Fulfill wishes.

KARSTADT QUELLE AG

ANNUAL REPORT 2003

		2003	2002	Change in %
Sales	mill. €	6,972.9	7,337.4	-5.0
Employees at 31.12.	number	59,056	63,214	-6.6
Segment assets	mill. €	2,574.2	2,435.8	5.7

		2003	2002	Change in %
Sales	mill. €	8,022.3	8,229.0	-2.5
Employees at 31.12.	number	35,518	35,157	1.0
Segment assets	mill. €	4,019.9	3,965.4	1.4

		2003	2002	Change in %
Sales	mill. €	1,431.9	1,303.2	9.9
Employees at 31.12.	number	6,094	5,927	2.8
Segment assets	mill. €	1,278.2	1,042.2	22.6

not including Thomas Cook Group

		2003	2002	Change in %
Sales	mill. €	586.6	495.1	18.5
Employees at 31.12.	number	100	71	40.8
Segment assets	mill. €	5,285.8	4,822.8	9.6

OVER-THE-COUNTER RETAIL Department stores · Specialty stores

With 180 department stores, 32 sports stores and 305 specialty stores, mainly at top city centre locations, the KarstadtQuelle Group occupies an excellent position in the German over-the-counter retail market. The department stores, amongst them, besides the Karstadt umbrella brand, well-known stores such as KaDeWe (Kaufhaus des Westens) in Berlin and the Oberpollinger in Munich, are with a market share of about 50 % (source: BAG) clear market leaders in Germany and also occupy a leading position in Europe. We focus on the domestic market, where we achieve a comprehensive geographical coverage. About 90 % of department store real estate by sales space are the property of the group. The strong position enjoyed by the department store ranges is complemented by our specialty stores amongst the SinnLeffers and Wehmeyer (fashion), Runners Point and Golf House (sports), WOM World of Music and Schaulandt (multimedia) and LeBuffet (system catering) brands.

MAIL ORDER Universal mail order · Specialty mail order

With a market share of about 30 % KarstadtQuelle mail-order suppliers are market leaders in Germany and also occupy a leading position in Europe. Our two successful mail-order brands, Quelle and Neckermann, each enjoy a level of awareness of over 95 % in the domestic market. The altogether 774 catalogues of the two universal mail-order suppliers Quelle and Neckermann, in a total impression of 730 mill. copies, generate about 81 % of mail-order sales. Furthermore, with 604 catalogues of our Specialty mail-order strategic growth segment in an impression of 252 mill. copies we cover the entire range of individual customer requirements. Ranges extend from exclusive women’s fashion through camping items and work clothing to complete baby outfitting. KarstadtQuelle mail-order suppliers are well positioned in 22 countries and have been growing strongly there for years. During the year under review the share contributed by foreign sales rose to 24.1 %.

SERVICES B2B Services · B2C Services

The consistent expansion of the Services business segment is of great strategic importance for KarstadtQuelle’s development into a retail and services group. B2B services, business with corporate customers, include information services, e- and TV commerce, logistics, purchasing and IT. Business with consumers, B2C services, concentrates financial services, loyalty card programmes and tourism. As part of these operations we already use existing assets based on KarstadtQuelle’s retail business. These include, for example, over a billion customer contacts annually, the mail-order suppliers’ proven competence in fulfillment, and qualified information on about 21 million active customers. Additionally, we collaborate with strong partners who occupy leading positions in their business sectors: with ERGO Versicherungsgruppe AG in the case of KarstadtQuelle Financial Services, with Deutsche Lufthansa AG in the case of the Thomas Cook tourism group and with Deutsche Telekom AG in the course of the “HappyDigits” loyalty card programme.

REAL ESTATE Property · Real estate services · Financing

Karstadt Immobilien AG & Co. KG controls the group’s real estate assets. The real estate assets represent in respect of book value the major part of the assets of KarstadtQuelle. Karstadt real estate has at its disposal a high-quality real estate portfolio, mainly retail-operated real estate at top locations in city centres as well as logistics and administrative property. The major share of the market value is spread among the five most important economic centres Hamburg, Berlin, Munich, Rhine-Ruhr and Rhine-Main. ECM EuroCenter Management GmbH’s range of services covers the whole range of real estate services. These include, amongst others, development and letting and centre and facility management. KARSTADT Hypothekenbank AG makes a vital contribution to the group’s financial structure by the issue of mortgage bonds.

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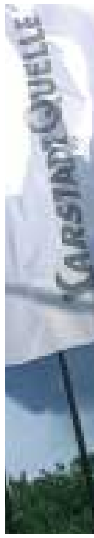


At a glance

			2003	2002	Change in %
Sales	Over-the-counter retail	mill. €	6,972.9	7,337.4	-5.0
	Mail order	mill. €	8,022.3	8,229.0	-2.5
	Services	mill. €	1,431.9	1,303.2	9.9
	Real estate	mill. €	586.6	495.1	18.5
	Reconciliation account	mill. €	-1,743.1	-1,550.1	-
	Group sales	mill. €	**15,270.4**	**15,814.6**	-3.4
Earnings	EBITA	mill. €	464.9	577.8	-19.5
	EBITA margin	in %	3.0	3.7	-
	EBIT	mill. €	379.9	484.4	-21.6
	EBIT margin	in %	2.5	3.1	-
	EBTA	mill. €	225.2	293.9	-23.4
	EBTA margin	in %	1.5	1.9	-
	EBT	mill. €	140.2	200.4	-30.0
	EBT margin	in %	0.9	1.3	-
	Profit for the year after minority interests	mill. €	107.6	162.2	-33.7
	Return on capital employed	in %	5.8	6.5 [2]	-
	Return on equity	in %	6.6	9.7	-
Financial situation and dividends	Gross cash flow	mill. €	609.0	701.0	-13.1
	Liquid funds	mill. €	156.7	144.4	8.5
	Depreciation and amortisation (not including goodwill)	mill. €	421.5	474.8	-11.2
	Dividends	mill. €	75.5	77.1	-2.0
Structure of the balance sheet	Balance sheet total	mill. €	9,192.7	10,215.7	-10.0
	Equity	mill. €	1,639.4	1,676.4	-2.2
	Equity ratio	in %	17.8	16.4	-
Other information	Employees at 31.12.	number	100,956	104,536	-3.4
	Investments	mill. €	418.6	738.3	-43.3
	Net financial liabilities	mill. €	3,309.4	3,377.8 [3]	-2.0
	Working capital	mill. €	2,101.5	2,995.3	-29.8
	Department stores and Specialty stores in Over-the-counter retail	number	517	509 [1]	-
	Sales space on 31.12. in Over-the-counter retail	th. sq. m.	2,621.4	2,646.0	-0.9
KARSTADT QUELLE AG Share	Shares on annual average	number	106,774,866	115,611,968	-7.6
	Dividend per individual share certificate	€	0.71	0.71	-
	Net earnings per share	€	1.01	1.40	-27.9
	Market price on 31.12.	€	19.60	16.50	18.8
	Market price at end of year*	mill. €	2,308.1	1,943.0	18.8

* including own share certificates.
1) Sports stores independent branches since 2003, previous year adjusted.
2) Capital employed: Previous year's amounts adjusted by changeover to direct calculation.
3) Previous year adjusted for securities.

The Management Board




Wolfgang Urban, Chairman

Real estate, corporate planning and development, corporate communications, investor relations, law, auditing, balance sheet accounting, tax

Born in 1945. Wolfgang Urban was appointed to the Management Board of Kaufhof AG, later Kaufhof Holding AG, in 1987 and was Management Board spokesman. In 1996 he joined the Management Board of Metro AG and was at the same time its co-spokesman. In 1998 Wolfgang Urban transferred to the Management Board of Schickedanz Holding-Stiftung & Co. KG, Fürth. In June 1999 he was appointed a member of the Management Board of Karstadt AG, Essen, now KARSTADT QUELLE AG, becoming Chairman in October 2000. From January 2000 to June 2003 he was also Chairman of the Management Board of Karstadt Warenhaus AG.

Dr. Christoph Achenbach

Mail order

Born in 1958. Dr. Christoph Achenbach began his career in 1989 at Quelle Schickedanz AG & Co. in Fürth. He has been a member of the Management Board of Quelle AG since 1997 and Chairman of the Management Board since March 2001. In May 2001 Dr. Achenbach was appointed a member of the Management Board of the group holding company, KARSTADT QUELLE AG. Since January 2002 he has also been Chairman of the Management Board of Neckermann Versand AG and personnel director and director of industrial relations of both companies.

Peter Gerard

Services, new media, tourism, IT, treasury, controlling, purchasing, foreign offices, logistics

Born in 1947. Peter Gerard began his career as systems engineer at IBM Germany in 1966. In 1989 he moved to Deutsche Bank AG, where he was appointed managerial agent in 1990. 1996 he was appointed a member of the Management Board of the Group Services Division. In 1999 Peter Gerard was appointed a member of the Management Board of Mannesmann AG, Düsseldorf. Since October 2000 he has been a member of the Management Board of KARSTADT QUELLE AG. At the same time he is Chairman of the Management Board of KARSTADT QUELLE New Media AG, Essen

Prof. Dr. Helmut Merkel

Department stores, human resources, environment and corporate policy

Born in 1949. Prof. Dr. Helmut Merkel was appointed to the Management Board of the SEMA Group in 1986 and in 1989 he became 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. In April 2000 he was appointed a member of the Management Board of KARSTADT QUELLE AG. There he was also director of industrial relations at the group's holding company. In January 2003 he was appointed a member of the Management Board of Karstadt Warenhaus AG, becoming Chairman in July 2003.

Letter from the Chairman of the Management Board

Dear KarstadtQuelle Shareholders,

The 2003 financial year brought its highs and lows for the KarstadtQuelle Group and for you as investors. You have, as shareholders, profited from the rise in the price of your share by 19 %. You are also profiting from our dividend policy focused on continuity. With an unchanged distribution of 0.71 € per no-par value share you achieved a dividend yield of 3.6 %.

The business performance was, however, not satisfactory. It was strongly affected by the difficult economic environment in Germany and fierce price competition. Group sales came to 15.3 bill. € and were thus 3.4 % lower than those of the previous year. Although the sales performance in the first half of the year raised hopes of a stabilisation, the second half of the year was disappointing. The decisive factor was consumers' serious unease about the continuing discussions on reform. Over-the-counter retail in German city centres once again came to feel the consumption restraint keenly. The mail-order business was not able to follow up on the 2002 record year and during the year under review likewise returned a sales decrease. Sales in our new Services and Real estate segments continue to perform positively.

Earnings before tax and amortisation of goodwill (EBTA) decreased to 225 mill. € (previous year: 294 mill. €). Here during the year under review, as in the previous year, extraordinary factors positively affected earnings. Earnings per share stood at 1.01 € (previous year: 1.40 €).

We did all we could to counteract the continuing negative market performance. But it was not enough! We failed to achieve an improvement in earnings during the 2003 financial year.

THE DIFFICULT MARKET ENVIRONMENT SERIOUSLY BURDENED US DURING THE 2003 FINANCIAL YEAR

The operational retail business was, as already forecast at the beginning of 2003, dominated by a further difficult year for the retail trade. The 2003 financial year did not bring the German retail trade the hoped for recovery. On the contrary: consumers in Germany continued to exercise decided restraint. The prolonged discussion about political reform increased the uncertainty. Furthermore, readiness to consume was severely diminished by the continuing high level of unemployment and increasing concern about old-age pension provision in many market segments. Naturally, the KarstadtQuelle Group, with a 90 % share of its sales earned on the domestic market, was badly affected.

INTERNAL GROUP FACTORS ALSO IMPAIRED OUR PERFORMANCE

As well as by the economic environment as a whole, we were also hindered in our performance by internal group factors during the 2003 financial year. One important factor relates to our positioning. Thus in our core business, our department store and universal mail-order business, we focus on broadly positioned ranges. The so-called "general retailer" market segment is performing less well in the current economic phase than strongly specialised competitors or competitors operating in market niches. Our powers of response are limited because of the still too low flexibility. Moreover, the crisis in the tourism market hit our 50 % interest Thomas Cook with full force. The changed market environment led to a severe earnings decrease and required comprehensive restructuring measures.

WE ARE CONTINUING TO CONSISTENTLY IMPLEMENT OUR STRATEGY

Our figures for the 2003 financial year reflect these external and internal challenges. Therefore we are working at high pressure to further develop our business models and the optimisation of our processes and our financing. In the short term, however, we can make up for the weakness in the German retail trade only to a limited extent by the progress already made.

We are convinced that we will achieve good results with our long-term strategy. The core element of this strategy is the reorientation of KarstadtQuelle as a retail and service company. We initiated this reorientation in October 2000 with our 10-Step Value Enhancement Programme. This programme, which was completed during the 2003 financial year, focuses particularly on the enhancement of value by the consistent utilisation of existing group assets. We have achieved many of the targets of the 10-Step Value Enhancement Programme. However, like all our competitors, we suffered from the now badly deteriorated economic situation in our sales and earnings targets. The 2003+ follow-up programme is being implemented. We explained this programme in detail in the last annual report.

THE ALREADY INITIATED MEASURES WILL AGAIN LASTINGLY IMPROVE PROFITABILITY

The transformation into a retail and service group is gradually taking shape. We shall once again appreciably increase KarstadtQuelle's profitability in the next few years. I should like to highlight some of these measures:

- We have expanded services into a strategic growth sector. The new business segment – with operations such as information and financial services and a loyalty card programme which after an eighteen-month start-up phase have already made a positive contribution in the group – is performing very well and far exceeds our expectations. This gratifying trend will continue in the 2004 financial year.
- We appreciably increased the competence of our ranges in department stores by expanding brands through concessions and further agreements on in-house promotions by outside companies.
- We are working intensively to reduce our dependence on general retail concepts. We are, for example, strengthening specialist formats such as fashion and sports, in which we already enjoy leading market positions.
- We are gradually increasing our foreign share in the mail-order business. Meanwhile nearly one fourth of mail-order sales is achieved outside Germany.
- We expanded the profitable e-commerce business into a strong sales channel and are today in a leading market position.
- We consistently lowered our break-even point by consistent restructuring and cost optimisation.
- We reoriented the company old-age pension provision. Thus, we created a future-focused pension scheme for the staff, realised hidden reserves under the CTA programme and improved our balance sheet structure.
- We lastingly improved our competitive position on the demand side through our strategic group purchasing.
- We responded to the unsatisfactory performance at Thomas Cook and reoriented the strategy. In this way we are already achieving a marked improvement in earnings in the current year.
- We strengthened the competence of our strong Karstadt, Quelle and Neckermann brand names in the media and amongst customers by effective marketing in the department stores sector and amongst suppliers.
- We considerably reduced our net financial indebtedness.

OUTLOOK

The selective focus on the wishes of our customers, the specialisation linked to it and the necessary further internationalisation are important cornerstones for the future. We are thus underlining the continuous transformation of our group during the 2004 financial year, too.

We assume that the situation in the German retail trade will not improve in the short term and expect the weak customers' mood to remain weak and the competition intense. For this reason we have been working for months on an advanced structure and measures programme for the KarstadtQuelle Group which takes account of this expectation. The aim is improvement of performance and further reduction of the net financial debt.

The continuing weakness in the retail sector in Germany and an unsatisfying sales performance in the KarstadtQuelle Group in the first weeks of the current year confirm our moderate expectations. However, if the economic recovery forecast by the experts with a rise in private consumption really comes about during the course of the year, the KarstadtQuelle Group will also profit from it in the second half of the year.

In view of our strong dependence on the continuingly uncertain background conditions in Germany a sales and earnings forecast would not be sensible at present.

A THANK-YOU TO OUR STAFF AND SHAREHOLDERS

The 2003 financial year has once again made serious demands on all concerned. Our competent staff have once again come to feel the continuing severe pressure of competition. Added to this was the continued implementation of the reorientation of our group, with very varied demands and new challenges for our work force.

I should like to thank all our staff for their excellent performance and great commitment. I am impressed by the support given to the management at all levels of the group in this difficult market phase.

I thank you, dear Shareholders, personally and also on behalf of my fellow Management Board members and all our staff, for the confidence you have shown in KarstadtQuelle in a continuingly weak consumption environment. We shall continue to manage your company through this troubled phase with high commitment and personal effort. We are convinced that KarstadtQuelle will emerge from the present sifting process in the German retail sector a winner.

On behalf of the Management Board

Yours truly

Wolfgang Urban

Der Aufsichtsrat

Members of the Supervisory Board

Dr. Hans Meinhardt, Wiesbaden
Chairman

Wolfgang Pokriefke*, Bremen
Deputy Chairman

Wilfried Behrens*, Gießen

Hero Brahms, Wiesbaden

Dr. Diethart Breipohl, Icking

Bodo Dehn*, Mönchengladbach-Rheydt

Leo Herl, Fürth

Ulrich Hocker, Düsseldorf

Peter Kalow*, Schwabach

Reinhard Koep, Mülheim/Ruhr

Franz Lajosbanyai*, Unterpfleichfeld

Dr. Ingo Riedel, Fürth

Rita Rodenbücher*, Duisburg

Christa Schubert*, Recklinghausen

Michael Stammler, Bad Homburg

Dr. Gunter Thielen, Gütersloh

Gertrud Tippel-Kluth*, Berlin

Dr. Franziska Wiethold*, Berlin

Werner Wild*, Kirchentellinsfurt

Dr. Klaus Zumwinkel, Cologne

* representing the employees
Complete information about members of the Supervisory Board and the Management Board in accordance with Art. 285 No. 10 HGB (German Commercial Code) is given on pages 124 to 127.

Report of the Supervisory Board

Dear Shareholders,

During the 2003 financial year the Supervisory Board of KARSTADT QUELLE AG continuously monitored and supported the managerial activity of the Management Board. At six Supervisory Board meetings and by written reports the Supervisory Board was kept fully informed by the Management Board about all questions of planning relevant to the company, the business performance, the risk situation and the risk management, the economic situation and business policy. 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 Management 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 OF THE SUPERVISORY BOARD

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 continued implementation of the 10-Step Value Enhancement Programme and the 2003+ Strategy the Supervisory Board discussed at its meetings the following individual proceedings and approved them, as necessary:

- Acquisition of a participating interest in Deutsches SportFernsehen (DSF) and fundamental reorientation of DSF
- Brand presentation of Karstadt Warenhaus AG under "Besser Karstadt"
- Continued implementation of the "Contractual Trust Arrangement"(CTA)-Programme
- Conversion of a 50 mill. € shareholder loan to Thomas Cook AG into equity capital (additional paid-in capital)
- Financial, investment and employment planning, investment budget 2004

CORPORATE GOVERNANCE

At a number of meetings we discussed the implementation of the German Corporate Governance Code at KarstadtQuelle, to which we gave our approval. Corporate Governance will be audited at regular intervals and, if necessary, further developed. The Management Board and Supervisory Board in June 2003 updated the Declaration of Compliance issued in accordance with the German Corporate Governance Code. We approved the Declaration of Compliance with the new version of the code applying from July 4, 2003, on at the March 2004 meeting and made it permanently accessible to shareholders on the company's Website. Further information on Corporate Governance at KarstadtQuelle is given in the joint report of the Management Board and Supervisory Board in this annual report.

MEETINGS OF THE COMMITTEES

At three meetings altogether the standing committee concerned itself with Management Board matters, made the appropriate resolutions and dealt with important business matters and business requiring its approval.

The audit committee met twice during the year under review. It discussed in the presence of the auditor and the Management Board the annual accounts of KARSTADT QUELLE AG and the group accounts, the management reports and the proposal for the appropriation of the profit. It also issued the audit instruction to the auditor, laid down the points of emphasis of the audit, agreed on the fee and monitored the independence of the auditor. The audit committee also kept itself informed about the risk management in the company.

There was no occasion for the arbitration committee to meet.

The meetings and the work of the committees was reported on in detail at the plenary meetings.

ANNUAL ACCOUNT, GROUP ACCOUNT AND DEPENDENT COMPANIES ACCOUNT

The BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, appointed by the annual meeting, audited the 2003 annual account, the management report of KARSTADT QUELLE AG, the group account and the group management report as well as 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 at the meeting of the Supervisory Board on March 18, 2004. 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 March 18, 2004, the Supervisory Board approved the annual accounts of KARSTADT QUELLE AG and the group for the period ending December 31, 2003 prepared by the Management Board; the annual account of KARSTADT QUELLE AG has therefore been adopted. The Supervisory Board approves the Management Board's proposal for the appropriation of the net profit. The Management Board has submitted to the Supervisory Board the report on relations with associated companies prepared by the Management Board pursuant to Section 312 of the German Stock Company 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 March 18, 2004.

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

The Supervisory Board's term of office ended by rotation on May 28, 2003. The following retired from the Supervisory Board: Dr. h. c. Martin Kohlhaussen, Dr. Bernd W. Voss and Dipl.-Ing. Dr.-Ing. E. h. Jürgen Weber, representing the shareholders; Gisela Drescher and Jürgen Damm, Hubert Gartz and Rüdiger Wolff, representing the employees. The Supervisory Board thanks Mrs. Drescher and the gentlemen for their successful and constructive cooperation.

The following were newly elected to the Supervisory Board by the Annual General Meeting on May 28, 2003: Hero Brahms, Michael Stammler and Dr. Klaus Zumwinkel, representing the shareholders. Rita Rodenbücher and Gertrud Tippel-Kluth and Franz Lajosbanyai und Werner Wild were newly appointed to the Supervisory Board by the employees in accordance with the Law on Codetermination. All the other members' mandates were renewed.

Mr. Norbert Nelles retired from the Management Board of KARSTADT QUELLE AG on August 31, 2003.

A THANK-YOU TO OUR STAFF AND SHAREHOLDERS

The Supervisory Board would like to express its thanks and appreciation to the Management Board and all staff of the KarstadtQuelle Group both in Germany in abroad for their commitment on behalf of the company during the past financial year.

Essen, March 18, 2004

For the Supervisory Board

Dr. Hans Meinhardt

Chairman

Corporate Governance Report 2003

To KARSTADT QUELLE AG corporate governance is efficient, responsible corporate management and control focused on long-term value enhancement. Corporate governance extends to the entire system of group management and monitoring, including its organisation, its business principles and guidelines and its internal and external control and monitoring mechanisms. Good, transparent corporate governance increases the confidence that our national and international investors, the financial markets, business partners, the public and not least the KarstadtQuelle Group's employees have in us.

THE BASIS OF GOOD CORPORATE GOVERNANCE IS:

- close and efficient cooperation between the Management Board and the Supervisory Board,
- openness and transparency in corporate communication,
- consideration of shareholder interests.

The overall concept of corporate governance at KarstadtQuelle was presented in detail in the 2002 Annual Report.

DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

Following a resolution reached by the Annual General Meeting on May 28, 2003 to amend the articles of association relating to remuneration of the Supervisory Board in accordance with the recommendation of the German Corporate Governance Code, the Management Board and Supervisory Board of KARSTADT QUELLE AG on June 17, 2003, issued the following Declaration of Compliance for the 2003 financial year (in accordance with Section 161 German Stock Corporation Law in respect of the German Corporate Governance Code in the version of November 7, 2002):

"KARSTADT QUELLE AG complies with the recommendations of the 'Government Commission for the German Corporate Governance Code' with the following exception:

> 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).

KARSTADT QUELLE AG has also complied with the recommendations in accordance with the Declaration of Compliance issued under December 20, 2002."

We made this Declaration accessible to our shareholders at the group's Website www.karstadtquelle.com on June 25, 2003.

On May 21, 2003, the Government Commission resolved an extension of the Code (principally Subsection 4.2). KARSTADT QUELLE AG complies with this new version of the code applying from July 4, 2003, on with the exceptions that the D & O insurance for members of the Management Board and Supervisory Board does not provide for a retention and no individualised disclosure of Management Board and Supervisory Board emoluments is made. The Karstadt Quelle D & O insurance is a group insurance for a large number of management members at home and partly also abroad, in which a differentiation in accordance with members of the Supervisory Board and Management Board of KARSTADT QUELLE AG and other management members in the group does not seem appropriate. Furthermore, a retention is unusual abroad.

On March 18, 2004, we issued and made continuously accessible to the shareholders on the company's Internet site the following Declaration of Compliance in accordance with Section 161 German Stock Corporation Law:

"The Management Board and Supervisory Board of KARSTADT QUELLE AG declare in accordance with Section 161 German Stock Corporation Law:

1. KARSTADT QUELLE AG has complied with the recommendations of the 'Government Commission German Corporate Governance Code' in the version of November 7, 2002 to the extent arising from the last Declaration of Compliance of June 17, 2003.
2. KARSTADT QUELLE AG complies with the recommendations of the 'Government Commission German Corporate Governance Code' in the version of May 21, 2003, applying from July 4, 2003, with the following deviations:
   - 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).
   - The remuneration of the Management Board (Code Subsection 4.2.4 Sentence 2) and the remuneration of the Supervisory Board (Code Subsection 5.4.5 Para. 3 Sentence 1)" is not shown individually.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

The Annual General Meeting on May 28, 2003, resolved the amendment of Section 18 Para. 3 of the articles of association of KARSTADT QUELLE AG. The Chairman may now permit the recording and transmission of the Annual General Meeting via electronic media. The suggestion in the Code that shareholders be enabled to follow the Annual General Meeting via modern communication media (e.g. the Internet) is thus taken into account. To facilitate the personal exercise of their rights KARSTADT QUELLE AG will make available to the shareholders for the ordinary Annual General Meeting 2004 a voting rights representative who is subject to instructions. It is explained in the call to the Annual General Meeting how instructions for exercising voting rights can be given before the Annual General Meeting. The shareholders are also free to have themselves represented by a proxy of their choice.

COLLABORATION BETWEEN MANAGEMENT BOARD AND SUPERVISORY BOARD

At the end of 2002 the standing rules of the Supervisory Board and Management Board were revised, coordinated and redrafted in their entirety by the respective bodies. One particular point for attention was the catalogue of business requiring approval. As a result, the Annual General Meeting resolved on May 28, 2003, the addition to Section 11 of the articles of association of KARSTADT QUELLE AG of a paragraph 3, according to which the Supervisory Board determines which Management Board measures require its approval before being implemented.

THE MANAGEMENT BOARD

The Management Board of KARSTADT QUELLE AG currently consists of the Chairman and three 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 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.

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 representatives of the shareholders will be elected by the Annual General Meeting, the representatives of the employees in accordance with the requirements of the German Law of Codetermination. The shareholders' representatives were re-elected at the Annual General Meeting of KARSTADT QUELLE AG on May 28, 2003. The period of office runs until the end of the Annual General Meeting which decides on ratification of the Management Board's acts for the 2007 financial year.

The Supervisory Board appoints the Management Board and monitors its management of the company.

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 Supervisory Board has formed three 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. The chairmanship of the audit committee is currently held by the Chairman of the Supervisory Board; in accordance with the standing rules it can, however, also be held by another shareholder member of the Supervisory Board. The 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.

The standing rules of the Supervisory Board provide for a regular efficiency audit, which has not yet been carried out because of the re-election of the Supervisory Board in 2003.

REMUNERATION OF MANAGEMENT BOARD AND SUPERVISORY BOARD

The Management Board's emoluments comprise fixed and variable components. The variable part of the remuneration takes into account the achievement of personal targets as well as the corporate result. Since 2001 share options may also be a component of the variable remuneration, although so far the Supervisory Board made use of this option only in 2001. For the future, because of this share option programme, no further options will be issued. The cash remuneration is based on an annual target income, of which 40 % is paid out in fixed monthly amounts. 60 % is variable and is made up of a component linked to the dividend and results-linked bonus payments. In the notes to the group account the Management Board's remuneration in the 2003 financial year is shown broken down into fixed components and performance-linked components. We – like the majority of German stock-exchange-listed companies – do not publish the Management Board's individual emoluments. In our opinion the statement of total remuneration in a single amount complies more closely with the principle of collective responsibility of the Management Board body. Also, in our view individual disclosure stands in the way of performance-linked differentiation.

Supervisory Board members' remuneration is laid down in the articles of association of KARSTADT QUELLE AG. As well as a fixed, it includes a variable remuneration component linked to the dividend. The chairmanship, deputy chairmanship, membership of the Standing Committee and chairmanship and membership of the audit committee are additionally remunerated. If a member of the Supervisory Board at the same time holds a number of offices, for which a higher remuneration is allowed, he receives only the remuneration for the most highly remunerated office. More detailed information about the remuneration of our Supervisory Board members during the 2003 financial year is given in the notes to the group account. Under these circumstances KarstadtQuelle feels that there are good reasons for not further individualising Supervisory Board remuneration.

TRANSPARENCY

The shareholders of KARSTADT QUELLE AG are treated equally as regards information. The Management Board kept the shareholders and investors closely informed on the group Website during the 2003 financial year. The expression of this is, amongst other things, the publication of 19 relevant notices, of which only one was an ad-hoc notice. KARSTADT QUELLE AG also publishes on its Website a financial calendar giving information with sufficient notice about all the company's most important events and publications.

KARSTADT QUELLE AG also informs the capital market and the public at the times of publication of the quarterly and annual results through analysts' and press conferences and teleconferences. Regular Management Board activities involving investors and financial analysts also ensure the continuous exchange of information with the finance markets.

ACCOUNTING/RISK MANAGEMENT

KARSTADT QUELLE AG prepares the group account and interim reports in accordance with International Financial Reporting Standards (IFRS). The annual account of KARSTADT QUELLE AG is prepared in accordance with the requirements of the German Commercial Code (HGB).

The monitoring and risk management system implemented at KARSTADT QUELLE AG is continuously further developed by the Management Board and adapted to meet changing background conditions and its efficiency is examined annually by the account auditors.

Essen, March 18, 2004

KARSTADT QUELLE Aktiengesellschaft

The Management Board The Supervisory Board

The KarstadtQuelle share

GROWTH AND ADDED-VALUE ON SOLID BASIS

Our response to the continuing challenging retail environment in Germany is the consistent transformation of KarstadtQuelle into a retail and service group. We offer customers up-to-date retail and service concepts to lastingly generate growth and earning power for the KarstadtQuelle Group.

We are convinced that, thanks to sound assets and a strategy oriented towards growth and value enhancement, KarstadtQuelle will emerge from the structural changes in the German retail sector stronger and a winner.

PRICE PERFORMANCE 2003: KARSTADT QUELLE SHARE RISES BY 19 %

For the first time in three years the 2003 stock exchange year was once again characterised by rising share prices. The German Share Index (DAX) closed at an index level of 3,965 points, about 37 % higher than the previous year. The MDAX, which lists companies with medium stock exchange capitalisation, gained in value by just under 48 % and at the end of the year was quoted at 4,469 points. For the German retail trade 2003 was, like 2002 before it, another difficult year.

