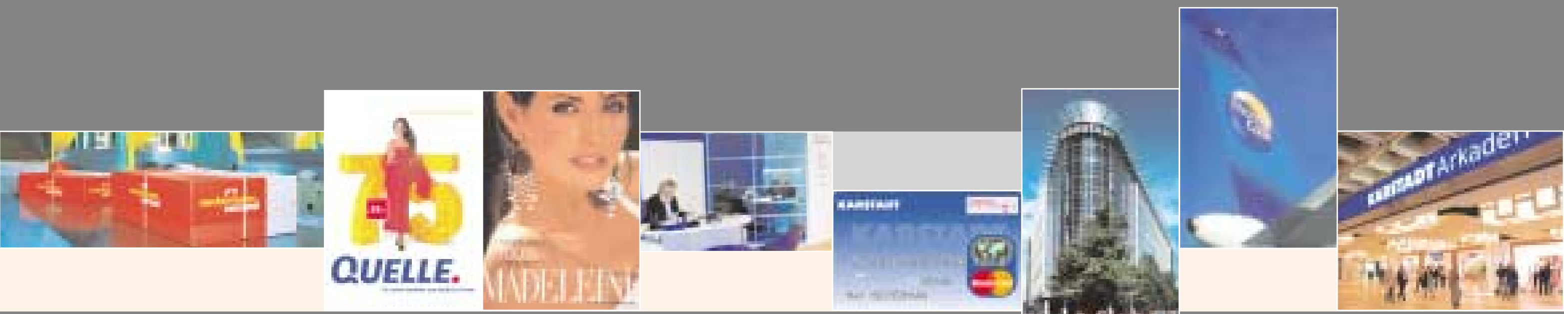
Annual Report 2002



On track to becoming a retail and service group

KarstadtQuelle AG

			2002	2001	Change in %
Sales	Over-the-counter retail	mill. €	7,337.4	8,069.1	-9.1
	Mail order	mill. €	8,229.0	7,812.7	5.3
	Services	mill. €	1,303.2	1,123.4	16.0
	Real estate	mill. €	495.1	483.8	2.3
	Reconciliation account	mill. €	-1,550.1	-1,421.9	-
	Group Sales	mill. €	**15,814.6**	**16,067.1**	**-1.6**
Earnings	EBITA	mill. €	577.8	680.2	-15.1
	EBITA margin	in %	3.7	4.2	-
	EBIT	mill. €	484.4	630.7	-23.2
	EBIT margin	in %	3.1	3.9	-
	EBTA	mill. €	293.9	382.3	-23.1
	EBTA margin	in %	1.9	2.4	-
	EBT	mill. €	200.4	332.8	-39.8
	EBT margin	in %	1.3	2.1	-
	Net profit after minority shareholdings	mill. €	162.2	234.9	-30.9
	Return on capital employed	in %	6.7	8.8	-
	Return on equity	in %	9.7	13.0	-
Financial situation and dividends	Gross cash flow	mill. €	701.0	1,092.3	-35.8
	Liquid funds	mill. €	144.4	343.2	-57.9
	Depreciation/amortisation (not including goodwill)	mill. €	474.8	462.3	-2.7
	Dividend	mill. €	77.1	83.6	-7.8
Balance sheet structure	Balance sheet total	mill. €	10,215.7	10,510.0	-2.8
	Equity	mill. €	1,676.4	1,803.4	-7.0
	Equity ratio	in %	16.4	17.2	-
	Fixed assets	mill. €	5,261.4	5,450.7	-3.5
	Current assets	mill. €	4,908.4	5,000.6	-1.8
Other information	Employees on 31. 12.	number	104,536	112,141	-6.8
	Full-time staff on annual average	number	83,926	89,379	-6.1
	Staff costs	mill. €	3,014.1	3,157.2	-4.5
	Investments	mill. €	738.3	1,230.9	-40.0
	Net debt	mill. €	3,403.2	2,801.6	21.5
	Working capital	mill. €	2,995.3	2,885.3	3.8
	Department stores and specialty stores in over-the-counter retail	number	484	465	-
	Sales space on 31. 12. in over-the-counter retail	th. sq. m.	2,646.0	2,613.8	1.2
KARSTADT QUELLE AG Share	Shares on annual average	number	115,611,968	117,602,244	-1.7
	Dividend per individual share certificate	€	0.71	0.71	-
	Net earnings per share	€	1.40	2.00	-30.0
	Gross cash flow per share	€	6.06	9.29	-34.8
	Market price on 31. 12.	€	16.50	44.40	-62.8
	Highest price	€	45.45	44.85	-
	Lowest price	€	13.80	30.15	-
	Market value at end of year*	mill. €	1,943.0	5,228.4	-62.8

* including own share certificates

OVER-THE-COUNTER RETAIL

Department stores • Specialty stores

The KarstadtQuelle Group operates 190 department stores and 294 specialty stores, mainly at prime locations in city centres, and thus occupies a leading position in over-the-counter retail in Germany. With our department stores under the umbrella brand name Karstadt and the traditional brand names Hertie, Wertheim, Alsterhaus and KaDeWe (Kaufhaus des Westens) we are leading in Europe. The department stores have a significant competitive advantage: with a market share of about 50% (source: BAG) they are present over the whole German territory. About 90% of the department-store-operated real estate – in terms of sales space – is in group ownership. Our specialty stores complement the dominant product-range position of the department stores. They operate under the brand names SinnLeffers and Wehmeyer (fashion), Runners Point and Golf House (sport), WOM World of Music and Schaulandt (multimedia) and LeBuffet (system catering).

		2002	2001	Change in %
Sales	mill. €	7,337.4	8,069.1	-9.1
Staff on 31.12.	number	63,214	70,716	-10.6
Segment assets	mill. €	2,435.8	3,171.4	-23.2

MAIL ORDER

Universal mail order • Specialty mail order

Quelle and Neckermann are our two strong mail-order brand names. Their level of awareness in Germany is over 95% each. With a share of about 30% we are market leaders in German mail order and also occupy a leading position in Europe. About 82% of mail-order sales is achieved by the more than 520 catalogues of the two universal mail-order suppliers Quelle and Neckermann, which are sent out to all parts of Europe in an impression of 618 mill. copies. Quelle is outstanding mainly for classical women's outer clothing, standard textile products, technology and furniture. Neckermann concentrates mainly on fashion, outsizes and house and home. In specialty mail order, with 513 catalogues featuring special product ranges in an impression of 193 mill. copies we meet the wishes and needs of individual target groups. The diverse product range extends from fashion through work clothing, household and pet products to complimentary gift articles. With about 120 national and international subsidiary companies Quelle and Neckermann are well positioned in 22 countries and already generate 21.9% of their sales abroad.

		2002	2001	Change in %
Sales	mill. €	8,229.0	7,812.7	5.3
Staff on 31.12.	number	35,157	36,922	-4.8
Segment assets	mill. €	3,965.4	4,125.8	-3.9

SERVICES

B2B services • B2C services

The dynamic expansion of the Services segment is of considerable importance for the reorientation of KarstadtQuelle as a retail and service group. The B2B services section (corporate business) comprises information services, e- and TV-commerce, logistics, purchasing and IT. B2C services (consumer business) focuses on financial services, loyalty card programmes and tourism. For these business models KarstadtQuelle utilises, on the one hand, assets available in the group, for example, over one billion customer contacts a year, qualified information about 19 million active customers and the high competence of the mail-order suppliers in fulfillment. On the other hand, we collaborate with strong partners who are leading in their respective markets: with Deutsche Lufthansa AG in the Thomas Cook tourism group, with ERGO Versicherungsgruppe AG at KarstadtQuelle Financial Services and with Deutsche Telekom AG under the "HappyDigits" customer bonus programme.

		2002	2001	Change in %
Sales*	mill. €	1,303.2	1,123.4	16.0
Staff on 31.12.	number	5,927	4,303	37.7
Segment assets	mill. €	1,042.2	1,195.2	-12.8

*not including the Thomas Cook group

REAL ESTATE

Property • Real estate services • Financing

In the Real-estate segment KARSTADT QUELLE AG has concentrated the major part of its group assets. Our valuable real-state portfolio comprises mainly department and specialty stores at prime locations in German city centres as well as logistics centres and office, residential and mixed real estate. By far the greater part of the market value of the real estate is concentrated in the five major economic regions Hamburg, Berlin, Munich, Rhine-Ruhr and Rhine-Main. Our real-estate strategy is focused consistently on the maximisation of the real-estate assets. Based on this, we have defined three operational fields: property (optimisation of the real-estate portfolio), real-estate services and financing. ECM EuroCenter Management GmbH offers a broad range of real-estate services such as development and letting as well as centre, facility and construction management. KARSTADT Hypothekenbank AG finances the KarstadtQuelle Group's real-estate investments through mortgage bond programmes.

		2002	2001	Change in %
Sales	mill. €	495.1	483.8	2.3
Staff on 31.12.	number	71	48	47.9
Segment assets	mill. €	4,822.8	3,559.0	35.5

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2002

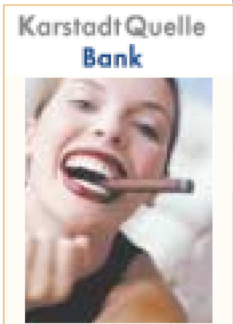
January

Quelle celebrates 75th anniversary.

6 Sun

7 Mon

8 Tue



KarstadtQuelle Bank offers financial services.

17 Thu

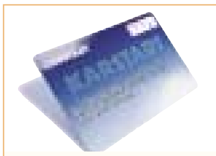
18 Fri

Karstadt Hypothekenbank

Expansion of Real-estate segment: Hypothekenbank and ECM EuroCenter Management set up.

24 Thu

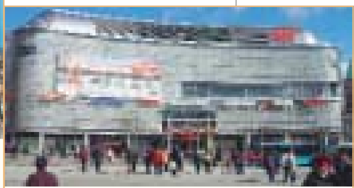
25 Fri



KarstadtQuelle und Deutsche Telekom combine their customer bonus programmes under the brand name "HappyDigits".

February

1 Fri

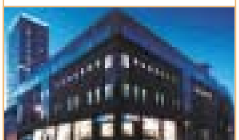


Karstadt opens shopping Centre in Cassel.

7 Thu

8 Fri

12 Tue



Karstadt opens sports market in Frankfurt an der Oder.

17 Sun

18 Mon

19 Tue

20 Wed

21 Thu

22 Fri

23 Sat

Karstadt "End-Of-Winter Bonanza" marketing campaign.

March

1 Fri

7 Thu

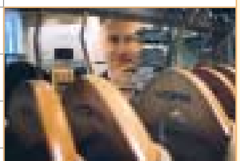
8 Fri

Joint venture in the financial services sector: Strategic partnership between KarstadtQuelle and ERGO Versicherungsgruppe.

16 Sat

17 Sun

18 Mon



Karl-Heinz Rummenigge advertises Karstadt own-brand YORN.

24 Sun

25 Mon

Karstadt opens sports store in Leipzig.

April

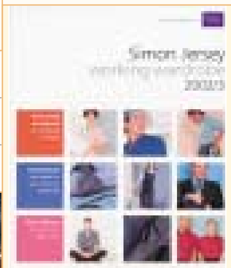
1 Mon

2 Tue

3 Wed

KARSTADT RuhrMarathon

Karstadt sponsors one of the Ruhr region's major sports events.



Quelle takes over the British mail-order work clothing supplier Simon Jersey.

23 Tue

24 Wed

25 Thu

May

Quelle anniversary party.

9 Thu

10 Fri

Starbucks opens the first coffee houses in Berlin.

16 Thu

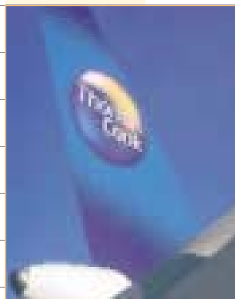
17 Fri

18 Sat

19 Sun

20 Mon

21 Tue



New marketing strategy: Thomas Cook becomes tour-operator brand.

June

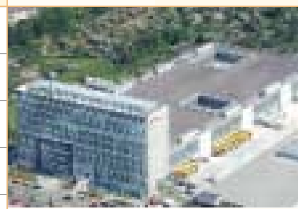
9 Sun

10 Mon

11 Tue

12 Wed

13 Thu



Neckermann high-tech returned goods centre in Frankfurt am Main completed.

22 Sat

23 Sun

26 Wed

27 Thu

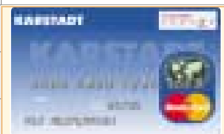
28 Fri

29 Sat

30 Sun

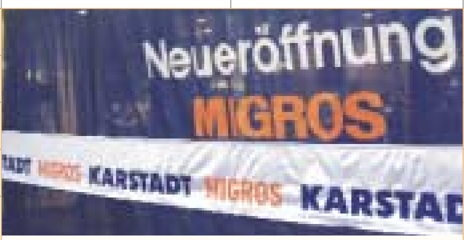
July

1 Mon
2 Tue
3 Wed
4 Thu
5 Fri
6 Sat
7 Sun
8 Mon
9 Tue
10 Wed



Karstadt issues MasterCard.

15 Mon
16 Tue
17 Wed
18 Thu
23 Tue
24 Wed



Freiburg Karstadt opens: new partnership in food sector.

31 Wed

August

1 Thu

Launch “HappyDigits” – gradual introduction at Karstadt, Quelle and Neckermann

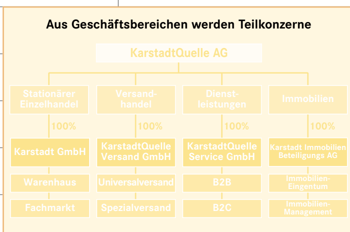
9 Fri
10 Sat
11 Sun
12 Mon
13 Tue
14 Wed
15 Thu
16 Fri
17 Sat
18 Sun
19 Mon
20 Tue
21 Wed
22 Thu
23 Fri
24 Sat
31 Sat

September

1 Sun
2 Mon
3 Tue
4 Wed

Karstadt launches own “TV Karstadt” magazine.

11 Wed
12 Thu



KarstadtQuelle receives new corporate structure.

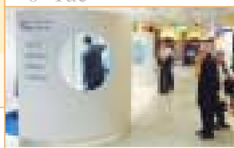
19 Thu
20 Fri
23 Mon
24 Tue
25 Wed
26 Thu
27 Fri
28 Sat
29 Sun
30 Mon

New shopping centre opened in Mühlheim.

October

“Fashion & More”, the new SinnLeffers concept

7 Mon
8 Tue



Expansion of financial service centres launched.

13 Sun
14 Mon

Karstadt opens Germany's largest sport store in Dortmund.

20 Sun
27 Sun

Günther Jauch becomes Quelle brand representative.

November

1 Fri

TV-commerce: “Neckermann UrlaubsWelt TV” launched on Tele 5.

10 Sun
11 Mon
12 Tue
13 Wed

KarstadtQuelle and FIFA strategic partners for the FIFA 2006 World Championship™.

19 Tue
20 Wed
21 Thu
22 Fri
28 Thu
29 Fri
30 Sat

December

1 Sun
10 Tue
11 Wed
12 Thu
13 Fri
14 Sat
15 Sun
18 Wed
19 Thu
20 Fri
21 Sat
22 Sun

Anniversary campaign: The Quelle Christmas Truck.

28 Sat
29 Sun
30 Mon
31 Tue

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.

Dr. Christoph Achenbach

Mail order

Born in 1958. After studying business management Christoph Achenbach took his doctor's degree in the department of "Retailing and Sales" at the University of Cologne. 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.

Peter Gerard

Services, new media, tourism

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.

Prof. Dr. Helmut Merkel

Foreign offices, logistics, organisation, personnel, environment and corporate policy, synergies

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 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 April 2000 he was appointed to the management board of KARSTADT QUELLE AG.

Norbert Nelles

Finance, balance sheet accounting, controlling, tax, 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. Since December 2000 he is as well chairman of the management board of KARSTADT Immobilien Beteiligungs AG.

Dear Shareholders,

2002 was yet another difficult year for the German retail trade. A year in which retail structures changed markedly. A year which shows at the same time that the strategic reorientation of our group as a retail and service group was the right step to take. The continuing weak climate of consumption also shows, however, that we must continue to press ahead with the reorientation and further optimise the quality of our business models.

We made good progress with our "On track to becoming a retail and service group" strategy in he 2002 financial year. By this strategy we shall shape the change, secure growth in the middle term and lastingly create value.

During the year under review we focused here particularly on the improvement of the market presentation, the expansion of high-growth retail segments such as fashion and sports and on the expansion of the new services and real-estate growth segments. At the same time the stringent cost management was continued at all levels.

Companies with sound assets are profiting from the weak market in the long term

There is no alternative to the reorientation of the KarstadtQuelle Group! Without the restructuring process launched in 2000 our earnings would have been substantially lower because of the unfavourable market trend in 2001 and 2002. Thanks to the transformation of the group we are fortunately able to bridge over the present difficult situation relatively well in order to develop our considerable potential in the middle term. Because in the long term only companies with solid assets and a market-leading position – qualities that have always been amongst KarstadtQuelle's strengths – profit from the current market weakness and the structural changes accompanying it. Thus, we have the best qualifications for improving our market position as a leading player in the German retail trade.

Sluggish economy, "Teuro" ("Pricey Euro") debate and tax increases depress the climate of consumption

Typical of the difficult situation our business sector found itself in 2002, was a decrease by 1.9% in sales in the "true" retail trade. Consumers had been made lastingly uncertain by the continued economic weakness and rising unemployment and were reluctant to consume.

Furthermore, at the start of the year the "Teuro" ("Pricey Euro") debate and at the end of the year the discussion about the additional burden of tax and contributions resulted in a bad climate of consumption. A further feature of the difficult environment was the massive price competition, particularly over the Christmas period.

Weak department store, excellent mail-order business

The KarstadtQuelle Group achieves just under 90% of its sales in Germany. For this reason the weakness of domestic consumption substantially affected our business. However, we mostly made up for our somewhat low international diversification with our broadly diverse sales network – thanks to our multi-channel strategy. Group sales went down by 1.6% to 15.8 bill. € (previous year: 16.1 bill. €). We thus outperformed the relevant market.

At the same time the mail-order segment recorded excellent business and achieved a substantial rise in sales by 5.3% to 8.2 bill. € (previous year: 7.8 bill. €). Thus, KarstadtQuelle mail-order suppliers gained a further market share and strongly expanded their customer base. On the other hand, the over-the-counter business suffered particularly from the difficult situation in the large-format retail trade in German city centres. Here sales went down by 9.1% to 7.3 bill. € (previous year: 8.1 bill. €).

Weak consumption and special effects affect earnings

Earnings (EBTA) came to 293.9 mill. €, as against 382.3 mill. € the previous year. Earnings per share stood at 1.40 € (previous year: 2.00 €).

Although in the year under review we realised many of our targets and the restructuring programme in particular produced the desired results, earnings fell short of those for the previous year. Weak consumption to a large extent hampered staff and management performance. Moreover, the serious decrease in earnings in the tourism segment and extraordinary flexibilisation costs pulled earnings down. A positive effect was achieved by the groupwide reorganisation of old-age pensions.

Share price performance unsatisfactory

In 2001 the KarstadtQuelle share was unaffected by the continuing depression on the stock markets and recorded a price rise of 35%. In the year under review, however, in common with the other European retail shares, it came under pressure. The fall in price by just under 63% to 16.50 € (December 21, 2002) seriously disappointed you as shareholders and us as management board. We are convinced that the share price does not adequately reflect the KarstadtQuelle Group's assets and potential.

Dividend unchanged at 0.71 €

The management board and supervisory board propose keeping the dividend of 0.71 € per no-par value share at the same level as in 2001. We are thus maintaining a continuity of dividend even in a financial year dominated by falling earnings and thank you, Dear Shareholders, for your solidarity with our group in this difficult economic phase.

Thank you to staff

The continuing weakness in the retail trade is imposing a heavy burden on the staff of the KarstadtQuelle Group. There is also the fact that, amongst other things because of the fierce price competition our customers became even more discriminating in 2002. On economically rational principles, but in keeping with our social welfare commitments we continued the process of adaptation begun in the course of the reorientation of our group with the agreement of the employees. All those concerned are agreed that our strategy of consistent improvement of competitiveness is lastingly securing jobs in the group.

I thank all staff for their readiness to adapt, for their excellent performance, their tact and their competence in dealing with the customers and for their extraordinary commitment.

Shaping the change

The rapid adaptation to continuously changing customer preferences and the intensively competitive retail environment are amongst the KarstadtQuelle Group's major challenges. We regard this change, which is inherent in the retail trade, as an opportunity and are actively shaping it.

New subholding structure created

In September 2002 we made the group even more effective by corporate restructuring. Our four business segments over-the-counter retail, mail order, real estate and services became subgroups and are now under the control of four subholding companies. The advantages of the new corporate structure are even more simplified management structures, an increased transparency and improved opportunities for strategic partnerships at all levels.

10-Step Value Enhancement Programme: Cost reductions higher than planned

We continued our 10-Step Value Enhancement Programme begun in 2000 with high commitment. The success is evident from, amongst other things, the fact that we have exceeded our ambitious cost-cutting targets. Thus, we lastingly reduced costs in the group by about 219 mill. € compared with 2000.

In the department store sector the change from a predominantly decentralised to a centralised organisational structure while optimising all the logistical processes was to the fore. In the mail-order sector the focus of restructuring was on the amalgamation of the brand-independent processes at Quelle and Neckermann. With this and through further projects, such as the optimisation of purchasing we increased our effectiveness and created leeway for investment.

More flexible cost structure increases independence from general economic influences

At the start of 2002 we launched further programmes to flexibilise costs. The aim is a lasting reduction of the fixed cost component to allow costs sufficient scope independently of economic fluctuations. For example, we adapted staff levels to suit the poorer sales performance. We made investments on redundancy payments and the staged transition to retirement (old-age pensions). The new programmes will already markedly reduce staff costs in the 2003 financial year.

Securing growth

In the year under review – with emphasis on autumn – we launched a groupwide growth and customer initiative in all the business segments.

Multi-channel network expanded

Central to our growth is the expansion of customer retention via our multi-channel network. We reach our customers via many efficient and ever more closely interlinked sales channels. This relates to both the interlinking of the retail segments with the services segment and the utilisation of synergies between the retail segments themselves. Thus, for example, we presented for the first time joint Karstadt and Quelle sports catalogues.

Specialty store concepts consolidated

One focus of the growth strategy is the expansion of our market leadership in the sports and fashion sectors, particularly through further expansion in the specialty store concepts.

Here our growth programme plans for a substantial expansion of the market position in the sports segment by 2005. In 2002 we further consolidated our market presence by, amongst other things, opening city-centre sports stores and sports markets outside city centres.

We further expanded the fashion sector by opening new SinnLeffers branches. Moreover, we presented in selected stores the new “Fashion & More” concept with extended ranges from fashion-related sectors.

Attractiveness of the department stores increased

In the Karstadt department stores effective and innovative marketing campaigns formed a further important element of our growth strategy. At the same time we modernised major stores like those in Dortmund and in the Zeil shopping mall in Frankfurt, so increasing their attractiveness. We are also trying out new and very promising department store formats. Thus, at Mülheim an der Ruhr we realised an innovative mall concept with a large number of brand partners from the fashion sector.

Marketing offensive: 75 Years of Quelle

Quelle achieved an outstanding example of successful marketing in the anniversary year. Customers’ response to the marketing activities launched under the motto “75 Years of Quality at Quelle Prices” far exceeded our expectations. Quelle recorded exceptionally good business and, despite consumer restraint, is looking back on the most successful financial year since the reunification boom. The pool of active customers rose markedly, and the number of orders went up, by over 10%.

Creating new values

We are creating new values by moving into further strategic growth areas in the services and real-estate segments. We laid the foundation for this in the 2002 financial year.

Our new business model is based on two strategic cornerstones

Firstly, we are utilising the large number of outstanding assets in our retail segments. These include, for example, more than one billion customer contacts a year, information about 19 million active customers and a level of awareness of the Karstadt, Quelle and Neckermann core brands of more than 90%. Added to this is the high competence in mail order and a real-estate portfolio of medium-sized and large department stores at top locations in German cities and large towns. Thus we are starting in new business segments with competitive advantages and do not require a high volume of investment.

Secondly, we are collaborating in selected areas with partners who are leading in their respective market segments.

New services as a growth driver

At the centre of the expansion in the high-growth and high-return services sector are the customer approach interlinked groupwide and the entry into new market segments.

Thus, through KarstadtQuelle Financial Services, our joint venture with ERGO Versicherungsgruppe, we are for the first time offering customers a large number of insurance and banking products. In July 2002, to further consolidate our customer retention, we also launched jointly with Deutsche Telekom AG the new "HappyDigits" customer loyalty card programme.

The added-value programme offers customers additional purchasing incentives in the form of attractive, partly exclusive bonuses. By the end of 2002 we recorded about nine million active card holders. We plan to develop "HappyDigits" into the largest German provider of customer loyalty card programmes in just a few years.

In the area of information services we are a complete provider along the entire added-value chain for marketing management, risk management and debt collection. Here, too, we are aiming for market leadership in Germany. With this high-return business through cooperations and participations we shall also expand Europewide.

E-commerce grows by 53%

An increasingly important and still strongly expanding component of our multi-channel network is e-commerce. Thus, in 2002 with our shopping and information portals we achieved an online order value of 1.24 bill. €. This represents a growth of 53% on 2001. Thus, we are among the leading providers in Europe in this continuingly dynamic growth market.

Real estate: Best location quality offers promising potential

The real-estate strategic growth segment was dominated by the further development of the value-oriented real-estate management. The majority of the real estate can boast the highest location quality, high attractiveness and extremely promising development potential. Shopping centres have now been developed and realised in Cologne, Erfurt, Cassel and Mülheim. We are planning 16 more shopping centres in city centres in the coming years. We shall also be responsible for the development and the centre management. To finance the projects, we are relying on cooperation with investors.

Looking forward

The 2003 financial year

The exceptional economic background conditions make a forecast for the coming months difficult. The economic research institutes' forecast for the general economic development in 2003 shows that the retail trade can probably not expect a short-term revival of consumption.

Completion of the 10-Step Value Enhancement Programme

We are continuing the transformation of KarstadtQuelle into a retail and service group in the 2003 financial year. The 10-Step Value Enhancement is entering its final phase. We shall reach many of the targets, but the sales and earnings targets will be qualified because of the very poor environment.

The customer and growth offensive launched in all business segments during the year under review offers diverse opportunities for the 2003 financial year. The implemented measures for optimising the systems and procedures and the consistent cost management at all levels of the group are having an increasingly positive effect on our competitiveness.

Strategie 2003+

At the same time we shall be pressing ahead with the implementation of the 2003+ future programme introduced at the end of 2002. This follows on seamlessly from the 10-Step Value Enhancement Programme and continues it consistently. By the successful realisation of the 2003+ future programme we are reducing our dependence on domestic consumer demand. At the same time we are aiming to generate in the medium- to short-term about 35% of our earnings in the services segment (including tourism). We also want to markedly increase the share contributed to earnings by our specialty stores in the over-the-counter segment and by our specialty mail-order suppliers in the mail-order segment.

Forecast extremely difficult at present

The uncertain global background conditions make a reliable sales and earnings forecast very difficult at present. We are confident, however, that the sales in the KarstadtQuelle Group, thanks to, amongst other things, our diverse marketing activities, will outperform the relevant market in the 2003 financial year.

Thanks to the shareholders

I thank you, Dear Shareholders, also on behalf of my management board colleagues and all the staff, for the confidence that you have shown in KarstadtQuelle in this difficult phase for the stock exchange. We shall continue to work with full commitment to achieve our targets and to make optimum use of your capital. We shall not allow ourselves to be diverted from our path by the temporary uncertainty on the financial markets. Thus we are convinced that we have adopted the right course. This should also provide a sound foundation for share prices to rise again in future.

On behalf of the management board team
Yours truly

Wolfgang Urban

Supervisory Board

Dr. Hans Meinhardt, Wiesbaden
Chairman

Wolfgang Pokriefke*, Bremen
Deputy Chairman

Wilfried Behrens*, Gießen

Dr. Diethart Breipohl, Icking

Jürgen Damm*, Grevenbroich

Bodo Dehn*, Mönchengladbach-Rheydt

Gisela Drescher*, Wilhelmshaven

Hubert Gartz*, Hamburg

Leo Herl, Fürth

Ulrich Hocker, Düsseldorf

Peter Kalow*, Schwabach

Reinhard Koep, Mülheim/Ruhr

Dr. h.c. Martin Kohlhaussen, Frankfurt/Main

Dr. Ingo Riedel, Fürth

Christa Schubert*, Recklinghausen

Dr. Gunter Thielen, Gütersloh

Dr. Bernd W. Voss, Kronberg/Taunus

Dipl.-Ing. Dr.-Ing. h.c. Jürgen Weber, Hamburg

Dr. Franziska Wiethold*, Berlin

Rüdiger Wolff*, Berlin

*) representing the employees

Complete details regarding the members of the Supervisory Board and the Management Board in accordance with Art. 285 No. 10 HGB are given on pages 161 to 163.

Dear Shareholders,

The 2002 financial year was one of the most difficult for the retail trade in post-war history. A historically unique concentration of adverse factors diminished consumers' readiness to consume. Added to this were the uncertain international political environment, the weak economic development in Germany combined with steeply rising levels of unemployment, the increasing burden of taxes and contributions and the massive collapse of prices on the stock markets. The KarstadtQuelle Group's business performance in the 2002 financial year was seriously hampered by these difficult background conditions.

On the other hand, the implementation of the 10-Step Value Enhancement Programme progressed well in the year under review and in many sectors is achieving the desired results, particularly in restructuring. The 2003+ strategy approved during the year under review will consistently continue where the 10-Step Value Enhancement Programme left off. KarstadtQuelle is utilising its strong position in the German retail sector and through its reorientation as a retail and services group is adapting to the changed market conditions. A number of new business activities – particularly in the services segment – was successfully launched and after an initial phase will make a significant contribution to earnings.

The Supervisory Board continuously monitored and supported the managerial activity of the Management Board during the 2002 financial year. At five Supervisory Board meetings and in written reports the Supervisory Board was kept fully informed by the Management Board about all questions of planning, the business performance, the risk situation and risk management, the economic situation and business policy relevant to the company.

The chairman of the Supervisory Board maintained close contact with the chairman of the Management Board, who kept him continuously informed about the most 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 thoroughly discussed the group's strategic orientation and development prospects

As well as the general business performance of the KarstadtQuelle Group and its domestic and foreign companies, the implementation of the 10-Step Value Enhancement Programme and the 2003+ Strategy announced in November of the year under review, the Supervisory Board discussed at its meetings the following individual proceedings and approved them, as necessary:

Measures and partnerships

- Corporate restructuring of the KarstadtQuelle Group by the creation of subholding companies
- Restructuring of KARSTADT QUELLE Information Services GmbH
- Joint undertakings
  KARSTADT QUELLE Financial Services GmbH as joint venture between KARSTADT QUELLE AG and ERGO Versicherungsgruppe AG
- Internal transfer of pension commitments (contractual trust arrangement (CTA)

Financial, investment and staff planning

Investment budget 2003

At its meeting in December 2002 the Supervisory Board also established new rules of procedure in compliance with the German Corporate Governance Code. The Management Board and Supervisory Board of KARSTADT QUELLE AG in their statement on December 20, 2002, complied with the recommendations of the "Government Commission on the German Corporate Governance Code" with only a few exceptions.

The Supervisory Board set up a standing committee, the arbitration committee required under Section 27 Para. 3 of the Law on Co-Determination and in December 2002 an audit committee.

The standing committee concerned itself with Management Board matters, passed the necessary resolutions and dealt with important business transactions and business requiring its approval.

During the year under review five meetings were held and a resolution of the standing committee was passed on the telephone.

There was no occasion for the arbitration committee to meet.

The audit committee met for the first time in April 2003.

Annual account, group account and dependent companies report

The BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, auditors, appointed by the annual general meeting audited the 2002 annual account, the management report of KARSTADT QUELLE AG, the group account and the group management report and the dependent companies report and gave each of them its unqualified approval.

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. The audit committee conducted a preliminary audit of the accounts, the associated management reports and the proposal for the appropriation of the profits. These documents were discussed in detail at the meeting of the Supervisory Board on April 10, 2003. The auditor was also present at this meeting, reported on the most significant results of his audit and answered questions put to him by members of the Supervisory Board.

In accordance with the findings of its own examinations the Supervisory Board finds no cause for objection and approves the auditor's findings. At its meeting on April 10, 2003, the Supervisory Board approved the annual accounts of KARSTADT QUELLE AG and the group prepared by the Management Board for the period to December 31, 2002; the annual account of KARSTADT QUELLE AG has accordingly been adopted. The Supervisory Board approves the Management Board's proposal for the appropriation of the retained profit.

The Management Board has submitted to the Supervisory Board the report on relations with subsidiary companies prepared by the Management Board pursuant to Section 312 of the German Stock Corporation Law and given an unqualified auditor's opinion, the auditor's report and the account records. The auditor reported on the findings of his audit at the meeting of the Supervisory Board on April 10, 2003.

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 Section 312 of the German Stock Company Law and approves the auditor's findings.

Changes to Supervisory Board and Management Board

Mr. Günter Strohmeier retired from the Supervisory Board at the end of the Annual General Meeting on July 11, 2002. Mrs. Gisela Drescher, member of the Works Council of Karstadt Warenhaus AG, Wilhelmshaven branch, has succeeded him on the Supervisory Board. The Supervisory Board thanks Mr. Strohmeier for his successful and constructive cooperation.

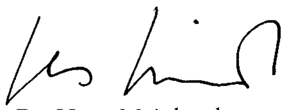
Mr. Werner Piotrowski, member of the Management Board, retired with effect from June 30, 2002. The Supervisory Board thanks Mr. Piotrowski for his excellent work over many years.

Thanks to staff and management

The Supervisory Board would like to express its thanks and appreciation to the Management Board, the management and all staff of the KarstadtQuelle Group both in Germany and abroad for their commitment and outstanding performance on behalf of the company and its Shareholders.

Essen, April 10, 2003

For the Supervisory Board



Dr. Hans Meinhardt
Chairman

Corporate Governance at KarstadtQuelle

We welcome and support the introduction of the German Corporate Governance Code. On its basis we have examined the rules and procedures for the Management Board, Supervisory Board and Shareholders and for the Annual General Meeting, transparency and accounting. Most of the recommendations formulated in the code were already an integral part of KarstadtQuelle's corporate management. This applies especially to the close and trustful cooperation between the Management Board and the Supervisory Board, the respecting of Shareholders' interests and to open, timely and comprehensive corporate communication.

A corporate governance manager will ensure that corporate governance is applied and further developed within the KarstadtQuelle Group.

Declaration of compliance with the German Corporate Governance Code

The Management Board and Supervisory Board of KARSTADT QUELLE AG declared on December 20, 2002, in accordance with Section 161 German Stock Corporation Law in conjunction with Section 15 Introductory Law to the German Stock Corporation Law:

"KARSTADT QUELLE AG complies with the recommendations of the Government Commission on the German Corporate Governance Code with the following exceptions:

- The D & O insurance taken out by KARSTADT QUELLE AG for the members of the Management Board and Supervisory Board does not provide for any retention (Code Subsection 3.8 Para. 2).

- One Supervisory Board member exercises a controlling function at an important competitor (Code Subsection 5.4.2).

- Furthermore, the chairmanship of the Supervisory Board committees has so far been unremunerated (Code Subsection 5.4.5 Para. 1 Sentence 3). The Management Board and the Supervisory Board will recommend to the next annual general meeting that Article 13 of the statutes of KARSTADT QUELLE AG be supplemented with a regulation on remuneration of the chairperson on Supervisory Board committees and the existing regulation for remuneration of membership of Supervisory Board committees be redrafted.

- The annual account will be prepared within 3 months after the end of the business year. The group account will then be prepared within a further month. The period specified in subsection 7.1.2 of the code will thus be exceeded."

We made this declaration continuously accessible to our Shareholders at the group Website on December 20, 2002 at www. karstadtquelle.com.

Shareholders and Annual General Meeting

The Shareholders have the right to attend the Annual General Meeting and exercise their voting rights there. Each no-par value share entitles to one vote.

The reports and documents, including the AGM agenda, required by law for the Annual General Meeting are also published at the Internet site.

KARSTADT QUELLE AG will place at Shareholders' disposal for the 2003 ordinary Annual General Meeting a voting representative who is subject to instructions to assist them with the personal exercise of their voting rights. Any Shareholder can also arrange to be represented by an authorised agent.

Cooperation between Management Board and Supervisory Board

The Management Board and the Supervisory Board of KARSTADT QUELLE AG work closely together. Both bodies maintain an open and constructive dialogue. The Management Board keeps the Supervisory Board duly and fully informed, usually in text form, about all matters of planning, business performance, the risk situation and risk management which are relevant to the company. The Management Board explains comprehensively any deviations from the set targets and plans during the course of business.

The Management Board

The Management Board of KARSTADT QUELLE AG consists of the chairman and four other members. It develops corporate strategy, approves them with the Supervisory Board and ensures their implementation. Under this corporate strategy the Management Board is committed to increasing the value of the enterprise. At the same time the Management Board ensures that the legal requirements are adhered to and that an appropriate risk management system and risk control are operated.

The Management Board's remunerations comprise fixed and variable components. The variable component takes into consideration the achievement of personal goals as well as corporate results. Stock options are also a component of the variable remuneration.

The members of the Management Board are bound by a comprehensive non-competition agreement during their activity for the company. They disclose immediately to the Supervisory Board any conflicts of interest arising and inform their fellow board members accordingly. Members of the Management Board may engage in subsidiary activities only with the approval of the Supervisory Board.

The Supervisory Board

The Supervisory Board of KARSTADT QUELLE AG comprises 20 members. It is made up of Shareholders and employees' representatives in equal proportions. The Supervisory Board's term of office is five years. The Supervisory Board regularly advises the Management Board on the management of the KarstadtQuelle Group and monitors the Management Board.

The members of the Supervisory Board disclose to the Supervisory Board conflicts of interest arising from advisory activities or control functions at other companies. Important, not merely temporary conflicts of interest result in termination of the mandate. The Supervisory Board notifies in its report to the Annual General Meeting conflicts of interest arising and their treatment.

The remuneration of members of the Supervisory Board is laid down in the statutes of KARSTADT QUELLE AG. As well as a fixed, it also contains a variable component determined by the dividend.

The Supervisory Board has formed committees from amongst its own members. The standing committee concerns itself with Management Board matters, consults regularly about the long-term follow-up planning for the Management Board and checks that the Supervisory Board is working efficiently. The audit committee prepares the decisions of the Supervisory Board on the adoption of the annual account, the approval of the group account and the agreement with the auditor. It also concerns itself with risk management. The arbitration committee submits to the Supervisory Board proposals for the appointment of Management Board members, if the necessary majority of two thirds of the votes of the Supervisory Board members is not achieved in the first ballot.

Transparency

As part of the integrated corporate management the KarstadtQuelle Group has realised the intensive dialogue with the financial markets under its 10-Step Value Enhancement Programme. Shareholders are treated equally with regard to information. All modern communication media are used to provide comprehensive and up-to-date information. They include mainly

- Informative annual report
- Detailed quarterly reports
- Regular analysts' meetings and their transmission on the Internet
- Regular roadshows and investors' conferences
- Internet-based telephone conferences
- Transmission of the Annual General Meeting on the Internet
- International accounting procedures (IAS)
- Continuously updated group Website
- Publications also in English
- Company calendar with important financial dates

New facts arising within the company's sphere of activity and not publicly known are published immediately. The precondition is that they are suitable for substantially affecting the share price because of their effects on the KarstadtQuelle Group's net worth and financial situation.

The acquisition or disposal of KARSTADT QUELLE AG shares by members of the Management Board or Supervisory Board are published immediately in accordance with Sect. 15a WpHG (German Law on Securities Trading) on the www.karstadtquelle.com Internet site.

The Management Board publishes immediately if the company becomes aware that somebody by acquisition, disposal or in any other way reaches, falls below or exceeds the reporting limits of the Law on Securities Trading with reference to voting rights.

