2004 – Fresh start and new departure

04

KARSTADT QUELLE AG

ANNUAL REPORT

		2004	2003	Change in %
Sales	mill. €	5,699.4	6,130.5	-7.0
Employees at 31.12.	number	54,401	59,056	-7.9
Segment assets	mill. €	1,262.8	2,070.5	-39.0

		2004	2003	Change in %
Sales	mill. €	7,474.0	8,022.3	-6.8
Employees at 31.12.	number	33,795	35,518	-4.9
Segment assets	mill. €	2,804.5	2,997.5	-6.4

		2004	2003	Change in %
Sales	mill. €	1,239.7	1,431.9	-13.4
Employees at 31.12.	number	4,046	6,094	-33.6
Segment assets	mill. €	162.3	221.5	-26.8

Not including Thomas Cook Group

		2004	2003	Change in %
Sales	mill. €	570.1	586.6	-2.8
Employees at 31.12.	number	111	100	11.0
Segment assets	mill. €	1,697.4	2,790.6	-39.2

Over-the-counter retail Department stores · Sports stores

In Over-the-counter retail KarstadtQuelle is well positioned in Germany with 220 department stores and sports stores, primarily at excellent city-center locations. The department stores operate under the umbrella brand name „Karstadt“, but regionally also under traditional brand names such as KaDeWe (Kaufhaus des Westens), Hertie, Wertheim and Alsterhaus. With a market share of about 40% the KarstadtQuelle Group's department stores are No. 1 in Germany and also occupy a leading position in their market segment in Europe. Here we continue to focus on the German market, in which we are represented countrywide. In the future Karstadt will concentrate on a core portfolio of 89 large department stores with over 8,000 sq. m. of sales space each and on the sports stores. These stores represent just under 80% of the current total sales. The alignment towards a homogeneous core business is enabling structures and processes to be markedly streamlined and a sustained cost reduction to be achieved. Our 89 large department stores will in future stand out by a sharpened, clearly defined profile. As part of the focus on high-margin lifestyle lines the Fashion, Sports, Personality und Living sectors are being expanded and Karstadt repositioned.

Mail order Universal mail order · Specialty mail order

The Mail-order segment covers the complete range of universal and specialty mail order in Europe with its two core brands Quelle and Neckermann. The group's mail-order suppliers are market leaders in Germany (share of over 30%) and also occupy a leading position in other European countries. As classically positioned universal mail order suppliers, Quelle and Neckermann provide for the entire range of everyday requirements. With 1,081 catalogs in a total impression of about 1.5 bill. they achieved about 79% of mail-order sales during the 2004 financial year. Specialty mail order concentrates on precisely defined target groups. The 21 specialty mail-order suppliers generated sales of 1.61 bill. € (previous year: 1.60 bill. €) in the year under review and published 769 different catalogs in an impression of about 270 mill. copies. The group's mail-order companies are successfully represented in 25 European countries. The share contributed to mail-order sales by foreign sales rose to 26.5% during the 2004 business year (previous year: 24.1%). The decisive factor for the success of the KarstadtQuelle mail-order suppliers are their high competence in the mail-order business, their comprehensive Internet offering and their high standard of customer service.

Services Tourism · Retail-related services

In the Services segment the KarstadtQuelle Group aims to make a sustained earnings contribution by the expansion of retail-related services. This applies particularly to the core segments Tourism and Financial and Information services as well as Customer relationship management (CRM) services. Here we are consistently utilizing the existing assets in our classic retail business. These include primarily information on about 21 million customers, a customer footfall of about 2.5 million daily in Over-the-counter retail, about 70 million orders yearly in Mail order and about 128 mill. Internet visits yearly. For strategic reasons we have set up partnerships with companies which are leading in their respective sectors: the tourism group Thomas Cook (joint venture with Deutsche Lufthansa AG), KarstadtQuelle Finanz Service (joint venture with ERGO Versicherungsgruppe AG) and the “HappyDigits” loyalty-card bonus program (joint venture with Deutsche Telekom AG).

Real estate Property · Real estate services · Financing

The Real estate segment is where the KarstadtQuelle Group concentrates its comprehensive real estate portfolio. KARSTADT Immobilien AG & Co. KG centrally controls its valuable location portfolio, which comprises primarily department store real estate at A1 locations in German towns and cities and also specialty stores and logistics and administrative buildings. The greater part of department store real estate in terms of sales space is Group-owned. From the point of view of book value the real estate portfolio represents an important part of KarstadtQuelle's Group assets. The market value is spread mainly among the five most important economic centers Hamburg, Berlin, Munich, Rhine-Ruhr and Rhine-Main. Real estate services offer a wide range of services such as development and letting as well as center, facility and construction management. KARSTADT Hypothekenbank AG contributes decisively to long-term Group financing by the issue of mortgage bonds.

At a glance

			2004	2003*	Change in %
Sales	Over-the-counter retail	mill. €	5,699.4	6,130.5	-7.0
	Mail order	mill. €	7,474.0	8,022.3	-6.8
	Services	mill. €	1,239.7	1,431.9	-13.4
	Real estate	mill. €	570.1	586.6	-2.8
	Reconciliation account	mill. €	-1,536.0	-1,743.3	-
	Group sales	mill. €	**13,447.2**	**14,428.0**	**-6.8**
Earnings	EBITDA	mill. €	-428.4	972.1	-144.1
	EBITDA (adjusted/not including special factors)	mill. €	372.9	711.1	-47.6
	EBITDA margin (adjusted/not including special factors)	in %	2.8	4.9	-
	EBTA	mill. €	-1,269.0	274.1	-
	EBTA (adjusted/not including special factors)	mill. €	-146.4	60.1	-
	EBTA margin (adjusted/not including special factors)	in %	-1.1	0.4	-
	Loss/Profit from continuing operations	mill. €	-1,250.7	157.7	-
	Loss from discontinued operations	mill. €	-370.5	-44.5	-
	Net loss/Profit after minority interests	mill. €	-1,631.2	107.6	-
	Invested capital	mill. €	3,666.7	6,079.3	-39.7
	Return on invested capital (ROIC)[1]	in %	1.1	4.3	-
Financial situation and dividends	Gross cash flow	mill. €	497.4	695.0	-28.4
	Cash and cash equivalents	mill. €	496.5	156.7	216.9
	Depreciation and amortization (not including goodwill)	mill. €	-424.4	-387.5	-9.5
	Dividends	mill. €	-	75.5	-
Structure of the balance sheet	Balance sheet total	mill. €	8,845.7	9,192.7	-3.8
	Equity	mill. €	552.1	1,639.4	-66.3
	Equity ratio	in %	6.2	17.8	-
Other information	Employees at 31.12.[2]	number	92,546	100,956	-8.3
	Investments[3]	mill. €	317.8	384.7	-17.4
	Net financial liabilities	mill. €	2,825.4	3,342.8	-15.5
	Working capital	mill. €	1,346.5	1,955.5	-31.1
	Branches[2]	number	520	517	-
	Sales space at 31.12. in Over-the-counter retail[2]	th. sq. m	2,601.2	2,621.4	-0.8
KARSTADT QUELLE AG Share	Shares on annual average	number	110,921,234	106,774,866	3.9
	Dividend per no-par value share	€	-	0.71	-
	Earnings per share	€	-14.71	1.01	-
	Market price at 31.12.[4]	€	7.59	15.88	-52.2
	Market capitalization/market value at end of year[5]	mill. €	1,600.0	2,308.1	-30.7

* Values for the previous year adjusted.
[1] EBIT after adjustment for special factors.
[2] Including discontinued operations.
[3] Not including financial assets.
[4] Information adjusted due to capital measure.
[5] Including own shares.

Contents

The Management Board

Harald Pinger

Treasury, Accounting, Controling, Investor Relations, Tax, Real Estate

Born in 1960. Harald Pinger has been working for the Unilever Group since 1987. 1996 he transferred to Fresenius Medical Care AG, part of the Fresenius Group, and in 2001 was appointed to the Management Board of Fresenius Kabi AG. 2002 he was appointed Finance Director of Messer Griesheim GmbH. In October 2004 Pinger was appointed a member of the Management Board of the Group holding company KARSTADT QUELLE AG. With effect from April 7, 2005, Mr. Pinger was appointed to discharge a transitional coordinating function on the Management Board.

Dr. Matthias Bellmann

Human Resources, Director of Industrial Relations, “KarstadtQuelle Neu” Project

Other duties: Member of the Management Board of Karstadt Warenhaus AG

Born in 1953. Dr. Matthias Bellmann began his career at Nixdorf Computer AG. In 1991 he joined Asea Brown Boveri AG (ABB). From 1996 to 2004 he was employed in the Siemens Group, latterly as Group Vice President Personnel of Siemens Information and Communication Networks. In September 2004 he was appointed a member of the Management Board of the Group holding company KARSTADT QUELLE AG. There he is also director of industrial relations. Since December 2004 Bellmann is also a member of the Management Board of Karstadt Warenhaus AG.

Arwed Fischer

Mail order, Logistics

Other duties: Chairman of the Management Board of Quelle AG and Neckermann Versand AG

Born in 1952. After periods of work at Audi AG, Colfirmit GmbH and the international freight company Johann Birkart, in 1994 Arwed Fischer was appointed to the Management Board of Kaufhalle AG. 1998 he became a member of the Management Board of Spar Handels AG, becoming Chairman in 1999. In August 2001 he was appointed a member of the Management Board of Quelle AG, in January 2002 also of the Management Board of Neckermann Versand AG. In June 2004 he became Chairman of the Management Board of Quelle AG and Neckermann Versand AG. At the same time Fischer was appointed member of the Management Board of the Group holding company KARSTADT QUELLE AG.

Prof. Dr. Helmut Merkel

Over-the-counter retail, Environmental and Social Policy, Purchasing, IT

Other duties: Chairman of the Management Board of Karstadt Warenhaus AG

Born in 1949. Prof. Dr. Helmut Merkel joined the SEMA Group in 1980, becoming a member of the Management Board in 1986. In 1989 he became Chairman of the Management Board of DAT AG. From 1993 on he was in the management of the international Deichmann Commercial Group. In April 2000 he was appointed a member of the Management Board of the Group holding company KARSTADT QUELLE AG. In January 2003 Merkel was appointed a member of the Management Board of Karstadt Warenhaus AG, becoming Chairman in July 2003.

Dear Shareholders,

The KarstadtQuelle Group is looking back on what was in many respects an eventful 2004. Business performance in many areas was unsatisfactory, and the financial situation assumed threatening proportions in autumn. A number of internal mistakes made in the past, such as a failure to focus on our core business and the less than optimum allocation of funds, contributed to this development. Furthermore, external factors such as the weak domestic demand and the high level of unemployment in Germany negatively affected our business performance.

2004 – Fresh start and new departure

The KarstadtQuelle Group is being repositioned

We therefore took a radical step and in the second half of 2004 began strategically and structurally repositioning the KarstadtQuelle Group. The Management Board has since June 2004 been developing a comprehensive program of reorganization and realignment under the name "KarstadtQuelle Neu". Since then we have been working unremittingly to implement it. Parts of our program of measures provide for hard, indispensable action. This is necessary, because it will once again open up good prospects for the KarstadtQuelle Group. In this respect 2004 was a year of the fresh start and new departure.

Reduced sales and earnings targets achieved

We achieved our now reduced sales and earnings targets in the 2004 financial year. Group sales amounted to 13.45 bill. € in the 2004 financial year (2003: 14.43 bill. €). This represents a sales decrease by 6.8 %. The difficult economic environment and our customers' uncertainty in the important third quarter have left their mark.

Operating earnings before interest, tax, depreciation and amortization (EBITDA) came to 372.9 mill. € (previous year: 711.1 mill. €). The reorganization and realignment already resulted in hard consolidation measures in the 2004 financial year. Accordingly, EBITDA was burdened by exceptional and special charges amounting to 0.80 bill. € from valuation and reorganizational measures. The greater part of this amount is linked to the portfolio streamlining program and the necessary staff adjustment measures. EBITDA stood in total at minus 428.4 mill. € (previous year: plus 972.1 mill. €). The loss after minority interests came to minus 1.63 bill. € (previous year: plus 107.6 mill. €). In view of the difficult earnings situation the Management Board and Supervisory Board will propose to the Annual General Meeting that no dividend be paid for the 2004 financial year.

We considerably exceeded our earnings forecast. We forecast adjusted EBTA before disposal of our specialty stores of minus 280 to minus 295 mill. €. We achieved adjusted EBTA of minus 190.7 mill. €.

"KarstadtQuelle Neu"

Reorganization progressing well

The reorganization begun during the year under review is making good progress, and we have already achieved a great deal: thus, we managed within a very short time to reconcile the interests of the various groups (shareholders, staff and banks) in a solidarity pact for the good of the Group. An important contribution to success was the agreement with the employees about savings of 760 mill. € in the staff sector for the period 2005 to 2007. We also within a very short time restructured Group financing by a capital increase, a convertible bond and the conclusion of a long-term syndicated loan. By these successful measures we strengthened our weakened equity base, considerably improved the borrowed capital structure and gained strength to realize the strategic realignment. Also the implementation of our portfolio streamlining program is progressing well.

Refocusing on the retail trade

The strategic realignment of our business models has been initiated. The core is refocusing on our strengths and core competences in retailing. We shall in future be much better able to utilize our position as one of the largest retailers in Europe. This we are achieving by concentrating on our large department stores and sports stores in our Over-the-counter segment and considerably improving their market presentation and their sales performance. We are disposing of the smaller department stores and the low-earning specialty store formats. In Mail order we shall reposition the Quelle and Neckermann brands, redefine the catalog cycles and so stabilize sales. We shall generate further growth in Specialty mail order by the accelerated expansion of our foreign business and our strong e-commerce position. Furthermore, the sustained reduction of business system costs will be further pressed ahead with at high intensity in the next few years, too.

Outlook

2005: Marked improvement in earnings

The 2005 financial year will be dominated by the implementation of our "KarstadtQuelle Neu" program. At the center are the completion of the portfolio streamlining program and the further optimization of the business models in the department store and mail-order sector. With regard to our sales performance we do not assume that we shall succeed in reversing the trend in just a few months. However, in the second half of the year we do already expect to achieve visible successes from the repositioning of our department stores and the changed catalog structure in universal mail order. We also expect to gain impetus from the introduction of systems for incentivizing staff in proportion to the sales achieved. In view of the still difficult environment, however, we plan at a Group level a sales decrease on a comparable basis in the lower to middle single-digit percentage range in the 2005 financial year. Particularly because of the already implemented cost reductions and the already completed divestment of companies with a negative earnings contribution we anticipate an improvement in operating earnings (EBITDA) in the 2005 financial year. We are giving emphasis to the generation of cash inflows and are therefore putting earnings before interest, tax, depreciation and amortization (EBITDA) at the center of our reporting.

The KarstadtQuelle Group of the future: considerably leaner and more efficient

The KarstadtQuelle Group of the future will be considerably leaner, more focused, more efficient and thus more competitive. Turnover remaining after the successful implementation of the portfolio streamlining program will be achieved with better margins and substantially reduced business system costs. We want to achieve an EBITDA margin of over 7 % by 2008.

Thank you to all staff

The implementation of the numerous reorganizational measures, the heavy burden of work, the reductions in pay and leisure time seriously affected your daily lives, Dear Staff Members, during the 2004 financial year.

The Management Board is fully aware of these circumstances, and we should like to express our sincere thanks to you at this point for your great commitment and your exceptional achievements.

We are very proud to have come through a difficult phase together with you. With your help we shall successfully overcome the hard tasks still facing us and get the Group back on track to success.

A thank you to our shareholders

We thank you, Dear Shareholders, for your confidence and in particular your broad support in connection with the capital increase in November/December 2004. We shall work hard and with great commitment to gradually increase the value of the KarstadtQuelle Group in the coming years and are convinced that we have taken the right steps to achieve this.

Essen, April 7, 2005

The Management Board

The Supervisory Board

Members

Dr. Thomas Middelhoff, Bielefeld
Chairman

Wolfgang Pokriefke*, Bremen
Deputy Chairman

Jochen Appell, Heusenstamm

Wilfried Behrens*, Gießen

Hero Brahms, Wiesbaden

Dr. Diethart Breipohl, Icking

Bodo Dehn*, Mönchengladbach-Rheydt

Leo Herl, Fürth

Ulrich Hocker, Düsseldorf

Peter Kalow*, Schwabach

Franz Lajosbanyai*, Unterpfleichfeld

Hans Reischl, Cologne

Rita Rodenbücher*, Duisburg

Christa Schubert*, Recklinghausen

Michael Stammler, Bad Homburg

Dr. Jürgen Than, Hofheim am Taunus

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 Management Board in accordance with Sect. 285 No. 10 German Commercial Code is given on pages 98 to 100.

Committees

Standing Committee

Dr. Thomas Middelhoff
Chairman

Leo Herl

Peter Kalow*

Wolfgang Pokriefke*

Hans Reischl

Michael Stammler

Audit Committee

Dr. Thomas Middelhoff
Chairman

Dr. Diethart Breipohl

Leo Herl

Peter Kalow*

Wolfgang Pokriefke*

Arbitration Committee (Section 27 Para. 3 Codetermination Law)

Dr. Thomas Middelhoff
Chairman

Leo Herl

Peter Kalow*

Wolfgang Pokriefke*

Dear Shareholders,

In this report the Supervisory Board of KARSTADT QUELLE AG informs you about its activities in the 2004 financial year. Much of the Supervisory Board's work concerned the discussions and passing of resolutions with regard to the program of reorganization and realignment of KarstadtQuelle, which opened a new chapter in the history of the Group. Also dealt with are other matters of Supervisory Board meetings, Corporate Governance, the annual account, the Group Account and the dependent companies report, the work of the committees and changes to the membership of the Supervisory Board and Management Board.

During the 2004 financial year the Supervisory Board of KARSTADT QUELLE AG performed its duties as required by law and the articles of incorporation and continuously monitored and supported the managerial activity of the Management Board. Because of the Group's peculiar economic situation the Supervisory Board intensified its activities and cooperation with the Management Board.

Accordingly, from the start the Supervisory Board in an advisory capacity constructively attended, supported and monitored the development and implementation of the Group's realignment.

At six Supervisory Board meetings 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 a close contact with the Chairman of the Management Board and with the other Management Board members. He was kept informed about important business transactions, plans and resolutions of the Management Board. The Supervisory Board was duly and comprehensively informed about measures requiring its approval. At its meetings it examined in detail and discussed proposals put forward by the Management Board and gave them the necessary approval. Three resolutions were passed by written procedure.

Meetings of the Supervisory Board

The Supervisory Board at its meetings dealt with the business performance and financial and liquidity situation of the KarstadtQuelle Group. A number of meetings were devoted to the program for reorganizing and realigning the Group. Its content and scope were defined in the Supervisory Board meeting on September 27, 2004. The following topic areas dealt with at Supervisory Board meetings must be mentioned in particular:

The refinancing program, consisting of portfolio adjustments, capital increase, convertible bond, syndicated bank loan and possible second-lien financing.