Despite the difficult market environment the KarstadtQuelle share ended 2003 with a price rise of about 19 %. At the beginning of the year the share was still under strong pressure from the continuing poor climate of stock exchange investment and consumption. This was shown by the yearly low of 10.17 € on March 12, 2003. As the year progressed, quotations increasingly recovered and settled mid-year at 20 €. Born up by, amongst other things, the hope of political reforms and an improvement in the climate of consumption through tax cuts, the share price rose further and on September 3, 2003, reached its yearly high at 25.90 €.

Because of the lack of positive impulses from the political sector consumers in Germany in the fourth quarter continued to exercise restraint. The KarstadtQuelle share responded with small discounts and at the end of the year stabilised at prices of just over 20 €. In the first months of the current year the price swung by 19 to 20 €.

KARSTADT QUELLE LISTED IN PRIME STANDARD

Since the beginning of the resegmentation of German share market indices on March 24, 2003, the KarstadtQuelle share has been quoted in the MDAX of the redefined Prime Standard. Its index weighting is 1.65 % (as at 31.12.2003). Quotation in the Prime Standard requires in particular the fulfillment of comprehensive transparency requirements.

SHARE REPURCHASE PROGRAMME COMPLETED

On the basis of a resolution of the 2002 Annual General Meeting KarstadtQuelle in July of the same year launched a share repurchase programme. This programme was continued and completed in 2003. On December 31, 2003, KarstadtQuelle held 11,424,883 of its own shares. This represents 9.7 % of authorised capital.

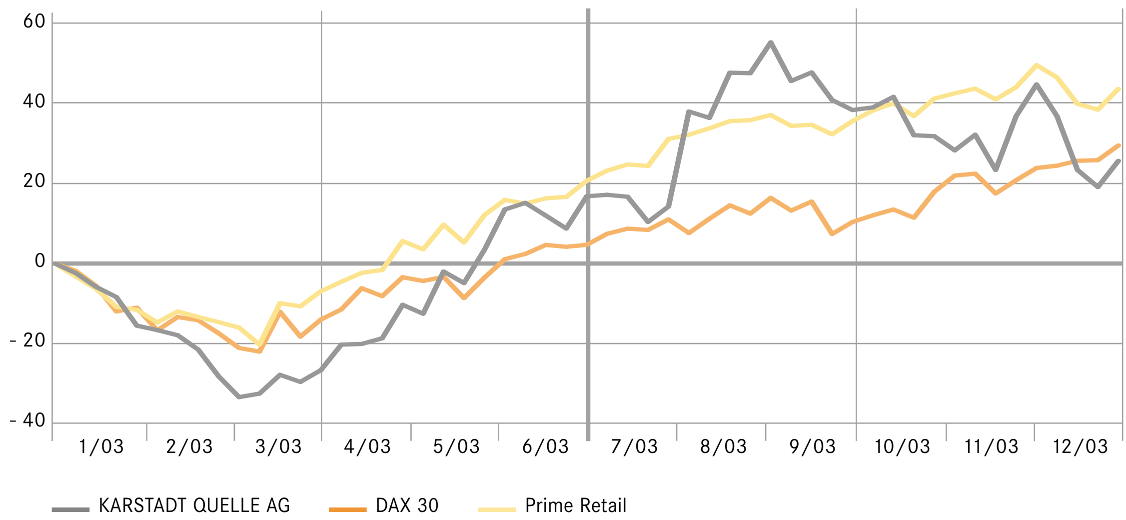
KarstadtQuelle's own shares can be used or redeemed for introduction on foreign stock exchanges, as "currency" for acquisitions and participating interests and for use in share option programmes.

KARSTADT QUELLE SHARE KEY FIGURES

			2003	2002
Earnings	Net earnings per share	€	1.01	1.40
	Gross cash flow	mill. €	609.0	701.0
	Gross cash flow per share	€	5.70	6.06
	Return on capital employed	%	5.8	6.5[1)]
	Return on equity	%	6.6	9.7
Dividends	Dividend per individual share certificate	€	0.71	0.71
	Dividend yield (price at end of year)	%	3.6	4.3
Authorised capital	Authorised capital	mill. €	272.2	277.9
	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)	€	19.60	16.50
	highest price	€	25.90	45.45
	lowest price	€	10.17	13.80
	Market capitalisation / market value at end of year*	mill. €	2,308.1	1,943.0
	Exchange turnover (average daily trading volume)	number of shares	312,731	298,572
	Price-earnings ratio (end of year)		19	12
	Price-cash flow ratio (end of year)		3.4	2.7

* including own share certificates.
1) Capital employed: Previous year's amounts adjusted by changeover to direct calculation.

STOCK MARKET PRICE PERFORMANCE indexed in %



SHAREHOLDERS STRUCTURE in %
(in acc. with Security trade law)

"Madeleine Schickedanz" pool	36.40
Riedel Holding GmbH & Co. KG	12.24
Allianz AG	13.61
KARSTADT QUELLE AG*	9.70
Free float	28.05

As of December 31, 2003
* Share repurchase programme

MAJOR INVESTORS ENSURE SOUND SHAREHOLDER STRUCTURE

About 62 % of KarstadtQuelle shares are held by major investors. KARSTADT QUELLE AG therefore has a sound shareholder structure. The free float is around 28 %.

GENERAL INFORMATION ABOUT THE KARSTADT QUELLE SHARE

Securities Identification Number	627500
International Securities Identification Number (ISIN)	DE 0006275001
Reuters shortname	KARG.F
Bloomberg shortname	KAR GF
Weighting in the MDAX*	1.65 %

*As at 31.12.2003

PERFORMANCE OF IMPORTANT INDICES

		31.12.2003	31.12.2002	Change in %
KarstadtQuelle share	€	19.60	16.50	18.8
DAX 30	points	3,965.2	2,892.6	37.1
MDAX	points	4,469.2	3,024.8	47.8
Prime Retail	points	253.3	180.4	40.4
Dow Jones EURO STOXX Retail	points	221.4	215.0	3.0
MSCI World Retailing	USD	108.5	77.3	40.4

A BROAD DIVERSITY OF INFORMATION AT www.karstadtquelle.com

Our proven www.karstadtquelle.com Internet site, which was rated as “good” by analysts, was once again heavily visited during the year under review. Clearly structured and continuously updated, it enables rapid access to a broad diversity of information about the group in German or English. In the “Investor Relations” section both private and institutional investors can find comprehensive information relating to the capital market, for example, IR communications and annual and interim reports. Moreover, our group presentations and at all times accessible recordings of our analysts’ and telephone conferences and Annual General Meetings fully utilise the entire range of modern audiovisual presentation media. In this way our Website users can obtain a comprehensive impression of the most important information events at the KarstadtQuelle Group.

"VALUE FOR INVESTORS AND COMPANY" (V4IC®) – INVESTOR RELATIONS AT KARSTADT QUELLE

We ensure that all investor relations activities in the KarstadtQuelle Group are in consistent accord with our principle of "Value for Investors and Company" (V4IC®). A central feature is our market-focused, up-to-date dialogue with the financial community. In this way we want to create value – for investors, for analysts and for our company. Because only an intensive, continuous and discriminating dialogue enables an optimum assessment of KarstadtQuelle's earning power, business performance, strategy and prospects. Or, to put it another way, enables the creation of trust and transparency amongst private and institutional investors. Not least in a difficult market environment we have had excellent experience with this approach, a circumstance which we view as encouragement and commitment for the future.

MULTI-CHANNEL COMMUNICATIONS OFFERING FOR CAPITAL MARKETS

In 2003, too, we maintained an intensive dialogue with financial analysts and investors. About 30 analysts publish regular reports about KARSTADT QUELLE AG. The central analysts' conference in April 2003 focused on the presentation of the 2002 annual account. In May 2003, the Annual General Meeting informed our private shareholders in particular about the KarstadtQuelle Group's performance and strategy.

Furthermore, at numerous road shows and investors' conferences at important European and American financial centres we reported on KarstadtQuelle's progress and success "on track to becoming a retail and service group". Internet-based teleconferences and numerous individual discussions with investors and analysts supplemented our broad communications and information offering.

KARSTADT QUELLE ANNUAL REPORT ONCE AGAIN RATED "GOOD"

"Manager Magazin" took a critical look at about 200 annual reports by stock-exchange-listed groups in 2002. The KarstadtQuelle annual report was yet again rated "good" overall and was placed in the top third of all MDAX companies.

FIELD TRIPS CLARIFY GROUP STRATEGY

In the course of numerous field trips analysts and investors took the opportunity of visiting branches in person to acquaint themselves with KarstadtQuelle's strategy at first hand. The "Karstadt Arkaden" in Mülheim on the Ruhr particularly revealed themselves to be exceptionally suitable for experiencing our new shopping centre concept in person.

We at KarstadtQuelle.

Our customers appreciate the fact that we offer them contemporary and innovative retail and service concepts relating to many areas of their lives. We always endeavour to give our customers what they want and we aim to recognise and satisfy their preferences. This is why we accord high priority to customer communications. The focus is on strong, long-term business partnerships that generate value added for both sides. As a result, customers derive the benefits of information, attractive products at fair prices and enjoyable shopping, while the KarstadtQuelle Group can look forward to growth and earnings power.

Shaping the change.

The retail scene in Germany is characterised by the diversity of customer preferences and sustainedly intensely competitive supplier behaviour. We regard this change inherent in the retail trade as a big opportunity for an innovative company with sound assets like KarstadtQuelle. We are therefore actively shaping the change. For example, we are setting trends in marketing, customer retention, new sales channels and the development of retail formats in German city centres. At the same time we are continuing with the successful optimisation of our systems and cost structures and gradually achieving greater efficiency and flexibility.

Ensuring growth.

An important element of KarstadtQuelle’s growth strategy is our multi-channel network. We are reaching our customers increasingly through many high-performance and ever more closely interlinked sales channels. This applies both to the interlinking of the retail segments with the services sector and the utilisation of synergies between the retail segments themselves. Our aim is to serve the customer in a large number of complementary areas of life. In this way we are significantly increasing the value added and laying the basis for lasting and long-term business relations. A further important strategic component is the expansion of our market lead in sectors with a high yield such as sports and fashion. By focusing more closely on specialist concepts we reduce dependence on the economy-sensitive department store and universal mail order general-retail formats at the same time.

Creating new values.

We create new values by utilising the assets of our retail business and occupying new strategic growth sectors in the services and real estate segments. These assets include our customer contacts, the potential for customer retention, information about customers and the high level of awareness of our core brands Karstadt, Quelle and Neckermann. The main focus of expansion in the high-growth and high-yield Services segment is on groupwide interlinked customer appeal and the entry into new market segments. The Real estate growth segment focuses on the value-oriented development of the retail-operated real estate portfolio at the best locations in the centres of German major and medium sized cities.

Group strategy

ON TRACK TO BECOMING A RETAIL AND SERVICE GROUP

Our strategic target is the reorientation of KarstadtQuelle as a retail and service company. We initiated the transformation process in October 2000 with the start of the implemention of the 10-Step Value Enhancement Programme. This programme was successfully completed during the 2003 financial year.

10-STEP VALUE ENHANCEMENT PROGRAMME SUCCESSFULLY COMPLETED

The 10-Step Value Enhancement Programme focused on the restructuring, growth and value management sectors.

Restructuring

In the area of restructuring in the department store the streamlining and optimisation of logistics was the primary concern. We reduced particularly staff costs by optimising processes and by interlinking throughout. At the same time we considerably reduced warehouses and thus storage space. In sales we eased the burden on staff by transferring subsidiary logistic activities to upstream production stages. Other main points of restructuring were the standardisation of the ranges and the implementation of a new merchandise control system for the sustained reduction of the goods inventory and write-offs.

In mail order the focus was on the organisational fusion of Quelle and Neckermann brands which continue to operate separately on the market. For this we placed Quelle and Neckermann under joint management. By amalgamating business processes we fully and sustainedly utilised sales, earnings and cost-cutting potential. The standardisation of the back-office processes enabled utilisation of synergy potential. We achieved further restructuring successes by more closely intermeshing administration, procurement, logistics and IT.

We exceeded our restructuring targets and reached them earlier than planned. A cost reduction of 256 mill. € on 2000 was planned in department stores and mail order for 2003. We exceeded this target by 20 %.

Growth

In the area of growth we did not achieve our sales and earnings targets because of the continuing economic weakness in the German retail sector. Nevertheless, we were able to expand our strong market position in individual segments. At the same time we effected our entry into future markets. We consistently expanded our multi-channel network, now unique in Europe. To the established department store, specialty store, travel agency and catalogue sales channels we added a strong e-commerce operation and television. We developed e-commerce into a successful and high-volume sales channel. We reached our target here: Online demand rose at clear two-digit annual rates from 450 mill. € in 2000 to 1.59 bill. € in 2003.

We have invested massively in our retail core segment in past years. Graphic examples of investment in modernisation and increasing attractiveness are our department stores in Frankfurt am Main (Zeil), Dortmund and Bremen. At the same time we improved the product ranges in our department stores e.g. by the inclusion of higher-quality lines (brand shops). We also invested in existing and future customer relations. To be mentioned here are, in particular, our “Besser Karstadt” brand campaign, much-noticed and successful marketing campaigns by Quelle and Neckermann and the massive expansion of our loyalty card. Other main areas of investment were redundancy payment programmes and measures relating to part-time work for older staff, systems (e.g. new merchandise management) and measures to streamline and standardise processes.

We also strengthened the specialist concepts. During the last five years specialty mail order achieved two-digit sales increases on average. We consistently expanded our market lead under our dynamic sports expansion strategy. The opening up of the new growth sectors was successful: we positioned ourselves in the Services segment with financial and information services, loyalty card bonus programmes and Starbucks coffee houses. We concentrated the real estate portfolio in a separate business segment. As part of the value-oriented optimisation of our real estate we built four city-centre shopping centres on the basis of existing department stores.

Value management

We completed the introduction of the value management. The implementation of the Economic Value Added® (EVA) management and incentive system was successful. We intensified the dialogue with the finance markets. Examples of this are an informative annual report focused on the interests of investors, detailed quarterly reports, professional investor relations, comprehensive road shows and the changeover of the accounting system to International Financial Reporting Standards (IFRS).

2003+ FUTURE PROGRAMME BEING IMPLEMENTED

In November 2002 we presented our 2003+ future programme. It follows on directly from the 10-Step Value Enhancement Programme and consistently continues it. By the successful implementation of the 2003+ future programme we are reducing our dependence on domestic consumer demand. Accordingly, we are planning in mail order an increase in the share of sales abroad to 30 %. At the same time we are aiming at achieving in the medium to long term about 35 % of our earnings in the services sector (including tourism).

We shall also make the department store business considerably more profitable again. The basis is the concept of the integrated specialist with emphasis on: strategic further-development of the stores according to their size, concentration on high-margin consumer sectors and expansion of specialty store concepts. We are also planning to increase the earnings share contributed by our specialty stores in over-the-counter retail and amongst the mail-order suppliers. As part of the value-oriented real estate development we shall build a further 16 city-centre shopping centres. Five projects are now in the realisation phase.

Further areas of emphasis include the completion of our programme for reorganisation of the old-age pension provision and the continuation of the consistent reduction of net financial debt.

Segment strategy

OVER-THE-COUNTER RETAIL

“One-stop-shopping”, the offering of a broad and varied range of products under the roof of a single provider, is again being practised increasingly by customers, as is shown by, amongst other things, the growing proportion of shopping centres in city centres. Our confidence about the department store format is also based on the still increasing proportion of customers in the older age group for whom convenience and short distances are important purchasing criteria. We also expect a continuation of the trend towards urbanisation in Germany.

Our over-the-counter business puts the wishes of customers at the centre. KarstadtQuelle is, with 180 department stores and 32 sport stores, clear market leader in the department store segment in Germany. The size of our locations ranges from 1,000 sq. m. of sales space in the smallest store to about 60,000 sq. m. at KaDeWe in Berlin.

Karstadt achieves just under 90 % of department store sales at attractive locations. The attractiveness of a location is determined by size, level of purchasing power and centrality. These stores are suited to the department store concept in the long term. For this reason we shall further optimise and modernise these locations. The reorientation comprises, for example, the expansion of the high-margin fashion, sports and personality consumer sectors. Alternative concepts are planned for the foodstuffs, tobacco and beverages and multimedia consumer sectors. These are partnerships with specialists, but also new concepts in changed space. We are also considerably expanding the sales space operated by concession partners. The space let to third parties is being increased by the intensified inclusion of much-frequented and attractive tenant partners. The number of stores which have been extended to make city-centre shopping centres is to be increased to 20 in the next few years.

Only about 10 % of sales is achieved at locations which are afflicted by problems. We are confident that we shall succeed in being able to operate these branches considerably more profitably on the basis of changed concepts. There are also other uses to which they can be put. The closure or sale of these problem locations will only be considered if the other options are unsuccessful.

Our 305 specialty stores supplement our presence for the customer. They also complete our price positioning in particular in the Fashion and Sports growth segments. We profit from the gradual expansion of the synergies set up between the department store and specialty store ranges. This has an effect throughout the entire value-added chain, particularly in the fashion sector, for example, in purchasing and through the joint use of highly profitable own brands.

While strategically weighing chances against risks, the department store business will concentrate now and in future exclusively on the national market. The department store is a “culture shop” and thus basically always country-centred. This view is shared by all the large department store companies in Europe. However, we believe there are opportunities for successful international expansion in specialty stores with international brands. Particularly the specialty stores in the KarstadtQuelle Group specialising in sports ranges offer potential for foreign expansion.

MAIL ORDER

The Mail-order segment covers the complete range of universal and specialty mail order in Europe with the two core brands Quelle and Neckermann and its subsidiaries. We are achieving further growth by means of a long-term four-pronged strategy:

1. Further development of universal mail order

Universal mail order with the two brands Quelle and Neckermann is and will continue to be the mainstay of the mail-order strategy. The strategic objective is further expansion at home and abroad. For competitive reasons the two-brand strategy is indispensable. For this reason we are more closely defining the images of the two strong Quelle and Neckermann mail-order brands by, for example, effective marketing offensives.

2. Expansion of specialty mail order

With a more than average sales increase specialty mail order is an important growth area. The strategic objective of the high-margin specialty mail order at home is expansion through the existing portfolio. Abroad the specialty mail-order suppliers are growing through organic growth and acquisitions. Specialty mail order consistently uses the competitive advantage that it is less dependent on the general state of the economy. This is the immediate effect of the high level of internationalisation and the concentration on clearly defined target groups. The concentration of 23 high-performance special mail-order suppliers under one roof, which is unique in Europe, opens up to the individual companies manifold synergy and growth potential through close collaboration and the multiplication of successful concepts.

3. Stepping up internationalisation

KarstadtQuelle mail-order suppliers' strategic objective is a contribution by foreign sales of 30 % to overall sales in the medium term. Precisely the latest performances confirm that mail order, unlike nearly all other forms of sale in retail, is suitable for the profitable internationalisation of successful concepts and brands. At the same time Quelle and Neckermann also profit from the mutual utilisation of an existing infrastructure in new markets. The main growth areas are the rising Central Eastern European economies (particularly the new EU entrant countries). On the way to stronger internationalisation mail order made faster progress than expected in the year under review.

4. Expansion in e- and TV commerce

Quelle and Neckermann have a decisive competitive advantage: they have at their disposal all the logistic and infrastructural requirements for long-distance retail. On the basis of this platform the mail-order suppliers can efficiently transact every kind of front-end business, such as catalogue, telephone, Internet or TV, and utilise its growth potential to the full. E-commerce has established itself as a strategic growth driver in recent years and is acquiring larger and larger shares of the demand. In the 2003 financial year the share of overall mail-order demand enjoyed by e-commerce grew to about 20 %. The utilisation of the electronic medium for customer communication and sales has become a domain of KarstadtQuelle mail-order companies. Further two-digit growth is the target for the coming years. Growth in TV commerce is a complementary strategic element of KarstadtQuelle mail-order suppliers. Strong and well-known brands such as Quelle and Neckermann are a decisive asset for success in this dynamic segment. The mail-order suppliers present themselves on successive TV channels with selected products. The growth strategy is supported by a 10 percent participating interest in the TV commerce channel Home Shopping Europe (HSE).

SERVICES

The strategic expansion of the services business is an essential component of the reorientation of KarstadtQuelle into a retail and service group. With about 2.5 to 3 million customers in the Over-the-counter segment daily, more than one billion customer contacts yearly, information about 21 million active customers and an awareness level for the Karstadt, Quelle and Neckermann top brands of over 90 % the KarstadtQuelle Group has access to customers like scarcely any other company. The mail-order suppliers also distinguish themselves by their high fulfilment competence.

Our growth strategy in the Services segment is based on the independent utilisation of these assets in the retail segments. In this way, we can implement new and high-margin business models on the existing infrastructure virtually at marginal cost. We put this into effect by means of, for example, information and financial services, media concepts and a loyalty card bonus programme and logistic and shopping services. Many of these markets are very fragmented in Germany and are at the development stage. Where sensible from the point of view of profitability and synergy, we invest jointly with strong partners like Deutsche Telekom AG, ERGO Versicherungsgruppe AG and, in the Tourism segment, Deutsche Lufthansa AG. In the Tourism segment we pursue a double strategy with a groupwide own travel sales operation and a participating interest in Thomas Cook on the product side.

REAL ESTATE

Central to the orientation of the Real estate business segment is our high-quality retail-operated real estate in city centres. The strategic objective is the increase of returns from real estate and the asset value of our real estate portfolio. The core of the measures is our strategic real estate performance. It is guided by the principle of the best possible utilisation over the long term. At the centre of the value optimisation is the development of the department store locations on the basis of the location-specific analysis of use alternatives. To utilise the earnings potential even better in future, we are aiming for, for example, a clear increase in the third-party and sublet ratio. At 20 department store locations we are developing city-centre shopping centres. On the basis of our A1 locations we are utilising the high yield potential of this type of business and at the same time increasing the profitability of our department stores. With four shopping centres already completed and a further five in the realisation phase we are already one of the players setting conceptual trends in German city centres. We believe that there is further growth potential in real estate services. These are closely linked to future-focused project developments. We are concentrating principally on centre management, letting, location analysis and the strategic purchase of facility management services.

CALCULATION EVA KARSTADT QUELLE GROUP

		2003	2002
Business assets	mill. €	8,656	9,494
WACC	in %	6.5	6.5
Capital costs	mill. €	**563**	**617**
Operating result	mill. €	288	383
Capital costs	mill. €	-563	-617
EVA	mill. €	**-275**	**-234**
Delta EVA	mill. €	**-41**	**-160**

Economic Value Added® (EVA)

Orientation by shareholder value is an important yardstick for action in the KarstadtQuelle Group. We are thus taking account of growing international competition in the capital markets and ensuring corporate success by means of value-enhancing strategic and investment decisions. Economic Value Added® (EVA) is the decisive key figure for performance measurement and investment decisions.

EVA FOR PERFORMANCE MEASUREMENT

EVA is calculated from the operating result less weighted capital costs. The operating result is the profit (before interest and after tax) from the operating performance. The capital costs reflect the yield requirements of the equity stockholders and capital lenders.

EVA AS CRITERIUM FOR INVESTMENT DECISIONS

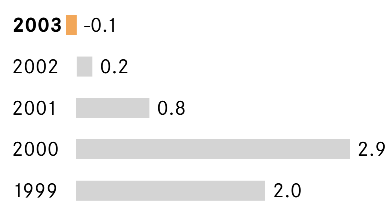
EVA enables the more efficient allocation of investment funds. By introducing EVA as a criterium for decision and the creation of standardised processes for the evaluation of investments a value-oriented prioritisation of all the investment projects is guaranteed.

EVA DOWN IN THE 2003 FINANCIAL YEAR

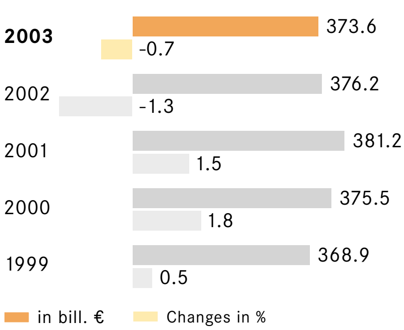
During the 2003 financial year EVA decreased by 41 mill. € to minus 275 mill. €. This is due to the decrease in operating earnings resulting mainly from the performance at Thomas Cook. On the other hand, our capital costs have developed positively because of the drastic reduction in our business assets. The reason for this is special effects from the ABS and CTA programmes.

The 2003 financial year

GROSS DOMESTIC PRODUCT
REAL CHANGE ON PREVIOUS YEAR IN %

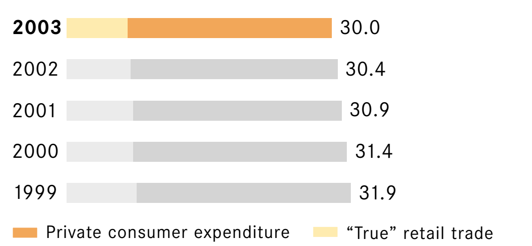


PERFORMANCE OF THE “TRUE” OVER-THE-COUNTER RETAIL NOMINAL



Source: BAG, Federal German Statistics Office

SHARE OF THE “TRUE” OVER-THE-COUNTER RETAIL IN PRIVATE CONSUMER EXPENDITURE IN CURRENT PRICES, IN %

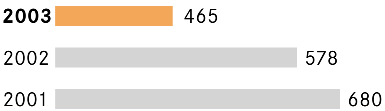


Source: BAG, Federal German Statistics Office

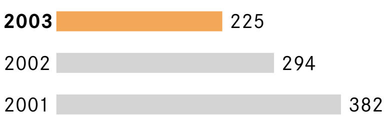
EMPLOYEES BY SEGMENT ANNUAL AVERAGE/FULL-TIME EMPLOYEES

	EMPLOYEES	IN %
Over-the-counter retail	45,601	56.97
Mail order	28,539	35.65
Services	5,651	7.06
Real estate	85	0.11
Holding	170	0.21
	80,046	**100.00**

GROUP EBITA IN MILL. €



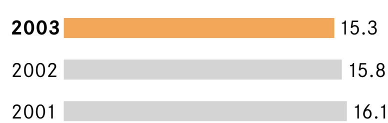
GROUP EBTA IN MILL. €



SALES BY BUSINESS SEGMENT

	IN MILL. €	IN %
Over-the-counter retail	6,973	45.7
Mail order	8,022	52.5
Services	1,432	9.4
Real estate	587	3.8
	17,014	**111.4**
Reconciliation account	-1,744	-11.4
Group sales	**15,270**	**100.0**

GROUP SALES IN BILL. €



Economic background conditions*

GERMAN ECONOMY STAGNATING

2003 in Germany was characterised by continuing economic stagnation. Exports rose, borne up by upswing tendencies in the USA and Asia, by 1.2 % in real terms. This positive development was, however, more than balanced out by a 2.6 per cent rise in imports in real terms. Domestic demand remained weak; private consumption declined. The decisive factor here was mainly the development in the labour market. The unemployment ratio rose to 10.5 % (previous year: 9.8 %). At the same time the number of employed persons fell by 1.1 %. The real gross domestic product (BIP) in Germany decreased by 0.1 %. The German economy thus stagnated for the second year in succession.

AVAILABLE INCOMES VIRTUALLY UNCHANGED – SAVINGS RATIO UP

Private consumption in Germany remained weak in 2003. The decisive factors were, amongst others, the slight increase in available incomes and a moderate wage and salary development. The real value of available incomes was about 0.5 % under the level of the previous year. Consumers were also unsettled by the long discussions about economic and socio-political measures. Accordingly, the savings ratio rose to 10.8 % during the year under review (previous year: 10.6 %).

PRICE RISE REMAINS MODERATE

The consumer price index rose by 1.1 % in 2003 (previous year: plus 1.4 %). This is the lowest annual inflation rate since 1999. The rise in the prices of mineral oil products temporarily caused prices to rise slightly faster in autumn 2003. The prices of seasonal foodstuffs also rose slightly because of the dry summer 2003. Retail prices rose by only 0.2 % in 2003.

* Economic background conditions are part of the Management Report.

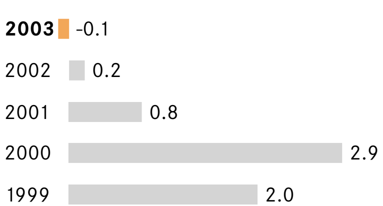
PRIVATE CONSUMPTION DOWN SLIGHTLY

Private consumption further restrained in 2003. The continuing reform debate in Germany had an inhibiting effect on consumption. The economic-political decisions reached towards the end of the year were unable to counteract the weak consumption in the short term. On a 2003 annual average real private consumption fell by 0.1 %.

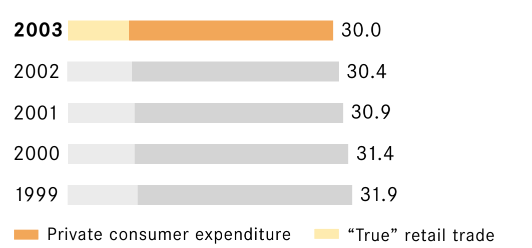
RETAIL SALES DECREASE FURTHER

Retail sales in Germany decreased in 2003 by 0.2 % and came to 508.6 bill. €. Sales in the "true" retail trade (not including motor vehicles, fuel, combustibles and pharmaceuticals) dereased nominally by 0.7 % to 373.6 bill. €. The share of private consumer expenditure enjoyed by the retail trade further decreased during the year under review and came to 30.0 % (previous year: 30.4 %).

GROSS DOMESTIC PRODUCT
REAL CHANGE ON PREVIOUS YEAR IN %



SHARE OF THE "TRUE" OVER-THE-COUNTER RETAIL IN PRIVATE CONSUMER EXPENDITURE IN CURRENT PRICES, IN %



Source: BAG, Federal German Statistics Office

CONSUMER UNEASE HOLDS BACK SALES PERFORMANCE IN THE RETAIL TRADE

The rising hope of an improvement in economic performance in Germany in the course of the year was not fulfilled. High unemployment and the growing uncertainty about the future of the social security systems aggravated consumer restraint. Consumers were also unsettled by the continuing discussion about the compensation of the notified tax reform.

Nearly all the providers in the German retail trade, with the exception of discounting businesses, were affected by customers' general restraint. The summer of the century, the continuing aggressive price competition and the wave of discounts at the end of the year, particularly in city centres, put the sales performance increasingly under pressure. The tax reform compromise approve in the second half of December could not provide any further noticeable positive impulses during the 2003 retail year.

Appreciable minus in department stores and specialty stores

The performance of the "true" retail trade is a suitable yardstick for Over-the-counter retail business in the KarstadtQuelle Group. Here particularly the performance in the general and specialty store sector is relevant. Both types of business returned markedly decreased sales in Germany during the past year. General and department store sales decreased by a nominal 3.4 %. Specialty retail sales went down nominally by 2.8 %. The department stores and specialty stores shown under Over-the-counter retail in the KarstadtQuelle Group could not avoid being affected by this negative market performance.

