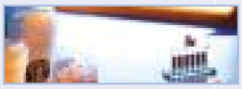
Starbucks:
opening of 12 coffee houses

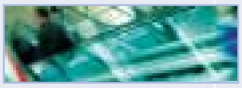
In early 2002 we are opening the first two Starbucks Coffee Houses at top locations in Berlin. By the end of 2002 we shall have extended the network of Starbucks Coffee Houses to 12.

Earnings:
no reliable forecast possible

Because of the uncertain situation with regard to developments in the German retailing sector no reliable forecast of earnings for the 2002 financial year is possible at present. We shall announce our earnings forecast as soon as we can see more clearly how things are developing.

Segment reports






"I have always known it: people today want to do more than just drink coffee. They want the idea, the spirit of America. And they love the American service – **it's personal and the choice is big:** "Yes, John, caramel macchiato as usual." In New York you experience it every day. And not only there, but all over the world. And now at last here, too. We are bringing the Starbucks feeling to Germany."

Axel Weber,
Starbucks team, KarstadtQuelle AG

Karstadt is brand leader in the department stores segment + depar

Key figures – Over-the-counter retail

			2001	2000	Change in %
Sales performance	Sales	th. €	8,069,107	7,580,970	6.4
Earnings	EBIT	th. €	101,594	- 65,773	-
	EBIT margin	in %	1.3	- 0.9	-
	EBT	th. €	59,509	- 76,894	-
	EBT margin	in %	0.7	- 1.0	-
	Equity	th. €	666,407	486,378	37.0
	Net debt	th. €	190,143	- 19,530	-
	Capital employed	th. €	856,550	466,848	83.5
	Return on capital employed	in %	11.9	-	-
Other information	Investments	th. €	548,878	168,753	-
	Depreciation/amortisation (not including goodwill)	th. €	170,259	151,186	12.6
	Gross cash flow	th. €	371,754	98,274	-
	Branches	number	465	390	-
	Sales space	th. sq. m.	2,613.8	2,390.2	9.4
	Full-time staff on annual average	number	55,463	55,506	- 0.1

Economic background

Difficult market environment for department stores and specialty stores

The scope for development of the retail trade in Germany is circumscribed by the sales in the “true” retail trade, that is, the sales of the retail trade as a whole but not including the sale of motor vehicles, fuel and combustibles and pharmaceuticals. Sales by the “true” retail trade totalled 378.5 billion € in the year under review. Compared with the 375 billion € for the previous year, this represents a nominal growth of 1.1%. Germany remains the largest retail market in Europe, followed by France and Italy.

For the over-the-counter retail trade in the KarstadtQuelle Group the development in retail and department stores and in specialty retailing in particular is decisive.

Retail and department stores in Germany suffered a fall in sales of 4.4% in the year under review. Specialty retailing could not remain unaffected by the general trend of restraint and recorded a fall in sales of 2.2%.

Strategy and positioning

188 department stores and 277 specialty stores

KarstadtQuelle is very well positioned in the Over-the-counter retail segment with 188 department stores, mainly at top locations in German towns and cities. In addition, there are 277 specialty stores under the brand names SinnLeffers and Wehmeyer (fashion), Runners Point and GOLF HOUSE (sport) and Schaulandt/Schürmann, WOM (multimedia) and LeBuffet (system gastronomy).

The greater part of the department stores operates under the name Karstadt. This common brand is supplemented by brands such as KaDeWe (Kaufhaus des Westens), Wertheim, Hertie, Alsterhaus and KarstadtSport.

Through integration and cooperation between the department and specialty store segments we are profiting from the high synergetic potential resulting from joint management and organisational structures. This applies to, amongst other things, purchasing and logistics processes as well as administrative tasks.

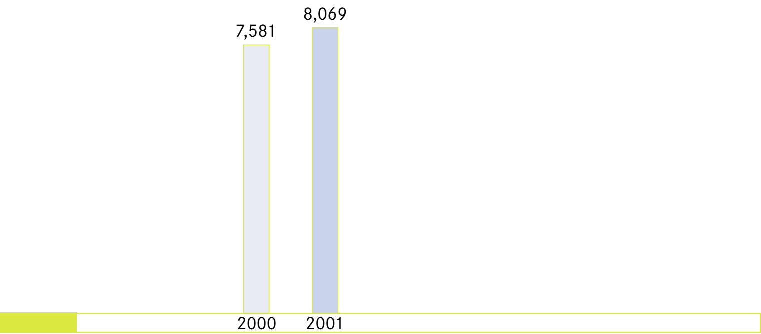
Focus on the German market

In our department stores business we are concentrating at present exclusively on the German market. Internationalisation brings with it high risks owing to the country-specific special features of the respective foreign markets and offers little synergetic potential with the German business. This is also the general view internationally. Conversely, our leading position in the German market is likewise unaffected by the expansion of foreign department store companies.

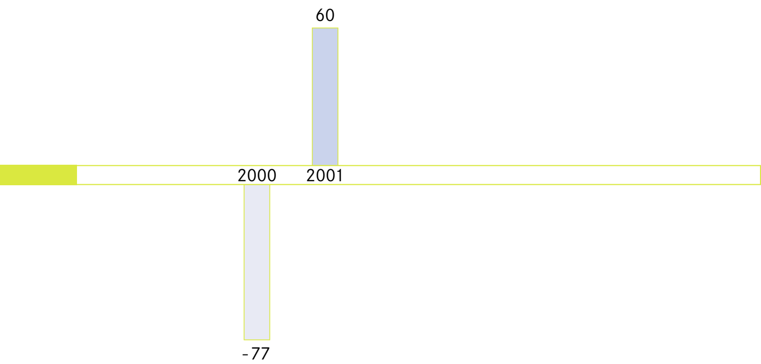
In the case of the specialty stores, by contrast, we believe that there are good opportunities of profiting from international expansion. Profitable retail chains are partly showing considerable successes outside their home markets. The international penetration of our ranges and brands is therefore also an option for KarstadtQuelle. Brands such as Runners Point or GOLF HOUSE offer high potential for this.

logistics optimised + innovative "(K)aufregung" marketing campaign

Sales in million €



Earnings (EBT) in million €



Segment performance

Sales performance: up 6.4%

Over-the-counter retail achieved returns from sales amounting to 8.1 billion € in the 2001 financial year (7.6 billion in 2000). This represents a growth in sales of 6.4%. After adjustments for the acquisition of M+T/SinnLeffers and GOLF HOUSE sales fell by 1.7%.

Earnings: positive earnings trend

Earnings as a whole developed positively. Profit before tax rose by 136.4 million € to 59.5 million € (-76.9 million € in 2000). Department store earnings improved markedly, while specialty stores recorded a fall in earnings.

ROCE

The return on capital employed (ROCE) rose to 11.9%. A negative return was shown in 2000 owing to the non-recurring cost of restructuring in the department stores segment.

Key figures – Department stores

			2001	2000	Change in %
Sales performance	Sales	th. €	6,889,078	6,973,002	- 1.2
	after adjustment for space *)	in %	-	-	- 0.7
Earnings	EBIT	th. €	117,618	- 71,579	-
	EBIT margin	in %	1.7	- 1.0	-
	EBT	th. €	93,283	- 79,602	-
	EBT margin	in %	1.4	- 1.1	-
Other information	Sales space productivity *) 1)	€	3,136	3,180	- 1.4
	Staff productivity *) 1)	€	146,380	137,217	6.7
	Branches	number	188	189	-
	Sales space	th. sq. m.	2,220.9	2,235.9	- 0.7
	Full-time staff on annual average	number	48,039	51,987	- 7.6

*) Karstadt Warenhaus AG only
1) not including VAT

Strategy and positioning

With 121 theme stores and 67 smaller department stores the No. 1 in the department stores business

With altogether 188 Karstadt department stores (189 in 2000) and a market share in department store sales of 36% Karstadt is market leader in this retail segment. Our department stores business focuses on the two formats theme stores (over 7,000 square metres of sales space) and smaller department stores (under 7,000 square metres of sales space).

In 2001 we opened two branches in Munich (outdoor sports centre) and Paderborn (sports and multimedia). At the same time we closed the Hertie store in Frankfurt-Höchst and the small retail stores in Düsseldorf-Garath and Salzgitter.

The 121 theme stores altogether contributed 89%, or 6.04 billion € (6.1 billion € in 2000), to department stores sales. Here we concentrated our marketing operation on products in the medium- or higher-price class. The range comprises the six consumer segments Fashion, Personality, Living, Multimedia, Sports and Food and Beverages.

n + Europe's largest outdoor centre opened + takeover of SinnLeffe

Amongst the theme stores 36 flagship stores – a synonym for event shopping in the department stores business – play an outstanding role. With sales space totalling 956,000 sq. m they generated approx. 52% of department store sales in the 2001 financial year.

The 67 smaller retail stores achieved sales totalling 0.71 billion € in the 2001 financial year (0.77 billion € in 2000). The locations are mainly first-class sites in areas of German cities and in middle-sized towns. The smaller retail stores offer customers mainly ranges in the middle and lower price class. In 2001 we markedly increased the profitability of this department store segment. As well as the increased provision of products especially in demand at the various locations, the restructuring and closure of unprofitable branches also contributed to this.

Business performance

Sales performance: down 1.2%

Sales in the department stores business amounted to 6.9 billion € (7.0 billion € in 2000). This represents a drop of 1.2%. After adjustments for space, the sales deficit comes to 0.7%.

Earnings: improvement through restructuring

Earnings before income tax rose to 93.3 million € (minus 79.6 million € in 2000). The substantial earnings growth of 172.9 million € reflects the success of restructuring under the 10-Step Value Enhancement Programme. At the same time it must be borne in mind that earnings for 2000 were burdened by non-recurring restructuring costs amounting to 121.0 million €.

The return on sales came to 1.4%. After adjustments for non-recurring restructuring costs they stood at 0.6% in 2000. The return on sales was thus more than doubled.

Gross earnings amount to 2.9 billion € (3.1 billion € in 2000). The trade margin stands at 42.6% and fell by 1.5 percentage points. This is an expression of the fierce competition in the German retail trade.

As part of the restructuring measures and in particular the reorientation of logistics the staffing level was markedly reduced. Staff costs amount to 1.6 billion € (1.8 billion in 2000). The share of staff costs in sales fell to 23.4%. This represents a fall of 2 percentage points on 2000.

Goods turnover increased

At the end of 2001 sales space amounted to 2,220,887 sq. m. This represents a reduction of 15,017 sq. m, or 0.7%. On annual average own-used sales space in Karstadt department stores was reduced by 6,519 sq. m, or 0.3%, to 2,152,397 sq. m. Thus, as in the previous year, we used 95.6% of the space ourselves, while renting out 4.4% to group companies and outside specialist providers.

Sales per square metre of own-used space fell by 1.4% to 3,605 € (incl. sales tax).

In 2001 we launched various projects to increase the turnover of goods. Here we focused our range more intensively on fashion trends and consistently weeded out slow-moving items.

These programmes will develop their effects only in the medium term. In 2001 the department stores turned over their goods inventory 3.5 times (3.4 times in 2000).

Karstadt price index up by 2.8%

The Karstadt price index is being raised internally on the basis of the products offered at Karstadt branches. In the 2000 financial year these prices rose by 2.8%, while the retail price index rose on annual average by only 1.6%. The cause of the divergence lies in, amongst other things, the rise in prices of food and beverages and tobacco due to the BSE/FMD problem.

The consumer segments

Fashion:
marked reluctance to spend

In the German textile market sales fell by 2.5% in 2001. The reduction in private consumer expenditure had an effect on the clothing market. The Fashion consumer segment in Karstadt department stores recorded a fall in sales of 2.2% to 1.9 billion €. While men's fashions performed better than the market, sales of women's clothing and children's fashion were worse than average. The expansion of the brand shops and the "(K)aufregung" marketing campaign had a stimulating

Sales by consumer sector

		2001	2000	Change in %	Share in sales in 2001 in %
Fashion	mill. €	1,905	1,948	- 2.2	28.2
Personality	mill. €	1,259	1,275	- 1.3	18.7
Living	mill. €	1,100	1,122	- 1.9	16.3
Sport	mill. €	560	575	- 2.7	8.3
Multimedia	mill. €	589	572	3.1	8.7
Food & Drink	mill. €	841	842	- 0.1	12.5
Other	mill. €	496	532	- 6.8	7.3
Karstadt Warenhaus AG	**mill. €**	**6,750**	**6,866**	**- 1.7**	**100.0**
Transitional account	mill. €	139	107	-	-
Total	**mill. €**	**6,889**	**6,973**	**- 1.2**	**-**

effect on sales. In the business with own brands sales worth 800 million € were achieved. The strongest brands were Barisal (women's and men's fashions) and Desirée (women's underwear), which between them recorded 43% of own-brand sales.

Personality:
1.3% fall in sales

The Personality segment includes, amongst other things, perfumes, leather goods, jewellery and books. Sales in 2001 fell by 1.3% to 1.26 billion €.

Perfumes achieved substantial rises from in-house promotions by leading cosmetics manufacturers. Here they profited particularly from the conversion from traditional specialist to open-plan perfume departments.

Leather goods also recorded a gratifying sales performance because of fashion trends.

Sales of jewellery and watches fell, particularly in the second half of the year.

Our book selling business suffered from the stagnation generally affecting this segment as well as from the continued expansion of space at branches of book chains. Moreover in 2001 it was not possible to latch onto the extraordinary sales success of the Harry Potter books in the 2000 financial year (over 250,000 copies sold).

In Stationery the standard range sold well, while the licence and theme business (merchandising products) dropped sharply.

Living:
growth in electrical appliances

Sales in the Living segment (includes electrical appliances, household goods and lighting) fell by 1.9% to 1.1 billion €, partly as a result of selective reduction of space. Sales of electrical appliances rose. Here, amongst other things, new cooperative ventures in distribution had a positive effect. Our customers responded to improved delivery capacity, punctuality and standard of service. The household goods and lighting business dropped, due to the market.

Sport:
up and down

Sales in the Sports segment fell by 2.7% to 560 million €. Here business in the individual ranges developed very variously. Two-figure sales growth was recorded by the Outdoor, Fitness, Running and Golf segments. Business in the high-volume skate sport goods, on the other hand, was marked by falls in sales. In the previous year this had shown high rates of increase. Sales also fell markedly in winter sports articles.

Multimedia:
sales rise by 3.1%

The Multimedia segment achieved a growth in sales of 3.1% to 589 million € despite a weakening market environment and continuing fierce competition.

Amongst other things, sales of computers developed successfully. There the rising demand for high-quality notebooks more than offset the downward trend in home PCs. In the Telecommunications segment, likewise, we increased our sales figures – despite the marked decline in sales since April.

The Music and Film segments as well as Entertainment Electronics showed slight falls in sales owing to reductions in space.

Food & Drink:
positive on comparable space

The Food & Drink segment, together with the Food, Beverages and Tobacco and Restaurants and catering segments, achieved sales worth 841 million € at the same level as last year. Sales space in Food, Beverages and Tobacco was reduced by 3.2%. On comparable space, a positive sales trend results, which gained considerable momentum from the expansion of the fresh foods departments. The meat and sausage business suffered as a result of BSE and FMD. Restaurants and catering, on the other hand, recorded a gratifying development. There the relaunch of the self-service restaurants and the expansion of the highly profitable small restaurant business reinforced growth.

Special events in the 2001 financial year

In 2001 we opened a number of pilot branches. The aim was to test innovative concepts and, if necessary, multiply them after the test phase is completed.

The further development of the theme store: symbiosis between department store and shopping centre

In Mülheim we converted a Karstadt department store into a new shopping centre. The total sales space covers around 40,000 sq. m. For the first time a quarter of this was rented to selected outside brand companies.

With this project Karstadt is continuing the successful development of its theme store concept in department stores with more than 7,000 sq. m of sales space. Here we are creating three theme worlds:

1. Entertainment (specialised market for multimedia, games and sports),
2. Fashion and style (intensified shop-oriented presentation in an extended space rented to known-brand shops), and
3. Living and pleasure (living, food and pleasure).

Fine food ranges and event space further enhance the value of the entire shopping centre. The aim of the future-oriented symbiosis between department store and shopping centre is the integration of exclusive brand stores in the fashion sector into the Karstadt presentation. In autumn 2001 a partial opening took place. The shopping centre as a whole will be finished by autumn 2002.

Smaller stores with regionally oriented ranges

A pilot project in the area of smaller stores is the conversion of our Langenfeld branch (near Düsseldorf). Here we have put together an individual range of products which has the best chances at this location especially. The emphasis is on our strong growth ranges Fashion, Sports and Technology and also focuses on ranges of every-day requirements.

Karstadt launched a further pilot project for smaller stores in Paderborn. A promising combination of sports store and technology/multimedia specialist store was presented in 6,300 square metres of sales space. Both ranges divide the space fifty-fifty.

Focus on the Karstadt brand

In the 2001 financial year we converted 11 Hertie department stores to Karstadt department stores. This underscores the strategy of focussing on Karstadt as a high-growth core brand. Excepted from the changeover are merely four Hertie department stores which detailed market studies indicate can be successfully continued under the Hertie brand name. These include the third-largest department store of the group at the Munich Main Station location, which continues to play a special role in the market as an international city store.

Biggest marketing campaign: "(K)aufregung bei Karstadt"

In October 2001 a comprehensive advertising campaign featuring the TV stars Verona Feldbusch and Harald Schmidt accompanied the biggest autumn marketing campaign since Karstadt has been in existence. Supported by newspaper and prospectus advertising, TV and radio spots achieved an 80% penetration in the desired target group.

Karstadt set standards with this advertising campaign and presented itself from a completely new side dynamically and with a great deal of humour. The advertising projects considerably stimulated our sales in part. As customer surveys revealed, they contributed to a further improvement of the Karstadt image.

karstadt.de online: 600,000 products and 4 million travel offers

In April 2001, under the strong brand name Karstadt, we launched the shopping and marketing portal karstadt.de. On around 9,000 Internet pages it presents approx. 600,000 products from the book, electrical goods, multimedia, music/video/DVD, wine and sports ranges. In addition, there are more than 4 million travel offers. www.karstadt.de is thus one of Germany's leading shopping portals. Comprehensive customer service ranges for each product, such as a fellow-traveller forum, expert tips from wine connoisseurs and the installation of large electrical appliances as well as up-to-the-minute information with tips and trends supplement the ranges specially aimed at Internet business.

The online portal is supplemented by special e-service points in the department stores. Here our multi-channel strategy guarantees that for example, on the Internet, selected products can be seen and tried out before purchase in the department store. Our department store service also guarantees fast and easy exchange of goods ordered online.

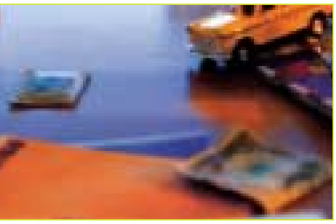
Restructuring: logistics centralised

At the centre of the radical restructuring in the department stores business was the changeover from a predominately decentralised to a centralised business system. Thus the business processes of the department stores are increasingly supported and controlled by the group central office. The emphasis of centralisation was on the reorientation of the branch and central store logistics and the supply chain management.

entre opened + takeover of SinnLeffers increases fashion competenc

Branch logistics:
delivery processes streamlined

The basis for the optimisation of the branch logistics was the streamlining and acceleration of the delivery processes. Moreover, the sales staff in the department stores were relieved of logistic tasks. These include shelf-stacking, price-marking and rehanging of textiles. Thanks to improved processes and the greater involvement of suppliers the staff now have more time to serve and advise.



Central stores logistics:
14 warehouses closed

We also considerably reduced our storage space. The decisive thing here was the expansion of the stockless goods supply, that is, direct delivery to sales shelves without intermediate storage. Thus, we closed 14 of the 36 regional depots and so reduced storage space by around 165,000 sq. m, or 17%. During the current year we are clearing further storage space by a similar amount.

Supply chain management:
stockless goods supply reduces delivery costs

In the process of restructuring the logistics and further reducing cost and increasing efficiency stockless goods supply is gaining in importance. With this, the proportion of ordered goods handled by cross-docking processes is gradually increased. As the goods arrive from the suppliers, they are no longer included in the central store stock, but instead are cross-sorted in a cross dock for immediate on-transport to the various Karstadt branches and then loaded onto the transporter. Cross docking has already achieved a share of around 35% in the fashionable seasonal business, the success of which, because of fast-changing trends, depends on rapid delivery processes.

Cross docking offers particular advantages for the delivery of goods which can be reordered regularly. Here by what is known as the transit procedure the goods sold in the department stores are delivered direct from the suppliers’ storage depots. Whereas the transit share in 1999 was only around 3.6% of turnover, in 2001 it grew to 5.2% and will be significantly increased to 8.4% in 2002. Then goods from around 210 suppliers with a total sales volume of over 500 million € will be being handled in transit, with the share of textile basics increasing disproportionately.

An increasingly limiting factor is the logistic capacity of suppliers to deliver the goods in time with high availability.

Stringent cost management

The restructuring measures were supplemented at all levels by an efficient cost management. Amongst other things, structures, processes, business relations and administration costs were subjected to a critical analysis.

3,948 full-time jobs cut in accordance with social welfare programme

As part of our restructuring programme we reduced material and staff costs. In consultation with employees' representatives the number of full-time employees on annual average was reduced by 3,948. We are thus considerably closer to the goal of reducing our – relative to the competition – too high costs. At the same time we have improved our competitiveness, safeguarded jobs for the long term and created the conditions for future business success.

Once again high investments in loyalty card: number of cardholders up by 58% to 6.3 million

In 2001 we invested around 15 million € in the wider distribution of our loyalty card. The number of cardholders rose by 58% to 6.3 million. Meanwhile around 35% (23% in 2000) of department store business is done through the loyalty cards. Here, mainly the repeal of the Rebate Law and Gift Ordinance offers big opportunities of increasing customer retention and boosting the demand for our products by means of discount systems and bonus programmes. Thus, we shall increasingly be offering favourable discounts, attractive bonuses and individually tailored information and advertising matter.

Karstadt opens Europe's biggest outdoor centre

In the sports goods sector Karstadt has further expanded its position as market leader by innovative sales concepts. An example of this is the opening of Europe's biggest outdoor centre in Munich, which is setting new standards in the sports business. In an area measuring 5,600 square metres this unique adventure and special equipment store offers a huge choice, particularly for the Outdoor, Bike and Winter Sports segments. The highlights include a reconstruction of the Großglockner serving as a test peak for ambitious climbers. The outdoor centre, together with the new Paderborn sports-multimedia store, emphasises our sports expansion strategy.

Key figures – Specialty stores

			2001	2000	Change in %
Sales performance	Sales	th. €	1,185,552	613,200	93.3
	after adjustment for space	in %	-	-	- 10.0
Earnings	EBIT	th. €	- 15,432	5,810	-
	EBIT margin	in %	- 1.3	0.9	-
	EBT	th. €	- 33,182	2,712	-
	EBT margin	in %	- 2.8	0.4	-
Other information	Branches	number	277	201	-
	Sales space	th. sq. m.	393.0	154.3	154.7
	Full-time staff on annual average	number	7,424	3,519	111.0

Positioning

The specialty store brands

The ranges offered by the 188 department stores is completed by the 277 specialty stores in the Sports, Technology and System Catering. In these sectors Karstadt enjoys a strong market position in Germany, being market leader in both Fashion and Sports.

Fashion

SinnLeffers, Germany's largest stock-exchange-listed textiles retailing company, offers full ranges in the higher-price and higher-quality Women's, Men's and Children's Clothing segment.

Wehmeyer specialises in the sale of Women's, Men's and Children's Clothing in the aggressively priced segment.

Sports

Runners Point, as a specialist provider, concentrates on clothing and shoes for sports and leisure.

GOLF HOUSE offers golf outfitting and equipment in the upper price and quality class. The company is Germany's largest chain in the golf segment.

Technology

Schaulandt / Schürmann offers entertainment electronics and communications technology equipment, EDP, software and hardware and audio-media.

WOM (World of Music) focuses on the sale of audio-media, videos and DVDs.

System catering

LeBuffet operates 18 in-store restaurants in Karstadt department stores. The company is also represented by 16 self-service restaurants in shopping centres and department and self-service department stores.