Measures for reorganizing and reducing business system costs with the following emphases: reorganization and reconstruction expenditure, lasting reduction of staff and material costs, reduction of working capital and optimization of cash flow.

Optimization of the business models in the Over-the-counter and Mail-order segments and concentration on core growth areas in the Services segment.

Furthermore, individual measures, such as the partnership with the REWE Group in the food sector, the transfer of logistics to a separate company and of the Essen, Limbecker Platz real estate project were discussed or resolved on.

Corporate Governance

The Supervisory Board at its meetings repeatedly concerned itself with the German Corporate Governance Code and approved its implementation in the KarstadtQuelle Group. Corporate Governance will be audited at regular intervals and, if necessary, further developed. Accordingly, at the Chairman's suggestion the Supervisory Board resolved during the year under review to evaluate the work of the Supervisory Board and implement an exemplary corporate governance practice. Appropriate measures are already being put into effect. The Management Board and Supervisory Board on April 7, 2005 updated the Declaration of Compliance issued in accordance with the German Corporate Governance Code. This Declaration of Compliance has been made continuously accessible to the 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.

Work and meetings of the committees

The Supervisory Board set up a Standing Committee, an Audit Committee and an Arbitration Committee (in accordance with Section 27 of the Law of Codetermination).

The Standing Committee at ten meetings dealt with important business events and transactions requiring approval. It concerned itself in particular with the financial situation, reorganization and Management Board matters. Four meetings were conducted in the form of telephone conferences.

The Audit Committee met four times during the year under review. It discussed in the presence of the auditor and the Management Board the annual accounts of KARSTADT QUELLE AG, the Group Accounts, the Management Reports and the proposal for the appropriation of the profit. It analyzed the quarterly reports, issued the audit instruction to the auditor, laid down the main points of the audit, agreed on the fee and monitored the independence of the auditor. The Audit Committee also kept itself informed about the risk management and its further development in the company. It further engaged N. M. Rothschild & Sons, London, to analyze the Group's financial structure, to report on it to the Supervisory Board and submit suggestions for the future structure.

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 report

The BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, appointed by the annual meeting of May 4, 2004, audited the 2004 Annual Account, the Management Report of KARSTADT QUELLE AG, the Group Account to IFRS, the Group Management Report as well as the Dependent Companies Report and gave each of them its unqualified audit opinion. 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 review of the accounts, the associated Management Reports and the proposal for the appropriation of the profit. These documents were discussed in detail at the meeting of the Supervisory Board on April 7, 2005. The auditor was also present at this meeting, reported on the most significant results of his audit and answered questions put to him by members of the Supervisory Board. In accordance with the findings of its own examinations the Supervisory Board finds no cause for objection and approves the auditor's findings. At its meeting on April 7, 2005, the Supervisory Board approved the Annual Accounts of KARSTADT QUELLE AG and the Group prepared by the Management Board for the period ending December 31, 2004; the Annual Account of KARSTADT QUELLE AG has therefore been adopted. The Supervisory Board approved the suggestion of the Management Board that in view of the economic situation the payment of a dividend be waived.

The Management Board has submitted to the Supervisory Board the report on relations with subsidiary companies prepared by the Management Board pursuant to Section 312 of the German Stock Company Law and given an unqualified auditor's opinion, the account records and the auditor's report. At the meeting of the Supervisory Board on April 7, 2005, the auditor reported on the findings of his audit and after intensive discussion answered in full all questions put to him by the members. In accordance with the findings of its own examination the Supervisory Board finds no cause for objection in the Management Board's concluding remarks in its report pursuant to Section 312 of the German Stock Company Law and approves the auditor's findings.

Changes to Supervisory Board and Management Board

There were a number of changes to the membership of the Supervisory Board and Management Board in the 2004 financial year and in the beginning of 2005.

a. Supervisory Board

Mr. Reinhard Koep and Dr. Gunter Thielen retired from the Supervisory Board at the end of the ordinary general meeting on May 4, 2004. The general meeting voted for Dr. Thomas Middelhoff and Mr. Hans Reischl to succeed them on the Supervisory Board. Dr. Ingo Riedel retired from the Supervisory Board with effect from November 30, 2004. Dr. Jürgen Than, Attorney at Law, succeeded him on the Supervisory Board.

The Supervisory Board voted for Dr. Thomas Middelhoff as Chairman with effect from July 1, 2004. He succeeded Dr. Hans Meinhardt, who retired as Chairman and member of the Supervisory Board at June 30, 2004. In accordance with the articles of incorporation he was succeeded by Mr. Jochen Appell, Attorney at Law.

b. Management Board

Mr. Wolfgang Urban retired as Chairman and member of the Management Board at May 31, 2004. The Supervisory Board appointed Dr. Christoph Achenbach Chairman of the Management Board with effect from June 1, 2004.

Mr. Peter Gerard retired from the Management Board at December 31, 2004.

Mr. Arwed Fischer, Dr. Matthias Bellmann and Mr. Harald Pinger were appointed to the Management Board with effect from June 16, 2004, September 27, 2004 and October 1, 2004, respectively. Dr. Bellmann was appointed director of industrial relations.

At April 7, 2005, Dr. Christoph Achenbach retired as Chairman and member of the Management Board. With effect from April 7, 2005, the Supervisory Board appointed Mr. Harald Pinger to discharge a transitional coordinating function on the Management Board.

The Management Board members' areas of responsibility and duty are shown in the overview on pages 2 and 3 of this annual report.

The Supervisory Board thanks the retired Supervisory Board and Management Board members for their commitment and their work.

A thank you to the management and staff

The Supervisory Board would like to express its thanks to the Management Board, managerial staff and staff of the KarstadtQuelle Group both in Germany and abroad for their commitment on behalf of the company during the 2004 financial year.

Essen, April 7, 2005

For the Supervisory Board

Dr. Thomas Middelhoff
Chairman

Corporate Governance Report of the Management Board and Supervisory Board

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

Bases and framework of Corporate Governance

The legal rules for corporate governance are to be found mainly in stock corporation law. These principles have been extended since February 2002 to include the German Corporate Governance Code. A government commission has formulated uniform principles for German companies to make the rules of good corporate governance transparent for foreign investors. The Corporate Governance Code was last revised on May 21, 2003, with effect from July 4, 2003.

Management and control structure

KARSTADT QUELLE AG has a dual management and control structure in the Management Board and Supervisory Board. The Management Board and Supervisory Board cooperate closely for the benefit of the company. The legal framework for the cooperation is provided by the company's articles of incorporation and the Supervisory Board's and Management Board's rules of procedure.

The Supervisory Board

The Supervisory Board comprises 20 members. In accordance with the German Law of Codetermination it is made up of Shareholders and employees' representatives in equal proportions. The representatives of the shareholders are selected by the general meeting of shareholders. The employees' representatives are appointed in accordance with the Law of Codetermination. Seven employees' representatives are employees of the group, a further three are union representatives. The present Supervisory Board's period of office lasts until the end of the Annual General Meeting which decides on ratification of the Boards' acts for the 2007 financial year. The introduction of different periods of office for shareholders' representatives on the Supervisory Board, as recommended in the code, is not envisaged at present.

Supervisory Board committees

The Supervisory Board's rules of procedure provide for the setting up of three committees.

The **Standing Committee** is made up of the Chairman of the Supervisory Board, his representative and at least three further members to be chosen from amongst the Supervisory Board. The Standing Committee is responsible for the settlement of matters between Management Board members and the company. In urgent matters the Standing Committee may, if a resolution of the Supervisory Board cannot be passed in due time at a meeting, in its stead decide on Management Board business requiring approval. The Standing Committee also regularly, but at least halfway through the regular period of office, audits the efficiency of the Supervisory Board's activity. The first efficiency audit will take place in 2005.

The **Audit Committee** is made up of the Chairman of the Supervisory Board and two shareholders' and two employees' representatives. The Audit Committee prepares the decisions of the Supervisory Board on the adoption of the Annual Account and the approval of the Group Account. It is responsible for preliminary auditing of the Annual Account, the Group Account, the summarized Management Report and the proposal for appropriation of the profit. The proceedings of the Audit Committee are attended by the auditor. The Audit Committee is also responsible for the agreements to be made annually with the auditor and supports the Supervisory Board in monitoring the company management.

The duties of the **Arbitration Committee,** which is made up of two shareholders' and two employees' representatives, are determined in accordance with Section 27 of the Law of Codetermination. In accordance with it 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 Management Board

With effect from April 7, 2005, the Management Board of KARSTADT QUELLE AG is made up of four members. Because of KARSTADT QUELLE AG's difficult economic position a central steering committee was set up in December 2004 to ensure the successful implementation of the reorganization program. This steering committee is made up of Dr. Bellmann and Mr. Pinger as Management Board members. The steering committee reports to the Standing Committee once a month.

Remuneration of Management Board and Supervisory Board

A breakdown of the remuneration of Supervisory Board members by component is given in the Notes to the Group Account. No individual statement in accordance with the recommendation in Subsection 5.4 of the Code is made.

A breakdown of the remuneration of members of the Management Board by fixed component and results-related components is also given in the Notes to the Group Account. Likewise, no individual statement in accordance with Subsection 4.2.4 Sentence 2 of the Code is made.

The remuneration of the Supervisory Board will, as required by the Code, in future be shown individually. With regard to the individual disclosure of Management Board remuneration the Supervisory Board and Management Board will meet at short notice to decide how this will be handled in future.

Relations with shareholders and transparency

KARSTADT QUELLE AG publishes on its Website a financial calendar on which relevant dates are entered. Furthermore, all IR, press and ad-hoc communications have been accessible on the Internet since 2002.

The Annual General Meeting of Shareholders offers shareholders the opportunity of exercizing their voting rights themselves, through a proxy of their choice or through a voting rights representative of the company. It is explained in the notice of the Annual General Meeting how instructions for exercizing voting rights can be given before the annual general meeting.

KARSTADT QUELLE AG publishes on its Website immediately upon receipt all the notices required under the German Securities Trading Law with regard to the acquisition and sale of securities of the company by members of the Management Board and Supervisory Board (directors' dealings).

Risk management, rendering of accounts, annual audit

KARSTADT QUELLE AG has set up a risk management system to enable important opportunities and risks to be identified early. A detailed account is given in the Group Management Report on pages 58 to 63.

The Group Accounts are rendered in accordance with the International Financial Reporting Standards (IFRS).

The Supervisory Board has appointed BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft to be auditors for the 2004 financial year. It ascertained beforehand that the existing relations between the auditor and KARSTADT QUELLE AG and its controling bodies afford no grounds for doubt as to the independence of the auditor. The main points of the audit were fixed with the auditor and it was agreed that any possible grounds for exclusion or partiality would be removed or made known during the audit.

The reorganization of the Group brought an exceptionally heavy burden of work, particularly at the turn of the year, for which reason it was not possible to make the Group Account publicly accessible within 90 days from the end of the financial year.

Declaration of Compliance

On April 7, 2005, we issued and then made continuously accessible to the shareholders on the company's Website **www.karstadtquelle.com/konzern** 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:

1. KARSTADT QUELLE AG has since the last declaration of compliance of March 18, 2004, complied with the recommendations of the German Corporate Governance Code in the version of May 21, 2003, with the following exceptions:

   a) 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).

   b) 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) are not shown individually.

   c) The Group Account was not made publicly accessible within 90 days from the end of the financial year.

2. KARSTADT QUELLE AG will comply with the recommendations of the German Corporate Governance Code in the version of May 21, 2003, except in the points stated in Section 1, ltr. a) and the individualized presentation of Management Board remuneration (Code Subsection 4.2.4 Sentence 2)."

Essen, April 7, 2005

KARSTADT QUELLE Aktiengesellschaft

The Management Board The Supervisory Board

Price performance 2004: KarstadtQuelle share under pressure

The 2004 stock exchange year was the second year in succession to be marked by rising share prices. The German Share Index (DAX), the index of the 30 largest German stock-exchange-listed companies, ended the year at 4,256 points. This reflects an increase by 7 %. The MDAX, the index of medium-sized companies, gained a full 20 % in 2004 and ended the year at 5,376 points.

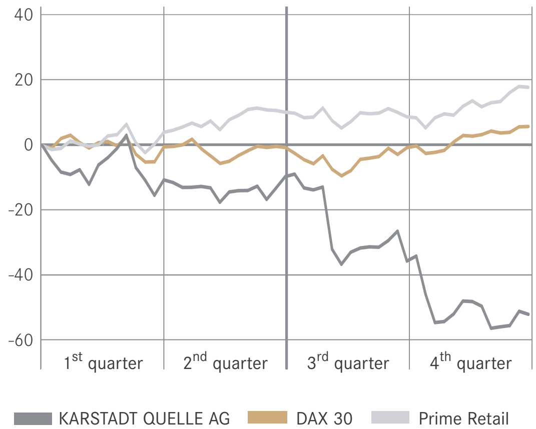
Particularly the still negative environment in the German retail trade, as well as KarstadtQuelle's unsatisfactory operational performance, resulted in a marked fall of over 50 % in the price of the KarstadtQuelle share in 2004. At the beginning of the year the comparable share price was being quoted at between 14.50 and 16.50 €. On March 2, it reached its yearly high at 17.51 €. In the further course of the year quotation stabilized at a somewhat lower level of between 13 and 14.50 €. At the beginning of August in the period preceding the announcement of the package of measures for refocusing KarstadtQuelle the share came under increasing pressure and reacted with discounts. As a result of the capital increase, prices were adjusted from November 30 on. On December 6, the KarstadtQuelle share recorded its yearly low at 6.52 €. At the end of the year prices fluctuated at levels substantially above 7 €.

At the beginning of 2005 the KarstadtQuelle share was being quoted mainly at prices of between 7 and 9 €.

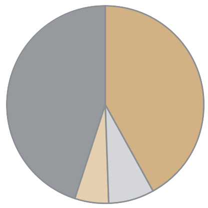
Key Figures			**2004**	2003
Earnings	Earnings per share	€	-14.71	1.01
	thereof from continuing operations	€	-11.28	1.48
	thereof from discontinued operations	€	-3.34	-0.42
	Gross cash flow	mill. €	497.4	695.0
	Gross cash flow per share	€	4.48	6.51
	Return on invested capital (ROIC) [1]	%	1.1	4.3
Dividends	Dividend per individual share certificate	€	-	0.71
Authorized capital	Authorized capital on balance sheet	mill. €	510.4	272.2
	Individual no-par-value shares (at end of year)	number in mill.	210.8	117.8
Share price information	Share price			
	at end of year (cash market price)*	€	7.59	15.88
	highest price*	€	17.51	20.98
	lowest price*	€	6.52	8.24
	Market capitalization/market value at end of year [2]	mill. €	1,600.0	2,308.1
	Exchange turnover (average daily trading volume)	number of shares	1,239,996	312,731

* Information adjusted due to capital measures.
[1] EBIT after adjustment for special factors.
[2] Including own shares.

Stock market price performance 2004 indexed in %



Shareholder structure in %
(in acc. with Security Trading Law)



"Madeleine Schickedanz" pool	41.82
Allianz AG	7.56
KARSTADT QUELLE AG*	5.42
Free float	45.20

As at 31.12.2004

* Own shares.

Capital increase completed successfully

In December 2004, KARSTADT QUELLE AG successfully concluded a capital increase with a subscription right for shareholders. The authorized capital (incl. own no-par value shares) was increased by 238,185,920.00 € from 301,459,904.00 € to 539,645,824.00 €. KarstadtQuelle shareholders were offered 93,041,375 new no-par value bearer shares in the ratio 8 : 7. The number of shares thus comes to 210,799,150. The two major shareholders, the "Madeleine Schickedanz" pool and Allianz AG, supported the capital increase and extensively exercized their subscription rights.

KarstadtQuelle quoted on the Prime Standard

The KarstadtQuelle share is represented in the MDAX segment of the Prime Standard with a weighting of 1.09 % (as at 31.12.2004). Quotation on the Prime Standard requires inter alia the fulfillment of transparency requirements.

Major investors committed for the long term

Even after the capital increase KARSTADT QUELLE AG's sound shareholder structure is still assured. The two major shareholders, the "Madeleine Schickedanz" pool and Allianz AG, hold a full 49 % of the shares. Minority interests increased to over 45 % (previous year: 28.05 %) during the year under review.

General information about the KarstadtQuelle share

Securities Identification Number	627500
International Securities Identification Number (ISIN)	DE 0006275001
Reuters shortname	KARG.DE
Bloomberg shortname	KAR GY
Weighting in the MDAX*	1.09 %

* As at 31.12.2004

Our 2004 annual report is characterized by the refocusing of the KarstadtQuelle Group on the core business and accordingly has been made considerably leaner and more efficient. The changed appearance of the annual report, too, emphasizes the realignment of the Group in its communication with the public.

Investor Relations

Capital market communication continues to gain in importance

In the year under review we again conducted an intensive dialogue with financial analysts and investors. 25 sell-side analysts report regularly on KARSTADT QUELLE AG. The analysts' conference in March 2004 focused on the 2003 annual account. At the analysts' meeting in September the "KarstadtQuelle Neu" package of measures for the reorganization and realignment were presented. We informed our shareholders about the group's performance at the ordinary general meeting of shareholders in May 2004. During the extraordinary general meeting in November 2004 we reported on the comprehensive refocusing of the company. The capital increase, as an essential component of the reorganization, was resolved on by a large majority. We also explained KarstadtQuelle's strategy at numerous roadshows and investors' conferences in the important European financial centers. In addition there were telephone conferences and a large number of presentations and individual discussions.

In the fourth quarter of 2004 we conducted an especially close dialogue with players on the financial markets in order to present the "KarstadtQuelle Neu" group strategy. The important thing here was to respond intensively to an increased need for information on the capital and credit markets. We contemporarily and comprehensively attended the successfully implemented, important steps on the way to reorganization, i.e. capital increase, solidarity pact, syndicated bank credit and convertible bonds. Particularly at an international roadshow in connection with the capital increase in November/December 2004 we set out our strategy in detail and gave the investors the opportunity of a personal dialogue.

During a number of field trips we offered the opportunity of getting to know KarstadtQuelle close up. For example, the Karstadt Arkaden in Mülheim an der Ruhr proved particularly suitable for demonstrating our shopping center concept. Moreover, the Karstadt sports store in Dortmund (Germany's largest sports store) impressively emphasizes our leading market position.

The group Website www.karstadtquelle.com completes our wide and varied range of communication channels. In the section headed "Investor Relations" those interested will find a wide range of financial information, from IR communications through business and interim reports to records of analysts' and telephone conferences which can be accessed on demand and general meetings of shareholders.