Mail-order market down 2.7 %

After mail order managed to detach itself from the downward trend in the retail trade in 2002, the difficult background conditions made themselves felt during the year under review. Mail order also suffered during the summer heat period from very sluggish autumn bookings. According to calculations by the Federal German Statistics Office the mail-order market volume decreased nominally by 2.7 %. Altogether the mail-order companies achieved sales of 20.2 bill. € (previous year: 20.8 bill. €). After the marked rise the previous year the share contributed by mail order to the German "true" retail trade decreased in 2003 to 5.4 % (previous year: 5.6 %).

Tourism: second crisis year in succession

The international tourism industry during the 2003 financial year saw itself confronted with the second crisis year in succession. The demand for tourist services remained in Europe considerably lower than the previous year and fell considerably short of expectations focused on a recovery.

The most important markets were characterised by unusually fierce price competition. Price sensitivity grew sharply, particularly in Germany. Geo-political events such as the war in Iraq not only dampened the desire to travel but also changed passenger flows. Countries in which in the customers' perception the individual safety risk increased temporarily lost their attractiveness as a holiday destination. Other countries which are seen by customers as less risky gained in holidaymakers' favour. Accordingly, high-volume destination areas such as Turkey, Tunisia and Cyprus all returned considerable decreases, despite price concessions and advertising measures. By contrast, the number of visitors to supposedly safe holiday areas, such as the Canary Islands, rose.

Real estate feels state of retail economy

The Real estate segment in the KarstadtQuelle Group lets mainly large-area retail-operated real estate in city centres to group companies. The most important market parameters for the real estate sector are the development of the retail trade in Germany, the relevant letting price developments, investment in and financing of new retail-operated real estate and the market for real estate purchase and sale. The market for German retail-operated real estate was affected by the weak sales performance of most retail formats in 2003. Accordingly, retail rents have fallen on average throughout Germany. Similarly, retail-operated real estate as an object of investment are on average undergoing a fall in value. The exceptions are property in major cities and high-quality A1 locations. The net initial yield from retail-operated real estate is on average between 5 % and 7 %. The yield rises as the property- or location-related risks do. Among the most sought after locations are Frankfurt/Main, Munich, Hamburg, Berlin, Düsseldorf, Stuttgart and Cologne. Retail space grew by just under 1 % to 109 mill. sq. m. year on year. The amount of sales space per member of the population is still 1.3 sq. m. because of the slightly rising population. The number of shopping centres with more than 10,000 sq. m. of sales space increased to 356 (previous year: 338) in 2003. Their sales space rose by 4.0 % to just on 11 mill. sq. m. altogether. New openings focused on urbanistically integrated locations.

Purchasing and sales

A retail company's competence is based mainly on goods procurement. This is particularly the case in an environment characterised by fierce price competition. For this reason all procurement matters in the KarstadtQuelle Group have since 2002 been concentrated in Strategic Purchasing. The basis of the success of this are the utilisation of synergies, the concentration of procurement volumes in order to use these correctly as demand potential, and the expansion of supplier relations with high quality potential. Strategic purchasing's tasks include the organisation and coordination of cross-group procurement tasks and the achievement of optimisation targets by monitoring prescribed quality features and guidelines. Since the implementation of Strategic purchasing supplier relations have been considerably tightened up and contracts successfully renegotiated with regard to conditions. This enables a significant positive contribution to be made to group earnings.

Strategic purchasing collaborates with KARSTADT QUELLE International Services AG, which is based in St. Gallen, Switzerland. Standardisation and harmonisation of supplier relations abroad were introduced jointly during the 2003 financial year. The supplier comparability thus achieved is the basis for an optimised utilisation of the logistics chain. KARSTADT QUELLE International Services AG provides procurement services for group companies and outside customers. The range of services covers all the relevant procurement markets in all the product groups. The core competences lie in the merchandising, quality control and logistics sectors and in close cooperation with suppliers. The company operates 30 offices worldwide and achieved sales of 65 mill. € during the year under review.

Environmental and social policy

THE FIRST JOINT KARSTADT QUELLE SUSTAINABILITY REPORT

The concept of "Sustainability" pursues the aim of bringing economic activity into line with demands for social security and the conservation of our environment. The intensively conducted social debate on this theme illustrates the high value placed on it and confirms at the same time our many and varied successful activities. However, it is also an incentive to further raise our objectives in a process of continuous optimisation. As part of a process of reorganisation we shall from 2004 on be combining the hitherto separate environmental reports issued by the companies of the KarstadtQuelle Group in a joint sustainability report. It will be appearing every two years at the same time as the annual report and will set out in detail our social and environmental activities. The sustainability report is the central element of our transparent information policy. In this way we engage actively in dialogue with our stakeholders.

Innovation and environment prizes for KarstadtQuelle

The Karstadt, Quelle and Neckermann group companies have been building environmental and social standards into their business processes with great success for many years – from production and procurement through sales to waste management and disposal. Here we harmonise a large number of different claims and interests. In 2003, too, we were once again rewarded for our active engagement with numerous innovation and environmental prizes. KARSTADT QUELLE AG is represented in the most important value-oriented indices, amongst others, the FSTE4 Good and the Dow Jones sustainability Index SAM Group.

"Be better. Be more. Be a partner." – Implement binding guidelines efficiently

We use the synergy and growth potential gained by the amalgamation of strong companies to form the KarstadtQuelle Group selectively and in 2003 considerably expanded the basis for our operations. Accordingly we defined groupwide a binding future model for our environmental and social political commitment and put our special responsibility as a mediator between manufacturer and consumer on a common footing.

The key-note of our sustainability guidelines is: "Be better. Be more. Be a partner." During the year under review we linked the group companies' management systems focused on environmental and social concerns and their processes, working groups, environmental officers and coordinators closely and cross-functionally together. The umbrella of this reorganisation is a so-called "sustainability council", which controls the companies' programmes and activities groupwide. Group companies in this way work coordinatedly towards common goals, but remain flexible and individually responsible.

PROCUREMENT MARKETS: HIGH PRIORITY OF SOCIAL AND ENVIRONMENTAL STANDARDS

In 2003, by focusing on the matters of social standards and environmental concerns in the procurement markets, we extended and updated the code of conduct already bindingly introduced in the KarstadtQuelle Group in 1999. An example of our success is the trend-setting model of the community initiative of the Foreign Trade Association of the German Retail Trade (AVE). We supported its development jointly with the German government. During the year under review we entered the real phase of the uniform, mutually accepted process and can now engage audit and, if necessary, also qualify suppliers in accordance with generally valid standards. The social standards are measured against the generally recognised core conventions of the International Labour Organisations (ILO) and the most important requirements of SA8000 of Social Accountability International (SAI). The environmental standards are determined by, in particular, the Washington Convention of the Protection of Species, the Montreal Protocol on materials which result in the destruction of the ozone layer and the criteria of the Forest Stewardship Council (FSC) and the Ecotex Standard 100.

Public relations

MEDIA INTEREST GROWN

Media interest in the KarstadtQuelle Group continued to grow during the year under review. The decisive factor was, amongst others, media reporting on the reorientation as a retail and service group. We communicated this strategy particularly at press conferences and through accompanying public relations measures.

Our active and up-to-the-minute communication promotes KarstadtQuelle's positive public image. A further contributory factor besides the corporate design and the corporate identity is the strong branding of the subsidiary companies. Various studies put the KarstadtQuelle Group's communication measures in a leading position. This applies particularly to the personalisation of the management for long-term image making. The new group newspaper "ma:z" is awarded good marks by members of staff. It has developed into a much-read information medium.

TARGET GROUPS IN FOCUS

Besides customer orientation, we have also intensified communication with selected target groups. This applies particularly to political decision makers. Thus, for example, we committed ourselves in particular to the customer-focused flexibilisation of opening times and for suitable fiscal measures to kick-start the internal economy.

STAFF BY SEGMENT ANNUAL AVERAGE/FULL-TIME EMPLOYEES

	Total 2003	thereof in Germany	thereof abroad	2002
Department stores	39,609	39,609	-	42,972
Specialty stores	5,992	5,943	49	6,750
Over-the-counter retail	**45,601**	**45,552**	**49**	**49,722**
Universal mail order	22,966	17,632	5,334	22,989
Specialty mail order	5,573	3,793	1,780	5,568
Mail order	**28,539**	**21,425**	**7,114**	**28,557**
Services	**5,651**	**5,502**	**149**	**5,436**
Real estate	**85**	**85**	**-**	**67**
Holding	**170**	**170**	**-**	**144**
	80,046	**72,734**	**7,312**	**83,926**

Staff

The reorientation and restructuring of the KarstadtQuelle Group led to further adjustments in the staffing sector during the year under review. The number of employed persons had fallen to 100,956 groupwide at 31.12.2003 (previous year: 104,536). This represents a decrease by 3.4 %. Abroad the number of persons employed fell by 2.4 % to 8,224 (previous year: 8,444).

On an annual average and in full-time terms the number of staff stood at 80,046. It thus fell by 4.6 %. The proportion of female employees was again on average 70 %.

OVER-THE-COUNTER RETAIL: IMPLEMENTATION OF CURRENT TASKS

Over-the-counter retail implemented many and various current tasks in the area of staffing. These included, besides the continuing flexibilisation of the staffing level and staff costs, in particular the extension of shop opening times and the growing demand for information amongst customers.

We carried out the staff reduction in accordance with the welfare plan. The employees concerned were offered, amongst other things, a move within a set time to a transfer company. These companies have until now been represented at four department store locations. They manage 1,200 former employees of Karstadt Warenhaus AG.

Karstadt Warenhaus AG consistently introduced the model of agreement-bound flexible working hours. In this way account is taken of customers’ wish for good service and competent advice. At the same time employees profit from a high degree of time flexibility.

59,056 persons were employed in Over-the-counter retail at the balance sheet date. This is 6.6 % fewer than in the previous year. About 43 % of the sales staff were employed part-time.

In 2003 each full-time employee (not including trainees) in the department stores turned over 154,313 € (not including VAT). This represents an increase by 3.6 % compared with the previous year.

MAIL ORDER: STAFF DEVELOPMENT STRATEGIES COORDINATED

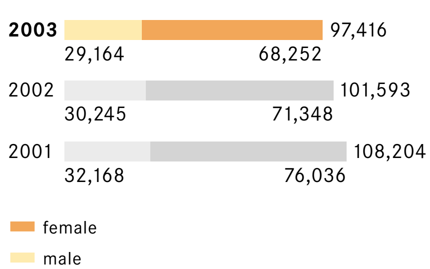
At the end of 2003 the number of employees in mail order stood at 35,518. This represents a staff increase by 1.0 %.

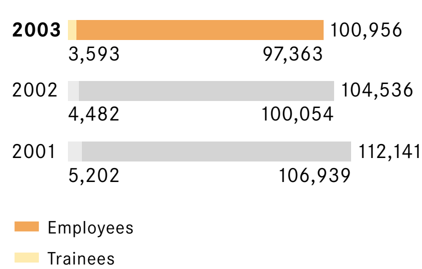
The continued internationalisation is accompanied by new concepts in staff development. Points of focus are performance promotion and strategic management development.

Quelle and Neckermann coordinated their staff development, so that managerial staff can individually plan staff discussions and potential assessment. By means of joint instruments in staff development the mail-order suppliers achieve high transparency with regard to performance and management potential and selective development projects. Furthermore, a performance-related remuneration model was introduced. It is already being applied to 70 % of all Quelle non-tariff employees and is also to apply to Neckermann from 2004 on.

Quelle began the change from fixed staggered-time agreements to a flexible, variable working time model. This model is now in the introduction phase also at Neckermann.

STAFF NUMBER ON ANNUAL AVERAGE





SERVICES/REAL ESTATE: NEW JOBS IN GROWTH SECTORS

In the Services and Real estate growth segments continuing growth goes hand in hand with the creation of further jobs.

Following the strong expansion phase in 2002 the number of employed persons in the Services segment continued to rise during the year under review. 6,094 employees now work in this growth segment. This represents a growth by 167 persons.

In the Real estate segment 100 persons were employed at the balance sheet date. This represents a rise by 52 employees.

HIGH VALUE PLACED ON TRAINING AND FURTHER TRAINING – OVER 3,500 TRAINEES

Investment in the training and further training of staff is particularly important in times of change. They are a basic precondition for success in a highly competitive market. Training and further training are therefore a core aspect of staff development in the KarstadtQuelle Group. In 2003 68.2 mill. € were invested in the qualification of younger staff. KarstadtQuelle, with over 3,500 trainees, is one of Germany's major training establishments and is thus lastingly committed to sociopolitical responsibility.

We promote the potential of qualified staff by means of trainee programmes. The group also offers special training courses for the promotion of future managerial staff in collaboration with vocational colleges and technical colleges. In this way vacant managerial posts can be filled from our own ranks.

OLD-AGE PENSION PROVISION: FUTURE-FOCUSED SOLUTION IMPLEMENTED

The reorganisation of corporate old-age pension provision for the KarstadtQuelle Group resolved in December 2002 was successfully implemented. Thus, persons entitled to a pension are offered a future-focused and secure pension provision amid difficult economic background conditions. The different pension systems were converted groupwide into contribution-based commitments. Pension entitlements individually acquired by the end of 2002 are being transferred to the new system. Since January 2003 contributions to the corporate pension plan flow into a pension fund. The pension commitments are secured via a trust model through asset funds.

A THANK-YOU TO ALL STAFF

The Management Board thanks all our staff at home and abroad for their great commitment and competent and committed work. Our thanks, too, to all works councils, members of plenary works councils, spokespersons' committees and youth and trainee representatives for their trustful and constructive cooperation.

The challenge of adapting to rapidly changing and flexible background conditions require and will continue to require the active cooperation of these bodies.

Over-the-counter retail

KEY FIGURES OVER-THE-COUNTER RETAIL

			2003	2002	Change in %
Sales performance	Sales	th. €	6,972,888	7,337,407	-5.0
Earnings	EBITA	th. €	-97,655	-70,473	-38.6
	EBITA margin	in %	-1.4	-1.0	-
	EBTA	th. €	-147,940	-129,841	-13.9
	EBTA margin	in %	-2.1	-1.8	-
	Capital employed	th. €	1,309,988	1,217,478 [1]	7.6
Other information	Investments	th. €	207,526	164,844	25.9
	Depreciation and amortisation (not including goodwill)	th. €	150,574	156,483	-3.8
	Gross cash flow	th. €	32,540	33,330	-2.4
	Branches				
	Department stores	number	180	184	-
	Sports stores	number	32*	31*	-
	Karstadt Warenhaus AG	number	212	215*	-
	Specialty stores	number	305	294	-
		number	517	509*	-
	Sales space	th. sq. m.	2,621.4	2,646.0	-0.9
	Full-time employees on annual average	number	45,601	49,722	-8.3

[1] Capital employed: Previous year's amounts adjusted by changeover to direct calculation.
* From 2003 on sports stores will be shown separately as branches. The previous year has been adjusted.

Positioning

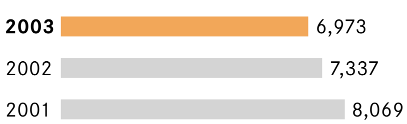
DEPARTMENT STORES CLEAR MARKET LEADER IN GERMANY

KarstadtQuelle is represented in the Over-the-counter retail segment by 180 department stores and 32 sports stores as well as 305 specialty stores at top locations in German major city centres, in medium-sized towns and integrated shopping centres.

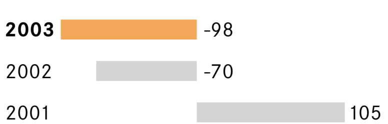
The department stores operate mainly under the umbrella brand name Karstadt, but also under traditional brand names such as KaDeWe, Hertie and Alsterhaus. They are clear market leaders in Germany and also occupy a leading position in Europe.

The altogether 305 (previous year: 294) specialty stores strengthen the importance of the department stores, particularly in the fashion (SinnLeffers, Wehmeyer) and sports (Runners Point, Golf House) sectors. At the same time in the multimedia (Schaulandt, WOM) and systems catering (LeBuffet) sectors they complement the high, virtually full-area coverage for customers in the KarstadtQuelle Group's over-the-counter retail business.

SALES IN MILL. €



EBITA IN MILL. €



EBTA IN MILL. €

Segment performance

PURCHASING RESTRAINT AND PRICE COMPETITION CHARACTERISE RETAIL BUSINESS IN CITY CENTRES

In German city centres the 2003 retail year was characterised by consumers' continuing purchasing restraint and strong price competition. Sales in over-the-counter retail through our department stores and specialty stores came to 6.97 bill. € (previous year: 7.34 bill. €). This represents a sales decrease by 5.0 %. With a sales share of 85.6 % (previous year: 86.1 %) the department store is the key element in this business segment.

In the department store sector sales came to 5.97 bill. € (previous year: 6.20 bill. €). This represents a decrease by 3.7 %, after adjustment for space minus 3.4 %.

The specialty stores achieved sales of 1.01 bill. € (previous year: 1.13 bill. €). This represents a decrease by 10.6 %. After adjustment for closure of part of the electronics chain Schaulandt sales decreased by 4.7 %.

EARNINGS: OPERATIONAL ADVANCES CANNOT COMPLETELY MAKE UP FOR DECREASE IN EARNINGS DUE TO COMPETITION

EBTA stood at minus 147.9 mill. € (previous year: minus 129.8 mill. €). This represents a decrease by 18.1 mill. €. Earnings were seriously burdened by the decrease in sales by 364.5 mill. €. Although we succeeded in mostly closing this gap by means of operational earnings advances. Accordingly, the profit margin was increased by 0.3 percentage points to 42.1 % despite the fierce competition and higher investment in the customer. The successful cost management also had positive effects. Staff cost decreased by 5.5 % to 1.63 mill. €. The staff cost ratio thus decreased to 23.4 % (previous year: 23.5 %). On balance, special effects burdened the year under review and the previous year as well. They amounted to 20 mill. € and are due mainly to flexibilisation and closure costs.

STAFF PRODUCTIVITY IMPROVED, SALES DENSITY SLIGHTLY LOWER

Thanks to restructuring and cost management the number of full-time employed in department stores during the 2003 financial year was reduced by 7.8 %. Staff productivity rose by 3.6 % to 154,313 € per full-time employed person (previous year: 148,967 €). Sales density decreased by 3.2 % to an average of 2,791 € annual sales per square meter of sales space. The rate of goods turnover went down to 3.17 times (previous year: 3.27 times).

KARSTADT PRICE INDEX HARDLY CHANGED

Karstadt calculates a price index on the basis of the products offered in the department stores. Its slight rise by 0.2 % is an expression of the continuing price and discount competition in the retail sector. By comparison, the price index for the cost of living in Germany rose by 1.1 %, while retail prices rose by 0.2 %.

SALES PERFORMANCE OVER-THE-COUNTER RETAIL

		2003	2002	Change in %	Sales 2003 in %
Fashion					
Karstadt Warenhaus AG	mill. €	1,692	1,733	-2.4	24.3
Specialty stores	mill. €	735	783	-6.1	10.4
	mill. €	**2,427**	**2,516**	**-3.5**	**34.8**
Personality					
Karstadt Warenhaus AG	mill. €	**1,299**	**1,337**	**-2.8**	**18.6**
Living					
Karstadt Warenhaus AG	mill. €	**1,032**	**1,090**	**-5.3**	**14.8**
Sports					
Karstadt Warenhaus AG	mill. €	528	554	-4.7	7.6
Specialty stores	mill. €	114	106	7.8	1.6
	mill. €	**642**	**660**	**-2.7**	**9.2**
Multimedia					
Karstadt Warenhaus AG	mill. €	618	642	-3.7	8.9
Specialty stores	mill. €	128	205	-37.7	1.8
	mill. €	**746**	**847**	**-12.0**	**10.7**
Food & drink					
Karstadt Warenhaus AG	mill. €	737	761	-3.2	10.6
Specialty stores	mill. €	35	38	-7.2	0.5
	mill. €	**772**	**799**	**-3.3**	**11.1**
Other					
Karstadt Warenhaus AG	mill. €	**60**	**78**	**-23.1**	**0.9**
Total					
Karstadt Warenhaus AG	mill. €	5,966	6,195	-3.7	85.6
Specialty stores	mill. €	1,012	1,132	-10.6	14.5
	mill. €	**6,978**	**7,327**	**-4.8**	**100.1**
Reconciliation account	mill. €	-5	10	-	-0.1
	mill. €	**6,973**	**7,337**	**-5.0**	**100.0**

The consumer segments

Fashion: Strong market position expanded

The German fashion market declined by about 5.0 % in 2003. This market segment of the German retail trade, after foodstuffs the second-largest, suffered particularly from the record summer of the century and the discount campaigns as well as from the general consumer restraint. The Karstadt department stores achieved sales of 1.69 bill. € (previous year: 1.73 bill. €) in the fashion consumer segment. In their high-volume consumer sector they outperformed the market with a sales decrease by 2.4 %. Karstadt was thus able to strengthen its position in the fashion market. After a sluggish start to the 2003 financial year and weak summer business caused by the heat the trend was turned in the course of the year. The decisive factor was selective measures to optimise goods and presentation and effective marketing campaigns. In our fashion consumer sector the WOW sector (women's outer wear) returned the best performance. It increased its sales and was able to gain shares of the market. Particularly the intensified expansion of brand and own-brand shops had positive effects. The men's ready-made clothing and the children's ready-made clothing sectors recorded a moderate sales decrease in a declining market environment.

The specialty store chains SinnLeffers and Wehmeyer show a sales decrease by 6.1 % to 735 mill. €. Here outside providers further intensified competition with high-volume campaign offers in the upper and aggressively priced fashion segment.

PERSONALITY: DIFFERENTIATED DEVELOPMENT

In its second-largest consumer sector Personality Karstadt returned a sales decrease from 2.8 % to 1.3 bill. € during the year under review. Personality includes personal requisite ranges such as perfumery, cosmetic by leading cosmetics manufactures promoted in-house, books, leather goods, watches and jewellery.

The watches and jewellery sector maintained its sales at the previous year's level against the market trend by stepping up the brand business and new forms of partnership. In the stationery and beauty sectors the previous year's sales were not reached due to weak seasonal business. The books sector shows decreased sales in a difficult market environment. The successful marketing campaigns relating to the bestseller Harry Potter could only mitigate this development. The leather goods sector performed less well than the average, particularly in the travel bags segment. The decisive factor was the weak tourism market.

LIVING: OPTIMISATION OF SPACE INCREASES PRODUCTIVITY

The living consumer sector includes furnishings and fittings for house and home. Sales decreased by 5.3 % to 1.0 bill. €. After adjustment for strategic space reductions sales is at previous year's level. The expansion of partnerships and letting concepts and the transfer of space to other high-margin consumer sectors resulted in an increase of sales density throughout.

Durable consumer goods performed appreciably better than the textiles sector in the 2003 financial year. The glass, porcelain and ceramics sector appreciably increased its sales through optimisation of the lines and presentation. The large electrical appliance sector continued to increase its space under a service business programme and achieved a positive sales performance. The comparable market segment in Germany returned a two-digit percentage decrease. Sales in curtains, furnishing fabrics and carpets decreased as scheduled because of space transfers and line adjustments. Thus, for example, the Oriental carpet departments were almost completely discontinued.

Sports: Expansion in difficult market environment

The KarstadtQuelle Group is emphasising its market lead in the sports consumer sector in Germany. KarstadtSport's offering in the sports departments of its department stores is being expanded by an increase in the number of specialty sports stores to 32. In November 2003 a further sports store in shopping centre format was opened in the Berliner Gropiuspassagen. KarstadtSport sales came to 528 mill. € and were thus 4.7 % lower than the previous year. The sports market in Germany declined by 5.1 % overall.

In particular the summer of the century curbed Germans' sporting activities and seriously impaired their readiness to consume. Sales of sports textiles also suffered from the generally weak demand. Bicycles, bathing and beach fashions and golf recorded positive performances.

Our specialty stores with the Runners Point and Golf House formats increased their sales by 7.8 % to 114 mill. € against the market trend. The focused and competent range of running and golf goods was especially well received by customers.

MULTIMEDIA: CONTINUING COMPETITIVE PRESSURE

The multimedia consumer sector includes the music, film, entertainment electronics and computer sectors. Overall, it maintained its position in an environment characterised by continuing competitive pressure and price decline with a sales decrease by 12.0 % to 746 mill. €.

The music sector suffered from illegal downloads as well as the lack of new products and artists. Karstadt – particularly at small and medium-sized locations – markedly outperformed the market by reassignment of space and new presentation concepts. Market shares were gained, particularly in music and film DVD's. Karstadt also set positive trends with a range of individual CD's. The entertainment electronics sector was, despite successful new product trends such as TV flat screens, characterised by a negative sales performance. Digital photography was the focus of customer interest in the 2003 financial year, too. However, the quantity rise in digital cameras could not completely make up for the decline in prices.

As a result of disinvestment and streamlining of branches sales at multimedia specialty stores decreased by 37.7 % to 128 mill. €. At Schaulandt we consistently continued the gradual withdrawal from the market begun the previous year. Due to the sale of eight shops and branch closures the Schaulandt branch network was reduced to eight shops by the end of 2003 (previous year: 19). With effect from January 1, 2004 the remaining eight Schaulandt branches will be operated under Karstadt. The WOM World of Music specialty store chain specialises in audio and video media. After two closures and an opening in Bonn WOM operates 13 branches. The well-known WOM brand was repositioned and media activities expanded. Points of focus were the WOM magazine and the WOM Music Shop in partnership with the VIVA TV channel.

FOOD & DRINK: DISCOUNT CONTRA FINE-FOOD PERFORMANCE

The Food and Drink consumer sector includes sales of foodstuffs and alcohol and tobacco in 71 food departments (previous year: 73) and sales of food and drink in the restaurants and snack bars in the department stores. With sales at 772 mill. € the decrease in this consumer sector amounted to 3.3 %.

Sales of foodstuffs slightly decreased. Customers continued to shift their buying preferences in favour of discount operators. Karstadt was successful with its wine ranges and is amongst the most important suppliers of German and French vintages. The fresh fruit and vegetable sector returns a disproportionately successful performance. Borne up by a successful reorientation, the fine food range underwent a marked revival towards the end of the year.

In the restaurant sector consumers' general reluctance to use gastronomic services also continued in 2003. The LeBuffet catering chain and the department store restaurants however outperformed the market as a whole. The decisive factor was the further implementation of the high-quality restaurant fresh food concept. According to this concept the food is prepared individually in the customer's presence in a superior setting.

The 2003 financial year in brief

Against the background of the continuing weak retail environment in the 2003 financial year we consistently continued the strengthening of specialty store concepts such as sports and fashion, the restructuring of the business processes and the sales shift towards higher-margin areas of consumption. Efficient marketing was a further central topic.

CHANGES TO THE KARSTADT MANAGEMENT BOARD

As planned, with effect from July 1, 2003, Prof. Dr. Helmut Merkel, member of the Management Board of KARSTADT QUELLE AG, took over the chairmanship of the Management Board of Karstadt Warenhaus AG. He succeeds in this position Wolfgang Urban, who has discharged this function since 2000 in addition to the chairmanship of the Management Board of KARSTADT QUELLE AG. Urban moved over to the Supervisory Board of Karstadt Warenhaus AG, where he will perform the office of Chairman. Thomas Freude was newly appointed to the Management Board of Warenhaus with effect from the beginning of the year. He is responsible for the marketing and Sales departments. Freude is continuing to discharge his Management Board duties at SinnLeffers.

"Besser Karstadt" strengthens brand profiling

In August 2003 the department stores launched their new "Besser Karstadt" brand campagne. "Besser Karstadt" is a lasting service promise and focuses on the wishes of customers. By means of selective emotionalisation the customer relationship is deepened or initiated and the preference for Karstadt as a preferred shopping location further strengthened. At the same time the brand offensive represents an investment in the value of the strong Karstadt brand. The blue Karstadt bag with the inscription "Besser Karstadt" stands out as the new communication logo. The campaign is being well received by customers.

Karstadt.de growing

The information and shopping portal karstadt.de was further expanded during the year under review. The online demand rose by 50 %. The portal now features over 14 specialty shops. The additional goods and services offered focus consistently on the needs of online customers. Thus, karstadt.de presents, for example, music downloads for over 200,000 titles or a shop for computer games in partnership with Ubisoft, the world's largest manufacturer of these products. Furthermore, since October 2003 our online customers can book the most favourable flights offered by 16 European low-cost airlines. More than 370,000 subscribers obtain information regularly through the karstadt.de Newsletter. In a recent study of the successful use of an Internet site as a marketing and communication instrument, out of 125 major brands in Germany karstadt.de was placed among the top 10.

FOUR UNPROFITABLE DEPARTMENT STORES CLOSED; ONE SPORTS STORE OPENED

During the year under review a sports store with 3,000 sq. m. of space was opened in Gropiusstadt in Berlin. Four unprofitable department stores were closed in Berlin, Hamburg-Altona, Karlsruhe (here KarstadtQuelle is developing a city shopping centre) and Wolfsburg with a total of 42,000 sq. m. sales space. Taking into account space increases arising from conversions and repositioning in the existing branch network, the sales space used by Karstadt itself was reduced by 14,900 sq. m. or 0.7 % to 2,125,400 sq. m. The let space in department stores amounted to 107,200 sq. m. This represents about 4.8 % of the space. At the same time the concession business operated by partners was considerably expanded. Because of the system concessions are not registered as third-party letting.

BROADLY POSITIONED SPORTS COMMITMENTS

As the largest German sports provider, KarstadtSport is also heavily engaged in the events sector. With about 18,000 enrolled participants and over 300,000 spectators along the route from Bochum to Dortmund the 1st Karstadt RuhrMarathon established itself on May 11, 2003 at a stroke as the fourth-largest German marathon event. This mega-event under the motto of “A Region in Motion” gained millions of media contacts for the region and KarstadtSport. Considerably more than 20,000 active participants are expected for the 2nd Karstadt RuhrMarathon on April 25, 2004.

The partnership between KarstadtQuelle and the FIFA international football association is at its height. The first official FIFA 2006™ WC shop was presented on the occasion of the draw for the qualifying round in Frankfurt/Main. In autumn 2004 the shops in the Karstadt sports stores at the 12 FIFA 2006™ WC match locations will open. In November 2003 Karstadt offered the first official licensed products for the FIFA 2006™ WC. The trendy lifestyle collection was available exclusively and in limited quantities at 15 locations.

Karstadt shows particular strength in the golf sector with 30 specialist departments in the branches, its own mail order service, golf holidays and the specialist subsidiary Golf House. Karstadt also demonstrated its leading position in the attractive golf sports market segment in 2003 with about 40 of its own golf tournaments. The final round of no less than the fifth Karstadt Golf Masters with about 3,000 participants was held at the Spanish Los Naranjos tournament course.