Accounting and annual audit

The KarstadtQuelle Group keeps Shareholders and third parties informed mainly through the annual report and the interim reports. These are prepared in accordance with the principles of International Accounting Standards. The group account also contains specific information about the company's stock option programme. The risk management is continuously further developed by the Management Board and adapted to meet the changing background conditions.

KARSTADT QUELLE AG

The Management Board The Supervisory Board

Key figures on the KARSTADT QUELLE share

			2002	2001
Earnings	Earnings per share	€	1.40	2.00
	Gross cash flow	mill. €	701.0	1,092.3
	Gross cash flow per share	€	6.06	9.29
	Return on capital employed	in %	6.7	8.8
	Return on equity	in %	9.7	13.0
Dividend	Dividend per individual share certificate	€	0.71	0.71
	Dividend yield (price at end of year)	in %	4.3	1.6
Authorised capital	Authorised capital	mill. €	277.9	301.5
	Individual no-par-value share certificates *	number in mill.	117.8	117.8
Share price information	Share price			
	at end of year (cash market price)	€	16.50	44.40
	highest price	€	45.45	44.85
	lowest price	€	13.80	30.15
	Market capitalisation/ market value at end of year *	mill. €	1,943.0	5,228.4
	Exchange turnover (average daily trading volume)	shares	298,572	256,012
	Price-earnings ratio (end of year)		12	22
	Price-cash flow ratio (end of year)		2.7	4.8

* including own share certificates

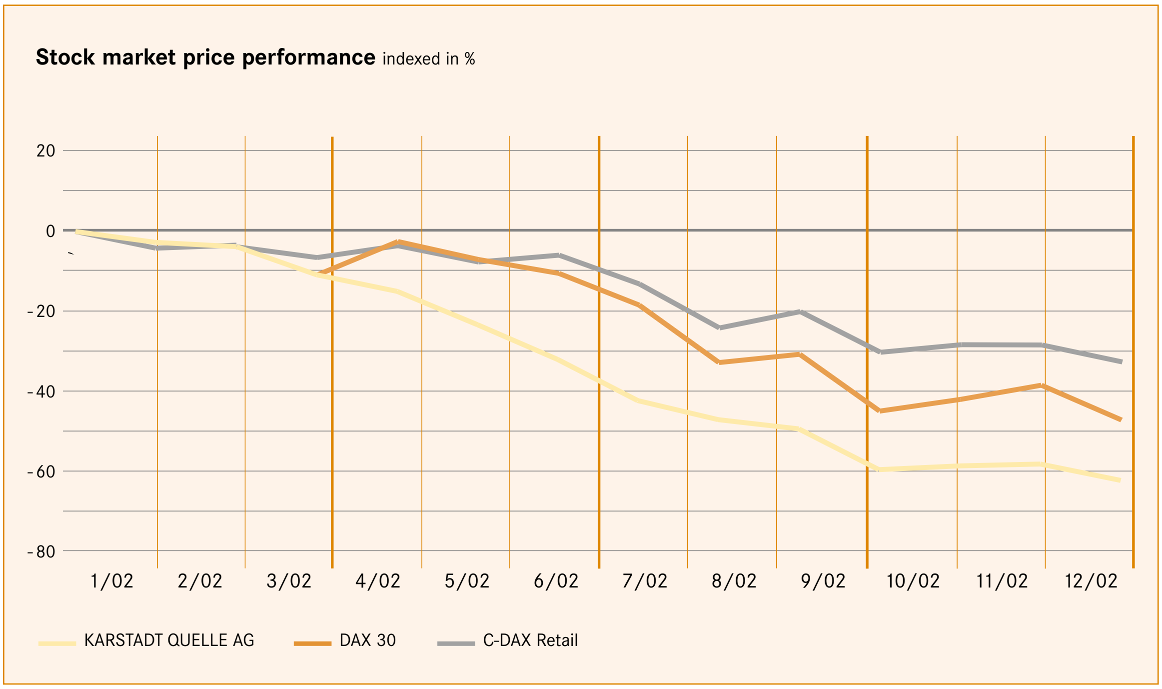
Sound assets and clear growth strategy

Our strategic aim is the transformation of KarstadtQuelle into a retail and service group.

The business models of our central retail segments over-the-counter retail and mail order are based on dominant market positions, diverse customer relations and the strong Karstadt, Quelle and Neckermann brand names. Our multi-channel network is unique in Europe. The group real-estate portfolio with top locations in German city centres includes excellent assets and significant hidden reserves.

We also utilise these assets to develop high-earning growth segments and rapidly further develop our services and real-estate business. Where we are competent to do so, we shall pursue the full utilisation of our success factors autonomously. Where we believe that a consolidation of our competitive position may more easily be achieved by enhancing our competence and by high synergies through partnerships, we seek to enter into alliances.

Our substantial assets and clear growth strategy are a solid basis for the positive development of the value of the enterprise.



During the 2002 stock exchange year German share prices fell for the third time in succession
The German Share Index (DAX) lost just under 44% of its value. The M-DAX, the index of medium-sized, listed companies, slumped by over 30% during the year. The C-DAX Retail index fell by just under 30%. 2002 was also one of the most difficult years in the post-war history of the German retail trade.

The KarstadtQuelle share could not avoid being affected by these unfavourable background conditions. The price performed unsatisfactorily in 2002 and lost about 63% of its value. At the start of the year quotations of over 40 € stayed at the level reached in 2001, during which KarstadtQuelle with a rise of 35% markedly outperformed the market. The KarstadtQuelle share reached its yearly high at 45.45 € on January 3, 2002. Despite the poor consumption and stock market climate prices remained above 30 € for almost the entire first half of the year. This performance was underpinned by the 2001 annual report presented in mid-May, which confirmed forecasts and showed the success of the 10-Step Value Enhancement Programme.

Because of the increasingly deteriorating mood of consumption quoted prices fell even further in the second half of the year. Thus, the KarstadtQuelle share reached its yearly low at 13.80 € on October 7, 2002. Prices of between 15 and 20 € marked the price corridor up to the end of 2002. As a result of the continuing weak consumption in Germany the share did not recover from its low level at the start of 2003, either, and was quoted at between 10 and 15 €.

KarstadtQuelle quoted on Prime Standard

The German Stock Exchange has resegmented its stock market indexes. When the new regulation came into effect on March 24, the KarstadtQuelle share was represented on the M-DAX of the newly created Prime Standard. It is represented here with an index weighting of 1.67%. A precondition for inclusion on the Prime Standard is, amongst other things, the fulfillment of high standards of transparency.

Stock options continue to link management interests to Shareholder interests

Through the 2002 incentive stock option plan KarstadtQuelle is continuing to link the management's performance-related remuneration to entrepreneurial results, despite a difficult stock exchange environment. Selected managerial staff were offered stock options to continue to underline the link between management interests and Shareholders' interests in accordance with the concept of Shareholder value.

General information on the 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	1.67%
Designated Sponsor	Dresdner Kleinwort Wasserstein

Performance of important indices

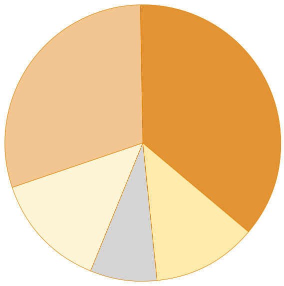
		31.12.2002	31.12.2001	Change in %
KarstadtQuelle share	€	16.50	44.40	-62.8
DAX 30	points	2,892.6	5,160.1	-43.9
M-DAX	points	3,024.8	4,326.1	-30.1
C-DAX Retail	points	174.6	248.2	-29.7
Dow Jones EURO STOXX Retail	points	215.0	301.1	-28.6
MSCI World Retailing	USD	77.3	101.7	-24.0

Recommendations of the analysts

Bank/investment company	Recommendation
BNP Paribas	outperform
Commerzbank	hold
Credit Suisse First Boston	hold
Deutsche Bank	hold
Dresdner Kleinwort Wasserstein	hold
Société Générale	hold
UBS Warburg	hold
Goldman Sachs	underperform
Schroder Salomon Smith Barney	underperform

As of February 2003

Shareholders structure in % (in acc. with Security trade law)



"Madeleine Schickedanz" pool	36.40
Riedel Holding GmbH & Co. KG	12.24
KARSTADT QUELLE AG*	7.83
Allianz AG	13.61
free float	29.92

As of December 31, 2002
*) Share repurchase programme

Major investors committed for the long term

KARSTADT QUELLE AG has a strong Shareholder structure. About 62% of the shares are held by large investors. Free float accounts for about 30% of the KarstadtQuelle shares.

Share repurchase programme launched

In July 2002 began the implementation of a share repurchase programme based on a resolution of the 2002 Annual General Meeting. It provides for the repurchase of up to 10% of own shares. The repurchase enables KarstadtQuelle to use the shares for sale on foreign stock exchanges or as "currency" for acquisitions and participations, to redeem them or to use them under existing stock option programmes.

On December 31, 2002, we held 7.83% of own no-par value shares.

Our investor relations strategy: "Value for Investors and Company" (V4IC®)

The intensive and up-to-date dialogue with the financial markets under the maxim "Value for Investors and Company" (V4IC®) is central to investor relations at KarstadtQuelle. Despite and particularly in a difficult consumption and stock market climate the dialogue with private and institutional investors and financial analysts is very important to us. Accordingly, we want to create added value for both investors and our company by communicating KarstadtQuelle's assets and potential actively, openly and sustained.

Dialogue through many channels of communication

We again maintained close contact with financial analysts during the year under review. The two analysts' conferences in May and November 2002 focused on the 2001 annual account and the 2003+ future programme. We informed our private Shareholders fully about the KarstadtQuelle Group's situation and strategy at the Annual General Meeting in July 2002.

We also explained KarstadtQuelle's "On track to becoming a retail and service group" strategy during numerous roadshows and investors' conferences at important European and American financial venues and for the first time in Japan and Singapore.

We regard the positive feedback and the large number of research reports – KarstadtQuelle is being covered by about 30 analysts – as the expression of the quality of this fruitful dialogue and as an incentive to continue it undiminished in future.

Our comprehensive range of communications channels is completed by Internet-based telephone conferences and a large number of individual discussions with analysts and investors. They presented a good opportunity to exchange ideas with the KarstadtQuelle management in greater depth.

Distinctions for KarstadtQuelle Annual Report

In an analysis of 260 annual reports for 2001 carried out by "Manager Magazine" KarstadtQuelle was awarded good marks. In the M-DAX segment our annual report was rated seventh. Amongst the annual reports in the Retail and Consumer Goods segment KarstadtQuelle came an easy first.

KarstadtQuelle also received the Bronze Award in the American ARC Award competition, the world's largest of its kind, for which about 1,500 annual reports for 2001 were assessed.

Field trips with analysts

During several field trips we explained to analysts our growth strategy in situ at the branches. At sports stores we reported in detail on the expansion of our sports segment. To explain our shopping centre concept, we visited the "Karstadt Arkaden" in Mülheim and provided the opportunity for a dialogue with project managers. At the opening of the first Starbucks Coffee Houses in Germany we invited analysts to discussions with the Management Board chairmen Wolfgang Urban and Howard Schultz in Berlin.

Analysts award the www.karstadtquelle.com Internet site high ratings

In a survey of about 100 analysts conducted by the University of Münster KarstadtQuelle's Internet offering was ranked first amongst all the DAX 30 and the respectively 10 strongest M-DAX and NEMAX companies. Criteria such as up-to-datedness, quality of information and functionality were at the forefront. Our intensively used karstadtquelle.com group Website provides a comprehensive, up-to-the-minute and multi-level range of information for both private and institutional investors. This ranges from investor relations bulletins, through financial publications and corporate presentations to immediately available records of annual general meetings, analysts' meetings and telephone conferences.

ECONOMIC VALUE ADDED® (EVA)

Consistently value-oriented corporate management

The KarstadtQuelle Group is committed to a consistently value-oriented corporate management and has oriented its strategic and investment decisions towards increasing the value of the enterprise and further intensified the measurement of success. The decisive indicator for the increase in the value of the enterprise is Economic Value Added® (EVA).

Calculation EVA KarstadtQuelle Group

		2002	2001
Business assets	mill. €	9,494	9,671
WACC	in %	6.5	7.0
Cost of capital	mill. €	**617**	**677**
Operating result	mill. €	383	603
Capital cost	mill. €	-617	-677
EVA	mill. €	**-234**	**-74**
Delta EVA	mill. €	**-160**	**20**

EVA as yardstick for increasing value

The implementation of value-oriented corporate control requires a yardstick which is accepted both in the capital market and within the group. EVA is calculated from the operating result less the cost of equity and borrowed capital.

The operating result (before interest and tax) is based on the profit from current business activity. It is modified by special effects, such as the non-operating result and amortisation of goodwill.

The cost of capital is calculated from the product of business assets and the weighted average cost of capital (WACC). The business assets comprise the capital tied up for operating performance. To calculate this, first the so-called operating liabilities which are available to the group interestfree or include an implicit interest component are deducted from the balance sheet total. By making adjustments, such as capitalising the cash value of rental and leasing commitments, value-enhancing behaviour is encouraged and value development made more transparent. The average cost of capital is calculated from the weighted average cost of equity and borrowed capital after tax. It thus reflects both Shareholders' yield requirement and that of capital lenders.

During the annual audit of the WACC we calculated – based on the reduction of the cost of borrowed capital – that our capital cost outlay was 6.5% and adjusted it.

The reduction of EVA by 160 mill. € to minus 234 mill. € shown by comparison with the previous year results mainly from the decrease in operating results in the over-the-counter retail segment and at our tourism participation Thomas Cook. The reduction of tied-up business assets by 177 mill. € to 9,494 mill. €, thus the reduction in the average cost of capital, was only partly able to compensate for this trend.

Basis for strategic and investment decisions

In the KarstadtQuelle Group's investment guidelines EVA is defined as the most important economic basis for decisions about investment and projects. At the same time we are pursuing the following aims:

- the establishment of uniform group definitions and procedures for all investments and projects,
- the introduction of standardised processes for the evaluation of and decisions about investment,
- the creation of a uniform investment control, and
- the integration of capital investment accounting in the measurement of performance and incentivisation.

We have also developed for each group segment models for EVA investment accounting which take into account the requirements of the respective business sector.

EVA performance measurement

The basis for value-oriented corporate control is the calculation of EVA in the various group segments. We therefore changed the system of reporting at the most important subsidiaries to the EVA concept during the year under review.

In future we shall be fully integrating the calculation of EVA in external accounting as part of the financial data management project. In conjunction with the progressive definition of EVA centres within the group companies EVA success measurement at important levels of the hierarchy will be guaranteed and a general value-oriented corporate control enabled.

NEXT STEPS

As well as measurement of performance and investment control, the important components of an integrated value-oriented corporate control also include the implementation of an EVA-based incentive system for the management. The introduction of EVA remuneration systems is currently being looked at.

Status report
10-Step Value Enhancement Programme

With the 10-Step Value Enhancement Programme launched in October 2000 we are aiming at an improvement of our competitiveness and accelerating the reorientation of the group.

The programme will run until the end of 2003. It concentrates on the areas of restructuring, growth and value management. In 2002 we focused on the restructuring of the operational processes, the optimisation of cost structures and entry into new, profitable growth markets.

Restructuring and optimisation

Targets substantially exceeded

KarstadtQuelle has substantially exceeded its targets in the area of restructuring and optimisation. Instead of the reduction in costs by 137 mill. € on 2000 planned for 2002 we achieved a reduction by 219 mill. € (79 mill. € in 2001). In view of the successes so far achieved by our restructuring we believe the chances of our achieving the reduction by 256 mill. € on 2000 forecast for the current 2003 financial year to be excellent.

Over-the-counter retail:
Logistics and administration streamlined

In over-the-counter retail the optimisation of the logistics system was a key consideration and markedly reduced our staff costs. Thus, we reduced staff levels by optimisation of processes and full interlinking.

In the department store sector we concentrated in our restructuring on twelve part-projects with 124 individual sub-projects. 85% of all projects have now been realised. Central were in particular the progressive standardisation of the ranges and the increasing automation and further optimisation of the logistics processes. Examples here are the stock-reducing goods supply through cross-docking and the capacity-oriented follow-up goods supply. We reduced the number of warehouses from 22 to 16 and warehouse space by a further 88,000 sq. m. to 736,000 sq. m. during the year under review. Thus, since the start of the programme warehouse space has already been reduced by 24%.

We also took some of the burden off sales by transferring logistical subsidiary activities to upstream production stages. This included goods coverage and price marking.

We markedly reduced the number of suppliers in the fashion, living, personality and sports sectors by the introduction of a uniform supplier evaluation system (scorecard).

We also lastingly reduced stocks and duplicates by means of a new inventory management. To optimise goods flow planning and control, we installed a systems support and an automatic duplicate control system linked to it.

Moreover, the groupwide implementation of a uniform IT platform guarantees a more punctual and more effective transport of goods to the logistics centres and branches.

By optimising processes and structures we also considerably simplified branch administration and the administrative procedures. Thus, we streamlined the branch administrations by, amongst other things, setting up regional service centres and automating staff administration processes.

Real-estate management costs were reduced by greater standardisation of procedures and the concentration of contracts for energy, cleaning and waste disposal and by the standardised procurement of fitting and building elements.

By electronic data exchange (EDI) with now 2,000 suppliers and a higher level of automation we removed manual interfaces in accounts management, reduced the error rate and work with considerably reduced expenditure of time and money.

Mail order: Quelle and Neckermann cooperate more closely

The focus of our restructuring in mail order is on closer cooperation between Quelle and Neckermann. By combining processes – while strictly maintaining the two-brand strategy – we are fully and lastingly utilising additional sales, income and cost reducing potential. In the year under review we cut costs as planned by 52 mill. € compared with the start of the programme. We anticipate cost reductions by at least 96 mill. € for the 2003 financial year compared with 2000.

Since the start of 2002 Quelle AG and Neckermann Versand AG have been under joint management. We further progressed the standardisation of the back-office processes for both company groups in order to be able to utilise synergic advantages still more fully.

We are achieving significant restructuring successes, particularly from a more efficient interlinking of administration, procurement, logistics and IT.

Growth

Weak economy holds up expansion

While implementing our growth strategy we further increased efficiency, expanded strong market positions and established a foothold in future markets.

However, because of the very difficult environment we shall achieve sales and earnings targets, particularly in the department store business and tourism, later than planned.

Multi-channel network expanded

Our multi-channel network is now unique in Europe. KarstadtQuelle has at its disposal strong sales channels, such as department stores, specialty stores, travel agencies, mail order catalogues, shopping portals on the Internet and communications and ordering options via telephone and television. We have consistently progressed the development of these sales channels and the utilisation of cross-selling potential.

Special formats in over-the-counter retail and mail order consolidated

We consolidated our market leadership in the fashion and sports sectors in 2002. Although for general economic reasons it was not possible for us to reach all our targets in the fashion sector, we improved our market position by expanding the specialty store specialists SinnLeffers and Wehmeyer.

We are aiming for marked expansion of the market position by 2005 on the basis of our expansionary sports strategy. Here, as market leader, we are profiting now from considerable economies of scale (savings due to higher quantities).

In mail order we increased our foreign share to 21.9%. At the same time we successfully continued expansion in specialty mail order (catalogues for special ranges, such as exclusive ladies' fashion, natural or baby products).

Thomas Cook still falling short of targets

Because of the terrorist attacks and the weak economy sales and earnings in the Thomas Cook travel group – our 50:50 joint venture with Deutsche Lufthansa AG – continue to fall markedly short of the targets.

E-commerce achieves high growth rates

We are implementing our e-commerce growth strategy consistently and successfully. E-commerce has grown into a successful and high-volume sales channel in the past two years. In 2002 we achieved our ambitious targets in this growth segment. Thus, we recorded online demand of more than 1.2 bill. € and a growth of 53%.

As a further development and consolidation of our multi-channel strategy we also began to develop TV commerce.

Successful development of new growth segments
The development of the new services and real-estate growth segments is progressing successfully. We positioned ourselves successfully in the financial services, information services and loyalty card bonus programmes sectors on the basis of our outstanding position in the retail sector with more than one billion customer contacts a year, information about 19 million active customers and the high levels of awareness of the Karstadt, Quelle and Neckermann brands.

We concentrated the real-estate portfolio in a separate business segment comprising the property, real-estate services and financing sectors. We continued the value-oriented optimisation of the real estate at prime locations in German towns and cities. Thus, we are engaging increasingly in the development and operation of large and heavily frequented shopping centres in city centres. So far we have already converted four department stores into shopping centres. A further 16 projects will follow in the next few years.

The newly set up KARSTADT Hypothekenbank AG (mortgage bank) is contributing to long-term group financing. In the 2002 financial year mortgage bonds to a value of 546 mill. € were placed.

Value management

The introduction of a value management resolved as the third element of our 10-Step Value Enhancement Programme is now nearly fully implemented.

EVA management and incentive system increases motivation
The implementation of the Economic Value Added® (EVA) management and incentive system is well advanced. Considerable importance is attached to the results-related remuneration to increase the motivation of the staff. Accordingly, we introduced, amongst other things, a stock options programme and employee shares.

Capital market communication intensified
We intensified our dialogue with the financial markets. Examples of this are an informative annual report oriented towards the interests of investors, detailed quarterly reports, professional investor relations, comprehensive road-shows and changeover of the accounting system during the year 2001 to International Accounting Standards (IAS).

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RESULTS AND PROSPECTS

The KarstadtQuelle Group in the 2002 financial year continued the successful implementation of the 10-Step Value Enhancement Programme and consistently pursued its strategy of reorientation as a retail and service group.

The 2002 financial year was dominated by an exceptionally difficult retailing environment combined with strong competition. KarstadtQuelle Group sales decreased by 1.6% to 15.8 billion €.

Earnings (EBTA) fell by 23.1% to 293.9 mill. €.

Net profit after taxation decreased to 162.2 mill. €, as against 234.9 mill. € in 2001. The management board proposes paying a dividend of 0.71 € per no-par value share this year too.

ECONOMIC BACKGROUND

Economy on a downward trend

The economic environment in Germany deteriorated further in 2002. With a rise in the real gross domestic product of a mere 0.2%, performance in the year ended was not only markedly weaker than expected but even fell short of the weak performance in 2001. Only the continuing strong foreign demand prevented a reduction in the economic output as a whole. As well as the weakened world economy, the ongoing fall in prices on the international finance markets and the Iraq conflict created further uncertainty.

Because of these factors the situation on the German labour market has worsened. The unemployment level rose from 9.4% in 2001 to 9.8% in the year under review.

The crisis of confidence resulting from the uncertain situation encumbered the German domestic economy in particular and diminished consumers' willingness to spend.

Lowest income growth since the reunification of Germany

Disposable incomes rose nominally by only 1.0% in 2002. This is the lowest rise since the reunification of Germany. In real terms disposable incomes have actually fallen. The increase in negotiated wage rates, pensions and child allowances could not compensate for the effects of the rise in the number of unemployed. The savings rate rose from 10.1% in 2001 to 10.4% in the year under review.

Moderate price rise

The cost of living in private households rose by 1.4% in 2002 (previous year: 2.0%). The introduction of the euro had no appreciable statistical effect on the development of the cost of living during the year as a whole, although it was repeatedly mentioned as a cause of price rises. However, many consumers subjectively regarded it as tending to send prices up. The decisive factors were the partly substantial price boost for certain services and the rise in the prices of food at the start of the year. This considerably affected people's readiness to spend.

Retail prices went up by 0.7% in 2002. From the mid-year on prices remained virtually stable.

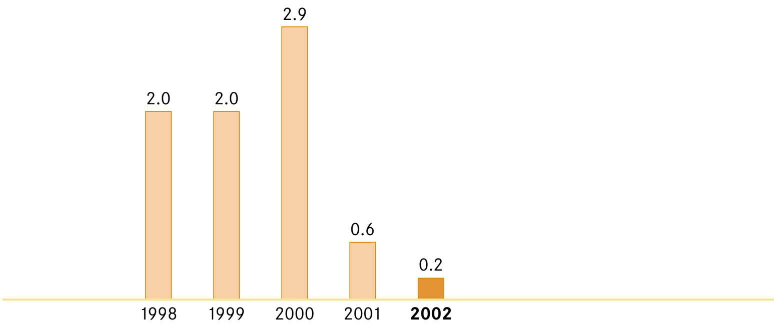
Private consumption falls by 0.6% in real terms

Private consumption fell by 0.6% in real terms in 2002. The main causes were poor morale caused by the economy, income trends and fear of job loss amongst employed people.

Department store retail sales decrease by 1.9 per cent

Retail sales in Germany decreased by 1.1% to 507 bill. € in 2002. Sales in the "true" retail trade (not including motor vehicles, fuels and combustibles and pharmaceuticals) diminished nominally by 1.9% to 374 bill. €. After adjustments for prices, this represents a decrease by 2.4%.

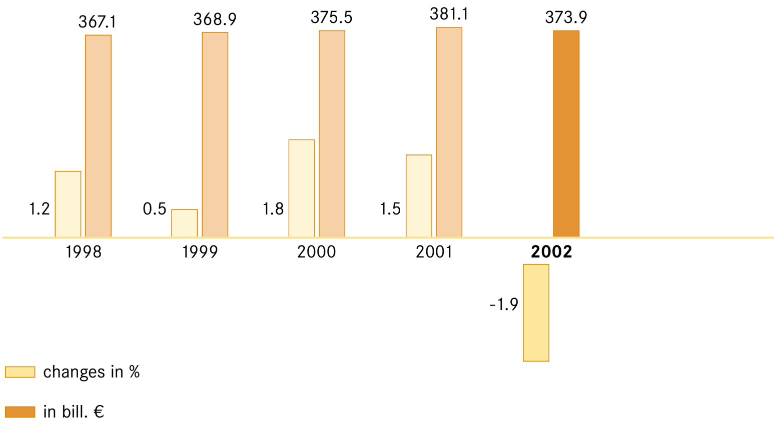
Gross domestic product real change in % on previous year



Source: Fed. Statistics Office

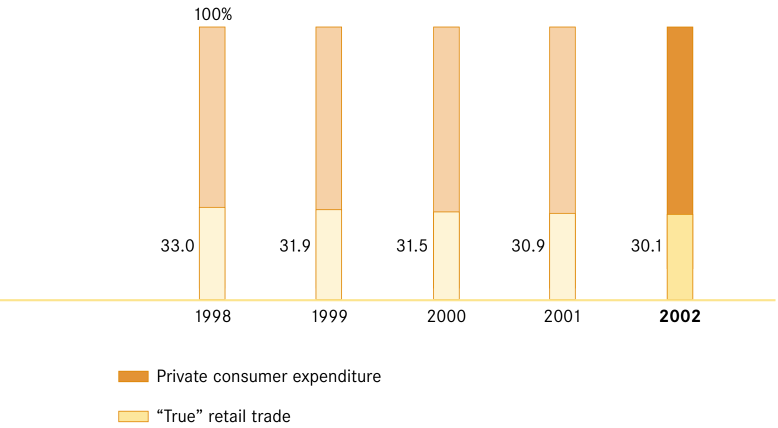
Performance "true" retail sales

nominal



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

Marked sales decreases were returned by the textiles and furnishings ranges in particular. The profitmakers from the "Teuro" ("Pricey Euro") debate and increased price sensitivity amongst consumers were the large food discount operators. They expanded their sales share. Mail order also profited from the change in consumer behaviour with a rise of 2.5%. Less successful were inexpensive departmental stores and department stores, where sales were down by 6.1%, and specialty retail, which recorded a decrease of 6.4%.

The share of private consumer expenditure in the retail trade likewise went down. It decreased to 30.1%, as against 30.9% in 2001.

BUSINESS PERFORMANCE IN THE GROUP AND SEGMENTS

New group structure

Subholding companies control subgroups

Since September 2002 the KarstadtQuelle Group has had a new corporate structure (see diagram on back inside cover). We converted our four business divisions into subgroups and placed them under the control of subholding companies. Their operational management will continue to be the responsibility of KARSTADT QUELLE AG – as strategic management and investment holding company.

Thus, the over-the-counter retail segment is now under the control of the Karstadt GmbH subholding company and comprises the department store and specialist discount store business segments. The subholding company Karstadt Quelle Versand GmbH controls the mail-order business, which is subdivided into universal and specialty mail order. The services subgroup is under the control of Karstadt Quelle Service GmbH. This operates the B2B (corporate business) and B2C (consumer business) segments. The subholding company for the real-estate segment is Karstadt Immobilien Beteiligungs AG. It continues to be responsible for the real-estate property and real-estate management segments.

The clearly defined corporate structure reflects the division of functions in the group management. It forms the basis for our strategic activities. At the same time it ensures the optimum utilisation of synergies. The new structure also guarantees greater freedom for strategic alliances and fusions at all corporate levels.

Strategy

On track to becoming a retail and service group

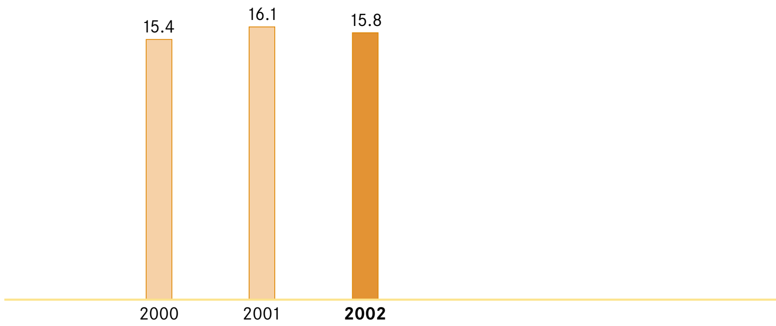
At the centre of our strategy is the transformation of KarstadtQuelle into a retail and service group. Here the sustained increase in corporate value is the prime aim. We took account of this in 2002 by taking important decisions and measures to improve performance.

Our strong over-the-counter and mail-order core business segments continue to play the most important role. Both enjoy leading positions in their markets. The decisive factors here are an areawide presence, rigorous business models and customer relations interlinked groupwide. Added to this is the unique positioning of Karstadt, Quelle and Neckermann, which have been amongst Europe's best-known brands for many years.

Unique in the European retail business is our multi-channel network. This is based on high-volume distribution channels and their interlinking. Here we are profiting more and more from the utilisation of inter-brand cross-selling potentials. Thanks to the fullest possible utilisation of joint strengths such as market presence, customer know-how and purchasing power we are opening up new future-focused and high-yield growth segments. We believe that there is high growth potential particularly in the services and real-estate segments in the medium term.

Our core competences are enabling us to further increase the performance under our own power. In those areas where we can consolidate our competitive position more easily by means of strategic partnerships, we are gaining market shares through alliances.

Group sales in bill. €



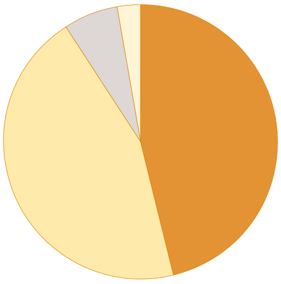
Sales performance

Group sales decrease by 1.6% in a difficult environment

The KarstadtQuelle Group achieved sales of 15.8 bill. € in the 2002 financial year (previous year: 16.1 bill. €). This represents a decrease by 1.6%.

Considering the unfavourable background conditions and high uncertainty amongst consumers the group was able to maintain its position on the market well. After a very weak start we succeeded – thanks to our diversification through a large number of sales channels – in stabilising sales during the year.

Sales breakdown by business segment



	in mill. €	in %
Over-the-counter retail	7,337	46.4
Mail order	8,229	52.0
Services	1,303	8.3
Real estate	495	3.1
	17,364	**109.8**
Reconciliation account	-1,549	-9.8
Group sales	**15,815**	**100.0**

Over-the-counter retail suffers from sluggish consumption

Over-the-counter retail suffered markedly from sluggish consumption. Our 190 department stores and 294 specialty stores recorded a decrease in sales by 9.1% to 7.3 bill. € (previous year: 8.1 bill. €). The share contributed by over-the-counter retail to group sales has thus decreased to 46.4% (2001: 50.2%).

Mail-order business grows by 5.3%

KarstadtQuelle mail-order suppliers profited from the “new attractiveness” of our mail-order operation. As well as the discount operators, this was one of the profitable operations in the German retail sector during the 2002 financial year. Thus, our strong mail-order companies Quelle and Neckermann and the 22 specialty domestic and foreign mail-order suppliers achieved a sales increase of 5.3% to 8.2 bill. € (2001: 7.8 bill €). In the mail-order segment we gained further market shares and at the same time expanded our customer base. The share contributed by mail order to group sales increased to 52.0% (previous year: 48.6%).

Services continue upward trend

Sales in the services segment (not including Thomas Cook) rose by 16% to 1.3 bill. € (previous year: 1.1 bill. €). Here the expansion of the logistics and customer service activities and the concentration of the information services in this business segment are having an effect.

Stable real estate sales

In our real-estate business gross income from rents at 495.1 mill. € was 2.3% up on 2001.

Profitability

Weak consumption holds down earnings

Earnings (EBTA) decreased to 293.9 mill. € (previous year: 382.3 mill. €). The EBTA margin fell by 0.5 percentage points to 1.9% accordingly.

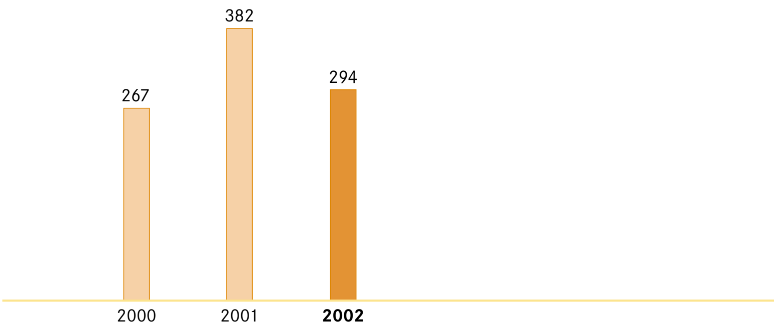
The result includes special factors essentially due to three measures. These improved earnings by 83 mill. € on balance. Two of the measures affected earnings positively. These were the CTA programme (see page 48) with an effect for earnings of 170 mill. € and the disposal of 50% of company shares in KARSTADT QUELLE Financial Services GmbH with a profit of 60 mill. €. Earnings were hampered by extraordinary expenditure amounting to 147 mill. € on flexibilisation (redundancy payments and part-time work for older staff) and on flood disaster aid.

After adjustments for these special factors, earnings (EBTA) come to 210.9 mill. €. This represents a decrease by 171.4 mill. € on the previous year. Of this 85.8 mill. € are due to the marked decrease – caused by, amongst other things, special effects – in earnings contributed by Thomas Cook.

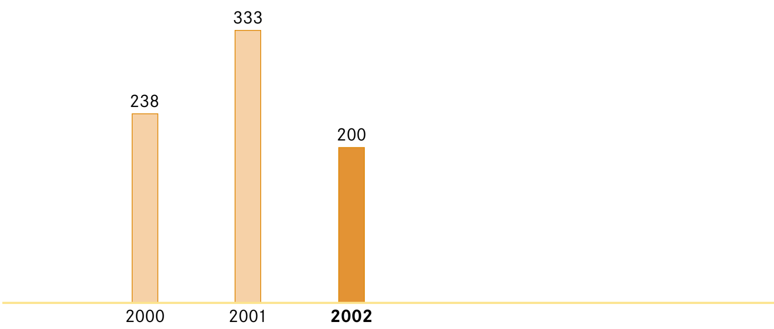
Weak consumption and the tough price competition in the retail trade hindered sales and reduced gross profit. At the same time the cost of sales-promotive measures like advertising and other sales costs went up. These together with collectively agreed rises of 80 mill. € in staff costs and lower profits from the disposal of tangible assets meant that group earnings were 395 mill. € lower than the previous year.

We met this considerable market-driven pressure on earnings with consistent cost management (restructuring, staff costs and purchasing) and achieved cost reductions of about 310 mill. € groupwide.

Group EBTA in mill. €



Group EBT in mill. €



In this way the reduction in group earnings in an exceptionally difficult economic environment was kept within limits.

Earnings before income tax (EBT) came to 200.4 mill. € (previous year: 332.8 mill. €). The return on sales (EBT margin) decreased from 2.1% to 1.3%.

Group profit and loss account (in brief)
for the year ended December 31, 2002

	2002 in mill. €	2001 in mill. €
Turnover	15,814.6	16,067.1
Cost of goods	-8,502.6	-8,681.7
Gross earnings	7,312.0	7,385.4
Earnings before interest, tax and depreciation and amortisation (EBITDA)	1,052.7	1,142.5
Earnings before interest, tax and amortisation of goodwill (EBITA)	577.8	680.2
Earnings before interest and tax (EBIT)	484.4	630.7
Earnings before tax (EBT)	200.4	332.8
Earnings before amortisation of goodwill and tax (EBTA)	293.9	382.3

Group EBTA by segment

	2002 in mill. €	2001 in mill. €
Over-the-counter retail	-129.8	62.7
Mail order	154.1	117.3
Services	21.7	86.4
Real estate	227.5	271.3
Holding	17.6	-154.2
Reconciliation account	2.8	-1.2
	293.9	382.3

Differentiated earnings performance in the business segments

Earnings in over-the-counter retail clearly reflect the weak consumption in Germany. Department and specialty stores return EBTA amounting to minus 129.8 mill. € (previous year: plus 62.7 mill. €).

This represents a decrease by 192.5 mill. €. The good results from cost-cutting measures, which led to, amongst other things, a considerable reduction in staff costs, only partly compensated for gross profit down by 351 mill. €. It should also be taken into account that earnings in over-the-counter retail were held down by extraordinary flexibilisation costs and the cost of flood disaster aid amounting to 112 mill. €.

Mail order increased earnings by 36.8 mill. € to 154.1 mill. € (previous year: 117.3 mill. €) due to a good business performance. As well as successful campaigns to celebrate Quelle's 75th anniversary, this good performance is based on consistent optimisation of catalogues and offerings.

EBTA in the services segment have been decisively affected by seriously reduced earnings in the Thomas Cook travel group. These came to 21.7 mill. €, as against 86.4 mill. € the previous year.

The real-estate segment contributed EBTA of 227.5 mill. € (previous year: 271.3 mill. €) to group earnings. The decisive factor for the reduction in earnings was reduced income from the disposal of real estate.

The holding sector returns earnings (EBTA) of 17.6 mill. € (previous year: minus 154.2 mill. €). The rise in earnings is based mainly on the reorganisation of old-age pension provision in the group.

Notes to individual items in the profit and loss account

Gross profit decreased by 73.4 mill. € to 7,312.0 mill. € (previous year: 7,385.4 mill. €). The gross profit margin improved slightly to 46.2% (previous year: 46.0%).

Staff costs went down by 143.1 mill. € to 3,014.1 mill. € (previous year: 3,157.2 mill. €). The reduction in staff costs is due to the successful restructuring. The share of net sales costs represented by staff costs fell by 0.5 percentage points to 19.1%.

Operating earnings rose by 248.8 mill. € to 862.2 mill. €. This is mainly due to the realisation of hidden reserves under the reorganisation of old-age pension provision.

Amortisation of goodwill rose by 44 mill. € to 93.5 mill. €. The decisive factors were increased amortisation at Thomas Cook due to acquisitions and impairment amortisation in the mail-order sector.

Income from interest improved by 13.7 mill. € to minus 286.4 mill. €. This was due mainly to the generally positive interest trend during the year under review.

Earnings tax ratio down

The earnings tax ratio stood at 15.4% (previous year: 28.2%). Tax-reducing factors were in particular the tax-free transfer of assets in the newly created company pension funds, trade-tax-free profit in the real-estate segment and the tax-free disposal of shares in corporations.

Net profit decreases to 162.2 mill. €

Net profit after minority interests decreased from 234.9 mill. € to 162.2 mill. €. This represents a fall by 30.9%.