Public relations

The KarstadtQuelle Group was the focus of public interest during the year under review. This was due mainly to the unusual response by the media to the reorganization and strategic realignment of the Group. Both the staff changes at the head of the Group and the concentration on the core business played an important role. Alongside standard communications instruments like press and analysts' conferences and two general meetings, radio and television reporting figured prominently.

What was new and unusual was the interest of the wider public in the events surrounding a group which has done much to shape the economic history of the post-war period in Germany. Regional conferences of mayors to retain the department stores were as much an expression of this interest as demonstrations by customers of solidarity with their Karstadt stores in city centers.

Right up to the end of the review period the KarstadtQuelle Group continued to be the subject of daily reporting, particularly in the printed media. Attention focused mainly on the progress of the divestment program and the realignment of department stores and mail order.

The solidarity pact between shareholders, staff and banks to rehabilitate the company was implemented and communicated at a hitherto unequalled speed. The KarstadtQuelle Group has been at pains to report openly about overcoming its crisis in a difficult situation.

Environmental and social policy

Procurement markets: Continuing focus on adherence to social standards

In 2004, too, we continued to focus particularly intensively on adherence to our code of conduct and the gradual improvement in working conditions along the procurement chain. We achieved further successes by implementing the "Assuring social standards" community model of the Foreign Trade Association of the Deutscher Außenhandel e.V (German Retail Trade Association, AVE): Suppliers in eleven countries were trained, several hundred subsuppliers worldwide were audited by audit companies and exposed defects were rectified. Accompanying the AVE initiative, round tables were set up in the supplying countries, at which employees' and employers' representatives, governments and non-governmental organizations (NGO's) work out country-specific approaches to the problem of introducing and monitoring social standards.

"Besser miteinander": First KarstadtQuelle sustainability report in the Top 25 worldwide

In 2004 there appeared for the first time a sustainability report by KARSTADT QUELLE AG under the title "Besser miteinander" ("Better together"). It sums up our social and environmental policy activities. The sustainability report earned a number of accolades. In a benchmark study conducted by the management consultants Sustainability Ltd., London, jointly with the United Nations Environmental Program and Standard & Poor's it achieved at a stroke rank 25 amongst the best international reports. KarstadtQuelle occupied 2nd place amongst all retail companies worldwide. KarstadtQuelle was also ranked Number 2 amongst the German companies. In the ranking of the 150 largest German companies' sustainability reports conducted by the Unternehmervereinigung future e.V. and the Berliner Institut für ökologische Wirtschaftsförderung (IÖW), Berlin, KarstadtQuelle also came 2nd.

Lively discussion at first multi-stakeholder event

For KarstadtQuelle the maxim "Besser miteinander" is policy: during a multi-stakeholder event we presented the group's first sustainability report and conducted a constructive discussion with a large number of social groups on the question of corporate social responsibility.

Synergy potential fully utilized, sustainable products promoted

In Mail order the sustainability and environmental organization was consistently further improved. The year under review was dominated by increases in the efficiency of our environmental management and the consistent utilization of synergy potential and cost savings.

In 2004, too, Karstadt Warenhaus AG placed emphasis on nationwide drives and campaigns to promote highly sustainable products and on consumer information. These included a "Bio-Week" and a "TransFair Week" for fair-trade products.

Over-the-counter retail

Real estate

Mail order

Services

“KarstadtQuelle Neu” program for reorganization and realignment

On September 28, 2004, we published “KarstadtQuelle Neu”, the program for reorganization and realignment of the Group. It defines the strategic approach for the 2004 to 2008 financial years. “KarstadtQuelle Neu” is based on a radical reconstruction of financing. This reconstruction formed the emphasis of our activities in the fourth quarter of the 2004 financial year and has already been successfully realized in important parts. The financial structure so created and optimized gives the Group the necessary free-space to streamline and realign its business models.

The further consistent implementation of the comprehensive, tough reorganizational measures will determine the development of the Group in the next years.

“KarstadtQuelle Neu” is based on a radical reconstruction of financing. This reconstruction

With “KarstadtQuelle Neu” we want to achieve the following:

- We shall optimize our financial structure and align it for the long term.
- We shall dispose of marginal operations and loss-makers.
- We shall focus our operations on a future-based core portfolio in retail and retail-related services.
- We shall define and position our brands more clearly.
- We shall once more raise the competitiveness of all our core operations by optimization of the business models.
- We shall substantially reduce business system costs.
- We shall improve Group sales and earnings.

1. The long-term aligned refinancing concept

The KarstadtQuelle Group's weak sales and earnings performance, the too short terms of parts of the financing and the comprehensive restructuring requirements made necessary a fundamental reorganization of outside financing and a strengthening of the equity capital base in autumn 2004.

The new, long-term aligned refinancing concept comprises five major components:

The refinancing measures

Capital increase*	3-year bank loan	Convertible bond	Divestment program	Potential further facilities
517.6 mill. €	1.75 bill. €	170 mill. €	1.1 bill. €	300 - 400 mill. €
✓	✓	✓	being implemented	planned

* After costs.

formed the emphasis of our activities in the fourth quarter of the 2004 financial year.

We successfully implemented the essential elements of the new refinancing concept within a few months. After completion of the complete program the Group has at its disposal financing which is necessary for efficient implementation of "KarstadtQuelle Neu".

Capital increase

Due to extraordinary, non-recurring expenditure in connection with the reorganization measures the Group's equity capital base was appreciably reduced. To strengthen it, a cash capital increase was resolved at an extraordinary meeting of shareholders on November 22, 2004. As part of this capital increase successfully placed in December 2004, KARSTADT QUELLE AG's authorized capital was increased by 238,185,920 € to 539,645,824 €. KarstadtQuelle shareholders subscribed to 93,041,375 new shares in the ratio 8 : 7 at a subscription price of 5.75 €. KARSTADT QUELLE AG's major shareholders, the members of the Madeleine Schickedanz voting pool and Allianz AG, also supported the capital increase and acquired shares to the value of 282 mill. €. Through the capital increase KARSTADT QUELLE AG acquired liquidity (after costs) to the value of 517.6 mill. €.

Syndicated bank loan over three years

We fundamentally restructured our bank financing in the fourth quarter of 2004. A long-term, syndicated loan amounting to 1.75 bill. € was agreed with a consortium made up of 16 banks. The agreement with a term of three years superseded the existing short-term credit lines on a bilateral basis. Besides long-term financing by mortgage bonds to the value of 1.62 bill. €, the KarstadtQuelle Group has at its disposal a further high-volume block of external financing.

Convertible bond

The maturity structure of the outside financing was further improved in December 2004 by the issue of a convertible bond in a volume of 170 mill. €. The bond has a term of five years and is convertible to up to 19,406,392 KARSTADT QUELLE AG shares. The interest coupon comes to 4.5 %, and the conversion premium amounts to 35 %.

At the center of the strategic realignment of our business models is

2. The portfolio streamlining program

The aims of our portfolio streamlining program are the inflow of liquidity in particular through the separation of loss-makers and marginal activities as well as the reduction of complexity in the business models.

The program comprises the sale of numerous items of real estate, particularly in the logistics sector, and the separation of all the specialty store chains and small department stores. It is completed by the selective sale of long-term investments outside the defined core activities and the outsourcing of marginal activities. The package of measures extends to 2004 and 2005.

In the year under review we were able to successfully conclude a number of divestments. As part of the outsourcing, large parts of the IT service provider ITELLIUM were disposed of. We also transferred the loss-making food departments in the Karstadt department stores to a joint venture with the REWE Group. Furthermore, a number of long-term investments were disposed of in a very short time. These include Karstadt Coffee GmbH, the joint venture with the US company Starbucks – here we succeeded in regaining the major part of the investment undertaken. Further sales of investments related to the Specialty mail-order supplier animal24 GmbH and Revue Colorlabor GmbH.

The implementation was supplemented by the sale of three loss-making department stores and a regional logistics operation. Altogether in the 2004 financial year we achieved an inflow of no less than 163 mill. € of liquidity.

At the beginning of the current financial year the sale of the operational logistics operation for the department stores, the full- and part-load business of the mail-order suppliers and some regional logistics locations to Deutsche Post World Net was concluded. Just under 200 mill. € flew into the Group from this. Furthermore, the shares in DSF Deutsches Sportfernsehen GmbH and the online platform SPORT1 GmbH as well as Home Shopping Europe AG were sold. Proceeds from disposals came to 37 mill. €.

Further main points of the program include the disposal of the three large retail logistics centers, probably by a sale and lease-back procedure, and of further items of real estate. The sales process of the specialty store chains (SinnLeffers, Wehmeyer, Runners Point and Golf House) and of the 77 small department stores is being controled Europewide via investment banks.

refocusing on our strengths and core competences in the retail business.

3. The realignment of the business models

At the center of the strategic realignment of our business models is the refocusing on our strengths and core competences in the retail business. We want to implement clearly structured, lean and focused business models with the aim of once again appreciably increasing in the medium-term the profitability of our core operations.

Over-the-counter retail: Repositioning of the department stores

Over-the-counter retail will be clearly positioned. Therefore we are disposing of the specialty store chains SinnLeffers, Wehmeyer, Golf House and Runners Point. Because of their size these formats do not enjoy the market position that we strategically require for the operation of a format, or, while they enjoy a good positioning in their market segments, these segments can be better developed by specialized purchasers than by us. In the Department store segment we shall rectify the Karstadt department stores' key competitive disadvantage: their heterogeneity and complexity. We have therefore split our department store portfolio into two groups with differentiated strategies. With our core portfolio of 89 large department stores, from 2006 on we want to once again generate growth after successful repositioning. We also plan to dispose of the remaining Karstadt Kompakt branches (medium-sized town portfolio) in a timely manner.

We shall direct our management capacity and the allocation of financial means consistently toward the further development of our large department stores. They achieved a sales volume of 4.39 bill. € in the 2004 financial year and contributed almost 80 % of total sales at the department stores. 89 department stores with more than 8,000 sq. m. of retail space each and 1.5 mill. sq. m. of space overall as well as 32 sports stores will remain in operation. The 89 department stores are located in towns and cities with trading areas of more than 100,000 inhabitants and a purchasing power higher than the German average. They achieve a sales density of nearly 3,000 € per sq. m. We believe that this core portfolio offers good future opportunities and want to increase its sales and earnings.

The central strategic element is the clear definition and positioning of the strong “Karstadt” brand name. Our core customer target group is the middle class of all age groups, with a particular focus on families. Karstadt offers quality products and is known for its excellent price-performance ratio. In our defined core competence segments we want to position ourselves as an attractive full-line retailer with a higher level of service and advice. The profile is completed by the unique location of our department stores at top city-center locations with a high footfall.

The realignment of universal mail order in Germany aims at an even clearer

The repositioning of the department stores is being supported by a new segment weighting with greater emphasis on the Fashion, Sports, and Personality consumption segments (the latter comprises fragrances, jewellery, leather goods and books). To further increase the attractiveness of our department stores, the proportion of third-party let as well as promotional and concessional space is being further increased. Moreover, our strategy aims at utilizing the advantages of the focus on the now homogeneous department store group. Through the alignment with the system business we can also appreciably streamline the structures and processes and lastingly reduce costs.

The non-core portfolio classified for disposal achieved sales totaling 1.11 bill. € during the 2004 financial year. It comprises 88 department stores and 12 sports and technology stores. We grouped 77 small department stores (under 8,000 sq. m. of retail space) under the name Karstadt Kompakt GmbH & Co. KG effective January 1, 2005, under separate management. Of these 77 small department stores two were already sold in the 2004 financial year, of which the operation will be transferred in the 2005 business year. Although a large part of the non-core department store portfolio is profitable at a branch level, its sales density is appreciably lower than that of our large department stores. Moreover, their heterogeneous and complex structure means comparatively high costs and low synergies in the Karstadt combine. In our estimation these branches, on the basis of their own independent strategy, their own independent market presentation and their own independent market positioning, have good chances of success. We are planning to dispose of these 75 stores, if possible, as a package.

Varying strategies in mail order

Our Mail-order segment covers nearly the complete range of Universal and Specialty mail order in Europe. The individual business segments and markets have performed very variedly in past years. While about 40 % of sales was achieved in the Specialty mail order and Foreign growth segments, the sales performance in Universal mail order Germany, which contributes about 60 % to the total sales in the segment, was unsatisfactory. We are taking this varied performance into account with our strategy. The expansion strategy of our growth segments is being further progressed and implemented even faster through organic growth. At the same time we want to expand our strong position in the strategic E-commerce growth segment. We are completely realigning Universal mail order in Germany.

profiling and group differentiation of the two brands Quelle and Neckermann.

The realignment of Universal mail order in Germany aims at an even clearer profiling of the two brands Quelle and Neckermann. The core of the positioning is a clear target group differentiation. Quelle will focus its entire service range even more closely on the “Established family” and “Generation 50+” target groups. At Neckermann we plan a concentration on the “young at heart” target group. In this way the – as the customer perceives it – indistinct profile of Universal mail order will be considerably sharpened. Quelle and Neckermann will become multi-specialists. They are aligning themselves consistently with what are known as “image-defining product lines.” In these product lines they are presenting themselves with the competence of a specialist discount market. Quelle will concentrate on “Modern to classical fashion”, “Modern to classical living” and “Technology”. Neckermann will be distinguished for “Young fashion”, “Young living” and “Large sizes”.

We shall also make the advertising campaign chain, i.e. addressing customers with catalogs, much more contemporary. To increase product line frequency, in the second half of the current financial year we shall abandon the classical position of the main catalog with half-yearly cycles and at the same time streamline the catalogs by removing marginal product lines. While the Quelle catalog in future will be divided into a fashion catalog appearing several times a year and a technology/furniture catalog, the Neckermann main catalog will appear at shorter seasonal intervals.

In Specialty mail order we shall continue our growth course with planned yearly growth rates of about 6 %. The margins in this segment, which are higher by comparison with Universal mail order, contribute to markedly increased added value. To promote growth, we shall consistently shift the emphasis of our investments in favour of operations abroad. As a result, we plan for higher growth abroad than in Germany.

Foreign growth will take priority in mail order. We have increased the contribution made to sales by foreign sales to 26.5 % in recent years, and in 2008 it will grow to no less than 30 %. In 2005 and 2006, under the brand names Quelle or Neckermann, we plan entry into markets in 14 countries. The emphasis of this expansion lies in Central-Eastern Europe. Today we are No. 1 in mail order in nearly all the countries in which we are represented and want to consistently utilize the great growth potential of these fast developing national economies.

In e-commerce, too, we expect continued growth. We are already one of the leading companies in Germany and the European market. Over the period 2000 to 2004 we posted average yearly growth of 40 %. Online business already accounts for 23 % of mail-order sales.

The optimized financial structure creates the free-space

Focus on retail-related services

In the Services segment we are reducing our operations through divestment and outsourcing. The focus will lie exclusively on retail-related, high-yield services in future. Within the framework of our portfolio streamlining program we shall dispose of subsidiary processes and marginal operations of the retail business. Either the companies will be sold or we shall outsource the operational business. We want to achieve earnings growth with retail-related services, which also include the investment in Thomas Cook. Thomas Cook is once again performing positively, following successful reorganization. We shall also be accelerating the expansion of our successful new service subsegments Information and Financial services as well as Customer relations management (CRM), particularly in our third-party customer business. This at present still relatively small segment is in the meanwhile out of the start-up phase and is growing very dynamically.

Focus on development of 89 large department stores in the real-estate segment

We have at our disposal retail real estate at top locations in city centers and we plan to reorganize our portfolio and dispose of real estate with no strategic importance. At the same time we shall press ahead with the liquidation of real estate which does not belong to our core portfolio in the Department store segment. We shall also further develop the 89 large department stores in the department store core portfolio. The aim of the measures is to strengthen the market position of the main tenant, Karstadt, and further increase the proportion of third-party lettings.

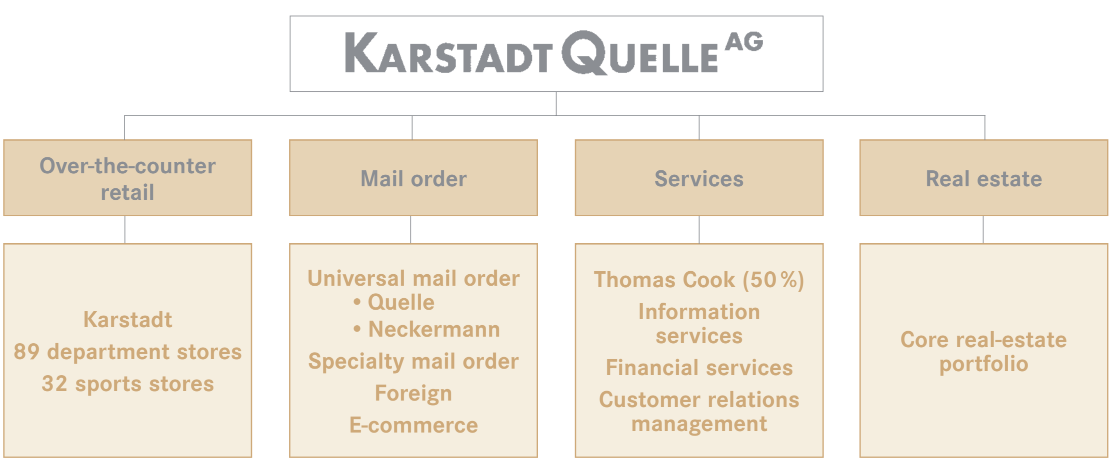
4. Optimization of costs and structures

The optimization of the business models is accompanied by a number of measures aimed at, amongst other things, streamlining the administration, adjusting staff costs and improving conditions, structures and systems groupwide. Thus, the planned improvement in earnings in the next years is based in great part on cost-cutting programs. As part of the employees' reorganization contribution agreed contractually with works councils, unions and the management, we shall decrease staff costs by about 760 mill. € over the period 2005 to 2007. We are achieving a reduction of material costs by, in particular, the reduction of complexity in the department stores and the cost-effective catalog structure in mail order. Our trade margin is profiting from the realignment of our product lines towards higher-margin consumer fields and from the further optimization of groupwide purchasing conditions. Furthermore, the control of the Group by a stronger orientation towards cash flow will have a positive impact. This is reflected by, for example, the reduction of working capital, particularly by the selective control of inventories. The mentioned measures are being supported and strengthened by more efficient organizational structures and appreciable improvements in systems, particularly in merchandize management and controling.

to streamline and realign the business models.

The realigned KarstadtQuelle Group

The KarstadtQuelle Group of the future will be transparent, focused and clearly structured.



Economic background conditions

Foreign demand risen, domestic economy continuedly weak

The economy in Germany achieved a restrainedly positive performance in 2004. The gross domestic product rose by 1.6 % in real terms. The decisive factor for the economic growth as a whole was once again increased foreign demand. The domestic economy made no contribution to the growth.