ATTRACTIVENESS OF DEPARTMENT STORES INCREASED

Karstadt Warenhaus AG further upgraded and modernised its branch network in the 2003 financial year. In addition to the conversion of large stores smaller branches distinguished themselves as part of location-specific range optimisation measures.

Increasing the attractiveness of our department stores went hand in hand with, amongst other things, the strengthening of the fashion, sports and personality consumer sectors and the realisation of further shopping centres. The following major projects were implemented during the year under review:

- **Frankfurt am Main, Dortmund: Completion of the second construction stage.**

The largest Karstadt store in Hesse completely revised, amongst others, its fashion, beauty and sports sectors (total investment 30 mill. €). The largest Karstadt store in North Rhine-Westphalia was restructured, particularly in the fashion, living and food sectors (total investment 18 mill. €). Both stores will complete their total renovation in 2004.

- **Hamburg (Alsterhaus): Beginning of the conversion for a completely new market presentation.**

This traditional store will become the top stop for fashion, perfumery, fashion and living accessories and food and drink. The new conception integrates attractive partners such as H&M in one third of the sales space totalling 23,000 sq. m. The completion date is autumn 2005 (total investment 25 mill. €).

- **Dresden: Complete reorientation.**

At the two Karstadt stores hit by the Elbe floods the previous year the ranges were reoriented without overlap. Particularly the competence of the ranges in the fashion, beauty and sports sectors was considerably strengthened.

- **Fulda: Redesign with emphasis on emotionalisation.**

The integrated representation is determined by comprehensive range combinations and visual merchandising throughout.

- **Potsdam: Beginning of the construction of the “Stadtpalais” city centre shopping centre.**

Karstadt is the principal tenant of the new centre, which will open in spring 2005.

- **Leipzig: Completion of the main preparations for transformation into a shopping centre.**

- **Karlsruhe: Complete renovation of basement and ground floor.**

High-quality orientation in range and consolidation of the leading market position in the Karlsruhe city centre.

Outlook

The modernisation of the large department stores and the reinforcement of the fashion and sports specialty store concepts were consistently continued during the 2004 financial year. In February 2004 work began on extension of the flagship KaDeWe department store in Berlin. KaDeWe will be given an even more international, more exclusive orientation. The volume of investment to mid-2007 amounts to about 40 mill. €. The expansion of KarstadtSport is progressing well. Early in 2004 the branch network will be expanded to include sports stores 33 and 34 (Hanau and Constance).

A particular emphasis is the further-development of the systems. The new merchandise management system will be expanded by a further level under the strategic development partnership with the SAP software company. The core is the integration of merchandise management, financial accounting and control on a single platform. It will be available in 2004 for planning processes and from 2006 on for operational processes. Moreover, the equipping and refitting of the tills is forming an emphasis during the current financial year. After a pilot phase in early summer 2004 about 10,000 new tills will be installed in the department stores. The aim is the optimisation of the payment procedure and faster, even more customer-friendly registration.

Mail order

KEY FIGURES MAIL ORDER

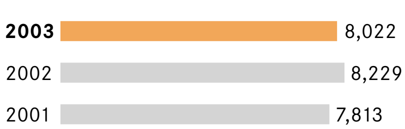
			2003	2002	Change in %
Sales performance	Sales	th. €	8,022,276	8,229,015	-2.5
	thereof foreign sales	th. €	1,932,929	1,798,249	7.5
	foreign sales share	in %	24.1	21.9	-
Earnings	EBITA	th. €	164,187	227,443	-27.8
	EBITA margin	in %	2.0	2.8	-
	EBTA	th. €	91,098	154,051	-40.9
	EBTA margin	in %	1.1	1.9	-
	Capital employed	th. €	2,636,285	3,041,925[1]	-13.3
	Return on capital employed	in %	5.7	6.2	-
Other information	Investments	th. €	120,154	259,129	-53.6
	Depreciation and amortisation (not including goodwill)	th. €	105,517	139,257	-24.2
	Gross cash flow	th. €	283,020	394,160	-28.2
	Full-time employees on annual average	number	28,539	28,557	-0.1

[1] Capital employed: Previous year's amounts adjusted by changeover to direct calculation.

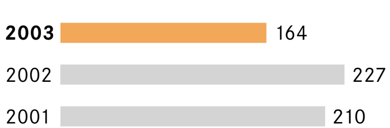
Positioning

The Mail-order segment covers the complete range of universal and specialty mail order in Europe. The two core brands, Quelle and Neckermann are market leaders in Germany. The group mail-order suppliers are represented in 22 European countries and thus also occupy a leading position in Europe. The share contributed to sales by foreign sales is 24.1 % – and is rising sharply. On the brand name side, Quelle and Neckermann stand for different positioning and basic philosophies. In the organisation of the two mail-order suppliers, however, structures, work sequences, processes and functions are essentially identical and concentrated. In this way the two mail-order suppliers utilise quantity and cost synergies. The product range in high-sales universal mail order covers all areas of daily requirements. In high-yield specialty mail order altogether 23 international mail-order companies are combined. They orient their product ranges closely and flexibly towards customer needs. By appealing to selected target groups and focusing on attractive product range areas the specialists achieve a high level of product and service competence.

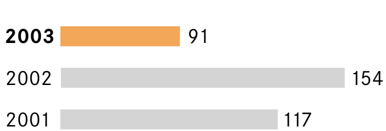
SALES IN MILL. €



EBITA IN MILL. €



EBTA IN MILL. €



Segment performance

VARYING SALES PERFORMANCES IN MAIL ORDER

In a declining market Quelle and Neckermann were able to maintain their leading position in the German and European mail-order sector. However, the increases in specialty mail-order, foreign sales and e-commerce could not make up for the reduced sales in the high-volume universal mail-order sector.

As in previous years, the 23 special mail-order suppliers continued on their growth course and increased their sales by 5.8 % to a present 1.60 bill. €. Nearly all the special mail-order suppliers achieved satisfactory increases. Particularly good performances with two-digit growth rates were returned by, in particular, Afibel, Bon' A Parte, Hess Natur and Madeleine. Universal mail order, on the other hand, shows a volume of business of 6.50 bill. € decreased by 4.8 % (previous year: 6.83 bill. €). As expected, Quelle's performance failed to reach the high level of its anniversary year 2002. The additional sales achieved through special anniversary promotions in 2002 could not be matched because of the restrained mood of consumers during the past year under review.

Altogether sales in the Mail-order business segment decreased by 2.5 % to 8.02 bill. € (previous year: 8.23 bill. €).

FOREIGN SALES: GROWTH CONTINUES

The force for growth in most European countries continues unchanged. Quelle's and Neckermann's foreign companies achieved sales of 1.9 bill. € (previous year: 1.8 bill. €). This represents a growth of 7.5 %. The share contributed by foreign sales to the total sales of the mail-order business segment accordingly rose to 24.1 % (previous year: 21.9 %).

In numerous West European markets the consumption-dependent sectors in particular suffered from the deteriorated economic situation. Quelle's foreign subsidiaries showed a varied sales performance. Whereas in all the countries of Central Eastern Europe high two-digit increases were achieved, sales in the Quelle France Group with its companies in France, Spain, Portugal and Belgium fell below those of the previous year. Quelle performed gratifyingly in the Austrian mail-order trade. The market leadership was expanded. Neckermann returned improved sales in almost all countries. Increases were achieved as much in the difficult French market as in the countries of Central Eastern Europe.

EARNINGS: EARNINGS OF ANNIVERSARY RECORD YEAR NOT MATCHED

The Mail-order segment achieved an EBTA of 91.1 mill. € (previous year: 154.1 mill. €) in the year under review. The decisive factor behind the earnings decrease was sales decreased by 206.7 mill. € as a consequence of the high previous year's basis (Quelle anniversary). The positive development of the profit margin could mitigate this effect. The margin was increased by 0.3 percentage points to 49.1 % through internal optimisation. On balance, earnings in the current year were burdened by special effects to the value of 37 mill. €. These are due mainly to measures relating to older employees part-time work.

Central Eastern Europe: Expansion into markets of the future

Under the internationalisation strategy Quelle and Neckermann continued their ambitious growth strategy in Central Eastern Europe in the 2003 financial year. Good prospects for the expansion of the catalogue ranges are being opened up, particularly in the new Central Eastern European member states of the European Union. The increase in sales by 18 % to 139 mill. € achieved by the two universal mail-order suppliers in Central Eastern Europe with all their subsidiaries there during the 2002 financial year was followed by further growth in the year under review. Sales rose by 34.5 % to 187 mill. €. By 2007 the two mail-order companies aim to double the sales achieved in 2002. Thus, the existing market lead already established in seven countries of the region is being consolidated and further expanded.

Main catalogues dominate market presentation

The most important medium of customer appeal is still the Quelle and Neckermann main catalogues. During the year under review they appeared in an impression of about 38 million copies and are thus represented in the majority of German households. Quelle's main catalogue impression for the 2003 autumn/winter season was the 100th since the first issue in 1954. The 2004 spring/summer catalogue features the German top model Claudia Schiffer with her son on its front page.

Neckermann makes Germany dream

Neckermann Versand AG is entering a new dimension with its market and product offensive launched in January 2004. The advertising partner and main figure of the new emotionalised market presentation is Thomas Gottschalk, who is presenting Neckermann's "Dream campaign" in the main catalogue and television commercials. The market offensive is financed and supported by the highest advertising budget in the company's history. The slogan "Neckermann makes it possible", one of the foremost promises on the German retail scene, is given a central role in all measures and campaigns.

The 2003 financial year in review

The long-term four-pronged strategy for sustained growth in the Mail-order business segment was continued, further developed and supported with measures in its core elements during the year under review. In specialty mail order, in internationalisation and in e-commerce we achieved good progress throughout in the implementation of strategy. In universal mail order the partnership between Quelle and Neckermann was further consolidated. The two universal mail-order suppliers also launched marketing offensives to demonstrate their distinct positioning and images in the market.

SUCCESSFUL, MEDIA-EFFECTIVE MARKETING CAMPAIGNS

Quelle and Neckermann once again demonstrated their performance capability in the 2003 financial year. The media-effective campaigns contributed decisively to the improvement of the image and at the same time presented favourable shopping opportunities.

For Quelle respectability, confidence and reliability are foremost. Furthermore, at the beginning of 2003 in Günther Jauch Quelle engaged a brand representative who credibly and authentically embodies the traditional values of the largest German mail-order company. During the 2003 financial year Quelle got itself talked of as a result of successful campaigns with a high media response. Thus, Quelle registered more than 1.6 mill. applications for the 1,000 Mars own-brand bicycles. They were offered in March 2003 at an attractive special price. After the campaign the registered potential customers were sent an alternative offer. The response exceeded all expectations. The follow-up campaign in April and May established a record in the more than 75-year history of the company. More than 5.5 million customers ordered the Smart-Cabrios likewise offered at a special price and in a limited quantity. This meant that one in six German households took part. During the campaigns more than 50 % of the orders were placed via the www.quelle.de Internet portal. This underlines the high level of acceptance and importance of the Internet as a universal and omnipresent information, marketing and sales medium.

Neckermann emphasised the emotive brand components more strongly in its marketing during the 2003 financial year. Attention was attracted to the demonstrated strengths of the company by slogans like “Neckermann fulfills wishes” or the classic “Neckermann makes it possible.” Neckermann sees itself as a universal provider which makes everyday dreams and unfulfilled wishes achievable. Adventure and product worlds in the catalogues, the “Dream package” and the “Dream campaign” are the focus of the range strategy and emphasise the emotional market presentation. At the start of the 2004 spring/summer season Neckermann engaged the entertainer and television presenter Thomas Gottschalk to be its ideal partner in the “Dream campaign”.

QUELLE AND NECKERMANN ARE USING THE EXISTING INFRASTRUCTURE FOR FURTHER GROWTH IN EUROPE

Quelle and Neckermann are consistently using the possibilities offered by the group companies to achieve the entry into foreign markets fast, flexibly and cost-effectively. In countries in which group companies are already established further mail-order suppliers are using the existing and established infrastructure. In this way the new arrivals can make all the organisational and logistic preparations for the market presentation within a few months and concentrate right from the start on acquiring customers, marketing and sales. The joint, mutual use of systems proved an efficient instrument with which to expand internationalisation in the 2003 financial year. The expression of this successful strategy is Neckermann's successful entry into the market in Switzerland and Quelle's in The Netherlands.

NEW SALES PLATFORMS IN E-COMMERCE

Since August 2003 Quelle has been represented as first universal mail-order supplier in Germany been represented with its own online shop on the eBay auction platform. Thus, Quelle is reaching via one of the highest-range portals in Germany the considerably increased target group of online auctioneers. The offering includes individual items from the Quelle range – from clothing through electrical appliances to motor car accessories. The products are presented visually and can either be auctioned or bought immediately at a fixed price. Customer service, storage, mail order and payment are handled by the KarstadtQuelle service provider, servicelogiQ.

Each mail-order company of KARSTADT QUELLE AG appeals to the customers via its own Internet site. Further, Happy Size, Hess Natur, Neckermann, Madeleine, Peter Hahn and Quelle maintain a shared Internet platform, sparen24.de, on the Internet with daily varying campaign offers at reduced prices.

Quelle Technik centres cooperate closely with shops

With about 4,900 shops in Germany Quelle operates a uniquely closely meshed sales network. The shops, together with over 150 technical centres, are positioned in many of the country's cities as "Quelle vor Ort" ("Quelle near you"). Quelle intensified the cooperation between the technical centres and the shops during the year under review and thus gave further impetus for growth in over-the-counter sales. Customers and Quelle partners will profit from new customer care concepts and product range, marketing and service offensives. The over-the-counter units present themselves as "Quelle live" – to look at, pick up, try out and get to know.

During the year 33 technical centres were converted and modernised; four new openings were matched by two closures. In the redesigned stores Quelle presented technical quality products which in their respective product groups are some of the most successful product ranges in the German market – particularly large electrical appliances and kitchens.

Neckermann.de: Best online shop of the year 2003

The neckermann.de portal was awarded the title of "Best Online Shop of 2003" by the specialist publication "Der Versandhausberater" ("The Mail-Order Shop Adviser"). The jury particularly praised the clarity of the layout and the neckermann.de adventure shopping concept. They looked at, amongst other things, the product range, price advantages, product advice, user guidance, ordering procedure and personalisation. In the jury's opinion neckermann.de superbly and creatively utilises the many, different possibilities offered by the medium of the Internet. Particularly mentioned were the online shop's adventure character, the clarity of layout and the comprehensive multimedia advisory performance. In December neckermann.de registered the highest number of visits, 5.5 mill. since its inception.

Outlook

The marketing and sales measures prepared for Neckermann and Quelle during the 2003 financial year will have a positive effect in the current year. Neckermann acquired Thomas Gottschalk as its advertising partner. From 2004 on the TV presenter will be presenting the new sales-promoting “Dream action” marketing concept. Quelle is collaborating with Günther Jauch as its advertising testimonial and Claudia Schiffer as catalogue model in the 2004 spring/summer season. This market offensive will be complemented by the new marketing and sales concepts, “Thursday is Quelle day” and “Quelle Moments”, which were launched in February and March 2004, respectively, and are aimed at creating demand and weekly varying purchase experiences. Expansion in the Specialty mail order, Foreign and E-commerce strategic growth segments will be continued as scheduled. In specialty mail order, for example, Quelle in partnership with the Munich sports fashion company Willy Bogner will offer high-quality sports clothing by mail order during the current financial year.

Services

KEY FIGURES SERVICES

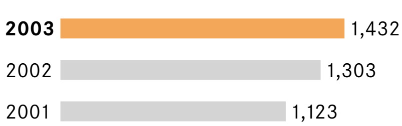
			2003	2002	Change in %
Sales performance	Sales	th. €	1,431,852	1,303,169	9.9
Earnings	EBITA	th. €	-32,722	33,140	-198.7
	EBITA margin	in %	-2.3	2.5	-
	EBTA	th. €	-39,062	21,718	-279.9
	EBTA margin	in %	-2.7	1.7	-
	Capital employed	th. €	525,714	664,228 [1]	-20.9
Other information	Investments	th. €	70,659	179,557	-60.6
	Depreciation and amortisation (not including goodwill)	th. €	50,741	46,302	9.6
	Gross cash flow	th. €	97,226	100,386	-3.1
	Full-time employees on annual average	number	5,651	5,436	4.0

[1] Capital employed: Previous year's amounts adjusted by changeover to direct calculation.

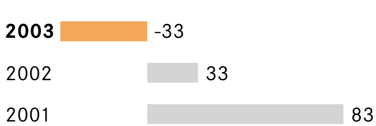
Positioning

In the Services segment we are profiting from the further change to a service and information society. This development is reflected by, amongst other things, the continuous shift in the budgets of private households. Larger and larger shares of available income are being spent on services such as media, telecommunications, leisure and insurance and banking products. As a result of the consistent development of its services segment KarstadtQuelle offers customers these new consumer services. We have subdivided the services business into the B2C (business with consumers) and B2B (corporate business) subsegments. Business with consumers includes mainly financial services, loyalty card bonus programmes and tourism. Corporate business focuses on information services, e-commerce and media and logistics, purchasing and IT.

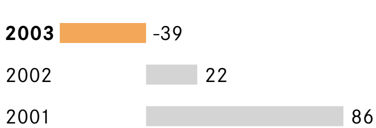
SALES IN MILL. €



EBITA IN MILL. €



EBTA IN MILL. €



Segment performance

SALES PERFORMANCE: GROWTH CONTINUES

The Services segment continued on its growth course. Sales (not including Thomas Cook) achieved 1.4 bill. € (previous year: 1.3 bill. €). This represents a growth by 9.9 %. The logistics business made further powerful gains. The information services and IT services sectors also performed positively.

EARNINGS: EARNINGS DOMINATED BY THOMAS COOK

EBTA of the Services segment achieved 39.1 mill. € (previous year: 21.7 mill. €). This represents a decrease by 60.8 mill. €. The earnings performance is dominated mainly by the considerably lower earnings at Thomas Cook. Pro-rata EBTA in the tourism group stood at minus 76.7 mill. € (previous year: minus 23.9 mill. €). The loss contribution thus rose by 53 mill. €. A further burden on earnings was created by the absence this year of earnings from a participating interest in a media combine. This was transferred to the pension funds in the 2002 financial year. The other services achieved earnings at almost the same level as the previous year at 38 mill. €. Start-up losses from new operations were set off by improved earnings at the established companies.

B2B services (business with corporate customers)

E-commerce and media: Strategic growth segments expanded

E-COMMERCE: STRONG GROWTH CONTINUING – ONLINE DEMAND + 28 %

KarstadtQuelle further expanded its leading position in e-commerce in Germany. The online order value rose to 1.59 bill. € during the 2003 financial year (previous year: 1.24 bill. €). This represents a growth of 28 %. The ambitious targets were thus exceeded once again.

E-commerce has developed into an important pillar within the retail segments. The share contributed by the value of online orders to the group's overall sales increased to 10.3 % (previous year: 7.8 %). The high attractiveness of the e-shops and their growing importance for reaching purchasing decisions is also reflected in the continuously increasing use of the sites: The number of visits rose by 51 % on the previous year.

MEDIA: YIELD POTENTIAL AND COMBINED EFFECTS

The consistent implementation of the KarstadtQuelle multi-channel strategy is shown in the development and expansion of a profitable media business with positive combined effects for the core retail business.

ACQUISITIONS DSF AND SPORT1 WITH HIGH YIELD POTENTIAL

KarstadtQuelle in April 2003 acquired a share of 40.48 % in Germany's most successful sports channel, Deutsches SportFernsehen (DSF). The channel has 93 % technical penetration and reaches more than five million viewers in peak times. In addition, a participating interest of 40.48 % in Sport1 was acquired. Sport1 is by far the largest German Internet portal with over 600 mill. page impressions in 2003. With regard to the marketing of the 2006 football world championships and the expansion of KarstadtSport the communication platforms DSF and Sport1 guarantee additional synergies with the retail business. DSF was strategically repositioned during the 2003 financial year and, thanks to the new business model, has already passed the break-even point. Sport1 is set make a profit in 2004.

MEDIA PRESENCE STEPPED UP: NECKERMANN URLAUBSWELT TV AND WOM MUSIC SHOP SUCCESSFUL

The amount of TV time devoted to KarstadtQuelle brands from the tourism and music sectors was increased to 31.5 hours a week during the 2003 financial year.

KarstadtQuelle and Tele5 jointly operate the Neckermann Urlaubswelt TV tourism programme. The use of the well-known brand name is increasingly proving to be an effective competitive advantage. At the same time annex business is also being created within the group. For example, 29 % of all customers of Neckermann Urlaubswelt TV take out KarstadtQuelle travel insurance through the FONETIX call centre. The successful sale of holidays was complemented by a win-a-holiday show in September 2003. This new, fast growing business segment, which is based on pay telephone calls from viewers, is gaining increasing importance in the TV business.

KarstadtQuelle's WOM magazine is Germany's most-read music magazine. Since November 2003 it has been complemented by the WOM Music Shop music format, which is broadcast for three hours a day on the VIVA and VIVAPlus channels. Combined with the wom.de Internet site, the music and branded goods industry is thus offered a unique cross-media advertising platform for the 14- to 39-year-old target group.

LOGISTICS – COMPETENCE AND EXPERIENCE

Logistics is a decisive success factor in retail. The KarstadtQuelle Group's competence and experience are correspondingly distinctive as regards comprehensive and efficient logistics solutions. Dispute weak consumption in Over-the-counter retail and mail order sales by the two major KarstadtQuelle logistics service providers, Optimus Logistics GmbH and servicelogiQ GmbH rose by 7 % to 690.4 mill. € (previous year: 645.1 mill. €). Earnings were considerably increased. Third-party business was expanded to about 10 % on the basis of the existing basic use of capacity in the business with group companies. Optimus Logistics GmbH provides groupwide the comprehensive logistic services between suppliers and our retail units in Europe. The company also serves outside customers from related business sectors. Specialities are Europewide procurement logistics, distributive business and areawide delivery of large goods. servicelogiQ GmbH offers logistics and fulfillment services for all business sectors. The range of services comprises the entire value-added chain in mail order and online retail from customer service through storage, picking and packing, despatch and returned-goods management to payment and debtor management and after-sales service. Thanks to a multi-client IT platform and

Information services: Expectations exceeded

KarstadtQuelle Information Services (KQIS) increased its sales from 60 mill. € to 106 mill. € during the 2003 financial year. This represents a growth of 77 %. KQIS thus with its innovative business model also during the second year of its existence exceeded the set targets. KQIS's range of services covers the entire value-added chain of a customer relationship. From the acquisition of new customers through customer retention to credit-worthiness checking and the collection of unpaid invoices KQIS offers corporate customers tailor-made solutions. Thanks to this wide range of products KQIS enjoys a unique position in the growth market for information services. Corporate customers profit to a high degree from this strategy. New and so far unused customer potential is being opened up and communication measures can be prepared more efficiently and costs reduced.

The good market position is being further consolidated by investment in the expansion of the IT systems. Expansion in other European countries is also a major point of emphasis. This is supported by strategic partnerships and acquisitions.

a comprehensive group network servicelogiQ enjoys considerable competitive advantages. Old established customers include the TV shopping channel Home Shopping Europe (HSE), Christ Juweliere GmbH, and Audi quattro GmbH. Further outside customers, for example, Lucky Strike Originals and Breuninger, were acquired during the year under review.

On the investment side, during the 2004 financial year Optimus Logistics will be establishing a new transport management system with complementary supply chain management functionalities. The system enables the execution of all the procurement and distribution processes via a standardised platform. ServicelogiQ in 2004 invested particularly in the further expansion of the main warehouse locations and IT systems. This enables a faster and more efficient linking of the IT interfaces of the multi-client system to the servicelogiQ platform. The expansion of third-party business is being consistently continued.

IT: ITELLIUM – service provider to the retail trade

ITELLIUM Systems & Services GmbH is a leading IT service provider to the retail trade in Germany. Systems developed and managed by ITELLIUM are a basic component of the KarstadtQuelle Group's department store and mail-order processes. In the 2003 financial year sales rose by 13.7% to 337 mill. € (previous year: 297 mill. €). The decisive factors here were completed major projects and the successful marginalisation of competitors.

Using efficient and intelligent IT solutions, ITELLIUM makes a contribution to the optimisation of its customers' business processes. A pilot system for cash tills was developed for over-the-counter retail. The rollout in the 2004 financial year will enable the department stores to optimise cash payment processes, particularly those involving discounts, coupons and loyalty cards. In the hosting sector ITELLIUM achieved a lasting reduction of units costs by the further consolidation of computer centres and infrastructure and by the insourcing of group subsidiaries.

B2C services (business with consumers)

FINANCIAL SERVICES: GROWTH IN ALL SALES CHANNELS

KARSTADT QUELLE Financial Services GmbH (KQFS), the joint venture with ERGO Versicherungsgruppe AG, offers customers a comprehensive range of insurance and banking products on the basis of the multi-channel strategy. KQFS records an outstanding business performance in its first full financial year and achieved an annual volume of mediated contributions to the value of 90 mill. € (13.8 mill. € in the short year 2002).

In over-the-counter sales KQFS now operates nationwide 30 financial service centres in Karstadt department stores with over 100 consultants. Online sales is a further strong sales channel. KQFS is represented in the karstadt.de online portal with a high-performance range of over 60 insurance and financial products. At a single stroke KQFS thus established itself as a top-line provider. KQFS achieved market leadership in the sale of annex products in Germany. Annex products are insurance products which are connected with a product or a service. They enable the retail business to set its product range apart and lastingly increase customer benefit. In direct sales KQFS has expanded its activities specially for Karstadt customers.

The KarstadtQuelle Bank, a 100 per cent subsidiary of KQFS, became the biggest issuer of MasterCards in Germany during the 2003 financial year. The number of MasterCard customers rose to over a million. Above-average growth was also achieved by other KarstadtQuelle Bank product ranges. Thus, for example, product financing as an important sales promotional instrument of the retail trade went up by about 74 %. The KarstadtQuelle Bank's savings and investment business also performed very gratifyingly. The portfolio grew by about 45 %.

The further, rapid expansion of the KQFS's multi-channel approach, which enables a sales-cost- and customer-optimised appeal, is at the centre of operations for 2004. The aim is the market leadership in financial services in all the relevant sales channels in Germany. There is an especial focus on the intensification of newly acquired customer relations with the aim of increasing customer profitability. The over-the-counter presence in the department stores will increase in the coming year to 40 financial service centres; the number of consultants will rise to 150. As well as job creation, the continuation of the expansion strategy is being accompanied by investments in modern IT core systems.

LOYALTY CARDS: WITH "HAPPYDIGITS" CONTINUES ON ITS SUCCESS COURSE

KarstadtQuelle and Deutsche Telekom AG launched in January 2002 the development of a cross-sector community card. The strong growth of the "HappyDigits" loyalty card bonus programme was initiated by the setting up of the CAP Customer Advantage Program GmbH. KARSTADT QUELLE AG holds a share of 49 % and Deutsche Telekom AG a share of 51 % in the operating company. Today "HappyDigits", with over 18 million issued cards, is already Number Two amongst customer retention programmes in Germany. The medium-term goal is the achievement of quality market leadership. Further appreciable growth is planned with card customers for 2004.

"HappyDigits" attraction is based on simple handling, exclusive premiums and strong collecting partners such as Karstadt, Quelle, Neckermann and Deutsche Telekom with T-Com, T-Mobile and T-Online. The network of reputable "HappyDigits" partners was further expanded during the 2003 financial year to include Kaiser's Tengelmann, Golf House and the mobility service provider Sixt. Altogether the participants can thus collect digits in about 5,800 department stores, sports stores, specialty stores, travel agencies as well as shops and technology centres of KarstadtQuelle, more than 500 T-Punkt telecom shops, over 1,300 Sixt stations worldwide and over 730 food branches.

TOURISM: DOUBLE STRATEGY

In the Tourism segment KarstadtQuelle is continuing to pursue a double strategy with its own travel sales operation in the group and the participating interest in Thomas Cook, a global player on the operator side.

KARSTADT QUELLE TRAVEL SALES OPERATION

The basis of the KarstadtQuelle travel sales operation is formed by 422 travel agencies of the Karstadt Reisebüro, Neckermann Urlaubswelt and Reise Quelle brands. KarstadtQuelle also utilises growth potential in new sales channels. For example, the travel sales operation is being consistently expanded through the Internet, TV and direct marketing. Further, significant growth potential is offered by a new travel operator set up in January 2004. The joint venture, shares in which are held by KarstadtQuelle (70 %) and Thomas Cook (30 %), focuses specifically on the new sales channels. It also serves as a development platform for customer-specific travel products.

In 2003 the KarstadtQuelle travel sales operation performed better than the average despite a difficult market environment. To be especially mentioned are the successful marketing of holidays on Neckermann Urlaubswelt TV and the appreciable sales increases through the Internet. Here mediated sales grew by about 70 %. In 2004, too, the KarstadtQuelle travel sales operation will distinguish itself very positively from the market. To this end the measures initiated in 2003 with emphasis on the Internet, TV, direct marketing and the establishment of an own travel operator will be consistently further implemented.

Tourism

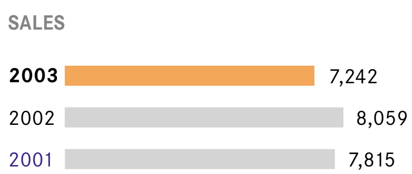
KEY FIGURES THOMAS COOK GROUP

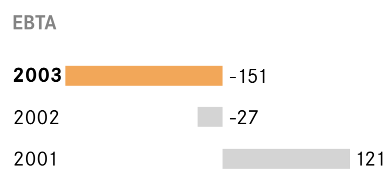
		01.11.2002 up to 31.10.2003	01.11.2001 up to 31.10.2002	Change in %
Sales	mill. €	7,241.5	8,058.6*	-10.1
Passengers carried	in th.	12,485	13,334*	-6.4
EBTA	mill. €	-151.0	-26.8*	-
thereof KARSTADT QUELLE AG share	mill. €	-76.7	-23.9	-
Group earnings after tax	mill. €	-251.0	-119.5*	-110.0
thereof KARSTADT QUELLE AG share	mill. €	-126.7	-61.4	-106.4

* Previous year's figure adjusted.

Sales decreased by 10.1 %

Returns from sales in the Thomas Cook Group amounted to 7.2 bill. € (previous year: 8.1 mill. €). This represents a decrease by 10.1 %. Nearly 12.5 million customers chose a Thomas Cook Group travel product, a decrease by 6.4 %. Decreasing demand, increasing price consciousness and continuing high capacities in the tourism market led to high price pressure. The average holiday price fell by 3.0 % to 523 € (previous year: 539 €).