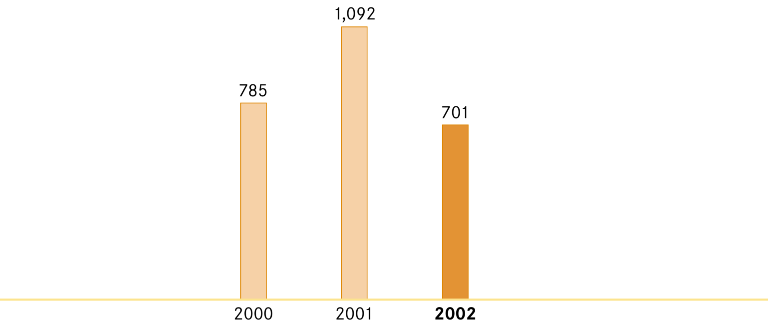
Earnings per share stood at 1.40 €, as against 2.00 € the previous year. This represents a decrease by 30%.

Financial situation

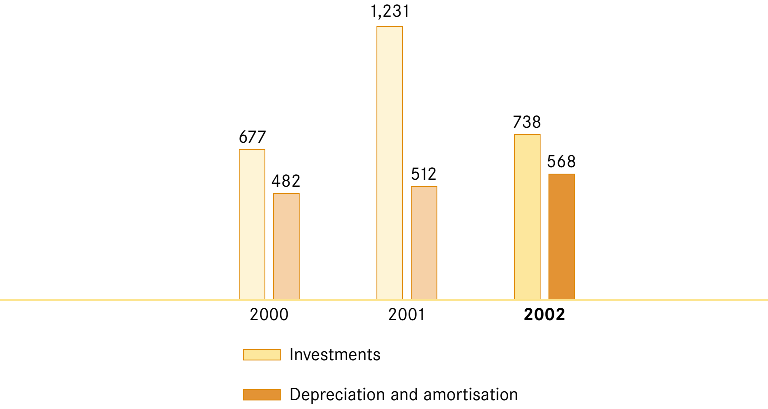
Group cash flow statement (in brief)

	2002 in mill. €	2001 in mill. €
Cash flow from current business activities	168.4	702.3
Cash flow from investment activities	-546.5	-980.1
Cash flow from financing activities	183.5	356.4
Changes in finance funds affecting cash flow	**-194.6**	**78.6**
Changes in cash and cash equivalents due to changes in exchange rates or other changes in the finance funds resulting from changes in consolidated companies	-14.9	38.2
Finance funds at the beginning of the period	378.3	261.5
Finance funds at the end of the period	**168.8**	**378.3**

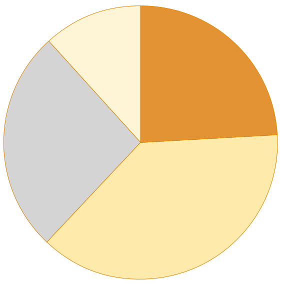
Gross cash flow in mill. €



Investments and depreciation/amortisation in mill. €



Investments by business segment



	in mill. €	in %
Over-the-counter retail	164.8	24.1
Mail order	259.1	37.9
Services	179.6	26.3
Real estate	80.1	11.7

Falling cash flow

The cash flow from current business activities fell appreciably on the previous year and stood at 168.4 mill. € (previous year: 702.3 mill. €). The decisive factor for the reduction was the decrease in earnings (EBT). At the same time expenditure due to cost flexibilisation measures with effect for cash flow was set off by significant income without effect for cash flow. Working capital also increased as a result of the expansion of the volume of business in mail order.

Investment reduced

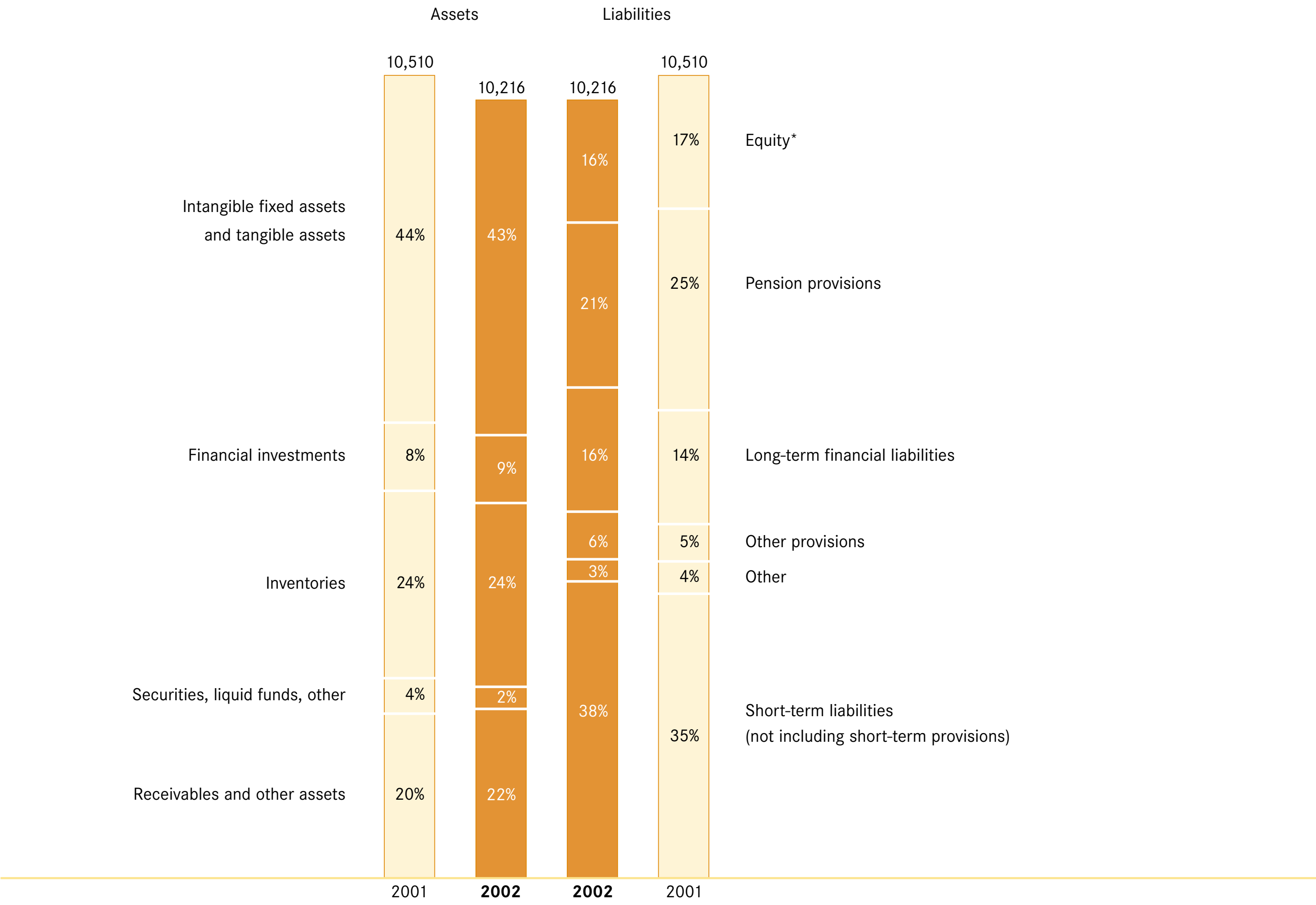
Investment fell to 738.3 mill. € in the 2002 financial year (previous year: 1.23 bill. €). The marked reduction extended both to investments in tangible assets and in financial assets. The main areas of investment included:

- the completion of the new mail-order returned goods warehouse in Frankfurt am Main
- modernisation and conversion of various department and specialty stores
- opening of sports stores and markets

Mail order also invested in the acquisition of a further specialist mail-order supplier and the services sector in the development and expansion of the loyalty card programmes and the financial services.

Net worth position

Balance sheet structure in mill. €



*) Equity also includes the dividends of KARSTADT QUELLE AG to be paid out.

Key balance sheet figures

		2002 mill. €	2001 mill. €	Change in %
Balance sheet total		10,216	10,510	-2.8
Equity		1,676	1,803	-7.0
Equity ratio	in %	16.4	17,2	-
Pension provisions		2,128	2,584	-17.6
Long-term financial liabilities		1,595	1,425	12.0
Net financial liabilities		3,403	2,802	21.5
Fixed assets		5,261	5,451	-3.5
Working capital				
Inventories		2,502	2,524	-0.9
Trade receivables		1,393	1,291	7.9
Trade payables		-900	-930	-3.1
		2,995	2,885	3.8

Balance sheet total decreased by 2.8%

The group balance sheet total decreased by 294.3 mill. € to 10.22 bill. €. This represents a fall by 2.8%. Fixed assets decreased by 189.3 mill. € due to the transfer of assets to the company pension fund.

Current assets decreased – despite the expansion of the customer base in mail order – as a result of the reduction in liquid funds by 1.8%, or 92.2 mill. €, to 4.91 bill. €.

The stock turnover rate remained virtually constant at 6.3 (previous year: 6.4).

Equity ratio at 16.4%

Equity capital decreased by 7%, or 127 mill. €, and stood at 1,676.4 mill. €. The equity ratio stood at 16.4%, as against 17.2% the previous year. The cause of the reduction was the negative performance of market prices from cash-flow hedges under interest and foreign exchange forward transactions, besides the payment of a dividend to shareholders. Equity capital increase from the net profit for the 2002 financial year after taxation was more or less set off by the repurchase of own shares.

Net financial liabilities risen

Net financial liabilities rose by 601 mill. € to 3.4 bill. €. The decisive factors were, besides investments, in particular the rise in customer receivables in mail order, the tie-up of funds through the share repurchase programme and measures to flexibilise staff costs and settlement of pension claims.

Pension provisions reduced

To finance its pension plans, KARSTADT QUELLE AG set up a company pension fund and transferred to this at the end of the financial year assets amounting to 312 mill. €. This transaction enabled pension provisions to be markedly reduced.

Working capital risen by 3.8%

Working capital rose as a result of the expansion of the volume of business in mail order by 3.8% to 3 bill. € (previous year: 2.9 bill. €). The share contributed by working capital to sales rose to 18.9% (previous year 18%).

The 2002 financial year in review

In focus: Restructuring and growth

At the centre of activities in the 2002 financial year were the transformation into a retail and service group and the anticipation of current developments or the weakness of the German retail trade.

Restructuring under the 10-Step Value Enhancement Programme progressed markedly. We also increased our competitiveness by establishing a strategic group purchasing operation.

In the year under review we also – as a response to the ongoing weak market environment – the foundation for further reduction of staff costs from 2003 on by redundancy payment programmes and offers of part-time work for older staff.

Alongside these measures for increasing competitiveness, a comprehensive customer and growth offensive in conjunction with major marketing campaigns were a central concern.

Customer and growth offensive launched

Expansion in sports segment stepped up

KarstadtSport further expanded its market leadership in Germany during the 2002 financial year. We are clearly distinguishing ourselves from the competition with large-area adventure-oriented sports stores at city locations. In Dortmund we opened Germany's largest sports store on 7,200 sq.m. of space. In Leipzig a sports store with 5,700 sq. m. of space was opened under our brand mark. A further sports store in Augsburg with 3,900 sq. m. of space and two out-of-town specialist sports markets in Frankfurt an der Oder and St. Augustin with space totalling 5,400 sq. m. completed the expansion of our sports segment. We also opened a combined technology and sports store in Celle on 3,400 sq. m. of space.

2006 Football World Championship: Exclusive partnership with FIFA

To further accelerate expansion in the sports segment, KarstadtQuelle entered into a strategic partnership with the international football association FIFA. Accordingly, we shall be exclusively operating the Official 2006 FIFA World Cup™ shops. We plan to offer official licensed and fan articles of the FIFA 2006 WC™ at more than 300 sales outlets throughout Germany. Locations will include Karstadt department stores, Karstadt sports stores and Karstadt sports markets. During the football world championship we shall be selling FIFA products – likewise exclusively – in special sales areas in all twelve WC stadiums.

Starbucks:

Successful market entry in Germany

KarstadtCoffee GmbH records a positive start with Starbucks Coffee Houses on the German market during its first year of expansion. Sales and earnings met our expectations. The successful market entry shows that in Germany, too, there is a market for the modern coffee house culture. As planned, KarstadtCoffee opened a total of 12 coffee houses – ranging from the 20 sq. m. coffee bar to the two-storey flagship store – in Germany by the end of 2002. In addition to the key Berlin location, Starbucks is now also represented in the Rhine-Ruhr region and the Rhine-Main area. We want to further expand in these regions in 2003 and open up further major cities, such as Hamburg and Munich, for Starbucks.

Takeover of the second-largest British mail-order supplier of work clothing

In the area of specialist mail order we also continued our expansion by acquisitions. With effect from January 1, 2002, we took over the Simon Jersey Group Ltd., the second-largest British work clothing mail-order company. KarstadtQuelle mail-order suppliers thus further expanded their market leadership in the European work clothing mail order sector. The new foothold in Great Britain also offers a basis for further expansion in the British mail-order market.

Powerful marketing campaigns

Marketing campaigns increase customer footfall

The German retail trade in 2002 was not only dominated by price wars but also by intensive marketing campaigns. Karstadt customers also profited, for example, from attractive discount/coupon campaigns following the repeal of the law on discounts and free gifts. We temporarily markedly boosted customer footfall in the department stores with our “End-Of-Winter Bonanza”, “(S)election Fever”, “World Champion Discount” or “Late-Risers’ Discount” campaigns.

In September 2002 we brought out the new “TV Karstadt” programme magazine. With an impression of 350,000 it is amongst the largest German customer magazines. We thus have at our disposal a further means of intensifying customer ties and efficiently communicating our offerings. The customer magazine is sold at the department store cashpoints.

Quelle: Successful anniversary marketing

To celebrate its 75th anniversary, Quelle launched a comprehensive marketing campaign under the motto "75 Years of Quality at Quelle Prices". Customer response to the marketing activities exceeded our expectations and contributed to the most successful financial year for Quelle since the reunification boom at the start of the 90's. The circle of active customers rose markedly. The number of orders also rose by over 10% to 37.5 mill. The average value per order also rose at the same time.

Neckermann launches autumn offensive

Following a weak start to the year, a sales and marketing offensive in autumn 2002 resulted in a large sales boost for Neckermann. The decisive factors here were, in particular, additional mailings and newly issued specialty catalogues.

Good start with new services

KarstadtQuelle opens up new growth markets

During the year under review we further expanded our position in the services and real-estate growth markets.

With information on a growth course

By setting up KARSTADT QUELLE Information Services GmbH (KQIS) at the start of 2002 we positioned ourselves in the high-growth and high-return market for information services.

The basis for the business model is our competence in the management of customer data and comprehensive information about the data on orders placed by group customers. KQIS thus offers its clients a unique range of services comprising the entire customer relations management process. This begins with customer analysis and the winning of new customers and extends through creditworthiness checks and customer accounting to the collection of outstanding debts. We achieved at 60 mill. € a more than 20% growth in sales in our information services business.

Financial services utilise customer contacts

Another vital component in the expansion of our services portfolio is the development of the market for financial services. The basis for this is KARSTADT QUELLE Financial Services GmbH (KQFS), a 50:50 joint venture between KARSTADT QUELLE AG and ERGO Versicherungsgruppe AG. The company commenced operations in May 2002 and combines the strengths of both partners.

As a provider of financial services, KQFS utilises KarstadtQuelle's customer contacts from over-the-counter retail and mail order. The sale of the financial products, such as insurance, is conducted, amongst others, via financial service centres in Karstadt department stores and in direct sales through mailing campaigns aimed at specific target groups. In the 2002 financial year we acquired close on 700,000 new customers for the financial services business through the various sales channels.

KARSTADT QUELLE Bank is the largest MasterCard provider

To complete our range of financial services, KARSTADT QUELLE Bank GmbH, a one-hundred-per-cent-held subsidiary of KQFS, provides classic banking products and loyalty card management services. Since summer 2002 it has also been offering a credit card without a basic fee. Thus, the KarstadtQuelle Bank with around 800,000 credit cards has in a very short time grown to become Germany's largest MasterCard provider.

"HappyDigits" customer bonus programme: From company to community card

As part of the strategic partnership formed in January 2002 with Deutsche Telekom AG we integrated our respective loyalty card bonus systems into the "HappyDigits" joint card programme.

By the end of 2002 about nine million customers were already actively participating in the "HappyDigits" programme. The high level of interest amongst customers shows how well the partners are positioned in the competition for the place of the card in the customer's purse. Under the maxim "from company to community card" we laid the foundation for further growth early. Important elements of the programme are the MasterCard issued by the KarstadtQuelle Bank and the comprehensive bonus offering.

We anticipate that the number of "HappyDigits" users will have grown to about 13 million by mid-2003. This strong growth we regard as an indication that there are excellent opportunities of positioning "HappyDigits" as the market-leading customer bonus system in Germany in the medium term.

Value-oriented real-estate management stepped up

We believe there is long-term potential in the development of the group's attractive real-estate locations through changes in and extension of their use on the basis of the considerable building lease potential.

Shopping centres from department stores

At the end of 2002 an overall programme for the initial development of 20 locations was resolved. Two further shopping centres were opened in the year under review.

The "City Point" city-centre shopping centre that the KARSTADT Immobilien AG & Co. KG has realised jointly with a partner on the site of a former Hertie department store was opened in Cassel. 50% of this modern shopping centre is in group ownership. 70% of the 29,500 sq. m. of rented space has been let to third parties for the long term.

At the Rhein-Ruhr Zentrum in Mülheim Karstadt Warenhaus AG opened the “Karstadt Arkaden”, a new concept that attractively combines the strengths of different retail formats. The former furniture space was closed down and let to 18 reputable partners in the fashion and services sector. At the same time the entire department store area was transformed into a mall concept.

Real-estate services as growth segment

We believe there to be further long-term growth potential in the real-estate services segment. Since the integration of all the internal real-estate services at the start of 2003 ECM EuroCenter Management GmbH, which was set up in 2002, has aimed at a leading role in the entire value-enhancing process in retail real estate, from development through centre management to facility management. With a total of nearly 3 mill. sq. m. of space the group has a good starting base in city-centre retail.

KARSTADT mortgage bank launches mortgage bond programme

KARSTADT Hypothekenbank AG set up at the end of 2001 began with the active placement of mortgage bonds in July 2002. In this mortgage bond programme the group has at its disposal a direct access to the capital market. The advantageous mortgage bond conditions enable both the real-estate portfolio and the group’s future real-estate investments to be cost-effectively financed.

In 2002 the KARSTADT Hypothekenbank AG placed mortgage bonds to the value of 546 mill. € and acquired bank funds amounting to 250 mill. €.

Further value-added measures

2003+ Strategy introduced

In November 2002 we introduced our “2003+” future strategy, which links up with the 10-Step Value-Added Programme and consistently continues it. At the centre is the transformation of KarstadtQuelle into a retail and service group. KarstadtQuelle aims to achieve a growth in sales and earnings in the department store segment by a transformation from a general into an integrated specialist retailer. At the same time we are concentrating on the further development of the 100 or so large department stores with more than 8,000 sq. m. of space into adventure worlds. We shall further develop the around 80 smaller department stores as part of an optimised business model.

In mail order our strategy is based on four core elements. We shall further develop universal mail order, expand specialty mail order, accelerate growth abroad and further expand in e- and TV-commerce. In the services and real-estate segment we shall consistently implement and expand the new growth activities launched in the year under review.

The main aim of “2003+” is the reduction of the KarstadtQuelle Group’s dependence on the domestic climate of consumption. At the same time in the medium to long term we want to increase the share of earnings contributed by our services business, including tourism, to about 35%. The contribution made by special formats in mail order and over-the-counter retail will grow to about a quarter of group earnings.

Overall old-age pension concept integrated

In December 2002 the management and plenary works councils of Karstadt Warenhaus AG, Neckermann Versand AG and Quelle AG reached an agreement on the reorganisation of the company's old-age pension provision. The aim is a future-focused and secure pension provision under difficult economic background conditions.

The two most important aspects of the new concept are the modification of the pension undertakings and the separation of pension commitments and related pension fund assets.

When redrafting pension entitlements, the conversion of earned pension rights into capital at the age of 65 years and the linking of future pension contributions to the commercial development of the group was agreed. We also made the holders of rights a redundancy payment offer to reduce the cost of administering minimum pensions. This was accepted by about 60% of this group. Redundancy payments amounting to about 60 mill. € were paid accordingly.

We moreover set up a company pension fund on the principle of the contractual trust arrangement (CTA). Assets amounting to 0.3 billion € were transferred to cover pension commitments. 94% of the shares in two real estate management companies were sold to KARSTADT QUELLE Vermögensverwaltung GmbH. These together with a participation of 25% in Medienverbund maul + co - Chr. Belser GmbH, were then transferred at market values to the KarstadtQuelle Pension Trust e.V. Because of the transfers and the final consolidation tax-free income of 170 mill. € was created through the release of hidden reserves.

Because of these measures the obligations entered on the balance sheet in the form of pension reserves were reduced from 2.6 to 2.1 bill. €. A further reduction of balance sheet pension reserves is planned for the current financial year in accordance with this concept.

Procurement and sales

Strategic purchasing reduces purchase prices

The utilisation of synergies between all group companies is an important factor for the KarstadtQuelle Group's success. Since May 2002 we have also been profiting from these in the purchasing sector. KARSTADT QUELLE Konzern-Einkauf GmbH (KQKE) concentrates and optimises the KarstadtQuelle Group's and the operational group companies' procurement management. The most important advantage of this purchasing optimisation is a sustained increase in the group's competitiveness.

Accordingly, we evaluated our suppliers based on uniform criteria, developed groupwide an optimum supplier portfolio and improved the quality of supplier relations. KQKE manages purchasing negotiations centrally. It is achieving – through, amongst other things, greater volumes – a marked improvement in purchase prices and conditions. Its other tasks include basic supplier data administration and controlling. Furthermore, goods procurement via online auction contributed to the improvement in purchase prices.

86% of the planned synergies from the fusion of Karstadt and Quelle realised

In the year under review our group earnings profited from synergic effects amounting to 131 mill. € (previous year: 127 mill. €). This represents about 86% of the synergy volume originally planned and defined in 1999 from the merger of Karstadt and Quelle to form KARSTADT QUELLE AG. Of the synergic effects achieved 36% are from over-the-counter retail and 64% from mail order. As regards the realisation of synergic potential the Karstadt Quelle Group's merger programme has essentially been successfully completed.

High social standards

We regard ourselves as socially responsible for our many thousands of staff, suppliers and all other persons connected with the company. We are therefore ensuring high social and environmental standards. An example is the code of conduct for procurement, which is binding on all group companies and suppliers adopted in 1999 already. It is based on the standards of the International Labour Organisation (ILO) and relevant environmental standards.

For the efficient implementation of our aims and increase of transparency we agreed a uniform auditing of our suppliers under the umbrella of the Foreign Trade Association of the German retail trade (AVE). The German Ministry for Economic Cooperation and Development supports this commitment.

We are committed to socially and environmentally favourable working conditions, particularly in the production facilities of our suppliers in the Third World. Thus we continuously check that the rules of conduct for procurement are being adhered to.

We shall be issuing our first sustainability report (environmental and social report) at group level for the 2003 financial year.

KarstadtQuelle is included in the FSTE4 Good and Dow Jones Sustainability Indexes. These are the most important share indexes for ethical investments.

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

	Total 2002	thereof domestic	thereof abroad	2001
Department stores	42,972	42,972	0	48,039
Specialist stores	6,750	6,745	5	7,424
Over-the-counter retail	**49,722**	**49,717**	**5**	**55,463**
Universal mail order	22,989	17,636	5,353	24,951
Specialist mail order	5,568	3,853	1,715	5,056
Mail order	**28,557**	**21,489**	**7,068**	**30,007**
Services	**5,436**	**5,324**	**112**	**3,748**
Real estate	**67**	**67**	**0**	**26**
Holding	**144**	**144**	**0**	**135**
	83,926	**76,741**	**7,185**	**89,379**

Staff

As at December 31, 2002, the KarstadtQuelle Group employed 104,536 people, 6.8% fewer than at the key date the previous year. Abroad the number of people employed rose by 394 to 8,444.

On an annual average and in full-time terms the number of people employed stood at 83,926. It thus decreased by 6.1%.

The decisive factors for this development are consistent restructuring and sales-dependent cost management in the over-the-counter mail-order segments which is adapted to sales performance.

The proportion of female staff on an annual average stood at about 70%.

Over-the-counter retail:
Jobs reduced by 10.6%

At the balance sheet key date there were 63,214 people employed in the over-the-counter retail segment. That is 7,502 or 10.6% fewer than in the previous year. The decisive factors for the decrease were staff reductions in Karstadt department stores and structural change in the fashion stores of Sinn Leffers AG. As well as streamlining at management level, we did away with the sales assistant level in the hierarchy altogether. All in all, staff reductions affected 5,741 full-time jobs on an annual average. This represents a decrease of 10.4%.

We are ensuring the compatibility of the job reductions with social welfare commitments in 2002 too by working closely with a Germany-wide transfer company and employment and qualification companies.

Department store productivity rises by 1.9%

Each full-time employee (not including trainees) turned over 149,197 € (not including VAT) in the department stores in 2002. This represents an increase by 1.9% on the previous year.

Mail order:
Staff levels fall by 4.8%

At the end of 2002 the number of staff in mail order stood at 35,157. This represents a reduction in the level of staff on the previous year by 1,765. At the same time we took on more staff in logistics to meet increased demand. The proportion of short-time staff went down once more, while at the same time the part-time ratio rose.

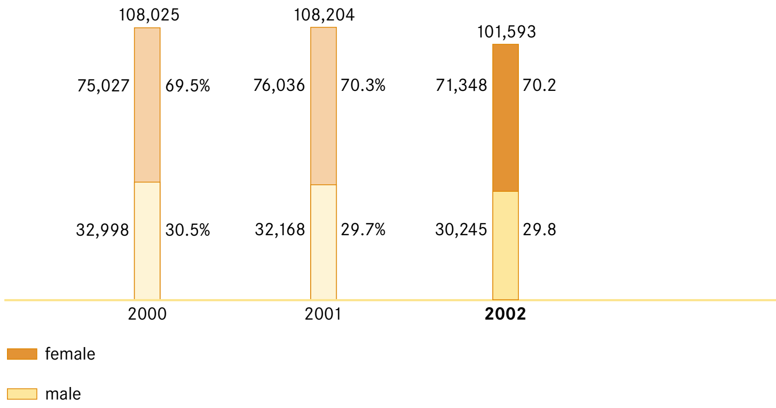
As part of the cooperation between Quelle and Neckermann we implemented the joint SAP HR IT platform and thus optimised staff administration work. Since December 2002 we have been implementing personnel administration processes – such as staff accounting – centrally.

Services, Real estate:
Expansion creates employment

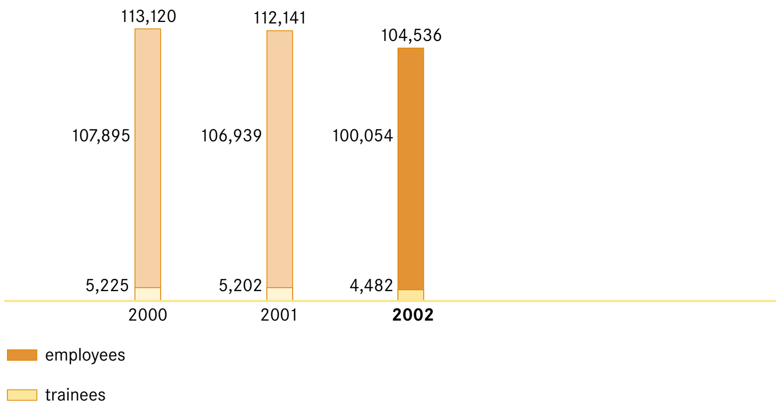
5,927 staff were employed in the services segment at the balance sheet date. This represents a rise by 37.7%, or 1,624 staff, on the previous year. The cause is the continuous expansion of our services ranges and the strong expansion of the segment. The number of full-time staff on an annual average stood at 5,436.

71 people were employed in the real estate segment at the balance sheet date. The number of staff thus rose by 23 on the previous year.

Staff on annual average



Staff as at 31.12.



Second tranche of stock options placed

In the year under review we issued the second tranche of the Incentive Stock Option Plan (ISOP) to selected managerial staff of the KarstadtQuelle Group. As well as the participation in company results, we are achieving a stronger sensitisation to the requirements of the financial markets. The linking of performance related remuneration to KarstadtQuelle earnings power will continue to be an important component of an innovative remuneration policy.

Part-time work in great demand

The number of older staff opting for part-time work remains at a constant high level. At the end of the year under review groupwide about 2,100 staff took the opportunity of a staged transition to retirement.

The average contract term is three years. In this way we ensure the transfer of know-how to younger staff. At the same time we offer this age group in particular new employment and career opportunities.

High investment in training and further-training

Investment in the fostering and qualification of young and committed staff is the basis for success in a highly competitive market.

In over-the-counter retail we qualified selected staff for later management duties as part of a dual training scheme in partnership with vocational training establishments and universities.

In mail order we implemented our aim of systematically fostering new managerial staff and filling vacant posts with own candidates.

Groupwide expenditure for training and further-training came to 73.9 mill. €. Of this the greater part, about 56%, went on training remuneration. At the end of the year we employed 4,482 trainees.

Thanks to all staff

The management board thanks all staff both at home and abroad for their high level of commitment and the work they did in 2002.

Our thanks are also due to all works councils, members of plenary works councils and spokespersons' committees and youth and trainee representatives for their trustful and constructive cooperation. The reorientation of the group and particularly the agreements reached at the end of the year on a comprehensive reorganisation of the old-age pensions systems will continue to require the active cooperation of these groups. In this way the successful implementation of all aims in the interest of the group and its staff is guaranteed.

Environmental protection

Responsibility for the environment

The KarstadtQuelle Group has worked actively and successfully for the benefit of the environment for many years. All areas of the group contribute to this with an offering which conforms to this claim. Partnerships with reputable environmental protection organisations and numerous environmental prizes underline our important function in this area.

In the group we also utilise synergies in our environmental activities. The concentration of pioneer companies in environmental protection under the umbrella of the KarstadtQuelle Group offers great potential here. Outstanding examples are the high competence of Hess Natur in eco-textiles, the efficient organisation of Neckermann Versand AG, the high potential at Karstadt Warenhaus AG for inclusion of the public in environmental activities and the broad range of ecological products offered by Quelle AG.

Karstadt further expands ranges to include environmentally friendly products

In 2002 our department stores further expanded their range of environmentally friendly products. Thus, we supplemented the "BIOlogisch" programmes for promotion of bio-foodstuffs and "Transfair" for fair-trade products. These now comprise more than 500 products. The clothing range in compliance with the "Öko Tex Standard 100" was likewise expanded.

We also promoted environmental consciousness, particularly amongst young customers, with our "Clemens Clever" campaign – in cooperation with the Bund für Umwelt und Naturschutz Deutschland e. V. (BUND) and the federal environment office.

In order to document Karstadt Warenhaus AG's extensive commitment in 2002, we published an environmental report. The Bundesverband der Deutschen Industrie (BDI) awarded us German industry's 2001/2002 environmental protection prize for our environmentally focused corporate management.

Mail-order suppliers once again point the way in environmental protection

The basis for successful environmental management at Quelle and Neckermann is validation in accordance with the European Union's "Eco-Audit Ordinance" (EMAS). It examines all business processes for their environmental compatibility. Both mail-order companies set out their environmental initiatives in the 2002 environmental declaration.

A major feature of work in celebration of Quelle's 75th anniversary was a large number of environmental activities. In the main catalogues we offer ecological products on about 300 pages. Sales exceeding 500 mill. € in this area illustrate the high demand for our ecological ranges.

Not only in the offering did we work to protect the environment, but also in the return and proper disposal of remaindered products. Thus, in 2002 by disposal of more than 200,000 used electrical appliances we already fulfilled EU legislation not due to come into effect until 2003.

Neckermann introduced an eco-pass for its product ranges some years ago. This shows the environmental compatibility of the products and provides information about, amongst other things, content, manufacturing processes and recyclability. One range of eco-products in particular demand is our furniture bearing the seal of the Forest Stewardship Council (FSC) for wood from sustained forest management. Neckermann consolidated its pioneering role in this segment with over 100 FSC products.

Public relations

Media response increased

Media interest in KarstadtQuelle further increased during the year under review. The decisive factors were in particular many projects for the reorientation of KarstadtQuelle as a retail and service group. We communicated this strategy particularly at press conferences and with accompanying public relations activities.

One focus was on the presentation of the joint ventures with, for example, ERGO Versicherungsgruppe AG or Deutsche Telekom AG. The presentation of the strategic orientation 2003+ on November 18, 2002, also met with a considerable public response.

Group image strengthened

Our offensive and current communications promote KarstadtQuelle's positive image amongst the public. The subsidiary companies' strong branding, as well as the corporate design and corporate identity, also contribute to this. Here, as well as many other initiatives, in particular the "75 Years of Quelle" anniversary campaign was particularly effective. Moreover, the new group staff magazine "ma:z" increasingly documents the internal progress of the group's strategic reorientation.

Target group communication intensified

As well as customer orientation, we have intensified our communication with selected target groups. This applies to political decision-makers in particular. We launched initiatives for more customer-focused flexibility. Thus, for example, we worked for the abolition of the regulations on special sales offers and flexibilisation of opening times.

Internet site expanded

We acknowledged the growing importance of the online media by qualitative and quantitative expansion of the karstadtquelle.com Internet site. This distinguishes itself in particular by a clearly structured design and informative and up-to-date contributions.

SUPPLEMENTARY REPORT

Expansion of the company pension fund

In the 2002 financial year KARSTADT QUELLE AG began reorienting the financing of pensions. For this, amongst other things, a company pension fund was set up. The reorientation is being consistently continued in the 2003 financial year. Plans are to cover the financing of all KARSTADT QUELLE AG pension commitments through the pension fund. The measure is expected to be completed in the second quarter of 2003.

Share repurchase programme continued

KARSTADT QUELLE AG continued with the implementation of the share repurchase programme after the balance sheet date. In the meantime a further 1,232,894 no-par value shares (as at March 21, 2003) were repurchased, with the result that KarstadtQuelle now has at its disposal over 8.9% or 10,453,534 own shares. The average price per share was 13.76 €.

Withdrawal from multimedia specialty stores

The staged withdrawal from the Schaulandt specialty store chain resolved in 2002 for optimisation of the portfolio was consistently implemented at the beginning of 2003. Following closure of four branches of the multimedia specialist we sold a further eight locations principally in the Hamburg area to the Electronic Partner group of companies.

Starbucks continuing expansion in 2003

KarstadtCoffee GmbH is continuing with the expansion of the Starbucks Coffee Houses. The early part of 2003 is dominated by the expansion of the coffee house chain in the Rhine-Ruhr region: in March and April Starbucks Coffee Houses are opened in Essen, Düsseldorf, Cologne und Aachen – all at heavily frequented locations in city centres.

Importance of Quelle Shops increased

At the beginning of 2003 Quelle AG placed its 5,000 Quelle Shops in Germany and the “Technik-Center” sales channel under uniform control. By this step Quelle has further increased the importance of a finely meshed sales network in over-the-counter retail.

The high potential of this sales channel is illustrated by the success of the Quelle Shops, which achieved a two-figure increase in sales in the anniversary year 2002. Together with our technology centres they constitute for our customers a bridge from over-the-counter retail to mail order. Quelle customers can look at, touch and try out selected products on site and use services – such as return of goods – rapidly and easily.

Quelle Shops also offers postal services

To reposition itself in the over-the-counter sector, Quelle has expanded its successful collaboration with Deutsche Post AG. In an areawide pilot experiment from early 2003 on about 1,000 Quelle Shops will be offering a basic range of postal services.

Neckermann expands into Switzerland

At the start of 2003 Neckermann Versand AG launched its business operation in Switzerland and sent out the first 200,000 catalogues to Swiss households.

Switzerland is one of the most important markets in the European mail-order trade. With annual per-capita mail-order sales of 255 CHF it is in fourth place in Europe. Neckermann plans to develop a high-volume and profitable mail-order business there in a short time.

We shall be strengthening our market presence through the main catalogue with specialty catalogues containing ranges specially selected for Switzerland. We shall also be offering all the products offered in the catalogues on the Internet. There customers not only have access to our product range but also to the wide range of Neckermann travel offerings at our Online Holiday World.

Quelle and Neckermann are consistently further implementing their strategy of internationalisation. Here they are profiting jointly from already existing infrastructures in European markets. By utilising Swiss Quelle capacity Neckermann was started in Switzerland virtually from a standstill – that is, without the running-in periods usual in the international mail-order business. The mail-order company concentrated on marketing and started its business on the basis of a minimum starting investment.

Neckermann launches 2003 marketing offensive

At the start of 2003 Neckermann Versand AG launched a countrywide marketing offensive under the advertising slogan “Neckermann lässt Deutschland träumen” (Neckermann makes Germany dream). The central feature was the current spring/summer 2003 big book sent to about 7 million households and the “TraumPaket” (Dream Package) under the timeless slogan “Neckermann macht’s möglich” (Neckermann makes it possible). The “Dream Package” is a concentrated range of favourably priced goods, enriched with costfree or particularly attractive additional services. These include travel and event offerings and a wide range of wellness attractions. Neckermann is thus positioning itself not only as a pure mail-order supplier but also as a creative specialist in the preparation of unusual "Dream Packages".

Thomas Cook launches new "Triple C" earnings assurance programme

At the end of February 2003 Thomas Cook AG launched its new "Triple C – Cash, Costs, Commitments" earnings assurance programme. In this way the travel group is securing its commercial and economic aims more flexibly in a difficult environment and can react more rapidly. "Triple C" applies to all markets groupwide. At the centre is the securing of adequate liquidity (cash), reduction of costs for the current financial year by about 250 mill. € (costs) and the consistent full utilisation of all opportunities to increase earnings in the short term (commitment).

RISK MANAGEMENT

Overall risk

In its core business segments the KarstadtQuelle Group is exposed to widely varied risks. The function of our groupwide risk management system is to recognise these early, evaluate them systematically and communicate them in the management in order to reach decisions for their prevention or minimisation. At the same time planning, reporting, controlling and early warning systems coordinated throughout the group guarantee integrated risk analysis and control.

The risk management system is a fundamental component of the group's control system focused on sustained value enhancement. The operating business segments control the business risks attending them independently. Risks in business segments which may possibly build up in the group we record and control contemporaneously and centrally. As far as is possible and commercially advantageous, we transfer risks to third parties.

Political risks

Against the background of increasing tension in the Near East and the associated destabilisation of the economic situation at home and abroad the sensitive tracking of all consumption indicators and the flexible reaction to changing these are acquiring an increasing importance in our control systems. Our tourism segment is affected by this to a particularly serious extent. There in direct response to the attacks of September 11, 2001, effective mechanisms for flexible destination area control and earnings assurance have been put in place to limit negative commercial consequences.

Business risks

In the year ended, too, a significant proportion of the KarstadtQuelle Group's business activity concentrated on the German retail trade. Our business risk is thus decisively affected by domestic demand.

In the year under review we continued consistently with the strategies formulated in the 10-Step Value Enhancement Programme for further development and multiplication of modern sales formats, restructuring the currently key business segments and the consistent expansion of new, future-focused business sectors. We are thus generally reducing the dependence of the KarstadtQuelle

Group's earnings on the German retail economy. The growing uncertainty of general economic development, however, is seriously hindering this policy. For this reason the continuous analysis and control of the group portfolio is acquiring a still greater significance for our risk management.

Operational risks

The group's business segments are characterised by internal company processes of varying complexity. To counteract the risks throughout the value-creation chain, appropriate procedural and working regulations apply in the individual operational sub-segments. Unavoidable risks of greater importance are secured against through third parties.

Supplier risks

The mark of our broad range of services is a large number of suppliers from different sectors and supplier countries. These guarantee a broad distribution of risk and a division into individual risks, each with a comparatively low damage potential.

We secure ourselves contractually against remaining risks – such as claims under guarantees in the case of product defects or amounts owed under the law of product liability – by transferring risk to our suppliers. Deviations from agreed delivery times or quantities are usually penalised by contractual penalties to compensate for losses.

Financial risks

KARSTADT QUELLE AG controls the financial risks for the group as a whole by means of a systematic process, which is defined in the relevant guidelines for the risk policy. These set out liquidity, interest, currency and credit risks by type of risk and the corresponding decision-making processes in the risk management. We decide on the current risk strategies at least once a month on the basis of detailed reports and taking into account market developments and forecasts.