			2001	2000	change in %	change on compar. space in %
M+T/SinnLeffers	Branches	number	48	-	-	-
	Sales	mill. €	598.7	-	-	-
	Sales space	sq. m.	230,332	-	-	-
Wehmeyer	Branches	number	35	32	-	-
	Sales	mill. €	197.8	207.3	- 4.6	- 8.5
	Sales space	sq. m.	70,165	67,203	4.4	-
Runners Point	Branches	number	111	100	-	-
	Sales	mill. €	79.1	70.5	12.1	7.7
	Sales space	sq. m.	12,887	11,001	17.1	-
GOLF HOUSE	Branches	number	14	-	-	-
	Sales	mill. €	21.1	-	-	-
	Sales space	sq. m.	4,074	-	-	-
Schaulandt/ Schürmann	Branches	number	21	21	-	-
	Sales	mill. €	205.5	236.5	- 13.1	- 15.7
	Sales space	sq. m.	43,665	43,665	0	-
WOM	Branches	number	14	16	-	-
	Sales	mill. €	46.6	60.1	- 22.4	- 17.7
	Sales space	sq. m.	11,097	12,147	- 8.6	-
LeBuffet	Branches	number	34	32	-	-
	Sales	mill. €	42.7	49.8	- 14.3	- 4.7
	Sales space	sq. m.	20,734	20,244	2.4	-
Total	Branches	**number**	**277**	**201**	-	-
	Sales	mill. €	1,191.5	624.2	90.9	- 10.0
	Transitional account	mill. €	- 5.9	- 11.0	-	-
	Total sales	**mill. €**	**1,185.6**	**613.2**	**93.3**	-
	Sales space	**sq. m.**	**392,954**	**154,260**	**154.7**	-

loyalty card sets standards + karstadt.de online from April 2001

Business performance

Trend of sales:
big increase due to acquisitions

The specialty stores in the KarstadtQuelle Group increased their sales by 93.3% to 1.2 billion € (613.2 million € in 2000) as a result of acquisitions.

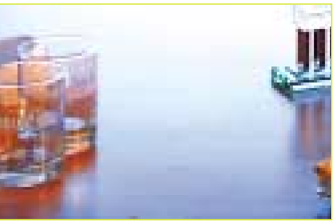
The inclusion of M+T/SinnLeffers and GOLF HOUSE for the first time increased sales by 619.8 million €.

Sales space totals 392,954 sq. m at the end of the year.

Earnings: well down

Earnings before tax fell markedly. The specialty stores show earnings amounting to minus 33.2 million € (2.7 million € in 2000).

The fall in earnings is significantly affected by weak demand in the textile and technology sector in the fourth quarter. Of this SinnLeffers included for the first time and the companies Schaulandt/Schürmann and WOM World of Music in particular were affected. Runners Point can look back on a successful financial year.



OUTLOOK

Prospects reduced

Set against the less than encouraging economic background, the prospects for the over-the-counter retail trade at the beginning of 2002 are not especially favourable.

Furthermore, the retail trade continues to labour under numerous legal restrictions. The liberalisation of competition through the repeal of the Rebate Law and Gift Ordinance in the 2001 financial year was a step in the right direction. Set against regulations in other European countries, however, there is a considerable need for reform. In this connection, at the beginning of 2002 through various marketing measures a discussion of the up-to-datedness and justification of the regulations on special offers set out within the law on unfair competition developed. There is, however, still no sign of the urgently needed solution.

Adjustment to a changed market environment

Against the background of the difficult market environment Karstadt in 2002 will take selective measures to decouple itself positively from the general trend, particularly as regards earnings. The restructuring in the department stores is being consistently continued. At the same time new sales potential is being opened up by marketing and customer retaining campaigns. We are also concentrating on increasing gross earnings by optimising the mix of sales and trade margin. Finally, the variable costs at all functional levels in the company are being adjusted to the sales expectations.

Restructuring continues consistently

In the current year we are continuing to restructure the department stores business consistently.

One focus is the further optimisation of the procurement channels by concentrating the logistics locations. As well as reducing the goods inventory and costs, we are achieving a higher level of utilisation at the remaining logistics centres.

As regards the selection of ranges we are standardising the ranges more consistently in our department stores and continuing to increase our goods turnover. An important focal point is the selective revision of the product ranges, as a result of which low-margin and slow-moving items are removed from the programme. At the same time we are intensifying the business with highly fashionable products. Here short-term market trends are used to sell high quantities by means of especially favourable offers. This is supported by focusing on high-volume suppliers.

We shall optimise our current logistics system. At the same time we are developing a new one. Furthermore, digitalisation and networking with our suppliers is being continued through the EDI electronic data interchange.

The cooperative effort between 188 department stores and 277 specialty stores of the KarstadtQuelle Group is being intensified in the administrative sector through shared services. This includes, for example, a joint accounts system and the central account recording and regulation.

Expansion of concession shops

To put its capital to use more efficiently and further reduce risks, Karstadt is accelerating the expansion of concession shops in the department stores. We shall extend the concept of subletting to independent specialists with their own personnel, which is successful in the Fashion segment, to include the Jewellery and Living segments.

We shall also increasingly rent out sales space to retailing partners with attractive brands and high-selling products.

Optimisation of the marketing mix

In marketing the optimisation of the marketing mix is foremost. We shall be continuing the successful marketing campaign "(K)aufregung bei Karstadt". We shall be cutting down on traditional advertising in newspaper supplements or through advertisements and replacing it with selective high-profile marketing campaigns and a stronger television presence.

"For me creating synergies is never a matter of just putting pieces together. It's about filling gaps, getting faster, avoiding detours. And the customer must profit from it as much as we do. Everything must be there quickly: the right fashion on the right day – and delivered by the shortest route. I see it, **the optimum process,** before me every day. We're getting there: I just know we are."

Nicole Henkel,
Quality Assurance, Textiles

market leader in German mail order + Quelle and Neckermann gradua

Key figures – Mail-order business

			2001	2000	Change in %
Sales performance	Sales	th. €	7,812,683	7,664,979	1.9
	thereof foreign sales	th. €	1,743,238	1,593,640	9.4
	foreign sales share	in %	22.3	20.8	-
Earnings	EBIT	th. €	196,934	220,688	- 10.8
	EBIT margin	in %	2.5	2.9	-
	EBT	th. €	103,737	119,779	- 13.4
	EBT margin	in %	1.3	1.6	
	Equity	th. €	617,442	584,084	5.7
	Net debt	th. €	1,681,537	1,876,023	- 10.4
	Capital employed	th. €	2,298,979	2,460,107	- 6.6
	Return on capital employed	in %	8.6	9.0	-
Other information	Investments	th. €	304,640	185,134	-
	Depreciation/amortisation (not including goodwill)	th. €	125,010	131,940	- 5.3
	Gross cash flow	th. €	431,651	381,042	13.3
	Full-time staff on annual average	number	30,007	29,654	1.2

Economic background

Sales in German mail order down by 2.4%

The German mail-order market in 2001 was characterised by a general reluctance to spend. It returned – according to calculations by the Association of German Retailers (BVH) – a nominal fall in sales of 2.4%. With a market volume of 20.3 billion € the mail-order business contributed a share of 5.6% to the likewise falling turnover in the German "true" retail trade.

Nearly all the European markets were characterised by recessionary tendencies in the 2001 financial year. As in Germany, in particular consumption-dependent business sectors in other Western European countries suffered from the slowdown in the economy.

Germany is the second largest mail-order market in the world

Germany is the largest mail-order market in the world after the USA. In 2001 average per capita mail-order sales to German consumers came to around 250 € (256 € in 2000). This is by far the highest level in Europe. At the same time the marked preference for mail order is leading to fierce competition in the German market. Thus, there are around 2,000 companies despatching goods to end or business consumers. At the same time a small number of universal providers are ranged against a rising number of highly specialised mail-order companies.

Strategy and positioning

Focus on top positions in universal and special mail order

The Mail-order segment comprises the business of the Quelle and Neckermann Groups in Germany and abroad. Both companies are ideally positioned: Quelle is No. 1 and Neckermann No. 3 in the German mail-order market. These company groups cover the full range of universal and special mail order in Europe. They are represented on the market by more than 120 companies. Quelle's and Neckermann's share of the German mail-order trade is around 30%.

Reorientation: two brands profit from joint business processes

Both mail-order companies have been under joint management since the beginning of 2002. This is an important outcome of the "Reorientation of the Mail-order segment" project. The basis for growth in our mail-order business is the two-brand strategy: the clear focus on Quelle and Neckermann as two of the most successful German mail-order brands. Through the fusion of nearly all the brand-independent business processes of the two companies we are profiting from substantial sales, earnings and cost-reducing potential created by synergetic effects.

Round-the-clock shopping and customer service

The decisive factors for the high attractiveness of the mail-order trade are, amongst other things, the clearly structured and well designed catalogues, order placing even out of shopping hours, telephone- and online-supported range and service advice as well as delivery within 24 or 48 hours. In addition, there are an unlimited 14-day right to return the goods ordered, product support after purchase by the technical customer service as well as reception and environmentally friendly disposal of used equipment. Quelle and Neckermann also offer the full range of modern payment facilities, from instalment payment to purchase account.

Quelle:
unrivalled variety of distribution channels

Quelle is the highest-selling mail-order company in Germany and, with a brand awareness of more than 98%, one of the strongest brands. Its mail-order business through direct order placement by telephone, fax, Internet or post is supported by a close-knit network comprising 8,500 branches. These include around 6,500 Quelle Shops and around 2,000 other outlets (for example, Foto-Quelle, Quelle travel agencies and bargain centres).

Quelle's most important target group is young families with children. We are also increasingly winning over other target groups to the advantages of the mail-order trade because of our leading position in the Internet business.

The Quelle range comprises around 50,000 items. It extends from fashion through technology and furniture to products for the family, work, leisure and health.

The main sales and earnings generators are the company's own brands. The best known and, at the same time, the most successful is "Privileg". It is the undisputed leader in washing machines and freezers in Germany. Another strong Quelle brand is "Universum" for audio- and video-equipment. The company has sold more than 2 million video-recorders, 8 million audio-systems and 10 million TV sets under this trademark so far. Quelle own-brands stand for consistent high quality, consumer-oriented design and modern styling. Close cooperation with manufacturers guarantees this. Quelle's strong market position stems mainly from this strategy.

Quelle is rated No. 1 in numerous other product categories. For example, the company is the highest-selling provider in the German Kitchen segment.

Neckermann: 35,000 items with an emphasis on home and fashion

Neckermann is the third-largest universal mail-order company in Germany. With a familiarity rating of 91%, the brand also is one of the most popular ever.

The breadth and depth of the range are emphasised by around 35,000 different items in the Fashion, Technology, Home and Household, Children, Sports and Leisure and Health and Wellness segments.

Neckermann profits from a particularly strong position in the Home and Furniture markets and in Women's and Men's fashion. The mail-order company likewise ranks as a specialist in special sizes with a comprehensive fashion range for women and men.

Neckermann also offers a comprehensive range of brands in both the Textile (e.g. Esprit, Levi's, Adidas, Fila) and the Technology segments (Siemens, Sony, Panasonic, AEG).

Successful brands in the Textile and Durable consumer goods segment contribute to strong customer retention. The most successful own brand in Textiles is "John F. Gee". In the Durable consumer goods segment "Lloyds" reports especially high demand for white goods and "Palladium" for entertainment electronics.

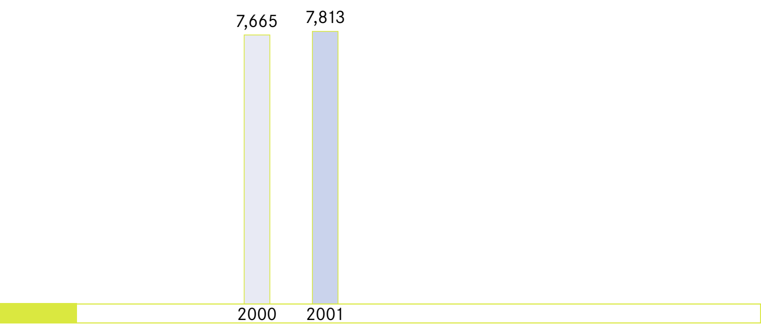
The Neckermann mail-order business is supported by the over-the-counter establishments Neckermann UrlaubsWelt travel agency chain and FOX Markets for the marketing of stock remainders.

Internationalisation as value driver

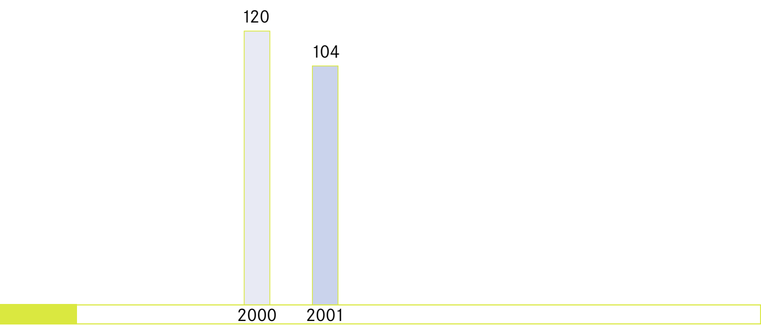
Quelle and Neckermann are represented in, amongst others, Austria, Switzerland, The Netherlands and Belgium, France and Great Britain by subsidiaries. Likewise in Spain and Portugal, Denmark and Sweden, in the Czech and Slovak Republics and in Poland, Slovenia, Croatia and Hungary. Quelle and Neckermann market their lines through country-specific catalogue ranges. Every season the national companies issue a main catalogue and – depending upon the size of their home markets – supplementary special catalogues and special brochures. The ranges are structured according to market volume and the distribution of mail-order business throughout the population.

ail-order suppliers + market leader in German mail order + Quelle

Sales in million €



Earnings (EBT) in million €



Segment performance

Sales performance:
up 1.9%

In the Mail-order segment we further expanded sales contrary to the market trend in 2001. They rose by 1.9% to 7.8 billion € (7.7 billion € in 2000). The special mail-order suppliers, who, as market leaders, for the most part concentrate on special ranges such as work clothing, baby products or eco-products, maintained their growth course. They recorded a marked sales increase of 28.6% to 1.4 billion €. Universal mail-order, which is much more dependent on the general economy, shows a 2% lower sales volume at now 6.5 billion € (6.6 billion € in 2000).

The demand for technology products developed well. Durable consumer goods, especially furniture, also detached itself from the downward trend and achieved sales increases. The Textiles, on the other hand, returned marked losses.

Abroad we increased our sales by 9.4%. Foreign sales amount to 1.7 billion € (1.6 billion € in 2000). The share contributed by foreign sales to turnover in the Mail-order segment grew by 1.5 percentage points to 22.3%.

We achieved good growth rates in Switzerland and The Netherlands. Sales in the Quelle France Group with its companies in France, Spain, Portugal, Belgium and Denmark went down owing to the difficult economic situation. Quelle Austria consolidated its leading position in a falling market, but failed to achieve the sales level reached in the previous year.

Earnings:
weak market hampers earnings

Earnings before tax fell by 13.4% to 103.7 million € (119.8 million € in 2000). Earnings, especially in the textile ranges, were negatively affected in particular by the general weakness of the market.

The return on sales stands at 1.3%, 0.3 percentage points lower than in 2000.

In Universal mail order, earnings before tax from main-catalogue business fell by 13.5% to 51.9 million €. The Special mail-order segment shows earnings fallen by 14.3% to 51.1 million €.

The return on capital employed (ROCE) fell slightly by 0.4 percentage points to 8.6%.

Investments

Investments in the Mail-order segment totalled 304.6 million € in 2001 (185.1 million € in 2000).

Important investment measures related to the new returned goods warehouse at the Frankfurt/Main location, soft- and hardware and equipment, furnishings and fittings.

A substantial portion of the financial investments was allocated to the further expansion of the strategic Special mail-order segment.

Special events in the 2001 financial year

Internationalisation consolidated:
foreign share of turnover up 22.3%

We continued our international expansion in the 2001 financial year. Thus the share contributed by foreign sales to turnover rose to 22.3% (20.8% in 2000).

Acquisitions also contributed to this. In January 2001 Quelle took over the stock-exchange-listed special mail-order supplier AFIBEL S.A., Lille. As one of the most successful mail-order suppliers of women's and men's classic fashions in

France, this company has been reporting two-figure growth rates for years. Even in the first financial year after integration into KarstadtQuelle AG AFIBEL maintained its expansion course. The company increased its sales by 5% to 125.9 million € .

Part of our international strategy is the roll out of successful German catalogues abroad. "Peter Hahn" got off to a successful start in The Netherlands and "Bragard" in the USA, while "Mode & Preis" expanded its range in the Czech and Slovak Republics and in Hungary and Slovenia.

Neckermann brought out the catalogue "Die moderne Hausfrau" ["The Modern Housewife"] in France and in Bosnia-Herzegovina. In early 2001 "Happy Size" was launched successfully on the British mail-order market under the name "Maria Donati".

Neckermann takes over the market-leading special mail-order supplier for camping and natural textiles

In 2001 Neckermann took over Fritz Berger GmbH & Co. KG, a mail-order company specialising in camping, caravaning and leisure products. As well as mail order, the Neumarkt (Oberpfalz)-based company operates a network of over-the-counter establishments. It is also represented in Austria and France by subsidiary companies. Its target group is mainly campers, caravaners and fitness- and sports-minded consumers. In the 2001 financial year Fritz Berger achieved sales worth 38.6 million €.

Neckermann also took over Hess Natur-Textilien GmbH & Co. KG. This Bad Homburg-based company is market leader in the mail-order supply of high-quality natural textiles in the German-speaking territories. Neckermann has thus positioned itself in an attractive specialist market with customers with money to spend. Hess Natur achieved sales worth 40.9 million € in the 2001 financial year.

Cost management optimised

By dint of strict cost management, particularly at Quelle, we markedly reduced staff and material costs.

The termination of temporary and part-time work contracts helped to safeguard permanent jobs. Employees also took advantage of the opportunity of shorter working times under the part-time work for older employees scheme.

Product ranges streamlined

The streamlining of the product ranges had a positive effect on the trade margin. Thus, amongst other things, we reduced costs by adjusting the ranges and lower-selling catalogues. Quelle also closed eight distribution sites and cut catalogue advertising space and sales space in the over-the-counter units.

Goods inventory reduced

We continued with our optimisation of the warehouse inventory by, amongst other things, measures such as reduction of order numbers and selective sale of remaindered stock. The result was a lowering of storage costs and – because of the more up-to-date range – lower valuation allowances.

Turn-around due to market campaign

In autumn 2001 we launched a successful marketing and sales campaign. Here funds obtained through tight cost management were invested in, amongst other things, price reductions and attracting new customers. In this way the downward trend of the first half year was reversed and a large number of new customers gained.

Online demand up by 86%

The E-commerce segment continues to report a strong and profitable growth in sales. In 2001 online sales by www.quelle.de, www.neckermann.de and the e-shops rose by 86% altogether. The position of the electronics business as a further high-volume sales channel with outstanding future prospects was thus markedly consolidated.

Many Internet customers are new customers

Not only our regular customers, but also new customers profit from our attractive Internet ranges and online services.

Here innovative services such as the virtual customer adviser heighten the shopping experience at our e-shops. The Internet product adviser asks specifically for the respective customer's personal wants and recommends suitable products. In this way he helps customers make the right choice when buying advice-intensive products such as washing machines, computers, DVD players and cameras.

Cross-selling by means of joint catalogues

When the Neckermann and Quelle joint catalogues were issued for the first time, we profited from substantial cost synergies and cross-selling effects. The content and ranges of the catalogues were essentially adopted for and adapted to fit the respective Quelle and Neckermann brand layouts. The new concept was applied to the "Healthier Living", "Fashion for the More Mature" and "Man's World" catalogues.

acquisition of three special mail-order suppliers + market leader

Key figures – Universal mail order (big book business)

			2001	2000	Change in %
Sales performance	Sales	th. €	6,496,201	6,625,689	- 2.0
	thereof foreign sales	th. €	1,389,697	1,323,687	5.0
	foreign sales share	in %	21.4	20.0	-
Earnings	EBIT	th. €	135,105	153,454	- 12.0
	EBIT margin	in %	2.1	2.3	-
	EBT	th. €	51,923	60,061	- 13.5
	EBT margin	in %	0.8	0.9	-
Other information	Full-time staff on annual average	number	24,951	25,568	- 2.4

Position

38 million main catalogues annually

The main sales and earnings generators in universal mail order are the 1,500 page-long main catalogues. These are issued twice yearly in editions of around 12 million (Quelle) and 7 million (Neckermann) respectively. On this basis around 50% of households in Germany had access to the Quelle or Neckermann main catalogue in the 2001 spring/summer season.

Taking into account production costs, the high household coverage and the long selling season of half a year, the main catalogue remains the most profitable advertising medium, and one which no multi-range mail-order supplier can dispense with.

Up to 500,000 orders a day

Universal mail-order advertising publications – main catalogue, special catalogues and interim catalogues as well as the Internet sites at www. quelle.de and www.neckermann.de – elicited an average daily order volume of over 150,000 in Germany alone in 2001. During the Christmas period the two mail-order suppliers actually recorded orders peaking at over 500,000 a day.

Quelle and Neckermann have once again increased the quality of their main catalogues by, amongst other things, a new layout and a clearer and more appealing product presentation. A further advantage is the clearly structured arrangement by theme field. Thus, for example, the Quelle 2002 spring/summer catalogue offers a unique variety of themes which for choice and quality surpasses the ranges offered by many specialty stores.

Business performance

Sales performance: down 2%

In main catalogue business mail-order suppliers achieved sales worth 6.5 billion €. This was 2% short of the 6.6 billion € achieved in 2000. Quelle and Neckermann have held their top position in a falling mail-order market. After the Quelle Group in particular had recorded a marked fall in sales in the first half-year, the two mail-order suppliers once more registered increases in early autumn 2001, amongst other things, as a result of the sales and marketing campaign. Universal mail order contributed around 82% (86% in 2000) to total sales in the Mail-order segment.

Abroad the mail-order suppliers turned over 1.4 billion € (1.3 billion € in 2000). This represents a rise of 5%. Foreign sales contributed 21.4% to total sales in universal mail order.

Earnings

Earnings before tax in universal mail order fell by 13.5% to 51.9 million € (60.1 million € in 2000). This is due mainly to the weakness of the market as a whole. A further reason for the drop in earnings was the absence of special effects that on balance positively affected earnings in 2000. This related above all to income amounting to 36.4 million € from the sale of the mail-order centre in Nuremberg and the setting up of provisions amounting to 15.5 million € for part-time work for older employees. Positive effects were recorded in the current year from the income of 11.2 million € resulting from the sale of the MS Direktmarketing Group.

Key figures – Specialty mail order

			2001	2000	Change in %
Sales performance	Sales	th. €	1,420,804	1,104,458	28.6
	thereof foreign sales	th. €	353,541	269,953	31.0
	foreign sales share	in %	24.9	24.4	-
Earnings	EBIT	th. €	61,125	67,181	- 9.0
	EBIT margin	in %	4.3	6.1	-
	EBT	th. €	51,107	59,623	- 14.3
	EBT margin	in %	3.6	5.4	-
Other information	Full-time staff on annual average	number	5,056	4,086	23.7

Position

Special mail order operating in 17 countries

Special mail order is marked out by a high degree of product depth and competence through its concentration on clearly defined range segments.

The Quelle and Neckermann company portfolio includes in this segment 21 special mail-order suppliers operating in a total of 17 countries. The decisive factor for their success is their focus on the preferences of special target groups. The result is stronger customer retention. In Germany the special mail-order suppliers of Quelle and Neckermann mainly rank No. 1 in their respective product areas. A further strength is a high degree of internationalisation. Examples are Madeleine and Elégance (exclusive women's fashion), Mercatura (the No. 1 in European mail order for work clothing), Mode & Preis (discount mail-order supplier) or Baby-Walz (Europe's largest special mail-order supplier for mother and child). Now we are taking not only items and ranges but also entire range pages from the German and European catalogues and translating them into the respective national languages. The entry into foreign markets is being made on the basis of international roll outs of successful special catalogues and by selective acquisitions.

Business performance

Business performance: up 28.6%

Special mail order sustained its positive performance in the year under review and pushed up sales by 28.6% to 1.4 billion € (1.1 billion € in 2000). Of the increase 10.0% is attributable to organic growth, the remaining 18.6% were achieved through acquisitions.

Special mail order is already contributing 18% (14% in 2000) to overall sales in the Mail-order segment.

Earnings

Earnings before tax fell by 14.3% to 51.1 million € (59.6 million € in 2000). The reason for the fall in earnings lies in the reduced earnings of various special mail-order suppliers in the textiles segment in Germany. The AFIBEL, Hess Natur and Berger companies included for the first time contributed 6.9 million € to earnings. At the same time amortisation of goodwill rose by 3.7 million € to 10.8 million €.