GROUP LOSS AFTER FALL IN DEMAND AND PRICE PRESSURE

Earnings before tax and amortisation of goodwill decreased to minus 151.0 mill. € (previous year: minus 26.8 mill. €). Group earnings after tax came to 251.0 mill. € (previous year: minus 119.5 mill. €).

The decrease in earnings is due particularly to the weakness of the German market.

Earnings were burdened particularly by the considerable price competition as well as by the fall in demand. The pressure on margins could only partly be compensated for by corresponding lower expenditure on touristic advance payments. Accordingly, the gross earnings margin decreased on the previous year by 1.1 percentage points to 29.8 %. Staff costs, Depreciation and Other operating expenses could not be sufficiently adjusted in the short term to meet the decrease in demand. Earnings includes a number of special factors. For example, as well as special depreciation for the Boeing 757-200 fleet meanwhile sold, precautionary measures for restructuring to the value of altogether about 50 mill. € due for the 2003/2004 financial year are also included. Amortisation of goodwill includes extraordinary amortisation, amongst other things, amortisation of the goodwill of Thomas Cook Voyages in France, to a total value of 42 mill. €.

Extraordinary operating expenses resulted from the profit from the sale of three Boeing 757-200's to the value of 40 mill. €. Moreover, a profit of 21 mill. € was achieved from the sale of 60 % of the shares in Condor Cargo Technik and of 20 % of the shares in a Spanish hotel holding.

Business performance

NEGATIVE EXTERNAL FACTORS BURDEN

The Thomas Cook Management in the 2002/2003 financial year anticipated an overlapping of political and economic risks. The war in Iraq was signalled early on, and economic expectations were muted all over Europe. Not foreseeable were meanwhile the extent and persistence of the decline in demand, because it was again and again protracted and intensified by additional external factors such as terrorist attacks or the SARS respiratory disorder.

BALANCE BETWEEN INTEGRATION AND FLEXIBILITY REDEFINED

The continuing weak performance in the tourism market finally clearly showed that during a decline in demand an integrated group like Thomas Cook is exposed to cumulative risks at all levels of the value-added chain. Fewer customers at the travel agencies means lower commission receipts; fewer passengers on the carriers means lower use of carrier capacity. As demand weakens fewer excursions are sold in the destination areas. Moreover, there is a greater risk that hotel beds for which the company has given guarantees cannot be filled or can be filled only at reduced prices.

Thomas Cook made strenuous efforts during the year under review to achieve the right balance between integration of individual stages in the value-added chain and flexibility. The aim is to be able to respond fast and effectively to market changes, particularly in the use of carrier and accommodation capacity.

PROJECT ONE: REDUCTION OF STRUCTURAL COSTS

Thomas Cook extended the “Triple C” and “Triple T” short-term cost-reduction programmes to include the comprehensive restructuring and redimensioning programme “Project ONE.” Project ONE focuses on the German sales market and will also be brought to bear on the airline’s structural problems. As well as on the increase of transparency and the streamlining of cost structures, Project ONE focuses on the simplification of internal company processes, the shutting down of carrier capacities at Thomas Cook Airlines in Germany and the reduction of firmly contracted for hotel capacity. The measures are accompanied by a massive reduction in jobs.

REORIENTATION OF BRAND POLICY

A further management concern during the 2002/2003 tourism year was the reorientation of brand policy. Thomas Cook has a high-quality image. The brand was accordingly positioned in the higher-quality segment of the tour operator market. Until then the group had been insufficiently represented in this market segment. Since summer 2003 Thomas Cook has also operated in the market in Germany, Belgium and Great Britain as tourist operator. In The Netherlands and France this step is planned for 2004. All Thomas Cook holiday airlines in Germany, Great Britain and Belgium are wearing a new uniform livery. This will ensure identical presentation of the brand in the most important sales markets.

INNOVATIONS INTRODUCED

Thomas Cook has introduced a large number of innovations. These are aimed at a lasting stimulation of demand. The group has thus at the same time adjusted to the most important changes in consumer behaviour:

- Price is playing an even more central role in the choice of travel. Thomas Cook is taking account of this trend by offering discounts for early booking, introducing two price lists and discounts or fixed prices for certain target groups. The “Fly now pay later” holiday instalment programme has also been introduced. In this way Neckermann passengers can pay for their holidays in instalments as required.
- Customers have become more flexible. They are booking shorter term and are not fixed on specific holiday destinations. Thomas Cook has adjusted its range of services to meet the changed requirements. Daily arrival at many destinations is offered; the Bucher operator brand is market leader in last-minute business. A flexible disposition of group-owned airline capacity likewise takes account of this development.
- Customers are increasingly demanding individual products. Accordingly, Thomas Cook has responded with an extended single-seat offering in the flight sector and extended the range of operator brand products to include individually bookable services. Thomas Cook’s flexibly and individually bookable offerings, such as city tours, study and adventure stays and leisure parks, already show during the year under review increases in the number of passengers in a generally declining market.

Investments financed from disinvestment

The investment programme was, as the year before, limited to essential measures. Altogether, the Thomas Cook Group invested 204 mill. €. The investments were entirely financed from the disinvestment of air carriers and company shares.

Net credit debt slightly reduced

The net credit debt was reduced by 1.7 % to 1.02 bill. € (previous year: 1.04 bill. €). Optimised liquidity management mainly contributed to this.

Outlook

The pace of innovation in the Services sector is being further accelerated. At the centre of all our initiatives is the maxim: Through more customer benefit to more value enhancement. In this way KarstadtQuelle is being consistently developed into an integrated group for the benefit of the customer.

The number of KarstadtQuelle service centres is being increased by 20 %, the number of staff by 50 %. Innovative products such as an exclusive FIFA WORLD CUP 2006™ MasterCard are enabling new target groups to be accessed and value-enhancement potential realised.

In the information services sector we are expanding our value-added chain by a joint venture with the international Omnicom Group. We are thus developing in this sector from an information service provider into a full-service direct marketing provider. A further example of more customer benefit and strong partnering.

The popular WOM World of Music brand is being repositioned and expanded into a cross-media entertainment brand by the setting up of WOM Media Network GmbH. The central features are WOM Magazin, Germany's most-read music magazine, and comprehensive media partnerships with Viva Media AG to broadcast the WOM Music Shop music format and with T-Online for the music download sales channel with high future potential.

The general economic background conditions improved in Thomas Cook's most important sales markets at the end of the 2002/2003 financial year. Experts once again expect a higher rise in the gross domestic product and increasing consumer expenditure. Expectations of experts are that the number of passengers will rise in Europe by about three to four percent. This is, however, contingent upon the tourism market not being once again shaken by terrorist attacks or wars with a high media focus. Thomas Cook, on the other hand, anticipates a market-linked customer increase of one to two percent. However, Thomas Cook's share in this will be disproportionately high.

At mid-January 2004 the number of booked passengers was above the comparable level for the previous year. This clearly shows that Thomas Cook, through product innovations, created good preconditions in its summer and winter offerings for achieving a share of the generally expected growth.

All the efforts of Thomas Cook's management are directed towards already substantially increasing earnings during the 2003/2004 financial year.

Real estate

KEY FIGURES REAL ESTATE

			2003	2002	Change in %
Sales performance	Sales	th. €	586,615	495,147	18.5
Earnings	EBITA	th. €	278,216	261,004	6.6
	EBITA margin	in %	47.4	52.7	-
	EBTA	th. €	242,228	227,468	6.5
	EBTA margin	in %	41.3	45.9	-
	Capital employed	th. €	2,780,032	3,184,917 [1]	-12.7
	Return on capital employed	in %	10.0	8.2	-
Other information	Investments	th. €	8,674	80,129	-89.2
	Depreciation and amortisation (not including goodwill)	th. €	116,097	134,030	-13.4
	Gross cash flow	th. €	383,298	361,018	6.2
	Full-time employees on annual average	number	85	67	26.9

[1] Capital employed: previous year's amounts adjusted by changeover to direct calculation.

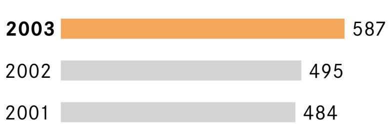
Positioning

VALUABLE REAL ESTATE PORTFOLIO

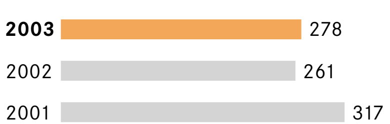
The Real estate business segment manages a comprehensive and valuable location portfolio. Of this 70 % consists of retail-operated real estate, principally at A1 locations in German large and medium-sized cities. These locations comprise sales space measuring about 2.6 mill. sq. m. KarstadtQuelle is thus a heavyweight in the market for retail-operated real estate. The real estate portfolio is completed by logistics centres, residential real estate and offices. The net book value of the portfolio on the balance sheet is about 2.8 bill. €; its market value is considerably higher.

In the area of real estate services the focus is on project development, letting, rent agreement management and technical project control. Financing is provided by KARSTADT Hypothekenbank AG, which has direct access to the capital market and uses, amongst others, mortgage security instruments as part of traditional real estate financing.

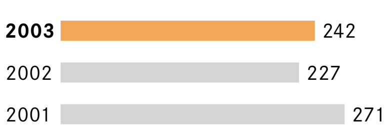
SALES IN MILL. €



EBITA IN MILL. €



EBTA IN MILL. €



Segment performance

SALES RISEN BY 18.5 %

Sales in the Real Estate business segment came to 586.6 mill. € (previous year: 495.1 mill. €). This represents a growth by 18.5 %. Comparability with the previous year is affected by structural changes. Positive effects were achieved on sales by in particular the inclusion of Quelle, Neckermann and SinnLeffers real estate for the first time for the whole year.

EARNINGS: ADVANTAGES THROUGH CONCENTRATION OF ALL REAL ESTATE

EBTA achieved 242.2 mill. € (previous year: 227.5 mill. €). This represents a rise by 14.7 mill. €. The decisive factor here was mainly the earnings contribution by mail-order and SinnLeffers real estate included for the first time for the whole year. On the other hand, earnings were burdened by the transfer of real estate to the pension fund.

The 2003 financial year in brief

INTEGRATION OF GROUP REAL ESTATE COMPLETED

The legal integration of all group real estate in the Real estate segment was completed during the year under review. Thus, the remaining structuring measures have been implemented.

New shopping centres with high let ratio

In the real estate services sector use and tenant concepts were developed for the current shopping centre projects during the year under review. Tenant acquisition, contract negotiations and the conclusion of letting contracts for the centres in the process of realisation were successful. The letting ratio for the developments in Potsdam, Karlsruhe, Leipzig and Munich is already considerably above 50%.

REALISATION OF FURTHER SHOPPING CENTRES BEGUN

Project developments form the focus of activities in the Real estate segment. Currently there are five city-centre shopping centres in the realisation phase. They comprise rented space of about 120,000 sq. m. The KarstadtQuelle Group will use about 70 % of this space for their own formats. The buildings are being financed by investors.

In Potsdam during the year under review work was begun on the construction of the new "Stadtpalais Potsdam" shopping centre. In view of the scheduled progress of construction we expect completion in the second half of 2005.

For the construction of the inner-city shopping centres in Karlsruhe (Kaiserstraße), Munich (Oberpollinger) and Leipzig (Peterstraße) planning permission has now been granted. Building work can thus begin in 2004.

The development of our shopping centre in Wiesbaden (Kirchgasse) is also progressing well. We expect planning permission to be given in mid-2004. The façade will be designed on the basis of the result of a competition.

In the planning phase are shopping centres in Berlin, Essen and Mainz. The projects comprise up to 660,000 sq. m. of space. The KarstadtQuelle Group will use about 30-40 % of the space. The remaining space is intended for third-party use.

PORTFOLIO ADJUSTMENT CONTINUED

During the year under review we continued the streamlining of the portfolio through the disposal of real estate which is not operationally necessary. The profit from disposals came to 28 mill. €. We selectively acquired pieces of land in preparation for the realisation of further city-centre shopping centres. 48.3 mill. € were spent on this consolidation and the addition of a piece of land hitherto let during the year under review.

FURTHER TRANSFER OF REAL ESTATE TO THE PENSION FUND

In the 2003 financial year further group real estate was transferred to the pension fund under the CTA programme. As a consequence, the assets of the real estate segment decreased to 2.8 bill € (previous year: 3.2 bill. €). The final consolidation profit arising in the course of transfer to the pension fund is included in the Holding segment.

CONTRACT MANAGEMENT EXTENDED

The management of building and rental agreements for group companies was extended during the financial year. The letting of branches as part of the expansion with Starbucks Coffee Houses and contract management are now the responsibility of the Real estate segment.

MANAGEMENT COSTS OPTIMISED

The optimisation of the management costs of group real estate was the object of a number of projects. Thus, for example, energy costs, which represent a share of over 30 % of the entire management costs, could be lastingly reduced by a groupwide approach. The decisive factor here was, in particular, the direct purchase and sale of electric power via, amongst other things, the power exchange.

Mortgage bonds to the value of 1.4 bill. € placed

KARSTADT Hypothekenbank AG once again made an important contribution to long-term group financing. During the financial year it placed mortgage bonds to the value of 825 mill. € and thus already achieved a total volume of 1.4 bill. €. The issue includes registered mortgage bonds to the value of 991 mill. € and bearer mortgage bonds to the value of 380 mill. €. The mortgage bank increased its credit volume by 423 mill. € to 1.4 bill. € during the year under review. The balance sheet total rose by 0.7 bill. € to 1.7 bill. €.

Outlook

FURTHER SHOPPING CENTRES PLANNED

Points of emphasis during the 2004 financial year are the further successful implementation of the shopping centres already begun and new project developments. At present there are seven projects (among others in Berlin) in the analysis phase. The realisation of a pioneering project in the centre of Essen with a volume of investment of about 300 mill. € is being pressed ahead with. In January of the current financial year the plans were presented to the public. The aim is to finance the realisation of the projects through joint investment, that is, together with partners.

At the same time as the completion and opening of shopping centres planned for 2005 to 2008 the development of the centre and facility management is being stepped up. Growth in services relating specifically to real estate, such as location analysis and property and contract management within the group, is being continued. The emphasis of letting management is on the reduction of unoccupied properties and the reactivation of so far unused existing space. KARSTADT Hypothekenbank AG will issue further mortgage bonds during the 2004 financial year. There are also plans to create preconditions for the financing of private dwellings.

Management Report

Group account in accordance with IFRS

Analysis of the economic situation

Key points 2003

- Difficult economic environment in Germany burdens.
- Group sales came to 15.3 bill. €. This represents a decrease by 3.4 % on the previous year.
- The group returned earnings (EBTA) of 225.2 mill. € before tax and amortisation of goodwill (previous year: 293.9 mill. €). As last year, earnings are supported by special factors.
- The free cash flow came to 185.5 mill €.
- Net financial debt was appreciably reduced.
- This year, too, the Management Board and the Supervisory Board propose paying a dividend of 0.71 € per no-par-value share.

Sales performance

GROUP SALES DECREASED BY 3.4 % IN A DIFFICULT ENVIRONMENT

During the 2003 financial year the KarstadtQuelle Group achieved sales of 15.3 bill. € (previous year: 15.8 bill. €) in a continuing difficult market environment. This represents a decrease by 3.4 %.

The Over-the-counter and Mail-order retail segments show a sales decrease, but were able to maintain their competitive position in declining markets. The new Services and Real estate strategic growth sectors achieved considerable sales increases.

OVER-THE-COUNTER RETAIL FEELS CONSUMER RESTRAINT

The Over-the-counter retail in German city centres came to clearly feel consumer restraint and the aggressive price competition in the 2003 financial year, too. Our 180 department stores, 32 sports stores and the 305 specialty stores recorded a sales decrease by 5.0 % to 7.0 bill. € (previous year: 7.3 bill. €). The share contributed by Over-the-counter retail to group sales thus decreased to 45.7 % (previous year: 46.4 %).

MAIL ORDER CONSOLIDATES AFTER ANNIVERSARY YEAR

Mail-order business with the core brands Quelle and Neckermann could not match the high sales level of the record previous year assisted by the anniversary. Sales fell by 2.5 % to 8.0 bill. € (previous year: 8.2 bill. €). Foreign sales rose to 1.9 bill. €. The share contributed by foreign sales thus rose to 24.1 % (previous year: 21.9 %). As well as foreign business, the Specialty mail-order and E-commerce strategic growth segments also performed positively. Both made powerful gains. Universal mail order, however, was affected by the base effect of the strong anniversary year preceding it.

The share contributed by mail order to group sales rose to 52.5 % (previous year: 52.0 %).

SERVICES CONTINUE TO GROW

The Services segment continued on its growth course. Sales (not including Thomas Cook) rose by 9.9 % to 1.4 bill. € (previous year: 1.3 bill. €). The decisive factors here were, as well as the expansion of the logistics business, mainly the intensified operations in information services and customer service.

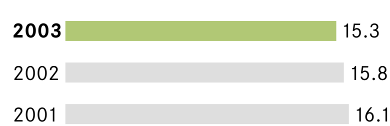
REAL ESTATE SALES RISING

In the Real estate segment gross income from lettings, at 0.59 bill. €, were 18.5 % higher than the previous year. The reasons were mainly the inclusion for the first time of the Mail-order and SinnLeffers real estate for the whole year.

SALES BY BUSINESS SEGMENT

	IN MILL. €	IN %
Over-the-counter retail	6,973	45.7
Mail order	8,022	52.5
Services	1,432	9.4
Real estate	587	3.8
	17,014	**111.4**
Reconciliation account	-1,744	-11.4
Group sales	**15,270**	**100.0**

GROUP SALES IN BILL. €



Earnings

Group EBITA by segment

Amounts shown in mill. €	**2003**	2002
Over-the-counter retail	-97.7	-70.5
Mail order	164.2	227.4
Services	-32.7	33.1
Real estate	278.2	261.0
Holding	220.3	124.4
Reconciliation account	-67.4	2.4
	464.9	**577.8**

Group EBTA by segment

Amounts shown in mill. €	**2003**	2002
Over-the-counter retail	-147.9	-129.8
Mail order	91.1	154.1
Services	-39.1	21.7
Real estate	242.2	227.5
Holding	146.3	17.6
Reconciliation account	-67.4	2.8
	225.2	**293.9**

WEAK CONSUMPTION GENERATES PRESSURE ON EARNINGS – POSITIVE SPECIAL FACTORS HAVE SET-OFF EFFECT

EBTA decreased to 225.2 mill. € (previous year: 293.9 mill. €). The EBTA margin thus decreased to 1.5 % (previous year: 1.9 %). The pressure on earnings in over-the-counter retail and mail order due to the economic situation was partly set off by the increase in the gross earnings margin resulting from purchasing and the continuation of the consistent cost management. However, the weakness in the tourism market had a burdening effect. The pro-rata loss at Thomas Cook rose by 52.8 mill € to 76.7 mill. €.

Special income from the reorganisation of the old-age pension provision (CTA programme) contributed positively to earnings. Further special factors such as flexibilisation and disinvestment costs and proceeds from the sale of real estate resulted on balance in a burden on earnings. Altogether all the special factors increased EBTA in the current year by 216 mill. €. The previous years earnings were likewise influenced positively by special factors. Group earnings after minority interests amounted to 107.6 mill. € as against 162.2 mill. € the previous year. Earnings per share came to 1.01 € as against 1.40 € the previous year.

EARNINGS IN THE RETAIL SEGMENTS REFLECT WEAK CONSUMPTION – REAL ESTATE EARNINGS UP

Earnings in over-the-counter retail reflect weak consumption in Germany. Department stores and Specialist stores show EBTA amounting to minus 147.9 mill. € (previous year: minus 129.8 mill. €). This represents a decrease by 18.1 mill. €. Advances in operating earnings due to an improved gross income margin and cost-cutting measures, which resulted in, amongst other things, a considerable decrease in staff costs, could not completely make up for the negative sales effect.

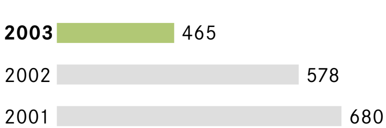
Mail order shows an EBTA of 91.1 mill. € (previous year: 154.1 mill. €). The burden on earnings through the sales decrease was kept within limits through the gross income margin increased by 0.3 percentage points to 49.1 %. The high base of the previous year through the anniversary and negative special factors (mainly flexibilisation costs) of 37 mill. € exerted a burdening effect.

The EBTA of minus 39.1 mill. € (previous year: 21.7 mill. €) in the Services segment was dominated by the appreciably decreased pro-rata earnings at Thomas Cook. The tourism group contributed a loss of 76.7 mill. € (previous year: 23.9 mill. €). A further burden on earnings was created by the absence this year of earnings from a participating interest in a media combine. This was transferred to the pension funds in the 2002 financial year. Earnings in the other service sectors were, at 38 mill. €, at the same level as the previous year. Start-up losses from new operations were set off by improved earnings at the established companies.

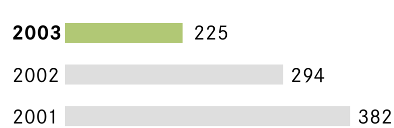
The Real estate segment contributed EBTA of 242.2 mill. € to group earnings (previous year: 227.5 mill. €). This represents a rise by 14.7 mill. €. The decisive factor here was mainly the earnings contribution by mail-order and SinnLeffers real estate included for the first time for the whole year. On the other hand, earnings were burdened by the transfer of real estate to the pension fund.

The Holding segment achieved an EBTA of 146.3 mill. € (previous year: 17.6 mill. €). The earnings rise is based mainly on the groupwide reorganisation of the old-age pension provision. As in the previous year, hidden reserves were realised by the transfer of shares in real estate management companies to the pension fund (CTA programme).

GROUP EBITA IN MILL. €



GROUP EBTA IN MILL. €



NOTES TO ITEMS IN THE PROFIT AND LOSS ACCOUNT

Group profit and loss account (abbreviated)
for the year ended December 31, 2003

Amounts shown in mill. €	**2003**	2002
Earnings from sales	15,270.4	15,814.6
Cost of goods	-8,166.5	-8,502.6
Gross yield	**7,103.8**	**7,312.0**
Earnings before interest, tax and depreciation and amortisation (EBITDA)	**886.4**	**1,052.7**
Earnings before interest, tax and amortisation of goodwill (EBITA)	**464.9**	**577.8**
Earnings before interest and tax (EBIT)	**379.9**	**484.4**
Earnings before tax (EBT)	**140.2**	**200.4**
Earnings before tax and amortisation of goodwill (EBTA)	**225.2**	**293.9**

Gross earnings fell by 208.2 mill. € to 7,103.8 mill. € (previous year: 7,312.0 mill. €). The gross earnings margin (profit margin) rose despite the continuing aggressively priced competitive environment by 0.3 percentage points to 46.5 % (previous year: 46.2 %). The decisive factor here was mainly the optimisation of supplier relations and the utilisation of group synergies through strategic group purchasing.

Staff costs were reduced by 40.2 mill. € and stood at 2,973.9 mill. € (previous year: 3,014.1 mill. €). The share of staff costs in net sales rose by 0.4 percentage points to 19.5%.

Operating income rose by 237 mill. € to 1,099 mill. €. This is mainly due to the realisation of hidden reserves as part of the reorganisation of the corporate old-age pension provision.

Amortisation of goodwill, at 85 mill. €, is at nearly the same level as the previous year. It was increased during the year under review by unscheduled depreciation of 22 mill. € at Thomas Cook. Net interest income improved by 47 mill. € to minus 239.4 mill. €. The decisive factor here was mainly income from planned assets formed during the financial year (CTA programme).

Taxes on income and earnings come to 26,966 th. € (previous year: 30,923 th. €). As in the previous year, the tax ratio of 19.2 % was kept below the expected level by tax-free income in connection with the expansion of the CTA programme.

Financial situation

Net financial debt in the KarstadtQuelle Group (net financial liabilities and pension provisions) were reduced by 1.4 bill. € to 4.1 bill. € during the year under review. The decisive factor behind this considerable decrease was mainly the continuation of the CTA programme. Pension provisions were reduced by 1.3 bill. € during the year under review by the transfer of assets to the pension fund.

Net financial liabilities came to 3.3 bill. € at the balance sheet date (previous year: 3.4 bill. €). The continuation of the CTA programme increased these by 0.15 bill. €. Without this end consolidation effect a reduction by 7 % to 3.16 bill. € would have been achieved.

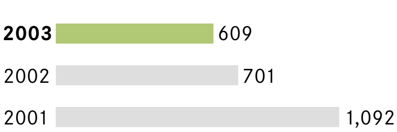
ASSET AND CAPITAL STRUCTURE

Key balance sheet figures

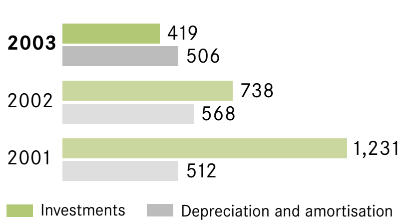
Amounts shown in mill. €		**2003**	2002	Change in %
Balance sheet total		9,193	10,216	-10.0
Capital und reserves		1,639	1,676	-2.2
Equity ratio	in %	17.8	16.4	-
Pension provisions		838	2,128	-60.6
Long-term financial liabilities		2,126	1,595	33.3
Net financial liabilities		3,309	3,378*	-2.0
Fixed assets		4,712	5,261	-10.4
Working capital				
Stocks		2,417	2,502	-3.4
Trade receivables		696	1,393	-50.1
Trade payables		-1,011	-900	12.5
		2,102	**2,995**	-29.8

* Previous year's figure supplemented by securities.

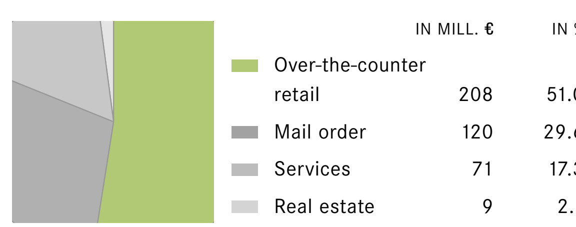
GROSS CASH FLOW
IN MILL. €



INVESTMENTS, DEPRECIATION AND AMORTISATION IN MILL. €



INVESTMENTS BY BUSINESS SEGMENT



NOTES TO THE CASH FLOW STATEMENT

Cash flow statement (abbreviated)

Amounts shown in mill. €	**2003**	2002
Cash flow from current business activities	507.2	168.4
Cash flow from investment activities	-321.7	-546.5
Cash flow from financing activities	-187.7	183.5
Changes in cash and cash equivalents affecting cash flow	**-2.2**	**-194.6**
Changes in the flow of cash due to changes in exchange rates or other changes in cash and cash equivalents caused by the consolidated companies	-0.5	-14.9
Cash and cash equivalents at the beginning of the period	168.8	378.3
Cash and cash equivalents at the end of the period	**166.1**	**168.8**

The inflow of funds from current business activity rose during the year under review by 338.8 mill. € to 507.2 mill. € (previous year: 168.4 mill. €). The decisive factor was mainly the expansion of the ABS programme in mail order by 304 mill. €.

The outflow of funds from investment activity was limited by consistent investment control and decreased by 224.8 mill. € on the previous year. Altogether 321.7 mill. € flowed out (previous year: 546.5 mill. €).

BALANCE SHEET TOTAL DOWN BY 10 %

The balance sheet ratios improved. The decisive factor here was mainly the transfer of assets to the pension fund.

The KarstadtQuelle Group's balance sheet total decreased by 10 % to 9,192.7 mill. €.

Fixed assets come to 4,711.9 mill. €. Their value decreased by 10.4 %, or 549.6 mill. € – mainly through the transfer of assets to the corporate pension fund. The share contributed by fixed assets to the balance sheet total (capitalisation ratio) was, at 51.3 %, at the same level as the previous year.

Investments came to 418.6 mill. € during the year under review. Set against these was depreciation of 506.5 mill. €.

Current assets decreased by 9.8 % to 4.43 bill. €. Trade receivables decreased by 697.4 mill. €, or 50 %, to 695.7 mill. €. The reason for this here was the increased sale of receivables to the value of 685 mill. € in mail order.

Pension provisions were reduced by 1.3 bill. € to 0.8 bill. €. The decisive factor here was the continuation of the CTA programme begun in the 2002 financial year.

The capital employed was conditionally reduced through the previously mentioned sale of receivables and the expansion of the CTA programme by 1.0 bill. € from 7.5 bill. € to 6.5 bill. €.

EQUITY RATIO RISEN TO 17.8 %

Equity capital decreased to 1.64 bill. € (previous year: 1.68 bill. €) at the balance sheet date. The equity ratio rose by 1.3 percentage points and came to 17.8 %.

The KarstadtQuelle Group's asset and capital structure was further improved during the year under review. This is illustrated by, amongst other things, the following key figures:

- The equity-to-fixed-assets ratio stands at 34.8 % (previous year: 31.9 %).
- Fixed assets were financed at 112.1 % (previous year: 109.7 %) by long-term capital.

WORKING CAPITAL DECREASED BY 29.8 %

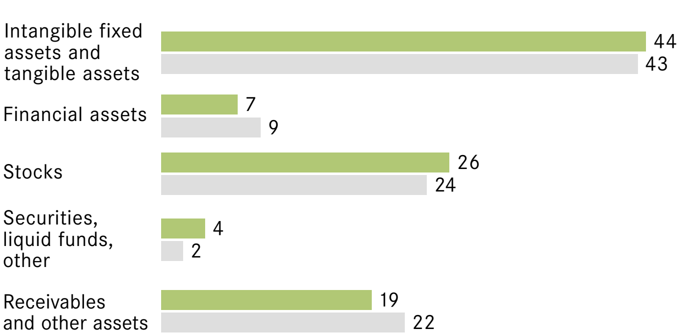
Working capital was selectively reduced. It fell by 29.8 % to 2.1 bill. €. The share contributed to sales by working capital decreased by 5.2 percentage points to 13.8 %.

DIVIDEND

The Management Board and the Supervisory Board will propose to the Annual General Meeting on May 4, 2004, that this year too, a dividend of 0.71 € be paid out per no-par value share certificate held by outside shareholders. The total amount to be paid out thus comes to 75.5 mill. €.