Our central liquidity management ensures that sufficient liquidity is available at any time for the operational business and investment. A commercial paper programme to the value of 2 bill. €, an asset-backed securities programme to the value of 1.2 bill. € and a new mortgage bond programme provide sufficient liquidity through the international money and capital markets. The group also has at its disposal back-up facilities for the programmes and confirmed credit lines from top-class banks.

The management of interest and currency risks is done in accordance with treasury guidelines. These set out the principle of the limitation of risks and keep the margin of fluctuation of interest and currency risks within appropriate limits. To secure against risks, we also use derivative financing instruments. These comprise in particular currency forward transactions and interest and currency swaps. The contracting banks and the upper limits for the conclusion of individual transactions are also specified. Implementation, checking and completion are done according to the principle of division of functions.

The creditworthiness management defines minimum requirements for credit standing and individual upper limits for financial commitment for all the group's business partners.

Staff risks

Staff are a decisive success factor particularly for the further successful implementation of the group's strategic reorientation. Here motivated expert and managerial staff who feel themselves to be closely bound to the company and its goals play the key role. To further increase their identification with the company we stepped up in-company training and further-training and management development. We also further motivated the management in the company's interest by the stock option programme.

OUTLOOK

Background conditions remain difficult

The exceptional background conditions make a forecast for the 2003 financial year difficult. If the economic research institutions' forecast for general economic development in 2003 is accurate, the German retail trade cannot expect the climate of consumption to significantly improve. Because of uncertainty about economic trends and high unemployment consumers will be careful about their spending.

Consumers' high price-consciousness and reluctance to spend is being further heightened by reduction of disposable incomes due to increases in tax and contributions.

Strategic reorientation as a retail and service group is being consistently continued

We are continuing with the conversion of the KarstadtQuelle Group into a retail and service group in the 2003 financial year. The 10-Step Value Enhancement Programme is being completed. We shall achieve many of the goals, but the sales and earnings targets will be qualified because of the badly deteriorated environment.

Our 2003+ strategy follows on seamlessly from the 10-Step Value Enhancement Programme and continues consistently from where this leaves off. We shall also be stepping up its implementation.

KarstadtQuelle well prepared for 2003

The customer and growth offensive launched in all business segments during the year under review offers diverse opportunities for the 2003 financial year. The implemented measures for optimising the systems and procedures and the consistent cost management at all levels of the group are having an increasingly positive effect on our competitiveness.

Customer orientation and marketing are the central themes of the 2003 financial year. The marketing budget is being markedly expanded and focused. The establishment of distinctive Karstadt, Quelle and Neckermann brand images, as well as large-scale campaigns and the intensification of the personalised marketing activity, are being given emphasis here. We created the essential preconditions for this in 2002.

Sales and earnings forecast

A reliable sales forecast is not possible because of the currently uncertain global background conditions. We are therefore also prepared at a group level for a decrease in the volume of sales for the year as a whole. Accordingly, we shall be adjusting our cost structure to meet market conditions.

Against the background of the particular risks of the 2003 financial year an earnings forecast would be rash.

KARSTADT QUELLE AG Balance sheet

as at December 31, 2002

ASSETS	2002 th. €	2001 th. €
Fixed assets		
Intangible fixed assets	811	1,028
Tangible assets	2,230	7,252
Financial investments	4,886,706	3,250,674
	4,889,747	3,258,954
Current assets		
Receivables and other assets	3,870,047	1,750,750
Securities	152,142	4
Liquid funds	42,245	4,535
	4,064,434	1,755,289
Prepayments and deferred expenses	1,604	4,298
Balance sheet total	8,955,785	5,018,541

EQUITY AND LIABILITIES	2002 th. €	2001 th. €
Equity		
Issued capital	301,460	301,460
Capital reserve	488,521	488,521
Revenue reserves	2,614,059	514,669
Balance sheet profit	2,129,699	113,916
	5,533,739	1,418,566
Untaxed special reserves	6,368	30,010
Provisions for liabilities and charges	990,649	1,107,112
Liabilities	2,424,546	2,462,263
Accruals and deferred income	483	590
Balance sheet total	8,955,785	5,018,541

KARSTADT QUELLE AG Profit and loss account

for the year ended December 31, 2002

	2002 th. €	2001 th. €
Other operating income	3,564,099	61,924
thereof from the sale of financial investments	3,499,973*	701
Staff costs	-75,373	-117,099
Depreciation and amortisation of intangible fixed assets and tangible assets	-1,697	-2,028
Other operating charges	-84,742	-56,244
Income from investments	872,424	409,603
Amounts written off investments	-36,560	-16,290
Net interest	-40,110	-51,313
Profit on ordinary activities	**4,198,041**	**228,553**
Taxes on income	720	-653
Other taxes	20	-69
Profit	**4,198,781**	**227,831**
Profit carried forward	30,308	-
Transfer to earnings reserves	-2,099,390	-113,915
Net profit	**2,129,699**	**113,916**

*) essentially including 3,319,041 th. € from corporate reorganisation in the group and preparatory transaction for setting up a company pension fund amounting to 180,370 th. €.

The annual account of KARSTADT QUELLE AG for the 2002 financial year has been prepared in euros in accordance with the requirements of the German Commercial Code (HGB) and the German Stock Corporation Law (AktG).

Corporate reorganisation completed

KARSTADT QUELLE AG undertook a comprehensive corporate reorganisation in September 2002. The core of the concept is a holding company-subgroup structure. Further details are set out on pages 133 to 134. Only a limited comparison between the annual account of KARSTADT QUELLE AG and the previous year is therefore possible.

The structure of KARSTADT QUELLE AG participations has been substantially changed by the reorganisation. The group parent company now has a direct interest in the four subholding companies of the subgroups over-the-counter retail, mail order, services and real estate. In the course of reorganisation a number of operational participations which have until now been held directly by KARSTADT QUELLE AG were transferred to the subholding companies or sold to them. In some cases this was undertaken at book value, in others at current market value. Altogether an income contribution of 3.32 bill. € was realised from the reorganisation of the participation structure.

Effect of corporate reorganisation on earnings breakdown (by company)

	Profit in th. €
Karstadt Warenhaus AG	1,175,802
Thomas Cook AG	1,028,055
Neckermann Versand AG	668,985
Other	446,199
	3,319,041

KARSTADT QUELLE International Einkaufsgesellschaft mbH was amalgamated with KARSTADT QUELLE AG with retroactive effect from January 1, 2002. An amalgamation profit of 1,432 th. € results from this measure. The procedure affects comparability with the previous year only slightly.

Company pension fund set up

94% of company shares in Kepa Kaufhaus Gesellschaft mit beschränkter Haftung and Warenhaus WERTHEIM GmbH respectively were sold to KARSTADT QUELLE Vermögensverwaltung GmbH in connection with the setting up of a company pension fund. An earnings contribution of 180,4 mill. € resulted from this at KARSTADT QUELLE AG.

At the end of the financial year KARSTADT QUELLE Vermögensverwaltung GmbH was transferred in trust to the newly set up KarstadtQuelle Pension Trust e.V. The income from the fund assets are used for payments by KARSTADT QUELLE AG to its pensioners.

BUSINESS PERFORMANCE OF KARSTADT QUELLE AG

Other operating income comprises mainly the proceeds from the sale of financial investments to the value of 3.5 bill. €.

Income from participations decreased by 64.3 mill. € to 259.5 mill. € during the year under review. It includes mainly income contributions from the real-estate management companies.

Income under profit-and-loss transfer agreements rose by 554.2 mill. € to 645.6 mill. €. The decisive factor was the corporate reorientation in mail order. Quelle and Neckermann transferred – mainly at current market prices – their participations in the specialist mail-order suppliers to the mail-order subholding company. A profit of 761.3 mill. € resulted from this and from the transfer of companies to the services segment.

Net profit after taxation rises to 4.2 bill. €

Net profit after taxation at KARSTADT QUELLE AG rose substantially owing to income from the sale and transfer of participations. It stands at 4.2 bill. € (2001: 227.8 mill. €).

After transfer of 2.1 bill. € to the other profit reserves retained profit comes to 2.13 bill. €.

Balance sheet total substantially increased

The balance sheet total at KARSTADT QUELLE AG rose by 3.94 bill. € to 8.96 bill. €. The decisive factors are the shares in subsidiary companies, which rose by 2 bill. € under the corporate reorganisation, and the amounts owed by subsidiary companies, which rose by 2.1 bill. € due to the sale of companies.

Shares in companies in which participations are held, on the other hand, decreased by 329.4 mill. €. This is due to the transfer of Thomas Cook AG within the group.

Pension provisions fell by 79.7 mill. € to 904 mill. €. The decisive factor was measures taken in settlement of company pensions in September and October of the year under review.

Dividend unchanged at 0.71 €

The management board of KARSTADT QUELLE AG will propose to the Annual General Meeting on May 28, 2003, that this year likewise a dividend of 0.71 € per no-par value share be paid from the retained profit. Altogether 77.1 mill. € will be distributed on dividend-bearing capital of 277.9 mill. €.

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

Dependent companies report

KARSTADT QUELLE AG was within the meaning of Section 312 German Stock Corporation Law (AktG) a dependent company of Schickedanz-Holding AG & Co. KG until December 11, 2001. The management board of KARSTADT QUELLE AG assumes that the company has within the meaning of Section 312 German Stock Corporation Law been dependent on a voting pool with a total vote share of 36.398% since December 11, 2001:

The following partners are members of the voting pool:

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

Accordingly, the Management Board has submitted to the Supervisory Board a dependent companies report for the 2002 financial year – which has been given unqualified approval by BDO Deutsche Warentreuhand Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Düsseldorf, auditors – on all relations of the company with the partners of the voting pool.

The Management Board states at the end of the report: “Our company has undertaken no legal transactions or taken or failed to take measures of which it is liable to render account.”

Over-the-counter retail	**64**
Mail order	**80**
Services	**94**
Real estate	**110**

Department stores at prime locations + Depar

tment stores in dominant market position + Sports expansion accel

Key figures – Over-the-counter retail

			2002	2001	Change in %
Sales performance	Sales	th. €	7,337,407	8,069,107	-9.1
Earnings	EBTA	th. €	-129,841	62,746	-
	EBTA margin	in %	-1.8	0.8	-
	EBT	th. €	-135,933	59,509	-
	EBT margin	in %	-1.9	0.7	-
	Equity	th. €	304,039	666,407	-54.4
	Net debt	th. €	719,631	190,143	-
	Capital employed	th. €	1,023,670	856,550	19.5
	Return on capital employed	in %	-	11.9	-
Other information	Investments	th. €	164,844	548,878	-70.0
	Depreciation/amortisation (not including goodwill)	th. €	156,483	170,259	-8.1
	Gross cash flow	th. €	33,330	371,754	-91.0
	Branches	number	484	465	-
	Sales space	th. sq. m.	2,646.0	2,613.8	1.2
	Full-time staff on annual average	number	49,722	55,463	-10.4

Economic background

A year marked by continuing consumer restraint in retail sector

Sales performance in the “true” retail trade is the measure of our success in over-the-counter retail in Germany. It comprises all retail sales except the sale of motor vehicles, fuels and combustibles and pharmaceuticals. In the year under review sales amounted to 374 bill. €. This represents a decrease by 1.9% on 2001.

Germany, as the largest retail market in the EU, was affected by a number of adverse factors. Consumers were unsettled by rising unemployment figures, deteriorating economic data and a rising burden of tax and contributions. On top of this came the “Teuro” (“Pricey Euro”) debate in the first half of the year. New opportunities arising from the repeal of the law on discount and complimentary gifts, which have been frequently used by the retail trade in discount/coupon campaigns, did not bring about any reversal of the general reluctance to spend in Germany.

Within the "true" retail trade performance in the retail and department store and in the specialised retail trade is relevant to KarstadtQuelle as a yardstick. Both types of business recorded a clear decline in sales during the year under review. Sales in the retail and department stores decreased by 6.1% (minus 6.6% in real terms) and sales in the specialty stores by 6.4%. The department stores and specialty stores operated by KarstadtQuelle in the over-the-counter retail subgroup could not avoid being affected by this trend.

Strategy and positioning

190 department stores and 294 specialty stores

With a total of 484 department stores and specialty stores, mostly at prominent city-centre locations, KarstadtQuelle is well positioned in the over-the-counter retail sector. The branches enjoy a significant advantage from their presence throughout virtually the whole of Germany and an average daily footfall of 3 million. This offers at the same time a broad base for the various services provided by the KarstadtQuelle Group. Communications and shopping portals for the individual sales brands complement and interlink the over-the-counter presence and offer customers further selective information and shopping opportunities independently of location.

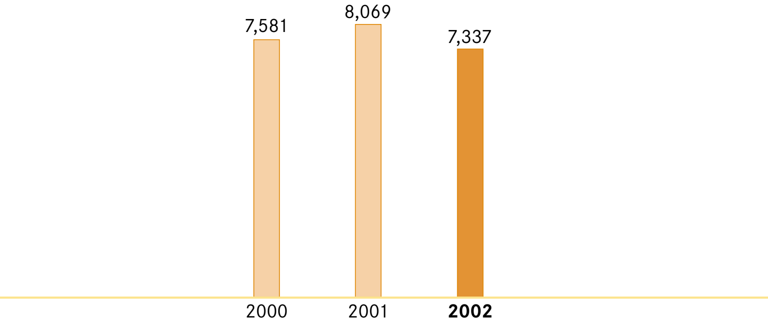
Our 190 department stores trade primarily under the umbrella brand name Karstadt but also under traditional brand names such as KaDeWe (Kaufhaus des Westens), Hertie, Wertheim and Alsterhaus. The dominant position of the department store product ranges is consolidated by 294 specialty stores. The best performers are the specialty store brands SinnLeffers, Wehmeyer, Runners Point and Golf House which are focused on fashion and sports. We operate other specialty stores in the multimedia segment, namely Schaulandt and WOM, and in systems catering under LeBuffet.

Our competence in the department stores and specialty stores segments gives rise to diverse synergies. We are increasingly utilising these throughout the added-value chain. There is great potential in the partnership between Karstadt department stores and the fashion specialist SinnLeffers. Thus, for example, the reciprocal utilisation of important and highly profitable Karstadt and SinnLeffers own brands in the fashion segment was stepped up during the year under review. Under the "Fashion & More" concept SinnLeffers included department store ranges such as perfumery and accessories. Shared management and organisational structures were implemented both in the fashion segment management and the management board sectors. Cross-company functions, from purchasing through sales to marketing, are now under joint responsibility.

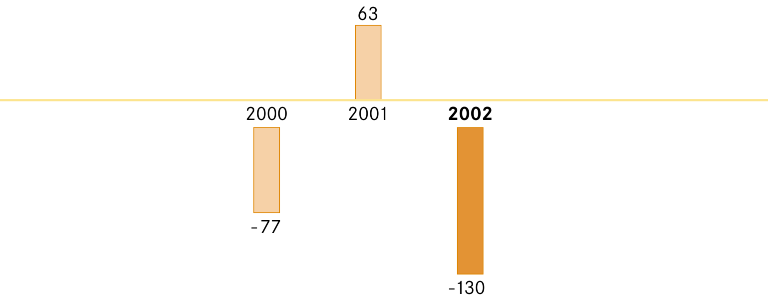
Leading position in the market

Karstadt holds a market share of about 50% (source: BAG) in the department store segment in Germany and thus occupies the leading position in Germany and Europe. We concentrate the department store business on the domestic market. We shall continue to pursue this strategy, while judiciously balancing opportunities and risks – in conformity with practice at other department store companies in Europe, incidentally.

Turnover in million €



EBTA in million €



In contrast to the country-specific department store ranges, specialty stores with international brands offer a good opportunity for expansion abroad. This applies in particular to our leading specialty sports stores Runners Point or Golf House.

Segment performance

Sales performance:
Spending restraint hampers sales performance

In an environment marked by historically unique consumer restraint sales in over-the-counter retail decreased by 731.7 mill. € to 7.34 bill. € in the 2002 financial year. This represents a decline by 9.1%.

Profitability: Consistent cost management reduces decrease in gross income

Earnings (EBTA) in the 2002 financial year amounted to minus 129.8 mill. € (previous year: 62.7 mill. €). This represents a decrease by 192.5 mill. €. After adjustments for special effects – flexibilisation costs (redundancy payments) and expenditure of 112 mill. € for flood disaster aid and a sales profit of 20%, or 24 mill. €, from KARSTADT QUELLE Financial Services GmbH – earnings come to minus 104.5 mill. €. Loss of earnings due to the decrease in sales and margins amounted to 351.5 mill. €. This was partly compensated for by cost reductions of 194 mill. € on the previous year.

Key figures – department stores

			2002	2001	Change in %
Sales performance	Sales	th. €	6,321,106	6,889,078	-8.2
	after adjustment for space [1]	in %	-	-	-7.5
Earnings	EBTA	th. €	-31,486	93,283	-133.8
	EBTA margin	in %	-0.5	1.4	-
	EBT	th. €	-31,486	93,283	-133.8
	EBT margin	in %	-0.5	1.4	-
Other information	Sales space productivity [1] [2]	€	2,884	3,136	-8.0
	Staff productivity [1] [2]	€	148,967	146,380	1.8
	Branches	number	190	188	-
	Sales space	th. m^2	2,228.2	2,220.9	0.3
	Full-time staff on annual average	number	42,972	48,039	-10.5

1) Karstadt Warenhaus AG only
2) not including VAT

Strategy and positioning

Leading market position in Europe

Department stores, which generate a sales share of 86.1%, are the backbone of over-the-counter retail. Karstadt is represented by 190 department stores (previous year: 188) at top locations in German cities and in middle-sized towns.

With branches ranging in size from just under 1,000 sq. m. in the smallest store operated by Karstadt, that in Niebüll, to about 60,000 sq. m. at KaDeWe in Berlin, we are positioned in the market mainly with two groups of stores:

The first group comprises the large department stores, which are to be converted into adventure worlds with a greater specialty store character. In these large stores the focus is on high-margin product ranges. The high-margin fashion, sports and personality sectors (e.g. perfumery, jewellery) are therefore being expanded. The 100 or so branches, which, with more than 8,000 sq. m. of sales space each utilise about 82% of department store space, achieve about 88% of department store sales.

The second group, about 80 smaller branches, account for a sales share of 12%. They are distinguished by their closer orientation towards the specific requirements of their locations. An orientation that will be applied even more systematically and intensively as regards product range and price and will also involve the inclusion of frequency-boosting partner tenants.

The network of branches centred on the two Karstadt sports markets in Frankfurt an der Oder and St. Augustin with sales space totalling 5,400 sq. m. was expanded during the year under review. We also opened three further sports stores with sales space totalling 16,700 sq. m. These were annexed to the respective department stores and thus did not increase the number of branches.

The new openings increased own-used space by 15,900 sq. m. At the same time, to enhance its attractiveness, about 12,000 sq. m. of department store space was new-let to tenant partners, particularly for brand shops. On balance, the sales space in own-use by Karstadt was thus reduced by 0.2% to 2,140,400 sq. m. in total.

Let department store space increased by 12.6% to a total of 110,000 sq. m. Of this about 22,000 sq. m. are used by group companies. As part of the selective expansion of tenant partnerships, the share of let department store space thus rose to 4.9% (previous year: 4.4%).

Business performance

Sales performance: Sales decrease by 8.2%

Sales in the department store segment came to 6.32 bill. € (previous year: 6.89 bill. €). This represents a decrease by 8.2% (after adjustment for space: minus 7.5%). The department store as a type of business which covers virtually the entire range of retail products was particularly seriously affected by customers' general reluctance to spend.

Profitability reflects fierce competition

Earnings (EBTA) decreased by 124.8 mill. € to minus 31.5 mill. € in the 2002 financial year. Special factors such as flexibilisation costs and expenditure on flood disaster aid of 91 mill. € had a negative and the sales profit of 24 mill. € at KARSTADT QUELLE Financial Services GmbH a positive effect on earnings. After adjustments department store earnings thus decreased by 57.8 mill. €. Gross income, which went down by 317,5 mill. € in the 2002 financial year, was set off by cost reductions amounting to 189 mill. €.

Sales density down, staff productivity up

Sales density decreased by 252 €, or 8%, to an average of 2,884 € annual sales per square metre of sales space. Goods turnover also diminished to 3.27 times (previous year: 3.52). Because of restructuring and cost management adjusted to meet sales performance the number of full-time staff was reduced by 10.5%. Staff productivity rose by 1.8% to 148,967 € per full-time staff member.

Karstadt price index rose by 1.1%

Karstadt maintain a price index based on the products offered in the department stores. This shows by a slight rise by 1.1% that the "Teuro" ("Pricey Euro") debate conducted to the detriment of the retail trade is not reflected in the department store offering. By comparison the cost of living index went up by 1.4%, while retail prices were 0.7% lower than in the previous year.

Sales by consumer sector

		2002	2001*)	Change in %	Share in sales in 2001 in %
Fashion	mill. €	1,733	1,885	-8.1	28.0
Personality	mill. €	1,337	1,421	-5.9	21.6
Living	mill. €	1,090	1,241	-12.2	17.6
Sport	mill. €	554	558	-0.5	8.9
Multimedia	mill. €	642	670	-4.2	10.4
Food & drink	mill. €	761	841	-9.6	12.3
Other	mill. €	78	136	-41.6	1.2
Karstadt Warenhaus AG	mill. €	**6,195**	**6,752**	**-8.3**	**100.0**
Reconciliation account	mill. €	126	137	-	-
Total	mill. €	**6,321**	**6,889**	**-8.2**	**-**

*) Previous year's figures adjusted due to reorganisation

The consumer segments

Fashion:

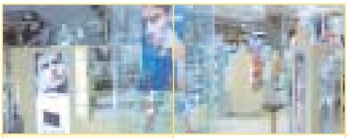
Consumers holding back

Consumers' reluctance to spend was clearly reflected in the German textiles market, after food the second largest segment of the German retail sector. The falling demand for fashion textiles and the trend towards price-conscious purchasing led to fierce price actions amongst providers which consequently reduced the pressure on warehouses but did not decisively affect sales. The volume of sales in the textiles retail trade in Germany fell by 8.1%. Karstadt department stores suffered a decrease of 8.1% in their fashion consumer segment with sales of 1.73 bill. €. Karstadt was thus able to maintain its position in a declining market. Sales in lingerie and corsetry, jeans and the Young Fashion segment considerably outperformed the market as a whole. Sales of business fashion for men and children's wear were below average.

Personality:

Improved presentation has positive effect on sales

Personality, the second-largest consumer segment by volume, recorded a decrease in sales by 5.9% to 1.3 bill. € during the year under review. The segment, which comprises mainly personal requirements such as perfumery, cosmetics promoted inhouse by leading cosmetics manufacturers, stationery and leather goods, books and watches or jewellery, performed relatively homogeneously. Improved presentation – especially in the redesigned branches – and the rightness of the product ranges for customers resulted in a markedly higher performance in the beauty, books and stationery segments than average for the consumer sector. Particularly cosmetics by leading manufacturers promoted inhouse profited from the consistent expansion of our open-plan perfume departments and markedly outperformed the market. Jewellery, both fashion and real, on the other hand, recorded below-average sales.



Living:
Selective space reduction

The living consumer segment comprises mainly products for furnishing and decorating the house and home. Sales decreased by 12.2% to 1.1 bill. €. There were two main reasons for this. On the one hand, sales space (20,000 sq. m.) and product ranges in the carpets, do-it-yourself and lighting segments were selectively reduced. On the other, because of the state of the economy as a whole consumers were generally reluctant to spend on furnishing and decorating or refurnishing and redecorating their homes.

Karstadt, however, with the help of its thematically integrated presentation, was able to achieve a better-than-average performance in a number of important product ranges in this consumer segment. All the ranges relating to the dressed table, such as glassware, porcelain, tableware, cutlery and table covers, which account for just under one third of sales in this consumer segment, performed comparatively satisfactorily. Electrical appliances, bed linen and haberdashery were unaffected affected by the sharply negative trend of sales in the living segment. The home-tech and flora and fauna segments performed less well.

Sports:
Market leadership expanded

KarstadtQuelle has consistently further expanded its market-leading position in a sports market which has declined by 3.7%. Sales in the sports consumer segment at Karstadt Warenhaus AG at minus 0.5% were at 554 mill. € virtually the same as in the previous year. The opening of further sports stores, but in particular the continuing strength of the golf, bicycle, trend sports, sports footwear and outdoor goods (clothing and equipment) led to in some cases marked sales increases. Sales in the winter sports and tennis segments, on the other hand, were sluggish. This was to some extent due to the weather, but the declining presence of the media at the respective sporting events also played a part.

Multimedia:
Continuing pressure of competition

The multi-media consumer segment with sales decreased by 4.2% to 642 mill. € maintained its position relatively well in an environment marked by continuing pressure of competition and lower market demand. Karstadt performed successfully in the music and video/DVD segment, achieving marked sales increases. On the other hand, sales in telecommunications were below average. The main reason for this was that consumers were already well stocked with basic equipment. Growth themes such as the new generation of mobile phones with colour display and picture transmission could not decisively stimulate sales yet. Sales in the computer hardware and software segments were likewise below average.

Food & drink:
Customers cut back

The food & drink segment comprises mainly sales of fresh foods and system catering in the department store restaurants. Sales at 761 mill. € decreased by 9.6%. The decisive factors for the sales decrease were selective reduction of sales space due to subletting, for example, to the Swiss Migros market in the Freiburg Karstadt store, and above all the general reluctance to spend. Customers increasingly shifted their consumption in the foods segment in favour of the discount operators. This led to sales losses in the fine and fresh food sections in the food departments of department stores. System catering also suffered from the "Teuro" ("Pricey Euro") debate, which focused heavily on this service.

The 2002 financial year in review

In our over-the-counter business we laid particular emphasis on restructuring and development of sales potential.

Successful restructuring markedly reduces costs

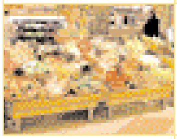
Because of the marked decrease in gross income due to sales and margins the successful implementation of restructuring measures was of decisive importance in the year under review. The central feature was the restructuring measures defined in the 10-Step Value Enhancement Programme.

The optimisation of the value-added chain, particularly in the logistics sector, was successfully achieved. Measures to adjust staffing levels were completed sooner than planned. Thus, in the year under review we succeeded in reducing costs by 167 mill. € and in markedly exceeding the set target.

Because of the expected decreased sales performance programmes were launched to further flexibilise costs. To this end extraordinary expenditure of 75 mill. € was incurred, mainly for staff measures, in the year under review. Thanks to these programmes costs were already markedly reduced in the 2003 financial year.

In addition to this, the optimisation measures in purchasing were consistently continued, the number of suppliers reduced and the conditions improved.

Development of sales potential
stepped up



The difficult situation in the German retail sector and the competition for the favour of the customer require clear positioning and a distinct differentiation from competitors. Karstadt concentrated during the year under review on the quantitative and qualitative further development of the branch network, the market presence through new department store formats and expansion in the sports and fashion segments. At the same time selective marketing and price initiatives were launched to boost sales and customer retaining measures further expanded. Nevertheless, because of consumer restraint sales were only partly positively affected.

Branch network grows qualitatively and quantitatively

Karstadt Warenhaus AG further upvalued and modernised its branch network during the 2002 financial year. This was achieved by, amongst other things, the new look of many of the department stores following complete or partial conversion. The increased inclusion of attractive partners, the designing of city-centre shopping centres and the establishment of stores with specific product ranges create adventure worlds and emphasise that the company is well on track to becoming an integrated specialist retailer.

Karstadt created two new locations by opening two stores in Frankfurt an der Oder (sports market with 2,200 sq. m. of sales space) and St. Augustin (sports market with 3,200 sq. m. of sales space). Entirely new retail space was also put into operation at existing locations:

- Cassel (department store in "City Point" city-centre shopping centre with 6,300 sq. m. of sales space)
- Dortmund (Germany's largest sports store with 7,200 sq. m.)
- Leipzig (sports store with 5,700 sq. m.)
- Augsburg (sports store with 3,900 sq. m.)
- Celle (combined technology and sports store with 3,400 sq. m.)

New shopping centre concept realised in Mülheim

Karstadt realised a much noted new store concept in Mülheim at the end of October. This was the "Karstadt Arkaden", a town centre concept attractively combining the strengths of different retail formats, which was created for an investment of 23 mill. €. Specialty stores operated by 18 partners from the fashion and services sector and accessed via spacious open malls (designed by Star Wars film architect Jordan Mozer) were integrated into the "Karstadt Arkaden". Partner stores thus operate in about a quarter of the 40,000 sq. m. total sales space.

In Freiburg the 20,000 sq. m. Karstadt department store was completely renovated for an investment volume of 26 mill. €. For the first time in a German department store the Swiss food specialist Migros is operating a fresh food market in sales space measuring 2,500 sq. m.

Karstadt also opened part-space in some of its leading department stores, such as that in Dortmund or Frankfurt am Main, after major conversion work. At the same time conversion measures were linked to store anniversaries, as, for example, in Bremen (100th anniversary) and Düsseldorf (50th anniversary).

KarstadtSport has new organisational structure and new logo

At the end of 2002 KarstadtSport initiated a new organisational structure adapted to the needs of the now 31 sports stores. Since the start of 2003 both the 25 sports stores managed as annexes to local department stores and the six sports stores operated

as individual locations have been technically and organisationally under uniform control.

Karstadt Sport is also highlighting its unmistakable brand position by a new logo, which was introduced in early 2002.

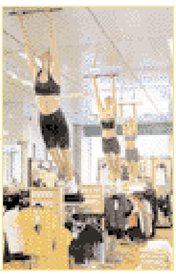
Customer communication through events: RuhrMarathon and Herbert Grönemeyer

Karstadt is also treading new paths in customer communication. Thus, Karstadt has undertaken, as co-initiator, the title sponsorship of the Karstadt RuhrMarathon. On May 11, 2003, more than 10,000 contestants will compete in one of Germany's major running events, the Bochum to Dortmund Run. In the evening before the marathon Karstadt will present the Herbert Grönemeyer concert in Bochum's Ruhr Stadium.

Karstadt FIFA partner for 2006 football world championship

In November 2002 KarstadtQuelle and the international football association FIFA agreed on a strategic partnership. KarstadtQuelle will exclusively operate the official FIFA 2006 WC™ shops.

More than 300 sales outlets, which will be, amongst other things, integrated into Karstadt department stores, Karstadt sports stores and Karstadt sports markets, are planned throughout Germany. During the world championship tournament KarstadtQuelle will be offering official licence and fan articles of the FIFA 2006 WC™ exclusively in special sales space in all twelve WC stadiums.



Karstadt expands own-brand share

The further consistent implementation of Karstadt's highly developed own-brand strategy will appreciably increase the share contributed by own-brands to the group's sales. Here the clear positioning of the respective brand is to the fore.

In the fashion segment the YORN own-brand stands for high-quality business fashion, elegance and modern lifestyle and is offered in a first expansion stage in about 90 shops for men and women. YORN is represented by Isabell Werth (several times Olympia winner in dressage) and Karl-Heinz Rummenigge (football legend).

In Young Fashion the INSCENE and Bamboo brands are coordinated for specific target groups and focus on the younger customer groups. The brands have already achieved a market penetration that enables sales both in shops and in own single-brand stores. A similarly high level of awareness is being achieved by the Desirée brand, which completes the group's own-brand portfolio in the lingerie segment.

In the sports segment ALEX ATHLETICS is the most important own-brand. ALEX ATHLETICS is our premium sports brand for fitness machines and fashion, team sports and sports cycles. It is represented by Ivonne Teichmann (800 metre runner), Regina Halmich (women's professional world boxing champion) and the swimmers Christian Keller and Britta Kamrau.

Creative marketing initiatives

In 2002 Karstadt utilised the repeal of the law on discounts and complimentary gifts in a series of high-profile discount/coupon campaigns. The company attracted the interest of customers and the public with its “End-Of-Winter Bonanza”, “(S)election Fever”, “World Champion Discount” and “Late-Risers’ Discount” campaigns. In each case footfall into the department stores rose appreciably.

In September Karstadt launched a high-quality fortnightly programme magazine with the title “TV Karstadt”. At the same time it is designed as a customer magazine. With an impression of 350,000 copies the magazine, which is sold at department store cashpoints, is contributing to a high customer retention. The new medium, which is being well received by the customers, also serves as an more efficient, high-coverage form of communication.

karstadt.de growing strongly

The karstadt.de information and shopping portal is now firmly established with customers. As a shopping channel, karstadt.de has oriented its range of offerings consistently towards the needs of online customers. Online demand more than doubled in the year under review.

At the same time Karstadt customers accorded the portal a high rating as a source of information. Accordingly, the number of visits doubled over the Christmas period. About 330,000 users a month keep themselves informed about Karstadt products through newsletters online.

Loyalty card achieving rapidly growing acceptance

Since mid-2002 KarstadtQuelle and Deutsche Telekom have been jointly operating the “Happy-Digits” loyalty card bonus programme. Already by the end of the year nine million customers were profiting from the advantages of the cross-sector programme and are collecting bonus points, or “digits”.

The customers receive for their digits attractive and, in some cases, exclusive bonuses. Within the group Quelle, Neckermann, Runners Point and the karstadt.de, quelle.de und neckermann.de Online Shops, as well as Karstadt, are participating in the programme.

Karstadt is now offering the loyalty card optionally as an internationally valid MasterCard credit card. Unlike the usual credit card, “Happy-Digits”/MasterCard customers, now numbering about 800,000, do not pay an annual fee.

Key figures – specialty stores

			2002	2001	Change in %
Sales performance	Sales	th. €	1,130,341	1,185,552	-4.7
Earnings	EBTA	th. €	-98,338	-30,258	-
	EBTA margin	in %	-8.7	-2.6	-
	EBT	th. €	-104,430	-33,182	-
	EBT margin	in %	-9.2	-2.8	-
Other information	Branches	number	294	277	-
	Sales space	th. sq. m.	417.9	393.0	6.3
	Full-time staff on annual average	number	6,750	7,424	-9.1

Positioning

Specialty store brands

The total of 294 (previous year: 277) specialty stores reinforce the competence of the 190 department stores in the fashion, sports, multimedia and system catering segments. In the fashion and sports segments the specialty stores together with the Karstadt department stores are market leaders in Germany.

Fashion

SinnLeffers AG, Germany's largest stock-exchange-listed textile retailing company, is represented by fashion stores at 53 locations (previous year: 48). SinnLeffers stands for clothing offerings in the middle- to high-quality price segment.

Wehmeyer is positioned more price-sensitively with its clothing range and operates 47 branches (previous year: 35). After twelve new openings during the year under review Wehmeyer is represented in the market with 28 larger city branches, six specialist discount stores and 13 Ladies Point specialty stores specialising in ladies outerwear.

Sports

Runners Point is a dynamic special provider concentrating on sportswear and sports footwear. Five small locations were closed and the branch network was expanded to 114 specialty stores by the opening of eight new locations.

Golf House with 17 branches (previous year: 14) is Germany's foremost specialty store chain in the golf segment. Specialising in golfwear and golf equipment in the upper quality and price range, Golf House has also been represented in the “Karstadt Arkaden” in Mülheim since September 2002.

Multimedia

The central administration processes of the specialty stores in the technology segment were concentrated at the Essen headquarters during the year under review.

Schaulandt operated 19 specialty stores (previous year: 21). The offering comprises entertainment electronics, audio media and white goods. Because of a lack of critical mass Schaulandt was unable to fulfil expectations in a market marked by heavy price competition. For this reason we shall be gradually withdrawing from this specialty store concept.

WOM (World of Music) operates, as before, 14 stores and focuses on audio and video media.

System catering

Le Buffet operates system catering in Karstadt department stores, shopping centres and self-service department stores. The branch network was reduced by four locations and now comprises 30 catering establishments.

			2002	2001	Change in %
M + T/SinnLeffers	Branches	number	53	48	-
	Sales	mill. €	592.2	598.7	-1.1
	Sales space	sq. m.	242,799	230,332	5.4
Wehmeyer	Branches	number	47	35	-
	Sales	mill. €	191.2	197.8	-3.4
	Sales space	sq. m.	84,810	70,165	20.9
Runners Point	Branches	number	114	111	-
	Sales	mill. €	86.4	79.1	9.3
	Sales space	sq. m.	13,478	12,887	4.6
Golf House	Branches	number	17	14	-
	Sales	mill. €	20.0	21.1	-5.4
	Sales space	sq. m.	5,209	4,074	27.9
Schaulandt	Branches	number	19	21	-
	Sales	mill. €	161.8	205.5	-21.2
	Sales space	sq. m.	41,419	43,665	-5.1
WOM	Branches	number	14	14	-
	Sales	mill. €	42.9	46.6	-8.1
	Sales space	sq. m.	11,097	11,097	-
Le Buffet	Branches	number	30	34	-
	Sales	mill. €	37.7	42.7	-11.7
	Sales space	sq. m.	19,056	20,734	-8.1
Total	**Branches**	number	**294**	**277**	**-**
	Sales	mill. €	1,132.2	1,191.5	-5.0
	Reconciliation account	mill. €	-1.9	-5.9	-
	Sales	mill. €	**1,130.3**	**1,185.6**	**-4.7**
	Sales space	sq. m.	**417,868**	**392,954**	**6.3**

Business performance

Sales performance:
Distinct image limits decrease

The specialty stores achieved sales of 1.13 bill. € (previous year: 1.19 bill. €). This represents a decrease by 4.7%.

In the sports segment Runners Point recorded nearly a two-figure sales rise. Sales at the specialty stores positioned in the fashion segment performed markedly better than those in the corresponding consumer segment at the department store. Both SinnLeffers and Wehmeyer succeeded in limiting their sales decrease.

Altogether the sales space operated by the 294 specialty stores was expanded to 418,000 sq. m. This represents an increase of 6.3%. The growth in sales space focused exclusively on the fashion and sports growth segments.

Profitability:
Multimedia and fashion reduce earnings

Earnings (EBTA) at the specialty stores amount to minus 98.3 mill. €. This represents a decrease in earnings by 68.1 mill. € on the previous year. After flexibilisation costs of 21 mill. € the earnings decrease comes to 47.1 mill. €. The decisive factors were the marked reduction in earnings in the multimedia segment (Schaulandt) and heavy competition in the fashion segment.

OUTLOOK

Imponderables in the economy

Numerous imponderables in the economy and continuing high consumer uncertainty continue to inhibit consumption. The reduction of disposable income as a result of the tax and contribution increases which came into effect at the start of the year is further increasing price-consciousness amongst consumers, who are at the same time reluctant to spend.

Plans for law reform will have an effect on business performance in over-the-counter retail. The repeal of the inflexible regulations on clearance sales and changes in the law on shop closing times offer opportunities to further enhance our standing with consumers.

Karstadt will consistently continue to optimise its processes and further develop its cost management at all levels.

The marketing budget is being substantially expanded during the 2003 financial year. Here, as well as large-scale campaigns and the intensification of personalised marketing, central importance is being attached to the promotion of the Karstadt brand. We created the essential preconditions for this in 2002 already.

The strategy of the differentiated further development of the department stores on a size basis presented in November 2002 is being progressed. The 100 or so large department stores are being developed into adventure worlds. The high-margin fashion, sports and personality sectors are being expanded in space and range and their presentation further emotionalised. A more target-group-oriented brand and own-brand policy, combined with a high services orientation, is markedly distinguishing the adventure worlds from the competition in the middle term.

A demand-focused business system is being established for the smaller department store locations with less than 8,000 sq. m. of sales space. Their local-provider function is at the forefront here. The product ranges are being focused and the quality-price mix better balanced. Tenant partners with high-frequency ranges are raising the location value of the smaller branches up to local market leadership.