The return on sales went down to 3.6% (5.4% in 2000).

OUTLOOK

More favourable sector conditions expected

The Association of German Retailers (BVH) forecasts that economic conditions in the sector will be better in 2002 than in 2001. It anticipates a rise in the market volume by around 1%.

In the current 2002 financial year Quelle and Neckermann have the important task of combining to form a single entity.

Moreover, further internationalisation, continued specialisation and the expansion of e-commerce business are at the forefront of our corporate strategy. We are also progressing the networking of the distribution channels as part of the multi-channel strategy. Thus, our mail-order companies will in future be presenting joint catalogues with the Over-the-counter segment.

The highlight of Quelle's operations this year is the marketing and sales campaign with many attractive products at especially favourable prices on the occasion of its 75th company anniversary. Quelle is spending around 15 million € on anniversary advertising on TV, radio, newspapers and magazines as well as on the Internet and on large posters. All the anniversary activities are coordinated in content and communication.

Neckermann has been participating in the KarstadtQuelle Group's loyalty card programme since early 2002 and will thus be further consolidating its customer retention.

"I just have to have people around me. Then the ideas and concepts come of their own accord. I look in their faces and see it all. Consumption and services are two sides of the same coin. That's what the customer wants, and that's what we give him – for example, **with our "HappyDigits"** programme to make telephoning cheaper now. And that's just the start."

Norbert Klein,
Project Manager, Loyalty Card Programme

Demand for services risen further + large number of customer rela

Key figures – Services

			2001	2000	Change in %
Sales performance	Sales	th. €	1,123,350	666,112	68.6
Earnings	EBIT	th. €	51,073	50,188	1.8
	EBIT margin	in %	4.6	7.5	-
	EBT	th. €	54,712	55,739	- 1.8
	EBT margin	in %	4.9	4.9	-
	Equity	th. €	576,394	374,860	53.8
	Net debt	th. €	240,029	198,849	20.7
	Capital employed	th. €	816,423	573,709	42.3
	Return on capital employed	in %	6.3	8.8	-
Other information	Investments	th. €	227,639	192,464	18.3
	Depreciation/amortisation (not including goodwill)	th. €	43,942	48,396	- 9.2
	Gross cash flow	th. €	55,535	67,467	- 17.7
	Full-time staff on annual average	number	3,748	3,455	8.5

Strategy

On track to becoming a retail and service group

As part of our 10-Step Value Enhancement Programme, the strategic expansion of the services business forms the basis for the restructuring of KarstadtQuelle from a retail company to a retail and services group. Here, in particular the expansion of the information and financial services is at the forefront of our business strategy. Both segments have been designated new strategic growth areas.

The decisive factor for our good opportunities for growth in these segments is a unique competitive advantage: the large number of intensive customer relations in combination with a detailed knowledge of customer wants.

Diverse customer relations

In the Over-the-counter segment we register daily around 3 million customer contacts at our over 400 department stores and specialty stores. In mail order we reach our customers through four main catalogues and 178 special catalogues. Here we despatch around 68 million parcels a year. At the same time we are represented by over 6,500 Quelle Shops throughout Germany. In e-commerce online sales of more than 800 million € are a clear indication of our diverse customer contacts. This leading position is reinforced by our customer retention programme with more than 8.3 million loyalty cards group-wide.

Joint ventures with Telekom and the ERGO Group

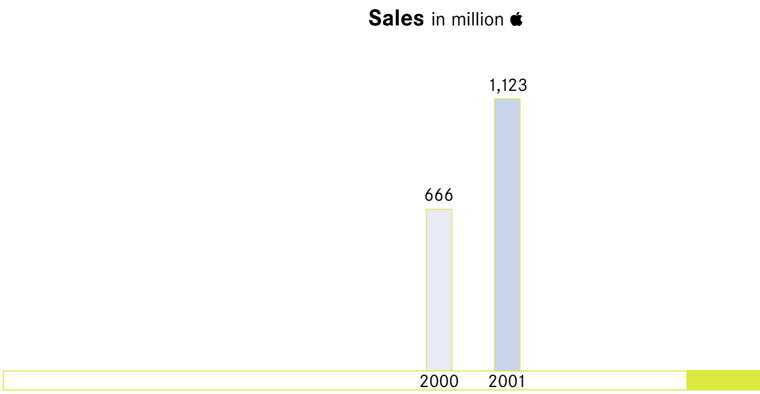
In the 2001 financial year the way was paved for a marked improvement of our market position in the Financial services and Information services segment. Thus, we planned two joint ventures with powerful partners. In the Financial services segment we cooperate with the ERGO Versicherungsgruppe AG. In the loyalty card bonus programme we cooperate with Deutsche Telekom AG.

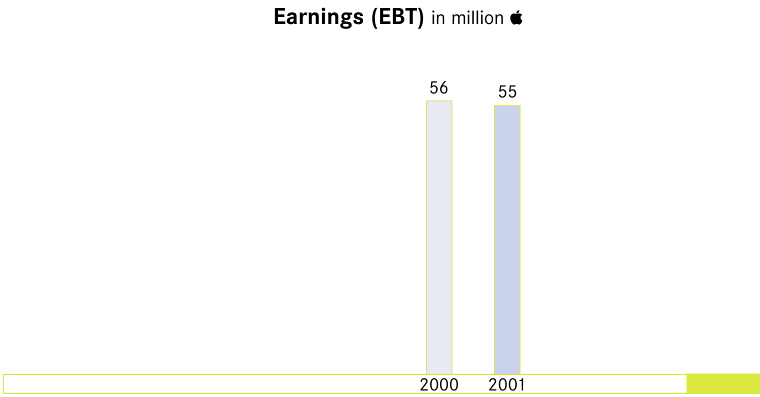
The services portfolio is completed by the 50% holding in Europe's second-largest travel service provider, the Thomas Cook tourism group, which we are consolidating at equity. Despite the attacks of September 11 we regard the tourism business as a promising future growth market.

Segment performance

Sales: up 68.6%

Sales in the Services segment rose to 1.1 billion € (666.1 million € in 2000). This represents a rise in sales of 68.6%. This development reflects the increased demand for services in the KarstadtQuelle Group as well as the consistent expansion of business with third-party customers.





The greater part of the sales increase is attributable to the expansion of business at Optimus Logistics GmbH. This company has assumed additional functions in the group.

Earnings:
steady, despite expansion

Earnings before tax came to 54.7 million € and are thus virtually at the same level as in 2000 (55.7 million €).

In particular the increased earnings contribution by the KARSTADT QUELLE International Services AG import services company and the ITELLIUM Systems & Services GmbH IT company had a positive effect.

Earnings of the Thomas Cook Group were included at equity. Thomas Cook contributed 30.3 million € (44.4 million € in 2000) to earnings in the financial year. The fall in earnings is due to increased amortisation of goodwill.

The services segments

Financial services

KarstadtQuelle and ERGO concentrate insurance and bank products

Because of our long-standing and close customer relations we believe that the Financial services segment has high growth and value-added potential. Accordingly we shall increasingly be offering our customers insurance and bank products in future.

In the year under review we developed a comprehensive financial services concept and negotiated with potential German and international partners.

In March of the current year we introduced to the public the ERGO insurance group as the partner best suited to us. Both partners have a 50% holding in KARSTADT QUELLE Financial Services GmbH. The company is a marketing and distribution company for financial services and employs 250 persons at the beginning.

Perfect combination of multi-channel selling and product diversity

The new strategic partnership combines the multichannel selling power of KarstadtQuelle and the brand and product diversity of ERGO. It offers a broad range of attractive insurance and bank products. The marketing approach is based on a new access to the customer by a combination of retailing and financial services. The appeal to the customer individually and by target-group is a central feature.

As well as new products by well-known brands such as Victoria, Hamburg-Mannheimer, DKV and D.A.S., the ERGO insurance group is contributing to the joint venture a company share of 45% in the Quelle Versicherungen Holding Beteiligungs GmbH. As a leading German ceding insurer, Quelle Versicherungen has over 1.7 million customers. KarstadtQuelle is contributing its know-how in multi-channel sales and relations with 19 million active customers as well as the KarstadtQuelle Bank.

KARSTADT QUELLE Bank GmbH came into being as a result of a change of name from OPTIMUS Bank für Finanz-Service GmbH. Its core business includes consumer credit, goods financing and investment products. In addition, there is the payment and credit management for the loyalty cards. As a service provider, the bank also undertakes the management of various outside card programmes. In the year under review the expansion of the consumer credit and loyalty card business was continued.

The KARSTADT QUELLE Bank offers its services both over-the-counter in Karstadt department stores and on the Internet. The online business is supported by a modern call centre.

Loyalty card services

KarstadtQuelle and Telekom aim for market leadership in bonus systems

The growth of the Karstadt loyalty card once again exceeded our expectations in the 2001 financial year. The number of users rose by 58% to 6.3 million. Including the SinnLeffers, Quelle and Neckermann card programmes, more than 8.3 million loyalty cards have now been issued group-wide.

As a result of the repeal of the Rebate Law customer retaining systems will gain even more in importance. Companies like KarstadtQuelle with strong loyalty card programmes have decisive advantages in the contest for the customer's favour. At the same time we are facing two challenges: on the one hand, there is fierce competition for the card's place in the customers' purses, and, on the other, the need for a quantum leap from the expansion of the programme to the expansion of the market.

For this reason our strategic approach is "From company card to community card".

We want to gain further users, thus increasing the value-added potential of the community. At the same time we are working to increase the coverage of relevant areas of life. Cooperation with further partners enables new consumption segments to be opened up and thus the share in the customers' consumption expenditure increased.

Furthermore, readiness to use the card is increased in that additional incentives are created for our customers by easy operation of the bonus system in combination with an attractive reward system.

Under this strategy our card systems were concentrated organisationally within the group. In the year under review we began negotiations with Deutsche Telekom AG, Europe's largest telecommunications company, on a joint loyalty card bonus programme. After the successful conclusion of these negotiations we were able to announce a strategic partnership at the end of January 2002. KarstadtQuelle and Deutsche Telekom are combining their loyalty card bonus systems under the brand name "HappyDigits".

The aim of the partnership is to achieve market leadership in loyalty card programmes in Germany in the medium term. Only one year after the launch 13 million customers will be profiting from "HappyDigits".

The new customer retention programme is operated by CAP Customer Advantage Program GmbH. KarstadtQuelle holds a 49%, Telekom a 51% share in the company. CAP's task is the further development and implementation of a marketing and sales concept under the "HappyDigits" brand as well as the administration of the bonus points and the reward system.

Information services

KarstadtQuelle plans strong sales growth through information services

KarstadtQuelle will be increasingly engaging in the high-growth and high-yield market for information services. In the 2001 financial year we achieved sales worth 49 million € in this segment. We are planning considerable growth here for this and the coming year. The information services had already been reoriented in the previous year in order to combine them under the control of KARSTADT QUELLE Information Services GmbH at the beginning of this year.

The new company offers support over the complete customer relations life cycle, from marketing and risk through to claims management. With our numerous customer contacts and our experience as one of Europe's largest retail companies, we are ideally positioned here. Thus, both our group companies and outside companies have access to our comprehensive know-how. In marketing management we support our clients in particular with services related to direct marketing. In the risk management sector clients profit from our many years of experience in credit protection and credit checking. Claims management concentrates on clients' accounting and collection services (debt collection). In addition, there are consulting services and IT systems solutions.

Back-end services

KarstadtQuelle is positioning itself as a leading logistics and fulfillment service provider

We have concentrated the services in the Purchasing, Logistics, Fulfillment and Information technology segments in the Back-end services segment.

Purchasing

KARSTADT QUELLE International Services Group procures goods worth 1.7 billion €

The KARSTADT QUELLE International Services Group based in Sankt Gallen, Switzerland, increased its sales by 26.4% to 58.9 million € in 2001. After a loss amounting to 1 million € in 2000 it achieved earnings of 9 million € before tax.

In 2001 the company supplied products worth a total of 1.7 billion €. The company handled around 20% of purchases in the KarstadtQuelle Group. Around 12% of sales were to outside customers. These were major domestic and foreign retail groups.

The company assists on a commission basis group subsidiaries and outside companies with the procurement of goods, in merchandising and in quality control and logistics. In 14 purchasing offices in the Far East and 13 purchasing offices in Europe it employs a total of 1,178 persons, of whom 114 are assignable to the company direct. The basis of the business success is continuous market analyses in combination with tightly organised, cost-effective procurement processes. The agency activity enables additional synergies to be achieved when concentrating purchasing volumes, selecting manufacturers and limiting prices.

Logistics and fulfillment

The best qualifications for sustained growth

Outside companies are also profiting from the KarstadtQuelle Group's comprehensive know-how. The Logistics and Fulfillment segment includes Optimus Logistics GmbH, servicelogiQ GmbH as well as Fonetix Call Center GmbH and Profectis GmbH Technischer Kundendienst.

Because of our comprehensive experience in, amongst other things, stores management, despatch and e-fulfillment (logistics for e-portals) we are ideally qualified to expand this business.

Optimus Logistics concentrates services

Optimus Logistics GmbH, Nuremberg, increased its sales from 64.5 million € to 460 million € in the 2001 financial year. The decisive factor for the high growth was the takeover of further services within the group. As of the balance sheet date the company employed 289 persons.

Optimus Logistics specialises in retail logistics and fulfillment for both B2B and B2C business. The company supports our group companies particularly in freight transport and forwarding. The services provided range from procurement through internal company distribution to distribution to end customers. It also handles the entire bulk goods distribution – from mountain bikes through furniture to fitted kitchens with a turnover of over 100 million € under the management of Optimus Logistics. In future the company will also be offering further logistics services – for example, textiles processing, labelling as well as storage and despatching – for outside business customers.

isen further + large number of customer relations as base + Karsta

Furthermore, the continued concentration within the group of functions in the freight transport and forwarding segment (such as centralised scheduling and control of transport by road, rail and water) will further increase demand for the Optimus Logistics' services.

67% of servicelogiQ's sales are to outside customers

servicelogiQ GmbH, Nuremberg, increased its sales by 18% to 75.2 million € in the 2001 financial year. 33% of sales were to group companies. The majority of sales, 67%, were to outside companies.

servicelogiQ is a competent provider of logistics and fulfillment services. Services include the entire value-added chain in the mail order and online sector, from customer care service, storage, commissioning and delivery as well as the management of returned goods, debtor management and after-sales service. Customers for whom the company is already realising individually tailored fulfillment solutions include the market-leading Home Shopping Europe TV channel, the leading jewellery and watch discount store chain Christ with its online portal christ.de, the Krombacher brewery and VEDES eG, the toys specialist.

The takeover of fulfillment services for the KarstadtSport catalogue in 2001 was an important step on the way to becoming a group fulfillment service provider.

In the 2001 financial year the company further expanded its services and thus created the basis for further expansion.

Fonetix Call Center increases sales by 28%

Fonetix Call Center GmbH & Co. KG recorded a rise in sales by 28% to 20.6 million € in the 2001 financial year. 62% of sales achieved by this company, which has establishments in Nuremberg, Chemnitz, Cottbus and Emden, were to outside customers. The services offered by the company, which employed 961 persons as at the balance sheet date, range from the handling of customer calls through active customer support to the complete structuring and fulfillment of customer service processes. This goes far beyond the conducting of a pure customer conversation and includes the entire customer contact process such as order acceptance, shipment tracking and handling of complaints.

Technical customer service: Profectis expands service range

Increasing order receipts and price adjustments resulted in an increase of sales by around 2% to 111 million € at Profectis GmbH Technischer Kundendienst in 2001. The company with its

1,800 employees carried out around 1.2 million repair orders. A third of these were under Karstadt, Quelle and Neckermann guarantees. The remaining repairs relate to third parties, that is, either end customers or other companies.

Outside business with emphasis on PCs and mobile phones developed positively. Here Profectis achieved around 60% of its sales through business with third parties in the year under review.

Profectis will be expanding its services in the Information technology and Telecommunications segments. This will offer the company even better access to the high-priced markets in the repair and installation sector.

At the same time Profectis is raising the quality of its service. This relates to, for example, the accessibility of call centre agents and even faster scheduling in the field service.

Information technology (IT)

ITELLIUM Systems & Services offers comprehensive range of services

ITELLIUM Systems & Services GmbH increased its sales by 22.7% to 275.3 million € in 2001. Of this around 11% were to outside customers. With around 1,500 employees at locations in Essen, Frankfurt, Nuremberg and Leipzig we are a major provider in the growing market for information technology.

The company concentrates on the two business segments Consulting & Systems integration and Hosting & Application services. ITELLIUM is a consultant and systems integrator as well as hosting and applications service provider. ITELLIUM is also exceptionally well positioned for the Over-the-counter retail, Mail-order, Tourism and Financial services segments.

In the financial year ended one of the company's most important functions was the provision of IT support during the changeover to the euro as well as the introduction of new applications systems.

In 2002 business is focusing on the expansion of additional business within and outside the company group. Furthermore, the Hosting & Application services segments are being strengthened by the consolidation of computer power and the optimisation of production processes with the aim of lastingly reducing unit costs. The Consulting & Systems integration segment supports the mail-order suppliers Quelle and Neckermann in the amalgamation of their business processes. In Over-the-counter retail the emphasis is on the introduction of standard-software-based logistics systems.

Key figures – Thomas Cook Group *

			1.11.2000 to 31.10.2001	1.11.1999 to 31.10.2000	Change in %
Sales performance	Sales	mill. €	7,876.4	4,985.4	58.0
	thereof operators	mill. €	6,651.4	4,242.5	56.8
	thereof air flight	mill. €	596.5	622.5	- 4.2
	customers carried	in th.	14,106	10,896	29.5
Earnings	Earnings before interest and tax	mill. €	82.3	116.4	- 29.3
	Earnings before tax and amortisation of goodwill	mill. €	120.6	120.4	0.2
	Earnings before tax	mill. €	55.5	85.5	- 35.1
	Net earnings	mill. €	20.4	40.7	- 49.9
Other information	Balance sheet total	mill. €	5,023.6	3,153.5	59.3
	Full-time staff on annual average	number	28,388	11,607	144.6
	Sales outlets	number	3,901	2,191	78.0

*) under IAS

TOURISM

Economic background

Demand for tourism services lower than expected

The package holiday market performed better in all market segments of the Thomas Cook Group than private consumption. It did not, however, meet the high expectations that market researchers had predicted at the end of 2000. They based their predictions at the time on growth rates of between 3% and 5%. Actual growth, however, was only 1.7%.

The failure to meet expectations is also due to a fall in demand for travel services following the terrorist attacks of September 11, 2001. The last six weeks of the financial year were therefore markedly down on the previous year.

The 2000/2001 financial year in the European tourism industry was marked by considerable price rises. First air package holidays were effected by higher fuel costs as well as higher security and airport charges. Rising hotel prices also exacerbated the cost trend.

Furthermore, overcapacity in the air travel sector was removed from the market. This led to a reduction in the particularly favourably priced last-minute offers, which in turn resulted in an higher average price overall for package holidays.

Strategy and positioning

Adding value and increasing earning power

The strategy of Thomas Cook, Europe's second-largest tourism group and the world's third-largest travel company, is oriented towards sustained value-adding and continuous increase of earning power. Thus, the Thomas Cook Group further consolidated the international orientation of its business by the acquisition of Thomas Cook Holdings, UK, and Havas Voyages, France, in the 2000/2001 financial year. Thomas Cook thus ranks as leader in all the European core markets. Furthermore, the company is also continuing its strategy of expansion into new source and target markets, particularly in Eastern Europe. The new group name "Thomas Cook" represents an excellent brand name for further international expansion.

The Thomas Cook Group will continue to press ahead with the integration of the tourism value-added chain, complete its pan-European orientation, expand its quality management and increase its presence in the hotel sector and destination areas. For this, in less than a year new European group structures were established and a young, international management team installed.

Thomas Cook AG is thus ideally positioned for sustained intensive competition. 30 operator brands, around 3,600 travel agents, more than 73,000 controlled beds and a fleet of 85 aircraft underline the Thomas Cook Group's global competence in the travel business.

Business performance

Sales performance: growth by 58%

The Thomas Cook Group achieved sales worth 7.88 billion € in the financial year ended, as against 4.98 billion € in the previous year. The considerable increase of 58% results mainly from the inclusion for the first time of the Thomas Cook UK Group. However, even without Thomas Cook UK, the result is a substantial rise in sales by 13.7%.

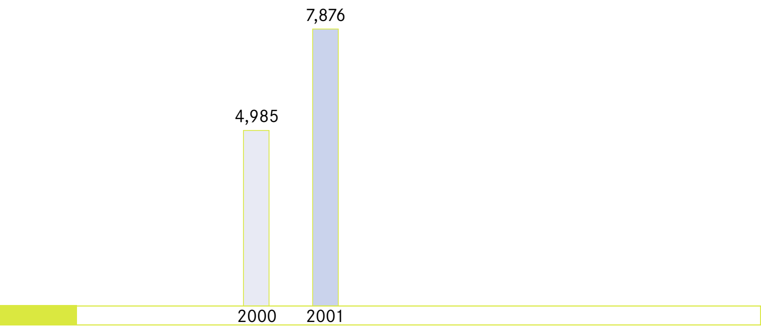
The company grew much faster than the market and to a considerable extent gained further shares of the market, particularly in Germany and Western Europe, in an environment marked by restrained market growth. Through the takeover of Thomas Cook UK the consistent internationalisation of the group has taken on a new dimension. Because of the entry into the British tourism market 28% of the returns from sales are attributable to Great Britain. This has lastingly altered the regional distribution of group sales and resulted in a much wider presence in the international tourism market. Consequently, in the year under review Thomas Cook achieved only 51% of its sales in Germany, as against 76% in the 1999/2000 financial year.

Spain remains the most popular holiday destination

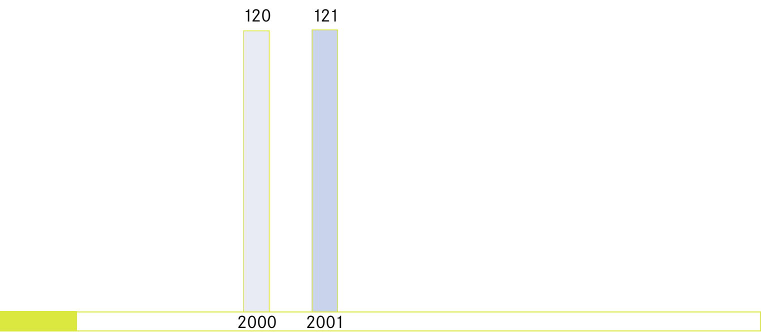
In the ranking of most popular holiday countries Spain, with a share of 37.9% of sales, heads the list with Thomas Cook customers. Other desirable holiday destinations are Greece with a share of 11% and Turkey with 8.4% of sales.

tional orientation further strengthened + Thomas Cook launched as

Sales in million €



Earnings (EBTA) in million €



Earnings:
operational earnings improved,
margins once more appreciably increased

Thomas Cook also converted its powerful sales growth into earning power. The group increased its earnings before tax and amortisation of goodwill (EBTA) to 120.6 million € in the year under review, as against 120.4 million € in 1999/2000. This represents a rise of 0.2%. After adjustments by the non-recurring income from the sale of shares in the Thomson Travel travel company in the previous year the result is a comparable increase of 41.4%. Thomas Cook UK was consolidated initially for 7 months in the financial year.

The decline in margins in the tourism market, which has lasted for years, was effectively met. The company increased its gross earnings margin by 3.6 percentage points to 31% of sales.

Contributing to the margin growth was, amongst other things, the increase in the average duration of travel by 0.2 days to 10.8 days. Moreover, the further expanded, integrated capacity control in the group and the conservatively planned flight capacities in the European markets also had positive effects. Added to this, there was a weakening of the predatory pricing competition on long-distance travel which has ensured a considerable improvement of margins in international markets in this market segment. These positive effects overcompensated for the significant cost increases, particularly in the cost of kerosene, which is paid for in dollars, and hotel prime costs.

Assets:
Capital ratio increases to 20.4%

The balance sheet total for the Thomas Cook Group rose by just on two thirds to 5 billion € in the financial year 2000/2001. The main cause of the marked rise was, in particular the takeover of Thomas Cook UK. This acquisition was financed, amongst other things, by a capital increase of 358 million € and, for the most part, also from the cash flow. The capital ratio rose by 0.3 percentage points to 20.4%. Thomas Cook invested 1.2 billion € altogether in tangible and financial assets during the year under review. By far the greater part of this, 0.9 billion €, went on further expansion in Europe.