STRUCTURE OF THE BALANCE SHEET IN %

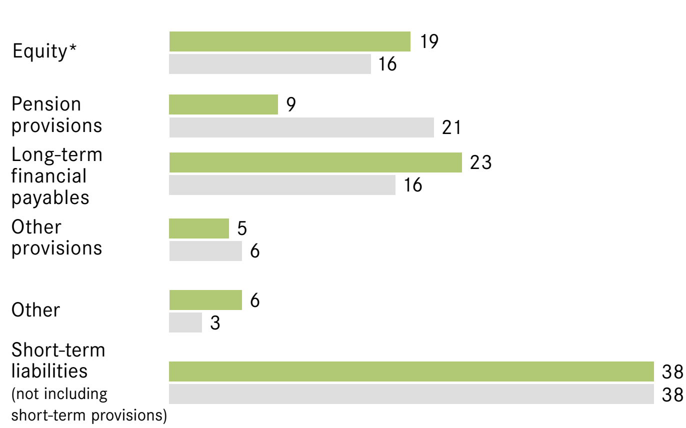
ASSETS



2003 **Balance sheet total 9,193 mill. €**
2002 Balance sheet total 10,216 mill. €

STRUCTURE OF THE BALANCE SHEET IN %

EQUITY AND LIABILITIES



2003 **Balance sheet total 9,193 mill. €**
2002 Balance sheet total 10,216 mill. €

* Besides other shareholders' shares, equity also includes the KARSTADT QUELLE AG dividend to be paid out.

Balance sheet of KARSTADT QUELLE AG
(according to German Commercial Code)

for the year ended December 31, 2003

ASSETS

Amounts shown in th. €	**2003**	2002
Intangible assets	6,280	811
Tangible assets	1,838	2,230
Financial assets	4,998,814	4,886,706
Fixed assets	**5,006,932**	**4,889,747**
Receivables and other assets	2,888,948	3,870,047
Securities	200,296	152,142
Liquid funds	6,205	42,245
Current assets	**3,095,449**	**4,064,434**
Prepayments and accrued income	**619**	**1,604**
Balance sheet total	**8,103,000**	**8,955,785**

EQUITY AND LIABILITIES

Amounts shown in th. €	**2003**	2002
Subscribed share capital	301,460	301,460
Additional paid-in capital	488,521	488,521
Revenue reserves	2,614,059	2,614,059
Net profit	653,243	2,129,699
Equity	**4,057,283**	**5,533,739**
Untaxed special reserves	-	**6,368**
Provisions for liabilities and charges	**1,003,993**	**990,649**
Liabilities	**3,041,348**	**2,424,546**
Accruals and deferred income	**376**	**483**
Balance sheet total	**8,103,000**	**8,955,785**

KARSTADT QUELLE AG profit and loss account

(according to German Commercial Code)

for the year ended December 31, 2003

Amounts shown in th. €	**2003**	2002
Income from investments	-1,141,531	852,559
Net interest income	18,095	-40,110
Other operating income	28,568	3,564,099
thereof from the sale of financial investments	-	3,499,973*
Staff costs	-104,051	-75,373
Depreciation and amortisation of intangible fixed assets and tangible assets	-7,723	-1,697
Amounts written off other loans and short-term investments	-151	-16,695
Other operating charges	-99,443	-84,742
Earnings from ordinary activities	**-1,306,236**	**4,198,041**
Tax on income	-94,721	720
Other taxes	-2	20
Net loss/income	**-1,400,959**	**4,198,781**
Profit carried forward	2,054,202	30,308
Transfer to earning reserves	0	-2,099,390
Net profit	**653,243**	**2,129,699**

* Comprises mainly 3,319,041 th. € from corporate reorganisation in the group and 180,370 th. € for a preparatory transaction for setting up a company pension fund.

KARSTADT QUELLE AG

Progress of business

CORPORATE PENSION FUND EXPANDED ON SCHEDULE

In the course of the financial year hidden participating interests in 55 real estate management companies were transferred on a trust basis to the corporate pension fund set up in the previous year. This was effected in several tranches at March 31, June 30, and December 31, 2003.

The market value of the assets transferred altogether from KARSTADT QUELLE AG to the pension fund was 992.9 mill. € at December 31, 2003. Set against this are book values of 477.9 mill. €. The income from these participating interests is used specifically for payments by KARSTADT QUELLE AG to its pensioners. During the financial year 63,819 th. € were used for this purpose.

NET LOSS STANDS AT 1.4 BILL. €

KARSTADT QUELLE AG shows an annual net loss of 1.4 bill. € (previous year: annual net income of 4.2 bill. €) due to transferred losses from operating companies of the Over-the-counter retail, Mail-order and Services segments. These include indirect depreciation on financial assets amounting to 1.0 bill. €.

After set-off against the profit carried forward from the previous year the balance sheet profit amounts to 653.2 mill. € (previous year: 2.1 bill. €).

BALANCE SHEET TOTAL DOWN

The balance sheet total of KARSTADT QUELLE AG fell to 8,103 mill. € (previous year: 8,956 mill. €) mainly due to a reduction in amounts owed by associated companies.

This development is mainly due to the transfer of earnings from subsidiary companies and the repayment of financing in the associated sector. There were contrary effects from investments in intangible fixed assets and the share repurchase programme completed in May 2003.

Amounts owed to banks fell by 764 mill. € to 729 mill. €, while amounts owed to associated companies rose to 1.87 bill. €.

DIVIDEND UNCHANGED AT 0.71 €

The Management Board of KARSTADT QUELLE AG will propose to the Annual General Meeting on May 4, 2004, that a dividend of 0.71 € per no-par value share certificate be paid out of the balance sheet profit. Altogether 75.5 mill. € will be paid out on dividend-bearing capital of 272.2 mill. €.

The complete annual account of KARSTADT QUELLE AG, which was accorded an unqualified auditor's opinion by the auditor, BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, will be published in the Federal German Gazette and deposited at 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 until December 11, 2001, a dependent company of Schickedanz-Holding AG & Co. KG as defined by Section 312 German Stock Corporation Law. The Management Board of KARSTADT QUELLE AG assumes that since December 11, 2001, the company is dependent on partners in a voting rights pool with a combined share of voting rights of 36.398 % as defined by Section 312 German Stock Corporation Law.

The following are partners in the voting rights 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 2003 financial year, accorded an unqualified opinion by Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, on all relations between the company and the partners of the voting rights pool.

The Management Board states at the end of the report: "Our company has not undertaken any legal transactions or adopted or failed to take any measures for which it is liable to render account."

Risk management

OVERALL RISK

The KarstadtQuelle Group is exposed to various risks in its business segments. It is the task of the groupwide risk management system to recognise risks in good time, to systematise them and to communicate them to the management. A basis is thus laid down on which decisions can be taken to avert or minimise the risks. The planning, reporting, monitoring and early warning systems coordinated throughout the group guarantee integrated risk analysis and control.

The risk management system represents a vital component of the control systems oriented towards sustained value enhancement in the group. The operational business units independently control the risks arising in their own areas of responsibility. Business segment risks which possible accumulate in the group as a whole we assess and control centrally. Where possible and economically practicable, we transfer risks to third parties.

POLITICAL RISKS

Political risks and the risk of destabilising the domestic and foreign economic situation have grown in importance. Accordingly, a high value is placed in our control systems on the careful analysis of a large number of indicators and the flexible response to changes in them. Our Tourism segment is affected by political risks in a particular way. To limit possible negative economic consequences, the mechanisms to secure earnings are being continuously improved. Furthermore, the entire tourism value-added chain is currently being optimised. The aim is the minimisation of risks.

BUSINESS RISKS

The KarstadtQuelle Group's business activities are oriented towards the German retail sector. Our business risk is thus mainly determined by the internal economy and domestic demand. We are consistently continuing the "On track to becoming a retail and service group" strategy in the 2003 financial year. We were thus taking long-term action to reduce the dependency of group earnings on the German retail economy. Because of the difficult market environment in the German retail sector the value of continuous analysis and control of the group portfolio in our risk management system has increased.

OPERATING RISKS

The group's business segments show varying complexity in the internal company processes. Procedural and work rules counteract risks along the entire value-added chain in the individual operational subsectors. Unavoidable risks of greater significance are fundamentally covered through third parties.

SUPPLIER RISKS

A large number of suppliers from various business sectors and countries are an expression of our broadly varied offering. They guarantee a broad distribution of risk and a division into individual risks each with comparatively low damage potential.We cover ourselves contractually against remaining residual risks, such as guarantee claims in case of product defects or claims due under the product liability law, by transferring risks to our suppliers. Deviations from agreed delivery times or quantities normally carry a contractual penalty for damage compensation.

FINANCIAL RISKS

KARSTADT QUELLE AG manages financial risks for the entire group in a systematic process. This process is defined in the guidelines for the control of liquidity, interest, currency and creditworthiness and also regulates the corresponding processes in 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, a KARSTADT Hypothekenbank AG asset-backed securities programme 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 first-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. Thus, the effects of interest and currency fluctuations are kept low. To secure against risks, we also use derivative financing instruments, mainly 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. Credit rating management defines the minimum requirements for credit rating and individual upper limits to financial commitment for all the group's business partners.

STAFF RISKS

Employees are a decisive success factor. Motivated specialist and managerial staff who identify with the company and its aims play a key role here. Our measures for corporate training and further training and management development are aimed at reinforcing and increasing their identification with the company.

Supplementary report

NECKERMANN LAUNCHES MARKET OFFENSIVE 2004

Neckermann Versand AG launched a large-scale 2004 market offensive at the beginning of the new spring/summer catalogue period. The central features are a modern corporate look, a product and market offensive, an optimised Internet presentation and an appealing advertising campaign. Furthermore, true to the slogan "Neckermann makes it possible", the popular showmaster Thomas Gottschalk, the new advertising partner, is fulfilling customer's wishes as part of a major monthly "Dream campaign".

KADEWE TO BE GIVEN AN EVEN MORE INTERNATIONAL, MORE EXCLUSIVE ORIENTATION

In February 2004 work began on the conversion and expansion of Germany's flagship department store, KaDeWe. Product lines will be further enhanced by an even broader, even more exclusive brand offering and their international, trend-setting premium orientation strengthened. The total investment volume amounts to about 40 mill. €. Completion is scheduled for 2007.

WOM DEVELOPING INTO AN ENTERTAINMENT BRAND

The popular WOM World of Music brand is being repositioned and expanded into a cross-media entertainment brand. The central feature is WOM Magazin, Germany's most-read music magazine, and a comprehensive media partnership with Viva Media AG. The WOM Music Shop broadcast on Viva and Viva Plus established itself as an independent music TV format in a very short time.

RUNNERS POINT EXPANDING TO AUSTRIA

The dynamic expansion of our successful sports specialist store chain, Runners Point, is further continued in 2004. Thus, the opening of eight new branches is planned in Germany during the current year. Moreover, Runners Point has also been represented in Austria since the beginning of the year, following the takeover of three branches of the "der laufprofi" specialist.

QUELLE AND BOGNER COOPERATE

Under its growth strategy, Quelle AG in partnership with the Munich sports fashion company Willy Bogner will offer high-quality sports clothing by mail order during the current financial year. It is planned to set up a joint company, to which Quelle AG will contribute its core competences of logistics and catalogue formation and Bogner its full product range. The first mail-order catalogue will already appear at mid-2004.

Outlook

The selective focus on the wishes of our customers, the specialisation linked to it and the necessary further internationalisation are important cornerstones for the future. We are thus underlining the continuous transformation of our group during the 2004 financial year, too.

We assume that the situation in the German retail trade will not improve in the short term and expect the weak customers' mood to remain weak and the competition intense. For this reason we have been working for months on an advanced structure and measures programme for the KarstadtQuelle Group which takes account of this expectation. The aim is improvement of performance and further reduction of the net financial debt.

The continuing weakness in the retail sector in Germany and an unsatisfying sales performance in the KarstadtQuelle Group in the first weeks of the current year confirm our moderate expectations. However, if the economic recovery forecast by the experts with a rise in private consumption really comes about during the course of the year, the KarstadtQuelle Group will also profit from it in the second half of the year.

In view of our strong dependence on the continuingly uncertain background conditions in Germany a sales and earnings forecast would not be sensible at present.

Group profit and loss account

for the year ended December 31, 2003

Amounts shown in th. €	Notes Text note	**2003**	2002	Changes in %
Sales	1	15,270,385	15,814,573	-3.4
Cost of sales	2	-8,166,549	-8,502,568	-4.0
Gross earnings		**7,103,836**	**7,312,005**	-2.8
Other capitalised own work	3	57,338	60,429	-5.1
Operational income	4	1,099,259	862,233	27.5
Staff costs	5	-2,973,853	-3,014,082	-1.3
Operational costs	6	-4,287,435	-4,127,130	3.9
Other taxes		-28,194	-30,925	-8.8
Earnings from ordinary activities		**970,951**	**1,062,530**	-8.6
Income from investments	7	-84,555	-9,839	-
thereof from associated companies		-88,367	-25,802	-
Earnings before interest, tax and depreciation and amortisation (EBITDA)		**886,396**	**1,052,691**	-15.8
Depreciation and amortisation (not including goodwill)	8	-421,467	-474,845	-11.2
Earnings before interest, tax and amortisation of goodwill (EBITA)		**464,929**	**577,846**	-19.5
Amortisation of goodwill		-85,010	-93,494	-9.1
Earnings before interest and tax (EBIT)		**379,919**	**484,352**	-21.6
Net interest income	9	-239,358	-286,396	-16.4
Other financial income	10	-384	2,404	-116.0
Earnings before taxes (EBT)		**140,177**	**200,360**	-30.0
Taxes on income	11	-26,966	-30,923	-12.8
Net income before minority shareholdings		**113,211**	**169,437**	-33.2
Profit/Loss due to other shareholders	12	-5,661	-7,192	-21.3
Net income after minority shareholdings		**107,550**	**162,245**	-33.7
Earnings per share in €	13	**1.01**	**1.40**	-27.9

Group balance sheet

for the year ended December 31, 2003

ASSETS

Amounts shown in th. €	Notes Text note	2003	2002	Changes in %
Intangible assets		549,668	500,709	9.8
Tangible assets		3,500,609	3,876,983	-9.7
Financial assets		661,596	883,730	-25.1
Fixed assets		**4,711,873**	**5,261,422**	-10.4
Inventories	15	2,417,169	2,502,391	-3.4
Receivables and other assets	16	1,724,420	2,236,258	-22.9
Securities	17	130,934	25,441	-
Liquid funds	17	156,692	144,352	8.5
Current assets		**4,429,215**	**4,908,442**	-9.8
Deferred taxes	18	**15,347**	**10,030**	53.0
Prepayments and accrued income		**36,264**	**35,849**	1.2
Balance sheet total		**9,192,699**	**10,215,743**	-10.0

EQUITY AND LIABILITIES

Amounts shown in th. €	Notes Text note	2003	2002	Changes in %
Equity	19	**1,639,394**	**1,676,407**	-2.2
Minority shareholdings		**69,299**	**69,820**	-0.7
Long-term financial liabilities	22	2,125,877	1,594,870	33.3
Other long-term liabilities	23	368,397	56,842	-
Pension provisions	20	838,335	2,128,364	-60.6
Other long-term provisions for liabilities and charges	21	239,686	246,559	-2.8
Long-term liabilities		**3,572,295**	**4,026,635**	-11.3
Short-term financial liabilities	22	1,471,132	1,952,724	-24.7
Trade payables	23	1,011,334	899,145	12.5
Other short-term liabilities	23	1,000,742	1,066,819	-6.2
Short-term provisions for liabilities and charges	21	258,506	314,683	-17.9
Short-term liabilities		**3,741,714**	**4,233,371**	-11.6
Deferred taxes		**165,709**	**206,269**	-19.7
Accruals and deferred income		**4,288**	**3,241**	32.3
Balance sheet total		**9,192,699**	**10,215,743**	-10.0

Group fixed assets movement schedule

for the year ended December 31, 2003

	Historic purchase or production costs						
Amounts shown in th. €	As of 01.01.2003	Additions/ disposals consolidated companies	Exchange differences	Addition current year	Transfers	Disposal current year	As of 31.12.2003
Franchises, trademarks, patents, licences and similar rights	331,798	265	-732	32,602	1,885	22,794	343,024
Own developments	55,741	-	-196	21,254	19,954	344	96,409
Goodwill							
from individual account	39,772	-	-113	6,580	-3,257	-	42,982
from consolidation	360,537	-	-851	7,470	-26	8,770	358,360
Advance payments							
intangible assets	31,679	-	-	51,787	-5,954	1,712	75,800
intangible assets under development	26,950	-	-	31,087	-12,602	211	45,224
Intangible assets	**846,477**	**265**	**-1,892**	**150,780**	**0**	**33,831**	**961,799**
Land, leasehold rights and buildings, including buildings on land owned by others							
Property	6,276,029	-697,502	-1,504	69,702	76,907	34,339	5,689,293
Finance lease	141,209	-	-	-	-62,224	-	78,985
Capitalised restoration obligation	2,435	-	-	72	-	148	2,359
Plant and machinery	203,027	429	-324	5,813	3,918	1,775	211,088
Other equipment, furniture and fixtures	3,133,701	2,134	-1,383	145,695	6,385	195,790	3,090,742
Advance payments and construction in progress	30,757	13	3	30,960	-24,986	1,423	35,324
Tangible assets	**9,787,158**	**-694,926**	**-3,208**	**252,242**	**0**	**233,475**	**9,107,791**
Shares in subsidiaries	50,763	-9,785	-1,374	10,456	221	2,305	47,976
Loans to subsidiaries	4,420	-3,030	-	1,221	-	1,400	1,211
Shares in associated companies	625,331	4,112	-1	12,872	49	103,077	539,286
Loans to associated companies	51,001	3,811	-	5,142	-	-	59,954
Loans to companies in which investments are held	9,295	-	-	-	46,034	1,245	54,084
Other investments	78,693	2,547	-1	21,830	-270	10,768	92,031
Financial investments in land and buildings	184,737	-126,271	-	-	-	16,852	41,614
Securities of fixed assets	10,281	29	-	14	-	505	9,819
Other loans	54,786	-	-2	308	-46,034	881	8,177
Financial assets	**1,069,307**	**-128,587**	**-1,378**	**51,843**	**0**	**137,033**	**854,152**
	11,702,942	**-823,248**	**-6,478**	**454,865**	**0**	**404,339**	**10,923,742**

Accumulated depreciation and amortisation							Net book value	
As of 01.01.2003	Additions/ disposals consolidated companies	Exchange differences	Addition current year	Transfers	Disposal current year	As of 31.12.2003	**As of 31.12.2003**	As of 31.12.2002
220,866	-	-560	48,992	-24,189	9,841	235,268	107,756	110,932
1,514	-	-62	17,305	21,863	73	40,547	55,862	54,227
32,933	-	-111	2,858	2,326	-	38,006	4,976	6,839
90,455	-	-265	16,835	-	8,715	98,310	260,050	270,082
-	-	-	-	-	-	-	75,800	31,679
-	-	-	-	-	-	-	45,224	26,950
345,768	**0**	**-998**	**85,990**	**0**	**18,629**	**412,131**	**549,668**	**500,709**
3,032,556	-441,629	-742	156,365	23,133	26,945	2,742,738	2,946,555	3,243,473
38,737	-	1	1,709	-22,463	-	17,984	61,001	102,472
579	-	1	292	-	-	872	1,487	1,856
148,545	89	-276	12,577	918	3,392	158,461	52,627	54,482
2,689,758	1,321	-1,098	183,881	-1,588	185,147	2,687,127	403,615	443,943
-	-	-	-	-	-	-	35,324	30,757
5,910,175	**-440,219**	**-2,114**	**354,824**	**0**	**215,484**	**5,607,182**	**3,500,609**	**3,876,983**
7,969	-	-	849	-	325	8,493	39,483	42,794
350	-350	-	-	-	-	0	1,211	4,070
80,154	-	-	65,316	-	-	145,470	393,816	545,177
-	-	-	-	-	-	-	59,954	51,001
2,550	-661	-1	-	-	-	1,888	52,196	6,745
7,884	-	1	3,561	-	-	11,446	80,585	70,809
84,736	-58,076	-1	7,033	-	10,510	23,182	18,432	100,001
503	-	-	215	-	35	683	9,136	9,778
1,431	-5	-1	-	-	31	1,394	6,783	53,355
185,577	**-59,092**	**-2**	**76,974**	**0**	**10,901**	**192,556**	**661,596**	**883,730**
6,441,520	**-499,311**	**-3,114**	**517,788**	**0**	**245,014**	**6,211,869**	**4,711,873**	**5,261,422**

Changes in group equity and minority shareholdings

01.01. - 31.12.2003

Amounts shown in th. €	Issued capital	Capital reserve	Revenue reserves	Revaluation reserve	Adjustments foreign currency translation	**Total group equity**	Minority share-holdings	**Total**
Opening balance at 01.01.2003	**277,855**	**343,289**	**1,103,715**	**-49,253**	**801**	**1,676,407**	**69,820**	**1,746,227**
From the purchase of shares	-5,643	-25,818	-			-31,461	-	-31,461
Dividends	-	-	-75,496	-	-	-75,496	-1,115	-76,611
Generated capital/ group earnings	-	-	107,550	-	-	107,550	5,661	113,211
Differences from foreign currency translation	-	-	-	-	-14,582	-14,582	-	-14,582
Change due to valuation of original and derivative financial instruments	-	-	-	-14,877	-	-14,877	-	-14,877
Due to changes in consolidated companies	-	-	-8,147	-	-	-8,147	-5,067	-13,214
Closing balance at 31.12.2003	**272,212**	**317,471**	**1,127,622**	**-64,130**	**-13,781**	**1,639,394**	**69,299**	**1,708,693**

01.01. - 31.12.2002

Amounts shown in th. €	Issued capital	Capital reserve	Revenue reserves	Revaluation reserve	Adjustments foreign currency translation	**Total group equity**	Minority share-holdings	**Total**
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**

Group cash flow statement

as at December 31, 2003

Amounts shown in th. €	**2003**	2002
Earnings for the period (including shares of earnings of minority shareholders) before taxes on income and extraordinary items	140,177	200,360
Depreciation and amortisation/revaluations fixed assets	515,650	571,077
Earnings/Loss from disposal of assets	-22,809	-17,534
Profit/Loss from foreign currency	-6,889	3,295
Earnings/Losses absorbed from participating interests	73,132	8,490
Interest income/expenses	125,072	150,785
Increase/Decrease long-term provisions for liabilities and charges (not including tax provisions)	29,632	-139,106
Other costs/earnings not affecting cash flow	-244,969	-76,352
Gross cash flow	**608,996**	**701,015**
Increase/Decrease of inventories, trade receivables and other assets, not attributable to investment or financing activities	38,832	-457,084
Increase/Decrease of trade payables and other liabilities not attributable to investment or financing activities	20,555	79,664
Cash flow from current business activities	**668,383**	**323,595**
Dividends received	15,235	16,059
Interest received	97,738	75,708
Interest paid	-231,061	-202,590
Payments/Refunds of taxes on income	-43,059	-44,331
Cash flow from current business activities	**507,236**	**168,441**
Cash flow from acquisitions/disinvestment of subsidiaries	19,669	61,942
Amounts paid out for acquisition of tangible fixed, intangible fixed and long-term assets	-403,021	-501,926
Amounts paid for investment in financial assets	-28,488	-226,797
Amounts paid in from sale of tangible fixed, intangible fixed and long-term assets	66,900	91,099
Amounts paid in from sale of financial assets	23,223	29,139
Cash flow from investment activities	**-321,717**	**-546,543**
Amounts paid out to/paid in for dividends, capital increase and share repurchase programme	-106,957	-252,445
Amounts paid in/paid under mortgage bond programme and for (finance)loans	-44,630	401,935
Payments for liabilities under finance lease	-36,083	34,018
Cash flow from financing activities	**-187,670**	**183,508**
Changes in cash and cash equivalents affecting cash flow	**-2,151**	**-194,594**
Changes in cash and cash equivalents due to changes in exchange rates and consolidated companies	-544	-14,938
Cash and cash equivalents at the beginning of the period	168,813	378,345
Cash and cash equivalents at the end of the period	**166,118**	**168,813**

Segment information

KarstadtQuelle Group

	KarstadtQuelle Group		Reconciliation account		Holding	
Amounts shown in th. €	**2003**	2002	**2003**	2002	**2003**	2002
Sales	17,787,354	18,052,459	-	-	-	-
Interest from credit operations	224,215	218,742	-	-	-	-
Internal sales	-2,741,184	-2,456,628	-1,743,246	-1,550,165	-	-
Group sales	**15,270,385**	**15,814,573**	**-1,743,246**	**-1,550,165**	**-**	**-**
Cost of sales	-8,166,549	-8,502,568	846,786	760,004	-	-
Gross earnings	**7,103,836**	**7,312,005**	**-896,460**	**-790,161**	**-**	**-**
Other capitalised own work	57,338	60,429	33,410	40,833	-	-
Operational income and expenditure	-3,188,176	-3,264,897	852,606	742,948	262,738	138,772
Staff costs	-2,973,853	-3,014,082	41	5,786	-30,988	-17,340
Other taxes	-28,194	-30,925	-718	1	-41	6
Earnings from operations	**970,951**	**1,062,530**	**-11,121**	**-593**	**231,709**	**121,438**
Income from investments	-84,555	-9,839	-59,243	15	-9,904	4,645
EBITDA	**886,396**	**1,052,691**	**-70,364**	**-578**	**221,805**	**126,083**
Depreciation and amortisation (not including goodwill)	-421,467	-474,845	2,948	2,924	-1,486	-1,697
EBITA	**464,929**	**577,846**	**-67,416**	**2,346**	**220,319**	**124,386**
Amortisation of goodwill	-85,010	-93,494	-1	-	-	-
EBIT	**379,919**	**484,352**	**-67,417**	**2,346**	**220,319**	**124,386**
Net interest income	-239,358	-286,396	408	1,049	-73,506	-111,542
Other financial income	-384	2,404	-410	-530	-532	4,749
EBT	**140,177**	**200,360**	**-67,419**	**2,865**	**146,281**	**17,593**
EBITA margin in %	3.0	3.7	-	-	-	-
EBIT margin in %	2.5	3.1	-	-	-	-
EBT margin in %	0.9	1.3	-	-	-	-
EBTA	**225,187**	**293,854**	**-67,418**	**2,865**	**146,281**	**17,593**
EBTA margin in %	1.5	1.9	-	-	-	-
Segment assets	9,177,352	10,205,713	-7,458,771	-4,817,727	3,478,021	2,757,282
Segment liabilities	7,387,596	8,333,067	-6,495,605	-4,677,808	4,017,516	4,395,549
Capital employed	6,529,210	7,510,495*	-722,809	-602,053*	**	**
ROCE in %	5.8	6.5	-	-	-	-
Gross cash flow	608,996	701,015	-1,648	-707	-185,440	-187,172
Investments	418,641	738,336	-	-	11,628	54,677
Employees (annual average)	80,046	83,926	-	-	170	144

* Previous year's amounts adjusted by changeover to direct calculation.
** Due to the different nature of activity of the holding company the capital employed is shown in the reconciliation account.

Segment information by region

	KarstadtQuelle Group		Reconciliation account		Domestic	
Amounts shown in th. €	**2003**	2002	**2003**	2002	**2003**	2002
Sales	17,787,354	18,052,459	-	-	15,390,363	15,801,928
Interest from credit operations	224,215	218,742	-	-	174,295	169,033
Internal sales	-2,741,184	-2,456,628	-537,184	-446,283	-1,904,916	-1,710,583
Group sales	**15,270,385**	**15,814,573**	**-537,184**	**-446,283**	**13,659,742**	**14,260,378**
Cost of sales	-8,166,549	-8,502,568	521,136	433,466	-7,592,940	-7,943,737
Gross earnings	**7,103,836**	**7,312,005**	**-16,048**	**-12,817**	**6,066,802**	**6,316,641**
EBITA	**464,929**	**577,846**	**14**	**5,258**	**363,956**	**488,112**
EBTA	**225,187**	**293,854**	**10**	**5,780**	**121,699**	**208,805**
EBIT	**379,919**	**484,352**	**14**	**5,258**	**284,186**	**402,560**
EBT	**140,177**	**200,360**	**10**	**5,780**	**41,929**	**123,253**
Segment assets	9,177,352	10,205,713	-3,142,041	-2,192,641	9,620,253	10,048,780
Segment liabilities	7,387,596	8,333,067	-3,138,543	-2,189,004	8,347,163	8,665,583
Investments	418,641	738,336	-	-	389,580	641,574

Over-the-counter retail		Mail order		Services		Real estate	
2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
7,118,594	7,493,614	8,598,722	8,722,942	1,483,423	1,340,756	586,615	495,147
-	-	224,215	218,742	-	-	-	-
-145,706	-156,207	-800,661	-712,669	-51,571	-37,587	-	-
6,972,888	**7,337,407**	**8,022,276**	**8,229,015**	**1,431,852**	**1,303,169**	**586,615**	**495,147**
-4,039,622	-4,266,963	-4,083,875	-4,213,000	-889,838	-782,422		-187
2,933,266	**3,070,444**	**3,938,401**	**4,016,015**	**542,014**	**520,747**	**586,615**	**494,960**
12,475	8,502	1,331	2,409	10,122	8,685	-	-
-1,284,017	-1,267,034	-2,653,319	-2,614,298	-204,049	-187,968	-162,135	-77,317
-1,630,034	-1,725,632	-1,052,057	-1,025,941	-254,738	-245,794	-6,077	-5,161
-542	-1,446	-8,510	-12,027	-1,323	-11	-17,060	-17,448
31,148	**84,834**	**225,846**	**366,158**	**92,026**	**95,659**	**401,343**	**395,034**
21,771	1,176	43,858	542	-74,007	-16,217	-7,030	-
52,919	**86,010**	**269,704**	**366,700**	**18,019**	**79,442**	**394,313**	**395,034**
-150,574	-156,483	-105,517	-139,257	-50,741	-46,302	-116,097	-134,030
-97,655	**-70,473**	**164,187**	**227,443**	**-32,722**	**33,140**	**278,216**	**261,004**
-4,370	-6,092	-14,231	-38,416	-66,196	-48,973	-212	-13
-102,025	**-76,565**	**149,956**	**189,027**	**-98,918**	**-15,833**	**278,004**	**260,991**
-49,569	-59,106	-73,731	-74,343	-6,729	-11,422	-36,231	-31,032
-716	-262	642	951	389	-	243	-2,504
-152,310	**-135,933**	**76,867**	**115,635**	**-105,258**	**-27,255**	**242,016**	**227,455**
-1.4	-1.0	2.0	2.8	-2.3	2.5	47.4	52.7
-1.5	-1.0	1.9	2.3	-6.9	-1.2	47.4	52.7
-2.2	-1.9	1.0	1.4	-7.4	-2.1	41.3	45.9
-147,940	**-129,841**	**91,098**	**154,051**	**-39,062**	**21,718**	**242,228**	**227,468**
-2.1	-1.8	1.1	1.9	-2.7	1.7	41.3	45.9
2,574,189	2,435,846	4,019,929	3,965,386	1,278,182	1,042,170	5,285,802	4,822,756
2,468,482	2,353,723	3,719,110	3,837,641	895,845	507,323	2,782,248	1,916,639
1,309,988	1,217,478*	2,636,285	3,041,925*	525,714	668,228*	2,780,032	3,184,917*
-	-	5.7	6.2	-	-	10.0	8.2
32,540	33,330	283,020	394,160	97,226	100,386	383,298	361,018
207,526	164,844	120,154	259,129	70,659	179,557	8,674	80,129
45,601	49,722	28,539	28,557	5,651	5,436	85	67

EU Western Europe		Eastern Europe	
2003	2002	**2003**	2002
2,252,561	2,168,992	144,430	81,539
49,683	49,709	237	-
-293,964	-294,674	-5,120	-5,088
2,008,280	**1,924,027**	**139,547**	**76,451**
-1,018,030	-952,581	-76,715	-39,716
990,250	**971,446**	**62,832**	**36,735**
96,448	**78,907**	**4,511**	**5,569**
98,701	**73,228**	**4,777**	**6,041**
91,324	**71,997**	**4,395**	**4,537**
93,577	**66,318**	**4,661**	**5,009**
2,657,313	2,314,193	41,827	35,381
2,156,985	1,842,664	21,991	13,824
25,624	95,713	3,437	1,049

Group Account

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 International Financial Reporting Standards (IFRS) in accordance with the interpretations of the Standing Interpretations Committee (SIC) and the "International Financial Reporting Interpretations Committee" (IFRIC) respectively. 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 important subsidiary companies under the legal and/or factual control of KARSTADT QUELLE AG. Important associated companies are consolidated by the equity method, if the group holds 20 to 50 % of shares and/or exerts a material influence. Other investments are valued under IAS 39 at their market value, unless they are financial investments to be held until final maturity or financial assets which have no quoted market price in an active market and whose assignable current value cannot be reliably determined.