Quelle and Neckermann are strong brands + Ma

rket leader in Germany + Online demand again grows strongly + Kar

Key figures – Mail order

			2002	2001	Change in %
Sales performance	Sales	th. €	8,229,015	7,812,683	5.3
	thereof foreign sales	th. €	1,798,249	1,743,238	3.2
	foreign sales share	in %	21.9	22.3	-
Earnings	EBTA	th. €	154,051	117,270	31.4
	EBTA margin	in %	1.9	1.5	-
	EBT	th. €	115,635	103,737	11.5
	EBT margin	in %	1.4	1.3	-
	Equity	th. €	596,506	617,442	-3.4
	Net debt	th. €	1,962,632	1,681,537	16.7
	Capital employed	th. €	2,559,138	2,298,979	11.3
	Return on capital employed	in %	7.4	8.6	-
Other information	Investments	th. €	259,129	304,640	-14.9
	Depreciation/amortisation (not including goodwill)	th. €	139,257	125,010	11.4
	Gross cash flow	th. €	394,160	431,651	-8.7
	Full-time staff on annual average	number	28,557	30,007	-4.8

Economic background

2.5% growth in German mail-order trade

The German mail-order market was far from being affected by the weak climate of consumption in 2002 and grew by 2.5%. After adjustment for prices growth stood at 2%. Mail order in Germany thus achieved a nominal market volume of 20.8 bill. €, as against 20.3 bill. € the previous year. The share contributed by mail order to the "true" retail trade in Germany rose from 5.4% in 2001 to 5.6% in the year under review.

Germany the world's largest mail-order market after the USA

Germany is the world's largest mail-order market after the USA. Average per-capita mail order sales to German consumers in 2002 stood at about 252 € (previous year: 246 €). The German market is very competitive. Ranged alongside a small number of universal providers is a large number of specialist mail-order suppliers.

Strategy and positioning

Great competence in universal and specialty mail order

The mail-order segment comprising the two Quelle and Neckermann core brands and their 140 or so national and international subsidiaries covers the entire spectrum of universal and specialty mail order in Europe.

Quelle AG (Fürth) is the market leader in Germany by far. Neckermann Versand AG (Frankfurt) occupies the third position in German mail order. Quelle and Neckermann between them enjoy a share of over 30% of the German mail-order market.

Quelle and Neckermann published 1.033 different catalogues with an impression of 811 mill. copies Europewide in the year under review. The two universal mail-order suppliers sent out 520 catalogues in an impression of 618 mill. copies at home and abroad. The 22 special mail-order suppliers published 513 catalogues, which were sent to customers in an impression of 193 mill. copies.

Quelle is making a name for itself mainly in the classical ladies outerwear, standard textile goods, technology and furniture segments. Quelle is the best-selling supplier of kitchens and with its own-brands is, amongst other things, the Number 1 in the washing machine, floor-mounted electrical appliances, refrigerator and freezer product group.

Neckermann focuses mainly on fashion, outsizes and homes and with its range of services and an emotional marketing approach appeals to an on average younger customer group.

Quelle and Neckermann: Partnership and repositioning

Since the start of the 2002 financial year Quelle AG and Neckermann Versand AG have operated under joint management.

The joint management board believes its major task is to develop the partnership between the two mail-order suppliers anchored in the 10-Step Value Enhancement Programme to secure competitive advantages for the two companies. In strict adherence to the two-brand strategy additional sales, income and cost-reduction potential is to be realised quickly and sustainedly through joint operations. To utilise synergic advantages, we are setting up uniform order processing and back office processes for both company groups.

We are achieving good returns from restructuring, particularly through the efficient partnership in the marketing, sales, procurement, logistics and IT value-added chains. During the year under review these amounted to a good 52 mill. €. For the 2003 financial year we anticipate cost reductions of at least 96 mill. €, compared with the first year.

International representation in 22 countries

KarstadtQuelle is represented by its mail-order companies in 20 European countries, Japan and the USA. Customers in the respective countries are addressed through catalogue offerings selected as likely to appeal to them. Per season the companies publish a main catalogue and – depending on the size of the respective market – supplementary special catalogues and additional prospectuses. The product range is in each case consistently geared to the market volume and the mail-order preferences of the population.

Large multi-range mail-order suppliers with widely diversified fashion, technology and hard goods ranges are represented in, for example, Austria, France, Belgium and The Netherlands, while in the Central Eastern European countries textiles dominate the range.

KarstadtQuelle's mail-order companies operate in Germany, Austria, Switzerland, France, Spain, Belgium, Portugal, Italy, The Netherlands, Denmark, Sweden, Finland, Great Britain, the Czech Republic, Slovakia, Poland, Slovenia, Hungary, Croatia, Bosnia and Herzegovina, Japan and the USA.

Internationalisation advantages through reciprocal system utilisation

An important new component of Quelle's and Neckermann's internationalisation strategy is the joint and reciprocal use of systems in the European markets. Neckermann Switzerland played the pioneering role here. Neckermann began trading at the start of 2003 and is using the existing Quelle infrastructure to develop its own mail-order business. In only 5 months all the preparations for entry to the market were made. At the start of the 2003 spring/summer season Neckermann sent out the first 200,000 catalogues to Swiss households and opened a country-specific shopping portal on the Internet.

The new strategy has many advantages: investment in the building of cost-intensive warehouse and office space is not necessary. The same goes for staff and EDP systems. Quelle and Neckermann can virtually make a standing start – without the otherwise usual preliminary periods in the international mail-order trade –, concentrate on marketing and sales and rapidly generate sales without having to make high initial investment.

We shall further utilise this strategic advantage. Quelle is entering the Dutch and Croatian markets in the 2003 financial year and will be have the support of Neckermann's infrastructure. Expansion into further countries is planned.

Segment performance

Sales performance:
5.3% growth despite weak consumption

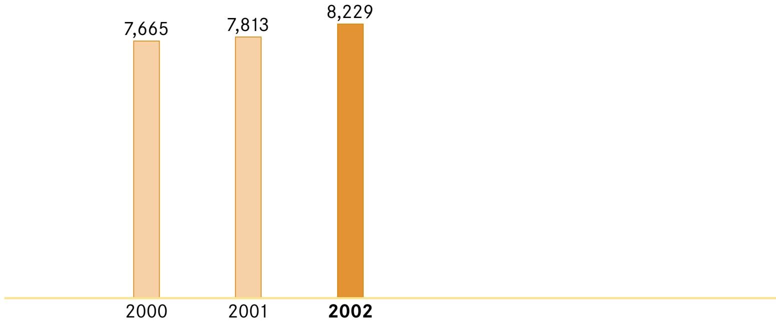
The new attractiveness of our mail-order business – whether through the traditional mail-order channels or the Internet –influenced Quelle's and Neckermann's business performance positively during the year under review. Thus, the mail-order segment was able to accelerate the rate of growth and gain further market shares.

The growth rate rose to 5.3% during the year under review, compared with a sales growth of 1.9% in the 2001 financial year. With sales of 8.23 bill. € (previous year: 7.81 bill. €), mail order is for the first time the KarstadtQuelle Group's highest-selling business segment.

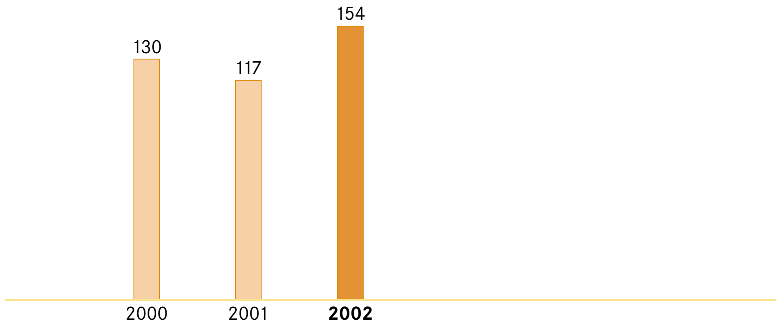
The two universal and specialty mail-order segments performed positively. Universal mail-order with the two Quelle and Neckermann core brands increased sales by 5.1% to 6.83 bill. €, while the group's 22 special mail-order suppliers together expanded their sales by 6.4% to 1.51 bill. €.

The basis of the success – in both universal and specialty mail order – is the sharp rise in the number of new customers.

Sales in mill. €



EBTA in mill. €



Foreign sales:
Mainly positive performance

Quelle's and Neckermann's foreign companies achieved sales of 1.8 bill. € (previous year: 1.74 bill. €). This represents a rise by 3.2%.

Quelle achieved high sales growth in all the Central Eastern European countries and in Switzerland. The Quelle France Group with its companies in France, Spain, Portugal and Belgium and Quelle Austria were unable to maintain the previous year's level of sales in a difficult environment.

Neckermann's foreign companies in Austria, Central Eastern Europe, Belgium and The Netherlands all return a rise in sales. Only the French subsidiary failed to achieve the previous year's level.

Profitability: Quelle positively affected

The mail-order segment achieved earnings (EBTA) amounting to 154.1 mill € in the 2002 financial year (previous year: 117.3 mill. €). Quelle records an exceptionally positive earnings performance. An extraordinary debit on earnings as a whole resulted from non-recurring expenditure of 33.1 mill. € incurred through flexibilisation. We used this expenditure for the staged transition to early retirement (older employee's part-time work). Further special charges resulted from unscheduled depreciation on individual items of real estate in the course of their internal transfer to the real-estate segment. A positive effect was achieved from the profit on the sale of 30% of company shares in KARSTADT QUELLE Financial Services GmbH amounting to 36 mill. €.

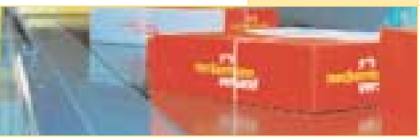
Investment: Neckermann high-tech
returned goods warehouse completed

Investment in the year under review came to 259.1 mill. €, as against 304.6 mill. € in the previous year.

A focus of investment and tangible assets was the new logistics building at Neckermann's group headquarters in Frankfurt am Main. This building project, one of the biggest in the more than 50-year history of the company, was completed in June 2002 within a period of 24 months. For an investment of 45 mill. € a high-tech logistics facility for processing returned goods that is substantially improving the efficiency of central logistics processes and lastingly increasing Neckermann's competitiveness was built.

Further investment focuses were the e-commerce portals, the development of the Internet ordering systems, the customer care organisation and the delivery logistics of the foreign locations.

The financial investments were used mainly for the further expansion of the strategic specialty mail-order growth segment.



The 2002 financial year in review

Mail order fully in the trend: ”modern, convenient and innovative“

The positive performance of the mail-order segment in one of the worst crises of the German retail trade shows one thing clearly: KarstadtQuelle mail-order suppliers are amongst those to have profited from the structural change in Germany. Our mail-order operation is “in” and “in the trend”; it is innovative, customer-friendly and up-to-the-minute. The consistent, customer-oriented implementation of diverse quality features is the reason for this successful company performance.

A test-book example of the segment’s innovativeness is the rapid and very successful adoption of the Internet to the own business model: online shopping has become a modern variant of the traditional mail-order business and thus a further domain of the large mail-order suppliers.

The reasons for the great attractiveness of our mail-order operation lie chiefly in the level of service and diverse convenience factors: the customer buys when he wants to, independently of shop closing times, right round the clock. He can obtain advice on products and service over the telephone or on the Internet. Delivery is fast and reliable and to the customer’s own door.

Product care after purchase is as much a matter of course as the environmentally friendly return and disposal of used technical equipment. The customer can also pay by any method he chooses, whether by instalment or on customer credit account.

The diversity of goods in mail order is unique. The catalogues – which are attractively laid out and clearly structured – cover a range of products equivalent to that available in an entire pedestrian precinct. Including the special mail-order suppliers, an offering equivalent to that of an entire city centre is brought into the home. Through the high standard of service in processes, systems and call centres and thanks to a highly developed logistics system Quelle and Neckermann have focused consistently on the customers’ wishes and needs. Special purchasing incentives are the nicely balanced price-performance ratio, price transparency and price assurance.

Consumers in our mail-order business enjoy a degree of freedom and convenience not normally to be found in other retail formats. We shall develop this advantage by continuously optimising our business systems.

Quelle anniversary probably a record

Quelle achieved an outstanding business performance in its anniversary year. Customers’ response to the marketing activities launched under the motto “75 Years of Quality at Quelle Prices” far exceeded our expectations. During the most successful financial year since German reunification we succeeded in substantially increasing the number of active customers and increasing the number of orders by over 10% to 37.5 mill. orders. At the same time the average order value also rose.

Contrary to the negative trend of the market Quelle achieved high growth in all its main product ranges and gained further market shares. Both the textile and the technology and durable consumer goods ranges recorded two-figure increases.

The redesigned and restructured fashion ranges in the two main and special catalogues and Quelle own-brands such as Privileg, Universum or Revue performed particularly successfully.

Quelle is one of the few major companies in the German retail sector to have succeeded in substantially increasing their sales during the 2002 crisis year. In the course of its successful business performance Quelle, as market leader, has further increased its lead over its trade competitors.

Günther Jauch –
New brand representative for Quelle AG

Günther Jauch, one of the most popular German television presenters, became a new Quelle brand representative at the start of the 2003 spring/summer season. He precisely embodies the qualities identified with the company, such as trust, respectability, quality and dependability. Günther Jauch can convey these qualities to the customer convincingly and sincerely.

Sales and marketing offensive at Neckermann

After Neckermann sustained appreciable decreases in sales during the first half of 2002, we were once more able by means of an effective sales and marketing offensive in autumn 2002 to record substantial increases. This is mainly due to the issue of additional mailings and special catalogues.

Second-largest special mail-order supplier
of work clothing in England taken over

With effect from January 1, 2002, we took over the second-largest British special mail-order supplier of work clothing, the Simon Jersey Group Ltd. The acquisition is the consistent continuation of our expansion in the specialty mail-order segment and further expands the market leadership in the European mail-order trade in work clothing. At the same a foothold was gained in Great Britain, which we are using for further expansion.

Simon Jersey is one of the most reputable British suppliers of work clothing with a fashionable look. The product range consists principally of own-developments by the company's designer team. Simon Jersey supplies mainly customers from the services and health sectors.

High growth rates in Central Eastern Europe

The Central Eastern European countries are important strategic future markets for KarstadtQuelle AG's mail-order companies. KarstadtQuelle mail-order suppliers are already market leaders in five of the seven reform countries. Their share of the market in these countries is about 50%. With a sales increase of 35% to 77 mill. €. Quelle companies located in Central Eastern Europe achieved a rate of growth that also positively affected earnings. Neckermann's foreign-based companies likewise grew in double figures and increased their sales by 17% to 56 mill. €.

Quelle has five subsidiary companies in Central Eastern Europe – in the Czech Republic and Slovakia, Hungary, Slovenia and Poland. Quelle also exports catalogue goods to Russia, Estonia, Lithuania and Croatia.

Quelle accelerated its growth in the high-return Russian mail-order market and gradually increased the number of sales offices in the Russian Federation to six. The locations are Moscow, St Petersburg, Archangelsk, Yekaterinburg, Vladivostok and Khabarovsk.

Neckermann has a similar success story to tell. Neckermann is represented in the Czech Republic and Slovakia, Hungary, Poland, Slovenia, Croatia and Bosnia and Herzegovina.

E-commerce continuing to grow strongly

KarstadtQuelle AG, with its more than 60 shopping and information portals, achieved online demand of 1.24 bill. € in 2002. Compared with 2001 with an order value of 814 bill. €, this represents a growth by 53%. The greater part of the online demand was achieved by the mail-order companies. The quelle.de shopping portal registered in the fourth quarter of 2002 an increase by 85% in visits on the same period the previous year, neckermann.de a rise by no less than 100%. Through e-commerce we are accessing additional classes of purchasers. This applies particularly to younger customers. About 40% of purchasers at neckermann.de were new customers for the mail-order companies.

Key figures – Universal mail order (big book business)

			2002	2001	Change in %
Sales performance	Sales	th. €	6,825,167	6,496,201	5.1
	thereof foreign sales	th. €	1,332,515	1,389,697	-4.1
	foreign sales share	in %	19.5	21.4	-
Earnings	EBTA	th. €	91,830	54,644	68.1
	EBTA margin	in %	1.4	0.8	-
	EBT	th. €	87,047	51,923	67.7
	EBT margin	in %	1.3	0.8	-
Other information	Full-time staff on annual average	number	22,988	24,951	-7.9

Positioning

Big books are the most efficient advertising medium

With a size of up to 1,500 pages, the big books are the strongest performers in Quelle's and Neckermann's mail-order operation. The total impression of the more than 520 main and supplementary special catalogues in 15 European countries came to 618 mill. copies. About half of all German households kept themselves informed about the extensive Quelle and Neckermann product range from the big books during the 2002 spring/summer season. Because of the comprehensive household coverage and the six-monthly sales season the big books remain the most profitable advertising medium in multi-range mail order.

Business performance

Sales performance: Up 5.1%

In universal mail order (big-book business) the mail-order suppliers achieved sales of 6.83 bill. € (previous year: 6.5 bill. €). This represents a growth by 5.1%. Our mail-order suppliers thus markedly expanded their market lead in Germany. As last year, universal mail order contributed a share of 82% to total sales in the mail-order segment.

Profitability: Improvement in earnings

Earnings (EBTA) in universal mail order rose by 68.1% to 91.8 mill. € (previous year: 54.6 mill. €). This positive performance reflects, amongst other things, the success of the campaigns connected with Quelle's 75th anniversary. Special effects (flexibilisation costs, unscheduled depreciation on real estate and the profit from the sale of company shares) are shown on balance as a charge of 18 mill. € on earnings.

Key figures – Specialty mail order

			2002	2001	Change in %
Sales performance	Sales	th. €	1,511,943	1,420,804	6.4
	thereof foreign sales	th. €	497,259	353,541	40.7
	foreign sales share	in %	32.9	24.9	-
Earnings	EBTA	th. €	66,615	61,919	7.6
	EBTA margin	in %	4.4	4.4	-
	EBT	th. €	32,982	51,107	-35.5
	EBT margin	in %	2.2	3.6	-
Other information	Full-time staff on annual average	number	5,568	5,056	10.1

Positioning

Special mail order maintains growth course

The 22 special mail-order suppliers occupy outstanding positions in their respective product segments. They operate in, amongst others, the fashion, work clothing, household and house pet requirements and complimentary gift segments. The special suppliers demonstrate a high degree of internationalisation.

The retail trade economy in Europe made business difficult for the fashion mail-order suppliers during the year under review. Most of the special mail-order suppliers nevertheless maintained their growth course unchanged. Sales increases were achieved by in particular Happy Size, Bon'A Parte, the Mercatura Group, Walz, Saalfrank, Afibel, Hess Natur, the TriStyle Group and the animal24 Group. Krähe, Mode & Preis and Elégance show a reduced volume of business.

Business performance

Sales performance: Up by 6.4%

Special mail order once again recorded a good performance and increased its sales by 6.4% to 1.51 bill. € (previous year: 1.42 bill. €).

Special mail order once again contributes a share of 18% to all sales in mail order.

Profitability: 7.6% growth

Earnings (EBTA) rose from 61.9 mill. € to 66.6 mill. €. This represents a rise by 7.6%. The decisive factors here were increases in earnings in the fashion segment, particularly at Happy Size, Madeleine and Elegance. The decrease in earnings before tax (EBT) by 35.5% to 33 mill. € is due to unscheduled amortisation of goodwill.

OUTLOOK

Good preconditions for further growth in the 2003 financial year

Mail order has become decidedly more attractive. Quelle and Neckermann lastingly strengthened their customer base through the marketing and sales offensive launched during the year under review. At the same time we succeeded in attracting a large number of new customers. This should form the basis for a positive performance in the 2003 financial year.

Four-pronged strategy for further growth under the 2003+ group strategy

We shall consistently further develop the mail-order business segment in the next years. The strategy is based on four core elements:

1. Further development of universal mail order
2. Expansion of special mail order
3. Acceleration of growth abroad, and
4. Expansion in e- and TV-commerce

1. Further development of universal mail order

We are consistently continuing the initiated optimisation measures to ensure the profitability of the mail-order suppliers. This includes, for example, the adjustment of unprofitable marginal product ranges or the standardisation of the business systems. We are also organising the development of universal mail-order business, both in Germany and in Europe, mainly by three measures.

a) Sharpening of the brand identities

Historically, Quelle and Neckermann are similarly positioned in subsegments in the domestic market. For competitive reasons the two-brand strategy is indispensable. To ensure its success in the long term, we are distinguishing the identities of the two mail-order suppliers even more sharply at the start of the 2003 spring/summer season. Quelle and Neckermann have therefore launched offensives, for example, in marketing, in order to demonstrate their different competitive positioning and philosophy.

In a market of interchangeable brands and offerings the consumer is increasingly seeking providers with a clear profile. This amounts to a need for direction and, above all, clarity, predictability and credibility.

Quelle's new marketing strategy is designed to meet this need. By means of target-group-focused product range and sales measures Quelle makes the claim to be a standard-setter in its product fields. The advertising message is "Quelle gives direction"; the offer to customers is "First see what Quelle has to offer!"

The new Quelle marketing strategy will be additionally reinforced by the partnership with Günther Jauch.

Neckermann's repositioning is being undertaken under the motto "Neckermann lässt Deutschland träumen" ("Neckermann makes Germany dream"). Central to the 2003 marketing and sales offensive is the "TraumPaket" ("DreamPackage"), which gives the slogan "Neckermann macht's möglich" ("Neckermann makes it possible") an up-to-date twist. Neckermann's image as a mail-order supplier with a distinct price-performance ratio is complemented by its competence as a service provider for the development and despatch of attractive "DreamPackages". With the "DreamPackage" Neckermann is giving mail-order sale in Germany a new, emotional tone.

b) Modulisation

Quelle and Neckermann will put together their big book offering more flexibly and cost-effectively. In future, as well as a basic product range, the big books will contain customer-specific complementary modules which can be varied to suit the customer group.

c) Expansion of the multibranding and multimatching concepts

Multibranding and multimatching are the decisive growth generators in the universal mail-order segment of the future. Under the multibranding strategy we shall utilise existing successful catalogue concepts in order to offer them under another brand name. Multimatching combines available group resources to form an entirely new catalogue concept.

A successful example is the sports catalogue, which arose out of the partnership between Karstadt department stores and Quelle. We can also transfer these concepts to the international markets without any frictional losses. For example, Neckermann Switzerland published the sports catalogue in February 2003.

2. Further specialisation

With an annual average sales growth rate of 19% in the last three years special mail order is amongst the growth generators. The proven double strategy – organic growth and selective acquisition – will be continued consistently.

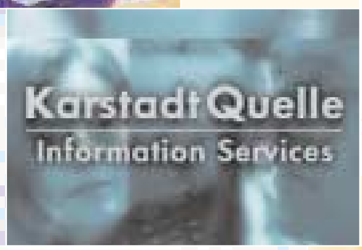
3. Further internationalisation

The internationalisation of Quelle and Neckermann will be further strengthened both in universal and in special mail order. The aim is to raise the share from foreign sales from about 22% in the year under review to at least 30%. The growth markets here are mainly Great Britain, Scandinavia and Central Eastern Europe.

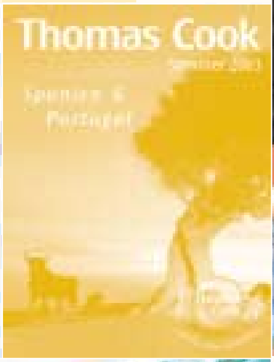
4. E- and TV-commerce as growth generators

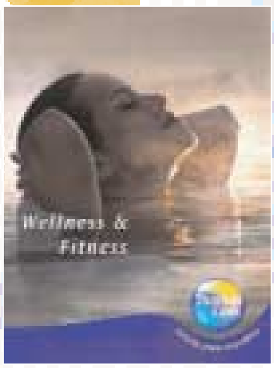
The expansion of the highly successful e-commerce operations is being further progressed. E-commerce has been an integral component of Quelle's and Neckermann's sales strategies since the mid-90's: online shopping has become a modern variant of the traditional mail order business. Range, acceptance and demand are now achieving levels which have firmly established electronic commerce as a further, high-volume sales channel with excellent future prospects. The steeply rising demand impressively demonstrates this.

The strong Quelle and Neckermann brands represent an outstanding basis for successful growth in TV-commerce. Great importance will be attached to the integration of TV-commerce into the group's multi-channel network in future. Thus, for example, Quelle has already conducted successful tests on the leading TV shopping channel Home Shopping Europe.

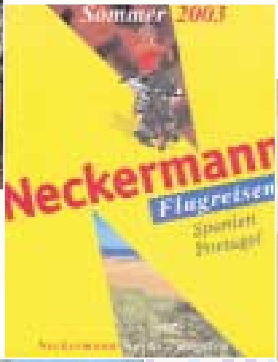


Services expand dynamically + Joint ventures


Thomas Cook
Spanien &
Portugal


Wellness &
Fitness


UrlaubsWelt TV
Neckermann macht's möglich!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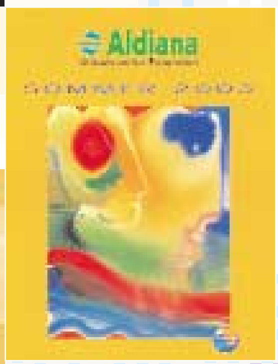

Aldiana
SOMMER 2003

Key figures – Services

			2002	2001	Change in %
Sales performance	Sales	th. €	1,303,169	1,123,350	16.0
Earnings	EBTA	th. €	21,718	86,391	-74.9
	EBTA margin	in %	1.7	7.7	-
	EBT	th. €	-27,255	54,712	-149.8
	EBT margin	in %	-2.1	4.9	-
	Equity	th. €	538,146	576,394	-6.6
	Net debt	th. €	118,376	240,029	-50.7
	Capital employed	th. €	656,522	816,423	-19.6
	Return on capital employed	in %	-	6.3	-
Other information	Investments	th. €	179,557	227,639	-21.1
	Depreciation/amortisation (not including goodwill)	th. €	46,302	43,942	5.4
	Gross cash flow	th. €	100,386	55,535	80.8
	Full-time staff on annual average	number	5,436	3,748	45.0

Strategy und positioning

B2B and B2C services sections

The Services segment was subdivided into the two B2B and B2C sections in the 2002 financial year. B2B Services, corporate business, focuses on information services, e- and TV-commerce, logistics, purchasing and IT. B2C services, consumer business, comprises financial services, loyalty card programmes and tourism.

Services strategy rests on two pillars

Our strategy in the Services segment rests on two pillars. On the one hand, available assets in the retail segments are utilised; on the other we cooperate with partners who are amongst the leading companies in their markets.

With about three million visitors in the Over-the-counter segment daily, about 70 million orders placed in the Mail-order segment yearly and 76 mill. Internet visits in 2002 the KarstadtQuelle group has customer contacts like almost no other company. In addition, the group is outstanding for its well-known and dependable brands such as Karstadt, Quelle and Neckermann and a high competence in fulfillment. We utilise these assets from the retail segment independently for new services.

If it is beneficial from the profitability and synergy point of view, however, we also collaborate with strong partners, such as Deutsche Telekom AG, Deutsche Lufthansa AG or ERGO Versicherungsgruppe AG. This two-pillar strategy ensures attractive opportunities for KarstadtQuelle and enables entry into the market at a limited investment.

Strategy in the new growth segments consistently implemented

The strategic expansion of the services business is an integral component of KarstadtQuelle's reorientation as a retail and service group. In the new growth segments the focus in 2002 was on the consistent implementation of the strategy.

We concentrated information services under the umbrella of KARSTADT QUELLE Information Services GmbH in January 2002. In May 2002 KARSTADT QUELLE Financial Services GmbH began operations. It offers a wide range of banking and insurance services, amongst them a MasterCard without a basic charge.

Since July 2002 KarstadtQuelle customers have been taking advantage of the new "HappyDigits" customer bonus programme operated jointly with Deutsche Telekom AG. In November 2002 we started selling tourism products under the name "Neckermann Urlaubswelt TV".

Very well positioned in the Tourism segment with travel agencies and Thomas Cook

In the Tourism segment KarstadtQuelle is pursuing a double strategy with a groupwide own tourism sales operation and a participation in Thomas Cook, a global player on the product side.

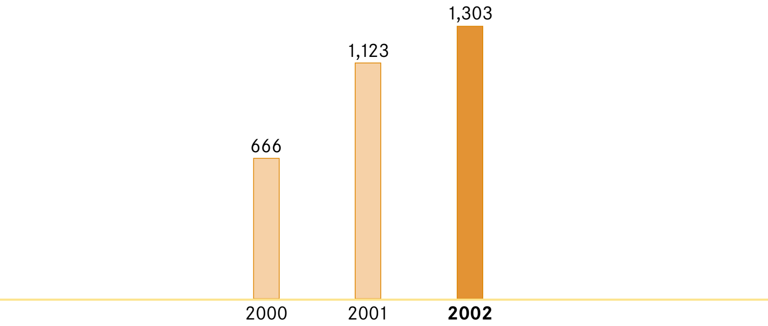
The KarstadtQuelle sales operation comprises 433 travel agencies under the three brand names Karstadt Reisebüro, Neckermann Urlaubswelt and Reise Quelle. The travel agencies are universal tourism providers, sell products by all the reputable German operators and utilise mainly synergies with Thomas Cook. KarstadtQuelle – together with the Thomas Cook travel agencies – occupies a leading position in the arrangement of private tourism in the tourism sales sector in Germany.

Thomas Cook AG, our 50:50 joint venture with Deutsche Lufthansa AG, is one of the world's leading market operators and is well-positioned as an integrated tourism group throughout the entire value-added chain. The tourism sector at present sees itself as in a challenging market environment after years of high growth. Thomas Cook has adapted its business model to suit the changed market conditions and is implementing a large-scale restructuring process with capacity and cost reductions, while at the same time reorienting the brand policy, which will position Thomas Cook as a brand for the entire value-added chain. We continue to rate the medium- to long-term prospects for the tourism market as positive.

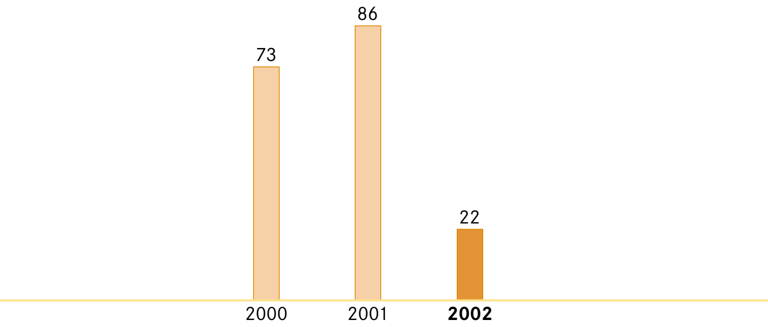
OUTLOOK

In 2003 the Services segment will continue to grow selectively in strength through organic growth, partnerships and acquisitions and continue on its course of expansion. The KarstadtQuelle strategy of diversification into a retail and service group is thus being implemented step by step.

Sales in mill. €



EBTA in mill. €



Segment performance

Sales: Up by 16%

Sales in the Services segment (not including Thomas Cook) rose to 1.3 bill. € (previous year: 1.12 bill. €). This represents a sales increase by 16%. As well as the rise in the volume of orders at Optimus Logistics GmbH and Profectis GmbH (technical customer service), the concentration in this segment of the companies operating in the information services sector is having a positive effect on sales.

Profitability: Thomas Cook decrease

Earnings (EBTA) in the Services segment came to 21.7 mill. €, as against 86.4 mill. € in the previous year. This represents a decrease by 64.7 mill. €.

The proportional earnings share contributed by the Thomas Cook Group decreased by 86.1 mill. € to minus 23.9 mill. € (previous year: plus 62.2 mill. €) owing to the difficult situation in tourism.

The other services companies increased their earnings by 21.2 mill. € to 45.6 mill. € (previous year: 24.2 mill. €). The decisive factors here were the increased volume of business at KARSTADT QUELLE International Services AG (import company) and the inclusion in this segment for the first time of a number of companies in the information services sector.

The services sections

B2B services (corporate business)

Information services as growth segment

An important element in the growth strategy in the Services segment is the setting up of KARSTADT QUELLE Information Services GmbH (KQIS) at the start of 2002.

The basis of the business model is competence acquired over decades and extensive information about the group's customers. Thus, KQIS can offer its corporate clients a unique range of services covering the entire process of customer relations. From customer analysis and measures to acquire new customers through creditworthiness checking and customer accounting down to the collection of outstanding debts KQIS works for both group and outside companies.

Alongside individual solutions in the marketing, risk and debt management sectors integrated solution concepts covering the entire customer relations process enable the realisation of hitherto unused customer potential. Here the company's relations with its customers is analysed in detail and the utilisation of the identified potential realised on this basis. These integrated solutions are an important competitive advantage of KQIS.

The market for information services is high-growth and high-return. Thus, in the 2002 financial year sales at KQIS rose by over 20% to 60 mill. €. We are also planning substantial two-figure growth for 2003. The good market position is being rapidly expanded this year through, amongst other things, strategic partnerships and company acquisitions at home and elsewhere in Europe.

E- and TV-commerce expanding segments: Online demand rises by 53%

In the KarstadtQuelle Group online business continues to perform very dynamically. The Internet has been fully established as a sales and communication channel with customers.

Online demand in the year under review rose by 53% to 1.24 bill. €. On an annual average the group's Websites recorded 6.4 mill. visits a month, a rise by 93% on the previous year. This strong growth was achieved by, amongst other things, the reliable brands and the group's attractive Internet presentations. They offer the customer online product advice and assist him to make the right choice, particularly of products for which careful advice is required. Important decision criteria for online purchase are also a secure purchasing procedure and fast, uncomplicated delivery. Here our experience acquired over decades in the mail-order trade contributes decisively to our success.

Over 50% of German consumers now have online access. Already 70% of online users are keeping themselves informed online in order to then purchase in the Over-the-counter segment. This demonstrates the importance of the consistent integration of the Internet into the KarstadtQuelle Group's multi-channel strategy.

TV-commerce: Neckermann Urlaubswelt TV launched on Tele 5

The increased use of TV as a sales and communication channel is a logical further step under our multi-channel strategy. In this way services and products can be communicated in a particularly customer-friendly way. The overall volume of this attractive market, which is subdivided into TV-shopping, direct-response TV (DRTV) and TV travel shopping, will more than double to about 2.6 bill. € in the next five years.

KarstadtQuelle, together with the Tele 5 television channel, planned the setting up of On Air Reisen GmbH and will hold 51% of the shares in the company.

The company will sell travel services and related products primarily on Tele 5 and also via other windows on other TV channels. Based on the well-known and reliable Neckermann Urlaubswelt TV, the tourism competence of one of Europe's largest tourism groups and the TV competence of Tele 5, the joint venture is to establish itself rapidly in the young market for tourism TV. Neckermann Urlaubswelt TV has been broadcasting since November 2002. Two hours of travel shopping and a one-hour tourism magazine are broadcast daily.

KARSTADT QUELLE AG also holds a participating interest in Germany's best-known teleshopping channel, Home Shopping Europe AG. As a member of the MHP (Multimedia Home Platform) initiative, whose aim is to disseminate a digital standard for TV transmission, KarstadtQuelle is taking prompt strategic measures to prepare for TV commerce in the digital television age.

In the 2003 financial year KarstadtQuelle will further intensify its commitment in the TV-commerce growth market. Various strategic options are currently being looked at with the aim of conducting TV-commerce on additional programme platforms through partnerships or participations.

Comprehensive range of logistics services

Logistics is an important success factor in over-the-counter retail and mail order. Correspondingly high are the group's competence and experience in comprehensive logistics solutions.

Logistics services between the suppliers and our retail units in Europe are provided groupwide by Optimus Logistics GmbH. Optimus Logistics possesses great know-how in delivery of the furniture, kitchens, large appliances and bulk goods to customers.

servicelogiQ GmbH is a competent provider of logistics and fulfillment services for group and outside companies in all business sectors. servicelogiQ's range of services comprises the entire value-added chain in mail order and online retail, from customer care service, from storage and picking, delivery and returned goods management through debtor management to after-sales service.

The fulfillment specialist's customers include, for example, the TV shopping channel Home Shopping Europe, Audi quattro GmbH, Karstadt-Sport, Christ Juweliere GmbH and the specialist toy retailer Vedes eG with their online shops.

ServicelogiQ expanded its range of services to include, for example, an instalment-payment module, a multi-currency export programme and a multi-client scheduling programme. These additional services enabled new customers to be acquired.

Both logistic companies have many years of experience in and special knowledge of logistics fulfillment. This is a decisive competitive advantage, including in the business with third-party customers. A further advantage is the already existing basic capacity utilisation in all retail segments. Thus, about 800 million items are processed annually with group customers.

In the 2002 financial year ended the two companies between them achieved sales amounting to 645.1 mill. €. This represents a rise by 20.5%. The earnings contribution was again increased. The decisive factor here was mainly the expansion of third-party customer business.

In 2003 we are expecting moderate growth for both companies through expansion of business with companies outside the group.

Cost increases through stage 5 of the eco-tax and the planned introduction of the lorry toll will once more intensify predatory price competition in the goods forwarding sector.

Overall, however, profitability will improve at both companies through further rationalisation measures. Closer partnership agreements with logistics service providers already working for the group will facilitate access to the market and assist the acquisition of new companies.

International purchasing via KarstadtQuelle International Services and online auctions

KARSTADT QUELLE International Services AG based in St. Gallen, Switzerland, provides professional procurement services for group companies and outside customers. Its competence covers all relevant procurement markets in all product groups.

KarstadtQuelle International Services increased its sales in the year under review by 2.5% to 60.4 mill. € (previous year: 58.9 mill. €). Earnings were likewise increased.

The company maintains 30 offices worldwide. Its core competences are in the areas of merchandising, quality control and logistics on site, in the respective countries and in close collaboration with suppliers.

To further realise synergies, work was begun worldwide to standardise the supplier management in 2002.

Purchase through electronic auction platforms on the Internet was substantially intensified in 2002. The volume amounted to more than 100 mill. €. Through the online auctions about 10% more favourable purchase prices were achieved on average. The process times for price fixing fell by about 80% and are thus contributing to flexibilisation in purchasing and further cost reductions.

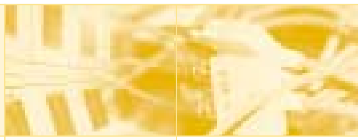
A number of pilot projects were launched in the areas of collaborative planning, forecasting and replenishment (CPFR) sectors. The aim of this electronic networking is the interchange of procurement-related information between KarstadtQuelle and selected suppliers with the aim of optimising storage and the delivery service. Initial results indicate substantial cost reduction potential.

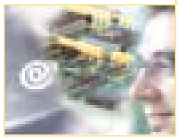
ITELLIUM concentrates IT services

ITELLIUM Systems & Services GmbH is the Karstadt Quelle Group's IT service-provider. ITELLIUM ensures the electronic fulfillment of our retail business, for example, in merchandise information management, invoicing and invoice accounting and the cash register systems.

In 2002 ITELLIUM actively assisted in the accessing of new market segments. Thus, for example, as part of the Starbucks expansion, the cash register system with accounting and reporting was developed for Karstadt Coffee GmbH and the merchandise information system installed.

ITELLIUM in the year under review sustainedly supported the corporate goal of unit cost reduction through the consistent consolidation of computer systems and the harmonisation of processes. The development and implementation of a new SAP-based application solution for a future-focused merchandise information system in over-the-





counter retail was a further key task. ITELLIUM supported the mail-order companies in the implementation of new and the optimisation of existing systems. This included, for example, the development of a data warehouse solution for address management or the standardisation of Quelle's and Neckermann's processes.

Sales rose by 7.8% to 297 mill. € in 2002. Improved internal business processes and strict cost management resulted in an increase in the earnings contribution.

B2C services (consumer business)

Growth in financial services

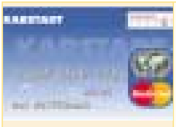
The 50:50 joint venture KARSTADT QUELLE Financial Services GmbH (KQFS) entered into between KARSTADT QUELLE AG and ERGO Versicherungsgruppe AG in March 2002 began operations in May 2002. KQFS has participating interests in the KARSTADT QUELLE Bank GmbH (100%) and KarstadtQuelle Versicherungsgruppe (45%). The latter is Germany's most-selected direct insurer, specialising in the sale of insurance products for retail customers. KQFS ideally combines the strengths of both partners and the operating companies.