Special events in the 2001 financial year

In the 2000/2001 financial year Thomas Cook AG took strategically important steps and paved the way for sustained success.

Takeover of Thomas Cook UK
increases market presence

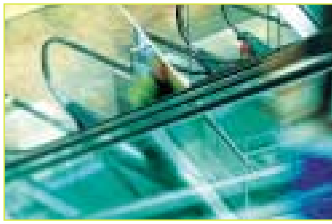
The takeover of Thomas Cook UK in April was one of the important milestones of the 2000/2001 financial year.

By the acquisition of Thomas Cook UK, the third-largest British tourism group, the group further broadened its market presence in the important European travel markets. This is reflected in the considerable growth in the numbers of customers and sales.

At the same time the company increased the number of its sales outlets by 78% to 3,901. Thomas Cook is represented in Germany by 188 and in the other European countries by a total of 1,484 group-owned sales outlets. The group has concluded agency agreements with 12,800 travel agencies altogether.

European integration accelerated

The business processes in the group were standardised, streamlined and integrated for the whole of Europe. At the same time the company installed a centralised capacity management system to centrally control planning, purchasing and control of flight and hotel capacities. The group likewise concentrated hotel purchasing and destination area management in a central unit Europe-wide.



The coordination of the company segments has already led short-term to the full utilisation of synergies. By an even better utilisation of capacities it guarantees considerably increased returns in the long term.

Thomas Cook introduced as
corporate brand name

By changing the company name C&N Touristic AG to Thomas Cook AG the company acquired an internationally renowned name in June 2001. In marketing Thomas Cook stands for high-quality travel and service as a high-quality hotel partner and for exemplary customer service at the holiday destination. At the same time the newly designed Thomas Cook logo represents a link between all areas of the company.

Group restructured

Thomas Cook has responded to changes in the challenges facing a pan-European company by further developing its internal structures. To improve the control of its operational business the management board has been extended to cover four areas of activity. The new organisational structure is accelerating the integration of the value-added chain and at the same time creating the basis for the realisation of pan-European synergies.

"Triple T" programme to secure earnings

The first test the new group structure had to undergo came after the terrorist attacks on September 11. The attacks led to cancellations and a fall in bookings.

Barely six weeks later Thomas Cook launched its "Triple T" (Team, Targets, Thomas Cook) earnings security programme. The programme, which has so far been implemented on schedule, is intended to guarantee savings amounting to 530 million € in the 2001/2002 financial year. This will ensure that, even if demand falls by up to 15%, a satisfactory profit is made. "Triple T" comprises more than 400 individual measures. These include the reduction of flight capacities for the 2001/2002 winter season by around 17% and employee adjustments by around 2,000 jobs.

Growth markets opened up in Eastern Europe

Thomas Cook acquired all the shares in the Austrian joint venture with Kuoni, thereby creating the basis for further growth in Austria and the neighbouring, high-growth source markets in Eastern Europe. An expansion of the product portfolio in Eastern Europe is additionally reducing the risk of regional fluctuations in demand.

Multi-channel strategy consistently continued

Thomas Cook further expanded its sales channels in the 2000/2001 financial year. Thus, the company guarantees online booking via the group portal, the Internet pages of the individual brands and – as in a shop-in-shop system – via the websites of partners outside the business sector. The Thomas Cook Group also acquired a share in the T-Online Travel AG online travel agency. Alongside this, there are call centres available for customers to make their bookings and obtain advice.

World's largest charter airfleet

The Thomas Cook airfleet comprises 85 aircraft. This is the world's largest charter airfleet. It is controlled by the Airline Operations department. This centralised organisational structure, which encompasses all aircraft platforms, enables it to fully utilise synergetic potential between the airlines. This applies to, for example, spare parts stockpiling, aircraft maintenance and staff training.

Uniform personnel policy in the group

After the takeover of Thomas Cook UK and the resulting rise in the number of employees the personnel area was readjusted.

To reduce differences between the various countries the group standardised and simplified its salaries policy and social security contributions. Within the framework of the "Triple T" programme a reduction in staff expenditure by 13% was planned for the 2001/2002 financial year. This is resulting in job cuts by around 10% at Thomas Cook.

OUTLOOK

Expansion and added-value

The strategic focus for the further development of the group is on increasing the value of the undertaking by integration and expansion.

In the 2001/2002 financial year the Thomas Cook Group aims to press ahead with the integration of the value-added chain, expand the quality management and increase its presence in the hotel sector and the destination areas.

A further focal point will be the completion of the pan-European integration. Important components of this are the complete takeover of a Dutch travel agency chain as well as the building up of Thomas Cook Airlines Belgium. This was set up after the end of the 2000/2001 financial year and will operate as the first airline in the group under the new company name and logo. The continuing integration of the parts of the company in Great Britain and the further development of the franchise concepts in Germany will also bring about the optimisation of the existing business operation.

In the medium term the company plans to open up new growth markets outside Europe, for example India and China.

In view of changes in consumer behaviour and the trend towards short-term bookings linked with this a consistent cost management is necessary. It is furthermore important to keep capacities as flexible as possible in order to be able to adapt rapidly to changes in the background conditions.

The events of September 11 make it difficult to forecast the further progress of business. Thomas Cook expects the European market for air travel to be slightly lower in the 2001/2002 financial year than in the previous year and therefore reckons with falling sales.

Also by promptly initiating the "Triple T" earnings security programme the company has excellent chances of achieving earnings in the current financial year which will come as near as possible to the level of the 2000/2001 financial year.

"The newspapers are always full of real estate topics. Today everybody wants to be a professional and set up a company. We were already where others want to be, because our **sites at A1 locations** are our strongest asset. And now we are going even further: we are transforming department stores into shopping centres and creating a vibrant mix of city department store and lots of first-class shops. That is exciting and puts life into the city."

Urban Plattes,
Director, Karstadt Immobilien AG & Co. KG

value-oriented real estate management + KarstadtQuelle Group with

Key figures – Real estate

			2001	2000	Change in %
Sales performance	Sales	th. €	483,848	487,789	- 0.8
Sales	EBIT	th. €	315,966	336,259	- 6.0
	EBIT margin	in %	65.9	68.9	-
	EBT	th. €	270,238	281,649	- 4.1
	EBT margin	in %	55.9	57.7	-
	Equity	th. €	2,029,524	1,952,407	3.9
	Net debt	th. €	923,561	987,395	- 6.5
	Capital employed	th. €	2,953,085	2,939,802	0.5
	Return on capital employed	in %	10.8	11.4	-
Other information	Investments	th. €	46,260	128,971	- 64.1
	Depreciation/amortisation (not including goodwill)	th. €	123,672	125,940	- 1.8
	Gross cash flow	th. €	375,217	352,891	6.3
	Full-time staff on annual average	number	26	-	-

Economic background

City centres once more becoming shopping centres

The buying behaviour of, on the one hand, price-conscious and, on the other, quality-oriented customers has been leading to the rapid growth of other types of business outside cities since the start of the 90s. This has increased the attractiveness of providers on greenfield sites to the serious detriment of the retail inner-city trade. However, for some years now city centres have been becoming considerably more attractive. Revitalisation projects, city and inner city marketing and sociodemographic factors have supported reurbanisation. Moreover, new forms of supraregional and public-private partnerships have come into being. Thus, for example, in North-Rhine Westphalia in 2001 a total of 27 cities have been assisted to raise the quality of city centres in regard to retailing, the restaurant business and culture.

Number of shopping centres in inner cities rises

Whereas at the start of the 90s fewer than 25% of the newly opened shopping centres were located in inner city areas, this number will increase to over 50%. Within the framework of this marked revitalisation of the inner cities reliable planning bases are, particularly for investors, a decisive requirement for their commitment. For this reason great importance is attached to supraregional harmonisation and coordination in planning and approval procedures.

Strategy and positioning

Real estate portfolio with emphasis on inner-city retail use

The real estate portfolio worth 2.7 billion € represents a significant share of group assets. The retailing locations represent the major part of the value. The regional concentration of the real estate stock extends in particular to the large German conurbations Hamburg, Berlin, Rhine-Ruhr, Rhine-Main und Munich. The property concentrated in the Real estate segment is used mainly by group companies. The major tenant of the real estate is Karstadt Warenhaus AG.

KarstadtQuelle thus has at its disposal a valuable, focused, portfolio of inner-city real estate.

Value-oriented real estate management

As of January 1, 2001, as part of the 10-Point Value-Added Programme, we hived off around 80% of the group-owned real estate assets into legally independent individual and multi-property companies. The real estate has been concentrated legally and managerially in the new Real estate segment. The remaining 20% of the group-owned real estate has been assigned mainly to the operational companies of the Mail-order segment and SinnLeffers.

This real estate portfolio is being developed as part of the value-added strategy. This begins with acquisition and runs through financing, letting, development and management to sale of the property.

First-class real estate at A1 sites

Use of the KarstadtQuelle real estate portfolio is focused on the large-area inner-city retail trade. This largely comprises department stores at first-class locations in German cities, in areas of German cities and in medium-sized towns.

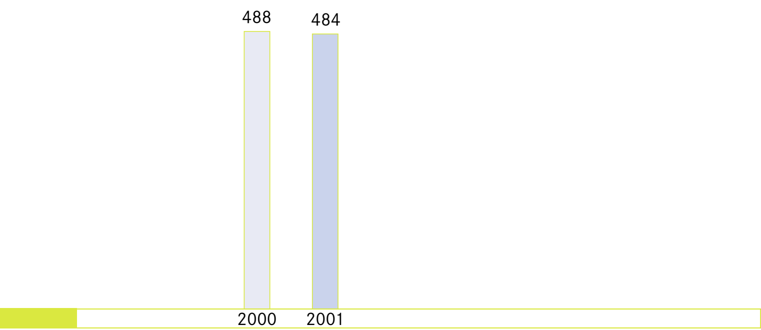
Changing trends and structural changes in retailing have also markedly affected this part of the real estate business in recent years. Values, returns and rents of and prospects for the real estate have either directly or indirectly followed these developments. A1 city sites and inner-city shopping centres have profited very considerably from this.

KARSTADT Immobilien AG & Co. KG manages real estate business

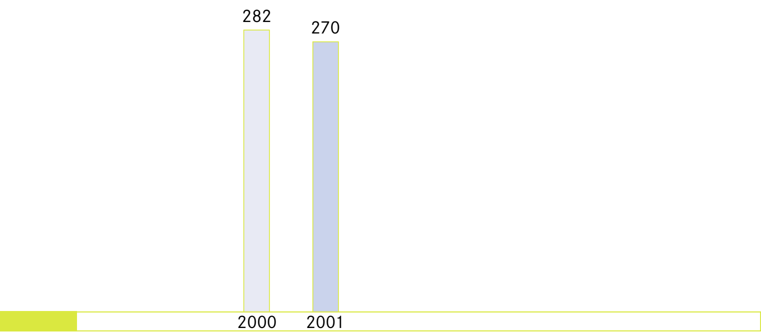
KARSTADT Immobilien AG & Co. KG is the management company for the real estate group. It concentrates real estate operation under a uniform management structure. At the end of the 2001 financial year we set up KARSTADT Hypothekenbank AG und ECM EuroCenter Management GmbH. Under this new structure the Real estate segment is currently divided up into three functions:

– **Ownership**
– **Services**
– **Financing**

Sales in million €



Earnings (EBT) in million €



Segment performance

Sales performance:
Income from rents at 483.8 million €

Income from rents stands at 483.8 million € (487.8 million € in 2000). This represents a slight drop by 0.8% owing to branch closures.

Earnings:
EBT at 270.2 million €

Earnings before tax stand at 270.2 million €. As against earnings of 281.6 million € this represents a fall of 4.1% for 2000.

Earnings both in the year under review and in 2000 include profits from the sale of property aimed at streamlining the portfolio. Around 60 million € were realised in the year under review. Earnings for 2000 include profit from sales (mainly arising from the changeover to IAS) amounting to 105 million €.

Positive effects were achieved through the collection of indemnity payments for the termination of rent agreements for closed department store branches.

The write-downs amounted to 123.7 million € (125.9 million in 2000).

The volume of investment in the year under review came to 46.3 million €. Substantial investments were made to modernise the real estate stock.

During the financial year KARSTADT Immobilien AG & Co. KG entered into negotiations for the acquisition of undeveloped space in the Munich city centre. Furthermore, the option of acquiring the Wertheim department store on the Kurfürstendamm in Berlin was exercised. Neither investment will be effective until the current or the 2003 financial year.

Special events in the 2001 business year

Transparency increased owing to reorientation

With the hiving off of the real estate at the start of the 2001 financial year the real estate management of KARSTADT Immobilien AG & Co. KG was established. The user-dependent control of the assets and the rent agreements concluded on market terms and conditions markedly increase the efficiency both in the segment and with the operational user. At present the greater part of space is being let to Karstadt Warenhaus AG. An important effect of this demarcation within the group is that transparency and use are being improved.

Real estate not required for the operation being sold

The real estate portfolio includes residential, storage and office buildings which are not required to achieve the strategic goals. These are gradually being sold off.

The funds obtained from this will be reinvested by KarstadtQuelle.

Projects successfully developed

The outstanding inner-city locations guarantee a high visitor frequency because of their central position. We are making use of this initial situation within the framework of project development. Here department store locations are developed into shopping centres. Karstadt Warenhaus or other large-area business users can function here as attractive anchor tenants. The centres can also be built for specialty stores, strong brands and other tenants in the retailing and services sectors. In this way a vital inner-city shopping centre will be created from the lively combination of department store and a large number of small and medium-sized specialty stores. In the combination of different tenants and users each location as a whole can be made even more attractive and more productive from the point of view of its retail use.

Investment in the construction of shopping centres is borne mainly by KarstadtQuelle AG itself or in cooperation with finance and real estate partners. The returns obtained are markedly higher than those obtained from use by Karstadt Warenhaus AG hitherto.

City Point shopping centre opened in Kassel

The new construction of the "City Point Kassel" shopping centre was continued in the year under review. On February 27, 2002, the shopping centre, in which KarstadtQuelle AG has an approx. 50% holding, opened its doors. The proportion of space let to outsiders stands at around 70%. Investment totalled around 100 million €.

Erfurt, Am Anger, project development completed – largest sports store in Thuringia opened

In April 2001 the largest Karstadt sport store in Thuringia was opened. We invested around 12 million € in this four-storey building with 5,000 sq. m of rented space.

The sports store represents the second integrated construction stage of the entire inner-city project development in Erfurt, Am Anger. The neighbouring shopping centre with space totalling around 25,000 sq. m had already been opened in the 2000 financial year. The share rented to third parties is around 40% – for both properties.

Both developments in Kassel and Erfurt are good examples of the type of future inner-city project developments.

Location coordination and real estate administration improved through group-wide services function

The group-wide location coordination was implemented at the end of the year under review. This increased the efficiency of the sales units and the Real estate segment. It guarantees the implementation of group standards and synergetic effects across the company.

The location coordination supports the operational companies of the group with, amongst other things, the preparation of location analyses, the negotiation of rent agreements and the checking of opportunities for expansion.

In the 2001 financial year we introduced a modern, efficient, real-estate-specific accounts system as well as a credit control platform for the Real estate segment. We thus have at our disposal an important technical basis for group-wide, professional real estate management.

OUTLOOK

In the process of further increasing the value of the real estate portfolio the group is concentrating the real estate operation on the following focal points in 2002:

Integration of the group-owned Quelle, Neckermann and SinnLeffers

The further integration of the real estate assets of the Mail-order segment and the SinnLeffers Group will further increase the transparency of the group real estate portfolio and improve returns through efficiency and synergetic effects.

Growth through real-estate-specific services

The strategic orientation of the Real estate segment is based on the guiding principle of "Retail plus real estate". We consistently analyse the numerous opportunities for earnings potential from the real estate value-added chain. At the same time partnerships are being sought with international market leaders in the Ownership, Development, Management and Financing segments. The partnership can ultimately take the form of a legal association (joint venture) or a close, contractual cooperative venture (preferred partnership).

Through further centralisation of the real-estate-specific services in facility management we anticipate further cost reductions through the centralisation of standard services, such as electricity supply and construction services. Maintenance and construction procedures are also analysed to identify possible ways of increasing efficiency.

A further strategic focus is the traditional centre management. The basis for this is the group's strong retailing know-how and its broad inner-city real estate base. We are concentrating our activities in the current financial year on the analysis and construction of a business model aimed at assuming responsibility for the management of shopping centres.

first-class real estate at A1 locations + development of departmen

To achieve ongoing transparency of operations and to support renting and sales operations the Internet site for the Real estate segment is being revised and reorientated. The advantage for business customers or tenants and potential customers lies in the rapid access to relevant real estate and project information.

The acceleration of project development

The hitherto successful project developments of the existing real estate portfolio underscore the high value-added potential. Examples – like the City Point shopping centre in Kassel or the development in Erfurt – show to what extent the retail trade can regenerate and help to shape city centres. Further projects are currently in preparation. The focus is in the area of inner-city property at outstanding locations like Berlin, Karlsruhe, Munich, Leipzig or Potsdam.

Investments

We are planning the acquisition of individual items of real estate in Munich and Flensburg.

The project developments in Potsdam, Karlsruhe and Leipzig will be continued on schedule in a multi-stage process. The necessary pre-construction costs are taken into consideration in the investment plan.

In the 2002 financial year investments amounting to around 20 million € are planned for value maintenance and modernisation of real estate.

Group account in accordance with IAS

Group profit and loss account

for the year ended December 31, 2001

	Notes Text note	2001 th. €	2000 th. €
Sales	(1)	16,067,128	15,444,460
Cost of sales	(2)	- 8,681,750	- 8,225,974
Gross earnings		**7,385,378**	**7,218,486**
Other capitalised own work	(3)	37,055	13,123
Operational income	(4)	613,444	630,633
Staff costs	(5)	- 3,157,176	- 3,109,763
Operational costs	(6)	- 3,802,118	- 3,775,340
Other taxes		- 33,925	- 28,370
Earnings from ordinary activities		**1,042,658**	**948,769**
Income from investments	(7)	99,889	67,214
thereof from associated companies		68,425	70,074
Earnings before interest, taxes and depreciation and amortisation (EBITDA)		**1,142,547**	**1,015,983**
Depreciation and amortisation (not including goodwill)	(8)	- 462,316	- 453,646
Earnings before interest, taxes and amortisation of goodwill (EBITA)		**680,231**	**562,337**
Amortisation of goodwill	(8)	- 49,502	- 28,645
Earnings before interest and taxes (EBIT)		**630,729**	**533,692**
Net interest income	(9)	- 300,074	- 294,683
Other financial income	(10)	2,097	- 813
Earnings before taxes (EBT)		**332,752**	**238,196**
Taxes on income	(11)	- 94,031	- 66,601
Net income before minority shareholdings		**238,721**	**171,595**
Profit/Loss due to other shareholders	(12)	- 3,800	- 6,403
Net income after minority shareholdings		**234,921**	**165,192**
Transfer to earnings reserves		- 121,005	- 86,434
Group profit for the year		**113,916**	**78,758**
Earnings per share in €	(13)	**2.00**	**1.41**

Group balance sheet

for the year ended December 31, 2001

ASSETS	Notes Text note	2001 th. €	2000 th. €
Fixed assets	(14)		
Intangible assets		427,244	284,569
Tangible assets		4,204,471	4,144,442
Financial assets		818,985	417,000
		5,450,700	**4,846,011**
Current assets			
Stocks	(15)	2,524,236	2,555,531
Receivables and other assets	(16)	2,097,082	2,097,099
Securities	(17)	36,054	9,302
Liquid funds	(17)	343,206	253,101
		5,000,578	**4,915,033**
Deferred taxes	(18)	**25,220**	**27,276**
Prepayments and accrued income		**33,549**	**26,593**
Balance sheet total		**10,510,047**	**9,814,913**

EQUITY AND LIABILITIES	Notes Text note	2001 th. €	2000 th. €
Equity	(19)	**1,803,386**	**1,653,212**
Minority shareholdings		**59,523**	**45,477**
Long-term liabilities			
Long-term financial liabilities	(22)	1,424,516	1,324,134
Other long-term liabilities		105,817	83,202
Pension provisions	(20)	2,583,747	2,499,801
Other long-term provisions for liabilities and charges	(21)	224,062	215,471
		4,338,142	**4,122,608**
Short-term liabilities			
Short-term financial liabilities	(22)	1,720,245	1,388,911
Trade payables	(23)	929,745	819,279
Other long-term liabilities		1,006,546	1,090,636
Short-term liabilities	(21)	312,984	379,883
		3,969,520	3,678,709
Deferred taxes		323,810	286,816
Accruals and deferred income		15,666	28,091
Balance sheet total		**10,510,047**	**9,814,913**

Group fixed assets movement schedule

	Historic purchase or production costs				
	As of 01.01.2001 th. €	Additions/ disposals consolidated companies th. €	Exchange differences th. €	Addition current year th. €	Transfers th. €
Intangible assets					
Franchises, trademarks, patents, licences and similar rights	260,176	2,077	266	35,649	15,678
Own developments	9,375	-	-1	20,030	6,106
Goodwill					
from individual account	37,911	3,236	16	494	-99
from consolidation	175,842	-5,336	-	138,435	-
negative goodwill	-225	-524	-	-	-
Advance payments					
intangible assets	31,815	-	-2	21,224	-15,579
intangible assets under development	9,154	-	-	13,245	-6,106
	524,048	**-547**	**279**	**229,077**	**-**
Tangible assets					
Land, leasehold rights and buildings, including buildings on land owned by others					
Property	6,695,007	376,355	378	208,138	-560,395
Finance lease	110,803	-	-	-	-
Capitalised restoration obligation	1,577	155	-	14	-
Plant and machinery	129,314	-1,183	76	2,917	290
Other equipment, furniture and fixtures	2,515,639	142,666	449	177,214	455,530
Advance payments and construction in progress	46,001	1,576	9	65,546	-23,394
	9,498,341	**519,569**	**912**	**453,829**	**-127,969**
Financial assets					
Shares in subsidiaries	46,597	-	1	20,144	-
Loans to subsidiaries	2,181	230	-	-	-
Shares in associated companies	320,175	-	-	229,348	-
Loans to associated companies	-	-	-	50,000	-
Loans to companies in which investments are held	6,732	1,001	-	2,389	-
Other investments	46,857	9,802	-	22,785	-
Financial investments in land and buildings	-	-	-	35	127,969
Securities of fixed assets	9,167	-10	2	1,046	-
Other loans	8,742	83	-	26,786	-
	440,451	**11,106**	**3**	**352,533**	**127,969**
	10,462,840	**530,128**	**1,194**	**1,035,439**	**-**

Group fixed assets movement schedule

	Historic purchase or production costs		Accumulated depreciation and amortisation		
	Disposal current year	As of 31.12.2001	As of 01.01.2001	Additions/ disposals consolidated companies	Exchange differences
	th. €	th. €	th. €	th. €	th. €
Intangible assets					
Franchises, trademarks, patents, licences and similar rights	45,278	268,568	162,769	1,655	236
Own developments	–	35,510	2,853	–	–
Goodwill					
from individual account	4,017	37,541	28,701	1,483	2
from consolidation	20,807	288,134	45,156	- 3,422	-
negative goodwill	-	- 749	-	-	-
Advance payments					
intangible assets	1,019	36,439	-	-	-
intangible assets under development	-	16,293	-	-	-
	71,121	**681,736**	**239,479**	**- 284**	**238**
Tangible assets					
Land, leasehold rights and buildings, including buildings on land owned by others					
Property	91,425	6,628,058	3,213,254	174,886	28
Finance lease	-	110,803	39,516	-	- 1
Capitalised restoration obligation	158	1,588	-	-	-
Plant and machinery	1,032	130,382	84,544	- 935	50
Other equipment, furniture and fixtures	202,737	3,088,761	2,016,585	114,237	283
Advance payments and construction in progress	4,453	85,285	-	-	-
	299,805	**10,044,877**	**5,353,899**	**288,188**	**360**
Financial assets					
Shares in subsidiaries	-	66,742	6,440	486	2
Loans to subsidiaries	109	2,302	-	-	-
Shares in associated companies	2,778	546,745	-	-	-
Loans to associated companies	-	50,000	-	-	-
Loans to companies in which investments are held	1,718	8,404	-	-	-
Other investments	-	79,444	15,397	231	- 2
Financial investments in land and buildings	7,759	120,245	-	-	-
Securities of fixed assets	591	9,614	468	-	1
Other loans	975	34,636	1,146	-	-
	13,930	**918,132**	**23,451**	**717**	**1**
	384,856	**11,644,745**	**5,616,829**	**288,621**	**599**