Private consumption fallen – Savings ratio once again increased

The consumers' mood did not improve in 2004. The main reason for this was the considerable uncertainty in the jobs market. The jobless rate, at 10.5 %, remained at the high level of 2003. Private consumption in Germany fell by 0.4 % in real terms during the year under review. The slight increase by 1.2 % in available income could not revive private consumption, since it was dampened by, amongst other things, the further increase in the savings ratio to 10.9 % (previous year: 10.7 %).

Moderate price rise

Consumer prices in 2004 were determined mainly by the rise in mineral oil prices and the increase in administrated prices. In the economy as a whole the inflation rate during the year under review stood at 1.6 % (previous year: 1.1 %). Retail prices rose by 0.3 %.

Retail sales decreasing

The German retail trade in 2004 returned a declining performance for the third time in succession. Retail sales decreased by 0.7 % during the year under review and came to 504.0 bill. €. Sales in the "true" retail trade (not including motor vehicles, fuels, combustibles and pharmaceuticals) decreased nominally by 1.5 % to 368.0 bill. €. The share of private consumer spending accounted for by the retail trade came to 29.0 % (previous year: 29.8 %).

Appreciable minus in department stores and specialty stores

The standard of comparison for the KarstadtQuelle Group's over-the-counter retail business is the performance in the "true" retail trade. Here particularly the performance in the chain and department store sectors and specialty stores 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 2.7 %. Specialty retail sales went down nominally by 1.6 %.

Mail-order market down 6.9 %

The mail-order business suffered particularly from the difficult background conditions in 2004. According to calculations by the Federal German Statistics Office the mail-order market volume in Germany decreased nominally by 6.9 %. Altogether the mail-order companies achieved sales of 20.2 bill. € (previous year: 21.7 bill. €). The share contributed to the "true" retail trade by mail order came to 5.4 % in the year under review (previous year: 5.8 %).

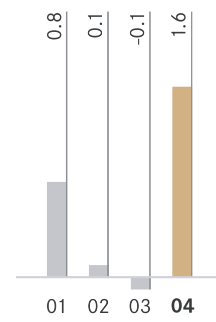
Varied development in real estate prices

Real estate prices developed very variedly in Germany in 2004. Brisk demand and thus a constant development of rents continues to be returned for top locations. By contrast, rents, particularly in small and medium-sized towns and less busy locations, in part fell appreciably. The positive development at the shopping centers was unbroken in 2004, too. In the past year 11 larger centers with sales space totaling more than 200,000 sq. m. were opened. Retail space increased by 0.9 % to about 110 mill. sq. m. compared with the previous year.

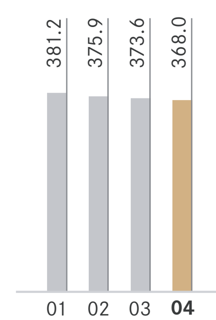
Tourism demand recovered

The demand for package holidays in 2004 rose again for the first time in two years. Unlike in the previous years, the inclination to travel was not lessened by the armed conflicts, terrorist attacks at holiday destinations or epidemics. After several years of crisis the international tourism sector is once again on the up but has not yet achieved the level of sales reached in 2001. The market trends of previous years, such as price sensitivity amongst consumers, the short-termness of booking decisions, the growth of low-cost airlines and the disproportionately high growth rates in E-commerce continued in 2004, too.

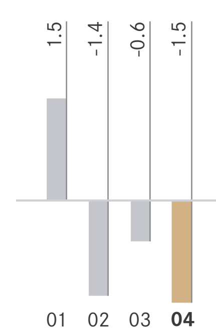
Gross domestic product
real change on previous year in %



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



Performance of the "true" over-the-counter retail
(nominal) in %



Source: BAG, Federal German Statistics Office

Positioning

KarstadtQuelle is represented in the Over-the-counter retail segment by 220 department stores and sports stores (previous year: 212) at top locations in German major city centers, in medium-sized towns and city shopping centers. By focusing on the core business since autumn 2004 Karstadt Warenhaus AG will concentrate on 89 large department stores (situation 2004: 88 stores plus Potsdam store, opening on March 10, 2005) and the 32 sports stores. The department stores bear the umbrella brand name "Karstadt". Regionally the traditional brand names KaDeWe, Hertie, Wertheim and Alsterhaus are used.

There are 77 smaller branches concentrated under the brand name "Karstadt Kompakt". These have been operated separately since January 2005 by Karstadt Kompakt GmbH & Co. KG. The company has its own management and operates its own business system. Of the 77 branches two were sold at the end of 2004, and their operation will be transferred in 2005. 75 branches are earmarked for disposal.

Key figures			**2004**	2003	Change in %
Sales performance	Sales	th. €	5,699,385	6,130,471	-7.0
Earnings	EBITDA	th. €	-386,552	33,589	-
	EBITDA (adjusted/ not including special factors)	th. €	21,569	55,589	-61.2
	EBITDA margin (adjusted/ not including special factors)	in %	0.4	0.9	-
	EBTA	th. €	-528,413	-107,682	-
	EBTA (adjusted/ not including special factors)	th. €	-111,310	-85,682	-29.9
	EBTA margin (adjusted/ not including special factors)	in %	-2.0	-1.4	-
	Loss from discontinued operations	th. €	-361,409	-35,654	-
Other information	Investments	th. €	156,480	207,158	-24.5
	Depreciation and amortization (not including goodwill)	th. €	-118,421	-116,569	-1.6
	Gross cash flow	th. €	-25,336	20,882	-
	Branches Karstadt Warenhaus AG				
	Department stores	number	88	88	-
	Project branches[1]	number	23	20	-
	Sports stores	number	32	27	-
	Karstadt Kompakt[2]	number	77	77	-
	Total	number	220	212	-
	Discontinued branches				
	Specialty stores	number	300	305	-
	Sales space (incl. discontinued branches)	th. sq. m.	2,601.2	2,621.4	-0.8
	Full-time employees on annual average	number	41,492	45,601	-9.0

[1] The project branches included as at 31.12.2004: 11 department, 4 sports und 8 technology stores.
[2] These branches will be operated from 2005 by the newly founded Karstadt Kompakt GmbH & Co. KG.

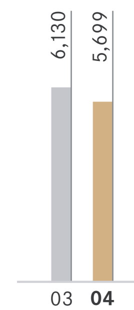
Segment performance

As a result of the planned disposal of the specialty stores, these stores were reclassified to the item "Loss from discontinued operations" in the profit and loss account. The figures for the previous year were adjusted. The assets and liabilities classified as held for sale are shown on the balance sheet as separate items.

Reluctance to buy hampers sales performance

Sales in the Over-the-counter segment came to 5.70 bill. € (previous year: 6.13 bill. €). This represents a decrease by 7.0 %. The sales performance was negatively affected in autumn by the broad public discussion about the future of the KarstadtQuelle Group. In the department store sector sales came to 5.68 bill. € (previous year: 6.07 bill. €). This represents a decrease in sales by 6.4 % (after adjustment for space: minus 5.6 %).

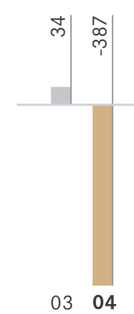
Sales in mill. €



Earnings: Special charges affect earnings – Decrease in sales partly offset by operating improvements

EBITDA stood at minus 386.6 mill. € (previous year: plus 33.6 mill. €). This represents a decrease by 420.2 mill. €. The year under review includes special charges of 408.1 mill. € resulting from the reorganization. They are due to staff adjustment measures, devaluation of merchandize and closure costs. Adjusted EBITDA thus stood at 21.6 Mio. €. The decrease in earnings caused by sales was partly offset by operating improvements and a slightly better trade margin of 42.5 % (previous year: 41.8 %) in the department stores sector. Staff costs in Over-the-counter retail fell by 8.2 % to 1.33 bill. € (previous year: 1.45 bill. €). As a consequence the staff cost ratio decreased to 23.4 % (previous year: 23.7 %).

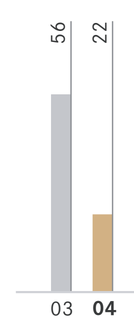
EBITDA in mill. €



Decreasing productivity

As part of the reorganizational measures, the number of people employed full-time in department stores on an annual average in 2004 was reduced by 6.3 %. Staff productivity decreased by 2.7 % and reached 150,209 € (previous year: 154,313 €). Sales density decreased by 6.2 % to 2,618 € annual sales per square meter of sales space. The inventory turnover rate was maintained at 3.18 (previous year: 3.17), mainly by reducing inventories.

EBITDA
(adjusted) in mill. €



Consumer segment performance

Fashion: Leading market position maintained

The German fashion market declined by about four per cent in 2004. This market segment continued to suffer from increasing discount offerings by outside providers as well as from the general reluctance to buy. The Karstadt department stores achieved sales of 1.60 bill. € (previous year: 1.69 bill. €) in the fashion consumer segment. With a sales decrease by 4.6 % the largest-volume consumer segment of the department stores performed more or less like the rest of the market. In the fashion segment a relaunch of the product line strategy was initiated to sustainedly boost sales and strengthen earnings. At the same time the fashionable up-to-the-minute character is to be enhanced by expansion of the basics and trend product lines.

Personality: Varied performance

The Personality consumer segment includes personal requisite ranges such as beauty, books, leather goods, accessories, watches, jewellery, stationery, and toys and games. The jewellery sector held its own against the falling trend of the market by boosting the brand and trend goods business. The beauty segment, which comprises fragrances and cosmetics by leading cosmetics manufacturers promoted in-house, was affected by a marked sales decrease in the consumer segment. In the strategically important high-quality fragrances and cosmetics sector the realignment of the Karstadt beauty departments continued to progress, thanks, among other things, to the conversions at KaDeWe Berlin, at the large department store in Wiesbaden and at Alsterhaus Hamburg. In its second-largest consumer sector, Personality, Karstadt returned an overall sales decrease by 6.7 % to 1.13 bill. € during the year under review.

Sports: Market lead maintained – Football world championship in focus

The KarstadtQuelle Group maintained its market lead in the sports consumer sector in Germany. The offering in the sports departments of the department stores is being increased by 32 specialty sports stores. KarstadtSport sales came to 505 mill. € and were thus 4.5 % lower than the previous year. Here the market was dominated by strongly intensifying competition, particularly from discount operators. Because of its excellent positioning KarstadtSport achieved sales increases in trend sports like Nordic walking und fan sports products – in particular in the football sector. The partnership between KarstadtQuelle and the FIFA International Football Association began very promisingly. KARSTADT QUELLE AG is operating the Official 2006 FIFA World Cup™ Shops exclusively, as the sales partner of the International Football Association. The first official shops were opened in autumn 2004. Over 300 sales outlets are planned throughout Germany. Furthermore, sales areas in which the official FIFA WM 2006™ licensed and fan articles are offered for sale will be operated exclusively in all twelve world championship stadiums during the tournament. The high-volume sports footwear sector returned a growth in sales. Sales in the golf segment, on the other hand, were down.

Living: Sales space optimization stepped up, new lifestyle concept off to a good start

The Living consumer sector includes furnishings and fittings for house and home. These include electrical appliances, lighting, home textiles and domestic goods. Sales in 2004 decreased by 8.6 % to 892 mill. €. The decisive factor here was a strategic space reduction by about 23,000 sq. m. (about 5.3 %). Here the sale of the last Karstadt furniture store in Munich must be taken into consideration. As part of the realignment of the Living consumer segment, Karstadt launched a new lifestyle-oriented shop concept under the brand name YornCasa in 18 large department stores. The shop concept, sustained by inspiration and ideas, offers an emotionally appealing living ambience on up to 500 sq. m. of space in the Bath, Bed, Living and Table segments. The spaces which have been turned into YornCasa shops got off to a good start and are returning an increasing sales density. In 2005 YornCasa will be consistently expanded to include 37 branches.

Multimedia: Development within the limits of expectations

The Multimedia consumer sector includes the music, film, entertainment electronics, computer and electronic toys sectors. In an environment dominated by the continuing pressure of competition and declining prices sales decreased by 4.1 % to 645 mill. €. As expected, the sales performance was in keeping with the initiated product line adjustment and marketing measures.

Food & Drink: Fine food defies discount

The Food and Drink consumer segment includes sales of foodstuffs and alcohol and tobacco in 72 food departments and sales of food and drink in the restaurants and snack bars in the department stores. With sales at 681 mill. € the decrease in this consumer sector amounted to 2.3 %. The sale of food at the department stores decreased by 1.8 % and by its orientation towards freshness and fine food held its own in a discount-oriented market. Since January 1, 2005, the food departments at Karstadt stores have been operated by Karstadt Feinkost GmbH & Co. KG, a joint venture with the REWE retail group.

Important events during the financial year

During the 2004 financial year the optimization of the branch network and the reorganization of the business processes were continued in the face of the continuing weak retailing environment.

Five sports stores opened, five unprofitable branches closed or disposed of

During the year under review five new sports stores in Hanau, Osnabrück, Frankfurt, Hamburg and Konstanz with sales space totaling about 11,600 sq. m. were opened. The Krefeld sports store and the department stores in Böblingen, Bochum (shoe discount) and Kiel-Wik were closed. In Munich the last Karstadt furniture store (business and furniture) was disposed of. The sales space used by Karstadt for its own purposes decreased by a total of 46,600 sq. m. to about 2,078,800 sq. m. By contrast, the sales space let in the department stores was expanded to 132,100 sq. m. Thus, 6.0 % (previous year: 4.8 %) of the entire roughly 2,211,000 sq. m. of department store space has now been let to footfall-generating partners.

Future-oriented investment in the branch network

Besides the consistently sustained further development of the systems (particularly in the merchandize management sector) the following major projects were realized or progressed during the year under review:

- **Wiesbaden:** Strategic new planning and extension of the branch, which has just under 19,000 sq. m. of space, with a new consumer segment orientation, higher-value goods range and façade renovation (investment 18 mill. €).
- **Hamburg (Alsterhaus):** Completion of the first conversion phase for a completely new market presentation. This traditional store is positioned as the top stop for fashion, fragrances, fashion and living accessories as well as food and drink. The new concept integrates attractive partners in a third of the total 22,000 sq. m. of sales space. Completion is scheduled for autumn 2005 (total investment 32 mill. €).
- **Berlin:** At KaDeWe the whole of the ground floor was converted with product lines innovatively oriented to the store’s brand claim and turned into a luxury shopping mall. The world-city department store will be given a new look throughout in first-rate international and trendsetting styling (total investment 46 mill. €) in the run-up to its 100-year anniversary in 2007.
- **Munich:** Building begins on two building complexes for extension of the traditional Oberpollinger store by 13,000 sq. m. to 32,000 sq. m. by October 2006 (total investment 36.5 mill. €).
- **Potsdam:** Completion of the construction of the “Stadtpalais” city center shopping center with Karstadt as the principal tenant. After a 16-month building period the new Karstadt department store with 10,600 sq. m. of space and specializing in product lines in the middle to high-quality ranges opened on March 10, 2005.
- **In 18 large department stores:** Launch of the new YornCasa lifestyle-oriented shop concept in the Living departments in up to 500 sq. m. of space. Karstadt presents ideas for furnishings and accessories in the international trend and new architecture.

Positioning

KARSTADT QUELLE AG's Mail order segment comprises about 130 operating companies covering virtually the entire spectrum of universal and specialty mail order in Europe. The two core brands, Quelle and Neckermann, are market leaders in Germany. KarstadtQuelle, which is represented in 25 European countries, with its mail-order companies also occupies a leading position internationally. The share of sales contributed by foreign sales is growing continuously and now amounts to 26.5 %. The ranges offered by the two major universal mail-order suppliers Quelle and Neckermann are directed mainly at families and cover the entire spectrum of everyday requirements. Although differently positioned as brands, internal structures, processes and functions were, however, as far as possible merged to create synergies and lastingly reduce costs. The most important advertising medium, the main catalog, is supplemented by numerous specialty and seasonal catalogs. Quelle also supports its brand presentation in Germany with more than 4,500 shops and about 160 technology centers. The high-return specialty mail-order sector with its clearly defined product lines concentrates on selected target groups. The 21 international Specialty mail-order suppliers achieve a high degree of product and service competence. Like Quelle and Neckermann, the Specialty mail-order suppliers maintain their own Internet shops, which are outstanding for their up-to-the-minute character and target group orientation. The constantly rising online demand at the Group's mail-order suppliers has already reached 1.71 bill. € and has thus virtually increased fourfold since 2000 (0.43 bill. €).

Key figures			2004	2003	Change in %
Sales performance	Sales	th. €	7,474,024	8,022,276	-6.8
	thereof foreign sales	th. €	1,982,627	1,932,929	2.6
	foreign sales share	in %	26.5	24.1	-
Earnings	EBITDA	th. €	-226,680	225,846	-200.4
	EBITDA (adjusted/ not including special factors)	th. €	-7,871	262,846	-103.0
	EBITDA margin (adjusted/ not including special factors)	in %	-0.1	3.3	-
	EBTA	th. €	-323,544	91,098	-
	EBTA (adjusted/ not including special factors)	th. €	-103,643	128,098	-180.9
	EBTA margin (adjusted/ not including special factors)	in %	-1.4	1.6	-
Other information	Investments	th. €	108,109	109,970	-1.7
	Depreciation and amortization (not including goodwill)	th. €	-99,399	-105,517	5.8
	Gross cash flow	th. €	148,199	276,085	-46.3
	Full-time employees on annual average	number	27,774	28,539	-2.7

Segment performance

Again varying sales performances in mail order

The Mail order segment achieved sales to the value of 7.47 bill. € in the 2004 financial year and thus fell short of the previous year's value of 8.02 bill. € by 6.8 %. The individual mail order subsegments returned very varied sales performances: The strategic growth subsegments Specialty mail order, Foreign and E-commerce maintained their growth course undeviatingly even under unfavourable background conditions. Thus, the intensified development of specialty mail order at a growth rate of 0.8 % to 1.61 bill. € (previous year: 1.60 bill. €) was successfully continued. Sales increases amongst the 21 Specialty mail-order suppliers were achieved particularly by Afibel, Bon'A Parte, Elégance, Hess Natur, Mode & Preis, and Walz.

By contrast, while Quelle and Neckermann were able to maintain their leading national and international position in Universal mail order, they – like nearly all important competitors – returned falling sales. In the 2004 financial year Universal mail-order sales decreased by 8.8 % to 5.92 bill. € (previous year: 6.50 bill. €).

Universal mail order in Germany was severely affected by the generally weak market. Sales fell by 11.3 % to 4.52 bill. € during the year under review (previous year: 5.09 bill. €). Moreover, because of the public debate about the future of the KarstadtQuelle Group Quelle at the start of the fourth quarter recorded two-digit sales decreases. Particularly affected were highly priced items such as furniture, kitchens and technical items.