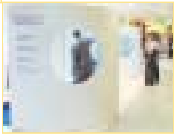
As a financial services agent, KQFS utilises the customer contacts of the two retail segments. Both insurance and banking products are now provided in five newly opened finance centres in Karstadt department stores. In direct sales KQFS was successful in mailing campaigns to Karstadt customers. To complement the existing annex products in mail order, the first annex products were introduced in over-the-counter retail. They enable the customer to extend his insurance cover at the time of purchase, for example, by taking out theft insurance on purchasing a bicycle.

The Internet sales channel is gradually being expanded by the integration of insurance and banking products into group companies' Websites. Close on 700,000 new customers were acquired through the various sales channels in the 2002 financial year.

Alongside traditional banking products – including mainly consumer credit –, the KARSTADT QUELLE Bank GmbH also offers customer card management services and since summer 2002 has been issuing credit cards. With about 800,000 credit cards the KarstadtQuelle Bank has already grown to become the largest issuer of MasterCards in Germany. In combination with KQFS Karstadt Quelle Bank is part of an integrated financial service provider, offering the customer both banking and insurance products. This is strengthening the KarstadtQuelle Bank's positioning in the changing bank sector.

Alongside its own branch network, the KarstadtQuelle Bank has the Internet and the financial service centres in the department stores at its disposal as sales channels. Through this combination of product offering and financial services under one roof the customer can make financial transactions in conjunction with his purchases. The KarstadtQuelle Bank is thus going with the trend towards convenience banking.





The KarstadtQuelle Bank in the 2002 financial year held steady against the weak market trend thanks to its good positioning and increased its balance sheet total by 52% to 339 mill. €. Consumer credit recorded a rise by 41% to 295 mill. €. Customer deposits grew to 164 mill. € by the end of 2002. This represents a rise by about 36%.

With the support of a number of new, innovative products KarstadtQuelle Finanz Service will systematically expand direct sale, over-the-counter sale and sale of annex products during 2003. The number of financial service centres will be increased to 20 and that of the consultants from the present 30 to over 80. The KarstadtQuelle Bank's aim is a market-leading position in the German credit card market. This will be expedited by, amongst other things, the introduction of co-branded MasterCards with partners inside and outside the group.

KarstadtQuelle introduces the "HappyDigits" customer bonus programme

The "HappyDigits" cross-sector bonus programme was introduced at Karstadt, Quelle and Neckermann from July 2002 on. "HappyDigits" is based on the strategic partnership between Deutsche Telekom AG and KARSTADT QUELLE AG concluded in January 2002. The bonus systems of both companies are combined in the card programme.

KarstadtQuelle has at its disposal a base of about 11 mill. loyalty cards. At the end of 2002 already about 9 million customers were actively participating in the "HappyDigits" programme. The great interest shown by customers demonstrates that KarstadtQuelle is well positioned in the contest for the place of the card in the customer's purse. Prompt strategic measures were undertaken under the maxim "from company card to community card", and the results so far confirm the effectiveness of the strategy. Customers are using their "HappyDigits" cards very intensively within the partnership and are thus substantially increasing the community's value potential. Important elements of the programme are the charge-free MasterCard issued by the KarstadtQuelle Bank and the comprehensive bonus offering, which is being taken advantage of considerably more intensively than under company-specific customer bonus programmes.

"HappyDigits" is operated by CAP Customer Advantage Program GmbH. This company, in which KarstadtQuelle holds a 49% and Deutsche Telekom a 51% participating interest, is responsible for the implementation and further development of the customer bonus programme under the brand name "HappyDigits".

In the 2003 financial year we are consistently continuing the expansion of the partnership and the coverage of relevant consumer sectors. Since February of this year the inclusion of Kaiser's Tengelmann AG in the programme has been increasing the attractiveness of "Happy-Digits". We are also holding promising talks with partners in different walks of life and will be integrating further KarstadtQuelle group companies. We plan to expand the number of "HappyDigits" users to 13 million by mid-2003 and thus come close to our medium-term aim of market leadership in customer bonus systems in Germany.

Key figures – Thomas Cook Group

			1.11.2001 to 31.10.2002	1.11.2000 to 31.10.2001*	Change in %
Sales performance	Sales	mill. €	8,062.6	7,814.7	3.2
	thereof in Germany	mill. €	3,728.8	4,155.4	-10.3
	thereof in Great Britain	mill. €	2,702.4	2,100.8	28.6
	thereof in Western/Eastern Europe	mill. €	1,592.6	1,472.1	8.2
	customers carried	in th.	13,234	14,106	-6.2
Earnings	EBTA	mill. €	-20.7	123.9	-116.7
	thereof share KARSTADT QUELLE AG*	mill. €	-23.9	62.2	-138.4
	EBT	mill. €	-134.8	58.8	-
	thereof share KARSTADT QUELLE AG**	mill. €	-72.1	30.3	-
	Group income after tax	mill. €	-122.8	25.4	-
	thereof share KARSTADT QUELLE AG**	mill. €	-61.4	12.7	-
Other information	Balance sheet total	mill. €	4,743.2	4,968.3	-4.5
	Full-time staff on annual average	number	27,776	28,388	-2.2
	Sales per employee	th. €	290.3	275.3	5.4

*) Previous year's figures adjusted
**) In accordance with accounting and presentation methods of KARSTADT QUELLE AG

TOURISM (THOMAS COOK AG)

Economic background

No improvement in the climate of consumption

The background conditions for the tourism sector in Europe deteriorated again markedly in 2002. The decisive factors were the continuing extreme uncertainty about international security and the developments in the Middle East.

As a result of consumers' strong uncertainty all the European tourism markets came under pressure. However, they returned regionally different decreases.

In Germany and Austria the demand for tourism fell markedly by double figures on the previous year and thus more sharply than in other European countries. In France, The Netherlands and Belgium passenger levels and sales dropped by about 5%. In Great Britain, although the urge to travel was greater than on the European continent, the tourism market nevertheless fell by 2%.

The only exception was Hungary. Because of politically engendered special economic conditions demand for tourism in this comparatively small market rose by about 5%.

Strategy and positioning

The integrated European tourism group Thomas Cook covers all value-enhancing levels in the tourism sector, from air flights through hotels, operators and sales to services agencies. Under the motto "Die ganze Welt des Reisens" ("The whole world of tourism") the Thomas Cook Group offers its customers impressive products in all market segments. The group comprises 30 tour operator brands, about 3,600 travel agencies in the worldwide sales operation, 76,000 controlled beds, a fleet of 86 aircraft and about 28,000 staff. The company operates in the German, British, French, Irish, Belgian, Luxembourgian, Dutch, Austrian, Hungarian, Polish, Slovakian, Slovenian, Egyptian, Indian and Canadian markets.

The two founding partners Deutsche Lufthansa AG and KARSTADT QUELLE AG, each of which holds a 50% participating interest, laid the foundation for the integrated tourism group by the amalgamation of Condor Flugdienst GmbH and NUR Touristic GmbH at the start of 1998. The acquisition of the French tourism company Havas Voyages in July 2000 and the takeover of the British tourism group Thomas Cook Holdings Ltd. in April 2001 led to the creation of one of the world's leading tourism groups.

Because of the merely pro-rata inclusion (7 months) of Thomas Cook UK in the 2000/2001 financial year a full comparison between the year under review and the previous year is not possible.

Business performance

Sales turnover up by 3.2%

The Thomas Cook Group achieved a sales turnover of 8.06 bill. € in the 2001/2002 year under review (previous year: 7.81 bill. €). This represents a rise by 3.2%. The decisive factor was the full-year inclusion of the Thomas Cook UK Group for the first time. Without the inclusion of Thomas Cook UK a sales decrease by 6.0% would have resulted.

In all markets Thomas Cook pursued the strategy of adapting capacity to suit the pattern of demand and foregoing growth through high price concessions. As a result margins remained steady at the good level reached in the previous year.

In Germany, with 45.4% of overall gross sales the most important market for Thomas Cook, sales decreased by 11.1% in the face of generally weak consumption. The urge to travel was dampened by the terrorist attack in the island of Jerba and the flood disaster in Eastern Germany. Thomas Cook accordingly reduced flight capacities by about 15% at the start of the 2002 summer season. In Great Britain air flight capacity was cut by 17%.

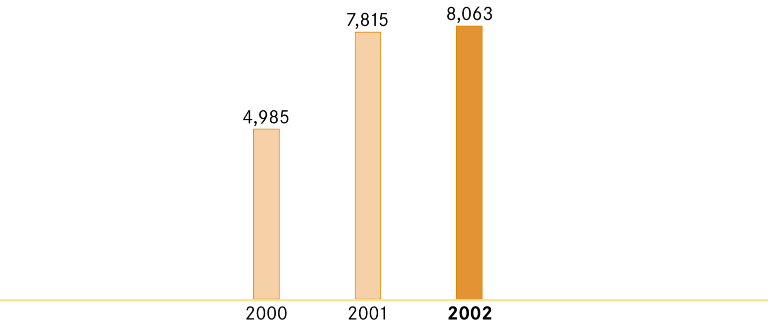
Despite this, gross sales in this second most important market, which contributes one third of total sales, were only slightly below the level of the previous year. In the other European markets, which contribute a share of 20.4% of sales, sales rose by 7.6% and in the intercontinental markets (India, Egypt and Canada) they rose even more strongly.

Profitability: Earnings include special debits

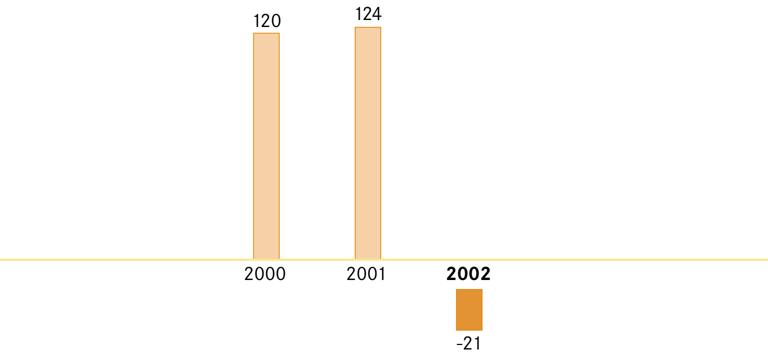
The decrease in sales due to acquisitions was only partly compensated for by measures to secure earnings, reduce costs and control capacity.

Earnings before tax and amortisation of goodwill (EBTA) decreased to minus 20.7 mill. € (previous year: 123.9 mill. €).

Sales in mill. €



EBTA in mill. €



At the same time extraordinary expenditure of 13.9 mill. € reduced earnings. This expenditure relates to marketing costs for the introduction of Thomas Cook as an operator brand name and the withdrawal of aircraft from service in Germany.

Financial earnings decreased to minus 66.9 mill. € in the year under review, as against minus 33.1 mill. in the previous year. The decisive factor here is non-scheduled depreciation of 25 mill. € on an hotel participation and the refinancing costs for Thomas Cook UK expensed for the first time for the whole year.

After deduction for amortisation of goodwill increased to 114.1 mill. € (previous year: 65.0 mill. €) due to acquisitions and non-scheduled valuation allowances and including tax proceeds of 15.3 mill. € Thomas Cook shows for the 2001/2002 year under review a net loss of 122.8 mill. €. In the previous year a net profit of 25.4 mill. € was achieved.

Steady gross income margin

Gross income as the result of sales turnover less expenditure for tourism services rose slightly by 3.0% to 2.44 bill. €. The gross income margin, at 30.3%, thus remains virtually at the level of the previous year despite a number of price campaigns aimed at stimulating demand. The reasons were, amongst others, the increase of the average tour price by 0.9% to 556 € and the financing of discounts in the sharply risen last-minute business through subsequently negotiated service costs.

Financial position:
Operating cash flow at high level

Regardless of negative group earnings the group generated an operating cash flow of 258.8 mill. € in the year under review.

Higher write-downs on tangible fixed assets and goodwill without effect for payments, extra charges during the year under review without effect for payments and lower income tax payments kept the operating cash flow at a high level. Moreover, the working capital management consistently rigorously applied under the “Triple T” programme resulted in an additional financial contribution.

The operating cash flow not only covered net investments but, as planned, also enabled the reduction of financial liabilities. These were incurred in the past mainly by the purchase of aircraft and the acquisition of Thomas Cook UK.

Investment programme limited to strategic investment

The investment programme in the year under review was reduced to 224.2 mill. € (previous year: 1,213.6 mill. €) and thus limited to important strategic investments.

Net financial indebtedness reduced

The group's financial debts were reduced during the year under review by 109 mill. € to 1.49 bill. €. After deduction of liquid funds and securities amounting to 448.4 mill. € there results a net financial indebtedness of 1.04 bill. € (previous year: 1.11 bill. €).

Net worth: Balance sheet total decreased by 4.5%

The balance sheet total decreased by 4.5% on the previous year and stands at 4.7 bill. €. The decisive factors were mainly write-downs on tangible fixed and intangible assets which were well above the level of investment. Goodwill went down by 3.2% to 1.4 bill. € despite accruals in connection with the acquisition of shares.

Medium- and long-term assets rose to 71.4% of the balance sheet total (previous year: 69.1%). The equity ratio is 18.0%, compared with 20.7% the previous year. Customer advanced payments amounting to 439.6 mill. € are fully covered by liquid funds and securities.

The financial year in review

The Thomas Cook Group responded rapidly and comprehensively to the changes in the economic background conditions in the tourism sector. The degree of integration between the group's individual value-added levels was raised, the "Triple T" earnings security programme implemented and the restructuring of Thomas Cook UK consistently carried out.

Raising of the level of integration ensures full use of capacity

In response to the restrained demand in almost all markets Thomas Cook reduced the available group-owned air flight and hotel capacities short term. At the same time it was ensured that these group capacities were increasingly fully utilised by customers of the European Thomas Cook operators. Thus, the passenger load factor of Thomas Cook Airlines – powered by Condor was maintained at 85%, nearly the same level as the previous year. At the same time the utilisation of the group-owned hotel and club capacities was above the market average.

"Triple-T" programme successfully implemented

Immediately after the terrorist attacks of September 11, 2001, Thomas Cook launched "Triple T" (Team - Targets - Thomas Cook), a comprehensive earnings security programme. "Triple T" was designed to counteract the anticipated fall in demand and made possible savings of 547 mill. € by 400 individual measures. The programme focuses on increased utilisation of group-owned air flight and hotel capacities, the commercial participation of services partners in the capacity utilisation risks through price adjustments and on innovative product and marketing measures.

55% of sales are already being achieved abroad

The Thomas Cook Group further expanded its international operations during the 2001/2002 financial year. To increase sales operations in The Netherlands, the Broere Reizen B.V. travel agency group was acquired. In Belgium the establishment of an integrated tourism provider was begun by the setting up of Thomas Cook Airlines Belgium N.V. The acquisition of the majority holding in Thomas Cook India is strengthening the position in the Indian market. The foreign share rose to about 55% in the year under review. In the financial year in which the Thomas Cook Group (1998/99) was set up it was only 23%.

Destination areas in Eastern Europe and Turkey gain in popularity

In the year under review about 37% of operator turnover was achieved from tourism in Spain. Spain thus remains, as before, the most popular holiday destination, although, as in the previous year, its sales share decreased. Turkey is gaining in popularity and increased its share to 8.8% (previous year: 8.4%). Because of the very favourable price-performance ratio and the punctual raising of attractive hotel quotas the number of customers in destination areas in the eastern parts of Europe rose. Bulgaria achieved a rise by 29.6%, Slovenia a sales growth by 12.4%, and Croatia shows a sales growth by 44.9% on the previous year. In particular Egypt records sales down by 7.5% and Tunisia down by 36.4%.

Restructuring in Great Britain successful

As part of the Thomas Cook UK takeover, an integration and value enhancement programme was launched to sustainedly increase earning power.

Important business segments were consolidated and grouped together and eleven decentralised locations abandoned. The number of staff decreased by about 2,500 by the end of the year under review. The shared service centre set up jointly with a partner now comprises all the back-office accounting, staffing and IT sectors, thus enabling considerable savings to be made and efficiency to be considerably increased. The consistent optimisation of processes and systems enabled considerable redundancies in the hotel and central purchasing sectors and in airline capacity management to be reduced. The savings potential amounts to about 110 mill. € in the first 5 years and was already largely achieved in the first year.

Number of staff fallenn

As at October 31, 2002, 27,975 people were employed in the Thomas Cook Group. This represents a reduction in staff level by 2%. Not including the 881 staff of the Broere Reizen N.V., Aldiana Sarigerme, Turkey and Thomas Cook Airlines Belgium N.V. included for the first time, the reduction amounts to 5.1%. The decisive factors for this development were Thomas Cook UK's integration and value enhancement programme and the staff measures under the "Triple T" Programme. On an annual average 27,776 people were employed (previous year: 28,388).

OUTLOOK

Bases laid for ensuring future economic success
Economics experts anticipate a moderate economic performance in the Thomas Cook Group's sales markets. Gross national product and consumer spending are expected to rise by between one and two per cent.

Because of the current political and economic background conditions growth in demand in Germany will probably continue below average. Better performances are to be expected in the United Kingdom, West Eastern Europe and, above all, in the non-European markets.

Incalculable political risks have considerably increased in importance because of terrorist attacks, the war in the Middle East and the uncertain economic situation in Germany. Further risk factors in Germany include a possible expansion of the night-flight ban at Frankfurt Airport, a tax on flights within the EU and the tax on kerosene.

There is a strategic risk in the fact that commercial success depends not inconsiderably on the success of the new brand strategy. First indications are that Thomas Cook is being very well received by customers as a brand name for travel agencies, airlines and tour operators. Accordingly, the awareness of Thomas Cook in Germany has risen in the last six months from 25% to 65%. Moreover, levels of bookings with the newly introduced tour operators in England, Belgium and Germany exceed expectations.

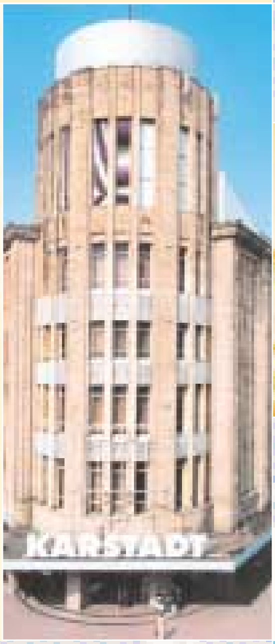
In view of the hostilities in the Middle East valid forecasts for the current financial year are not possible at present.

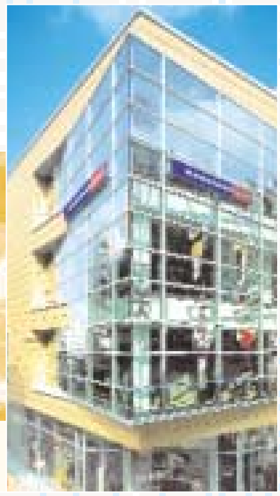
However, with the "Triple C" earnings security programme Thomas Cook AG has made preparations to further reduce costs.

Positive effects are also being achieved by the adjustment of cost structures in the 2001/2002 crisis year and the reduction in staff levels. Furthermore, the instruments for flexible capacity control have proved effective. Measures for restructuring the business in Germany have already been initiated. Thomas Cook also prefers to rely on rising margins and not on gaining market shares through price.

In the 2002/2003 financial year, likewise, Thomas Cook's investment strategy will be limited to the value-focused expansion of the core competences Customer, Brand, Capacity and Product. Here more weight will be given to process optimisation than to investment in hotels or carriers.

Department stores become shopping centres + F





urther two shopping centres opened + Group real estate concentrat

Key figures – Real estate

			2002	2001	Change in %
Sales performance	Sales	th. €	495,147	483,848	2.3
Earnings	EBTA	th. €	227,468	271,291	-16.2
	EBTA margin	in %	45.9	56,1	-
	EBT	th. €	227,455	270,238	-15.8
	EBT margin	in %	45.9	55.9	-
	Equity	th. €	1,844,149	2.029,524	-9.1
	Net debt	th. €	1,387,142	923,561	50.2
	Capital employed	th. €	3,231,291	2,953,085	9.4
	Return on capital employed	in %	8.1	10.7	-
Other information	Investments	th. €	80,129	46,260	73.2
	Depreciation/amortisation (not including goodwill)	th. €	134,030	123,672	8.4
	Gross cash flow	th. €	361,018	375,217	-3.8
	Full-time staff on annual average	number	67	26	157.7

Economic background

The market for German retail-operated real estate in 2002 was affected by the poor sales performance in most retail formats.

Nevertheless, retail space grew by one per cent to 108 mill. sq. m. by comparison with the previous year. This means that there are 1.3 sq. m. of sales space to every German citizen, putting Germany in the upper middle bracket on an international scale. The amount of retail space per capita in Great Britain is at 0.7 sq. m. and in France at 0.8 sq. m. markedly smaller.

While retail sales in Germany have been virtually stagnating in real terms since 1990, the amount of retail space rose by nearly 40% to 77 mill. sq. m. The increase in space was due mainly to the construction of city-centre shopping centres. The 318 shopping centres with more than 10,000 sq. m. each represent sales space totalling about 10 mill. sq. m.

The trend towards the development of city-centre shopping centres is supported by consumers' need for shopping adventure and the numerous city campaigns to improve city centres.

The sharp increase of space in conjunction with stagnating or falling sales accelerated predatory price competition in the retail trade. Small and medium-sized companies are affected to an especially high degree. This also affected rents for retail sales space. In Western Germany rents fell by 1.8% in the year under review, while in Eastern Germany they remained steady but low.

Open-ended real estate funds are amongst the traditional institutional investors for retail-operated real estate. In 2002 at 15.3 bill. € (previous year: 7.9 bill. €) they achieved a record level of net investment inflow. Nevertheless, the investment ratios of individual fund companies in Germany stood at less than 20%. The decisive factors were attractive investment opportunities abroad.

Interest rates scarcely affected the real estate market, even though capital market interest rates fell markedly. The overlying factor was the banks' restrained credit policy, which led to a slow-down in investment activity.

Real estate values decreased by an average of 5% in the market as a whole in Germany. Contrary to this trend real estate at prime locations continued to perform positively. This applied in particular to the metropoles Berlin, Düsseldorf, Frankfurt/ Main, Hamburg, Hanover, Cologne, Munich and Stuttgart. The range of real estate purchase prices in these conurbations was 20 times the net annual rent for prime locations and 11 times that at peripheral locations.

Strategy and positioning

Real estate portfolio with a book value of 3.2 bill. €

The book value of the real estate assets came to 3.2 bill. € at the balance sheet date and thus represented 61.7% of the KarstadtQuelle Group's tangible assets. The portfolio is made up essentially of the following real estate subsegments:

- Retail-operated real estate
  (city-centre department stores
  specialty discount markets)
- Logistics real estate
- Other real estate
  (office and residential real estate,
  mixed purpose real estate)

Continuous internal and external evaluation of the real estate portfolio

Retail-operated real estate in the KarstadtQuelle Group comprises about 3.8 mill. sq. m. of usable space. It is used by Karstadt Warenhaus AG, Sinn Leffers und Wehmeyer. The real estate is located almost exclusively at top locations in city centres.

Areas of concentration are Hamburg, Berlin, Rhine-Ruhr, Rhine-Main, Frankfurt/Main and Munich. We regularly value our real estate internally with reference to the overall economic and local environment. At the same time we began to have real estate valuations made by independent experts.

The real estate in the mail-order segment – mainly logistics real estate – was transferred to the real-estate subsegment in 2002 and an expert report prepared on it.

The real estate strategy: Property, real-estate services, financing

The group-owned real estate represents a decisive competitive advantage for KarstadtQuelle's retail business. High-quality real estate locations are increasingly gaining in importance particularly in a difficult retail environment. At the same time, however, the real estate portfolio also represents an autonomous source of income within the framework of our value-oriented management.

The strategy of the real estate business segment is consistently focused on the maximisation of real estate values. On this basis the following areas of activity were defined:

– Development and optimisation of the real-estate portfolio (property)
– Real estate services
– Financing

Long-term development strategy

Strategic real-estate development is oriented on the principle of the best possible use in the long term. The optimum use for an individual building takes into account, for example, development, conversion and new-building costs and possibly the costs linked to a closure of group branches.

Optimisation of the value of real estate is focused primarily on the department store locations. The aim of every project development is the optimum utilisation of building law potential, the extension and flexibilisation of utilisation times and the raising of the value of the real estate. We see further potential in the conversion of suboptimally used into productive space. For example, we enhance the existing retail trade offering with complementary operator concepts from the leisure, services, catering or entertainment sectors.

KarstadtQuelle has the best opportunities of setting trends in city development by the realisation of new location-specific utilisation concepts. In this way the real estate value is also stabilised in an uncertain market environment.

Increase of the subletting ratio planned

KARSTADT Immobilien AG & Co. KG is earning income of 25 mill. € from third-party lettings. Karstadt Warenhaus AG earns income from sublettings and concessions amounting to about 66 mill. €. Thus, at present less than 5% of sales space in Karstadt department stores is let. In the next years a marked increase in the third-party letting and subletting ratio is aimed for in order to be able to utilise the earnings potential more strongly.

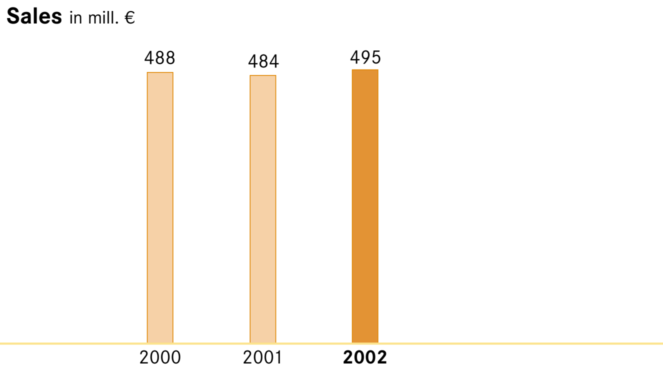
Real estate services have high growth potential

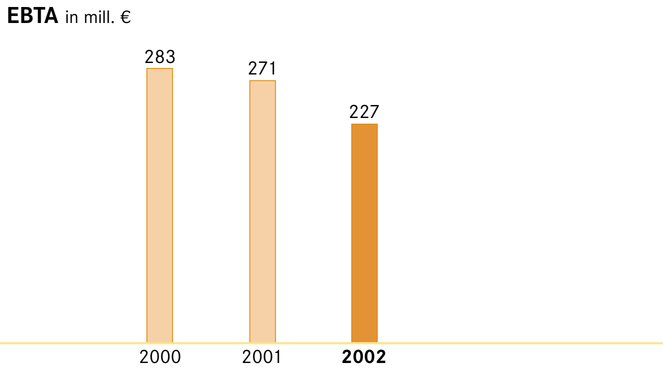
We believe the real estate services segment to have great growth potential. The ECM EuroCenter Management GmbH set up in 2001 offers services in the centre, letting and facility management sector. With about 2.6 mill. sq. m. of sales space in city-centre retail in Germany today we already have the very best qualifications for offering such services.

Mortgage bonds as effective financing instrument

KARSTADT Hypothekenbank AG launched a comprehensive mortgage bond programme in the year under review. In this way the group is acquiring direct access to financing through the capital market and at the same time is profiting from refinancing on advantageous mortgage bond conditions. The mortgage bonds are secured by KarstadtQuelle Group real estate.

Further real estate serves as a basis for restructuring the financing of pension commitments in the KarstadtQuelle Group.





Segment performance

Sales performance: steady

Sales (income from rent) in the real-estate subsegment came to 495.1 mill. € (previous year: 483.8 mill. €). This represents a rise by 2.3%. The decisive factor here was the takeover of Quelle, Neckermann and SinnLeffers real estate in the fourth quarter.

Profitability: Earnings below those of previous year due to lower profit from disposals

Earnings (EBTA) amounted to 227.5 mill. € (previous year: 271.3 mill. €). This represents a decrease by 16.2%.

The decisive factor was the decrease by 41.5 mill. € in income from the disposal of real estate. This amounted to 21.5 mill. € in the year under review, as against 63 mill. € in the 2001 financial year. Further earnings effects resulted from the rise in net interest, the increase in staff costs through staff increase and higher maintenance measures.

Investment increased to 80.1 mill. € (previous year: 46.3 mill. €). Areas of concentration were the acquisition of real estate in Trier, Mönchengladbach and Oberhausen (through finance lease).

The 2002 financial year in review

Management of real-estate assets concentrated

In September 2002 we placed the real estate of Quelle AG, Neckermann Versand AG, SinnLeffers AG, WEHMEYER GmbH & Co. KG and their subsidiary companies under the corporate control of KARSTADT Immobilien AG & Co. KG. Thus, all group real estate is concentrated in the real-estate business subsegment and is centrally administered and controlled.

We are utilising synergies on the cost and income side through central real estate management on a uniform system platform. Groupwide all real estate is linked to this platform. Thus, we profit, for example, from the system-assisted administration, the rent income accounting and from rent debt management.

Further shopping centres opened

An important component of our strategy of consistent optimisation of the real-estate portfolio is the development and operation of shopping centres. The shopping centres in 2002 recorded a positive sales performance contrary to the general weak trend in over-the-counter retail. The decisive factor here was the interaction between an attractive location with a more closely customer-focused goods and services offering.

The two projects in Erfurt and Cologne were completed during the year under review, further to the two projects in Cassel and Mülheim/Ruhr realised earlier. In Cassel the “City Point” inner-city shopping centre, which KARSTADT Immobilien AG & Co. KG has realised jointly with a partner on the site of a former Hertie department store, was opened on February 27, 2002. 50% of this modern shopping centre is in group ownership. 70% of the total of 29,500 sq. m. rented space has been let to third parties.

The "Karstadt Arkaden" on a total of 40,000 sq. m. of space in the Rhine-Ruhr Centre in Mülheim were launched with a third-party letting ratio of 25% on October 23, 2002.

Optimisation of the real-estate portfolio continued

During the year under review we continued to eliminate from our portfolio real estate not required for operation. Profit from the disposal of real estate amounted to 21.5 mill. €.

Two real-estate companies were transferred to KarstadtQuelle Pension Trust e.V. as part of the restructuring of the old age pension provision for group staff.

Integration of systems stepped up

To assist analysis, control and the monitoring of space and increase the efficiency of project development, new EDP systems were introduced in 2002 and existing systems adapted to the increased requirements of the portfolio management.

At the same time we installed an Intranet system for the continuous optimisation of the business processes within the real-estate subsegment. It complements our Internet site (www.karstadt quelle. com/business/ 40.asp) for marketing real estate and rented space. We thus have at our disposal a business and communication platform for the optimisation of business relations with the various partners.

KARSTADT mortgage bank got off to a good start

Since beginning operations in June 2002 the Karstadt mortgage bank placed mortgage bonds worth 546 mill. € and acquired bank loans amounting to 250 mill. €. The mortgage bank's balance sheet total amounted to 1 bill. € in its first full financial year.

OUTLOOK

Integration of construction and facility management

We are consistently continuing the integration of the real-estate-focused operation within the Karstadt Quelle Group. Thus, KARSTADT Immobilien AG & Co. KG in 2003 is assuming responsibility for the central management of all tasks in the facility and construction management.

Third-part letting in focus

An area of concentration in the 2003 financial year is the increase in the space let to outside partners. Amongst the advantages of the concept is the increase in the attractiveness of the department stores by sublettings to partners with complementary and frequency-boosting product ranges. A larger share of third-party providers is also serving to spread the risk letting.

20 city-centre shopping centres

Important components planned of the medium- and long-term earnings targets in the real-estate subsegment are the development and management of inner-city shopping centres. KarstadtQuelle is planning the development of a further 16 properties in the next years.

At the end of 2002 we took decisive measures for four further projects in Potsdam, Munich, Karlsruhe and Leipzig. In Potsdam we are planning a department store centre with a third-party tenant ratio of over 30% and in Munich the expansion of our flagship store by 14,000 sq. m. In Karlsruhe we are completely redesigning a former Hertie department store; in Leipzig we shall as far as possible renovate a former department store. At both the last-mentioned locations the third-party tenant ratio will be much higher and the overall attractiveness of the centres thus increased. We have placed all four properties with financial investors.

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Group profit and loss account

for the year ended December 31, 2002

	Notes Text note	**2002 th. €**	**2001 th. €**
Sales	1	15,814,573	16,067,128
Cost of sales	2	-8,502,568	-8,681,750
Gross earnings		**7,312,005**	**7,385,378**
Other capitalised own work	3	60,429	37,055
Operational income	4	862,233	613,444
Staff costs	5	-3,014,082	-3,157,176
Operational costs	6	-4,127,130	-3,802,118
Other taxes		-30,925	- 33,925
Earnings from ordinary activities		**1,062,530**	**1,042,658**
Income from investments	7	-9,839	99,889
thereof from associated companies		-25,802	68,425
Earnings before interest, tax and depreciation and amortisation (EBITDA)		**1,052,691**	**1,142,547**
Depreciation and amortisation (not including goodwill)	8	-474,845	-462,316
Earnings before interest, tax and amortisation of goodwill (EBITA)		**577,846**	**680,231**
Amortisation of goodwill	8	-93,494	-49,502
Earnings before interest and tax (EBIT)		**484,352**	**630,729**
Net interest income	9	-286,396	-300,074
Other financial income	10	2,404	2,097
Earnings before taxes (EBT)		**200,360**	**332,752**
Taxes on income	11	-30,923	-94,031
Net income before minority shareholdings		**169,437**	**238,721**
Profit/Loss due to other shareholders	12	-7,192	-3,800
Net income after minority shareholdings		**162,245**	**234,921**
Transfer to earnings reserves		-85,184	-121,005
Group profit		**77,061**	**113,916**
Earnings per share in €	13	**1.40**	**2.00**

Group balance sheet

for the year ended December 31, 2002

ASSETS	Notes Text note	2002 th. €	2001 th. €
Fixed assets	14		
Intangible assets		500,709	427,244
Tangible assets		3,876,983	4,204,471
Financial assets		883,730	818,985
		5,261,422	5,450,700
Current assets			
Inventories	15	2,502,391	2,524,236
Receivables and other assets	16	2,236,258	2,097,082
Securities	17	25,441	36,054
Liquid funds	17	144,352	343,206
		4,908,442	5,000,578
Deferred taxes	18	10,030	25,220
Prepayments and accrued income		35,849	33,549
Balance sheet total		10,215,743	10,510,047

EQUITY AND LIABILITIES	Notes Text note	2002 th. €	2001 th. €
Equity	19	1,676,407	1,803,386
Minority shareholdings		69,820	59,523
Long-term liabilities			
Long-term financial liabilities	22	1,594,870	1,424,516
Other long-term liabilities	23	56,842	105,817
Pension provisions	20	2,128,364	2,583,747
Other long-term provisions for liabilities and charges	21	246,559	224,062
		4,026,635	4,338,142
Short-term liabilities			
Short-term financial liabilities	22	1,952,724	1,720,245
Trade payables	23	899,145	929,745
Other short-term liabilities	23	1,066,819	1,006,546
Short-term provisions for liabilities and charges	21	314,683	312,984
		4,233,371	3,969,520
Deferred taxes		206,269	323,810
Accruals and deferred income		3,241	15,666
Balance sheet total		10,215,743	10,510,047

Group fixed assets movement schedule

	Historic purchase or production costs					
	As of 01.01.2002 th. €	Additions/ disposals consolidated companies th. €	Exchange differences th. €	Addition current year th. €	Transfers th. €	Disposal current year th. €
Intangible assets						
Franchises, trademarks, patents, licences and similar rights	268,568	-2,594	473	55,333	22,597	12,579
Own developments	35,510	-	1	16,654	16,703	13,127
Goodwill						
from individual account	37,541	-	57	46	2,141	13
from consolidation	288,134	-	1	78,575	-	6,173
negative goodwill	-749	-	-	-	-	-749
Advance payments						
intangible assets	36,439	-10	1	28,696	-29,643	3,804
intangible assets under development	16,293	-	-	22,460	-11,798	5
	681,736	**-2,604**	**533**	**201,764**	**0**	**34,952**
Tangible assets						
Land, leasehold rights and buildings, including buildings on land owned by others						
Property	6,628,058	-267,157	543	34,992	-71,674	48,733
Finance lease	110,803	-	-1	46,034	-	15,627
Capitalised restoration obligation	1,588	-	-	1,002	-	155
Plant and machinery	130,382	2,330	104	2,729	73,930	6,448
Other equipment, furniture and fixtures	3,088,761	5,176	681	169,280	18,254	148,451
Advance payments and construction in progress	85,285	-923	-27	33,493	-85,672	1,399
	10,044,877	**-260,574**	**1,300**	**287,530**	**-65,162**	**220,813**
Financial assets						
Shares in subsidiaries	66,742	2,180	264	67,746	-84,207	1,962
Loans to subsidiaries	2,302	-3,267	-2	20,458	-14,726	345
Shares in associated companies	546,745	-	-2	75,031	97,817	94,260
Loans to associated companies	50,000	-	-	-	1,001	-
Loans to companies in which investments are held	8,404	-	-	2,670	-1,408	371
Other investments	79,444	-19	1	4,478	4,829	10,040
Financial investments in land and buildings	120,245	-	-1	403	65,162	1,072
Securities of fixed assets	9,614	-	-	705	-	38
Other loans	34,636	-	2	47,099	-3,306	23,645
	918,132	**-1,106**	**262**	**218,590**	**65,162**	**131,733**
	11,644,745	**-264,284**	**2,095**	**707,884**	**0**	**387,498**

	Accumulated depreciation and amortisation							Net book value	
As of 31.12.2002 th. €	As of 01.01.2002 th. €	Additions/ disposals consolidated companies th. €	Exchange differences th. €	Addition current year th. €	Transfers th. €	Disposal current year th. €	As of 31.12.2002 th. €	As of 31.12.2002 th. €	As of 31.12.2001 th. €
331,798	165,475	-1,635	375	57,919	4,707	5,975	220,866	110,932	103,093
55,741	6,574	-	-	536	-5,596	-	1,514	54,227	28,936
39,772	28,997	-	46	3,016	887	13	32,933	6,839	8,544
360,537	53,446	-	17	42,218	2	5,228	90,455	270,082	234,688
0	-	-	-	-	-	-	-	0	-749
31,679	-	-	-	-	-	-	-	31,679	36,439
26,950	-	-	-	-	-	-	-	26,950	16,293
846,477	**254,492**	**-1,635**	**438**	**103,689**	**0**	**11,216**	**345,768**	**500,709**	**427,244**
6,276,029	3,079,368	-122,581	339	187,100	-70,668	41,002	3,032,556	3,243,473	3,548,690
141,209	41,861	-	-	3,127	-	6,251	38,737	102,472	68,942
2,435	280	-	-	300	-	1	579	1,856	1,308
203,027	92,228	1,726	50	12,498	48,366	6,323	148,545	54,482	38,154
3,133,701	2,626,669	6,251	392	197,962	-4,353	137,163	2,689,758	443,943	462,092
30,757	-	-	-	-	-	-	-	30,757	85,285
9,787,158	**5,840,406**	**-114,604**	**781**	**400,987**	**-26,655**	**190,740**	**5,910,175**	**3,876,983**	**4,204,471**
50,763	7,058	-	1	249	795	134	7,969	42,794	59,684
4,420	-	-	-	350	-	-	350	4,070	2,302
625,331	31,664	-	-	48,260	230	-	80,154	545,177	515,081
51,001	-	-	-	-	-	-	-	51,001	50,000
9,295	-	-	-	2,550	-	-	2,550	6,745	8,404
78,693	16,442	-	1	880	-1,283	8,156	7,884	70,809	63,002
184,737	42,825	-	-	15,294	26,656	39	84,736	100,001	77,420
10,281	615	-	-	2	-	114	503	9,778	8,999
54,786	543	-	-	637	257	6	1,431	53,355	34,093
1,069,307	**99,147**	**-**	**2**	**68,222***	**26,655**	**8,449**	**185,577**	**883,730**	**818,985**
11,702,942	**6,194,045**	**-116,239**	**1,221**	**572,898**	**0**	**210,405**	**6,441,520**	**5,261,422**	**5,450,700**

*) Thereof 3,210 thousand € are shown under Other financial income and 1,349 thousand € under Income from investments.