Group fixed assets movement schedule

	Accumulated depreciation and amortisation				Net book value	
	Addition current year	Transfers	Disposal current year	As of 31.12.2001	As of 31.12.2001	As of 31.12.2000
	th. €	th. €	th. €	th. €	th. €	th. €
Intangible assets						
Franchises, trademarks, patents, licences and similar rights	41,136	4	40,325	165,475	103,093	97,407
Own developments	3,721	–	-	6,574	28,936	6,522
Goodwill						
from individual account	4,195	- 1,367	4,017	28,997	8,544	9,210
from consolidation	45,307	- 30,298	3,297	53,446	234,688	130,686
negative goodwill	-	-	-	-	- 749	- 225
Advance payments						
intangible assets	-	-	-	-	36,439	31,815
intangible assets under development	-	-	-	-	16,293	9,154
	94,359	**- 31,661**	**47,639**	**254,492**	**427,244**	**284,569**
Tangible assets						
Land, leasehold rights and buildings, including buildings on land owned by others						
Property	178,119	- 450,010	36,909	3,079,368	3,548,690	3,481,753
Finance lease	2,346	-	-	41,861	68,942	71,287
Capitalised restoration obligation	280	-	-	280	1,308	1,577
Plant and machinery	9,474	1	906	92,228	38,154	44,770
Other equipment, furniture and fixtures	227,240	411,446	143,122	2,626,669	462,092	499,054
Advance payments and construction in progress	-	-	-	-	85,285	46,001
	417,459	**- 38,563**	**180,937**	**5,840,406**	**4,204,471**	**4,144,442**
Financial assets						
Shares in subsidiaries	30	-	-	7,058	59,684	40,157
Loans to subsidiaries	-	-	-	-	2,302	2,181
Shares in associated companies	-	31,664	-	31,664	515,081	320,175
Loans to associated companies	-	-	-	-	50,000	-
Loans to companies in which investments are held	-	-	-	-	8,404	6,732
Other investments	519	297	-	16,442	63,002	31,460
Financial investments in land and buildings	-	47,191	4,366	42,825	77,420	-
Securities of fixed assets	179	-	33	615	8,999	8,699
Other loans	-	-	603	543	34,093	7,596
	828*	**79,152**	**5,002**	**99,147**	**818,985**	**417,000**
	512,646	**8,928**	**233,578**	**6,194,045**	**5,450,700**	**4,846,011**

* thereof 179 thousand € are shown under Other financial income and 649 thousand € under Income from investments

Changes in group equity and minority shareholdings

	Issued capital th. €	Capital reserve th. €	Revenue reserves th. €	Revaluation reserve th. €	Adjustments foreign currency translation th. €	Total group equity th. €	Minority share-holdings th. €	Total th. €
Opening balance at 01.01.2001	**300,929**	**482,031**	**870,104**	**-**	**148**	**1,653,212**	**45,477**	**1,698,689**
Adjustment for first-time application of IAS 39	-	-	-	-7,731	-	-7,731	-	-7,731
Issue of new shares	531	6,490	-	-	-	7,021	-	7,021
from the purchase of shares	-	-	-	-	-	-	-5,541	-5,541
Dividends	-	-	-78,758	-	-	-78,758	-1,134	-79,892
Generated capital/ group earnings	-	-	234,921	-	-	234,921	3,800	238,721
Differences from foreign currency translation	-	-	-	-	563	563	-290	273
Change due to valuation of original and derivative financial instruments	-	-	-	-4,653	-	-4,653	-	-4,653
due to changes in consolidated companies	-	-	-	-	-	-	16,843	16,843
Other equity capital changes without effect for income	-	-	- 1,189	-	-	-1,189	368	-821
Closing balance at 31.12.2001	**301,460**	**488,521**	**1,025,078**	**-12,384**	**711**	**1,803,386**	**59,523**	**1,862,909**

Group cash flow account

	2001 th. €	2000 th. €
Earnings for the period (including shares of earnings of minority shareholders) before taxes on income and extraordinary items	332,752	238,196
Depreciation and amortisation/revaluations fixed assets	512,646	482,315
Earnings/Loss from disposal of assets	- 19,345	- 47,484
Profit/Loss from foreign currency	- 206	15
Earnings/Losses absorbed from participating interests	- 100,538	- 67,245
Interest income/expenses	151,131	153,598
Increase/Decrease long-term provisions for liabilities and charges (not including tax provisions)	97,174	67,572
Other costs/earnings not affecting payments	118,664	- 42,265
Gross cash flow	**1,092,278**	**784,702**
Increase/Decrease of stocks, trade receivables and other assets, not attributable to investment or financing activities	- 196,989	- 139,842
Increase/Decrease of trade payables and other liabilities not attributable to investment or financing activities	- 55,039	- 25,565
Cash flow from current business activities (before dividends, interest and taxes)	**840,250**	**619,295**
Dividends received	32,113	- 2,834
Interest received	86,972	91,421
Interest paid	- 228,286	- 236,131
Payments/Refunds of taxes on income	- 28,677	- 4,694
Cash flow from current business activities	**702,372**	**467,057**
Cash flow from acquisitions/disinvestment of subsidiaries	- 167,240	- 14,887
Amounts paid out for acquisition of tangible fixed, intangible fixed and long-term assets	- 682,906	- 524,577
Amounts paid for investment in financial assets	- 302,409	- 137,429
Amounts paid in from sale of tangible fixed, intangible fixed and long-term assets	161,695	182,376
Amounts paid in from sale of financial assets	6,729	50,500
Amounts paid in for derivatives	4,039	15
Cash flow from investment activities	**- 980,092**	**- 444,002**
Amounts paid in from equity capital provision	7,021	0
Amounts paid out to/paid in from company owners and minority shareholders	- 78,759	- 75,615
Amounts paid in/paid for the issuance of bonds and for (finance) loans	436,513	73,227
Payments for liabilities under finance leases	- 8,410	- 12,981
Cash flow from financing activities	**356,365**	**- 15,369**
Changes in cash and cash equivalents affecting cash flow	**78,645**	**7,686**
Changes in cash and cash equivalents due to changes in exchange rates, consolidated companies and valuation	38,211	- 375
Cash and cash equivalents at the beginning of the period	261,489	254,178
Cash and cash equivalents at the end of the period	**378,345**	**261,489**

Segment information – KARSTADT QUELLE Group

	KARSTADT QUELLE Group		Transitional account		Over-the-counter retail	
	2001 th. €	2000 th. €	2001 th. €	2000 th. €	2001 th. €	2000 th. €
Sales	18,061,626	16,965,170	-	-	8,114,169	7,638,079
Interest from credit operations	198,430	179,235	-	-	-	-
Internal sales	- 2,192,928	- 1,699,945	- 1,421,860	- 955,390	- 45,062	- 57,109
Group sales	**16,067,128**	**15,444,460**	**- 1,421,860**	**- 955,390**	**8,069,107**	**7,580,970**
Cost of sales	- 8,681,750	- 8,225,974	637,408	298,935	- 4,647,196	- 4,293,007
Gross earnings	**7,385,378**	**7,218,486**	**- 784,452**	**- 656,455**	**3,421,911**	**3,287,963**
Other capitalised own work	37,055	13,123	24,531	11,994	6,333	-
Operational income and expenditure	- 3,188,674	- 3,144,707	746,941	639,029	- 1,291,004	- 1,318,318
Staff costs	- 3,157,176	- 3,109,763	- 78	3,817	- 1,862,053	- 1,883,900
Other taxes	- 33,925	- 28,370	-	-	- 1,541	- 402
Earnings from operations	**1,042,658**	**948,769**	**- 13,058**	**- 1,615**	**273,646**	**85,343**
Income from investments	99,889	67,214	9,178	-	1,444	70
EBITDA	**1,142,547**	**1,015,983**	**- 3,880**	**- 1,615**	**275,090**	**85,413**
Depreciation and amortisation (not including goodwill)	- 462,316	- 453,646	2,595	3,897	- 170,259	- 151,186
EBITA	**680,231**	**562,337**	**- 1,285**	**2,282**	**104,831**	**- 65,773**
Amortisation of goodwill	- 49,502	- 28,645	-	-	- 3,237	-
EBIT	**630,729**	**533,692**	**- 1,285**	**2,282**	**101,594**	**- 65,773**
Net interest income	- 300,074	- 294,683	978	2,127	- 41,808	- 10,837
Other financial income	2,097	- 813	- 978	- 2,131	- 277	- 284
EBT	**332,752**	**238,196**	**- 1,285**	**2,278**	**59,509**	**- 76,894**
EBIT margin in %	3.9	3.5	-	-	1.3	- 0.9
EBT margin in %	2.1	1.5	-	-	0.7	- 1.0
Segment assets	10,484,827	9,787,637	- 3,358,460	- 1,523,803	3,171,430	2,187,587
Segment liabilities	8,382,851	7,874,885	- 3,333,013	- 1,476,085	2,516,635	1,737,852
Capital employed	7,188,688	6,612,957	197	- 29,120	856,550	466,848
ROCE in %	8.8	8.1	-	-	11.9	-
Gross cash flow	1,092,278	784,702	- 466	559	371,754	98,274
Investments	1,230,901	676,893	-	- 41,215	548,878	168,753
Employees (annual average)	89,379	88,697	-	-	55,463	55,506

Segment information by region

	KARSTADT QUELLE Group		Transitional account		National	
	2001 th. €	2000 th. €	2001 th. €	2000 th. €	2001 th. €	2000 th. €
Sales	18,061,626	16,965,170	-	-	15,959,486	15,066,297
Interest from credit operations	198,430	179,235	-	-	147,843	129,868
Internal sales	- 2,192,928	- 1,699,945	- 439,020	- 376,314	- 1,545,242	- 1,110,435
Group sales	**16,067,128**	**15,444,460**	**- 439,020**	**- 376,314**	**14,562,087**	**14,085,730**
Cost of sales	- 8,681,750	- 8,225,974	390,859	356,680	- 8,085,251	- 7,697,872
Gross earnings	**7,385,378**	**7,218,486**	**- 48,161**	**- 19,634**	**6,476,836**	**6,387,858**
EBITDA	**1,142,547**	**1,015,983**	**- 5,759**	**- 5,674**	**1,036,101**	**935,986**
EBITA	**680,231**	**562,337**	**- 4,936**	**- 3,169**	**596,876**	**501,960**
EBIT	**630,729**	**533,692**	**- 4,936**	**- 3,169**	**552,832**	**476,659**
EBT	**332,752**	**238,196**	**- 4,561**	**- 3,186**	**262,809**	**188,433**
Segment assets	10,484,827	9,787,637	- 827,403	- 138,730	9,831,871	8,786,725
Segment liabilities	8,382,851	7,874,885	- 812,564	- 129,374	8,128,518	7,228,307
Investments	1,230,901	676,893	-	-	1,140,382	638,923

Segment information – KARSTADT QUELLE Group

	Mail order		Services	
	2001 th. €	2000 th. €	2001 th. €	2000 th. €
Sales	8,321,221	8,160,655	1,142,388	678,647
Interest from credit operations	198,430	179,235	-	-
Internal sales	- 706,968	- 674,911	- 19,038	- 12,535
Group sales	**7,812,683**	**7,664,979**	**1,123,350**	**666,112**
Cost of sales	- 3,962,044	- 3,937,784	- 708,357	- 292,066
Gross earnings	**3,850,639**	**3,727,195**	**414,993**	**374,046**
Other capitalised own work	4,356	465	1,835	664
Operational income and expenditure	- 2,417,558	- 2,281,179	- 166,815	- 166,221
Staff costs	- 1,094,616	- 1,065,653	- 196,379	- 165,344
Other taxes	- 16,133	- 10,081	- 6	- 368
Earnings from operations	**326,688**	**370,747**	**53,628**	**42,777**
Income from investments	8,789	- 8,156	73,066	73,343
EBITDA	**335,477**	**362,591**	**126,694**	**116,120**
Depreciation and amortisation (not including goodwill)	- 125,010	- 131,940	- 43,942	- 48,396
EBITA	**210,467**	**230,651**	**82,752**	**67,724**
Amortisation of goodwill	- 13,533	- 9,963	- 31,679	- 17,536
EBIT	**196,934**	**220,688**	**51,073**	**50,188**
Net interest income	- 93,656	- 101,458	3,682	5,551
Other financial income	459	549	- 43	-
EBT	**103,737**	**119,779**	**54,712**	**55,739**
EBIT margin in %	2.5	2.9	4.6	7.5
EBT margin in %	1.3	1.6	4.9	8.4
Segment assets	4,125,778	3,978,603	1,195,205	842,492
Segment liabilities	3,435,535	3,325,579	624,610	475,634
Capital employed	2,298,979	2,460,107	816,423	573,709
ROCE in %	8.6	9.0	6.3	8.8
Gross cash flow	431,651	381,042	55,535	67,467
Investments	304,640	185,134	227,639	192,464
Employees (annual average)	30,007	29,654	3,748	3,455

Segment information by region

	EU Western Europe		Eastern Europe	
	2001 th. €	2000 th. €	2001 th. €	2000 th. €
Sales	2,041,410	1,841,009	60,730	57,864
Interest from credit operations	50,587	49,367	-	-
Internal sales	- 205,409	- 210,012	- 3,257	-3,184
Group sales	**1,886,588**	**1,680,364**	**57,473**	**54,680**
Cost of sales	- 955,230	- 854,169	- 32,128	-30,613
Gross earnings	**931,358**	**826,195**	**25,345**	**24,067**
EBITDA	**111,679**	**83,094**	**526**	**2,577**
EBITA	**88,604**	**62,059**	**- 313**	**1,487**
EBIT	**83,335**	**58,904**	**- 502**	**1,298**
EBT	**74,768**	**51,500**	**- 264**	**1,449**
Segment assets	1,457,020	1,117,781	23,339	21,861
Segment liabilities	1,060,011	769,795	6,886	6,157
Investments	89,761	37,828	758	142

Segment information – KARSTADT QUELLE Group

	Real estate		Holding	
	2001 th. €	2000 th. €	2001 th. €	2000 th. €
Sales	483,848	487,789	-	-
Interest from credit operations	-	-	-	-
Internal sales	-	-	-	-
Group sales	**483,848**	**487,789**	-	-
Cost of sales	- 1,561	- 2,052	-	-
Gross earnings	**482,287**	**485,737**	-	-
Other capitalised own work	-	-	-	-
Operational income and expenditure	- 39,050	- 2,179	- 21,188	- 15,839
Staff costs	- 2,197	- 3,176	- 1,853	4,493
Other taxes	- 16,176	- 17,518	- 69	- 1
Earnings from operations	**424,864**	**462,864**	**- 23,110**	**- 11,347**
Income from investments	15,827	481	- 8,415	1,476
EBITDA	**440,691**	**463,345**	**- 31,525**	**- 9,871**
Depreciation and amortisation (not including goodwill)	- 123,672	- 125,940	- 2,028	- 81
EBITA	**317,019**	**337,405**	**- 33,553**	**- 9,952**
Amortisation of goodwill	- 1,053	- 1,146	-	-
EBIT	**315,966**	**336,259**	**- 33,553**	**- 9,952**
Net interest income	- 45,954	- 55,030	- 123,316	- 135,036
Other financial income	226	420	2,710	633
EBT	**270,238**	**281,649**	**- 154,159**	**- 144,355**
EBIT margin in %	65.3	68.9	-	-
EBT margin in %	55.9	57.7	-	-
Segment assets	3,559,039	3,229,630	1,791,835	1,073,128
Segment liabilities	1,184,038	1,114,245	3,955,046	2,697,660
Capital employed	2,953,085	2,939,802	263,454	201,611
ROCE in %	10.7	11.4	-	-
Gross cash flow	375,217	352,891	- 141,413	- 115,531
Investments	46,260	128,971	103,484	42,786
Employees (annual average)	26	-	135	82

PRINCIPLES OF THE GROUP ACCOUNT

Principles

The Group Account of KARSTADT QUELLE AG and its subsidiary companies has been prepared in accordance with International Accounting Standards (IAS) and in accordance with the interpretations of the Standing Interpretations Committee (SIC). The Group Account conforms to the guidelines of the European Union for group accounting (Guideline 83/349/EEC).

The requirements of Art. 292a German Commercial Code for exemption from the obligation to prepare a group account in accordance with German commercial law have been satisfied.

The evaluation of these requirements is based on German Accounting Standard Number One (DRS 1) published by the German Standardisation Council.

The requirements of IAS 39 and IAS 40 have been applied for the first time to the 2001 financial year. More detailed information on the application of IAS is given on page 131.

For the last time the Group Account has been prepared in DM and translated into euros. Translation is based on a translation rate of DM 1.95583 per euro.

Methods of consolidation

Included in the Group Account of KARSTADT QUELLE AG are all important subsidiary companies under the legal and/or factual control of KARSTADT QUELLE AG. Important associated companies are consolidated by the equity method, if the group holds 20 to 50% of shares and/or exerts a material influence. Other investments are valued under IAS 39 at their market value, unless they are financial investments to be held until final maturity or financial assets which have no quoted market price in an active market and whose assignable current value cannot be reliably determined.

The accounts for the domestic and foreign subsidiary companies included in the consolidation are prepared under IAS 27 by uniform methods of accounting and valuation.

Where subsidiary companies are consolidated for the first time, the acquisition costs are set off against the pro rata equity. Any differences occurring here are allocated to assets and liabilities according to hidden charges and reserves acquired. A remaining debit difference from the capital consolidation is capitalised as goodwill and written down straight-line over its expected economic life.

Negative differences are deducted openly from the asset differences under IAS 22 and, insofar as they do not result from anticipated losses, retransferred according to the movement of the associated fixed assets. As part of the subsequent consolidation realised hidden reserves and charges are rolled over in accordance with the treatment of the corresponding assets and liabilities.

The amalgamation of Schickedanz Handelswerte AG & Co. KG by absorption into KARSTADT QUELLE AG was effected as a transaction under common control at book values.

The cost of acquisition of investments included by the equity method is adjusted by the amounts by which the equity of the associated company changes. The adjustment of equity in the investments assessment is effected for the earnings-related components of the items, Income from investments, Amortisation of goodwill and Tax on income and earnings.

For the adjustment of a difference in the investments valuation between the investment costs and the pro-rata equity of the company the principles applying to the full consolidation are applied correspondingly.

Sales, expenses and earnings as well as amounts owed, liabilities and provisions between companies included in the consolidation have been eliminated. Intermediate earnings from the intercompany supply of goods and services are excluded, unless realised by sale to third parties.

Accounting and valuation methods

Intangible fixed assets

These have been valued at cost less scheduled linear depreciation/amortisation. Depreciation/amortisation was calculated on the basis of the following useful life:

Assets	Useful life
Goodwill	15 – 20 years
Software	3 – 5 years
Licences, tenancy rights, rights of use and similar rights	Duration of agreement or shorter economic life
Other intangible assets	3 – 15 years

In the case of anticipated permanent diminutions in value unscheduled depreciation/amortisation has been applied.

Own-manufactured intangible assets are capitalised at manufacturing cost, if the requirements of IAS 38 have been satisfied.

Manufacturing costs also include reasonable shares of overhead expenses in addition to individual costs. Financing costs are not carried as assets.

Tangible fixed assets

Assets	Useful life
Buildings	25 – 40 years
Plant, machinery and equipment	5 – 15 years (or shorter duration of rent agreement)
Fixtures, furniture and office equipment	2 – 15 years
Shop fittings	7 years

Tangible fixed assets are valued at purchase or manufacturing cost less scheduled depreciation. Financing costs are carried as assets only in the case of long-term real estate projects.

Financial investments in land and buildings are valued at cost under IAS 40 and shown under financial assets.

Maintenance expenses are set off with effect for income. They are carried as assets if this has resulted in an increase or substantial increase in the respective asset value.

Rented tangible assets are entered in accordance with IAS 17. Depreciation and amortisation is applied as scheduled for the economic useful life. Payment commitments resulting from future lease rates are shown as liabilities under financial debts.

Restoration obligations are allocated to corresponding acquisition costs and, like the capitalised assets, spread straight-line over the anticipated economic useful life.

Financial assets

Active financial instruments within the meaning of IAS 39 shown under financial assets – these are, in detail, shares in non-consolidated group companies, associated companies not valued by the equity method, other investments, loans and fixed asset securities – are valued individually at the assignable current value if they are not being held until final maturity and a current value can be calculated. Changes in income from marketable securities are shown under equity without effect for income until sale.

Financial instruments held until final maturity are valued at adjusted purchase cost and, in the case of expected permanent diminution of value, at the lower assignable current value. The assessment of all classes within the meaning of IAS 39 is undertaken as at the trading date.

Financial investments in land and buildings are valued at adjusted purchase cost. In the case of expected permanent diminution of value a write-down to the lower assignable current value is applied.

Stocks

Stocks are shown at purchase or manufacturing cost, or, if necessary, at a lower obtainable net disposal value. Borrowed capital costs are not included.

Debtors and Other assets

Trade receivables and Other assets are shown at nominal value. Itemised valuation allowances are applied for bad or doubtful debts.

Also shown under Other assets are catalogue costs assignable to the period after the balance sheet date.

Sale of receivables

As part of a securitisation transaction programme group companies are selling trade receivables to a trust. Under this programme the purchaser withholds part of the purchase price as security until receipt of the payments. If there is sufficient likelihood of realisation, the anticipated payment is shown as a separate financial asset.

The vendors assume the responsibility for collecting the debts. Adequate provisions at the balance sheet date are set aside for these obligations.

In return for the assumption of risk and interim financing the vendors pay a programme fee, which is shown under Other operating expenses.

Securities of current assets

Securities of current assets are valued under IAS 39 from the beginning of the 2001 financial year in the subsequent valuations at current values.

The attributable current values are adjusted with effect for income in the case of securities which are classified as “held for trading purposes”.

Deferred taxes

For temporary discrepancies between valuations on the commercial and tax balance sheets of the consolidated companies active deferred taxes are charged to subsequent years if in individual cases or with regard to the corresponding fiscal unit an excess results on the assets side.

The assessment and valuation of deferred tax claims are regularly checked. Unscheduled depreciation is applied if there is any doubt that the item will retain its value.

Provisions

Pension provisions are calculated actuarially by the projected unit credit method.

Actuarially calculated profit and loss are taken into account only outside a 10% corridor exceeding the respective level of liability and spread over the average future remaining service period.

Other provisions are made for contingent liabilities and losses resulting from pending transactions. The provisions are valued at the best estimated value of the fulfillment sum. Long-term provisions are discounted.

Derivative financial instruments

Since January 1, 2001, the KARSTADT QUELLE Group has applied IAS 39, which requires all derivative financial instruments to be shown on the balance sheet at their market value. Subject to the appropriate security arrangements, changes in market value are shown under IAS 39 on an accrual basis in equity under "Changes resulting from derivative financial instruments" or as income for the period under the valuation results in other financial income.

KARSTADT QUELLE AG and its subsidiary companies use derivative financial instruments first and foremost as a security against foreign exchange risks from purchasing transactions and against interest risks.

Foreign currency translation

Assets and liabilities tied up in foreign currency are translated at the rate applying at the time of accession and are adjusted at each balance sheet date to the rate applying at that date. Positive translation differences of 206 thousand € resulting (previous year: minus 15 thousand €) have been entered with effect for income.

The annual accounts of the foreign subsidiary companies are translated into the respective national currency in accordance with the functional currency concept. Assets and debts are translated at the rate applying at the balance sheet date, expenses and income at the annual average rate.

Translation differences are entered under equity without effect for earnings. The most important rates have developed as follows relative to the euro:

Currency exchange rates relative to €

	Average rate		Rate at balance sheet date	
	2001 €	2000 €	2001 €	2000 €
100 Danish kroner	13.422	13.416	13.446	13.399
1 English pound	1.614	1.641	1.643	1.602
100 Hong Kong dollars	14.365	13.778	14.534	13.888
100 Polish zlotys	27.368	24.951	28.516	25.975
1 Swedish krone	9.253	8.4459	9.33	8.831
100 Swiss francs	66.273	64.197	67.545	65.651
100 Slovakian korunas	2.308	2.347	2.339	2.276
100 Czech korunas	2.947	2.809	3.126	2.853
1,000 Hungarian forints	3.899	3.845	4.066	3.774

Most important acquisitions

In January 2001 Quelle AG acquired at a cost of 59,707 thousand € the majority shareholding in the French mail-order supplier AFIBEL S.A., Villeneuve d'Ascq, which – like all the following acquisitions – has been included in the Group Account by the acquisition method. Goodwill amounting to 50,045 thousand € results from this transaction.