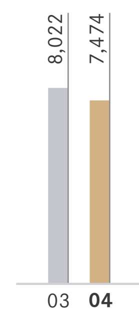
Foreign sales further increased

The internationalization of the mail order business was successfully continued during the year under review, a development which found expression in a further increase in foreign sales by 2.6 % to 1.98 bill. € (previous year: 1.93 bill. €). The share contributed by foreign sales to the total sales in the Mail-order segment accordingly rose to 26.5 % (previous year: 24.1 %).

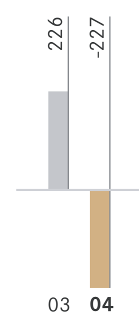
Quelle's and Neckermann's universal mail-order suppliers abroad performed variously during the year under review but once more were able to increase their sales turnover as a whole. Quelle achieved good sales growth rates in Switzerland, Spain and The Netherlands. Neckermann likewise achieved growth, particularly in Switzerland and Belgium. The foreign companies in Central Eastern Europe continued to perform well. The entry of the reform countries into the European Union and the resulting intense competition in the retail trade could not arrest the powerful expansion. In this region sales rose by 14 % to 214 mill. € (previous year: 187 mill. €). High sales increases were recorded particularly by the foreign companies in Croatia, Hungary, Slovenia and Poland. Mail-order suppliers in France and Austria, on the other hand, recorded falling sales.

The specialty mail-order suppliers abroad increased their sales by 8 % to 593 mill. € (previous year: 549 mill. €). Two-digit growth rates were recorded by, for example, Peter Hahn and Elégance in France or Atelier Goldner Schnitt in Sweden.

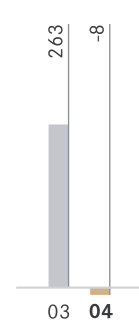
Sales in mill. €



EBITDA in mill. €



EBITDA
(adjusted) in mill. €



Earnings: Decrease in sales and special factors burden

Mail order shows EBITDA of minus 226.7 mill. € (previous year: plus 225.8 mill. €). The decisive factors behind the marked earnings decrease were the restrained sales performance and special charges amounting to 218.8 mill. € during the year under review. These were due mainly to devaluation of the merchandize, redundancy payments and measures relating to older employees' part-time work. Adjusted EBITDA thus stood at minus 7.9 mill. € (previous year: plus 262.8 mill. €). The trade margin improved by 1.3 percentage points to 50.4 % had a positive effect on earnings.

Important events during the financial year

Continuing fast pace of internationalization

Quelle and Neckermann are represented in 18 European countries under their own brand name and with catalogs in the respective national languages. In the 2005 and 2006 financial years 14 further market entries will be launched by Quelle and Neckermann. This intensified internationalization will focus particularly on the rising countries of Central and South-Eastern Europe. These regions offer good future opportunities for the expansion and development of our mail order business and for the further strengthening of the market leadership. Moreover, a largely area-wide presence throughout the Central and South-East European region, including Russia, is aimed for. In the Czech and Slovak Republics and in Poland and Hungary Quelle already occupies the top position. In Bosnia-Herzegovina, Croatia, Serbia-Montenegro and Slovenia Neckermann is Number 1 in mail order.

Under the internationalization strategy Quelle launched a country-wide mail-order operation in the Russian Federation during the 2004 financial year. The first Quelle catalog in the national language and currency (impression: 300,000 copies) was sent out to households in April. Quelle is the first European mail-order company to have a countrywide presence in Russia.

In the 2004 financial year Quelle launched its market entry in Latvia. In Croatia Neckermann opened a new office and warehouse building on over 10,000 sq. m. of space, enabling it to deliver to customers in Croatia, Serbia-Montenegro and Bosnia-Herzegovina. The volume of investment amounted to about 10 mill. €. Since July Quelle customers in The Netherlands have been supplied from the Leipzig mail-order center.

Continuing rapid growth in E-commerce

Quelle and Neckermann, as pioneers in the mail-order business, started sales on the Internet as early as 1995. Since then both companies have returned two-digit annual rates of growth in online demand. Also in the year under review the outstanding market position in German e-commerce was further consolidated. At a high level online demand rose considerably by 11.8 % to 1.71 bill. € (previous year: 1.53 bill. €). An especially high growth rate was achieved in Christmas business with a rise by about 27 %. The share contributed to overall mail-order sales by online demand rose to about 23 % (previous year: about 19 %).

More honours and prizes for online shops

Neckermann successfully defended its title of “Best Online Shop”. As in 2003, neckermann.de won out against the competition due to, amongst other things, its clear structure. The jury emphasized particularly that the clear design rapidly resulted in the placing of orders. Moreover, at the 2004 German Mail Order Congress Neckermann was awarded a distinction for the best e-mail campaign. Particularly effective was the varied strategy of the campaign and the polished reporting. On the occasion of CEBIT quelle.de was awarded the “eOskar” for successful e-commerce projects for no less than the sixth time. Quelle was amongst the winners in the “Best Sell-Side Solution” category. The decisive factors here were the high user-friendliness and personalization, clear navigability and a discreet design.

Specialty mail order continues to expand

The specialty mail order suppliers continued their expansion abroad during the year under review, as scheduled, and gathered further countries into their sales net. Thus, Atelier Goldner Schnitt, the specialist in high-class women’s fashion, launched its mail-order operation in Norway. Still further concepts were realized: for example, the mail-order complimentary gift supplier Saalfrank brought out a special catalog for writing implements, and the workman’s outfitter Krähe-Versand produced its first discount work clothing catalog.

In July 2004 Quelle in partnership with Bogner presented an exceptional combination of exclusive magazine and mail-order catalog – the “Bogner Homeshopping Magazine”. The partnership, as part of the 50 : 50 joint venture set up in the year under review, is developing very well.

“Thirty and more”: New specialty mail-order supplier exceeds expectations

At the end of 2004 a further specialty mail-order supplier, “thirty and more versand GmbH”, was set up as part of an independent company. Thirtyone was developed from a specialty catalog by Peter Hahn. The successfully launched format offers mainly “wearable trends” and young fashion. Alongside the feel thirtyone own brand there are product line groups like Marc O’Polo, Puma or Bogner.

Positioning

The Services segment comprises the Tourism segment with its own travel sales operation (408 KarstadtQuelle travel agencies) and the share in the Thomas Cook tourism group. Moreover, the information services, financial services (joint venture with the ERGO Versicherungsgruppe), the loyalty program featuring the “HappyDigits” brand (joint venture with Deutsche Telekom) and the logistics and IT services offer comprehensive ranges of services to both third party customers and Group companies.

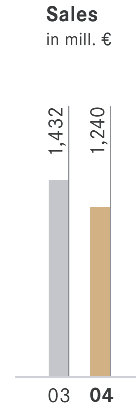
With a customer footfall of about 2.5 million daily in the Over-the-counter retail segment, a billion customer contacts yearly and information on about 21 million customers the KarstadtQuelle Group has important access to customers and thus has valuable assets at its disposal. These assets created in the retail business are utilized as a basis for new services. Collaborations with partners who are amongst the leading providers in their market strengthen the opportunities of returns and enable market entry and expansion with limited investment.

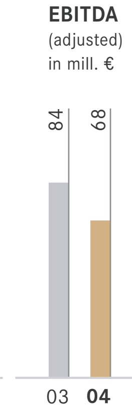
Key figures			**2004**	2003	Change in %
Sales performance	Sales	th. €	1,239,677	1,431,852	-13.4
Earnings	EBITDA	th. €	27,508	92,026	-70.1
	EBITDA (adjusted/ not including special factors)	th. €	68,253	84,026	-18.8
	EBITDA margin (adjusted/ not including special factors)	in %	5.5	5.9	-
	EBTA	th. €	-25,538	-39,062	34.6
	EBTA (adjusted/ not including special factors)	th. €	24,258	-35,062	169.2
	EBTA margin (adjusted/ not including special factors)	in %	2.0	-2.4	-
Other information	Investments	th. €	34,229	50,939	-32.8
	Depreciation and amortization (not including goodwill)	th. €	-48,484	-50,741	4.4
	Gross cash flow	th. €	65,134	93,059	-30.0
	Full-time employees on annual average	number	4,786	5,651	-15.3

Segment performance

Decrease in sales owing to portfolio streamlining program

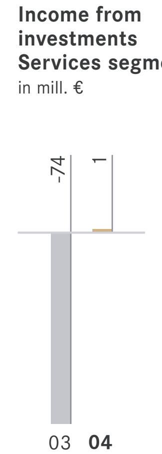
Sales (not including Thomas Cook, financial services, loyalty card program, DSF and travel sales) in the 2004 financial year came to 1.24 bill. € (previous year: 1.43 bill. €). This represents a decrease by 13.4 %. The decisive factors are divestments already carried out and the decreased volume of orders for internal service-providers as a result of the sales performance in the retail segments.





Earnings: Logistics companies hampered by fall in orders – New services on the up

EBITDA for the Services segment came to 27.5 mill. € (previous year: 92.0 mill. €). The earnings decrease at the in-Group service companies as a result of the decrease in the volume of orders had a burdening effect. The new service companies improved their earnings as expected. Special charges during the year under review came to 40.8 mill. €. Adjusted EBITDA stood at 68.3 mill. € (previous year: 84.0 mill. €). The contribution made to earnings by Thomas Cook is shown under Income from investments and is therefore not included in this income value.



Most important business segments

Tourism: KarstadtQuelle travel sales operation better than the market

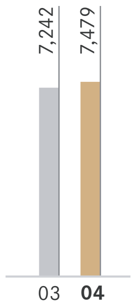
The basis of the KarstadtQuelle travel sales operation is formed by 408 travel agencies of the Karstadt Reisebüro, Neckermann Urlaubswelt and ReiseQuelle brands throughout Germany. In a somewhat improving tourism environment KarstadtQuelle travel sales once more outperformed the market and achieved a markedly positive operating result. The operator Paneuropa Reisen, a joint venture set up by KarstadtQuelle (70 %) and Thomas Cook (30 %) in 2004, achieved a balanced result in its very first tourism short year.

Tourism: Thomas Cook once again generates positive operating result

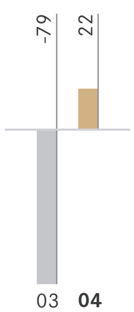
Thomas Cook was exposed to intense competition in its most important markets in the 2003/2004 financial year. The tourism group modified its market position accordingly. Thus, early-booking discounts were extended, online platforms expanded, the airlines' single-seat business strengthened by the adoption of the low-cost-carrier price and marketing concept and the structure of the offerings in the most important markets improved. Thanks to these measures market shares were gained in virtually all sectors.

In the 2003/2004 financial year sales rose by 3.3 % to 7.48 bill. € (previous year: 7.24 bill. €). During the year under review 13.1 million customers opted for one of Thomas Cook's offerings. This represents an increase by 4.1 %.

Thomas Cook
Sales in mill. €



Thomas Cook
EBITA in mill. €



Earnings before interest, tax and amortization of goodwill (EBITA) improved by more than 100 mill. € from minus 79.1 mill. € to plus 22.1 mill. €. Group earnings before tax improved by 130.8 mill. € to minus 149.3 mill. € (previous year: minus 280.1 mill. €).

The gross income margin rose from 22.7 % in the previous year to 23.5 % in the year under review and thus reached its highest value since Thomas Cook came into existence. Again, at 66.4 mill.€, substantially less was invested than in previous years (2002/2003 financial year: 204.2 mill. €). Investment was once again undertaken entirely from divestments (91.4 mill. €). These resulted mainly from the disposal of ten B757-200 aircraft of the Condor fleet.

Net credit indebtedness (not including pension commitments) was virtually halved from the previous year and came to 0.6 bill. € (previous year: 1.0 bill. €).

The decisive factor behind the positive business performance was the successful implementation of the reconstruction program. The main pillars of the program include the reduction of capacity at group-owned airlines and guaranteed hotel quotas, staff reduction, the marked reduction in all cost items and the adaptation of the management structures and streamlining of the group's main administration. Thomas Cook also undertook a speedy adjustment to market trends during the year under review. Thus, intensive work was done to further develop products and processes which better serve the customers' needs. Correspondingly, in the strongly expanding E-commerce segment new direct brands were introduced in The Netherlands and Great Britain. At the same time Neckermann Reisen's and Thomas Cook Reisen's Websites in Germany were redesigned. A core element of the new successful brand strategy at "Condor" is the easy booking option over the Internet.

In future Thomas Cook will adapt its own products even faster to suit the markedly changed consumer behaviour and the market trends. Thus, the classic package holiday offerings are being further developed, the business logic of the low-cost carriers adopted and the aggressive marketing of own products through the new media further expanded. The realignment of the group is being assisted by the separation of group operations which do not form part of the immediate core business.

Information services: Held firm in difficult market environment

KARSTADT QUELLE Information Services GmbH (KQIS) held firm in the Group environment and the difficult overall economic situation. In the 2004 financial year KQIS achieved sales of 78 mill. €. On the basis of the concentrated, comprehensive customer information gathered over decades KQIS offers both Group companies internally and third-party business customers externally a wide range of services. At present more than 60 % of KQIS's customers are outside customers. In 2005 further expansion of the market position by expansion into other European countries will be to the fore.

Financial services: Growth continued

KARSTADT QUELLE Finanz Service GmbH (KQFS), a joint venture with ERGO Versicherungsgruppe AG, offers a wide range of insurance and banking products. KQFS in its second full financial year returned a good performance and achieved a mediated annual contribution amounting to 86.7 mill. €. This represents an increase by 36 % on the previous year's value after adjustment for non-recurring effects. KQFS's sales channels will be further expanded in 2005. At the center is the utilization of the cross-selling potential of the KQFS Group's customers acquired so far. The aim is market leadership as financial services provider in multi-channel sales in Germany.

The KarstadtQuelle Bank AG, a 100-per-cent subsidiary of KQFS, is with 900,000 MasterCards the biggest issuer of MasterCards in Germany. In 2005 the KarstadtQuelle Bank will continue to press ahead with in particular the integration of financial services into the KarstadtQuelle Group's department store and mail order business.

Loyalty card: Market position of "HappyDigits" further improved

The CAP Customer Advantage Program GmbH (joint venture with Deutsche Telekom AG) is the operator of the cross-sector "HappyDigits" loyalty-card bonus program. The unique portfolio of strong program partners, such as Karstadt, T-Com, Kaiser's Tengelmann, Quelle, T-Mobile, Sixt, Neckermann and T-Online, enables bonus points, known as "digits", to be collected in a large number of relevant consumer segments. During the year under review the number of personalized "HappyDigits" cards was increased to over 22.5 mill. In the number and quality of the active cards market leadership was thus achieved.

Deutsches Sport Fernsehen profitable

Since April 2003 KARSTADT QUELLE AG has held a 40.48 % share in Germany's most successful sports channel, DSF. In the 2004 financial year DSF achieved earnings (EBT) amounting to 9.1 mill. € on sales to the value of 107.4 mill. €. The channel has 92 % technical penetration and reaches more than five million viewers at peak times. As part of the focus on retail-related sales activities, the share in DSF was sold in February 2005 at a price of 27 mill. €. The capital employed by KarstadtQuelle could thus be more than doubled in a short time.

Economic development in retail trade affects logistics sales

The performance of Optimus Logistics GmbH's and servicelogiQ GmbH's logistics services in the 2004 financial year was dominated mainly by the general economic situation in the retail trade sector. Decreased sales in Over-the-counter retail and Mail order led to a decrease in the units to be carried. Additional services for group companies and third-party customers were partly able to compensate for this development. Optimus Logistics sales came to 495 mill. € and were thus 20 % lower than the previous year. This decrease is partly due to divestment or preparing transactions for the planned outsourcing. Sales at servicelogiQ decreased from 65 mill. € the previous year to 60.5 mill. € in the year under review. Thanks to the acquisition of new clients the share contributed by third-party business was expanded to 67 % (previous year: 60 %).

Positioning

The Real estate segment is organized functionally into three subsegments: property, real-estate services and financing.

KARSTADT Immobilien AG & Co. KG controls the KarstadtQuelle Group's real estate assets. Of primary importance are the optimization of real estate by active portfolio management, the increase in the value of locations by project developments and the financing of property. The emphasis of the portfolio is on the department stores at top central locations in German towns and cities. Logistics centers and specialty store and office real estate complete the holdings. With about 2.6 mill. sq. m. of sales space Karstadt-Quelle occupies a leading position in the German retail-operated real estate segment. The balance sheet book value of the entire portfolio – after transfer of the real estate to be sold – amounts to 1.6 bill. €. The real estate services focus on project development and control as well as on leasing management.

The KARSTADT Hypothekenbank AG utilizes the real estate portfolio for long-term Group financing through the issue of mortgage-backed bonds. The issue volume at the end of the year under review came to about 1.7 bill. €.

Key figures			2004	2003	Change in %
Sales performance	Sales	th. €	570,148	586,615	-2.8
Earnings	EBITDA	th. €	256,964	401,343	-36.0
	EBITDA (adjusted/ not including special factors)	th. €	350,759	378,343	-7.3
	EBITDA margin (adjusted/ not including special factors)	in %	61.5	64.5	-
	EBTA	th. €	-53,826	242,228	-122.2
	EBTA (adjusted/ not including special factors)	th. €	229,542	241,228	-4.8
	EBTA margin (adjusted/ not including special factors)	in %	40.3	41.1	-
Other Information	Investments	th. €	16,292	8,672	87.9
	Depreciation and amortization (not including goodwill)	th. €	-175,681	-116,097	-51.3
	Gross cash flow	th. €	412,579	383,173	7.7
	Full-time employees on annual average	number	105	85	23.5

Segment performance

Sales at 570.1 mill. €

Sales in the Real estate segment represent mainly proceeds from the letting of property owned and the leased property. At 570.1 mill. € (previous year: 586.6 mill. €) sales were 2.8 % lower than the previous year.

Higher earnings – Cost of reorganization burdens earnings

The Real estate segment contributed EBITDA of 257.0 mill. € to Group earnings (previous year: 401.3 mill. €). The earnings situation of the segment was considerably affected by the comprehensive reorganizational measures in the 2004 financial year. These resulted in a burden of 93.8 mill. € on earnings and relate particularly to the provision for risk to various real estate projects and rent shortfalls. After adjustment the segment achieved an EBITDA of 350.8 mill. € (previous year: 378.3 mill. €).

Important events during the financial year

Continuous portfolio optimization

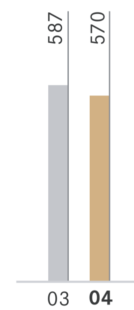
Under the strategic realignment of the KarstadtQuelle Group we consistently continued the optimization of the real estate portfolio during the year under review. Relevant development and reutilization options were developed individually and were partly already being implemented. Thus the locations in Duisburg-Homberg and Hamburg-Neugraben were placed with a modified utilization option. The proceeds from the sale of the nine items of real estate disposed of during the 2004 financial year amount to 73.6 mill. €.