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

Where subsidiary companies are consolidated for the first time, the acquisition costs are set off against the pro-rata equity. The pro-rata equity results from the realisation of identifiable hidden reserves and charges. 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 VALUATION METHODS

Intangible fixed assets

Intangible fixed assets have been valued at cost less scheduled linear depreciation and amortisation. Depreciation and amortisation was calculated on the basis of the following useful life:

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

In the case of anticipated decreases in value unscheduled depreciation/ amortisation are applied.

If the requirements of IAS 38 have been satisfied, development costs which are based mostly on services inside the group are carried as own-produced Intangible fixed assets at manufacturing cost.

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

Tangible assets

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

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

Financial investments in land and buildings are valued at cost under IAS 40 and shown under Financial assets. Maintenance expenses are set off with effect for income. They are carried as assets if this has resulted in an 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 valued by the equity method, other investments, loans and fixed asset securities – are valued 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 valued 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 valued 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.

Sales of receivables

Individual group companies are selling to a finance company trade receivables which were transferred to the II. KarstadtQuelle Pension Trust e.V. under the CTA programme. Furthermore, receivables are being transferred by this finance company to a trust outside the group as part of Securitization-Transactions. 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 Other operating expenses.

Securities of current assets

Securities of current assets are valued under IAS 39 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”. Market value adjustments on securities in the “Available for sale” category are included under equity without effect for income.

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

Provisions for liabilities and charges

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

Actuarially calculated profit and loss are taken into account and spread over the average future residual employment period only in so far as they exceed a corridor of 10 % of the respective commitment.

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 valued at the best estimated value of the fulfillment sum. Long-term provisions are discounted.

Derivative financial instruments

All derivative financial instruments are 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 valuation of derivative financial instruments” under Equity or as income for the period under the valuation results in Other financial results.

KARSTADT QUELLE AG and its subsidiary companies use derivative financial instruments principally 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. Positive translation differences of 6,889 th. € resulting (previous year: minus 3,295 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:

Exchange rates relative to €

	Average rate		Rate applying at the balance sheet date	
in €	**2003**	2002	**2003**	2002
100 Danish kroner	13.457	13.451	13.432	13.462
1 English pound	1.445	1.590	1.144	1.538
100 Hongkong Dollar	11.354	13.565	10.216	12.305
100 Polish zlotys	22.686	25.889	21.162	24.955
100 Swedish kroner	10.962	10.909	11.024	10.935
100 Swiss francs	65.762	68.159	64.144	68.884
100 Slovakian korunas	2.406	2.342	2.430	2.398
100 Czech korunas	3.142	3.247	3.072	3.182
1 US Dollar	0.884	1.058	0.793	0.960

MOST IMPORTANT ACQUISITIONS

KARSTADT QUELLE AG at the beginning of the financial year acquired a piece of land in Berlin and subsequently transferred it to a real estate management company held by KARSTADT Immobilien AG & Co. KG.

KARSTADT QUELLE New Media AG acquired a 49.9 % participating interest in Sport Media Holding GmbH. Sport Media Holding GmbH acquired in turn 81.13 % each in the shares of DSF Deutsches Sport-Fernsehen GmbH and Sport1 GmbH. Through the acquisition of these shares there results goodwill of 3.2 mill. €, which is carried on the balance sheet at Sport Media Holding GmbH. The shares in Sport Media Holding GmbH are carried on the balance sheet at equity in the group account of KARSTADT QUELLE AG.

KARSTADT Hypothekenbank AG acquired five special funds in October 2003. The special funds are – since the KarstadtQuelle Group is entirely responsible for control – fully consolidated in accordance with SIC-12.

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 368 domestic and 92 foreign companies consolidated. Six companies are valued by the equity method. Not included in consolidation are subsidiaries, if their influence on the Group Account is immaterial.

In the 2003 financial year the following companies were included in the Group Account:

Atelier Gyllene Snittet Postorder AB, Malmö, Sweden;
CONELLO GmbH, Reutlingen;
Continental Inkasso GmbH, Frankfurt/Main;
Hess Natur-Textilien AG, St. Gallen, Switzerland;
Multibus AG, Au, Switzerland;
NeBus GmbH, Bad Waldsee;
Neckermann Beteiligungs GmbH, Graz, Austria;
Neckermann kataloska prodaja d.o.o., Maribor, Slowenia;
Neckermann kataloska prodaja d.o.o., Varazdin, Croatia;
Neckermann Versand AG, St. Gallen, Switzerland;
Paloma Versand GmbH, Hamburg;
Quelle B.V., Hulst, The Netherlands;
RISAL Beteiligungs GmbH & Co. Objekt Flensburg KG, Pöcking, Landkreis Starnberg;
Universum Inkasso Belgium N.V., Temse, Belgium;
4 Wände Wohnversand GmbH, Frankfurt am Main;
and the five special funds.

The most important subsidiaries and associated companies are listed on pages 122 to 123. 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 KarstadtQuelle Group:

Acquisitions/Disinvestments

	2003		2002	
Amounts shown in th. €	Acquisitions	Disinvest-ments	Acquisitions	Disinvest-ments
Gross yield	64,816	9,256	36,400	377
Earnings before interest, tax and depreciation/amortisation (EBITDA)	3,939	28,653	8,398	-1,750
Earnings before interest, tax and amortisation of goodwill (EBITA)	3,209	22,985	6,305	-1,750
Earnings before tax and amortisation of goodwill (EBTA)	4,123	23,013	4,148	-1,756
Fixed assets	13,938	337,875	57,595	144,661
Current assets	53,817	130,744	42,226	315,017
Deferred taxes	1,355	5	1,505	1,160
Prepayments and accrued income	190	15	384	416
Assets	**69,300**	**468,639**	**101,710**	**461,254**
Long-term liabilities	399	7,287	24,602	121,499
Short-term liabilities	16,266	38,110	38,018	210,246
Deferred taxes	427	-	5	26,363
Accruals and deferred income	50	106	143	-
Debts	**17,142**	**45,503**	**62,768**	**358,108**

The effect of earnings before income tax from disinvestment amounting to 23,013 th. € includes effects up to the time of final consolidation. Income from final consolidation amounts to 367,898 th. € and, including the effects up to the transfer of the companies, results in a total positive effect of 390,911 th. €.

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

COMPAGNIE DE GESTION ET DE PRETS S.A., Saran, France;
HSM Direkt Gesellschaft für strategisches Direktmarketing mbH, Karlsruhe;
and 55 real estate management companies which were transferred to the KarstadtQuelle Pension Trust e.V. in accordance with the programme launched in the previous year of the transfer-out of assets to cover pension fund commitments of KARSTADT QUELLE AG (contractual trust arrangement).

Notes to the Group profit and loss account

1 EARNINGS FROM SALE

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 224,215 th. € (previous year: 218,742 th. €) at the mail-order companies included in the Group Account.

2 COST OF SALES

The cost of sales is broken down as follows:

Amounts shown in th. €	2003	2002
Cost of purchased goods, raw materials and supplies	8,076,726	8,404,108
Cost of purchased services	89,823	98,460
	8,166,549	**8,502,568**

In deviation from previous years, logistics services are shown under expenditure for purchased goods. The previous year's amount has been adjusted accordingly.

3 OTHER CAPITALISED OWN WORK

Other capitalised own work includes own work from self-generated Intangible assets to be capitalised in fixed assets as well as furniture and fixtures, in so far as these developments were effected principally by employees of group companies.

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:

Amounts shown in th. €	2003	2002
Income from final consolidation	367,898	238,927
Income from advertising cost subsidies	196,137	175,859
Income from rents and commissions	121,612	118,185
Income from the reversal of other provisions	34,650	34,225
Income from the disposal of fixed assets	32,778	27,316
Income from charged-on goods and services	24,279	27,890
Income from other services	21,865	23,193
Income from the reversal of allowances	6,560	8,575
Other income	293,480	208,063
	1,099,259	**862,233**

The final consolidations are mainly income from the final consolidation of participating interests which were transferred to the company pension fund as scheduled assets as defined in IAS 19.

Other income comprises mainly income from the release of liabilities, exchange income, income from charged-on costs and indemnity payments.

5 STAFF COSTS

Amounts shown in th. €	2003	2002
Wages and salaries	2,433,791	2,544,806
Social-security contributions and cost of pensions and welfare benefits	495,053	424,274
thereof for pensions	-12,221	-71,774
Other staff costs	45,009	45,002
	2,973,853	**3,014,082**

Expenditure for old-age pensions includes income from scheduled changes of 44,921 th. € from reorganisation of the old-age pension provision in the KarstadtQuelle 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 KarstadtQuelle Group is not showing staff costs incurred under this plan during the year under review. For the conditions, see page 114.

6 OPERATING EXPENSES

Amounts shown in th. €	2003	2002
Sales costs	2,653,410	2,554,616
Operating and office/workshop costs	845,067	784,656
Administrative costs	356,047	359,022
Discounts on and write-off of trade receivables	193,434	180,882
Losses from the disposal of fixed assets	9,969	9,782
Other expenses	229,508	238,172
	4,287,435	**4,127,130**

Sales costs include mainly the cost of goods despatch, motor vehicles, advertising and catalogues. 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 27,747 th. € (previous year: 34,525 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.

7 INCOME FROM INVESTMENTS

Amounts shown in th. €	2003	2002
Losses/Income from investments in associated companies	-88,367	-25,802
Income from other investments	20,921	20,117
thereof from subsidiaries	13,237	12,234
Profits received under profit and loss transfer agreements	800	540
Expenses from transfer of losses	-6,466	-3,345
Write-down of financial assets	-11,443	-1,349
	-84,555	**-9,839**

Losses from investments in associated companies include losses of minus 76,705 th. € asessed by the equity method, from the 50 % investment in Thomas Cook AG, Oberursel.

The equity is adjusted pro rata by the result for the year with the most important earnings components, amortisations 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 141,299 th. € (previous year: minus 72,131 th. €) to earnings before income tax.

8 DEPRECIATION AND AMORTISATION

Depreciation and amortisation (not including goodwill)

Amounts shown in th. €	2003	2002
Scheduled depreciation/amortisation on tangible fixed assets and intangible fixed assets	405,935	439,248
Non-scheduled depreciation/amortisation on tangible and intangible fixed assets	15,532	35,597
	421,467	**474,845**

Amortisation of goodwill

Amounts shown in th. €	2003	2002
Amortisation from capital consolidation	82,152	90,478
Amortisation from individual accounts	2,858	3,016
	85,010	**93,494**

The amortisation of goodwill from capital consolidation in the amount of 64,594 th. € (previous year: 48,260 th. €) relates to Thomas Cook AG.

9 NET INTEREST INCOME

Amounts shown in th. €	2003	2002
Interest expenses due to additions to pensions reserves	-141,915	-152,902
Other interest and similar income	137,010	75,709
thereof from subsidiaries	3,175	6,808
Other interest and similar expenses	-234,453	-209,203
thereof to subsidiaries	-566	-3,254
	-239,358	**-286,396**

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

Amounts shown in th. €	2003	2002
Other financial expenses	-12,200	-24,284
Other financial income	11,816	26,688
	-384	**2,404**

Other financial expenses includes the valuation of interest derivatives amounting to 11,065 th. € (previous year: 22,371 th. €) shown under Other financial earnings.

11 TAX ON INCOME

Amounts shown in th. €	2003	2002
Actual tax owed	75,274	85,306
Deferred taxes	-48,308	-54,383
	26,966	**30,923**

In Germany a uniform corporation income tax rate of 25 % applies. A solidarity surcharge of 5.5 % is levied on the corporation income tax. In addition, a trade earnings tax of about 16 % is levied before taking into account the corporation income tax. In the case of the German group companies mainly a deferred tax rate of 39 % was therefore applied. In deviation from this, deferred taxes on temporary differences in the case of pieces of land must be charged at 34 %. 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 2,006 th. € (previous year: 38,169 th. €).

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

Amounts shown in th. €	2003	2002
Earnings before taxes	**140,164**	**200,360**
Expected tax expenditure (39 %)	54,664	78,140
Trade earnings tax additions/reductions	-20,414	-19,893
Back-payments/refunds for previous years	2,006	38,169
Effects from foreign tax rates	-7,064	-10,142
Effects of non-taxable income	-103,974	-84,626
Amortisation of goodwill	27,447	27,661
Operating expenses not deductible for tax	3,319	4,653
Dispensation with capitalisation/value-adjustment of accumulated losses carried forwards	69,484	4,028
Other divergences	1,498	-7,067
Tax expenditure in group profit and loss account	**26,966**	**30,923**

Other divergences reflect mainly divergent tax load ratios in the case of participating interests which are entered on the balance sheet in accordance with the equity method.

12 PROFIT/LOSS DUE TO OTHER SHAREHOLDERS

Amounts shown in th. €	2003	2002
Shares of profit	10,895	18,765
Shares of loss	-5,234	-11,573
	5,661	**7,192**

13 NET EARNINGS PER SHARE

		2003	2002
Net profit after minorities	th. €	107,550	162,245
Number of shares on annual average	number	106,774,866	115,611,968
Net earnings per share	€	**1.01**	**1.40**

In accordance with IAS 33, net earnings per share are calculated by dividing the net profit for the year after minority shareholdings by the average number of shares. Here the reduction in the number of outside shares through the share repurchase programme was taken into account pro rata. Diluted earnings are at the same level as the earnings per share shown for the year under review and the previous year.

Notes to the Group 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.

During the financial year real estate with a residual book value of 337,325 th. € was transferred direct to the company pension fund set up under the CTA programme.

The economic ownership of leased objects is assessed in accordance with IAS 17. If this is to be assigned to a group company, the leased object is capitalised at the assignable current value 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.

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 show a book value at the balance sheet date of 73,332 th. €. These comprise mainly buildings for which the cash value of the future minimum lease payments covers the essential acquisition costs or the legal title to which passes to the lessee at the end of the agreement period.

Operate leasing agreements mainly include building rents without purchase options.

Commitments under finance and operate leasing agreements

	Total		up to 1 year		1 to 5 years		over 5 years	
Amounts shown in th. €	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Finance leasing agreements Lease payments due in future	85,163	123,446	6,363	41,812	28,151	28,249	50,649	53,385
Discount	-19,837	-25,846	-2,345	-2,713	-9,217	-11,421	-8,275	-11,712
Cash value	**65,326**	**97,600**	**4,018**	**39,099**	**18,934**	**16,828**	**42,374**	**41,673**
Operate leasing agreements Lease payments due in future	2,124,532	2,207,846	311,229	263,710	1,097,417	876,427	715,886	1,067,709
Discount	-525,800	-657,648	-10,538	-11,536	-288,594	-151,742	-226,668	-494,370
Cash value	**1,598,732**	**1,550,198**	**300,691**	**252,174**	**808,823**	**724,685**	**489,218**	**573,339**
Lease payments under sublease	57,189	38,203	17,383	11,496	33,872	25,615	5,934	1,092

Due to the real estate management company shares transferred to the company pension fund as part of the transfer-out of operating assets the cash value of the lease charges increased by 203,137 th. €.

Financial investments in land and buildings (investment properties) are entered on the balance sheet and valued at purchase or manufacturing cost.

Against this the market values, which are based mainly on internally adjusted assessments by outside third parties (independent expert valuers), amount to 47,305 th. €.

The profit and loss account includes as part of financial investment in land and buildings income from rents amounting to 5,802 th. € with associated operating costs of 3,607 th. € (of which from scheduled depreciation and amortisation: 1,383 th. €). Furthermore, assets to the value of 5,650 th. € included in this group were written down unscheduled.

15 INVENTORIES

Inventories are broken down as follows:

Amounts shown in th. €	**2003**	2002
Raw materials and supplies	35,514	49,466
Merchandise	2,381,005	2,452,734
Advance payments	650	191
	2,417,169	**2,502,391**

Inventories are spread over the business segments:

Amounts shown in th. €	**2003**	2002
Over-the-counter retail	1,279,445	1,327,492
Mail order	1,125,936	1,165,297
Other	11,788	9,602
	2,417,169	**2,502,391**

16 RECEIVABLES AND OTHER ASSETS

Receivables and Other assets comprise:

Amounts shown in th. €	2003	2002
Trade receivables	695,675	1,393,089
thereof with a remaining term exceeding 1 year	140,181	322,667
Amounts owed by subsidiaries	90,694	131,489
Amounts owed by associated companies	54,537	18,804
Amounts owed by companies in which investments are held	47,275	45,707
Other assets	836,239	647,169
thereof with a remaining term exceeding 1 year	56,944	23,941
	1,724,420	**2,236,258**

Trade receivables are spread over the business segments as follows:

Amounts shown in th. €	2003	2002
Over-the-counter retail	38,699	70,493
Mail order	594,323	1,277,602
Other	62,653	44,994
	695,675	**1,393,089**

Also shown under Trade receivables are long-term real-estate projects, which are calculated for the balance sheet by the percentage-of-completion method. The amount of 8,209 th. € shown is the balance resulting from job order costs (18,296 th. €), realised profits (9,193 th. €) and instalment payments (minus 19,280 th. €) already received.

During the financial year the short-term revolving sale of trade receivables (ABS programme) was expanded. At the key date receivables with a book value of 1,494,897 th. € (previous year: 1,004,996 th. €) had been sold.

Receivables to the value of 195,001 th. € have been sold to Quelle Neckermann Versand Finanz GmbH & Co. KG, which was transferred to the II. KarstadtQuelle Pension Trust e.V.

Other assets include catalogue costs allocated to later years amounting to 197,177 th. € (previous year: 175,671 th. €). Tax refund claims, derivative financing instruments and debit balances from suppliers are also shown under this item.

17 LIQUID FUNDS, SECURITIES

Liquid funds include:

Amounts shown in th. €	2003	2002
Cheques	3,273	547
Cash in hand and Bundesbank credits	20,462	48,397
Cash at banks	132,957	95,408
	156,692	**144,352**

Marketable securities of current assets are assessed at assignable current values. These include mainly financial assets in the “Available for sale” category from the newly consolidated special funds.

Foreign exchange balance is 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. They relate to the following balance sheet items:

Amounts shown in th. €	2003		2002	
	Assets	**Liabilities**	Assets	Liabilities
Fixed assets	137,326	587,908	117,552	503,705
Current assets	55,295	151,446	27,264	89,268
Long-term liabilities	194,315	7,036	219,667	10,289
Short-term liabilities	19,892	1,786	27,666	36,204
Loss carried forward	191,522	-	55,097	-
Other	-	536	110	4,129
Balancing	-583,003	-583,003	-437,326	-437,326
Group balance sheet	**15,347**	**165,709**	**10,030**	**206,269**

Accruals and deferred taxes on accumulated losses brought forward amounting to 90,607 th. € are not shown.

19 EQUITY

Authorised capital and additional paid-in capital

The authorised capital of KARSTADT QUELLE AG held by the shareholders was further reduced during the first half of the financial year by 5,643 th. € to 272,212 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 106,332,850 (previous year: 108,537,135) 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 Approved 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. 11,424,883 shares, representing 9.7 % of the existing share capital, had been repurchased by the balance sheet date.

Share-oriented remuneration

In stock-exchange-listed companies workforce shares and share option rights have become effective components of a results-linked concept for remunerating employees. In the financial year KARSTADT QUELLE AG has at its disposal various instruments for linking remuneration, which is in any case partly performance-related, 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 of 35.58 €, 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 subscription rights lapse if the employee terminates the employment contract or the company at which he is employed leaves the KarstadtQuelle Group.

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 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)

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 this company 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 25,818 th. € to 317,471 th. € through the repurchase of shares.

Treatment of profits/losses from derivative financial instruments without effect for income

In accordance with IAS 139 derivative financial instruments fall into the category of "Financial assets and liabilities held for retailing purposes". Changes of value must be taken into consideration 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. Non-hedge-effective parts are shown with effect for income. On fulfillment of the underlying transaction they are entered with effect for income.

Performance of derivative financial instruments in the equity capital

Amounts shown in th. €	Before tax	Tax effect	Net
Unrealised profits/losses from derivative financial instruments as at 01.01.2003	**-79,122**	**29,869**	**-49,253**
Unrealised profits/losses from derivative financial instruments for the period under review			
Releases	24,193	-11,047	13,146
Transfers	-45,855	19,036	-26,819
Unrealised profits/losses from derivative financial instruments as at 31.12.2003	**-100,784**	**37,858**	**-62,926**

Original financial instruments contribute 1,973 th. € before tax and 1,204 th. € to value changes in equity capital, taking into account deferred taxes.

Proposed distribution of dividends

The Management Board proposes to the Annual General Meeting that a dividend of 75.5 mill. € be paid out of the net profit calculated for KARSTADT QUELLE AG for the 2003 financial year in accordance with the principles of the German Commercial Code (HGB). This represents a dividend per no-par value share certificate held by outside shareholders of 0.71 € equalling that of the previous year.

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. In addition, during the financial year a contribution-linked pension system was agreed with senior employees.

During the financial year the change of pension arrangements begun the previous year was continued. Overall employer/works council agreements were concluded with subsidiary companies. Claims to pension payments were converted to capital amounts and overall a more closely results-linked development of pension claims was agreed. These changes resulted in a decrease in staff costs amounting to 44,921 th. €. Set against this are contribution payments to an outside pension fund of 9,528 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 year under review further scheduled assets were formed by the transfer of assets to KarstadtQuelle Pension Trust e.V. and the II. KarstadtQuelle Pension Trust e.V. KARSTADT QUELLE AG at March 31, June 30, and December 31, transferred altogether 55 atypically hidden participating interests in real estate management companies to KarstadtQuelle Pension Trust e.V. The result was income of 352,017 th. € from the final consolidation of the investments and balancing of the pension provision with the market value of the scheduled assets.

The securing of pension commitments by transfer of assets at the subsidiary company level was effected through the II. KarstadtQuelle Pension Trust e.V. and the II. KarstadtQuelle Mitarbeitertrust e.V. Quelle AG and Neckermann Versand AG irrevocably transferred their shares worth 260 mill. € in QuelleNeckermann Versand Finanz GmbH & Co. KG and QuelleNeckermann Versand Finanz Beteiligungs GmbH to the II. KarstadtQuelle Pension Trust e.V. QuelleNeckermann Versand Finanz GmbH & Co. KG purchases revolvingly receivables from Quelle and Neckermann by real factoring. From the initial sale of the receivables there results an earnings effect of minus 8,641 th €.

Karstadt Warenhaus AG at the end of the financial year established hidden participating interests in group real estate management companies to the value of 302 mill. € and transferred them irrevocably to the II. KarstadtQuelle Pension Trust e.V. Pension commitments to this value were balanced against the scheduled assets thus created. No earnings effect resulted from this during the financial year ended.

As well as assumptions of life expectancy, the following parameters are applied:

Accounting parameters

Amounts shown in %	2003	2002
Interest rate	5.5	5.75
Anticipated development of income	3.0	3.0
Anticipated development of pension	2.0	2.0
Anticipated return from planned assets	5.1-6.2	5.6
Average employee turnover	5.0	5.0

Pension provisions are valued by applying the 10 % corridor rule. Actuarially calculated profits or losses are not taken into account if they do not exceed 10 % of the higher of the level of commitment or market value of the scheduled assets. The amount by which the corridor is exceeded is spread with effect for earnings over the average remaining service period of active employees.

The amount from pension commitments shown on the balance sheet results as follows:

Balance-sheet commitments

Amounts shown in th. €	Commitments financed from funds	Commitments financed from provisions	2003	2002
Cash value of future pension commitments (DBO)	1,546,929	992,286	2,539,215	2,525,502
Actuarially calculated profits/losses not taken into account	-92,329	-47,581	-139,910	-89,295
Expenses under changes in claims from previous years not taken into account	-160	-572	-732	-836
Market value of scheduled assets	-1,560,238	-	-1,560,238	-311,745
Other	-	-	-	4,738
	-105,798	**944,133**	**838,335**	**2,128,364**

The development of the pension provisions is calculated from the following table:

Cash value of future pension rights (DBO)

Amounts shown in th. €	Commitments financed from funds	Commitments financed from provisions	2003	2002
As at 01.01.	273,819	2,251,683	2,525,502	2,713,810
Service costs	566	13,736	14,302	34,173
Interest	51,790	90,125	141,915	152,902
Pension payments	-63,819	-74,034	-137,853	-150,358
Actuarially calculated profits/losses	5,150	33,573	38,723	- 46,962
Changes in plans	-	-44,921	-44,921	-174,559
Allocation to plan	1,279,423	-1,279,423	-	-
Addition from consolidated companies and other changes	-	1,547	1,547	-3,504
As at 31.12.	**1,546,929**	**992,286**	**2,539,215**	**2,525,502**

The expenditure for the period under review is calculated from the following table:

Pension costs

Amounts shown in th. €	Commitments financed from funds	Commitments financed from provisions	2003	2002
Service costs	566	13,736	14,302	34,173
Interest	51,790	90,125	141,915	152,902
Anticipated return from planned assets	-39,977	-	-39,977	-
Actuarially calculated profits/losses with effect on income	-	87	87	309
Post-service cost	-	87	87	450
Redundancy payments	-	-	-	59,163
Income from changes in plans	-	-44,921	-44,921	-174,559
	12,379	**59,114**	**71,493**	**72,438**

Whereas the cost of pension claims accrued during the financial year and expenditure and income from schedule changes are shown under Staff costs, interest and expected income from scheduled assets are included under Financial results. Income from the transfer of assets to KarstadtQuelle Pension Trust e.V. is included under Operating income as income from final consolidation.

21 OTHER PROVISIONS

Specifically, the following provisions have been set up

Amounts shown in th. €	**Total 2003**	thereof less than 1 year	Total 2002	thereof less than 1 year
Tax provisions	170,215	58,039	159,589	54,238
Other provisions	327,977	200,467	401,653	260,445
	498,192	**258,506**	**561,242**	**314,683**

Other provisions developed as follows in the financial year:

Amounts shown in th. €	As at 01.01.2003	Changes consolidated companies	Currency differences	Recourse	Reversal	Addition	**As at 31.12.2003**
Staff	179,897	109	-33	-76,872	-18,092	67,276	152,285
Guaranties/warranties	39,998	1,294	-95	-38,342	-533	44,843	47,165
Contingent losses resulting from pending transactions	43,915	-	-10	-32,001	-1,712	20,957	31,149
Other	137,843	509	-209	-119,008	-14,313	92,556	97,378
	401,653	**1,912**	**-347**	**-266,223**	**-34,650**	**225,632**	**327,977**

Staff-related provisions include provisions for anniversary bonuses, death benefits, indemnities and old-age part-time work. Other provisions include liabilities resulting from litigation, for closures of branches as well as other restructuring expenses due to third parties.

22 FINANCIAL LIABILITIES

Financial liabilities are broken down as follows:

		thereof with a remaining term of		
Amounts shown in th. €	**2003**	up to 1 year	1 to 5 years	more than 5 years
Bank loans and overdrafts	1,707,067	916,605	206,475	583,987
Previous year	*2,765,415*	*1,696,434*	*352,679*	*716,302*
Liabilities under leasing agreements	65,326	3,321	22,743	39,262
Previous year	*97,600*	*39,099*	*16,828*	*41,673*
Other financial creditors	1,824,616	551,206	281,353	992,057
Previous year	*684,579*	*217,191*	*6,500*	*460,888*
As at 31.12.2003	**3,597,009**	**1,471,132**	**510,571**	**1,615,306**
Previous year	***3,547,594***	***1,952,724***	***376,007***	***1,218,863***

Liabilities under leasing agreements are shown at cash value. Other financial liabilities include liabilities from commercial paper amounting to 300,400 th. € (previous year: 159,800 th. €).

Financial liabilities are secured by mortgages amounting to 668,066 th. €. In addition, there is mortgage security amounting to 1,419,737 th. € under the KARSTADT Hypothekenbank AG's mortgage bond programme.

Book and market values of financial creditors

	Market values		**Book values**	
Amounts shown in th. €	**31.12.2003**	31.12.2002	**31.12.2003**	31.12.2002
Short- and long-term financial creditors	**3,660,901**	**3,645,094**	**3,597,009**	**3,547,594**

23 TRADE PAYABLES AND OTHER LIABILITIES

The remaining terms of Trade payables and Other liabilities are shown in the following table:

Amounts shown in th. €	2003	thereof with a remaining term of up to 1 year	1 to 5 years	more than 5 years
Trade payables	951,545	951,163	382	-
previous year	*900,841*	*899,145*	*496*	*1,200*
Liabilities owed to subsidiaries	16,326	16,326	-	-
previous year	*28,432*	*26,499*	*726*	*1,207*
Liabilities owed to associated companies	33,437	33,437	-	-
previous year	*30,852*	*30,852*	-	-
Amounts owed to companies in which investments are held	15,221	10,408	-	4,813
previous year	*92,855*	*92,855*	-	-
	1,016,529	**1,011,334**	**382**	**4,813**
	1,052,980	***1,049,351***	***1,222***	***2,407***
Advance payments received on orders	16,074	16,074	-	-
previous year	*16,743*	*16,741*	*2*	-
Liabilities on bills accepted	33,088	33,088	-	-
previous year	*27,624*	*27,624*	-	-
Other creditors	1,314,782	951,580	27,910	335,292
thereof taxes	234,356	222,222	12,134	-
thereof social security	107,760	107,656	95	9
previous year	*925,459*	*872,248*	*45,684*	*7,527*
thereof taxes	*207,909*	*197,101*	*10,808*	-
thereof social security	*77,532*	*77,485*	*47*	-
As at 31.12.2003	**2,380,473**	**2,012,076**	**28,292**	**340,105**
previous year	***2,022,806***	***1,965,964***	***46,908***	***9,934***

The book values of the monetary liabilities are identical with their market values.