Also in January 2001 Neckermann Versand AG acquired Hess Natur-Textilien GmbH & Co. KG, Bad Homburg, and in March 2001 Fritz Berger AG (now GmbH & Co. KG), Neumarkt. Acquisition costs amount to 15,866 thousand € and 8,978 thousand € respectively. Goodwill calculated by the acquisition method amounts to 14,596 thousand € and 8,824 thousand €.

In February 2001 KARSTADT QUELLE AG acquired at a cost of 86,920 thousand € M + T Mode und Textilhaus-Beteiligungs Gesellschaft m.b.H., Fürth (now Essen). At this time this company held 85% of the votes and capital shares in Sinn Leffers AG, Hagen. As a consequence of a public takeover bid, after the sale in the meantime of 4.99% of the shares, a further 11.25% of the shares were acquired, so that at the balance sheet date 91.24% of the Sinn Leffers shares are held by M + T Mode- und Textilhaus Beteiligungs Gesellschaft m.b.H. Goodwill amounts to 54,418 thousand €.

Furthermore, in February 2001, 50% of the shares in GOLF HOUSE Direktversand GmbH, Hamburg, were acquired by Karstadt Sport Handelsgesellschaft mbH, Essen, at purchase costs of 10,367 thousand €. In November 2001 a further 24.9% of the shares were acquired. Goodwill amounts to 7,598 thousand €.

Consolidated companies

Included in the Group Account are, besides KARSTADT QUELLE AG, all German and foreign subsidiary companies in which the majority of voting rights are directly or indirectly held by KARSTADT QUELLE AG.

For changes resulting from the transition from German Commercial Code to IAS, cf. page 131.

There are 380 domestic and 95 foreign companies consolidated. 8 companies are valued by the equity method. Not included in consolidation are subsidiaries if their influence on the Group Account is immaterial.

In the 2001 financial year 27 companies were newly included in the Group Account, amongst them principally:

- AFIBEL S.A., Villeneuve d'Ascq, France
- AFIGEST S.A., Villeneuve d'Ascq, France
- Fritz Berger GmbH & Co. KG, Neumarkt
- GOLF HOUSE Direktversand GmbH, Hamburg
- Hess Natur-Textilien GmbH & Co. KG, Bad Homburg
- Karstadt Finance B.V., Amsterdam, Netherlands
- KARSTADT Hypothekenbank AG, Essen
- Lorenz Klever GmbH & Co. KG, Wegberg

– M + T Mode- und Textilhaus-Beteiligungs Gesellschaft m.b.H., Essen
– NeBus B.V., Terneuzen, Netherlands
– Sinn Leffers AG, Hagen

The following left the group of consolidated companies in the 2001 financial year:

– MC Immobilien Verwaltungs-GmbH & Co. Essen Mielesheide KG, Essen
– MS Direktmarketing AG, Switzerland
– MS Mail Service GmbH, Austria
– MS Mail-Service AG, Switzerland

The most important subsidiaries and associated companies are listed on pages 154 to 156. The complete lists of shareholdings will be filed with the Commercial Register of the Essen district court HRB 1783.

Changes to the group of consolidated companies and the acquisition and disinvestment of companies had the following effects on the profit and loss account and the KARSTADT QUELLE Group balance sheet:

	Acquisitions th. €	Disinvestments th. €
Gross earnings	401,445	-
Earnings before interest, tax and depreciation/amortisation (EBITDA)	42,705	6,099
Earnings before interest and tax (EBIT)	5,784	4,218
Earnings before tax (EBT)	- 10,091	- 2,078
Fixed assets	366,364	104,219
Current assets (not including liquid funds/securities)	268,743	5,176
Liquid funds	38,829	618
Other assets	14,649	-
Assets	**688,585**	**110,013**
Pension provisions	69,284	-
Other provisions	32,787	1,788
Financial debts	89,226	-
Other liabilities	438,080	112,117
Debts	**629,377**	**113,905**

The effect of earnings before income tax from disinvestment amounting to minus 2,078 thousand € includes effects up to the time of final consolidation. Income from final consolidation amounts to 16,499 thousand € and, taking into consideration the effects up to the departure of the companies, results in a total positive effect of 14,421 thousand €. The effects of acquisitions and disinvestments on earnings before income tax total 4,330 thousand €.

Notes on the application of International Accounting Standards (IAS)

The IAS requirements are applied for the first time retrospectively, in accordance with SIC-8. According to this, for application of IAS for the first time the adaptations of the methods of balance sheet accounting and valuation are applied retroactively as if balance sheets had always been prepared under IAS.

The changeover to IAS is linked to the following important changes and divergences:

The group of consolidated companies has considerably expanded through application of SIC-12. Principally 36 real estate or store furnishing and fitting companies have been included in the group. Also consolidated, furthermore, was the KARSTADT QUELLE Bank GmbH (formerly Optimus Bank für Finanz-Service GmbH), Neu-Isenburg, which till now has not been included because of its divergent activity.

The setting off under the German Commercial Code of goodwill arising from initial consolidation is not permitted under IAS. It is therefore entered under intangible assets and written down over its expected economic life.

For the goodwill realised before January 1, 1995 the transition rule under IAS 22 (section 99 ff.) has been applied, under which setting off against earnings reserves or transfer of liability differences to earnings reserves can be maintained.

Own-manufactured intangible assets, in particular own-developed software, have in individual cases been entered at cost.

Changes due to depreciation and amortisation of fixed assets relate to the redemption of tax depreciation and amortisation under Art. 254 German Commercial Code and changes in the useful life of buildings due to the non-application of the rules on tax depreciation.

The pension provisions shown on the balance sheet by the going-concern method and similar liabilities have been calculated by the projected unit credit method – taking into consideration anticipated salary increases.

The inclusion of leasing operations is done in accordance with the requirements of IAS 17. Here a distinction is made between “finance lease” and “operate lease”, depending on who takes the main chances and bears the main risks and can be treated as economic owner. In the case of a finance lease the leased object is carried as an asset in the lessee’s accounts.

Deferred taxes are entered by the balance-sheet-oriented liability method and therefore also take into consideration so-called quasi-permanent differences. For the assessment of deferred taxes on the assets side there is no voting right under IAS. The assessment of deferred taxes on the assets side on loss carry-forwards is obligatory. Appropriate value allowances are included.

Other changes relate mainly to the allocation of advertising expenses according to the matching principle and to Other provisions for liabilities and charges.

The adjustments dealt with in the notes above have affected equity as follows:

	2001 th. €	2000 th. €
Equity under the German Commercial Code	**1,906,376**	**1,866,724**
Changes due to differences in the consolidated group, balance sheet accounting and valuation Changes in the consolidated group (not including deferred taxes)	- 507,904	- 512,899
Goodwill	234,688	130,686
Changes due to depreciation of fixed assets	639,966	681,194
Valuation of pension provisions	- 380,451	- 425,183
Finance leasing	11,569	9,117
Deferred taxes	- 244,035	- 258,669
	- 246,167	**- 375,754**
Other changes *	**- 143,177**	**162,245**
Equity under IAS	**1,803,386**	**1,653,215**

* of which changes in presentation of balancing items for minority shareholdings 49,688 th. € (previous year: 50,709 th. €)

The effects of the changeover to IAS for the EBT of the 2001 and 2000 financial years are shown by the following table:

	2001 th. €	2000 th. €
EBT under the German Commercial Code	**343,883**	**272,780**
Changes due to differences in the consolidated group, balance sheet accounting and valuation Changes in the consolidated group	4,995	99,832
Goodwill	- 14,533	- 8,019
Changes due to depreciation/write-ups on fixed assets	- 41,228	- 173,630
Valuation of pension provisions	44,732	35,798
Finance leasing	2,147	2,393
Other changes	- 7,244	9,042
EBT under IAS	**332,752**	**238,196**

NOTES TO THE PROFIT AND LOSS ACCOUNT

1 Earnings from sales

Sales performance broken down by segment and region is shown in the segment report. Earnings from sales also include other operating income in the form of interest from instalment sale operations of mail-order companies amounting to 198,430 thousand € (previous year: 179,235 thousand €) at the mail-order companies included in the Group Account.

2 Cost of goods sold

The cost of goods sold is broken down as follows:

	2001 th. €	2000 th. €
Cost of purchased goods, raw materials and supplies	8,132,439	8,138,861
Cost of purchased services	549,311	87,113
	8,681,750	8,225,974

3 Other capitalised own work

Other capitalised own work also includes mainly own work to be entered as fixed assets from own manufactured software.

Capitalisation is carried out only in accordance with a strict interpretation of the criteria of IAS 38 (intangible assets).

4 Operating income

Operating income from ordinary operations includes in particular:

	2001 th. €	2000 th. €
Income from advertising cost subsidies	156,800	112,087
Income from rents and commissions	94,177	91,797
Income from the reversal of provisions	44,173	33,214
Income from the disposal of fixed assets	38,644	54,168
Income from on-charged deliveries and services	32,096	35,484
Income from other services	26,259	28,136
Income from the retransfer of valuation allowances	8,718	25,455
Other income	212,577	250,292
	613,444	**630,633**

Other income include income from final consolidations amounting to 16,499 thousand € (previous year: 98,995 thousand €). Reversal of provisions relates mainly to staff-related provisions for anniversary bonuses, indemnities and old-age part-time work and leasing risks under contingent losses from pending transactions.

5 Staff costs

	2001 th. €	2000 th. €
Wages and salaries	2,595,860	2,529,491
Social-security contributions and cost of pensions and welfare benefits	533,616	532,094
thereof for pensions	17,513	22,280
Other staff costs	27,700	48,178
	3,157,176	**3,109,763**

Other staff costs include expenses incurred under the employees' share option programme and training costs as well as the cost of anniversary bonuses and staff recruitment.

Under the incentive stock options plan the conditions for exercise of subscription rights have been satisfied neither by the balance sheet date nor during the period during which the balance sheets were being prepared. The KARSTADT QUELLE Group is not showing staff costs incurred under this plan during the year under review. For the conditions, see pages 143 and 144.

Costs under the employees' share programme amounted to 2,223 thousand €.

6 Operating expenses

	2001 th. €	2000 th. €
Sales costs	2,395,550	2,277,145
Operating and office/workshop costs	769,988	696,988
Administrative costs	301,080	304,809
Discounts on and write-off of trade receivables	151,757	129,297
Losses from the disposal of assets	19,303	6,684
Other	164,440	360,417
	3,802,118	3,775,340

Sales costs include mainly the cost of goods despatch, motor vehicles, advertising and catalogues. Operating costs include rent charges, inventory repairs and maintenance. Set against this, cost of office and workshop space comprises maintenance and repair costs as well as energy and cleaning costs. Other expenses at 39,068 thousand € include programme fees from the sale of receivables at mail-order companies included in the Group Account; also shown under this item are the cost of service set-offs. The reduction is due mainly to the discontinuance of restructuring costs from 2000 in the department stores segment.

7 Income from investments

	2001 th. €	2000 th. €
Income from investments in associated companies	68,425	70,074
Income from other investments	31,704	7,430
thereof from subsidiaries	28,098	6,031
Profits received under profit and loss transfer agreements	2,423	2,261
Expenses from transfer of losses	-2,014	-12,520
Write-down of financial assets	-649	-31
	99,889	67,214

Income from investments in associated companies includes income from the 50% holding in Thomas Cook AG, Oberursel, amounting to 61,922 thousand €. This, like the holding in maul + co – Chr. Belser GmbH, Nuremberg, which is included in income from investments at 6,227 thousand €, is valued by the equity method.

The equity is adjusted pro rata by the result for the year with the most important earnings components, amortisation of goodwill and taxes, treated separately. For Thomas Cook AG, therefore, amortisation of goodwill is entered under the corresponding item. Thomas Cook contributed a total of 30,258 thousand € (previous year: 44,406 thousand €) to earnings before income tax.

8 Depreciation and amortisation

Depreciation on tangible fixed assets and intangible fixed assets (not including goodwill)

	2001 th. €	2000 th. €
Scheduled depreciation on tangible fixed assets and intangible fixed assets	461,822	449,135
Non-scheduled depreciation on tangible and intangible fixed assets	494	4,511
	462,316	**453,646**

Amortisation of goodwill

	2001 th. €	2000 th. €
Amortisation from capital consolidation	45,307	26,018
Amortisation from individual accounts	4,195	2,627
	49,502	**28,645**

The amortisation of goodwill from capital consolidation includes amortisation amounting to 31,664 thousand € (previous year: 17,520 thousand €) from the adjustment of equity at Thomas Cook AG, which is included by the equity method.

9 Net interest

	2001 th. €	2000 th. €
Interest expenses due to additions on pensions reserves	-148,460	-141,085
Other interest and similar income	86,972	90,281
thereof from subsidiaries	3,438	1,703
Other interest and similar expenses	-238,586	-243,879
thereof to subsidiaries	-816	-947
	-300,074	**-294,683**

Under the requirements of IAS 17 land and buildings from financial leasing agreements are shown under Tangible fixed assets and the interest component in the leasing rates under Net interest.

10 Other financial results

	2001 th. €	2000 th. €
Other financial costs	- 1,156	- 2,012
Other financial income	3,253	1,199
	2,097	**- 813**

Other financial income includes the valuation of derivative financial instruments amounting to 1,845 thousand € (previous year: costs amounting to 723 thousand €).

11 Tax on income and earnings

	2001 th. €	2000 th. €
Actual tax or tax owed	79,678	27,093
Deferred taxes	14,353	39,508
	94,031	**66,601**

Since the beginning of the 2001 financial year corporation tax has been levied in Germany at a uniform rate of 25%. As well as corporation tax, on which a reunification charge of 5.5% is levied, trade tax of approx. 16% is levied before deductibility on corporation tax is taken into account.

In the case of the German Group companies a deferred tax rate of 39% was applied. In the case of the foreign companies an average country-specific tax rate is applied.

Actual tax owed includes tax expenses for other periods amounting to 6,850 thousand € (previous year: 5,048 thousand €).

Transitional account from anticipated to actual tax costs in the profit and loss account

	2001 th. €	2000 th. €
Net income for the year before income tax	**332,752**	**238,196**
Anticipated tax costs (39% / 52%)	129,773	123,861
Change in tax rate	-	- 19,622
Additions and reductions for trade tax	- 29,654	- 6,566
Back payments and refunds previous years	6,850	5,048
Effects of foreign tax rates	- 6,416	- 6,328
Effects of non-taxable income	- 11,529	- 4,703
Amortisation of goodwill of fully consolidated companies	4,792	2,884
Non-deductible operating expenses	1,558	1,840
Provision for/Utilisation of value-adjusted loss carry-forwards	1,835	3,241
Other divergences	- 3,178	- 33,054
Tax costs in the profit and loss account	**94,031**	**66,601**

12 Profit/loss due to other shareholders

	2001 th. €	2000 th. €
Shares of profit	8,496	7,275
Shares of loss	- 4,696	- 872
	3,800	**6,403**

13 Net earnings per share

		2001	2000
Net profit for the year by minorities	th. €	234,921	165,192
Number of individual share certificates on annual average	number	117,602,244	117,550,400
Net earnings per share	€	2.00	1.41

Under IAS 33, net earnings per share are calculated by dividing the net profit for the year by minorities and the average number of shares.

The diluted net earnings per share for the year under review are the same as for the previous year.

NOTES TO THE BALANCE SHEET

14 Fixed assets

Goodwill arising from the capital consolidation is capitalised and amortised straight-line over a useful life of 20 years in accordance with IAS 22.

Additions to goodwill for the financial year comprise mainly the acquisition of shares in M + T Mode- und Textilhaus-Beteiligungs Gesellschaft m.b.H., Essen, and AFIBEL S.A., Villeneuve d'Ascq, France, Hess Natur-Textilien GmbH & Co. KG, Bad Homburg, Fritz Berger GmbH & Co. KG, Neumarkt, and GOLF HOUSE Direktversand GmbH, Hamburg.

The economic ownership of leased objects is assessed in accordance with IAS 17. If this is to be assigned to a group company, the leased object is capitalised at the assignable current value or the lower of the cash value of the lease payments at the time the agreement was signed. The cash value of the lease payments is shown correspondingly as a liability.

Commitments under finance and operate leasing agreements

	Total		up to 1 year		1 to 5 years		over 5 years	
	2001 th. €	2000 th. €	2001 th. €	2000 th. €	2001 th. €	2000 th. €	2001 th. €	2000 th. €
Finance leasing agreements								
Lease payments due in future	63,993	72,404	5,748	8,409	52,844	58,035	5,401	5,960
Discount	- 6,620	- 10,234	- 640	- 3,612	- 4,833	- 5,233	- 1,147	- 1,389
Cash value	**57,373**	**62,170**	**5,108**	**4,797**	**48,011**	**52,802**	**4,254**	**4,571**
Lease payments under sublease	-	-	-	-	-	-	-	-
Operate leasing agreements								
Lease payments due in future	2,399,839	1,744,452	284,708	221,456	891,555	702,846	1,223,576	820,150
Lease payments under sublease	57,044	49,927	-	-	-	-	-	-

Finance leasing agreements have a fixed agreed basic leasing period of between 20 and 25 years and include a purchase option for the lessee after expiry of the basic leasing period. Assets under finance leasing agreements have a book value at the balance sheet date of 68,942 thousand €. These comprise buildings for which the cash value of the future minimum lease payments covers the essential acquisition costs or the legal title to which passes to the lessee at the end of the agreement period.

Operate leasing agreements mainly include building rents without purchase options.

Financial investments in land and buildings (investment properties) are entered to the balance sheet and valued at cost.

Against this, the market values, which are based mainly on internally adjusted assessments by outside third parties (independent expert valuers) amount to 125,783 thousand € (book values: 77,420 thousand €).

The profit and loss account includes as part of financial investment in land and buildings income from rents amounting to 3,822 thousand € with associated operating costs of 3,746 thousand € (of which from depreciation and amortisation: 1,656 thousand €).

Amounts written off financial investment in land and buildings are applied straight-line with a depreciation period of between 20 and 40 years. In 2001 two sites were sold at a total capital profit of 18,570 thousand €.

15 Stocks

Stocks are broken down as follows:

	2001 th. €	2000 th. €
Raw materials and supplies	72,715	66,980
Merchandise	2,451,521	2,488,551
	2,524,236	2,555,531

Stocks, which are assessed at net sales value, amount to 746,274 thousand € (previous year: 894,255 thousand €).

Stocks spread over the business segments:

	2001 th. €	2000 th. €
Over-the-counter retail	1,374,020	1,296,390
Mail order	1,137,696	1,249,963
Other	12,520	9,178
	2,524,236	2,555,531

16 Receivables and other assets

The Quelle and Neckermann Groups sold short-term trade receivables on a revolving basis during the financial year. New sales of trade receivables brought in as at the balance sheet date additional liquidity of 909,351 thousand € (previous year: 799,023 thousand €).

Other assets include catalogue costs allocated to later years amounting to 174,023 thousand € (previous year: 173,490 thousand €). Tax refund claims, derivative financing instruments and debit balances from suppliers are also shown under this item.

Receivables and Other assets comprise:

	2001 th. €	2000 th. €
Trade receivables	1,291,068	1,315,386
thereof with a remaining term exceeding 1 year	405,966	358,228
Amounts owed by subsidiaries	120,071	61,606
Amounts owed by associated companies	11,221	12,410
Amounts owed by companies in which investments are held	33,595	14,074
Other assets	641,127	693,623
thereof with a remaining term exceeding 1 year	6,826	24,745
	2,097,082	**2,097,099**

The breakdown of Trade receivables and Other assets by the business segment is as follows:

	2001 th. €	2000 th. €
Over-the-counter retail	65,110	94,443
Mail order	1,009,862	1,063,503
Other	216,096	157,440
	1,291,068	**1,315,386**

17 Liquid funds, securities

Liquid funds include:

	2001 th. €	2000 th. €
Cheques	4,079	4,659
Cash in hand and Bundesbank credits	206,900	107,328
Cash at banks	132,227	141,114
	343,206	**253,101**

Foreign exchange balances are assessed at the rate applying at the balance sheet date.

For euro cash balances, see page 149 under contingent liabilities.

Marketable securities of current assets are valuated under IAS 39 at assignable current values.

18 Accruals and deferred taxes

Accruals and deferred taxes are carried as assets under IAS 12. The accruals and deferred taxes are included in the balance sheet under the following items:

	2001		2000	
	Assets th. €	Liabilities th. €	Assets th. €	Liabilities th. €
Assets	100,664	569,216	119,640	590,492
Current assets	15,094	81,003	7,283	65,971
Pension reserves	154,497	260	176,576	-
Other provisions	78,584	-	54,085	-
Liabilities	13,542	12,769	24,286	-
Loss brought forward	54,834	-	37,040	-
Other	43	52,600	-	21,991
Balancing	-392,038	-392,038	-391,634	-391,638
Group balance sheet	**25,220**	**323,810**	**27,276**	**286,816**

Accruals and deferred taxes on accumulated losses brought forward amounting to 30,864 thousand € are not shown.

19 Capital and reserves

Issued capital an capital reserve

The authorised capital of KARSTADT QUELLE AG was increased by 531 thousand € in October of the year under review to 301,460 thousand €. It is divided into 117,757,775 (previous year: 117,550,400) individual bearer no-par-value share certificates with a value of 2.56 € each.

Capital increase

The capital increase has taken place by the issue of employees' shares as part of the Employees' Shares Plan.

Approved Capital I

On July 20, 2000, the General Meeting of Shareholders resolved 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 parts of new individual bearer share certificates 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 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 parts of new individual bearer share certificates against cash and/or non-cash contribution. Where capital increases are for cash, shareholders will be offered the right to subscribe to the new shares.

Approved Capital III

On July 12, 2001, the General Meeting of Shareholders resolved the raising of Approved Capital III. The Management Board is authorised, with the approval of the Supervisory Board, to increase by September 5, 2002, the authorised capital under the exclusion of a right to subscribe to the new shares for the shareholders, by the issue in one or more parts of up to 1,250,000 new individual bearer share certificates against cash contribution for employees of the company or of subordinate subsidiaries, however up to a maximum of 3,200,000 €.

Conditional Capital I (Convertible bonds and/or bonds with warrant)

The Management Board was authorised by a resolution of the General Meeting of Shareholders of July 20, 2000 to issue in one or more parts by June 30, 2005, convertible bonds and/or bonds with warrant to a total nominal value of up to 600 million € and with a term of not more than 20 years and to grant bearers and creditors of convertible bonds conversion rights or bearers or creditors of bonds with warrant 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 bonds and bonds with warrant.

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 bonds and/or bonds with warrant to be issued by June 30, 2005, subject to the above mentioned authorisation.

Conditional Capital II (Incentive Stock Options Plan)

On July 12, 2001, the General Meeting of Shareholders resolved the raising of Conditional Capital II, by which the authorised capital is increased by the issue of up to 6,380,000 individual bearer share certificates. It relates to the granting of the right of managerial staff of the company to subscribe to shares under the Stock Options Plan.

The conditional capital increase is only realised to such amount as is made use of the rights to subscribe.

Authorisation to acquire own shares

On July 12, 2001, the General Meeting of Shareholders passed a resolution authorising the Management Board to acquire shares in order to launch company shares on foreign stock exchanges on which until then they had not been licensed to trade, or to be able to offer company shares to third parties under the company merger or the acquisition of companies or participating interests in these. The Management Board was also authorised to acquire company shares in order to offer these to managerial staff of the company and of subordinate companies under the Incentive Stock Options Plan in fulfillment of the subscription rights arising from this. The authorisation is limited to the purchase of shares with a par value of 30,092,902 €. The right of shareholders to purchase own company shares is precluded insofar as these shares are used in accordance with the aforementioned authorisations.

Share-oriented remuneration

In stock-exchange-listed companies employee-owned shares and stock option rights have become effective components of a results-oriented concept for the remuneration of employees. In the financial year KARSTADT QUELLE AG has at its disposal various instruments for linking remuneration, which is in part in any case performance-related, to the corporate success of KARSTADT QUELLE AG.

In October, under an employees' share scheme, 207,375 shares were sold to around 15,600 company employees who had worked for the company for longer than six months without notice of termination.

In the financial year the company also launched an Incentive Stock Options Plan with a total term of eight years and over 1,000 eligible persons. After acquisition of the stock option rights and observance of the two-year legal qualifying period a further two-year period is provided for, during which those eligible to participate may exercise their stock option rights, subject to the usual insider rules, if

a) the average stock exchange closing price for KARSTADT QUELLE AG shares is at least 30% higher than the subscription price of 35.58 € on at least ten consecutive days, and

b) from the date at which the option was granted the above mentioned stock exchange closing price is on ten consecutive days at least 10 percentage points higher relative to the subscription price than the value of the DAX-30 Index over the same period.