Changes in group equity and minority shareholdings

01.01. – 31.12.2002	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 01.01.2002	**301,460**	**488,521**	**1,025,078**	**-12,384**	**711**	**1,803,386**	**59,523**	**1,862,909**
From the purchase of shares	-23,605	-145,232	-	-	-	-168,837	-428	-169,265
Dividends	-	-	-83,608	-	-	-83,608	-401	-84,009
Generated capital/ group earnings	-	-	162,245	-	-	162,245	7,192	169,437
Differences from foreign currency translation	-	-	-	-	90	90	236	326
Change due to valuation of original and derivative financial instruments	-	-	-	-36,869	-	-36,869	-	-36,869
Due to changes in consolidated companies	-	-	-	-	-	-	4,202	4,202
Other changes in equity without effect for income	-	-	-	-	-	-	-504	-504
Closing balance at 31.12.2002	**277,855**	**343,289**	**1,103,715**	**-49,253**	**801**	**1,676,407**	**69,820**	**1,746,227**

01.01. – 31.12.2001	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 changes in equity 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 statement

	2002 th. €	2001 th. €
Earnings for the period (including shares of earnings of minority shareholders) before taxes on income and extraordinary items	200,360	332,752
Depreciation and amortisation / revaluations fixed assets	571,077	512,646
Earnings/Loss from disposal of assets	-17,534	-19,345
Profit/Loss from foreign currency	3,295	-206
Earnings/Losses absorbed from participating interests	8,490	-100,538
Interest income/expenses	150,785	151,131
Increase/Decrease long-term provisions for liabilities and charges (not including tax provisions)	-139,106	97,174
Other costs/earnings not affecting cash flow	-76,352	118,664
Gross cash flow	**701,015**	**1,092,278**
Increase/Decrease of inventories, trade receivables and other assets, not attributable to investment or financing activities	-457,084	-196,989
Increase/Decrease of trade payables and other liabilities not attributable to investment or financing activities	79,664	-55,039
Cash flow from current business activities	**323,595**	**840,250**
Dividends received	16,059	32,113
Interest received	75,708	86,972
Interest paid	-202,590	-228,286
Payments/Refunds of taxes on income	-44,331	-28,677
Cash flow from current business activities	**168,441**	**702,372**
Cash flow from acquisitions/disinvestment of subsidiaries	61,942	-167,240
Amounts paid out for acquisition of tangible fixed, intangible fixed and long-term assets	-501,926	-682,906
Amounts paid for investment in financial assets	-226,797	-302,409
Amounts paid in from sale of tangible fixed, intangible fixed and long-term assets	91,099	161,695
Amounts paid in from sale of financial assets	29,139	6,729
Amounts paid in for derivatives	-	4,039
Cash flow from investment activities	**-546,543**	**-980,092**
Amounts paid in from equity capital provision	-	7,021
Amounts paid out to/paid in for dividends, capital increase and share repurchase programme	-252,445	-78,759
Amounts paid in/paid under mortgage bond programme and for (finance) loans	401,935	436,513
Payments for liabilities under finance lease	34,018	-8,410
Cash flow from financing activities	**183,508**	**356,365**
Changes in cash and cash equivalents affecting cash flow	**-194,594**	**78,645**
Changes in cash and cash equivalents due to changes in exchange rates and consolidated companies	-14,938	38,211
Cash and cash equivalents at the beginning of the period	378,345	261,489
Cash and cash equivalents at the end of the period	**168,813**	**378,345**

Segment information – KARSTADT QUELLE Group

	KARSTADT QUELLE Group		Reconciliation account		Holding	
	2002 th. €	2001 th. €	2002 th. €	2001 th. €	2002 th. €	2001 th. €
Sales	18,052,459	18,061,626	-	-	-	-
Interest from credit operations	218,742	198,430	-	-	-	-
Internal sales	-2,456,628	- 2,192,928	-1,550,165	-1,421,860	-	-
Group sales	**15,814,573**	**16,067,128**	**-1,550,165**	**-1,421,860**	**-**	**-**
Cost of sales	-8,502,568	-8,681,750	760,004	637,408	-	-
Gross earnings	**7,312,005**	**7,385,378**	**-790,161**	**-784,452**	**-**	**-**
Other capitalised own work	60,429	37,055	40,833	24,531	-	-
Operational income and expenditure	-3,264,897	-3,188,674	742,948	746,941	138,772	-21,188
Staff costs	-3,014,082	-3,157,176	5,786	-78	-17,340	-1,853
Other taxes	-30,925	-33,925	1	-	6	-69
Earnings from operations	**1,062,530**	**1,042,658**	**-593**	**-13,058**	**121,438**	**-23,110**
Income from investments	-9,839	99,889	15	9,178	4,645	-8,415
EBITDA	**1,052,691**	**1,142,547**	**-578**	**-3,880**	**126,083**	**-31,525**
Depreciation and amortisation (not including goodwill)	-474,845	-462,316	2,924	2,595	-1,697	-2,028
EBITA	**577,846**	**680,231**	**2,346**	**-1,285**	**124,386**	**-33,553**
Amortisation of goodwill	-93,494	-49,502	-	-	-	-
EBIT	**484,352**	**630,729**	**2,346**	**-1,285**	**124,386**	**-33,553**
Net interest income	-286,396	-300,074	1,049	978	-111,542	-123,316
Other financial income	2,404	2,097	-530	-978	4,749	2,710
EBT	**200,360**	**332,752**	**2,865**	**-1,285**	**17,593**	**-154,159**
EBIT margin in %	3.1	3.9	-	-	-	-
EBT margin in %	1.3	2.1	-	-	-	-
EBTA	**293,854**	**382,254**	**2,865**	**-1,285**	**17,593**	**-154,159**
EBTA margin in %	1.9	2.4	-	-	-	-
Segment assets	10,205,713	10,484,827	-4,817,727	-3,358,460	2,757,282	1,791,835
Segment liabilities	8,333,067	8,382,851	-4,677,808	-3,333,013	4,395,549	3,955,046
Capital employed	7,208,013	7,188,688	-81,696	197	-180,912	263,454
ROCE in %	6.7	8.8	-	-	-	-
Gross cash flow	701,015	1,092,278	-707	-466	-187,172	-141,413
Investments	738,336	1,230,901	-	-	54,677	103,484
Employees (annual average)	83,926	89,379	-	-	144	135

Segment information by region

	KARSTADT QUELLE Group		Reconciliation account		Domestic	
	2002 th. €	2001 th. €	2002 th. €	2001 th. €	2002 th. €	2001 th. €
Sales	18,052,459	18,061,626	-	-	15,801,928	15,959,486
Interest from credit operations	218,742	198,430	-	-	169,033	147,843
Internal sales	-2,456,628	-2,192,928	-446,283	-439,020	-1,710,583	-1,545,242
Group sales	**15,814,573**	**16,067,128**	**-446,283**	**-439,020**	**14,260,378**	**14,562,087**
Cost of sales	-8,502,568	-8,681,750	433,466	390,859	-7,943,737	-8,085,251
Gross earnings	**7,312,005**	**7,385,378**	**-12,817**	**-48,161**	**6,316,641**	**6,476,836**
EBITA	**577,846**	**680,231**	**5,258**	**-4,936**	**488,112**	**596,876**
EBTA	**293,854**	**382,254**	**5,780**	**-4,561**	**208,805**	**306,853**
EBIT	**484,352**	**630,729**	**5,258**	**-4,936**	**402,560**	**552,832**
EBT	**200,360**	**332,752**	**5,780**	**-4,561**	**123,253**	**262,809**
Segment assets	10,205,713	10,484,827	-2,192,641	-827,403	10,048,780	9,831,871
Segment liabilities	8,333,067	8,382,851	-2,189,004	-812,564	8,665,583	8,128,518
Investments	738,336	1,230,901	-	-	641,574	1,140,382

Over-the-counter retail 2002 th. €	Over-the-counter retail 2001 th. €	Mail order 2002 th. €	Mail order 2001 th. €	Services 2002 th. €	Services 2001 th. €	Real estate 2002 th. €	Real estate 2001 th. €
7,493,614	8,114,169	8,722,942	8,321,221	1,340,756	1,142,388	495,147	483,848
-	-	218,742	198,430	-	-	-	-
-156,207	-45,062	-712,669	-706,968	-37,587	-19,038	-	-
7,337,407	**8,069,107**	**8,229,015**	**7,812,683**	**1,303,169**	**1,123,350**	**495,147**	**483,848**
-4,266,963	-4,647,196	-4,213,000	-3,962,044	-782,422	-708,357	-187	-1,561
3,070,444	**3,421,911**	**4,016,015**	**3,850,639**	**520,747**	**414,993**	**494,960**	**482,287**
8,502	6,333	2,409	4,356	8,685	1,835	-	-
-1,267,034	-1,291,004	-2,614,298	-2,417,558	-187,968	-166,815	-77,317	-39,050
-1,725,632	-1,862,053	-1,025,941	-1,094,616	-245,794	-196,379	-5,161	-2,197
-1,446	-1,541	-12,027	-16,133	-11	-6	-17,448	-16,176
84,834	**273,646**	**366,158**	**326,688**	**95,659**	**53,628**	**395,034**	**424,864**
1,176	1,444	542	8,789	-16,217	73,066	-	15,827
86,010	**275,090**	**366,700**	**335,477**	**79,442**	**126,694**	**395,034**	**440,691**
-156,483	-170,259	-139,257	-125,010	-46,302	-43,942	-134,030	-123,672
-70,473	**104,831**	**227,443**	**210,467**	**33,140**	**82,752**	**261,004**	**317,019**
-6,092	-3,237	-38,416	-13,533	-48,973	-31,679	-13	-1,053
-76,565	**101,594**	**189,027**	**196,934**	**-15,833**	**51,073**	**260,991**	**315,966**
-59,106	-41,808	-74,343	-93,656	-11,422	3,682	-31,032	-45,954
-262	-277	951	459	-	-43	-2,504	226
-135,933	**59,509**	**115,635**	**103,737**	**-27,255**	**54,712**	**227,455**	**270,238**
-1.0	1.3	2.3	2.5	-1.2	4.6	52.7	65.3
-1.9	0.7	1.4	1.3	-2.1	4.9	45.9	55.9
-129,841	**62,746**	**154,051**	**117,270**	**21,718**	**86,391**	**227,468**	**271,291**
-1.8	0.8	1.9	1.5	1.7	7.7	45.9	56.1
2,435,846	3,171,430	3,965,386	4,125,778	1,042,170	1,195,205	4,822,756	3,559,039
2,353,723	2,516,635	3,837,641	3,435,535	507,323	624,610	1,916,639	1,184,038
1,023,670	856,550	2,559,138	2,298,979	656,522	816,423	3,231,291	2,953,085
-	11.9	7.4	8.6	-	6.3	8.1	10.7
33,330	371,754	394,160	431,651	100,386	55,535	361,018	375,217
164,844	548,878	259,129	304,640	179,557	227,639	80,129	46,260
49,722	55,463	28,557	30,007	5,436	3,748	67	26

EU Western Europe 2002 th. €	EU Western Europe 2001 th. €	Eastern Europe 2002 th. €	Eastern Europe 2001 th. €
2,168,992	2,041,410	81,539	60,730
49,709	50,587	-	-
-294,674	-205,409	-5,088	-3,257
1,924,027	**1,886,588**	**76,451**	**57,473**
-952,581	-955,230	-39,716	-32,128
971,446	**931,358**	**36,735**	**25,345**
78,907	**88,604**	**5,569**	**-313**
73,228	**80,037**	**6,041**	**-75**
71,997	**83,335**	**4,537**	**-502**
66,318	**74,768**	**5,009**	**-264**
2,314,193	1,457,020	35,381	23,339
1,842,664	1,060,011	13,824	6,886
95,713	89,761	1,049	758

PRINCIPLES OF THE GROUP ACCOUNT

Principles

The Group Account of KARSTADT QUELLE AG and its subsidiary companies has been prepared in accordance with the current 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 Section 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 Group Account has been prepared in euros.

Methods of consolidation

Included in the Group Account of KARSTADT QUELLE AG are all major subsidiary companies under the legal and/or factual control of KARSTADT QUELLE AG. Major 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 measurement.

Where subsidiary companies are consolidated for the first time, the acquisition costs are set off against the pro rata equity obtained after the distribution of hidden reserves and hidden charges to assets and debts. A remaining asset 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 adjusted in accordance with the treatment of the corresponding assets and liabilities.

The cost of investments included by the equity method is adjusted by the amount 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 receivables, liabilities and provisions between companies included in the consolidation have been eliminated. Intermediate earnings from the intercompany supply of goods and services are eliminated.

Accounting and measurement principles

Intangible fixed assets

Intangible fixed assets are measured at cost less scheduled linear depreciation and amortisation. Depreciation and amortisation is 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 decreases in value unscheduled depreciation and amortisation are 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 measured 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 measured 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 extension of or substantial increase in the respective asset value.

Rented tangible assets are shown in accordance with IAS 17. Depreciation and amortisation are 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 – specifically, shares in non-consolidated group companies, associated companies not measured by the equity method, other investments, loans and fixed asset securities – are measured individually at the assignable current value, if they are not 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 measured at adjusted purchase cost and, in the case of anticipated permanent decrease in 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 likewise measured at adjusted purchase cost. In the case of anticipated permanent decrease in value a write-down to the lower assignable current value is applied.

Inventories

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

Long-term development projects

Real-estate development projects are shown in accordance with IAS 11. Here pro-rata earnings are realised in accordance with the progress of the project, unless a loss is anticipated.

Realisation of partial profits is based on a calculation of the costs so far incurred as a percentage of the total estimated costs.

Receivables 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. At the balance sheet date adequate provisions 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 Operating expenses.

Securities of current assets

Securities of current assets have been valued under IAS 39 since the beginning of the 2001 financial year at current values.

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

Deferred taxes

Deferred tax claims or liabilities are shown for temporary divergences between valuations on the commercial and tax balance sheets of the consolidated companies.

The assessment and measurement 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.

Pension provisions shown on the balance sheet are calculated as the balance of the cash value of the commitments, the actuarially calculated profit and loss not yet taken into account with effect for income and the market value of the scheduled assets.

Other provisions are made for contingent liabilities and losses resulting from pending transactions. The provisions are measured 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 on an accrual basis in the item “Changes resulting from the measurement of derivative financial instruments” under Equity or as income for the period under the measurement results in Other financial results.

KARSTADT QUELLE AG and its subsidiary companies use derivative financial instruments 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 addition and are adjusted at each balance sheet date to the rate applying at that date. Translation differences of minus 3,295 th. € resulting (previous year: plus 206 th. €) have been entered with effect for income.

The annual accounts of the foreign subsidiary companies are translated into the report currency in accordance with the functional currency concept. The functional currency is in all cases the respective national currency. 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 shown under Equity without effect for earnings. The most important rates have developed relative to the euro as follows:

	Average rate		Rate at balance sheet date	
	2002 €	2001 €	2002 €	2001 €
100 Danish kroner	13.451	13.422	13.462	13.446
1 English pound	1.590	1.614	1.538	1.643
100 Hongkong Dollar	13.565	14.365	12.305	14.534
100 Polish zlotys	25.889	27.368	24.955	28.516
100 Swedish kroner	10.909	9.253	10.935	9.33
100 Swiss francs	68.159	66.273	68.847	67.545
100 Slovakian korunas	2.342	2.308	2.398	2.339
100 Czech korunas	3.247	2.947	3.183	3.126
1,000 Hungarian forints	4.116	3.899	4.24	4.066

Important acquisitions and corporate reorganisation

In March 2002 Quelle AG and Neckermann AG stepped up investments in MultiBus AG Gesellschaft für Verbundmarketing acquired in 2001 to the extent that the majority of shares is held in the Karstadt Quelle Group. In September 2002 the investments were transferred to KARSTADT QUELLE Information Services GmbH, as part of the reorganisation of legal relationships. Goodwill totalling 13.9 mill. € results from the acquisition of the two blocks of shares necessary for a majority.

In June 2002 Quelle AG acquired the majority of the shares in HSM Direkt AG at a cost of 12 mill. €. Goodwill amounts to 12.8 mill. €.

In March 2002 Mercatura Holding GmbH & Co. KG took over the British Simon Jersey Group Ltd. at a cost of 10.7 mill. €. Calculated goodwill amounts to 13.7 mill. €.

In autumn 2002 a comprehensive corporate reorganisation was carried out. The core of this concept is the creation of a holding subgroup structure which reflects the segment structure of the group existing to date.

To this purpose three new subholding companies have been set up under KARSTADT QUELLE AG to combine operations in the Over-the-counter retail, Mail-order and Services segments

In the Over-the-counter subgroup Karstadt GmbH holds the shares of the operating units in the Department stores segment (particularly Karstadt Warenhaus AG) and the shares in M + T Mode- und Textilhaus-Beteiligungs Gesellschaft m.b.H., which concentrates the operations in the textile specialist sector.

In the Mail-order subgroup KARSTADT QUELLE Versand GmbH, as subholding company, holds all the shares in Neckermann Versand AG and Quelle AG. Important operating companies in the specialty mail-order section have also been transferred to QuelleNeckermann Spezialversand GmbH by Neckermann Versand AG and Quelle AG.

Substantial changes relate to the Services subgroup. As a sub-holding company, KARSTADT QUELLE Service GmbH holds shares in KARSTADT QUELLE Business Services GmbH (B2B operations) as well as KARSTADT QUELLE Kunden-Service GmbH (B2C operations).

Investments, comprising ITELLIUM Systems & Services GmbH, KARSTADT QUELLE Information Services GmbH, KARSTADT QUELLE New Media AG, Optimus Logistics GmbH as well as servicelogiQ GmbH logistische Dienstleistungen, were sold or transferred in return for corporate rights to KARSTADT QUELLE Business Services GmbH by a number of group companies. Because of the close intermeshing of these operations with those of the previous shareholders shares in KARSTADT QUELLE Business Services GmbH are held by KARSTADT QUELLE Service GmbH as well as Karstadt GmbH, Neckermann Versand AG and Quelle AG.

KARSTADT QUELLE Kunden-Service GmbH holds shares in Karstadt Coffee GmbH, KARSTADT QUELLE Financial Services GmbH and KARSTADT QUELLE Freizeit GmbH, the major assets of which are 50% of the shares in Thomas Cook AG.

The profits earned from the reclassification of these investments were – because the transfers were intercompany transactions – totally eliminated. The presentation of the primary group segments compared with the previous year is not affected, since the corporate reorganisation merely gave the segment presentation applied up to now legal effect.

Moreover, real estate was transferred to real estate management companies by companies in the over-the-counter and mail-order subgroups. This emphasises the strategy of concentrating the real-estate owned in the real-estate subgroup.

Segment assets change as follows:

Transfer of land under reorganisation

	Book values 31.12.2002 th. €
Over-the-counter retail	-194,793
Mail order	-548,243
Real estate	743,036

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.

There are 402 domestic and 89 foreign companies consolidated. Five companies are measured by the equity method. Not included in consolidation are subsidiaries, if their influence on the Group Account is immaterial.

In the 2002 financial year 46 companies were newly included in the Group Account (thereof 27 real-estate companies), in addition to the sub-holdings newly consolidated under the corporate reorganisation including:

- CAP Customer Advantage Program GmbH, Cologne,
- Confidential Beteiligungs GmbH, Frankfurt am Main,
- Data Select Gesellschaft für Marketing Service mbH, Frankfurt/Main,
- HSM Direkt AG, Karlsruhe (incl. two subsidiaries),
- Karstadt Coffee GmbH, Essen,
- KARSTADT QUELLE Information Services GmbH, Essen,
- KARSTADT QUELLE Konzern-Einkauf GmbH, Essen,
- MultiBus Aktiengesellschaft, Gesellschaft für Verbundmarketing, Filderstadt,
- Simon Jersey Group Ltd., Altham Accrington, Great Britain,
- NeBus Loyalty B.V., Hulst, Netherlands.

The following left the group of fully consolidated companies in the financial year under review:

- KARSTADT QUELLE Financial Services GmbH Düsseldorf (now consolidated at equity),
- KARSTADT QUELLE Bank GmbH, Neu-Isenburg (now consolidated at equity),
- Kepa Kaufhaus Gesellschaft mit beschränkter Haftung, Essen
- Warenhaus WERTHEIM GmbH, Berlin,
- maul + co - Chr. Belser GmbH, Nuremberg.

The major subsidiaries and associated companies are listed on pages 158 to 160. 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 balance sheet of the Karstadt Quelle Group:

	Acquisitions th. €	Disinvestments th. €
Gross earnings	36,400	377
Earnings before interest, tax and depreciation/amortisation (EBITDA)	8,398	-1,750
Earnings before interest, tax and amortisation of goodwill (EBITA)	6,305	-1,750
Earnings before tax and amortisation of goodwill (EBTA)	4,148	-1,756
Fixed assets	57,595	144,661
Current assets	42,226	315,017
Deferred taxes	1,505	1,160
Prepayments and accrued income	384	416
Assets	**101,710**	**461,254**
Long-term liabilities	24,602	121,499
Short-term liabilities	38,018	210,246
Deferred taxes	5	26,363
Accruals and deferred income	143	-
Debts	**62,768**	**358,108**

The effect of earnings before income tax and amortisation of goodwill (EBTA) from disinvestment amounting to minus 1,756 th. € includes effects up to the time of final consolidation. Income from final consolidation amounts to 167,365 th. € and, including the effects up to the transfer of the companies, results in a total positive effect of 165,609 th. €. The effects of acquisitions and disinvestments on earnings before income tax total 169,757 th. €.

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 218,742 th. € (previous year: 198,430 th. €) at the mail-order companies included in the Group Account.

No longer included in Earnings from sales were earnings generated by so-called concession shops.

In the previous year earnings from sales would have been shown as 15,977,621 th. € through this change. No effect on earnings has resulted from this change. There was merely a change from a gross presentation of sales and cost of sales to a net presentation under Operating income.

2 Cost of sales

The cost of sales is broken down as follows:

	2002 th. €	2001 th. €
Cost of purchased goods, raw materials and supplies	7,854,559	8,132,439
Cost of purchased services	648,009	549,311
	8,502,568	**8,681,750**

3 Other capitalised own work

Other capitalised own work 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:

	2002 th. €	2001 th. €
Income from advertising cost subsidies	175,859	156,800
Income from rents and commissions	118,185	94,177
Income from the reversal of other provisions	34,225	44,173
Income from the disposal of fixed assets	27,316	38,644
Income from final consolidation	238,927	15,871
Income from on-charged deliveries and services	27,890	32,096
Income from other services	23,193	26,259
Income from the retransfer of valuation allowances	8,575	8,718
Other income	208,063	196,706
	862,233	**613,444**

Income from final consolidation relates to fully consolidated companies to the value of 167,845 th. € as well as companies consolidated by the equity method to the value of 71,082 th. €. The final consolidations relate to income from the sale of 50% of shares in KARSTADT QUELLE Financial Services GmbH and to earnings from the final consolidation of investments, which were transferred to a company pension fund as planned assets within the meaning of IAS 19.

5 Staff costs

	2002 th. €	2001 th. €
Wages and salaries	2,544,806	2,595,860
Social-security contributions and cost of pensions and welfare benefits	424,274	533,616
thereof for pensions	-71,774	17,513
Other staff costs	45,002	27,700
	3,014,082	**3,157,176**

Expenses for old-age pension provision include income from scheduled changes amounting to 174,559 th. € and expenses for redundancy payments amounting to 59,163 th. € resulting from reorganisation of the old-age pension provision in the Karstadt Quelle Group.

Other staff costs include cost of anniversary bonuses and staff recruitment as well as training costs.

Under the incentive stock options plan the conditions for exercise of subscription rights were 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 page 137.

6 Operating expenses

	2002 th. €	2001 th. €
Sales costs	2,554,616	2,395,550
Operating and office/workshop costs	784,656	769,988
Administrative costs	359,022	301,080
Discounts on and write-off of trade receivables	180,882	151,757
Losses from the disposal of fixed assets	9,782	19,303
Other	238,172	164,440
	4,127,130	**3,802,118**

Sales costs include mainly the cost of goods despatch, motor vehicles, advertising and catalogues. The increase is mainly due to the expansion of the sales volume in mail order. Operating expenses includes expenses for rent 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 34,525 th. € (previous year 39,068 th. €) 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 increase is also due to expenses incurred in connection with the flood disaster in August 2002.

7 Income from investments

	2002 th. €	2001 th. €
Losses/Income from investments in associated companies	-25,802	68,425
Income from other investments	20,117	31,704
thereof from subsidiaries	12,234	28,098
Profits received under profit and loss transfer agreements	540	2,423
Expenses from transfer of losses	-3,345	-2,014
Write-down of financial assets	-1,349	-649
	-9,839	**99,889**

Losses from investments in associated companies include losses of minus 23,871 th. € (previous year: 61,922 th. €) from the 50% investment in Thomas Cook AG. Measurement is 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 minus 72,131 th. € (previous year: 30,258 th. €) to earnings before income tax.

8 Depreciation and amortisation

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

	2002 th. €	2001 th. €
Scheduled depreciation/amortisation on tangible fixed assets and intangible fixed assets	439,248	461,822
Non-scheduled depreciation/amortisation on tangible and intangible fixed assets	35,597	494
	474,845	**462,316**

Amortisation of goodwill

	2002 th. €	2001 th. €
Amortisation from capital consolidation	90,478	45,307
Amortisation from individual accounts	3,016	4,195
	93,494	**49,502**

The amortisation of goodwill from capital consolidation in the amount of 48,260 th. € (previous year: 31,664 th. €) relates to Thomas Cook AG.

9 Net interest

	2002 th. €	2001 th. €
Interest expenses due to additions to pensions reserves	-152,902	-148,460
Other interest and similar income	75,709	86,972
thereof from subsidiaries	6,808	3,438
Other interest and similar expenses	-209,203	-238,586
thereof to subsidiaries	-3,254	-816
	-286,396	**-300,074**

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

	2002 th. €	2001 th. €
Other financial expenses	-24,284	-1,156
Other financial income	26,688	3,253
	2,404	**2,097**

Other financial expenses include the measurement of changes in the market value of hedged items amounting to 16,849 th. € (previous year: 0).

Other financial income includes the measurement of derivative financial instruments amounting to 22,371 th. € (previous year: 1,845 th. €).

11 Tax on income and earnings

	2002 th. €	2001 th. €
Actual tax owed	85,306	79,678
Deferred taxes	-54,383	14,353
	30,923	**94,031**

Since the beginning of 2001 the rate of corporation tax has been 25%, increased to 26.5% until 2003 under the Flood Disaster Solidarity Law of September 2002. The effect of this for deferred taxes in the group is immaterial.

As well as corporation tax, on which a German 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 and income for other periods amounting to 38,169 th. € (previous year 6,850 th. €).

Reconciliation account from anticipated to actual tax costs in the profit and loss account

	2002 th. €	2001 th. €
Net income before income tax	**200.360**	**332.752**
Anticipated tax costs (39%)	78,140	129,773
Additions and reductions for trade tax	-19,893	-29,654
Back payments and refunds previous years	38,169	6,850
Effects from foreign tax rates	-10,142	-6,416
Effects of non-taxable income	-84,626	-11,529
Amortisation of goodwill	27,661	17,141
Non-deductible operating expenses	4,653	1,558
Provision for/Utilisation of value-adjusted loss carry-forwards	4,028	1,835
Other divergences	-7,067	-15,527
Tax costs in the profit and loss account	**30,923**	**94,031**

Other divergences include mainly the effect of divergent overall tax ratios on investments calculated for the balance sheet by the equity method, and the effects of divergent tax rates.

12 Profit/loss due to other shareholders

	2002 th. €	2001 th. €
Shares of profit	18,765	8,496
Shares of loss	-11,573	-4,696
	7,192	**3,800**

13 Net earnings per share

		2002	2001
Net profit after minorities	th. €	162,245	234,921
Number of shares on annual average	number	115,611,968	117,602,244
Net earnings per share	€	**1.40**	**2.00**

In accordance with IAS 33, net earnings per share are calculated by dividing the net profit after minority shareholdings by the average number of shares. Here the reduction in the number of shares through the share repurchase programme was taken into account pro rata.

The diluted net earnings per share do not differ from the disclosed amounts 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, on the one hand, the acquisition of shares in MultiBus Aktiengesellschaft Gesellschaft für Verbundmarketing, HSM Direkt AG, as well as Simon Jersey Group Ltd.

On the other, goodwill resulting from the acquisition of M + T Mode- und Textilhaus-Beteiligungs Gesellschaft m.b.H., Fritz Berger GmbH & Co. KG and Hess Natur-Textilien GmbH & Co. has been increased by 38,199 th. € through adjustment of hidden reserves and charges distributed on initial consolidation. Under IAS 36 goodwill to the value of 25,788 th. € has been impaired unscheduled.

The economic ownership of leased objects is measured 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 at the time the agreement was signed or at the lower of the cash value of the lease payments. 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	
	2002 th. €	2001 th. €	2002 th. €	2001 th. €	2002 th. €	2001 th. €	2002 th. €	2001 th. €
Finance leasing agreements								
Lease payments due in future	123,446	63,993	41,812	5,748	28,249	52,844	53,385	5,401
Discount	-25,846	-6,620	-2,713	-640	-11,421	-4,833	-11,712	-1,147
Cash value	**97,600**	**57,373**	**39,099**	**5,108**	**16,828**	**48,011**	**41,673**	**4,254**
Operate leasing agreements								
Lease payments due in future	2,207,846	2,399,839	263,710	284,708	876,427	891,555	1,067,709	1,223,576
Discount	-657,648	-709,817	-11,536	-13,367	-151,742	-141,622	-494,370	-554,828
Cash value	**1,550,198**	**1,690,022**	**252,174**	**271,341**	**724,685**	**749,933**	**573,339**	**668,748**
Lease payments under sublease	38,203	57,044	11,496	10,285	25,615	18,954	1,092	27,067

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 108,026 th. €. These comprise buildings to the value of 102,472 th. € 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. The book value of furniture and fixtures also includes finance-leased assets to the value of 5,554 th. €.

Operate leasing agreements mainly include building rents without purchase options.

Financial investments in land and buildings (investment properties) are entered on the balance sheet and valued at purchase or manufacturing cost.

The market values, which are based mainly on internally adjusted assessments by outside third parties (independent expert valuers), amount to 170,815 th. €.

The profit and loss account includes as part of financial investment in land and buildings income from rents amounting to 7,623 th. € with associated operating costs of 14,629 th. € (of which from scheduled depreciation and amortisation: 4,019 th. €). Furthermore, assets to the value of 12,100 th. € included in this group were written down unscheduled.

15 Inventories

Inventories are broken down as follows:

	2002 th. €	2001 th. €
Raw materials and supplies	49,466	72,715
Merchandise	2,452,734	2,451,521
Advance payments	191	-
	2,502,391	**2,524,236**

Inventories are spread over the business segments:

	2002 th. €	2001 th. €
Over-the-counter retail	1,327,492	1,374,020
Mail order	1,165,297	1,137,696
Other	9,602	12,520
	2,502,391	**2,524,236**

16 Receivables and Other assets

Receivables and Other assets comprise:

	2002 th. €	2001 th. €
Trade receivables	1,393,089	1,291,068
thereof with a remaining term exceeding 1 year	322,667	405,966
Amounts owed by subsidiaries	131,489	120,071
Amounts owed by associated companies	18,804	11,221
Amounts owed by companies in which investments are held	45,707	33,595
Other assets	647,169	641,127
thereof with a remaining term exceeding 1 year	23,941	6,826
	2,236,258	2,097,082

Trade receivables are spread over the business segments as follows:

	2002 th. €	2001 th. €
Over-the-counter retail	70,493	65,110
Mail order	1,277,602	1,009,862
Other	44,994	216,096
	1,393,089	1,291,068

Also shown under Trade receivables are long-term real-estate projects, which are accounted for by the percentage-of-completion method under IAS 11.

The amount of 1,028 th. € shown is the balance resulting from contract costs (5,128 th. €), realised profits (1,400 th. €) and instalment payments (minus 5,500 th. €) already received.

The Quelle and Neckermann Groups sell short-term trade receivables on a revolving basis. New sales of receivables brought in as at the balance sheet date additional liquidity of 875,335 th. € (previous year: 909,351 th. €).

Other assets include catalogue costs allocated to later years amounting to 175,671 th. € (previous year: 174,023 th. €). Tax refund claims, derivative financial instruments and debit balances from suppliers are also shown under this item.

17 Liquid funds, securities

Liquid funds include:

	2002 th. €	2001 th. €
Cheques	547	4,079
Cash in hand and Bundesbank credits	48,397	206,900
Cash at banks	95,408	132,227
	144,352	343,206

Marketable securities of current assets are assessed at assignable current values.

Foreign exchange balances are assessed at the rate applying at the balance sheet date.

18 Deferred taxes

Deferred taxes are shown on the balance sheet in accordance with IAS 12. Deferred taxes shown on the balance sheet relate to the following balance sheet items:

	2002 Assets th. €	2002 Liabilities th. €	2001 Assets th. €	2001 Liabilities th. €
Fixed assets	117,552	503,705	100,664	569,216
Current assets	27,264	89,268	15,094	81,003
Long-term liabilities	219,667	10,289	233,081	260
Short-term liabilities	27,666	36,204	13,542	12,769
Loss carried forward	55,097	-	54,834	-
Other	110	4,129	43	52,600
Balancing	-437,326	-437,326	-392,038	-392,038
Group balance sheet	**10,030**	**206,269**	**25,220**	**323,810**

Accruals and deferred taxes on accumulated losses brought forward amounting to 45,730 th. € are not shown.

19 Equity

Authorised capital and additional paid-in capital

The authorised capital of KARSTADT QUELLE AG was reduced during the second half of the financial year by 23,605 th. € to 277,855 th. € by the share repurchase, which the Management Board was authorised to undertake under a resolution of the Annual General Meeting on July 11, 2002. It is divided into 108,537,135 (previous year: 117,757,775) no-par-value bearer shares with a share value of 2.56 € each.

Approved Capital I

On July 20, 2000, the Annual General Meeting resolved the raising of Approved Capital I.

The Management Board is authorised, subject to the approval of the Supervisory Board, to increase by June 30, 2005, the authorised capital by up to 40 mill. € by the issue in one or more parts of new no-par-value bearer shares against cash contribution. At the same time shareholders will be offered the right to subscribe to the shares.

Approved Capital II

On July 20, 2000, the Annual General Meeting resolved the raising of Approved Capital II.

The Management Board is authorised, subject to the approval of the Supervisory Board, to increase by June 30, 2005, the authorised capital by up to 40 mill. € by the issue in one or more parts of new bearer shares against cash contribution. Where capital increases are for cash, shareholders will be offered the right to subscribe to the new shares.

Approved Capital III

The Annual General Meeting on July 11, 2002, revoked in respect of Approve Capital III the existing regulations in the statutes of KARSTADT QUELLE AG and resolved new regulations.

The Management Board is authorised, subject to the approval of the Supervisory Board and under exclusion of the right of shareholders to subscribe, to increase by up to 4 mill. € by June 30, 2007, the authorised capital by the issue in one or more parts of up to 1,562,500 new no-par-value bearer shares to employees of the company or subordinate subsidiary companies against cash contribution.

Conditional Capital I (Convertible bonds and/ or bonds with warrant)

The Management Board was authorised 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 mill. € and with a term of not more than 20 years and to grant bearers and creditors of convertible bonds conversion rights or bearers or creditors of bonds with warrant option rights on new company shares with a pro-rata share of the authorised capital of up to 50 mill. € 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 mill. €. 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 Annual General Meeting resolved the raising of Approved Capital II.

The Management Board is authorised, subject to the approval of the Supervisory Board and under exclusion of the right of shareholders to subscribe, to increase by September 30, 2009, the authorised capital by the issue of up to 6,380,000 new bearer no-par-value shares to managerial staff of the company against cash contribution.

The conditional capital will be increased only to the extent that use is made of the right to subscribe.

Authorisation to acquire own shares

On July 11, 2002, the Annual General Meeting authorised the Management Board to acquire company shares in order to launch company shares on foreign stock exchanges on which until then they had not been licensed to trade, or to be able to offer company shares to third parties 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 under the aforementioned 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 10% of the authorised capital of 301,459,904 € existing on July 11, 2002. The right of shareholders to purchase own company shares is precluded insofar as these shares are used in accordance with the aforementioned authorisations. 9,220,640 shares, representing 7.83% of the share capital, had been repurchased by the balance sheet date.

Share-oriented remuneration

In the financial year KARSTADT QUELLE AG has at its disposal various instruments for linking remuneration, which is in any case partly performancerelated, to the corporate success of KARSTADT QUELLE AG.

In the 2001 financial year the group also launched an Incentive Stock Options Plan with a total term of eight years and over 1,000 persons eligible to participate. 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 on at least ten consecutive days at least 30 % higher than the subscription price, and
b) from the date at which the option was granted the above mentioned stock exchange closing price is on at least 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.

The second tranche was set up in September 2002. Under this authorisation 726 staff have acquired 1,000 stock options each. KARSTADT QUELLE AG issued a total of 1,914,000 stock options from the first two tranches by the balance sheet date. The issue price for the first tranche was 35.58 € and for the second 22.41 €.

The conditions for the exercise of the stock options had not been exercised at the balance sheet date.

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

Schickedanz Pensionsverwaltung GmbH & Co. KG, Fürth, announced that with effect from November 30, 2002, its share of votes, including assignments under Section 22 Para. 1 No. 1 WpHG, amounted to 4.952%.

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,** and **Grisfonta AG Landquart, Switzerland,** announced that as of April 1, 2002, their shares in our company, including assignable votes, now totalled 36.398%.

Mrs. **Margarete Riedel, Fürth,** announced that as of April 1, 2002, her share of votes in our company, including the votes of **Riedel Holding GmbH & Co. KG, Fürth,** assignable under Section 22 Para. 1 No. 1 WpHG, amounted to 12.24%.

Allianz AG, Munich, announced that on December 23, 2002, the share of votes held by **Orpheus Vermögensverwaltungsgesellschaft, Munich,** had fallen below the level of 5% and that it had thus lost its share of votes. The share of votes held by **FGL Frankfurter Gesellschaft für Luftfahrtwerte mbH, Frankfurt am Main,** on December 23, 2002, exceeded the level of 10% and its voting share amounted to 13.15%. The share of votes held by **Dresdner Bank AG, Frankfurt am Main,** on December 23, 2002, exceeded the level of 10% and amounted to 13.61%. 13.15% of these votes are assignable to **Dresdner Bank AG, Frankfurt am Main,** under Section 22 Para. 1 No. 1 WpHG. The share of votes held by **Allianz Finanzbeteiligungs GmbH, Munich,** on December 23, 2002, exceeded the level of 10% and its voting share amounted to 13.61%. These voting rights are assignable to **Dresdner Bank AG, Frankfurt am Main,** under Section 22 Para. 1 No. 1 WpHG.

Additional paid-in capital

Additional paid-in capital decreased during the financial year by 145,232 th. € to 343,289 th. € through the repurchase of 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 shown 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.

For assessment and valuation a distinction must be made 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, inasfar as risks are hedged efficiently. On fulfillment of the underlying transaction they are entered with effect for income.

Proposed distribution of dividends

The Management Board proposes to the Annual General Meeting that a dividend of 77.1 mill. €, be paid out of the net profit calculated for KARSTADT QUELLE AG for the 2002 financial year in accordance with the principles of the German Commercial Code (HGB). This represents a dividend per share of 0.71 € equalling that of the previous year.

Performance of derivative financial instruments in equity

	Before tax th. €	Tax effect th. €	Net th. €
Unrealised profits/losses from derivative financial instruments as at 01.01.2002	**-19,522**	**7,138**	**-12,384**
Unrealised profits/losses from derivative financial instruments for the period under review			
Releases	883	-344	539
Transfers	-60,483	23,075	-37,408
Unrealised profits/losses from derivative financial instruments as at 31.12.2002	**-79,122**	**29,869**	**-49,253**

20 Pension provisions

Provisions are set up for commitments arising from future 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.

As part of a reorganisation of pension regulations at Karstadt Warenhaus AG, Neckermann Versand AG and Quelle AG, pension claims were converted to capital amounts and redundancy payments agreed for minimum-level pensions during the year under review. These changes resulted in a decrease in staff costs amounting to 115,396 th. €.