Development of the shopping centers continued

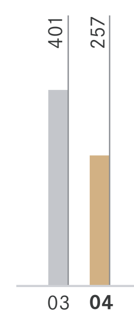
At the forefront of real estate development are the city-center shopping centers in Potsdam, Leipzig, Wiesbaden, Karlsruhe and Munich financed by outside investors. Their space totals about 125,000 sq. m.

In March 2005 the “Stadtpalais Potsdam” shopping center was completed. It was opened on March 10, 2005. The letting ratio per February 2005 stands at about 85 %. The associated high-rise car park was already completed and put into operation in November 2004.

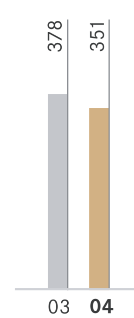
Sales in



EBITDA in mill. €



EBITDA
(adjusted) in mill. €



The shopping center in the city center of Leipzig was further developed as planned. Construction began in March 2004. Karstadt Warenhaus AG will rent the entire property. Opening is fixed for the fourth quarter of 2006.

Construction of the Karlsruhe shopping center began in January 2004. Opening will be in two sections. The first section will open at the end of the third quarter of 2005, the second at the end of the first quarter of 2006. The aim is to achieve a letting ratio of 90 % by the date of opening.

The plans for the shopping center in Wiesbaden were developed in greater detail. The new-build and conversion measures are to begin in the third quarter of 2005. Negotiations are being conducted on letting agreements. The agreements will be concluded concurrently with development during 2005 and 2006.

March 2004 saw the start of the conversion and extension of the Karstadt department store in Neuhauser Strasse, Munich. The opening of the redesigned branch is fixed for the end of the third quarter of 2006. The property will be rented by Karstadt Warenhaus AG.

Moreover, the development of the properties at the Essen (Limbecker Platz), Berlin und Dresden locations with space totaling about 495,000 sq. m. at present is being further progressed.

Valuation bases for the portfolio real estate improved

The qualitative basis for the valuation of the portfolio real estate was improved. Evaluations of market and location data and external individual property valuations are used as a data basis. The major part of the portfolio has now been valued by means of appraisal reports.

Karstadt Hypothekenbank issues mortgage bonds to the value of 1.69 bill. €

KARSTADT Hypothekenbank AG contributes substantially to the long-term financing of the Karstadt-Quelle Group. During the financial year it placed mortgage bonds to the value of 317 mill. € and thus achieved a total volume of 1.69 bill. €. This includes registered mortgage bonds to the value of 1.22 bill. € and bearer mortgage bonds to the value of 470 mill. €. Hypothekenbank increased its credit volume by 288 mill. € to 1.7 bill. € during the 2004 financial year. The balance sheet total rose by 0.4 bill. € to 2.1 bill. €.

Staff

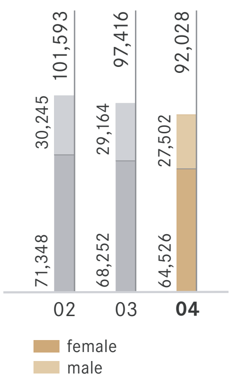
Adjustment of staffing structure as part of the reorganization and realignment

The number of employees groupwide decreased by 8.3 % to 92,546 (previous year: 100,956) in the period to December 31, 2004 as a result of the adjustments in the staffing sector associated with the focus on the core business. Abroad the number of employees went up by 12.8 % to 9,296 (previous year: 8,244). The staff level on annual average and in full-time terms fell by 7.1 % to 74,340 employees. The proportion of female staff has stood continuously at about 70 % for years.

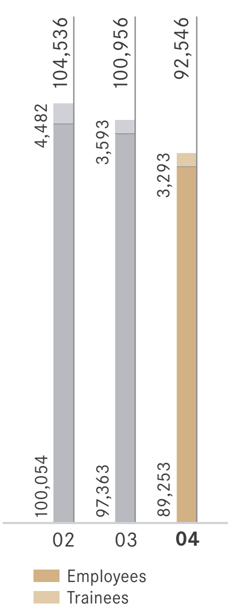
In October 2004, as part of the reorganization and realignment of the KarstadtQuelle Group, a solidarity contribution from the management and employees was agreed on. Staff adjustments affecting 4,200 employees in Over-the-counter retail and 1,500 in Mail order and the discontinuation of holiday pay, reduction of agreed special payments, waiver of agreed salary increases, and waiver of salaries by the management will enable 760 mill. € to be saved in staff costs in the Group over the period 2005 to 2007.

Staff by segment annual average/full-time employees	**2004 Total**	thereof in Germany	thereof abroad	2003
Over-the-counter retail	41,492	41,439	53	45,601
thereof Department stores	37,125	37,125	-	39,609
thereof Specialty stores	4,367	4,314	53	5,992
Mail order	27,774	20,029	7,745	28,539
thereof Universal mail order	22,278	16,491	5,787	22,966
thereof Specialty mail order	5,496	3,538	1,958	5,573
Services	4,786	4,637	149	5,651
Real estate	105	105	-	85
Holding company	183	183	-	170
	74,340	**66,393**	**7,947**	**80,046**

Staff number on annual average



Staff number at 31.12.2004



Over-the-counter retail: Reorganization of the administration

54,401 staff were employed in Over-the-counter retail at the balance sheet date. This is 7.9 % fewer than the previous year. Of these 75 % were sales staff. About 45 % of sales staff were employed part-time.

Over-the-counter retail optimized its administrative and organizational structures during the year under review. The target is the adaptation of the processes and services and thus cost structures to market conditions. The necessary reduction by 4,200 jobs, particularly in administration, from 2005 to 2007 is to be carried out as far as possible in a socially acceptable manner.

Mail order: Intensification of managerial development

At the end of 2004 the number of employees in Mail order stood at 33,795. This represents a decrease by 4.9 %.

As part of the internationalization strategy, the deployment of staff throughout Mail order and staff development was further expanded. There the focus is on Central and Eastern Europe. To coordinate staff work in the mail-order group more closely, uniform staff groups were created, thus enabling staffing instruments to be deployed throughout the segment. Furthermore, the high proportion of own staff with management potential attests to the value of the investment in the systematic identification and development of young managers.

Services/Real estate: Concentration on retail-related services

In the Services segment the concentration on retail-related services led to a decrease in the number of staff by 2,048 to 4,046. In the Real estate segment 111 persons were employed at the balance sheet date. This reflects a rise by 11 employees.

New concepts for managerial and young managerial staff development

In order to shape the drastic changes in a highly competitive market successfully, it is especially important to prepare internal managerial and young managerial staff consistently and systematically. Accordingly, developmental measures in the Group were geared even more closely to practical needs and the elements of “Practical Learning” and “Autonomous Learning” were considerably intensified. In 2004 altogether 63.7 mill. € were invested in the qualification of younger staff. KarstadtQuelle, with 3,293 trainees, is one of Germany’s major training establishments and is thus lastingly committed to sociopolitical responsibility.

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. This contributed substantially to the success of the solidarity pact and the reconstruction pay agreement and thus to assuring the future of the KarstadtQuelle Group. In the future, too, the active cooperation of these groups will be necessary for successful adaptation to meet rapidly changing, flexible background conditions.

Contents

Key points 2004

- Environment for over-the-counter retail and mail order still difficult.
- Sales forecast slightly, earnings forecast considerably exceeded.
- Sales reached 13.45 bill. € (previous year: 14.43 bill. €). This represents a decrease by 6.8 %.
- Earnings (adjusted EBITDA) at 372.9 mill. € (previous year: 711.1 mill. €).
- High exceptional burden on earnings from reorganization and realignment.
- Equity ratio fallen to 6.2 % (previous year: 17.8 %).
- Net financial liabilities decreased by 15.5 % to 2.83 bill. € (previous year: 3.34 bill. €).
- Liability structure aligned for a considerably longer term.
- Working capital much reduced.
- Management Board and Supervisory Board propose that no dividend be paid for the 2004 financial year.

Program for the reorganization and realignment of the KarstadtQuelle Group

The progress of business in 2004 was dominated by the program "KarstadtQuelle Neu" for reorganizing and realigning the Group. Besides the strategic realignment, the program is based on a radical reconstruction of the financing (long-term aligned refinancing program) with the following elements:

- capital increase by 517.6 mill. € (after costs),
- syndicated bank loan over three years with a total line of 1.75 bill. €, and
- convertible bond issue in a nominal amount of 170 mill. €.

These transactions were concluded in December.

Important changes in balance sheet presentation

The separation of the specialty stores for intended disposal has significantly affected the structure of the profit and loss account and the Group balance sheet. The previous year was adjusted in the profit and loss account accordingly. Moreover, the small department stores likewise earmarked for sale and the logistics business, including real estate, are shown separately on the balance sheet.

Key figures for breakdown of the continuing and discontinued operations

		Continuing operations*		Discontinued operations		Total	
		2004	2003	**2004**	2003	**2004**	2003
Sales	bill. €	**13.45**	**14.43**	**0.79**	**0.84**	**14.24**	**15.27**
EBITDA	mill. €	-428.4	972.1	-77.7	-1.2	-506.1	970.9
Special factors	mill. €	801.3	-261.0	80.0	-2.0	881.3	-263.0
EBITDA adjusted	mill. €	**372.9**	**711.1**	**2.3**	**-3.2**	**375.2**	**707.9**
EBTA	mill. €	-1,269.0	274.1	-361.4	-48.9	-1,630.4	225.2
Special factors	mill. €	1,122.6	-214.0	317.1	-2.0	1,439.7	-216.0
EBTA adjusted	mill. €	**-146.4**	**60.1**	**-44.3**	**-50.9**	**-190.7**	**9.2**

* Entry under the individual items of the Group profit and loss account and in segment information.

Sales performance

KarstadtQuelle Group achieves sales forecast

The KarstadtQuelle Group achieved sales of 13.45 bill. € (previous year: 14.43 bill. €) in the 2004 financial year. This represents a decrease by 6.8 %.

Including the discontinued operations, sales came to 14.24 bill. € (previous year: 15.27 bill. €). This represents also a decrease in sales by 6.8 %. The sales performance was thus slightly better than forecast.

Over-the-counter retail: Large department stores and sports stores main contributors to sales

The main contributors to sales in Over-the-counter retail are the 89 department stores and 32 KarstadtSport stores. Moreover, the remaining operations (Le Buffet System-Gastronomie und Dienstleistungs-GmbH, Essen) are included in the Specialty store segment.

In a difficult market environment Over-the-counter retail achieved sales of 5.70 bill. € (previous year: 6.13 bill. €) in the 2004 financial year. This represents a decrease by 7 %.

The department and sports stores in German city centers achieved sales of 5.68 bill. € (previous year: 6.07 bill. €). This represents a decrease by 6.4 % (after adjustment for space: 5.6 %).

Mail order: Specialty mail order and foreign business satisfactory, universal mail order weak

The Mail-order business segment achieved sales of 7.47 bill. € (previous year: 8.02 bill. €) in the 2004 financial year. This represents a decrease by 6.8 % in a market environment dominated by markedly decreasing sales.

The sales performance in the Mail-order subsegments varied considerably. The strategic growth segments Specialty mail order, Foreign business and E-commerce continued to perform positively. Accordingly, Specialty mail order achieved growth of 0.8 % to 1.61 bill. € (previous year: 1.60 bill. €). The internationalization of mail order was consistently continued. This reflects the increase in sales in foreign business by 2.6 % to 1.98 bill. € (previous year: 1.93 bill. €). The share contributed by foreign sales rose to 26.5 % (previous year: 24.1 %) during the year under review. In E-commerce the mail-order suppliers further expanded their good market position. Online demand rose by 11.8 % to 1.71 bill. € (previous year: 1.53 bill. €).

The performance in Universal mail order was unsatisfactory. Sales fell by 8.8 % to 5.92 bill. € (previous year: 6.50 bill. €) in the 2004 financial year. The decisive factor was the weak progress of sales in the domestic market. Foreign business continued to grow.

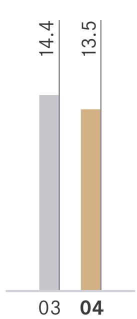
Services: Portfolio streamlining reduces sales

Sales in the Services segment (not including Thomas Cook, which is consolidated at equity, Financial services, Loyalty card programs and not including tourism sales) decreased by 13.4 % to 1.24 bill. € (previous year: 1.43 bill. €). The sales decrease is due to already implemented portfolio streamlining measures and the decreased order volume at service companies as a consequence of the sales performance in the retail segments.

Real Estate: Streamlining the portfolio

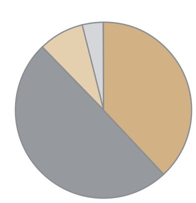
Because of the sale of department store locations gross rental income in the Real estate segment at 570.1 mill. € (previous year: 586.6 mill. €) was 2.8 % below that of the previous year.

Group sales
in bill. €



Sales by business segment

	in mill. €	in %
Over-the-counter retail	5,699	42.4
Mail order	7,474	55.6
Services	1,240	9.2
Real estate	570	4.2
	14,983	**111.4**
Reconciliation account	-1,536	-11.4
Group sales	**13,447**	**100.0**



Earnings

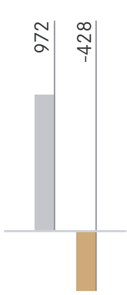
Group EBITDA by segment

Amounts shown in mill. €	2004	2003
Over-the-counter retail	-386.6	33.6
Mail order	-226.7	225.8
Services	27.5	92.0
Real estate	257.0	401.3
Holding company	-100.0	231.7
Reconciliation account	0.4	-12.3
	-428.4	**972.1**

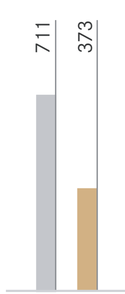
Group EBITDA by segment (adjusted/not including special factors)

Amounts shown in mill. €	2004	2003
Over-the-counter retail	21.6	55.6
Mail order	-7.9	262.8
Services	68.3	84.0
Real estate	350.8	378.3
Holding company	-60.1	-57.3
Reconciliation account	0.2	-12.3
	372.9	**711.1**

Group EBITDA
in mill. €



Group EBITDA
(adjusted) in mill. €



Earnings decreasing strongly: Heavy special burdens from reorganization

Earnings before interest, tax, depreciation and amortization (EBITDA) came to minus 428.4 mill. € (previous year: plus 972.1 mill. €). This represents a decrease by 1.40 bill. €. Unlike the previous year, income from investments is shown under Net interest income. It is therefore not included in this income value. The values for the previous year were adjusted. After adjustment for special factors (restructuring costs amounting to 801.3 mill. € in the year under review and extraordinary income of 261 mill. € in the previous year) EBITDA stood at 372.9 mill. € (previous year: 711.1 mill. €). This represents an EBITDA margin of 2.8 % (previous year: 4.9 %). The sales decrease could be partly compensated for only by an improved trade margin and successful cost reduction.

Operating earnings before tax and amortization of goodwill (EBTA) came to minus 1.27 bill. € (previous year: plus 274.1 mill. €).

Earnings in the year under review include special charges amounting to 1.12 bill. €, while the 2003 financial year included extraordinary income amounting to 214.0 mill. €.

After adjustment for these non-recurring effects EBTA of the year under review reached minus 146.4 mill. € (previous year: plus 60.1 mill. €).

Earnings forecast considerably exceeded

In the interim report for the third quarter of 2004 we announced for the Group an earnings forecast – on the basis adjusted EBTA – of minus 280 mill. € to minus 295 mill. € before separating the specialty stores. We achieved EBTA of minus 190.7 mill. € and so were able to considerably exceed the forecast. The decisive factors were better than expected earnings at Thomas Cook, a better than expected margin performance in the fourth quarter and positive effects from depreciation and amortization.

Burden on EBTA from special factors amounting to 1.44 bill. €

In connection with our strategic realignment comprehensive valuation and reorganizational measures became necessary.

The extraordinary charges – including the amount accounted for by the separated specialty stores – amounted to 1.44 bill. € in the year under review. The measures relate particularly to depreciation on items of assets and provisory measures in connection with the portfolio streamlining program. Moreover, value adjustments were undertaken on inventories and provisions set up to cover closure costs, contingent losses arising from real estate projects (Esch funds) and for staff measures (redundancy payments). An increase by about 212 mill. € over the volume of special factors estimated in autumn 2004 occurred. The decisive factors were the increase in provisions for redundancy payments by intensifying and bringing forward the program of staff reduction and the increase in the provision for risk for real estate projects.

Group earnings after minorities came to minus 1.63 bill. € (previous year: plus 107.6 mill. €).

Earnings per share came to minus 14.71 € as against plus 1.01 € the previous year.

Retail segments suffer considerable earnings decrease

Over-the-counter retail returns EBITDA amounting to minus 386.6 mill. € (previous year: plus 33.6 mill. €). This represents a decrease by 420.2 mill. €. The year under review includes special charges of 408.1 mill. € resulting from the reorganization. They are due to staff adjustment measures, devaluation of the merchandize and closure costs. The successful cost reduction measures, which brought about, amongst other things, a considerable reduction in staff costs, could not compensate for the decrease by 137.1 mill. € in gross income due to sales.

Mail order shows EBITDA of minus 226.7 mill. € (previous year: plus 225.8 mill. €). The decisive factors behind the marked earnings decrease were the weak sales performance and special charges amounting to 218.8 mill. € during the year under review. These were due mainly to devaluation of the merchandize, redundancy payments, measures relating to older employees' part-time work and closure costs.

EBITDA for the Services segment came to 27.5 mill. € (previous year: 92.0 mill. €). The earnings decrease at the in-Group service companies as a result of the decrease in the volume of orders had a burdening effect. The new service companies improved their earnings as expected. Special charges during the year under review come to 40.8 mill. €.

The contribution made to earnings by Thomas Cook is shown under Income from investments and is therefore not included in EBITDA. The tourism group achieved a considerably better pro-rata result (before amortization of goodwill) amounting to minus 17 mill. € (previous year: minus 76.7 mill. €).

The Real estate segment contributed EBITDA of 257.0 mill. € to Group earnings (previous year: 401.3 mill. €). The financial year ended includes special charges amounting to 93.8 mill. €. These relate mainly to the provision for risk for various real estate projects and for rental shortfalls.

The Holding segment achieved EBITDA of minus 100.0 mill. € (previous year: plus 231.7 mill. €). Here the special charges recorded during the year under review – principally value adjustments to receivables and redundancy payment costs amounting to 39.9 mill. € and the discontinuation of extraordinary income arising from the groupwide reorganization of pension provision in the previous year amounting to 352 mill. € have an effect.