If the employee's contract of employment is terminated or the company at which the employee is employed leaves the group the purchase rights lapse.

As at the balance sheet date 950 staff had purchased a total of 1,215,000 stock options in the first of five planned tranches.

The conditions for exercise of the stock options had not been met at the balance sheet date.

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

Schickedanz Holding AG & Co. KG, Fürth, announced that as of December 11, 2001, its share of votes in our company had fallen below the level of 25% and 10% and that its votes pursuant to assignments under Art. 22 Para. 1 No. 2 WpHG was 5.359%. **Schickedanz Holding AG & Co. KG, Fürth,** further announced that with effect from April 1, 2002, its share of votes, pursuant to assignments under Art. 22 Para. 1 No. 2 WpHG, amounted to 5.35%.

Mrs. **Margarete Riedel, Fürth,** announced that as of December 11, 2001, her share of votes in our company had exceeded the level of 10% pursuant to assignments of the voting rights of **Riedel Holding GmbH & Co. KG, Fürth,** under Art. 22 Para. 1 No. 2 WpHG, and that her share of votes now amounted to 12.24%.

Mrs. **Madeleine Schickedanz, Fürth, Madeleine Schickedanz Vermögensverwaltung GmbH & Co. KG, Fürth,** Mr. **Martin Dedi, Freudenstadt, Martin Dedi Vermögensverwaltungs GmbH & Co. KG, Fürth,** Mr. **Leo Herl, Fürth,** as well as **Grisfonta AG, Landquart, Switzerland,** announced that as of December 11, 2001, their shares in our company, including assignable votes, exceeded the level of 25% and that the voting shares, which are held in a voting pool, now amounted to 36.123%.

Allianz AG, Munich, announced that as of July 23, 2001, its share of votes in our company pursuant to assignments under Art. 22 Para. 1 No. 2 WpHG had exceeded the level of 10% and that its share of votes was 13.76%. In a notice on April 5, 2002, **Allianz AG, Munich,** has further announced that pursuant to assignments under Art. 22 Para. 1 No. 2 WpHG its shares of votes to assign to it amounted to 13.34%. With effect from February 27, 2002, **Allianz AG, Munich,** has redistributed the shares of votes within the group.

Capital reserve

The capital reserve amounts to 488,521 thousand €. It was increased during the financial year by 6,490 thousand € through the sale of employees' shares.

Treatment of profits/losses from derivative financial instruments without effect for income

Since January 1, 2001, in accordance with IAS 39, financial instruments must be entered on the balance sheet and valued. Derivative financial instruments must be classified as "financial assets or liabilities carried for commercial purposes" and, if the value changes, entered with effect for income. Excepted from this are derivatives which form part of a hedging transaction.

With regard to assessment and valuation a distinction must be made in the year under review between "fair value hedges" and "cash flow hedges". Changes in the value of cash flow hedging transactions must be entered under equity without effect for income. Non-hedge-effective parts are shown with effect for income. On fulfillment of the underlying transaction they are entered with effect for income.

Proposed distribution of dividends

The Management Board proposes to the General Meeting of Shareholders that a dividend of 83.6 million € (previous year: 78.8 million €) be distributed out of the net profit of 113.9 million € at KARSTADT QUELLE AG for the 2001 financial year, calculated in accordance with the principles of the German Commercial Code (HGB). This represents a dividend per share of 0.71 € (previous year: 0.67 €).

Performance of derivative financial instruments in equity

	Before tax th. €	Tax effect th. €	Net th. €
Cumulative effect from the change in the balance sheet accounting of derivative financial instruments as at 01.01.2001	- 10,157	2,426	- 7,731
Unrealised profits/losses from derivative financial instruments for the period under review			
Releases	4,739	- 624	4,115
Transfers	- 14,104	5,336	- 8,768
Unrealised profits/losses from derivative financial instruments as at 31.12.2001	**- 19,522**	**7,138**	**- 12,384**

20 Pension provisions

Provisions are set up for commitments arising from future old-age pension rights and ongoing payments to active and former employees and surviving dependants.

Corporate pension payments in the group are mainly performance-oriented and usually based on employees' duration of employment and remuneration.

Pension provisions are entered on the balance sheet and valued in accordance with IAS 19. Future commitments are valued by applying actuarial methods and careful estimation of the relevant influencing factors. As well as assumptions of life expectancy, the following parameters are applied:

Accounting parameters

	Parameters applied	
	31.12.2001 in %	31.12.2000 in %
Interest rate for accounting purposes	5.75	6.0
Expected development of income	3.0	3.0
Expected development of pension	2.0	2.0
Average employee turnover	5.0	2.0 – 7.0

Pension provisions are valued by applying the 10% corridor rule. Actuarially calculated profits or losses are not taken into account if they do not exceed 10% of the level of commitment. The amount by which the corridor is exceeded is spread with effect for earnings over the average remaining service period of active employees. Due to the actuarially calculated losses not included the commitments entered to the balance sheet are lower than the cash value of the commitments.

Balance-sheet commitments

	2001 th. €	2000 th. €
Cash value of future pension commitments (DBO)	2,728,826	2,518,020
Actuarially calculated profits/losses not taken into account	- 136,566	- 17,059
Other	- 8,513	- 1,160
	2,583,747	**2,499,801**

Cash value of future pension rights (DBO)

	2001 th. €	2000 th. €
As at 01.01.	2,518,020	2,468,370
Cost of pension entitlements acquired in the financial year	12,477	18,281
Interest	148,460	141,085
Pension payments	- 137,707	- 127,933
Actuarially calculated profits/losses	136,566	17,059
Addition from consolidated companies and other changes	51,010	1,158
As at 31.12.	**2,728,826**	**2,518,020**

Pension costs

	2001 th. €	2000 th. €
Cost of pension entitlements acquired in the financial year	12,477	18,281
Interest	148,460	141,085
	160,937	**159,366**

Whereas the cost of pension entitlements acquired in the financial year are shown under Staff costs, interest is shown under Financial results.

21 Other provisions

In detail Provisions include:

	Total 2001 th. €	thereof less than 1 year th. €	Total 2000 th. €	thereof less than 1 year th. €
Tax provisions	119,591	33,466	115,333	23,429
Other provisions	417,455	279,518	480,021	356,454
	537,046	**312,984**	**595,354**	**379,883**

Other provisions developed as follows in the financial year:

	As at 01.01.2001 th. €	Changes consolidated companies th. €	Differences foreign currencies th. €	Utilisation th. €	Reversal th. €	Addition th. €	As at 31.12.2001 th. €
Staff	245,562	4,074	-	91,754	16,010	34,236	176,108
Guaranties/ warranties	40,754	544	77	36,037	1,204	46,227	50,361
Contingent losses from pending transactions	46,570	19,072	-	21,250	8,728	11,913	47,577
Other	147,135	3,486	149	70,827	18,232	81,698	143,409
	480,021	**27,176**	**226**	**219,868**	**44,174**	**174,074**	**417,455**

Staff-related provisions include provisions for anniversary bonuses, death benefits, indemnities and old-age part-time work.

Other provisions include liabilities resulting from litigations, closures of branches as well as other restructuring expenses.

22 Financial liabilities

	Total	thereof with a remaining term of		
		up to 1 year	1 to 5 years	more than 5 years
	th. €	th. €	th. €	th. €
Bank loans and overdrafts	2,747,522	1,457,396	453,917	836,209
previous year	2,358,847	1,179,554	425,449	753,844
Liabilities under leasing agreements	57,373	5,108	48,011	4,254
previous year	62,170	4,797	52,802	4,571
Other financial liabilities	339,866	257,741	15,161	66,964
previous year	292,028	204,560	15,772	71,696
As at 31.12.2001	**3,144,761**	**1,720,245**	**517,089**	**907,427**
previous year	2,713,045	1,388,911	494,023	830,111

Liabilities under leasing agreements are shown at cash values. Other financial liabilities include liabilities from commercial paper amounting to 253,900 thousand € (previous year: 200,617 thousand €). Financial liabilities are secured by mortgages amounting to 554,995 thousand €.

Book and market values of the financial liabilities

	Market values		Book values	
	31.12.2001 th. €	31.12.2000 th. €	31.12.2001 th. €	31.12.2000 th. €
Short- and long-term financial liabilities	3,198,761	2,769,045	3,144,761	2,713,045

23 Other liabilities

The remaining terms of Other liabilities are shown in the following table:

	Total th. €	thereof with a remaining term of up to 1 year th. €	1 to 5 years th. €	more than 5 years th. €
Advance payments received on orders	17,170	17,170	-	-
previous year	20,064	20,064	-	-
Liabilities on bills accepted	34,797	34,797	-	-
previous year	39,222	39,222	-	-
Trade payables	929,976	929,745	231	-
previous year	819,498	819,279	219	-
Amounts owed to subsidiaries	38,142	34,253	1,169	2,720
previous year	28,714	23,369	5,137	208
Amounts owed to associated companies	2,457	2,457	-	-
previous year	83,051	83,051	-	-
Amounts owed to companies in which investments are held	18,008	18,008	-	-
previous year	2,444	2,444	-	-
Other liabilities	1,001,558	899,861	73,589	28,108
thereof taxes	*246,973*	*237,550*	*9,423*	-
thereof social security	*82,842*	*82,842*	-	-
previous year	1,000,124	922,486	59,034	18,604
thereof taxes	250,156	235,906	14,250	-
thereof social security	87,430	87,430	-	-
As at 31.12.2001	**2,042,108**	**1,936,291**	**74,989**	**30,828**
previous year	1,993,117	1,909,915	64,390	18,812

The book values of the shown monetary liabilities are identical with their market values.

24 Contingent liabilities, other financial commitments

The following commitments result from contingent liabilities:

	2001 th. €	2000 th. €
Liabilities resulting from guarantees	1,502	45,478
Liabilities under warranty agreements	2,773	2,042
Collateral liabilities	24	1,125
	4,299	**48,645**

165,129 thousand € was made available to the KARSTADT QUELLE Group in connection with euro cash funding by December 31, 2001. A debit entry was made after the key date.

As well as contingent liabilities, there are Other financial commitments of 2,399,839 thousand € (previous year: 1,744,452 thousand €) arising mainly from the lease of buildings.

Other purchase commitments total 656,901 thousand € (previous year: 280,891 thousand €.)

The KARSTADT QUELLE Group set up an Incentive Stock Options Plan during the year under review (see also pages 143 and 144). As it is not certain at present whether the required criteria for exercise of the option rights have been satisfied and thus the level of commitment cannot be determined sufficiently precisely, no provision was set up in the financial year.

25 Derivative financial instruments

As part of risk management in the KARSTADT QUELLE Group various derivative financial instruments are being deployed to limit risks arising from exchange and interest rate fluctuations.

Foreign exchange risk management

Because of its international purchasing operations the KARSTADT QUELLE Group is exposed to foreign exchange risks in the course of its ordinary business operations. To limit these risks, use is made of derivatives.

Interest risk management

Interest risk management results from the sensitivity of financial liabilities in regard to changes in the market level of interest. The group is concerned to limit such risks by the deployment of interest derivatives such as interest swaps and interest futures.

Contract partners

The KARSTADT QUELLE Group's contract partners in the case of derivative financial instruments are banks of first-class credit standing.

Foreign exchange derivatives

The market value of foreign exchange forward contracts depends on foreign exchange forward exchange rates. Foreign exchange options are entered to the balance sheet at their market value or shown at an estimated value calculated on the basis of an option price model.

On the group balance sheet these are carried at a market value of 3,322 thousand € under Other assets and at a market value of 383 thousand € under Other short-term liabilities.

Interest derivatives

The market value of interest derivatives (e.g. interest swaps) is determined by the discounting of anticipated future cash flows over the remaining term of the contract on the basis of current market interest rates and the interest structure curve.

On the group balance sheet these are entered at a market value of 5,170 thousand € under Other assets and at a market value of 28,444 thousand € under Other short-term liabilities.

In the group profit and loss account positive valuations from interest hedging transactions of 1,845 thousand € are shown.

At the balance-sheet date the following derivative financial instruments with the corresponding nominal volumes and associated market values are effective:

Derivate financial instruments

	Market values		Nominal volume	
	2001 th. €	2000 th. €	2001 th. €	2000 th. €
Currency-related transactions Forward exchange purchase contracts	3,322	- 12,009	246,658	267,200
Currency call options	- 383	327	27,186	72,200
	2,939	**- 11,682**	**273,844**	**339,400**
Interest-related transactions Forward Rate Agreements	-	665	153,388	562,112
Interest swaps	- 23,405	- 1,940	1,207,409	1,822,862
CAPs	-	290	418,569	1,430,422
	- 23,405	**- 985**	**1,779,366**	**3,815,396**
	- 20,466	**- 12,667**	**2,053,210**	**4,154,796**

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

NOTES TO THE CASH FLOW ACCOUNT

The cash flow account is shown on page 121.

The cash flow statement shows changes in the flow of cash and cash equivalents in the KARSTADT QUELLE Group during the financial year.

In accordance with IAS 7, cash flow is broken down into cash flow from business activity (gross cash flow), cash inflow from current business activity, investment activity and financing activity.

Cash in the KARSTADT QUELLE Group includes cheques, cash in hand and cash balances at banks with a term of up to three months. The change in cash flow resulting from changes in the consolidation group amounts to minus 167,240 thousand € (previous year: minus 14,887 thousand €).

NOTES TO THE SEGMENT REPORT

The segment report is shown on pages 122 and 123.

The segment report was prepared in accordance with the regulations of IAS 14 and segments the primary report format by business segments and the secondary report format by regions.

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.

Segment assets comprise the fixed assets, current assets and prepayments and accrued income.

Segment liabilities include both the long-term and short-term third-party capital as well as accruals and deferred income.

Segment investments are composed of intangible assets including acquired goodwill, tangible assets and financial assets.

Gross cash flow comprises the net profit for the year before tax on income after adjustment for depreciation and amortisation, earnings or losses from disposal of assets, changes in long-term provisions, interest expenses and income, as well as expenses and income with no effect on payments.

The Capital Employed is composed by equity, pension provisions, financial liabilities, less liquid funds. Return on Capital Employed (ROCE) is calculated as the quotient of EBIT and Capital Employed.

OTHER INFORMATION

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 1,438 thousand € (previous year: 1,314 thousand €). Payments to members of the Management Board total 7,634 thousand € (previous year: 6,696 thousand €), those to former members of the Management Board and their surviving dependants total 4,238 thousand € (previous year: 3,141 thousand €). Pension provisions for former members of the Management Board and their surviving dependants total 34,213 thousand € (previous year: 35,696 thousand €). KARSTADT QUELLE AG has started an Incentive Stock Options Plan during the 2001 financial year. In this connection the General Meeting of Shareholders resolved a conditional capital increase on July 12, 2001.

The persons entitled to subscribe include the members of the Management Board of KARSTADT QUELLE AG as well as further managerial organs and staff of companies in the group companies.

The stock options issued to the Management Board of KARSTADT QUELLE AG amount to 48,000 options. For the conditions see also page 144, item Share-oriented remuneration.

The members of the Supervisory Board are listed on pages 157 to 159. The members of the Management Board are listed on pages 2 and 3 and page 160.

Relations with related companies and persons

The KARSTADT QUELLE Group maintained the following business relations with related companies and persons in 2001 and 2000:

	2001 th. €	2000 th. €
Goods and services supplied	2,049	29,598
Goods and services received	- 1,776	- 504
	273	29,094

Amounts due from related companies/persons at the balance sheet date amount to 2,006 thousand € (previous year: 3,342 thousand €). The liabilities amount to 289 thousand € (previous year: 163 thousand €).

Over and above the goods and services supplied, relations between the group and non-consolidated group companies have arisen from the reciprocal right to provision of services. In these cases settlement of accounts is done on a cost basis. Relations with related companies are maintained on the same conditions as between outside third parties.

In the 2001 financial year KARSTADT QUELLE AG acquired from Schickedanz-Holding AG & Co. KG, Fürth, 100% of the shares in M + T Mode- und Textilhaus-Beteiligungs Gesellschaft m.b.H., Fürth (now Essen). See also page 129 item: Most important acquisitions.

Waiver of disclosure under Art. 264 Para. 3 and Art. 264b German Commercial Code

The following domestic subsidiaries having the legal form of a corporation or commercial partnership within the meaning of Art. 264a German Commercial Code have satisfied the requirements of Art. 264 Para. 3 and Art. 264b German Commercial Code for exemption and therefore dispense with the audit and/or disclosure of their annual accounts.

Exemption under Art. 264 Para. 3 German Commercial Code

- KARSTADT QUELLE Financial Services GmbH, Essen
- KARSTADT QUELLE New Media AG, Essen
- KARSTADT Vermietungsgesellschaft mbH, Essen
- Optimus Logistics GmbH, Nuremberg
- Warenhaus WERTHEIM GmbH, Berlin

Exemption under Art. 264b German Commercial Code

- Atelier Goldner Schnitt GmbH & Co. KG, Münchberg
- CJD clinic+job-dress GmbH & Co. KG, Bramsche
- DK-Berufsmoden Dieter Staperfeld GmbH & Co. KG, Osnabrück
- DK-Profashion GmbH & Co. KG, Osnabrück
- Fonetix Call Center GmbH & Co. KG, Chemnitz
- Foto Quelle GmbH & Co. OHG, Nuremberg
- Holstenflor Beteiligungs GmbH & Co. Holding KG, Fürth
- KARSTADT Immobilien GmbH & Co. Objekt Berlin, Hermannplatz KG, Grünwald
- KARSTADT Immobilien GmbH & Co. Objekt Berlin, Tauentzienstraße KG, Grünwald
- KARSTADT Immobilien GmbH & Co. Objekt München, Bahnhofsplatz KG, Grünwald
- KARSTADT Mobilien GmbH & Co. Objekte Hertie KG, Essen
- KARSTADT Mobilien GmbH & Co. Objekte Warenhaus KG, Essen
- KATEC Leasing GmbH & Co. Vermietungs KG, Pöcking, Landkreis Starnberg
- Lorenz Klever GmbH & Co. KG, Wegberg
- Mercatura Holding GmbH & Co. KG, Nuremberg
- OPTIMUS GmbH Logistik & Co. Warendienstleistungs KG, Brieselang
- Peter Hahn Grundstücksgesellschaft mbH & Co., Winterbach
- Pussy-Versand Katzenartikel GmbH & Co. KG, Wegberg
- Reise Quelle Reisebüro GmbH & Co. KG, Fürth
- TRADO Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Dresden KG, Pöcking, Landkreis Starnberg
- TriStyle Holding GmbH & Co. KG, Fürth
- WEHMEYER GmbH & Co. KG, Aachen

Most important subsidiary companies consolidated in the annual account

(as at 31.12.2001)

Company name and registered office	Capital holding in %	Equity th. €	Sales th. €	Number of employees [1]
Over-the-counter retail				
Karstadt Warenhaus Aktiengesellschaft, Essen	(C) 100	562,831	6,874,332	57,967
Sinn Leffers Aktiengesellschaft, Hagen	(C) 91.4	68,674	588,299	3,750
WEHMEYER GmbH & Co. KG, Aachen	(C) 100	7,702	197,774	1,756
Runners Point Warenhandels-gesellschaft mbH, Essen	(C) 100	7,062	79,085	878
Schürmann Elektrohandels-gesellschaft mbH, Essen	(C) 100	6,394	48,660	592
WOM World of Music Produktions- und Verlags-GmbH, Kiel	(C) 100	-4,199	46,626	279
LeBuffet System- Gastronomie und Dienstleistungs-GmbH, Dreieich	(C) 100	83	42,721	872
GOLF HOUSE Direktversand GmbH, Hamburg	(C) 74.9	1,033	21,116	187
Karstadt Sport Handelsgesellschaft mbH, Essen	(C) 100	3,050	5,515	24
M + T Mode- und Textilhaus-Beteiligungs Gesellschaft m.b.H., Essen	(C) 100	63,260	-	-
Mail order				
Quelle Aktiengesellschaft, Fürth	(C) 100	259,992	3,646,525	12,962
Neckermann Versand Aktiengesellschaft, Frankfurt/Main	(C) 100	197,431	1,531,224	6,420
QUELLE S.A., Saran, France [2]	(C) 100 *	29,562	460,371	1,974
Quelle AG, Linz, Austria [2]	(C) 100	55,169	275,918	1,692
Versandhaus Walz GmbH, Baby-Walz, Die moderne Hausfrau, Bad Waldsee	(C) 100	5,113	213,425	1,202
Peter Hahn GmbH, Winterbach [2]	(C) 51 *	31,569	201,965	862
Neckermann B.V., Hulst, Netherlands	(C) 100	17,993	180,673	589
Atelier Goldner Schnitt GmbH & Co. KG, Münchberg	(C) 51 *	7,602	156,624	578

Company name and registered office	Capital holding in %	Equity th. €	Sales th. €	Number of [1] employees
AFIBEL S.A., Villeneuve d'Ascq, France	(C) 79.5 *	29,903	125,891	440
Mercatura Holding GmbH & Co. KG, Nuremberg [2]	(C) 100	27,518	115,973	1,188
Neckermann Versand Österreich AG, Graz, Austria	(C) 100	36,842	113,678	396
Madeleine Mode GmbH, Fürth [2]	(C) 51 *	17,650	101,222	131
Elégance Rolf Offergelt GmbH, Aachen [2]	(C) 100	7,571	79,946	443
servicelogiQ GmbH logistische Dienstleistungen, Nuremberg	(C) 100	521	75,249	1,335
Happy Size-Company Versandhandels GmbH, Frankfurt/Main	(C) 100	26	73,887	-
Hess Natur-Textilien GmbH & Co. KG, Bad Homburg	(C) 100	870	40,891	209
Fritz Berger GmbH & Co. KG, Neumarkt	(C) 100	1,500	38,575	216
Bon' A Parte Postshop A/S, Ikast, Denmark	(C) 100	3,484	37,117	271
Krähe Versand GmbH & Co. KG, Schlierbach	(C) 100	5,113	23,288	142
Fonetix Call Center GmbH & Co. KG, Chemnitz	(C) 100	875	20,585	1,055
Services				
Optimus Logistics GmbH, Nuremberg	(C) 100	500	460,023	274
ITELLIUM Systems & Services GmbH, Essen	(C) 100	5,000	275,339	1,460
Euro-Papier N.V., Temse, Belgium	(C) 100 *	2,378	167,499	5
Profectis GmbH Technischer Kundendienst, Nuremberg	(C) 100	2,556	110,994	1,751
Karstadt Quelle International Services AG, St. Gallen, Switzerland	(C) 100	25,354	58,922	114
KARSTADT QUELLE Financial Services GmbH, Essen	(C) 100	1,349	24,453	51
KARSTADT QUELLE New Media AG, Essen	(C) 100	21,772	-	38

(C) fully consolidated
[1] annual average, not including trainees
[2] including subsidiaries
*) group participating interest calculated

Company name and registered office		Capital holding in %	Equity th. €	Sales th. €	Number of [1] employees
Real estate					
MOSTIA Grundstücksgesellschaft mbH & Co. KG, Grünwald near Munich [2]	(C)	100	- 41,717	15,458	-
Kepa Kaufhaus Gesellschaft mit beschränkter Haftung, Essen	(C)	100	96,400	15,376	-
TRADO Grundstücks-Verwaltungs-gesellschaft mbH & Co. Objekt Dresden KG, Pöcking, Landkreis Starnberg	(C)	99 *	- 71,228	13,968	-
„HOLM" Grundstücks-Verwaltungsgesell-schaft mbH & Co. Objekt Brieselang KG, Pöcking, Landkreis Starnberg	(C)	100 *	- 18,443	5,435	-
Warenhaus WERTHEIM GmbH, Berlin	(C)	100	15,364	2,965	-
KARSTADT Immobilien AG & Co. KG, Essen	(C)	100	740,319	-	23

(C) fully consolidated
1) annual average, not including trainees
2) including subsidiaries
*) group participating interest calculated

Most important participations of the KARSTADT QUELLE Group

(as at 31.12.2001)

Company name and registered office		Capital holding in %	Equity th. €	Sales th. €
Thomas Cook Aktiengesellschaft, Oberursel/Taunus [1]	(E)	50	794,023	1,227,258
NUR TOURISTIC GMBH, Oberursel/Taunus [1]	(E)	55 *	115,961	2,438,434
maul + co – Chr. Belser GmbH, Nuremberg	(E)	25	42,731	352,591
Home Shopping Europe Aktiengesellschaft, Ismaning		10	17,225	276,600