Pension provisions are shown 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.

During the financial year planned assets were created for the first time by transfer of the investments in KARSTADT QUELLE Vermögensverwaltung GmbH and maul + co - Chr. Belser GmbH to the newly set up KarstadtQuelle Pension Trust e.V. The result was income of 169,926 th. € from the final consolidation of the investments and balancing of the pension provision with the market value of the planned assets.

As well as assumptions of life expectancy, the following parameters are applied:

Accounting parameters

	Applied parameters	
	31.12.2002 in %	31.12.2001 in %
Interest rate for accounting purposes	5.75	5.75
Anticipated development of income	3.0	3.0
Anticipated development of pension	2.0	2.0
Expected return from planned assets	5.6	-
Average employee turnover	5.0	5.0

Pension provisions are accounted for by applying the 10 % corridor rule. Actuarially calculated profits or losses are not taken into account if they do not exceed 10% of the higher of the pension liabilities or market value of the planned assets. 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 recognised the liabilities shown on the balance sheet are lower than the present value of the defined benefit obligations.

Balance-sheet commitments

	2002 th. €	2001 th. €
Cash value of future pension commitments (DBO)	2,525,502	2,728,826
Actuarially calculated profits/losses not taken into account	-89,295	-136,566
Expenses under Changes in Claims from previous years not taken into account	-836	-
Market value of scheduled assets	-311,745	-
Other	4,738	-8,513
	2,128,364	**2,583,747**

Cash value of future pension rights (DBO)

	2002 th. €	2001 th. €
As at 01.01.	2,713,810	2,518,020
Service costs	34,173	12,477
Interest	152,902	148,460
Pension payments	-150,358	-137,707
Actuarially calculated profits/losses	-46,962	136,566
Changes in plans	-174,559	-
Addition from consolidated companies and other changes	-3,504	51,010
As at 31.12.	**2,525,502**	**2,728,826**

Pension costs

	2002 th. €	2001 th. €
Service costs	34,173	12,477
Interest	152,902	148,460
Actuarially calculated profits/losses with effect on income	309	-
Post-service cost	450	-
Redundancy payments	59,163	-
Income from changes in plans	-174,559	-
	72,438	**160,937**

Whereas the cost of pension claims accrued during the financial year and income from schedule changes are shown under Staff costs, interest is included under Financial results. Income from the transfer of assets to KarstadtQuelle Pension Trust e.V.is included under Other income as income from final consolidation.

21 Other provisions

	Total 2002 th. €	thereof less than 1 year th. €	Total 2001 th. €	thereof less than 1 year th. €
Tax provisions	159,589	54,238	119,591	33,466
Other provisions	401,653	260,445	417,455	279,518
	561,242	**314,683**	**537,046**	**312,984**

Other provisions developed as follows in the financial year:

	As at 01.01.2002 th. €	Changes consolidated companies th. €	Differences foreign currencies th. €	Utilisation th. €	Reversal th. €	Addition th. €	As at 31.12.2002 th. €
Staff	176,108	-108	8	57,262	3,340	64,491	179,897
Guaranties/ warranties	50,361	113	26	44,517	1,528	35,543	39,998
Contingent losses from pending transactions	47,577	-	-	19,720	9,590	25,648	43,915
Other	143,409	-21,225	83	34,992	19,767	70,335	137,843
	417,455	**-21,220**	**117**	**156,491**	**34,225**	**196,017**	**401,653**

Staff-related provisions include provisions for anniversary bonuses, death benefits, redundancy payments and old-age part-time work.

Other provisions include liabilities resulting from litigation, closures of branches as well as other restructuring expenses due to third parties.

22 Financial liabilities

	Total th. €	thereof with a remaining term of: up to 1 year th. €	1 to 5 years th. €	more than 5 years th. €
Bank loans and overdrafts	2,765,415	1,696,434	352,679	716,302
Previous year	2,747,522	1,457,396	453,917	836,209
Liabilities under leasing agreements	97,600	39,099	16,828	41,673
Previous year	57,373	5,108	48,011	4,254
Other financial creditors	684,579	217,191	6,500	460,888
Previous year	339,866	257,741	15,161	66,964
As at 31.12.2002	**3,547,594**	**1,952,724**	**376,007**	**1,218,863**
Previous year	3,144,761	1,720,245	517,089	907,427

Liabilities under leasing agreements are shown at cash value. Other financial payables include liabilities from commercial paper amounting to 159,800 th. € (previous year: 253,900 th. €).

Financial liabilities are secured by mortgages amounting to 725,285 th. €. In addition, there is mortgage security amounting to 997 mill. € under the KARSTADT Hypothekenbank AG's mortgage bond programme.

Book and market values of financial creditors

	Market values		Book values	
	31.12.2002 th. €	31.12.2001 th. €	31.12.2002 th. €	31.12.2001 th. €
Short- and long-term financial creditors	3,645,094	3,198,761	3,547,594	3,144,761

23 Other liabilities

The remaining terms of Other liabilities are shown in the following table:

	Total	thereof with a remaining term of		
	th. €	up to 1 year th. €	1 to 5 years th. €	more than 5 years th. €
Advance payments received on orders	16,743	16,741	2	0
previous year	17,170	17,170	0	0
Liabilities on bills accepted	27,624	27,624	0	0
previous year	34,797	34,797	0	0
Trade payables	900,841	899,145	496	1,200
previous year	929,976	929,745	231	0
Amounts owed to subsidiaries	28,432	26,499	726	1,207
previous year	38,142	34,253	1,169	2,720
Amounts owed to associated companies	30,852	30,852	0	0
previous year	2,457	2,457	0	0
Amounts owed to companies in which investments are held	92,855	92,855	0	0
previous year	18,008	18,008	0	0
Other creditors	925,459	872,248	45,684	7,527
thereof taxes	*207,909*	*197,101*	*10,808*	*0*
thereof social security	*77,532*	*77,485*	*47*	*0*
previous year	1,001,558	899,861	73,589	28,108
thereof taxes	246,973	237,550	9,423	0
thereof social security	82,842	82,842	0	0
As at 31.12.2002	2,022,806	1,965,964	46,908	9,934
previous year	2,042,108	1,936,291	74,989	30,828

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:

	2002 th. €	2001 th. €
Liabilities resulting from guaranties	309	1.502
Liabilities under warranty agreements	2,701	2,773
Collateral liabilities	12,736	24
	15,746	**4,299**

Contingent liabilities are 204 th. € owed to subsidiary companies.

As well as contingent liabilities, there are Other financial commitments of 1,550,198 th. € (previous year: 1,690,022 th. €) arising mainly from the lease of buildings or before discounting to the value of 2,207,846 th. € (previous year: 2,399,839 th. €).

Other purchase commitments total 1,118,272 th. € (previous year: 656,901 th. €).

In 2001 the Karstadt Quelle Group set up an Incentive Stock Options plan, which was further developed during the year under review. 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 company, 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 payables 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 company's contract partners in the case of derivative financial instruments are mainly banks of first-class credit standing.

Foreign exchange derivatives

The market value of foreign exchange forward contracts depends on foreign exchange forward exchange rates.

On the group balance sheet these are carried at a market value of 3 th. € (previous year: 3,322 th. €) under Other assets and at a market value of 31,261 th. € (previous year: 383 th. €) 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 carried at a market value of 23,780 th. € (previous year: 5,170 th. €) under Other assets and at a market value of 49,977 th. € (previous year: 28,444 th. €) under Other short-term liabilities.

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	
	2002 th. €	2001 th. €	2002 th. €	2001 th. €
Currency-related transactions				
Forward exchange purchase contracts	-31,258	3,322	445,854	246,658
Currency call options	-	-383	-	27,186
	-31,258	**2,939**	**445,854**	**273,844**
Interest-related transactions				
Forward Rate Agreements	-	-	-	153,388
Interest swaps	-26,202	-23,405	1,887,848	1,207,409
CAPs	5	-	418,570	418,569
	-26,197	**-23,405**	**2,306,418**	**1,779,366**
	-57,455	**-20,466**	**2,752,272**	**2,053,210**

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 STATEMENT

The cash flow statement is shown on page 125.

The cash flow statement shows changes in the flow of cash and cash equivalents in the Karstadt Quelle Group during the year under review. 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 comprises amounts included in Liquid funds from cheques, cash in hand and cash balances at banks with terms of up to three months as well as short-term securities amounting to 24,461 th. € (previous year: 35,139 th. €).

The change in cash flow resulting from changes in the consolidation group amounts to minus 14,938 th. € (previous year: 38,211 th. €).

NOTES TO THE SEGMENT REPORT

The segment report is shown on pages 126 to 127.

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 group companies. 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 long- and short-term borrowed capital as well as accruals and deferred income.

Segment investments comprise intangible assets including accrued goodwill, tangible assets and financial assets.

Gross cash flow comprises the net profit 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 other expenses and income with no effect for payments.

The concentration of information services in KARSTADT QUELLE Information Services GmbH results in slight changes to the segment reports compared with the previous year. This relates mainly to the presentation of Universum Inkasso GmbH and Data Select GmbH under the Services segment instead of under Mail order as in the previous year. For further changes in the segment reports, please see pages 133 and 134 “Major acquisitions and corporate reorganisation”.

The Capital Employed comprises equity, pension provisions, financial liabilities, less liquid funds. The change in Capital Employed resulting from the reorganisation of the Real-estate segment has been incorporated in the calculations as an average assessment. 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 1,451 th. € (previous year: 1.438 th. €). The fixed remuneration of the Management Board amounts to 3,059 th. € (previous year: 2,843 th. €), the variable components to 4,298 th. € (previous year: 4,791 th. €), those of former members of the Management Board and their surviving dependants to 5,021 th. € (previous year: 4,238 th. €). Pension provisions for former members of the Management Board and their surviving dependants total 45,132 th. € (previous year: 34,213 th. €).

The members of the Supervisory Board are listed on pages 12, 161 to 162. The members of the Management Board are listed on pages 4, 5 and 163.

Relations with affiliated companies and persons

The Karstadt Quelle Group maintained the following business relations with affiliated companies and persons in 2002 and 2001:

	2002 th. €	2001 th. €
Goods and services supplied	1,202	2,049
Goods and services received	-381	-1,776
	821	273

Amounts due from affiliated companies/persons at the balance sheet date amount to 149 th. € (previous year: 2,006 th. €).

KarstadtQuelle Pension Trust e.V. and Karstadt Quelle Mitarbeiter Trust e.V set up during the financial year constitute affiliated companies because of the composition of their Management Boards. In return for the assumption of commitments to make payments to recipients of pensions from KARSTADT QUELLE AG investments in two companies were transferred to these associations during the financial year. Because the Management Boards of the associations are bound by the object of their statutes, no material influence may be assumed.

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.

One member of the Management Board maintains with the approval of the Supervisory Board legal relations with a consulting company which during the financial year provided services to the group for less than 2 mill. €.

Relations with affiliated companies are maintained on the same conditions as between outside third parties.

Declarations of Compliance with the German Corporate Governance Code in accordance with Section 161 German Stock Corporation Law

The Management Board and Supervisory Board on December 20, 2002, issued and made continuously accessible on the company's Internet site the first Declaration of Compliance in accordance with Section 161 German Stock Corporation Law. The Declaration of Compliance is also reproduced in the "Corporate Governance" section on pages 16 to 18 of the Annual Report. The Declaration of Compliance issued by the stock-exchange-listed subsidiary Sinn Leffers Aktiengesellschaft, Hagen, was likewise published and made continuously accessible to shareholders on December 20, 2002.

Waiver of disclosure under Section 264 Para. 3 and Section 264b German Commercial Code

The following domestic subsidiaries having the legal form of a corporation or commercial partnership within the meaning of Section 264a German Commercial Code have satisfied the requirements of Section 264 Para. 3 and Section 264b German Commercial Code for exemption and therefore dispense with the disclosure of their annual accounts.

Exemption under Section 264 Para. 3 German Commercial Code

- KARSTADT QUELLE New Media AG, Essen
- KARSTADT Vermietungsgesellschaft mbH, Essen
- Optimus Logistics GmbH, Nuremberg
- Karstadt Sport Handelsgesellschaft mbH, Essen
- KARSTADT QUELLE Konzern-Einkauf GmbH, Essen
- KARSTADT QUELLE Service GmbH, Essen
- KARSTADT QUELLE Business Services GmbH, Essen
- KARSTADT QUELLE Kunden-Service GmbH, Essen
- KARSTADT QUELLE Freizeit GmbH, Essen

Exemption under Section 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
- Fritz Berger GmbH & Co. KG, Neumarkt
- Hess Natur-Textilien GmbH & Co. KG, Bad Homburg
- 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
- Krähe Versand GmbH & Co. KG, Schlierbach
- Mercatura Holding GmbH & Co. KG, Nuremberg
- OPTIMUS GmbH Logistik & Co. Warendienstleistungs KG, Brieselang
- Peter Hahn Grundstücksgesellschaft mbH & Co., Winterbach
- TRADO Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Dresden KG, Pöcking, Landkreis Starnberg
- TriStyle Holding GmbH & Co. KG, Neu-Isenburg
- WEHMEYER GmbH & Co. Kommanditgesellschaft, Aachen

Major subsidiary companies consolidated in the annual account

(as at 31.12.2002)

Company name and registered office		Capital holding in %	Equity th. €	Sales th. €	Number of employees [1)]
Over-the-counter retail					
Karstadt GmbH, Essen [3)]	(C)	100	440,983	-	-
Karstadt Warenhaus Aktiengesellschaft, Essen	(C)	100	535,428	6,422,387	51,752
Sinn Leffers Aktiengesellschaft, Hagen	(C)	91.9	57,401	573,622	4,434
WEHMEYER GmbH & Co. Kommanditgesellschaft, Aachen	(C)	100	36,274	191,158	1,649
Schaulandt Electronic GmbH, Essen	(C)	100	6,394	161,816	567
Runners Point Warenhandels-gesellschaft mbH, Essen	(C)	100	6,632	86,401	946
WOM World of Music Produktions- und Verlags-GmbH, Essen	(C)	100	-4,199	42,868	243
Le Buffet System- Gastronomie und Dienstleistungs-GmbH, Dreieich	(C)	100	392	37,720	784
GOLF HOUSE Direktversand GmbH, Hamburg	(C)	74.9	-1,641	19,981	173
Karstadt Sport Handelsgesellschaft mbH., Essen	(C)	100	3,050	3,867	5
M + T Mode- und Textilhaus-Beteiligungs Gesellschaft m.b.H., Essen	(C)	100	111,996	-	-
Mail order					
KARSTADT QUELLE Versand GmbH, Essen [3)]	(C)	100	1,194,000	-	-
Quelle Aktiengesellschaft, Fürth	(C)	100	275,992	4,081,709	12,596
Neckermann Versand Aktiengesellschaft, Frankfurt/Main	(C)	100	205,431	1,524,215	6,057
TriStyle Holding GmbH & Co. KG, Neu-Isenburg [2)]	(C)	51	12,043	499,807	1,555
QUELLE S.A., Saran, France [2)]	(C)	100 *	35,357	440,034	1,650
Quelle Aktiengesellschaft, Linz, Austria [2)]	(C)	100 *	48,280	269,719	1,623
VERSANDHAUS WALZ Gesellschaft mit beschränkter Haftung, Baby-Walz, Die moderne Hausfrau, Bad Waldsee	(C)	100	5,113	234,142	990
Neckermann B.V., Hulst, Netherlands	(C)	100	54,402	187,639	554
Mercatura Holding GmbH & Co. KG, Nuremberg [2)]	(C)	100	27,827	137,507	1,179

Company name and registered office		Capital holding in %	Equity th. €	Sales th. €	Number of employees [1]
AFIBEL S.A., Villeneuve d'Ascq, France	(C)	79.5 *	19,125	135,023	415
Neckermann Versand Österreich AG, Graz, Austria	(C)	100	29,296	119,305	392
Happy Size-Company Versandhandels GmbH, Frankfurt/Main	(C)	100	26	94,848	-
Elegance Rolf Offergelt GmbH, Aachen [2]	(C)	100	5,257	79,787	443
Hess Natur-Textilien GmbH & Co. KG, Bad Homburg	(C)	100	1,315	42,333	199
Bon' A Parte Postshop A/S, Ikast, Denmark	(C)	100	30,424	38,963	304
Krähe Versand GmbH & Co. KG, Schlierbach	(C)	100	6,663	20,664	128
Fonetix Call Center GmbH & Co. KG, Chemnitz	(C)	100	875	19,341	345
Services					
KARSTADT QUELLE Service GmbH, Essen [3]	(C)	100	1,378,300	-	-
KARSTADT QUELLE Kunden-Service GmbH, Essen [3]	(C)	100	1,358,300	-	-
KARSTADT QUELLE Business Services GmbH, Essen [3]	(C)	100 *	147,215	-	-
Optimus Logistics GmbH, Nuremberg	(C)	100	500	577,731	289
ITELLIUM Systems & Services GmbH, Essen	(C)	100	5,000	296,693	1,655
Euro-Papier N.V., Temse, Belgium	(C)	100 *	2,744	156,835	5
Profectis GmbH Technischer Kundendienst, Nuremberg	(C)	100	2,556	122,951	1,880
servicelogiQ GmbH logistische Dienstleistungen, Nuremberg	(C)	100	521	67,388	1,368
Karstadt Quelle International Services AG, St. Gallen, Switzerland	(C)	100	44,799	60,380	112
KARSTADT QUELLE New Media AG, Essen	(C)	100	21,772	-	43

(C) fully consolidated
1) annual average, not including trainees
2) including subsidiaries
3) subholding
*) Group participating interest calculated

Company name and registered office		Capital holding in %	Equity th. €	Sales th. €	Number of employees 1)
Real estate					
KARSTADT Immobilien AG & Co, KG, Essen 3)	(C)	100	938,043	2,358	47
MOSTIA Grundstücksgesellschaft mbH & Co. KG, Grünwald near Munich	(C)	100	-21,338	15,484	-
TRADO Grundstücks-Verwaltungs-gesellschaft mbH & Co. Objekt Dresden KG, Pöcking, Landkreis Starnberg	(C)	98 *	-71,382	11,425	-
„HOLM“ Grundstücks-Verwaltungsgesell-schaft mbH & Co., Objekt Brieselang KG, Pöcking, Landkreis Starnberg	(C)	100 *	-16,764	5,414	-
KINTO Grundstücks-Verwaltungsgesell-schaft mbH, Grünwald near Munich	(C)	94.5	25	-	-

(C) fully consolidated
1) annual average, not including trainees
2) including subsidiaries
3) subholding
*) Group participating interest calculated

Major participations of the KARSTADT QUELLE Group

(as at 31.12.2002)

Company name and registered office		Capital holding in %	Equity th. €	Sales th. €
Thomas Cook Aktiengesellschaft, Oberursel/Taunus 1)	(E)	50	567,317	1,511,347
TC Touristik GmbH, Oberursel/Taunus 1)	(E)	55 *	115,961	2,039,293
KARSTADT QUELLE Financial Services GmbH, Düsseldorf	(E)	50	143,019	22,304

(E) consolidated at equity
1) financial year from 01.11.2001 to 31.10.2002
*) 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)

Wolfgang Pokriefke *, Bremen
Deputy Chairman
Chairman of the Overall Works Council of Karstadt Warenhaus Aktiengesellschaft

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
- Beiersdorf AG
- Continental AG
- KM Europa Metal AG (Chairman)
- mg technologies ag

Comparable supervisory functions:
- Banco Popular Español
- BPI Banco Portugues de Investimento
- Crédit Lyonnais
- Les Assurances Générales de France (AGF)
- EULER & Hermes, Paris

Jürgen Damm *, Grevenbroich
Chairman of the Works Council of Karstadt Warenhaus Aktiengesellschaft, Düsseldorf branch, Schadowstrasse; electrician

Bodo Dehn *, Mönchengladbach-Rheydt
Chairman of the Works Council of Karstadt Warenhaus Aktiengesellschaft, Mönchengladbach-Rheydt branch

Supervisory board seats by law:
- Karstadt Warenhaus Aktiengesellschaft

Gisela Drescher *, Wilhelmshaven
– w.e.f. 11.07.2002 –
Member of the Works Council of Karstadt Warenhaus Aktiengesellschaft, Wilhelmshaven branch; commercial staff in retail trade

Hubert Gartz *, Hamburg
Secretary to the Board of the German ver.di Trade Union

Leo Herl, Fürth
Chairman of the Management Board of Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG

Supervisory board seats by law:
- Karstadt Warenhaus Aktiengesellschaft
- Neckermann Versand Aktiengesellschaft
- Quelle Aktiengesellschaft
- Quelle Bauspar Aktiengesellschaft (Chairman)

Ulrich Hocker, Düsseldorf
Main Director of Deutsche Schutzvereinigung für Wertpapierbesitz e.V.

Supervisory board seats by law:
- CBB Holding AG (Chairman)
- E.ON AG
- Feri Finance AG
- ThyssenKrupp 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 seat by law:
- Quelle Aktiengesellschaft **

Reinhard Koep, Mülheim/Ruhr
former Member of the Management Board of KARSTADT QUELLE Aktiengesellschaft

* representing the employees
** group subsidiaries

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 function:
– Verlagsgruppe Georg von Holtzbrinck GmbH

Dr. Ingo Riedel, Fürth
Chairman of the Management Board of
Riedel Holding GmbH & Co. KG

Supervisory board seats by law::
– Karstadt Warenhaus Aktiengesellschaft
– Quelle Aktiengesellschaft
– Quelle Bauspar Aktiengesellschaft
– Thomas Cook Aktiengesellschaft

Christa Schubert *, Recklinghausen
Deputy Chairman of the Works Council
of Karstadt Warenhaus Aktiengesellschaft,
Recklinghausen branch,
commercial assistant

Günter Strohmeier *, Munich
– until 11.07.2002 –
Chairman of the Works Council of Karstadt
Warenhaus Aktiengesellschaft, Munich branch,
Schleissheimer Strasse

Dr. Gunter Thielen, Gütersloh
Chairman of the Management Board
of Bertelsmann Aktiengesellschaft

Supervisory board seat 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:
– Allianz AG
– Continental AG
– Dresdner Bank AG
– E.ON AG
– Quelle Aktiengesellschaft
– TUI AG
– Wacker Chemie GmbH

Comparable supervisory functions:
– ABB Ltd., Zürich (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 Technik AG (Chairman) **
– Thomas Cook Aktiengesellschaft (Chairman)

Comparable supervisory function:
– Loyalty Partner GmbH (Chairman) **

Dr. Franziska Wiethold *, Berlin
Member of the Federal Management Board
of the ver.di Trade Union

Supervisory board seats by law:
– Quelle Aktiengesellschaft
– REWE Deutsche Supermarkt KGaA

Rüdiger Wolff *, Berlin
Secretary to the Federal Management Board
of the ver.di Trade Union,

Supervisory board seat by law:
– Karstadt Warenhaus Aktiengesellschaft

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* representing the employees
** group subsidiaries

MANAGEMENT BOARD

Wolfgang Urban, Brühl
Chairman

Supervisory board seats by law:
- ERGO Versicherungsgruppe AG
- 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 function:
- WEHMEYER GmbH & Co. KG *

Dr. Christoph Achenbach, Stein

Supervisory board seat by law:
- Kaiser's Tengelmann AG

Comparable supervisory functions:
- AFIBEL S.A. (Chairman) *
- Quelle Aktiengesellschaft, Linz *
- Quelle S.A., Saran *
- Quelle La Source S.A., Saran *

Peter Gerard, Düsseldorf

Supervisory board seats by law:
- IDS Scheer AG
- ITELLIUM Systems & Services GmbH (Chairman) *
- KarstadtQuelle Lebensversicherung AG
- KarstadtQuelle Versicherung AG (Chairman)
- KarstadtQuelle Krankenversicherung AG (Chairman)
- Neckermann Versand Aktiengesellschaft *
- Quelle Aktiengesellschaft *
- Thomas Cook Aktiengesellschaft

Comparable supervisory functions:
- CAP Customer Advantage Program GmbH (Deputy Chairman)
- KARSTADT QUELLE Bank GmbH (Chairman)
- KARSTADT QUELLE Financial Services GmbH (Chairman)
- KARSTADT QUELLE Information Services GmbH (Chairman) *
- manpower GmbH personaldienstleistungen

Prof. Dr. Helmut Merkel, Flomborn

Supervisory board seats by law:
- ITELLIUM Systems & Services GmbH *
- KARSTADT Immobilien Beteiligungs AG (Chairman) *
- KARSTADT QUELLE New Media AG *
- Novasoft AG (Chairman)
- Quelle Aktiengesellschaft *
- Sinn Leffers Aktiengesellschaft (Chairman) *

Comparable supervisory function:
- WEHMEYER GmbH & Co. KG (Chairman) *

Norbert Nelles, Rösrath

Supervisory board seats by law:
- KARSTADT Hypothekenbank AG (Deputy Chairman) *
- Karstadt Warenhaus Aktiengesellschaft *

Comparable supervisory function:
- KARSTADT QUELLE Bank GmbH

Werner Piotrowski, Witzenhausen
– Until 30.06.2002 –

Supervisory board seats by law:
- Neckermann Lebensversicherung AG
- Neckermann Versand Aktiengesellschaft *
- Neckermann Versicherung AG

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* group subsidiaries

STATEMENT OF THE MANAGEMENT BOARD

The Management Board of KARSTADT QUELLE AG is responsible for preparing the Group Account and the Management Report (Group Management Report).

The Group Account for the period to December 31, 2002, 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 292a 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, Düsseldorf, public auditors, have examined the Group Account and Management Report and given them an unqualified auditor's certificate.

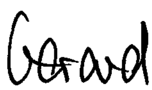
The Group Account, the Management Report, the Dependent Companies Report and the Auditor's Reports were discussed in detail at the meeting of the Supervisory Board, which was also attended by the auditor. The result of its examination is noted in the Supervisory Board Report (see Pages 13 to 15).

Essen, March 21, 2003
KARSTADT QUELLE Aktiengesellschaft

The Management Board

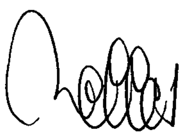
Urban

Dr. Achenbach



Gerard

Prof. Dr. Merkel



Nelles

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, 2002. 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) and observing in addition the International Standards on Auditing (ISA). 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, 2002, 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, 2002, satisfy the conditions for exemption of the company from preparation of a group account and group management report in accordance with German law.

Düsseldorf, March 25, 2003
BDO Deutsche Warentreuhand Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
(A public auditing company)

Harnacke	Horn
Wirtschaftsprüfer	Wirtschaftsprüfer
(Public auditor)	(Public auditor)

5-YEAR SUMMARY

			1998	1999	2000 4)	2001 4)	2002 4)
Group sales	Sales	million €	9,327.4	14,843.0	15,444.5	16,067.1	15,814.6
	EBIT 1)	million €	173.4	280.8	533.7	630.7	484.4
	EBT	million €	139.9	225.4	238.2	332.8	200.4
	EBT margin	in %	1.5	1.5	1.5	2.1	1.3
	Net profit for the year	million €	101.9	218.6	165.2	234.9	162.2
Finances and dividend	Gross cash flow	million €	465.8	699.8	784.7	1,092.3	701.0
	Liquid funds	million €	277.2	217.3	253.1	343.2	144.4
	Depreciation and amortisation	million €	301.1	367.9	453.6	462.3	474.8
	Dividend	million €	47.2	72.9	78.8	83.6	77.1
Structure of balance sheet	Balance sheet total	million €	5,474.0	7,925.0	9,814.9	10,510.0	10,215.7
	Equity	million €	1,343.3	1,698.7	1,653.2	1,803.4	1,676.4
	Equity ratio	in %	24.5	21.4	16.8	17.2	16.4
	Fixed assets	million €	2,639.3	3,280.8	4,846.0	5,450.7	5,261.4
	Current assets	million €	2,826.7	4,614.6	4,915.0	5,000.6	4,908.4
Other information	Employees on 31.12.	number	89,399	113,490	113,120	112,141	104,536
	Staff costs	million €	2,300.0	3,169.5	3,109.8	3,157.2	3,014.1
	Investments	million €	416.5	481.7	676.9	1,230.9	738.3
	Department stores and specialty stores in over-the-counter retail	number	389	383	390	465	484
	Sales space in over-the-counter retail on 31.12.	in th. sq.m	2,395.9	2,388.3	2,390.2	2,613.8	2,646.0
KARSTADT QUELLE AG share	Dividend per individual share certificate 2)	€	5.62	0.62	0.67	0.71	0.71
	Net earnings per share 3)	€	8.40	1.59	1.41	2.00	1.40
	Market price at end of year	€	444.82	39.80	32.90	44.40	16.50
	Highest price	€	508.74	48.70	40.73	44.85	45.45
	Lowest price	€	287.35	30.55	27.30	30.15	13.80
	Market value at end of year	million €	3,736.5	4,678.5	3,867.4	5,228.4	1,943.0

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
2002 on 108,537,135 individual share certificates
3) until 2000 number of individual share certificates as shown under 2)
2001 on 117,602,244 individual share certificates
2002 on 115,611,968 individual share certificates
4) with effect from 2000 presentation in accordance with IAS

GLOSSARY

Annex products

Insurance services linked to the purchase of retail products, e.g. guarantee extensions or theft insurances.

Asset-backed securitisation (ABS)

The sale of receivables to a company, which refinances itself by the issue of securities, to obtain liquidity.

Assets

Valuable, company-owned tangible and intangible goods which are suitable for establishing superior competitive positions.

Back-up facilities

Confirmed credit lines that can be drawn on in the event of the insufficient market liquidity of a capital market product and so ensure continuous solvency.

Capital employed

Employed or tied-up capital.

Cash flow

An index for assessing the financial and earning power of a company. The cash flow provides information about the supply of liquid funds generated during a period.

Commercial paper

Discounted money-market paper with a fixed term of between seven days and two years, minus one day.

Community (customer) card

Central customer loyalty card issued by several partners active in complementary consumer segments and combining various functions, such as bonus and credit facilities.

Contractual Trust Arrangement (CTA)

Contractually regulated, company trust fund for the transfer of assets to be used to finance pension payments.

Corporate Governance

Comprises the entire management and control of a company, including its organisational structure, business policy principles, guidelines and internal and external regulation and monitoring mechanisms.

Cross-docking

Process in which goods being transported to the branches are delivered collectively to the logistics units 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.

Currency swap

Exchange of currencies at a time and price fixed in advance.

Derivative financial instruments

Marketable future products the valuation of which is determined by the price, fluctuations in the price and expectations of underlying, classical basic instruments, e.g. foreign exchange or securities

EBIT

Earnings before interest and income tax.

EBITDA

Earnings before interest, tax, depreciation and amortisation.

EBT

Earnings before tax.

EBTA

Earnings before taxes and amortisation of goodwill.

EBTA margin

Earnings before tax and amortisation of goodwill relative to sales.

EBT margin

Earnings before tax relative to sales.

E-commerce

Electronic commerce between companies and consumers.

Economic Value Added® (EVA)

A management and incentive system for increasing the value of companies. A business creates value if it generates EVA's 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 the management of buildings and real estate to maintain and increase their value.

Fulfillment, back-office processes

All processes relating to a customer order, such as logistics and administrative processes and additional services.

Gross cash flow

Adjustment of the pre-tax results for a period to take account of the depreciation or appreciation of fixed assets and the increase and decrease of provisions.

HappyDigits

Joint loyalty card bonus system of KarstadtQuelle and Deutsche Telekom.

Impairment depreciation

Non-scheduled depreciation to take account of value decreases, e.g. where an internal use value or the net sales value of a good is higher than its book value.

Incentive stock option plan

A form of performance-related remuneration where under certain conditions the management is given the option of acquiring shares in its own company on fixed terms.

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 (outstanding) shares of a company.

M-DAX
The Deutsche Börse AG (German Stock Exchange Co.) share index comprising fifty medium-sized companies. The criteria for inclusion in the index are market capitalisation and stock exchange sales.

Multibranding
Use of successful mail-order catalogue ranges for specific offers to target groups under a new brand name.

Multi-channel network
Network comprising the numerous distribution and information channels of the KarstadtQuelle Group (department stores, specialty stores, catalogues, Internet).

Multimatching
Combination in the group of existing product ranges to create new catalogue concepts, for example, the joint Karstadt and Quelle sports catalogue.

Primary segments
The Over-the-counter, Mail-order, Services, Real-estate and Holding segments are defined under IAS as primary segments within the KarstadtQuelle Group.

Returned goods facility
Warehouse in which goods which have been sent back by customers or branches are processed.

ROCE
EBIT in proportion to capital employed.

Sales in comparable space
The comparison of two periods on the premise that the space in which the sales were achieved has not changed.

Share repurchase
Purchase of own shares in the company on the basis of an authorisation by the Annual General Meeting.

Shopping portal, e-shop
A Website which enables customers to access the products and information offered in Internet commerce.

Synergies
Positive economic effects (e.g. cost savings) obtained by merging companies or centralising individual operations.

TV-commerce
Electronic commerce via the TV set.

Working capital
Balance of inventories and short-term customer receivables and short-term trade payables.

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CALENDAR 2003

Annual General Meeting (Düsseldorf)	May 28, 2003
Dividend distribution	May 30, 2003
Interim reports	
1st quarter	May 15, 2003
2nd quarter	August 7, 2003
3rd quarter	November 6, 2003

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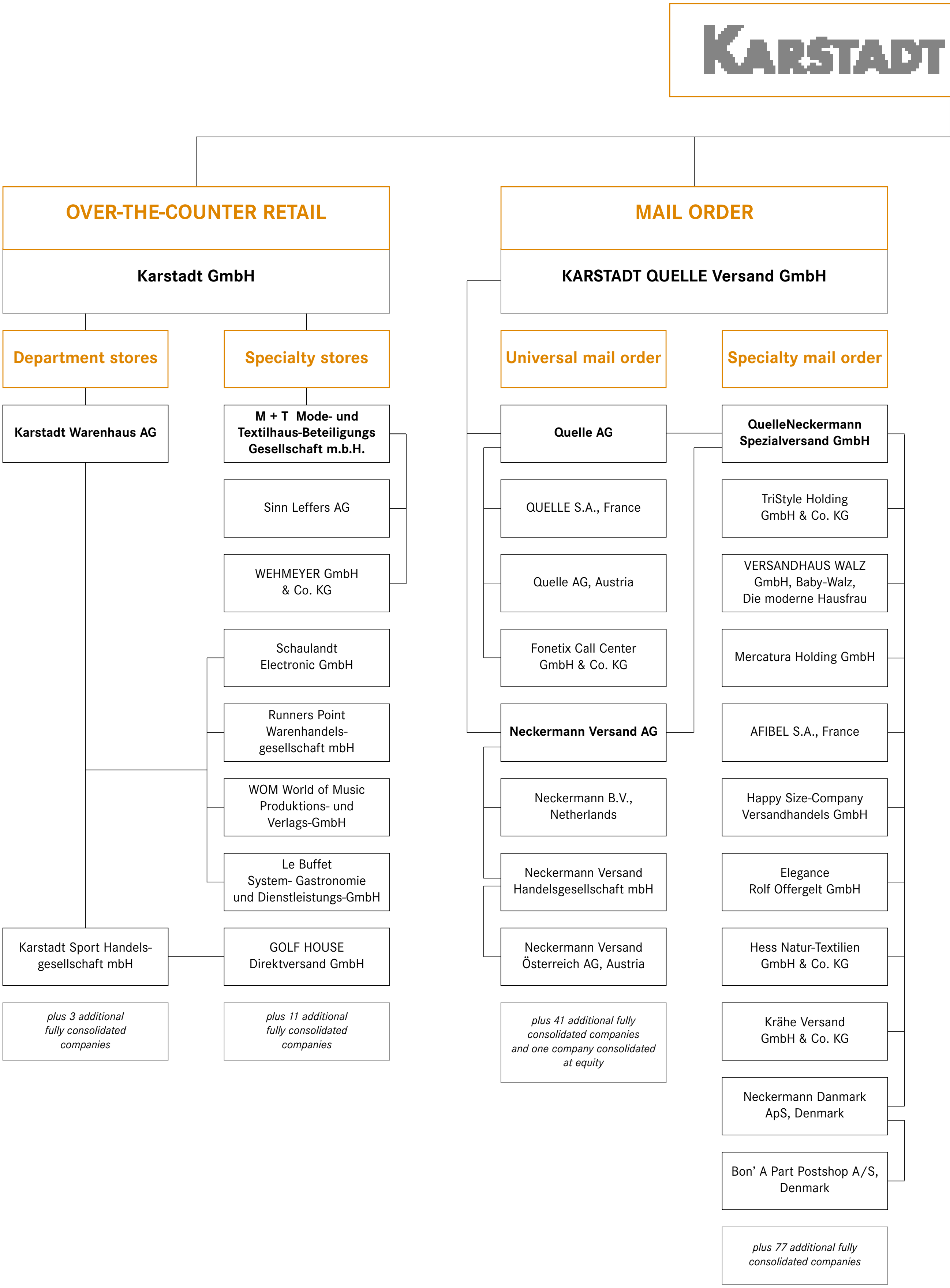
OVER-THE-COUNTER RETAIL
Karstadt GmbH
Department stores
Karstadt Warenhaus AG
Karstadt Sport Handels-gesellschaft mbH
plus 3 additional fully consolidated companies
Specialty stores
M + T Mode- und Textilhaus-Beteiligungs Gesellschaft m.b.H.
Sinn Leffers AG
WEHMEYER GmbH & Co. KG
Schaulandt Electronic GmbH
Runners Point Warenhandels-gesellschaft mbH
WOM World of Music Produktions- und Verlags-GmbH
Le Buffet System- Gastronomie und Dienstleistungs-GmbH
GOLF HOUSE Direktversand GmbH
plus 11 additional fully consolidated companies
MAIL ORDER
KARSTADT QUELLE Versand GmbH
Universal mail order
Quelle AG
QUELLE S.A., France
Quelle AG, Austria
Fonetix Call Center GmbH & Co. KG
Neckermann Versand AG
Neckermann B.V., Netherlands
Neckermann Versand Handelsgesellschaft mbH
Neckermann Versand Österreich AG, Austria
plus 41 additional fully consolidated companies and one company consolidated at equity
Specialty mail order
QuelleNeckermann Spezialversand GmbH
TriStyle Holding GmbH & Co. KG
VERSANDHAUS WALZ GmbH, Baby-Walz, Die moderne Hausfrau
Mercatura Holding GmbH
AFIBEL S.A., France
Happy Size-Company Versandhandels GmbH
Elegance Rolf Offergelt GmbH
Hess Natur-Textilien GmbH & Co. KG
Krähe Versand GmbH & Co. KG
Neckermann Danmark ApS, Denmark
Bon' A Part Postshop A/S, Denmark
plus 77 additional fully consolidated companies

QUELLE AG

SERVICES
KARSTADT QUELLE Service GmbH

B2B Services
(corporate business)

- **KARSTADT QUELLE Business Services GmbH**
- Optimus Logistics GmbH
- ITELLIUM System & Services GmbH
- Euro-Papier N.V., Belgium
- servicelogiQ GmbH
- Karstadt Quelle International Services AG, Switzerland
- KARSTADT QUELLE New Media AG
- KARSTADT QUELLE Information Services GmbH

plus 10 additional fully consolidated companies and one company consolidated at equity

B2C Services
(consumer business)

- **KARSTADT QUELLE Kunden-Service GmbH**
- Karstadt Coffee GmbH
- KARSTADT QUELLE Financial Services GmbH – consolidated at equity –
- KARSTADT QUELLE Bank GmbH – consolidated at equity –
- KARSTADT QUELLE Freizeit GmbH
  - Thomas Cook AG – consolidated at equity –
- Profectis GmbH Technischer Kundendienst (investment of Quelle AG)

plus one company consolidated at equity

REAL ESTATE
KARSTADT Immobilien Beteiligungs AG

Property

- KARSTADT Immobilien AG & Co. KG
- MOSTIA Grundstücksgesellschaft mbH & Co. KG
- TRADO Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Dresden KG
- HOLM Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Brieselang KG

plus 295 additional fully consolidated companies

Management
(Real-estate services/ Finance)

- ECM EuroCenter Management GmbH
- KARSTADT Hypothekenbank AG

as of: 31.12.2002