Notes to items in the Group profit and loss account

Amounts shown in mill. €	**2004**	2003
Sales	13,447.2	14,428.0
Cost of sales	-7,054.8	-7,699.1
Gross income	**6,392.4**	**6,728.9**
Operating income	693.3	1,143.6
Operating costs	4,886.0	4,133.2
Staff costs	2,655.5	2,796.6
Amortization of goodwill	154.4	80.6
Income from investments	-8.6	-85.3

Gross income fell by 5 % to 6.39 bill. € (previous year: 6.73 bill. €). Gross income thus decreased in disproportion to sales. Accordingly, the gross income margin (trade margin) improved by 0.9 percentage points to 47.5 % (previous year: 46.6 %). Consequently, the quality of the sales could be increased despite the still aggressively priced competitive environment. The decisive factor was the restraint in the case of discounts, particularly during Christmas business, and the further optimization of supplier relations.

The decrease in Operating income to 693.3 mill. € (previous year: 1,143.6 mill. €) is mainly due to the discontinuation of extraordinary income resulting from the reorganization of the pension provision during the previous year.

Operating costs rose by 752.8 mill. € to 4.89 bill. €, due mainly to the reorganizational measures.

Staff costs fell by 5 % to 2.66 bill. € (previous year: 2.80 bill. €). The share of sales made up by staff costs rose only slightly to 19.7 % (previous year: 19.4 %). The staff cost ratio was thus kept virtually stable despite the considerable sales decrease.

Amortization of goodwill amounting to 154.4 mill. € (previous year: 80.6 mill. €) are due mainly to SinnLeffers AG and the pro-rata amortization at the Thomas Cook Group on the goodwill of the French subsidiary company Thomas Cook Havas.

Income from investments improved by 76.7 mill. € to minus 8.6 mill. €. The decisive factor was the markedly better earnings contribution made by the Thomas Cook Group.

Financial situation

Net financial liabilities of the KarstadtQuelle Group (not including pension provisions) amounted to 2.83 bill. € (previous year: 3.34 bill. €) at the balance sheet date. This represents a reduction by 15.5 %.

The liability structure of the KarstadtQuelle Group was markedly improved in the direction long-term financing during the year under review.

With the mortgage bond program (1.69 bill. €), mortgage loans and other long-term financing measures (0.8 bill. €) and the three-year syndicated bank loan amounting to 1.75 bill. €, of which only 0.77 bill. € was used by the balance sheet date, the Group has at its disposal a structured, long-term financing basis.

Notes to the Group cash flow statement

Cash flow statement (abbreviated)

Amounts shown in mill. €	2004	2003
Cash flow from operating activities	620.5	643.4
Cash flow from investing activities	-275.1	-274.7
Free Cash Flow	**345.4**	**368.7**
Cash flow from financing activities	18.8	-370.8
Changes in cash and cash equivalents affecting cash flow	**364.2**	**-2.1**
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	-12.1	-0.6
Cash and cash equivalents at the beginning of the period	166.1	168.8
Cash and cash equivalents at the end of the period	**518.2**	**166.1**

The flow of funds from operating activities fell during the year under review by 22.9 mill. € to 620.5 mill. € (previous year: 643.4 mill. €). The decrease in adjusted operating earnings was at least only partly set off by positive changes in other short-term assets and liabilities.

The outflow of funds from investing activities rose by 0.4 mill. € year on year. Altogether 275.1 mill. € flowed out (previous year: 274.7 mill. €).

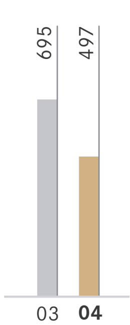
Asset and capital structure

Key balance sheet figures*

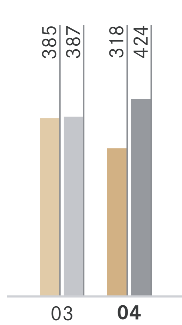
Amounts shown in mill. €	2004	2003	Change in %
Balance sheet total	8,846	9,193	-3.8
Equity	552	1,639	-66.3
Equity ratio in %	*6.2*	*17.8*	-
Pension provisions	794	838	-5.3
Long-term financial liabilities	2,914	2,126	37.1
Short-term financial liabilities	741	1,471	-49.6
Net financial liabilities[1]	2,825	3,343	-15.5
Fixed assets	3,257	4,712	-30.9
Current assets	4,270	4,429	-3.6
Working Capital			
Inventories	1,812	2,417	-25.0
Trade receivables	646	696	7.2
Trade payables[1]	-1,111	-1,157	-4.0
	1,347	**1,956**	**-31.1**

* Apart from the balance sheet total, assets and liabilities classified as held for sale are not included in the 2004 values.
[1] Values for the previous year adjusted.

Gross Cash Flow in mill. €



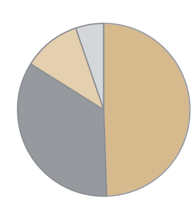
Investments, depreziation and amortization in mill. €



Investments
Depreciation and amortization

Investments by business segment

	in mill. €	in %
Over-the-counter retail	156	49.7
Mail order	108	34.4
Services	34	10.8
Real estate	16	5.1



Balance sheet total down by 3.8 %

The KarstadtQuelle Group's balance sheet total decreased by 3.8 % to 8.85 bill. € (previous year: 9.19 bill. €).

Assets

Fixed assets came to 3.26 bill. € (previous year: 4.71 bill. €). This represents a decrease by 1.45 bill. €. The decisive factors were the separate presentation of the assets held for sale (0.83 bill. €) and the valuation measures undertaken as part of the reorganization.

Investments (not including financial investments and not including assets held for sale) come to 317.8 mill. € in the year under review (previous year: 384.7 mill. €). Set against these were depreciation and amortization amounting to 424.4 mill. € (previous year: 387.5 mill. €). These include impairment losses amounting to 94.6 mill. €.

Current assets decreased by 158.9 mill. € to 4.27 bill. €. Inventories decreased markedly by 605.5 mill. € to 1.81 bill. €. The decisive factors were, besides the program for lasting reduction of inventories, the valuation measures undertaken as part of the reorganization and the items of assets held for sale (222 mill €). Receivables and Other assets decreased slightly. An increase by 171.6 mill. € to 302.5 mill. € is returned for securities. This is mainly due to purchase of securities by KARSTADT Hypothekenbank AG, which is subject to the restriction that it may not make its cash and cash equivalents available to the Group. Cash and cash equivalents rose by 339.8 mill. € to 496.5 mill. €. This is mainly a fulfillment and key-date effect. For details of the assets and liabilities held for sale, please see the Notes (pages 86 and 92).

Liabilities

Equity capital at the balance sheet date stood at 552.1 mill. € (previous year: 1.64 bill. €). The equity ratio was 6.2 % (previous year: 17.8 %). The decrease is due mainly to the high reorganization charges. By contrast, the equity ratio was positively affected by the capital increase by 517.6 mill. € (after deduction of costs).

An expression of the newly structured, long-term aligned financing structure is the rise in Long-term financial liabilities by 787.9 mill. € to 2.91 bill. €.

Accordingly, Short-term liabilities were reduced by 612.3 mill. € to 3.13 bill. €. Here the decrease in Short-term financial liabilities, which at 740.9 mill. € amount to only about 50 % of the previous year's value, had a particular effect.

The KarstadtQuelle Group's asset and capital structure developed variously. This is illustrated by, amongst other things, the following key figures:

- The equity-to-fixed-assets ratio stands at 17.0 % (previous year: 34.8 %).
- Fixed assets were financed at 156.6 % (previous year: 112.1 %) by long-term capital.

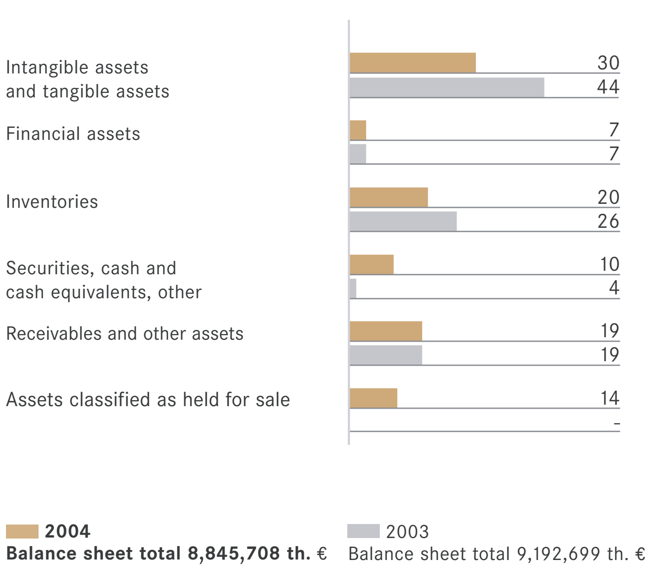
Working capital markedly reduced

Working capital was reduced by 31.1 %. It makes up a total of 1.35 bill. € (previous year: 1.96 bill. €) at the balance sheet date. Besides the selective reduction as part of relevant programs, the downward valuation adjustment on inventories and the separation of the specialty stores (222 mill. €) had a reductive effect. The share of sales made up by working capital decreased by 3.5 percentage points to 10.0 %.

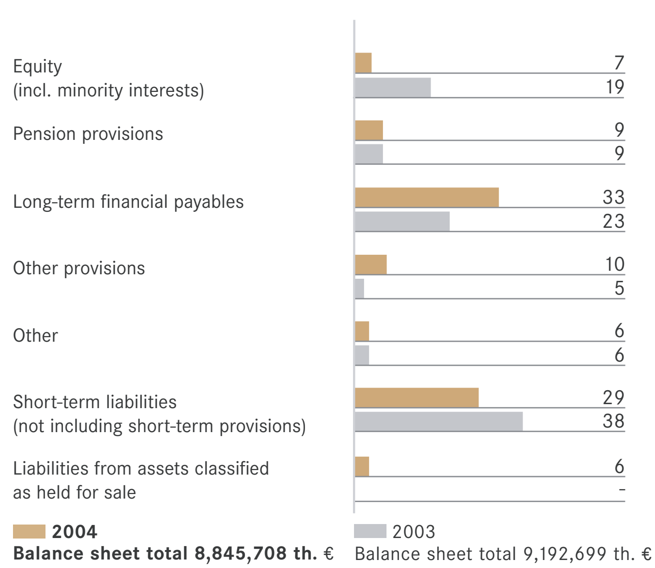
Dividends

The Management Board and Supervisory Board will propose to the Annual General Meeting of Shareholders on May 24, 2005, that no dividend be paid for the 2004 financial year.

Structure of the balance sheet in %
Assets



Structure of the balance sheet in %
Equity and liabilities



Balance sheet of KARSTADT QUELLE AG

for the year ended December 31, 2004

Assets

Amounts shown in th. €	2004	2003
Intangible assets	6,343	6,280
Tangible assets	1,501	1,838
Financial assets	4,852,808	4,998,814
Fixed assets	**4,860,652**	**5,006,932**
Receivables and other assets	680,386	2,888,948
Securities	94,124	200,296
Cash and cash equivalents	205,564	6,205
Current assets	**980,074**	**3,095,449**
Prepayments and accrued income	171	619
Balance sheet total	**5,840,897**	**8,103,000**

Equity and liabilities

Amounts shown in th. €	2004	2003
Subscribed share capital	539,646	301,460
Additional paid-in capital	821,145	488,521
Revenue reserves	221,701	2,614,059
Retained earnings	-	653,243
Equity	**1,582,492**	**4,057,283**
Provisions for liabilities and charges	950,047	1,003,993
Liabilities	3,306,792	3,041,348
Accrued expenses and deferred income	1,566	376
Balance sheet total	**5,840,897**	**8,103,000**

KARSTADT QUELLE AG profit and loss account

for the year ended December 31, 2004

Amounts shown in th. €	**2004**	2003
Income from investments	-2,408,612	-1,141,531
Net interest income	-12,148	18,095
Other operating income	7,682	28,568
Staff costs	-64,156	-104,051
Depreciation and amortization of intangible assets and tangible assets	-2,061	-7,723
Amounts written off other loans and short-term investments	-113,467	-151
Other operating charges	-210,206	-99,443
Earnings from ordinary activities	**-2,802,968**	**-1,306,236**
Taxes on income	-167,109	-94,721
Other taxes	-28	-2
Net loss	**-2,970,105**	**-1,400,959**
Profit carried forward	577,747	2,054,202
Transfer from revenue reserves	2,392,358	-
Retained earnings	**-**	**653,243**

Progress of business

Net loss stands at 2.97 bill. €

KARSTADT QUELLE AG shows an annual net loss of 2.97 bill. € (previous year: annual net loss of 1.4 bill. €) due to transferred losses from operating companies of the Over-the-counter retail, Mail-order and Services segments und due to the consideration of risks in the case of own holdings and loans.

After set-off against the profit carried forward from the previous year the retained earnings amount to minus 2.39 bill. € (previous year: plus 653.2 mill. €). To cover the negative retained earnings, a withdrawal was made from Other revenue reserves.

Balance sheet total down

The balance sheet total of KARSTADT QUELLE AG decreased to 5.84 bill. € (previous year: 8.1 bill. €).

This development is mainly due to the transfer of earnings from subsidiary companies and the resulting reduction in amounts owed by subsidiary companies. Moreover impairment loss was applied to holdings and loans in financial assets and to own shares, which are shown under Securities.

A contrary effect arises from the considerably expanded cash and cash equivalents because of the amounts to be invested through the first draw on the syndicated loan.

Amounts owed to banks fell by 671.1 mill. € to 58.2 mill. €, while amounts owed to subsidiary companies rose by 1.22 bill. € to 3.09 bill. € during the year under review.

Unqualified auditor's opinion accorded

The complete annual account of KARSTADT QUELLE AG, which was accorded an unqualified auditor's opinion by the auditor, BDO Deutsche Warentreuhand Aktiengesellschaft, 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.**

Risk management and risk report

Preliminary remarks

The KARSTADT QUELLE AG risk report does not once again go into the risk factors already set out in the sales prospectus of November 26, 2004, on the KARSTADT QUELLE AG capital increase in detail, but analyses and explains the currently foreseeable major risks in the KarstadtQuelle Group.

Moreover, the following was agreed with individual shareholders in the course of the communication: The Management Board will present in the 2004 Annual Report a detailed risk report which goes into the causes of the crisis that the company finds itself in at present, explains the resulting necessary changes in the company's internal monitoring system and the point reached in the implementation of these measures and describes the reasons why the risk report of February 2004 examined by the auditor and the information at the Annual General Meeting in May 2004 did not enable the dramatic worsening of the company's situation to be recognized.

Risk management

The KarstadtQuelle Group is exposed to various risks in its business segments. It is the task of the Groupwide risk management system to recognize risks in good time, to systematize them and to communicate them to the management. A basis is thus laid down on which decisions can be taken to avert or minimize the risks. The planning, reporting, monitoring and early warning systems coordinated throughout the Group guarantee integrated risk analysis and control. The risk management system forms a decisive component of the control systems. 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.

The management of the KarstadtQuelle Group has in the last few months closely concerned itself with the analysis and improvement of the internal control system and risk management, the further development of the planning, reporting and forecasting quality and the improvement of the incentivization mechanism in the Group. Beginning with the identified weak points, particularly the not optimum integration of the liquidity planning into the Group's operational risk reporting and control, the following changes were undertaken or initiated:

- Direct integration of the KarstadtQuelle Group's short- and medium-term liquidity provision into the operational management activity of the KarstadtQuelle Management Board since the Management Board meeting on June 7, 2004.
- Introduction of interim daily financial planning since August 23, 2004.
- Implementation of the final version of quarterly forwards rolling bottom up financial planning since December 1, 2004.
- Drawing for the first time up of a complex, integrated Group multiyear plan on the newly installed SAP-SEM platform.
- Application for the first time of a newly developed key performance indicator logic (KPI) in the complex Group planning (for the first time as part of the planning for the 2005 financial year).
- Redesigning of the top management's incentivization mechanism from 2005 on, based on the central KPIs EBITDA and free cash flow.

Through these measures the technical and system-side basis for fundamental improvements in the quality of the Group control system was created. The implementation of a corresponding internal organization is currently being undertaken.

Business risks

The KarstadtQuelle Group's business activities are oriented towards the German retail sector. As a result, business performance is decisively affected by weak domestic demand and internal economy going back years. Recent economics forecasts assume that there will be no revival of domestic demand and willingness to consume or none worth mentioning. Moreover, forecasts in the most recent past have frequently had to be revised downwards. It also remains to be seen how the debate about a possible value-added tax increase will develop. In the light of this and particularly because of the Group's negative sales performance since October 2004 our sales, earnings and operating cash flow objectives included in our 2005 planning are beset by risks.

Furthermore, internal factors may negativeley affect the quality of the forecasts. Thus, products may not be available at all times. The causes of this may lie, for example, in late delivery, misestimates of required goods quantities or market and fashion trends or seasonal performances. As the implementation of the projects of the "KarstadtQuelle Neu" program progresses, the risks will diminish in their effects, but must still be regarded as "important" for the Group.

Supplier risks

An important supplier risk might arise from the possible unwillingness of individual business partners to enter into business relations with the KarstadtQuelle Group. One reason for this might be, besides the poor economic situation over the past year, that credit insurers no longer maintain their credit lines for the suppliers or maintain them only against mortgage of the goods inventories. Negotiations are currently being held with the goods credit insurers for them to maintain their lines for the term of the insurance on the same terms and conditions as those agreed with the banks for the syndicated credit.

Risks to the reorganization and realignment of the business models

Besides the weak domestic demand the fact that KarstadtQuelle – with the exception of specialty and foreign mail order – operates in business fields which have a weak dynamic contributes to the Group's unsatisfactory sales and earnings performance. Moreover, because of a lack of focus on the retail business and concentration on a large number of marginal activities the clear strategic line was temporarily lost. The "KarstadtQuelle Neu" program aims at correcting this misdevelopment. An important element of "KarstadtQuelle Neu" is reorganization. It aims in particular at the reduction of staff and materials costs, the reduction of working capital and divestment measures. The implementation of the restructuring measures is naturally beset with risks. These risks may be limited by the results already achieved in 2004 in cost reduction and reduction of working capital and through the now achieved progress of a series of project measures. We are meeting risks arising from a delayed realization of divestments which might put at risk the achievement of the cash flow target and the planned reduction of net financial indebtedness by up-to-date project monitoring and alternative plans for further divestments.

The second important element of "KarstadtQuelle Neu" is the successful conversion of the business models of Over-the-counter retail and Mail order. The successful implementation of this strategic realignment laid down by the management forms a decisive basis for forecasting the sales and earnings performance in the 2005 and following financial years.

A risk may arise from, for example, the unsatisfactorily forecast customer response to the newly positioned large department stores. Moreover, with the realignment of the catalog cycles in mail order in the German market we are breaking new ground. In the worst case a situation which threatens the existence of the Group may arise from a combination of these risks. The risks may be reduced as much by effective monitoring of the progress of the strategic transformation processes and their continuous development as by the realization of new potential in project control.