(E) consolidated at equity
1) financial year from 01.11.2000 to 31.10.2001
*) group participating interest calculated

SUPERVISORY BOARD

Dr. Hans Meinhardt, Wiesbaden
Chairman
Chairman of the Supervisory Board of Linde AG
Supervisory board seats by law:
Beiersdorf AG (Chairman)
Karstadt Warenhaus Aktiengesellschaft (Chairman)
Linde AG (Chairman)
Comparable supervisory functions:
nv Hoek Loos

Wolfgang Pokriefke *, Bremen
Deputy Chairman
Chairman of the Works Council of Karstadt Warenhaus Aktiengesellschaft, Bremen branch

Wilfried Behrens *, Giessen
Managing Director of Karstadt Warenhaus Aktiengesellschaft, Giessen branch

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
– KM Europa Metal AG
– mg technologies ag
Comparable supervisory functions:
– Banco Popular Español
– BPI Banco Portugues de Investimento
– Crédit Lyonnais
– Les Assurances Générales de France (AGF)

Jürgen Damm *, Grevenbroich
Chairman of the Works Council of Karstadt Warenhaus Aktiengesellschaft, Düsseldorf branch, Schadowstrasse; electrician

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
Secretary to the Executive Committee of the German ver.di Trade Union

Dr. jur. Friedhelm Gieske, Essen
– until 12.07.2001 –
former Chairman of the Management Board of RWE AG
Supervisory board seats by law:
– MAN AG
– National-Bank AG

Leo Herl, Fürth
Member of the Management Board of Schickedanz Holding AG & Co. KG
Supervisory board seats by law:
– BIPOP CARIRE S.p.A., Brescia/Italy
– ICN Immobilien Consult Nürnberg AG **
– Karstadt Warenhaus Aktiengesellschaft
– Neckermann Versand Aktiengesellschaft
– Quelle Aktiengesellschaft
– Quelle Bauspar Aktiengesellschaft (Chairman)
– Quelle Krankenversicherung AG (Chairman) **
– Quelle Lebensversicherung AG (Chairman) **
– Quelle Versicherung AG (Chairman) **
– Schickedanz Vermögensverwaltung AG (Chairman) **

* representing the employees
** group subsidiary

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
- Thyssen Krupp Steel AG

Comparable supervisory functions:
- Gartmore Capital Strategy Fonds Limited (Jersey)
- Phoenix Mecano AG (Switzerland)

Peter Kalow*, Schwabach
Chairman of the Overall Works Council of Quelle Aktiengesellschaft

Supervisory board seats by law:
- Quelle Aktiengesellschaft*

Reinhard Koep, Mülheim/Ruhr
– w.e.f. 12.07.2001 –
former Member of the Management Board of KARSTADT QUELLE Aktiengesellschaft

Dr. h. c. Martin Kohlhaussen, Frankfurt/Main
former Spokesman of the Management Board of Commerzbank AG

Supervisory board seats by law:
- Bayer AG
- Commerzbank AG (Chairman)
- Heraeus Holding GmbH
- Hochtief AG
- Infineon Technologies AG (Deputy Chairman)
- Linde AG
- Schering AG
- ThyssenKrupp AG

Comparable supervisory functions:
- Verlagsgruppe Georg von Holtzbrinck GmbH

Dr. Ingo Riedel, Fürth
Member of the Management Board of Schickedanz Holding AG & Co. KG

Supervisory board seats by law:
- ICN Immobilien Consult Nürnberg Aktiengesellschaft (Chairman)**
- Karstadt Warenhaus Aktiengesellschaft
- Quelle Aktiengesellschaft
- Quelle Bauspar Aktiengesellschaft
- Quelle Krankenversicherung Aktiengesellschaft**
- Quelle Lebensversicherung Aktiengesellschaft**
- Quelle Versicherung Aktiengesellschaft**
- Schickedanz Vermögensverwaltung AG**
- Thomas Cook Aktiengesellschaft

Christa Schubert*, Recklinghausen
Deputy Chairman of the Works Council of Karstadt Warenhaus Aktiengesellschaft, Recklinghausen branch, commercial assistant

Günter Strohmeier*, Munich
Chairman of the Works Council of Karstadt Warenhaus Aktiengesellschaft, Munich branch, Schleissheimer Strasse

Dr. Gunter Thielen, Gütersloh
Member of the Management Board of Bertelsmann Aktiengesellschaft
Chairman of the Management Board of Bertelsmann Arvato Aktiengesellschaft

Supervisory board seats by law:
- Leipziger Messe GmbH

Comparable supervisory functions:
- Hannoversche Leben VVaG
- Saar LB

Dr. Bernd W. Voss, Kronberg/Taunus
Member of the Supervisory Board of Dresdner Bank AG

Supervisory board seats by law:
- Continental AG
- Dresdner Bank AG
- E.ON AG
- Oldenburgische Landesbank AG (Chairman)**
- Preussag AG
- Quelle Aktiengesellschaft
- Volkswagen AG
- Wacker Chemie GmbH

Comparable supervisory functions:
- ABB Ltd., Zurich, Switzerland
- Bankhaus Reuschel & Co. (Chairman Administrative Council)

Dipl.-Ing. Dr.-Ing. E. h. Jürgen Weber, Hamburg
Chairman of the Management Board of Deutsche Lufthansa AG

Supervisory board seats by law:
- Allianz Lebensversicherungs AG
- LSG Lufthansa Service Holding AG (Chairman)**
- Lufthansa Cargo AG**
- Lufthansa Systems GmbH (Chairman)**
- Lufthansa Technik AG (Chairman)**
- Thomas Cook Aktiengesellschaft (Deputy Chairman)

Comparable supervisory functions:
- Loyalty Partner GmbH (Chairman)**
- Sapient Corp. (Board of Directors)

Dr. Franziska Wiethold*, Düsseldorf
Member of the Main Management Board of the ver.di Trade Union

Supervisory board seats by law:
- Quelle Aktiengesellschaft
- REWE KGaA

Rüdiger Wolff*, Berlin
Secretary to the Main Management Board of the ver.di Trade Union, specialist area Trade

Supervisory board seats by law:
- Karstadt Warenhaus Aktiengesellschaft

* representing the employees
** group subsidiary

MANAGEMENT BOARD

Wolfgang Urban, Brühl
Chairman

Supervisory board seats by law:
- KARSTADT Hypothekenbank AG (Chairman) *
- KARSTADT QUELLE New Media AG (Chairman) *
- Neckermann Versand Aktiengesellschaft (Chairman) *
- Quelle Aktiengesellschaft (Chairman) *
- Sinn Leffers Aktiengesellschaft *
- Thomas Cook Aktiengesellschaft

Comparable supervisory functions:
- WEHMEYER GmbH & Co. KG (Chairman) *

Dr. Christoph Achenbach, Stein
– w.e.f. 15.05.2001 –

Supervisory board seats by law:
- HSM Direkt AG

Comparable supervisory functions:
- AFIBEL S.A. (Chairman) *
- Quelle Aktiengesellschaft, Linz (Chairman) *

Peter Gerard, Düsseldorf

Supervisory board seats by law:
- IDS Scheer AG
- ITELLIUM Systems & Services GmbH *
- Neckermann Versand Aktiengesellschaft *
- Quelle Aktiengesellschaft *

Comparable supervisory functions:
- KARSTADT QUELLE Bank GmbH *
- manpower GmbH personaldienstleistungen

Reinhard Koep, Mülheim/Ruhr
– until 28.03.2001 –

Prof. Dr. Helmut Merkel, Flomborn

Supervisory board seats by law:
- ITELLIUM Systems & Services GmbH (Chairman) *
- KARSTADT Immobilien Beteiligungs AG (Chairman) *
- KARSTADT QUELLE New Media AG *
- Karstadt Warenhaus Aktiengesellschaft *
- Novasoft AG (Chairman)
- Quelle Aktiengesellschaft *
- Sinn Leffers Aktiengesellschaft (Chairman) *

Norbert Nelles, Rösrath

Supervisory board seats by law:
- KARSTADT Hypothekenbank AG (Deputy Chairman)
- Karstadt Warenhaus Aktiengesellschaft *

Werner Piotrowski, Witzenhausen

Supervisory board seats by law:
- Neckermann Lebensversicherung AG
- Neckermann Versand Aktiengesellschaft
- Neckermann Versicherung AG

Comparable supervisory functions:
- Neckermann B.V. (Chairman) *
- Neckermann Versand Österreich AG (Chairman) *

* group subsidiary

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.

The Group Account for the period to December 31, 2001, has been prepared in accordance with International Accounting Standards (IAS) and complies with the guideline 83/349 EEC. The figures for the previous year have been calculated in accordance with the same principles. By virtue of Article 292 a inserted in the German Commercial Code (HGB) under the Law on Capital Procurement, this group account, which has been prepared in accordance with IAS, has an exemptive force. At the same time the requirements of DRS 1 have also been complied with.

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 functionability of the checking systems are continuously inspected by internal audit.

Our risk management system complies with the requirements of the German 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 Management Report and given them an unqualified auditor's certificate.

The Group Account, the 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 Report of the Supervisory Board (see pages 163 to 165).

Essen, April 15, 2002
KARSTADT QUELLE Aktiengesellschaft

The Management Board

Urban	Dr. Achenbach	Gerard
Prof. Dr. Merkel	Nelles	Piotrowski

AUDITOR’S REPORT

We have audited the group account, comprising the profit and loss account, the balance sheet, the development of equity, the cash flow statement and the notes, prepared by Karstadt Quelle AG for the financial year from January 1 to December 31, 2001. The preparation and content of the group account are the responsibility of the management board of the company. Our task is to assess on the basis of the audit carried out by us whether the group account satisfies International Accounting Standards (IAS).

We have carried out our examination of the group account in accordance with German audit regulations 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 material incorrect facts in the group account to be recognised with a fair degree of certainty. In the course of the audit the facts and figures supporting the information given in the group account are assessed on the basis of random samples. The audit comprises the assessment of the applied principles regulating the preparation of balance sheets and the principal estimates of the management board and a consideration of the overall presentation of the group account. We are of the opinion that our audit affords a sufficiently sound basis for our assessment.

In our opinion the group account presents in accordance with IAS a true and fair view of the net worth, financial position, earnings of the group and payment transactions during the financial year.

Our audit, which also included the management report (group management report) prepared by the management board for the financial year January 1 to December 31, 2001, has found no cause for objection. In our opinion the management report and other information in the group account presents an accurate picture of the situation of the group and sets out accurately the risks attending future developments. We also confirm that the group account and the management report for the financial year from January 1 to December 31, 2001, satisfy the conditions for exemption of the company from preparation of a group account and group management report in accordance with German law.

Düsseldorf, April 18, 2002
BDO Deutsche Warentreuhand Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
[A public auditing company]

Dyckerhoff
Public auditor

Horn
Public auditor

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

Just how unforeseeable and unimaginable events can affect the financial year was shown by the destruction of the World Trade Center and the attack on the Pentagon on September 11, 2001. Their effects on the world economy and, of course, on the situation of the retail trade were felt in October and November in particular. Consequently the progress of business at KarstadtQuelle could not fail to be affected as well.

For the KarstadtQuelle Group the whole of the 2001 financial year was marked above all by the continued implementation of the 10-Step Enhancement Programme, the most important aim of which is – besides increasing the value of the undertaking – the transformation of the group from a retail company into a high-earning and customer-focused retail and service providing group. At the same time as implementing this strategy Karstadt Quelle is reorienting itself – a great challenge for the Management Board, the management and all our employees.

A clear indication of this radical process is the formation of strong strategic alliances. Examples of these are the "HappyDigits" joint venture between KarstadtQuelle and Deutsche Telekom and the accelerated expansion in the financial services segment jointly with the ERGO insurance group.

Similarly, there is also the joint venture with the US coffee house chain Starbucks, the Karstadt Quelle Group's first major international joint project.

The Supervisory Board continuously monitored and supported the managerial activity of the Management Board during the 2001 financial year.

At five meetings of the Supervisory Board and in written reports the Supervisory Board was kept informed by the Management Board about the progress of business, the economic situation, the most important business events, business policy and corporate planning.

The chairman of the Supervisory Board maintained close contact with the chairman of the Management Board, who kept him continuously informed about important business events, plans and Management Board resolutions.

The Supervisory Board was duly and comprehensively informed about measures requiring its approval. It examined and discussed proposals put forward by the Management Board and gave them the necessary approval.

Meetings and committees

At its meetings the Supervisory Board has given careful consideration to the group's strategic orientation and its prospects for development.

As well as the general progress of business in the KarstadtQuelle Group and its companies in Germany and abroad and the implementation of the 10-Step Enhancement Programme, at its meetings the Supervisory Board also discussed the following important individual transactions and approved these as required:

- **Acquisitions**
  - M + T Mode- und Textilhaus Beteiligungs Gesellschaft m.b.H. including its 85% share in Sinn Leffers AG
  - Acquisition of various specialist mail-order providers

- **Cooperations**
  - Joint venture with Starbucks Coffee International for the opening of coffee houses
  - Joint venture with Deutsche Telekom AG for loyalty card bonus programmes
- **Incentive programmes for staff and management by**
  - Employees’ shares
  - Stock options
- **Programme for reorientation of the mail-order business**
- **Investment and disinvestment in the real estate segment**
- **Financial, investment and personnel planning**
- **The 2002 investment budget.**

The Standing Committee of the Supervisory Board principally discussed Management Board matters and passed the necessary resolutions.

During the year under report the Standing Committee met three times and passed a resolution over the telephone.

There was no occasion for the Arbitration Committee set up in accordance with Art. 27 Para. 3 MitBestG (German law of co-determination) to meet.

Annual account, group account and dependent companies report

The BDO Deutsche Warentreuhand Aktiengesellschaft, auditors, Düsseldorf, appointed by the general meeting of shareholders has audited the 2001 annual account and management report of KARSTADT QUELLE AG and the group account and group management report and given each of these its unqualified approval.

The group account was prepared for the first time in accordance International Accounting Standards (IAS). The auditor confirmed that the group account and the group management report satisfy the conditions for exemption from the requirement to prepare accounts in accordance with German law.

The annual account and management report of KARSTADT QUELLE AG, the group account and group management report and the audit reports were duly submitted to all members of the Supervisory Board and discussed in detail at the meeting of the Supervisory Board on May 7, 2002. The auditor was also present at this meeting and reported on the most significant results of his audit and answered questions put to him by members of the Supervisory Board.

In accordance with the findings of its own examinations the Supervisory Board finds no cause for objection and approves the auditor’s findings. At its meeting on May 7, 2002, the Supervisory

Board noted the annual account of KARSTADT QUELLE AG prepared by the Management Board for the period to December 31, 2001, and gave it its final approval. The Supervisory Board approves the proposal of the Management Board for the appropriation of the net profit.

The Management Board has submitted to the Supervisory Board the report on relations with subsidiary companies prepared by the Management Board pursuant to Art. 312 of the German Stock Company Law and given an unqualified auditor's opinion, the auditor's report and the account documents. The auditor reported on the findings of his audit at the meeting of the Supervisory Board on May 7, 2002.

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

Changes to the Supervisory Board and Management Board

Dr. jur. Friedhelm Gieske retired from the Supervisory Board at the close of the general meeting of shareholders on July 12, 2001. Mr. Reinhard Koep, who resigned from his post as member of the Management Board as of March 28, 2001, was appointed by the general meeting to succeed Dr. Gieske on the Supervisory Board.

The Supervisory Board thanks Dr. Gieske for his many years of constructive cooperation.

Dr. Christoph Achenbach was appointed an ordinary member of the Management Board with effect from May 15, 2001.

Thanks and appreciation

The Supervisory Board would like to express its thanks and appreciation to the Management Board, the management and all employees of the KarstadtQuelle Group both in Germany and abroad for their commitment and outstanding performance on behalf of the company and its shareholders.

Essen, May 7, 2002

For the Supervisory Board

Dr. Hans Meinhardt
Chairman

5-YEAR SUMMARY

			1997	1998	1999	2000 [3]	2001 [3]
Group sales	Turnover	mill. €	12,160.6	9,327.4	14,843.0	15,444.5	16,067.1
	EBIT [1]	mill. €	135.1	173.4	280.8	533.7	630.7
	EBT	mill. €	113.0	139.9	225.4	238.2	332.8
	EBT margin	in %	0.9	1.5	1.5	1.5	2.1
	Net income	mill. €	83.9	101.9	218.6	165.2	234.9
Finances and dividend	Gross cash flow	mill. €	489.3	465.8	699.8	784.7	1,092.3
	Liquid funds	mill. €	397.4	277.2	217.3	253.1	343.2
	Depreciation/ amortisation	mill. €	347.8	301.1	367.9	453.6	462.3
	Dividend	mill. €	42.9	47.2	72.9	78.8	83.6
Structure of balance sheet	Balance sheet total	mill. €	5,861.2	5,474.0	7,925.0	9,814.9	10,510.0
	Capital and reserves	mill. €	1,271.9	1,343.3	1,698.7	1,653.2	1,803.4
	Equity ratio	in %	21.7	24.5	21.4	16.8	17.2
	Fixed assets	mill. €	2,652.6	2,639.3	3,280.8	4,846.0	5,450.7
	Current assets	mill. €	3,200.6	2,826.7	4,614.6	4,915.0	5,000.6
Other information	Employees on 31.12.	number	94,463	89,399	113,490	113,120	112,141
	Staff costs	mill. €	2,483.5	2,300.0	3,169.5	3,109.8	3,157.2
	Investments	mill. €	446.1	416.5	481.7	676.9	1,230.9
	Department stores and specialty stores in the over-the-counter retail	number	465	389	383	390	465
	Sales space in the Over-the-counter retail on 31.12.	th. sq. m.	2,489.7	2,395.9	2,388.3	2,390.2	2,613.8
KARSTADT QUELLE AG [2] share	Dividend per individual share certificate	€	5.11	5.62	0.62	0.67	0.71
	Net earnings per share	€	2.88	8.40	1.59	1.41	2.00
	Market price at end of year	€	318.02	444.82	39.80	32.90	44.40
	Highest price	€	363.02	508.74	48.70	40.73	44.85
	Lowest price	€	246.44	287.35	30.55	27.30	30.15
	Share value at end of year	mill. €	2,671.5	3,736.5	4,678.5	3,867.4	5,228.4

1) EBIT from 1999 on, incl. interest from installment credit transactions
2) 1997 to 1998 on 8.4 million Karstadt AG DM-50-shares
1999, 2000 on 177,550,400 individual share certificates
2001 on 117,757,775 individual share certificates
3) with effect from 2000 presentation in accordance with IAS

After-sales service

All supplementary services offered by a company after the sale of goods such as service, updated versions of technical products.

Asset-backed securitisation (ABS)

The sale of receivables to a company, which refinances itself by the issue of securities, to obtain liquidity.

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).

Back-end services

Services in the purchasing, logistics and fulfillment as well as information technology segment in the KarstadtQuelle Group.

Benchmark

Standard for the assessment of own performances with regard to products, services, key figures or processes of competitors.

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.

Capital employed

Employed or tied-up capital.

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.

Category management

Process management under which product groups are managed as independent and profit-oriented business units.

Commercial papers

Money-market paper issued by KarstadtQuelle with an average term of two weeks.

Community Customer card

Central customer loyalty card issued by several partners active in complementary consumer segments and combining various functions like bonus and credit facilities.

Concession shops

Renting of selected spaces in department stores to manufacturers of brand products.

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-docking

Process in which goods being transported to the branches are delivered to the logistics units all together and there immediately sorted for distribution. A form of stockless goods supply.

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 existing customer relationships.

Customer relationship management (CRM)

The management of customer relationships. CRM is based mainly on information about customers and purchasing habits.

Customer-care service

All kinds of customer care, in particular special service and advice services, over and above traditional department store business.

Earnings before interest and tax (EBIT)

Earnings before interest and earnings tax.

EBITDA

Earnings before interest, tax, depreciation and amortisation.

EBT

Earnings before earnings tax.

EBT margin

Earnings before earnings tax relative to sales.

EBTA

Earnings before tax and amortisation on goodwill.

Economic value added (EVA)

A management and incentive system for increasing the value of companies. A business creates value if it generates EVAs that increase from year to year.
Formula: EVA = operating result – capital costs.

Equity ratio

The percentage share of equity capital in the balance sheet total.

Facility management

All services required for running buildings and real estate to maintain and increase their value.

Fulfillment

All process steps relating to a customer order such as logistics and payment processes as well as additional work.

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.

HappyDigits

Joint loyalty card bonus system of KarstadtQuelle and Deutsche Telekom.

Hosting and application services

Operating IT- and application systems by providing infrastructure (such as computers, networks, software) as well as know-how.

Interest swap

The exchange of fixed and variable interest commitments on usually identical and currency-congruent capital amounts.

International Accounting Standards (IAS)

Internationally recognised standards for the presentation of corporate accounts.

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 (freely marketable) shares of a company.

M-DAX

The Deutsche Börse AG (German Stock Exchange Co.) share index comprising seventy medium-sized companies. The criterium for inclusion in the index is market capitalisation and stock exchange sales.

Multi-channel network

Network comprising various distribution channels of the KarstadtQuelle Group (department stores, specialist stores, online, catalogues).

Return on capital employed (ROCE)

EBIT relative to capital employed.

Returned goods store

A store in which goods which have been sent back by customers or branches are processed.

Risk management

The company divisions of the KarstadtQuelle Group analyse and control their business risks independently on the basis of a group-wide risk management system.

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 options 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.

Shop-in-shop system

Space concept presenting special brand shops like Esprit, S'Oliver or InScene in the department stores.

Shopping portal, e-shop

A website which enables customers to access the products and information offered in Internet trade.

Supply-chain management

Comprises the supra-company planning, control and monitoring of centralised functions such as procurement, production and distribution to increase their efficiency.

Synergies

Positive economic effects (e.g. cost savings) obtained by merging companies or centralising individual operational areas.

TV-commerce

Electronic retailing via the TV set.

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YOUR CONTACTS

The Investor Relations Team

Detlef Neveling
Director Investor Relations
Telephone: +49 (0) 2 01 / 7 27 – 98 17
Email:
detlef.neveling@karstadtquelle.com

Sylvia Ehlert
Secretariat, organisation
Telephone: +49 (0) 2 01 / 7 27 – 98 16
Email: sylvia.ehlert@karstadtquelle.com

Jürgen Koch
Manager Investor Relations
Telephone: +49 (0) 2 01 / 7 27 – 98 36
Email: juergen.koch@karstadtquelle.com

Volker Moege
Manager Investor Relations
Telephone: +49 (0) 2 01 / 7 27 – 71 24
Email: volker.moege@karstadtquelle.com

The Communications Team

Thomas Diehl
Director Corporate Communications
Telephone: +49 (0) 2 01 / 7 27 – 25 38
Email: thomas.diehl@karstadtquelle.com

Elmar Kratz
Over-the-counter retail
Telephone: +49 (0) 2 01 / 7 27 – 30 91
Email: elmar.kratz@karstadt.de

Erich Jeske
Mail order
Telephone: +49 (0) 9 11 / 14 – 2 22 24
Email: erich.jeske@quelle.de

CALENDAR

2002

Annual General Meeting	
(Düsseldorf)	July 11, 2002
Dividend distribution	July 12, 2002
Interim reports	
1st quarter	May 29, 2002
2nd quarter	late August 2002
3rd quarter	late November 2002
Road shows	May/June 2002
	November 2002

2003

Annual General Meeting	May 28, 2003

IMPRINT

Overall conception and realisation
HGB Hamburger Geschäftsberichte GmbH & Co.
and KARSTADT QUELLE AG

Translation
Düchting-Nobelen Translation Services,
Düsseldorf

Photos
Corporate Photo Jens Waldenmaier, Hamburg
Ingo Rappers, Essen
(photographs Management Board)

Reproduction
Repro Studio Kroke, Hamburg

Printed by
Dorsten Druck GmbH, Dorsten

Produced by
H. + W. Hennes GmbH Drucksachen-
verarbeitung, Gladbeck

FURTHER CONTACT INFORMATION

KARSTADT QUELLE AG
Theodor-Althoff-Str. 2, D-45133 Essen
Telefax:
Investor Relations:
+49 (0) 2 01 / 7 27 – 98 54

Corporate Communications:
+49 (0) 2 01 / 7 27 – 37 09
Email:
investors@karstadtquelle.com
konzernkommunikation@karstadtquelle.com
Internet:
www.karstadtquelle.com