The increase in Other creditors results from the transfer to the company pension fund of hidden long-term investments in real estate management companies of 302 mill. €.

Short-term liabilities to subsidiary companies, associated companies and companies in which investments are held are shown on the group balance sheet under Trade payables. The previous year these liabilities were shown under other liabilities. Taking this change into account, the Trade payables shown on the group balance sheet the previous year came to 1,049,351 th. €.

24 CONTINGENT LIABILITIES, OTHER FINANCIAL COMMITMENTS

The following commitments result from contingent liabilities:

Amounts shown in th. €	2003	2002
Liabilities resulting from guaranties	2,263	309
Liabilities under warranty agreements	1,867	2,701
Collateral liabilities	600	12,736
	4,730	**15,746**

Contingent liabilities are 2,232 th. € owed to subsidiary companies.

The group is also liable for risks which may arise from the implementation of QuelleNeckermann Versand Finanz GmbH & Co. KG in the CTA programme and for tax risks arising from the creation of the company pension fund.

As well as contingent liabilities, there are Other financial commitments of 1,598,732 th. € (previous year: 1,550,198 th. €) arising mainly from the lease of buildings or before discounting to the value of 2,124,532 th. € (previous year: 2,207,846 th. €).

Other purchase commitments total 985,366 th. € (previous year: 1,118,272 th. €).

In 2001 the KarstadtQuelle 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 will be satisfied and the level of commitment cannot be determined sufficiently precisely, no provision was set up in the financial year.

Over and above the fixed commitments, there are also commitments to the value of 511,866 th. € or nominally 821,216 th. € from current real estate development projects.

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 KarstadtQuelle Group is exposed to foreign exchange risks in the course of its ordinary business operations. Derivative financial instruments in the form of currency forward transactions are used to limit these risks.

Interest risk management

Interest risk management results from the sensitivity of financial payables in regard to changes in the market level of interest. The company 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 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 527 th. € (previous year: 3 th. €) under Other assets and at a market value of 59,101 th. € (previous year: 31,261 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 12,735 th. € (previous year: 23,780 th. €) under Other assets and at a market value of 46,895 th. € (previous year: 49,977 th. €) under Other short-term liabilities.

Altogether, the following derivative financial instruments were in place at the balance sheet date:

	Market values		Book values	
Amounts shown in th. €	**31.12.2003**	31.12.2002	**31.12.2003**	31.12.2002
Currency-related transactions Forward exchange purchase contracts	**-58,574**	**-31,258**	**600,251**	**445,854**
Interest-related transactions Forward Rate Agreements	-314	-	3,484	-
Interest swaps	-33,847	-26,202	1,959,033	1,887,848
CAPs	1	5	204,519	418,570
	-34,160	**-26,197**	**2,167,036**	**2,306,418**
Other	151	-	8,500	-
	-92,583	**-57,455**	**2,775,787**	**2,752,272**

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 Group cash flow statement

The group cash flow statement is shown on page 103.

It shows changes in the flow of cash and cash equivalents in the KarstadtQuelle 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 KarstadtQuelle Group comprises amounts included in Liquid funds from cheques, cash in hand and cash balances at banks with terms of up to three months amounting to 156,694 th. € (previous year: 144,350 th. €) as well as short-term securities amounting to 9,424 th. € (previous year: 24,463 th. €).

The change in cash flow resulting from changes in the consolidation group amounts to minus 544 th. € (previous year: 14,938 th. €).

Notes to the segment report

The segment report is shown on pages 104 to 105.

It 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 for the year before tax on income after adjustment for depreciation and amortisation, earnings or losses from disposal of assets, changes in long-term provisions, interest expenses and income, as well as other expenses and income with no effect for payments.

The calculation of capital employed was changed over to the direct method during the financial year and includes fixed and current assets and accruals and deferrals less the non-interest-bearing liabilities. Fixed and current assets have been adjusted to take into account liquid funds and interest-bearing receivables and loans. Return on Capital Employed (ROCE) is calculated as the quotient of EBIT and Capital Employed.

The transfer-out of real estate during the 2002 financial year and its allocation to the Real estate segment resulted in income of 8,861 th. € from participating interests in the Over-the-counter segment and of 29,102 th. € in the Mail-order segment. Elimination of the income shown in both segments is effected in the reconciliation column. The Over-the-counter and Mail-order segments include KARSTADT QUELLE Service GmbH equalising dividends amounting to 11,680 th. € and 20,000 th. € respectively. Karstadt Warenhaus AG during the 2003 financial year received from KARSTADT QUELLE AG a payment of 60 mill. €, which is also included in the segment earnings of Over-the-counter retail.

Other information

TOTAL REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

If the dividend proposal is approved by the Annual General Meeting, the fixed remuneration of the Management Board of KARSTADT QUELLE AG amounts to 2,895 th. € (previous year: 3,059 th. €), the variable components to 2,394 th. € (previous year: 4,298 th. €). The Management Board's total remuneration for the financial year comes to 5,289 th. € (previous year: 7,357 th. €).

The fixed remuneration of the Supervisory Board of KARSTADT QUELLE AG for the financial year comes to 105 th. € (previous year: 80 th. €), the variable components amount to 600 th. € (previous year: 1,058 th. €). For further mandates in the KarstadtQuelle Group members of the Supervisory Board received fixed remuneration amounting to 215 th. € (previous year: 313 th. €). Total remuneration thus comes to 920 th. € (previous year: 1,451 th. €).

Payments amounting to 5,329 th. € (previous year: 5,021 th. €) were made to former members of the Management Board and their surviving dependants. Pension provisions for former members of the Management Board and their surviving dependants total 46,661 th. € (previous year: 45,132 th. €).

The members of the Supervisory Board are listed on pages 124 to 126, the members of the Management Board are listed on page 2, 3 and 127.

RELATIONS WITH AFFILIATED COMPANIES AND PERSONS

The KarstadtQuelle Group maintained the following business relations with affiliated companies and persons in 2003 and 2002:

Amounts shown in th. €	**2003**	2002
Goods and services supplied	42	1,202
Goods and services received	-	-381
	42	**821**

Amounts due from affiliated companies and persons at the balance sheet date amount to 10 th. € (previous year: 149 th. €).

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 3 mill. €.

One member of the Supervisory Board occupies a high-ranking position in a company with which various companies of the group maintain important normal business relations.

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 the first Declaration of Compliance in accordance with Section 161 German Stock Corporation Law and on June 17, 2003 a second Declaration of Compliance. These Declarations of Compliance have been made continuously accessible to the shareholders on the company's Internet site. The Declaration of Compliance is also reproduced in the '2003 Corporate Governance Report' section on pages 12 to 14 of the Annual Report.

The first Declaration of Compliance issued by the stock-exchange-listed subsidiary Sinn Leffers Aktiengesellschaft, Hagen, was likewise published on December 20, 2002. A further Declaration of Compliance was issued and made continuously accessible to the shareholders on the company's Internet site on May 8, 2003 .

WAIVER OF DISCLOSURE UNDER SECTIONS §§ 264 PARA. 3 AND 264B GERMAN COMMERCIAL CODE

The following domestic subsidiaries having the legal form of a corporation or commercial partnership within the meaning of Section 264a 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

animal24 GmbH, Fürth;
Happy Size-Company Versandhandels GmbH, Frankfurt/Main;
Karstadt GmbH, Essen;
KARSTADT QUELLE Business Services GmbH, Essen;
KARSTADT QUELLE Information Services GmbH, Essen;
KARSTADT QUELLE Konzern-Einkauf GmbH, Essen;
KARSTADT QUELLE Kunden-Service GmbH, Essen;
KARSTADT QUELLE New Media AG, Essen;
KARSTADT QUELLE Service GmbH, Essen;
Karstadt Sport Handelsgesellschaft mbH, Essen;
KARSTADT Vermietungsgesellschaft mbH, Essen;
Mode & Preis Versandhandels GmbH, Lörrach;
Neckermann Versand Handelsgesellschaft mbH, Berlin;
Optimus Logistics GmbH, Nuremberg;
Producta Daten-Service GmbH, Frankfurt/Main;
Profectis GmbH Technischer Kundendienst, Nuremberg;
Quelle Customer Care Center GmbH, Nuremberg;
QuelleNeckermann Spezialversand GmbH, Fürth;
Runners Point Warenhandelsgesellschaft mit beschränkter Haftung, Essen;
Saalfrank Qualitätswerbeartikel GmbH, Sennfeld;
servicelogiQ GmbH logistische Dienstleistungen, Nuremberg;
sparen24 GmbH, Frankfurt am Main;
TRI Kottmann GmbH, Bad Waldsee;
Universum Inkasso GmbH, Frankfurt/Main;
Versandhaus Walz GmbH, Baby-Walz, Die moderne Hausfrau, Bad Waldsee.

Exemption under Section 264b German Commercial Code

Atelier Goldner Schnitt GmbH & Co. KG, Münchberg;
CJD clinic+jobdress 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;
HSM Direkt Gesellschaft für strategisches Direktmarketing mbH & Co. Dialog KG, Karlsruhe;
KARSTADT Immobilien AG & Co. KG, Essen;
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, Fürth;
WEHMEYER GmbH & Co. Kommanditgesellschaft, Aachen.

Major subsidiary and associated companies
(as at 31.12.2003)

Company name and registered office	Capital holding in %	Equity th. €	**Sales th. €**	Staff [1] number
Over-the-counter retail				
Karstadt GmbH, Essen [3]	(C) 100	453,839	-	-
Karstadt Warenhaus Aktiengesellschaft, Essen	(C) 100	535,428	6,183,014	48,266
Sinn Leffers Aktiengesellschaft, Hagen	(C) 98.95	38,180	537,359	3,878
WEHMEYER GmbH & Co. Kommanditgesellschaft, Aachen	(C) 100	13,881	185,016	1,350
Runners Point Warenhandelsgesellschaft mit beschränkter Haftung, Essen	(C) 100	6,613	90,815	961
Schaulandt Electronic GmbH, Essen	(C) 100	6,394	88,409	270
WOM World of Music Produktions- und Verlags-GmbH, Essen	(C) 100	-	39,242	168
Le Buffet System- Gastronomie und Dienstleistungs-GmbH, Essen	(C) 100	1,110	35,265	675
GOLF HOUSE Direktversand GmbH, Hamburg	(C) 74.9	-	23,492	186
M + T Mode- und Textilhaus-Beteiligungs Gesellschaft m.b.H., Essen	(C) 100	125,754	-	-
Mail order				
KARSTADT QUELLE Versand GmbH, Essen [3]	(C) 100	1,294,000	-	-
Quelle Aktiengesellschaft, Fürth	(C) 100	425,992	3,794,568	12,343
Neckermann Versand Aktiengesellschaft, Frankfurt/Main	(C) 100	513,127	1,492,264	5,913
TriStyle Holding GmbH & Co. KG, Fürth [2]	(C) 51	9,304	466,697	1,544
QUELLE S.A., Saran, France [2]	(C) 100*	47,343	346,754	1,567
Neckermann B.V., Hulst, The Netherlands	(C) 100	57,144	263,363	918
Quelle Aktiengesellschaft, Linz, Austria [2]	(C) 100*	47,606	260,810	1,612
Versandhaus Walz GmbH, Baby-Walz, Die moderne Hausfrau, Bad Waldsee	(C) 100	5,113	242,625	1,301
Neckermann Versand Österreich AG, Graz, Austria [2]	(C) 100	30,779	191,870	667
AFIBEL S.A., Villeneuve d'Ascq, France	(C) 79.5*	25,048	153,828	485
Mercatura Holding GmbH & Co. KG. Nuremberg [2]	(C) 100	5,557	141,187	1,362
Happy Size-Company Versandhandels GmbH, Frankfurt/Main	(C) 100	1,480	97,939	40
Elegance Rolf Offergelt GmbH, Aachen [2]	(C) 100	5,099	78,258	422
Bon'A Parte Postshop A/S, Ikast, Denmark	(C) 100	1,157	66,055	330
Hess Natur-Textilien GmbH & Co. KG, Bad Homburg	(C) 100	-946	46,300	236
Fritz Berger GmbH & Co. KG, Neumarkt i.d.Opf.	(C) 100	-5,779	42,428	253
Fonetix Call Center GmbH & Co. KG, Chemnitz	(C) 100	1,652	21,666	986
Krähe Versand GmbH & Co. KG, Schlierbach	(C) 100	7,728	21,134	132

Company name and registered office	Capital holding in %	Equity th. €	**Sales th. €**	Staff [1] number
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	618,425	292
ITELLIUM Systems & Services GmbH, Essen	(C) 100	5,000	337,375	1,821
Euro-Papier N.V., Temse, Belgium	(C) 100*	2,744	158,018	5
Profectis GmbH Technischer Kundendienst, Nuremberg	(C) 100	2,556	121,520	1,788
servicelogiQ GmbH logistische Dienstleistungen, Nuremberg	(C) 100	521	65,037	1,191
Karstadt Quelle International Services AG, St. Gallen, Switzerland	(C) 100	40,693	20,223	109
KARSTADT QUELLE New Media AG, Essen	(C) 100	21,773	-	42
Real estate				
KARSTADT Immobilien AG & Co. KG, Essen [3]	(C) 100	770,929	-	69
MOSTIA Grundstücksgesellschaft mbH & Co. KG, Grünwald bei München	(C) 100	-21,345	15,486	-
TRADO Grundstücks-Verwaltungs-gesellschaft mbH & Co. Objekt Dresden KG, Pöcking, Landkreis Starnberg	(C) 99	-70,749	11,706	-
„HOLM“ Grundstücks-Verwaltungs-gesellschaft mbH & Co. Objekt Brieselang KG, Pöcking, Landkreis Starnberg	(C) 100*	-14,673	5,371	-
KINTO Grundstücks-Verwaltungs-gesellschaft mbH, Grünwald bei München	(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 KarstadtQuelle Group

(as at 31.12.2003)

Company name and registered office	Capital holding in %	Equity th. €	**Sales th. €**
Thomas Cook Aktiengesellschaft, Oberursel/Taunus [1]	(E) 50	405,767	1,396,379
TC Touristik GmbH, Oberursel/Taunus [1]	(E) 55*	115,961	1,983,250
KARSTADT QUELLE Financial Services GmbH, Düsseldorf	(E) 50	128,683	12,507

(E) consolidated at equity
1) Financial year from 01.11.2002 to 31.10.2003
* Group participating interest calculated

Corporate officers and their supervisory functions in accordance with KonTraG

Supervisory Board

Dr. Hans Meinhardt, Wiesbaden
Chairman
former Chairman of the Management Board of Linde AG
Supervisory board seats by law:
Beiersdorf AG (Chairman)

Wolfgang Pokriefke*, Bremen
Deputy Chairman
Chairman of the Overall Works Council of Karstadt Warenhaus Aktiengesellschaft
No notifiable mandates

Wilfried Behrens*, Gießen
Managing Director of Karstadt Warenhaus Aktiengesellschaft, Giessen branch
No notifiable mandates

Hero Brahms, Wiesbaden
w.e.f. 28.05.2003
Member of the Management Board of Linde AG
Supervisory board seats by law:
Deutsche Post AG
Georgsmarienhütte Holding GmbH (Deputy Chairman)

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)
Comparable supervisory functions:
Banco Popular Español, Madrid
BPI Banco Portugues de Investimento, Porto
Crédit Lyonnais, Paris
Les Assurances Générales de France (AGF), Paris
EULER & Hermes, Paris

Jürgen Damm*, Grevenbroich
until 28.05.2003
Chairman of the Works Council of Karstadt Warenhaus Aktiengesellschaft, Düsseldorf branch, Schadowstrasse; electrician
No notifiable mandates

Bodo Dehn*, Mönchengladbach-Rheydt
Chairman of the Works Council of Karstadt Warenhaus Aktiengesellschaft, Möchengladbach-Rheydt branch
Supervisory board seats by law:
Karstadt Warenhaus Aktiengesellschaft

Gisela Drescher*, Wilhelmshaven
until 28.05.2003
Member of the Works Council of Karstadt Warenhaus Aktiengesellschaft,
Wilhelmshaven branch; commercial staff in retail trade
No notifiable mandates

Hubert Gartz*, Hamburg
until 28.05.2003
Secretary to the Board of the German ver.di Trade Union
No notifiable mandates

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
E.ON AG
Feri Finance AG
Gildemeister AG
ThyssenKrupp Steel AG
Comparable supervisory functions:
Gartmore Capital Strategy Fonds Limited, Jersey
Phoenix Mecano AG, Switzerland (President Administrative Board)

Peter Kalow*, Schwabach
Chairman of the Overall Works Council of Quelle Aktiengesellschaft
Supervisory board seats by law:
Quelle Aktiengesellschaft**

Reinhard Koep, Mülheim/Ruhr
former Member of the Management Board
of KARSTADT QUELLE Aktiengesellschaft
No notifiable mandates

Dr. h. c. Martin Kohlhaussen, Frankfurt/Main
until 28.05.2003
Chairman of the Supervisory Board of Commerbank AG
Supervisory board seats by law:
Bayer AG
Commerzbank AG (Chairman)
Heraeus Holding GmbH
HOCHTIEF AG
Infineon Technologies AG (Deputy Chairman)
Schering AG
ThyssenKrupp AG
Comparable supervisory functions:
Verlagsgruppe Georg von Holtzbrinck GmbH

Franz Lajosbanyai*, Unterpfleichfeld
w.e.f. 28.05.2003
Chairman of the Overall Works Council of Neckermann Versand Aktiengesellschaft
Supervisory board seats by law:
Neckermann Versand Aktiengesellschaft**

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

Rita Rodenbücher*, Duisburg
w.e.f. 28.05.2003
Chairman of the Works Council of Karstadt Warenhaus AG,
Duisburg branch; commercial assistant
No notifiable mandates

Christa Schubert*, Recklinghausen
Deputy Chairman of the Works Council of Karstadt Warenhaus
Aktiengesellschaft, Recklinghausen branch; commercial assistant
No notifiable mandates

Michael Stammler, Bad Homburg
w.e.f. 28.05.2003
Member of the Management Board of Feri Finance AG
Supervisory board seats by law:
eCapital New Technologies Fonds AG

Dr. Gunter Thielen, Gütersloh
Chairman of the Management Board of Bertelsmann Aktiengesellschaft
Supervisory board seats by law:
aravato AG (Chairman)**
Druck- und Verlagshaus Gruner + Jahr AG (Chairman)**
Leipziger Messe GmbH
Comparable supervisory functions:
Bertelsmann Inc, USA (Chairman Board of Directors)**
RTL Group SA, Luxembourg**

Gertrud Tippel-Kluth*, Berlin
w.e.f. 28.05.2003
Secretary to the Federal Board of the German ver.di Trade Union,
trade section
Supervisory board seats by law:
Karstadt Warenhaus Aktiengesellschaft
Sinn Leffers Aktiengesellschaft

Dr. Bernd W. Voss, Kronberg/Taunus
until 28.05.2003
Member of the Supervisory Board of Dresdner Bank AG
Supervisory board seats by law:
Allianz Lebensversicherungs-AG
Continental AG
Dresdner Bank AG
OSRAM GmbH
Quelle Aktiengesellschaft
TUI AG
Wacker Chemie GmbH
Comparable supervisory functions:
ABB Ltd., Zürich, Switzerland
Bankhaus Reuschel & Co. (President Administrative Board)

* representing the employees
** group subsidiaries

Dipl.-Ing. Dr.-Ing. E. h. Jürgen Weber, Hamburg
until 28.05.2003
Chairman of the Supervisory Board of Deutsche Lufthansa AG

Supervisory board seats by law:
Allianz Lebensversicherungs-AG
Bayer AG
LSG Lufthansa Service Holding AG (Chairman)**
Lufthansa Cargo AG**
Lufthansa Technik AG (Chairman)**
Thomas Cook Aktiengesellschaft (Chairman)

Comparable supervisory functions:
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

Werner Wild*, Kirchentellinsfurt
w.e.f. 28.05.2003
dep. Land region manager, ver.di Baden-Württemberg
No notifiable mandates

Rüdiger Wolff*, Berlin
until 28.05.2003
Secretary to the Federal Board of the German ver.di Trade Union, trade section

Supervisory board seats by law:
Karstadt Warenhaus Aktiengesellschaft

Dr. Klaus Zumwinkel, Cologne
w.e.f. 28.05.2003
Chairman of the Supervisory Board of Deutsche Post AG

Supervisory board seats by law:
Deutsche Lufthansa AG
Deutsche Postbank AG (Chairman)**
Deutsche Telekom AG (Chairman)

Comparable supervisory functions:
C.V. International Post Corp. U.A., The Netherlands
(Deputy Chairman Board of IPC)
Morgan Stanley

* representing the employees
** group subsidiaries

Management Board

Wolfgang Urban, Brühl
Chairman
Supervisory board seats by law:
ERGO Versicherungsgruppe AG
KARSTADT Hypothekenbank AG (Chairman)**
KARSTADT Immobilien Beteiligungs AG (Chairman)*
KARSTADT QUELLE New Media AG (Chairman)*
Karstadt Warenhaus Aktiengesellschaft (Chairman)*
Neckermann Versand Aktiengesellschaft (Chairman)*
Quelle Aktiengesellschaft (Chairman)*
Sinn Leffers Aktiengesellschaft*
Thomas Cook Aktiengesellschaft (Deputy Chairman)

Dr. Christoph Achenbach, Stein
Supervisory board seats by law:
Kaiser's Tengelmann AG
GfK Aktiengesellschaft
Neckermann Versicherung AG
Neckermann Lebensversicherung AG
Thomas Cook Aktiengesellschaft
Comparable supervisory functions:
KARSTADT QUELLE Information Services GmbH (Deputy Chairman)*

Peter Gerard, Düsseldorf
Supervisory board seats by law:
IDS Scheer AG
ITELLIUM Systems & Services GmbH (Chairman)*
KARSTADT Hypothekenbank AG (Deputy 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)*
DSF Deutsches Sportfernsehen GmbH (Chairman)
Sport1 GmbH (Chairman)
Sport Media Holding GmbH (Chairman)

Prof. Dr. Helmut Merkel, Mannheim
Supervisory board seats by law:
ITELLIUM Systems & Services GmbH*
KARSTADT Immobilien Beteiligungs AG*
KARSTADT QUELLE New Media AG*
Novasoft AG (Chairman)
Quelle Aktiengesellschaft*
Sinn Leffers Aktiengesellschaft (Chairman)*
Comparable supervisory functions:
WEHMEYER GmbH & Co. KG (Chairman)*

Norbert Nelles, Rösrath
until 31.08.2003
Supervisory board seats by law:
KARSTADT Hypothekenbank AG (Deputy Chairman)*
Karstadt Warenhaus Aktiengesellschaft*

* group subsidiaries

KARSTADT QUELLE Aktiengesellschaft

Essen, February 25, 2004

THE MANAGEMENT BOARD

Urban Dr. Achenbach Gerard Prof. Dr. Merkel

Auditor’s report

(Translation of the German Auditor’s Report)

We have audited the consolidated financial statements, comprising the balance sheet, the profit and loss account and the statements of changes in shareholders’ equity and cash flows as well as the notes to the financial statements prepared by KARSTADT QUELLE AG for the financial year from January 1 to December 31, 2003. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the group management report prepared by the Company’s management for the financial year from January 1 to December 31, 2003, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the financial year from January 1 to December 31, 2003 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Düsseldorf, Germany
February 27, 2004

BDO Deutsche Warentreuhand Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed	signed
Harnacke	Horn
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Certified Auditor)	(German Certified Auditor)

5-year summary

			1999	2000 4)	2001 4)	2002 4)	**2003 4)**
Group sales	Sales	mill. €	14,843.0	15,444.5	16,067.1	15,814.6	15,270.4
Earnings	EBIT 1)	mill. €	280.8	533.7	630.7	484.4	379.9
	EBT	mill. €	225.4	238.2	332.8	200.4	140.2
	EBT margin	in %	1.5	1.5	2.1	1.3	0.9
	Profit for the year	mill. €	218.6	165.2	234.9	162.2	107.6
Financial situation and dividends	Gross cash flow	mill. €	699.8	784.7	1,092.3	701.0	609.0
	Liquid funds	mill. €	217.3	253.1	343.2	144.4	156.7
	Depreciation and amortisation	mill. €	367.9	453.6	462.3	474.8	421.5
	Dividends	mill. €	72.9	78.8	83.6	77.1	75.5
Structure of the balance sheet	Balance sheet total	mill. €	7,925.0	9,814.9	10,510.0	10,215.7	9,192.7
	Equity	mill. €	1,698.7	1,653.2	1,803.4	1,676.4	1,639.4
	Equity ratio	in %	21.4	16.8	17.2	16.4	17.8
	Fixed assets	mill. €	3,280.8	4,846.0	5,450.7	5,261.4	4,711.9
	Current assets	mill. €	4,614.6	4,915.0	5,000.6	4,908.4	4,429.2
Other information	Employees at 31.12.	number	113,490	113,120	112,141	104,536	100,956
	Staff costs	mill. €	3,169.5	3,109.8	3,157.2	3,014.1	2,973.9
	Investments	mill. €	481.7	676.9	1,230.9	738.3	418.6
	Department stores and Specialty stores in Over-the-counter retail	number	383	390	465	509	517
	Sales space at 31.12. in Over-the-counter retail	th. sq. m.	2,388.3	2,390.2	2,613.8	2,646.0	2,621.4
KARSTADT QUELLE AG share	Dividend per individual share certificate 2)	€	0.62	0.67	0.71	0.71	0.71
	Net earnings per share 3)	€	1.59	1.41	2.00	1.40	1.01
	Market price at end of year	€	39.80	32.90	44.40	16.50	19.60
	highest price	€	48.70	40.73	44.85	45.45	25.90
	lowest price	€	30.55	27.30	30.15	13.80	10.17
	Market value at end of year	mill. €	4,678.5	3,867.4	5,228.4	1,943.0	2,308.1

1) EBIT from 1999 on, incl. interest from instalment credit transactions
2) 1999, 2000 on 117,550,400 individual share certificates
2001 on 117,757,775 individual share certificates
2002 on 108,537,135 individual share certificates
2003 on 106,332,850 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
2003 on 106,774,866 individual share certificates
4) from 2000 on presentation in accordance with IAS/IFRS

Glossary

AFTER-SALES SERVICE
All additional services which a company offers as a result of the sale of goods, e.g. customer service, updated versions of technical products.

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.

BESSER KARSTADT
New presentation of the Karstadt brand which in the entire communication and branch orientation aims at growth through trust, strength of performance and emotional values.

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 (LOYALTY) CARD
Central customer loyalty card issued by several partners active in complementary consumer segments and combining various functions, such as bonus and credit facilities.

CONCESSION SHOP
Component of the development of the strategic department store into an integrated specialist retailer. The shops are operated by attractive brand names and partners with their own products.

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-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 taxes.

EBITA
Earnings before interest, taxes and amortisation of goodwill.

EBITA MARGIN
Earnings before interest, taxes and amortisation of goodwill relative to sales.

EBITDA
Earnings before interest, income taxes and depreciation and amortisation.

EBT
Earnings before taxes.

EBT MARGIN
Earnings before taxes relative to sales.

EBTA
Earnings before taxes and amortisation of goodwill.

EBTA MARGIN
Earnings before taxes and amortisation of goodwill relative to sales.

E-COMMERCE
Electronic trade 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. Calculation: EVA = operating result less 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 customer card bonus programme 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 OPTIONS 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.

MDAX
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.

MULTI-CHANNEL NETWORK
Network comprising the numerous sales and information channels of the KarstadtQuelle Group (e.g. department stores, specialty stores, catalogues, Internet, TV).

PRIMARY SEGMENTS
The Over-the-counter, Mail-order, Services, Real estate and Holding segments are defined under IFRS as primary segments within the KarstadtQuelle Group.

Glossary

RETURN ON CAPITAL EMPLOYED (ROCE)
EBIT in relation to the capital employed.

RETURNED-GOODS FACILITY
Warehouse in which goods which have been sent back by customers or branches are processed.

RISK MANAGEMENT
The company divisions in the KarstadtQuelle Group analyse and control their respective business risks independently on the basis of a groupwide risk management system.

SALES ON 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.

SUPPLY CHAIN MANAGEMENT
Inter-company planning, control and monitoring of central functions such as procurement, production and sales to increase their efficiency.

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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Group at a glance

KARSTADT

Over-the-counter retail

Karstadt GmbH

- **Department stores**
  - Karstadt Warenhaus AG
- **Specialty stores**
  - Sinn Leffers AG
  - WEHMEYER GmbH & Co. KG
  - Runners Point Warenhandels-gesellschaft mbH
  - WOM World of Music Produktions- und Verlags-GmbH
  - Le Buffet System- Gastronomie und Dienstleistungs-GmbH
  - GOLF HOUSE Direktversand GmbH

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., The Netherlands
  - Neckermann Versand Österreich AG, Austria
- **Specialty mail order**
  - Versandhaus Walz GmbH, Baby-Walz, Die moderne Hausfrau
  - Peter Hahn GmbH
  - AFIBEL S.A., France
  - Mercatura Holding GmbH & Co. KG
  - Atelier Goldner Schnitt GmbH & Co. KG
  - Madeleine Mode GmbH
  - Happy Size-Company Versandhandels GmbH
  - Elegance Rolf Offergelt GmbH
  - Bon'A Parte Postshop A/S, Denmark
  - Hess Natur-Textilien GmbH & Co. KG
  - Fritz Berger GmbH & Co. KG
  - Krähe Versand GmbH & Co. KG

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 Information Services GmbH
- KARSTADT QUELLE New Media AG
- Sport Media Holding GmbH – consolidated at equity –

B2C Services (consumer business)
- **KARSTADT QUELLE Kunden-Service GmbH**
- Karstadt Coffee GmbH
- Profectis GmbH Technischer Kundendienst
- Thomas Cook AG – consolidated at equity –
- KARSTADT QUELLE Financial Services GmbH – consolidated at equity –
- KARSTADT QUELLE Bank GmbH – 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
- KINTO Grundstücks-Verwaltungsgesellschaft mbH

Management (Real-estate services/ Finance)
- ECM EuroCenter Management GmbH
- KARSTADT Hypothekenbank AG

as of: 31.12.2003

Calendar 2004

Annual General Meeting

(Düsseldorf)	May 4, 2004
Dividend distribution	May 5, 2004

Interim reports

1st quarter	May 12, 2004
2nd quarter	August 4, 2004
3rd quarter	November 3, 2004

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