Administrative risks

As a result of the reorganizational requirements and the realignment of the KarstadtQuelle Group, a number of additional, complicated tasks must be dealt with rapidly and simultaneously in the 2005 financial year. This confronts the internal management of the Group with new qualitative and quantitative challenges and tasks. To compensate for short-term bottlenecks, outside advisors have been resorted to. This brings risks for the stringent control of the Group, particularly as regards the interplay of line and project organization in the course of the complex control of the restructuring process and maintenance of the operational controlability of the Group. These risks can be lessened by the qualitative and quantitative strengthening of the Group's internal management and control experts and the gradual reduction or still more efficient integration of external experts.

Financial risks

As regards the financial risks, as well as the interest and currency risk, the liquidity risk is of major importance in the KarstadtQuelle Group. Under the syndicated 3-year loan the lenders have at their disposal an extraordinary right of termination. This applies especially to the non-adherence to contractually agreed finance relations (covenants) for the Group. Right of termination exists also for breach of the rules of conduct and for exceeding the total line in the volume of 1.75 bill. € or the respective individual lines. The first covenant test, which will be conducted for the quarterly account per March 31, 2005, by comparison with the tests in the following quarters, particularly in the case of the EBITDA key figures, permits only slight negative deviations from the prescribed target figures for calculating the contractually fixed financial relations. Here, the way things look at present, there is the greatest risk that the test criteria are not met, a contingency which will result in the early exercize by the creditors of their right of termination.

Furthermore, considerable demands have been made of the accounting and controling systems in connection with regular information obligations to the creditors (amongst other things, with regard to financial actual and planning data). A breach of these information obligations (e.g. the late submission of the business plan) may result in the exercize of an extraordinary right of termination. Although the secure availability of the 1.75 bill. € credit line may be assumed, there is further risk potential in the fact that the Group's liquidity requirement, particularly during the seasonal financing peaks, may temporarily exceed the available credit limits. A minimization of the required liquidity requirement on financing peaks during the year can be achieved by the consistent implementation of the described countermeasures with regard to the business and reorganizational risks and the risks arising from the transformation of the business models.

Furthermore, potential risks arising from the syndicated loan may be averted in good time by good, transparent communication with the lenders. This is the purpose of monthly monitoring to confirm adherence to the covenants or, if necessary, to warn of a threatening breach of covenant. This also includes a weekly update of the bottom up liquidity requirement in the Group for the forwards rolling financial planning already introduced.

We also aim to reduce financing risks by negotiations with banks and investors for the provision of further credit facilities. Besides the above-mentioned liquidity risks, there is a risk of a direct reduction of funds of about 1.2 bill. € in the event of a discontinuation of the ABS financing through trigger infringements, non-adherence to financial key figures or expiry of liquidity lines. There is also a risk of a breakdown of the entire financing structure due to rights of termination in the syndicated loan. Individual risks or particularly a combination of these risks could give rise to a situation which threatens the existence of the Group.

Under the completed negotiations with the ABS banks at home and abroad acute grounds for termination were removed and the bases laid for a renewal of the liquidity lines. Work is also being done on reorganization of the ABS financing with a view to capital-market viability in the second half of 2005.

Tax risks

As a result of the negative earnings performance at individual Group companies, considerable tax loss carry-forwards have built up. Because of new legal background conditions (minimum taxation) their exploitability is limited by a spread in earnings over time. Here initially there will be an earnings effect which will, however, be evened out again over the total period. A liquidity risk equal to the interest effect will arise through transfer of the loss utilization to later years. There is also a risk that value adjustments may have to be made to the item "Deferred tax assets" on the Group balance sheet or that an additon may not be able to be made with effect for income. The decisive factor here is the time limit to the forecast period for the utilization of these deferred tax assets. This is a pure earnings effect which in an extreme case could reach into the hundreds of millions range.

Risks from court actions

1. In 2001 successors of Franz Wertheim brought an action for compensation against the KarstadtQuelle Group in the USA. The plaintiffs base their claims on the sale of Wertheim shares in the 30's, the abandonment of restitution claims by the brothers Günter and Fritz Wertheim in the 50's and an allegedly illegal reassignment of the Lenné-Dreieck real estate in Berlin to Warenhaus Wertheim GmbH after the reunification. The amount at issue has not been disclosed.

   The Group is of the opinion that the action is not permissible both because the American courts have no jurisdiction here and because there is no cause. In May 2004 the action was dismissed at the first instance. The plaintiffs have appealed against the decision.

   The company is aware that in May 2003 an action was brought by other members of the Wertheim family in the same matter. Such action has so far not been formally served on the company.

   The KarstadtQuelle Group rates the chances which the actions have of success in the USA as "slight." No provisions have so far been set up for this contingency.

2. Warenhaus Wertheim GmbH, as a subsidiary of KARSTADT QUELLE AG, was transferred to a company pension fund to cover pension commitments. Claims brought against Warenhaus Wertheim GmbH therefore affect the KarstadtQuelle Group correspondingly. Warenhaus Wertheim GmbH sold the so-called Postblock Land to the Federal Republic of Germany in 1993 to 1995. At the time of the sale an assurance was given to the Federal Republic of Germany by Warenhaus Wertheim GmbH that no claims by third parties for restitution in respect of the Postblock Land existed.

   The Jewish Claims Conference (JCC) regards itself and not KARSTADT QUELLE AG as the legal successor of the Wertheim family and therefore as the owner of the Wertheim family's restitution claims. It therefore has, it says, under the claims law claims for restitution against the Federal Republic in respect of the Postblock Land.

   The Berlin administration court found for the JCC in the first-instance proceedings on March 4, 2005. If the decision becomes legally final, it could give rise to court litigation in respect of additional sales price demands amounting to 24.5 mill. € by the Federal Republic of Germany against the KarstadtQuelle Group in connection with the agreements reached in 1993 to 1995.

   No direct claim by the JCC against KARSTADT QUELLE AG on the basis of these facts can be recognized. The risks have already been taken into account with the maximum amount of 24.5 mill. € in the provisions.

3. In 1988 the State of Berlin received from the German Democratic Republic under a land exchange all the 30 plots of land constituting what was known as the Lenné-Dreieck. In 1991 four of these plots of land were assigned by the State of Berlin to Warenhaus Wertheim GmbH without charge. The background for this assignment was a possible illegal expropriation of Wertheim family property during the Soviet occupation or during the period of National Socialism. In the underlying assignment agreement Warenhaus Wertheim GmbH exempted the State of Berlin from any claims brought by third parties, particularly former partners in Warenhaus Wertheim GmbH.

   In so far as JCC is the legal successor of the Wertheim family, JCC may be entitled to bring restitution claims against the State of Berlin in respect of the land in Lenné-Dreieck. In this case there is a risk that the State of Berlin may claim against the KarstadtQuelle Group on the grounds of the exemption given in 1991. In the worst case asset claims amounting to 145 mill. € by the State of Berlin may arise from the exemption declaration.

   However, the Group is of the opinion that such a claim cannot stand because of changes to the law of claims, lack of formal qualifications and changes in the underlying basis of the exemption agreement.

Other risks

Political risks terrorist attacks, for example) and possible damage through force majeure remain serious. We have taken out relevant insurance against damage by the elements. To avoid gaps in our insurance cover, we have at our disposal appropriate monitoring mechanisms.

The KarstadtQuelle Group's present economic situation may lead to problems in the area of staffing. These include, for example, staff turnover or work overload. We are countering these risks by staff measures. These include employee surveys and discussions, management development and flexibilization of working hours.

Administrative, balance sheet accounting and, possibly legal risks may arise from the complex structure of the CTA Program (pension fund). KarstadtQuelle is countering these risks with separate, independent management and control of the CTA Program. The most important CTA effects are taken into account in Group reporting and planning.

In fulfillment of the aforementioned agreement we supplement the report as follows:

Reasons for the deterioration in the situation of the KarstadtQuelle Group in the 2004 financial year

The KarstadtQuelle Group's economic situation developed slowly at the beginning of the 2004 financial year, but no clear downwards trend on the scale occurring later was foreseen. In the course of the financial year there occurred a clear deterioration of the sales performance in the segments covered by the KarstadtQuelle Group which at the same time revealed weaknesses in the holdings portfolio. This was the trigger for a far-reaching reorganization of the Group. In the course of the year the Management Board drew attention to economic risks and a business performance that was difficult to forecast. The published forecasts were, however, in retrospect, too optimistic and had to be adjusted downwards several times.

The 2004 financial year was generally marked by great uncertainty about the development of the economy as a whole. The Management Board of KARSTADT QUELLE AG stressed in publications on a number of occasions economic risks in the domestic market and their negative effect on the KarstadtQuelle Group's sales and earnings performance. As it says in the 2003 Annual Report (Outlook, page 6 f. and page 97), "We assume that the situation in the German retail trade will not improve in the short term and expect the weak consumer mood to continue and the strong competition to continue unchanged." Furthermore, in the section on risk management under the heading of "Business risks" (page 95) the risk arising from the orientation of our business operation towards the German market was emphasized, and it was stressed that our business risk is dominated by the internal economy and domestic demand. What is more, the Management Board clearly drew attention to the impossibility of adequate forecasting because of the market and therefore expressly refrained from making a forecast for the time being. "In view of our strong dependence on the still uncertain background conditions in Germany a sales and earnings forecast would not be sensible at present." (2003 Annual Report, page 7 and page 97).

On the occasion of the Annual General Meeting on May 4, 2004, the Chairman of the Management Board stressed in his speech: "Any forecast for the current financial year would be difficult and beset by uncertainty due to the many economic imponderables." We nevertheless published a forecast to meet the expectations of the shareholders and the financial markets. However, this forecast offered great deal of scope in the form of a best-case and worst-case scenario. At that time KarstadtQuelle assumed for the worst case a sales shortfall of 3 % and negative EBTA in the middle tens of millions range. The reporting at the Annual General Meeting and the forecast was based on the level of knowledge of a sales decrease by 4.4 % in the first quarter of 2004 and the expectation of an improvement, based on forecasts by leading economics research institutes, of the sales situation over the course of the year. The uncertainty linked with the forecasts was once again emphasized by the Chairman of the Management Board in response to the question put to him by a shareholder "whether he will be able to further limit the mentioned scattering ranges."

It must be stated in retrospect that the company at the time of the Annual General Meeting assessed the Group's situation and the progress of the coming months too optimistically and therefore incorrectly. Because, instead of the anticipated improvement, in the following weeks the segments in which the KarstadtQuelle Group is predominantly represented came disproportionately under pressure from the economy as a whole. The still declining market and the further intensified competition exposed operational weaknesses in the KarstadtQuelle Group. Over-the-counter retail and the major part of mail order performed worse than the competition. As a result of this sales and earnings performance in the second quarter of 2004 and a further serious deterioration in July and August the forecast had to be revised considerably downwards on August 4, 2004. The company assumed for the year as a whole a sales decrease of 4.5 to 5 % and was thus substantially below the worst-case scenario of May 2004. The operating result target (EBTA) was lowered to between minus 160 mill. € and minus 200 mill. €.

On the basis of a comprehensive inventory the Management Board announced far-reaching measures and a clear refocusing of the Karstadt Quelle Group on its retail operations. During the weeks that followed the decline in sales gathered pace. The resulting, unforeseen substantial reduction in the cash flow led to a serious tightening of the financial position. This development was exacerbated by a sudden deterioration in short-term financing through commercial paper. Its volume, which in June/July had stood firm at around 600 mill. €, decreased by about 50 % by the end of August and by October had fallen below 100 mill. €. The difficulties were further exacerbated by the seasonal financing peak coming in August/September (purchase of goods for Christmas business). Individual banks then began to question their commitment. The Group's financing thus became destabilized. A radical reorganization of financing became necessary. The weak operating performance was even further exacerbated by the customers' unease at the public debate about the KarstadtQuelle Group at the end of the year. In the interim report for the third quarter, which was published on November 3, 2004, we once more lowered our targets. A decrease by 7 % and an operating result (EBTA) of minus 280 mill. € to minus 295 mill. € was now announced.

Based on the experience gained and weak points identified during the 2004 financial year, the risk management system was, as stated at the outset, examined in detail and improved. The intensive monitoring of the reorganization and realignment of the Group is of special importance for the facts surrounding the deterioration of the Group's situation. Furthermore, the Group's short- and medium-term liquidity provision was integrated into the operational management activity of the KarstadtQuelle Management Board. Also, after an interim introduction of daily financial planning quarterly forwards rolling bottom up financial planning was set up.

Accounting and auditing

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

The Supervisory Board has appointed BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft to be auditors for the 2004 financial year. It ascertained beforehand that the existing relations between the auditor and KARSTADT QUELLE AG and its controling bodies afford no grounds for doubt as to the independence of the auditor. The main points of the audit were fixed with the auditor and it was agreed that any possible grounds for exclusion or partiality would be removed or made known during the audit.

The reorganization of the Group led to an exceptionally heavy burden of work, particularly at the turn of the year, for which reason it was for once not possible to make the Group Account publicly accessible within 90 days from the end of the financial year.

Dependent companies report

The Management Board of KARSTADT QUELLE AG assumes that since December 11, 2001, the company is dependent on partners in a voting rights pool as defined by Section 312 German Stock Corporation Law. A voting rights share of 41.824 % was last announced for this voting rights pool.

The following are partners in the voting rights pool:

Madeleine Schickedanz

Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG

Leo Herl

Grisfonta AG

Martin Dedi

Martin Dedi Vermögensverwaltungs GmbH & Co. KG

Accordingly, the Management Board has prepared a dependent companies report for the 2004 financial year – which was accorded an unqualified opinion by BDO 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."

Supplementary report

KarstadtQuelle sells shares in DSF and SPORT1

In February 2005 KARSTADT QUELLE AG and EM.TV AG agreed on the acquisition of KarstadtQuelle shares in the sports TV channel DSF Deutsches Sportfernsehen GmbH, Ismaning, and the online platform SPORT 1 GmbH, Ismaning. The selling price amounts to 27 mill. €. KarstadtQuelle was thus able to double the capital employed in a very short time.

KarstadtQuelle disposes of holding in Home Shopping Europe

Likewise in February 2005 KARSTADT QUELLE AG sold its 10-per-cent holding in the TV channel Home Shopping Europe AG (HSE), Ismaning, to the parent company Home Shopping Network, St. Petersburg/USA. The selling price amounts to 10 mill. €.

Quelle Switzerland acquires brand rights in mail order from Spengler

Since February 2005 the mail-order fashion supplier Spengler Versand AG, St. Gallen, Switzerland, has been included in the portfolio of KarstadtQuelle mail-order suppliers. Spengler is distinguished by good customer service, a fashionable, up-to-date style and high-quality product lines. Quelle Versand AG, St. Gallen, Switzerland, will retain the established brand name "Spengler" and dynamically further develop the mail-order business.

ABS financing programs reorganized

The ABS financing programs were reorganized on February 23, 2005, (for the home territory) and March 4, 2005, (for the foreign territory) on the basis of the agreements concluded with the domestic and foreign ABS banks on December 9, 2004. The process of reorganization is not yet fully concluded in the case of the ABS home programs. The core of the already implemented changes is that the preconditions for termination of the ABS financing programs have been extended. If reasons for termination arise or rights of termination are exercized within the framework of the different financing components – domestic ABS programs, foreign ABS programs and syndicated loan –, there are now mutual reasons for termination. In an extremity therefore the simultaneous discontinuation of all the aforementioned financing programs cannot be ruled out.

Agreement about the sale of large parts of the logistics operation to the Post Office

KarstadtQuelle has come to an agreement with Deutsche Post World Net's express and logistics subsidiary DHL about the disposal of large parts of its Group logistics operation. Besides some regional goods warehouses (real estate), the package comprises the distribution logistics operation for Karstadt Warenhaus AG. Furthermore, the large- and part-load sector (e.g. television sets and furniture) of the mail-order suppliers Quelle and Neckermann will now likewise be operated by DHL Solutions.

Fundamental agreement reached on the sale of the Belgian company Euro-Papier N.V.

In an agreement dated December 23, 2004, KarstadtQuelle sold the shares in Euro-Papier N.V., Temse, Belgium. The effectiveness of the agreement depended initially on conditions precedent. These were fulfilled in the first quarter of 2005. With this agreement paper deliveries and printing services were outsourced at the same time.

Neckermann Versand AG uses anniversary to make radical changes

In 2005 Neckermann Versand AG will be celebrating its 55th birthday and will use the occasion to make radical changes to adapt target groups, product lines and sales channels to suit the changed requirements of the market. On the anniversary the Neckermann range will become more youthful and more favourably priced. In particular the main catalog will reflect the company's birthday and will be offering "Jubilee ranges" at especially attractive prices. This year Thomas Gottschalk is once again advertising partner under the motto "Jung anziehen, jung wohnen, jung bleiben" ("Dress young, live young, stay young").

Outlook

2005: Marked improvement in earnings

The 2005 financial year will be dominated by the implementation of our “KarstadtQuelle Neu” program. At the center are the completion of the portfolio streamlining program and the further optimization of the business models in the department store and mail-order sector. With regard to our sales performance we do not assume that we shall succeed in reversing the trend in just a few months. However, in the second half of the year we do already expect to achieve visible successes from the repositioning of our department stores and the changed catalog structure in universal mail order. We also expect to gain impetus from the introduction of systems for incentivizing staff in proportion to the sales achieved. In view of the still difficult environment, however, we plan at a Group level a sales decrease on a comparable basis in the lower to middle single-digit percentage range in the 2005 financial year. Particularly because of the already implemented cost reductions and the already completed divestment of companies with a negative earnings contribution we anticipate an improvement in operating earnings (EBITDA) in the 2005 financial year. We are giving emphasis to the generation of cash inflows and are therefore putting earnings before interest, tax, depreciation and amortization (EBITDA) at the center of our reporting.

The KarstadtQuelle Group of the future: considerably leaner and more efficient

The KarstadtQuelle Group of the future will be considerably leaner, more focused, more efficient and thus more competitive. Turnover remaining after the successful implementation of the portfolio streamlining program will be achieved with better margins and substantially reduced business system costs. We want to achieve an EBITDA margin of over 7 % by 2008.

Group profit and loss account

for the year ended December 31, 2004

Amounts shown in th. €	Notes Text note	**2004**	2003	Change in %
Sales	1	13,447,183	14,427,968	-6.8
Cost of sales	2	-7,054,820	-7,699,096	8.4
Gross income		**6,392,363**	**6,728,872**	-5.0
Other capitalized own work	3	53,519	57,338	-6,7
Operating income	4	693,276	1,143,614	-39.4
Staff costs	5	-2,655,538	-2,796,624	5.0
Operating costs	6	-4,885,986	-4,133,210	-18.2
Other taxes		-26,065	-27,843	6.4
Earnings before interest, tax, depreciation and amortization (EBITDA)		**-428,431**	**972,147**	-144.1
Depreciation and amortization (not including goodwill)	7	-424,405	-387,462	-9.5
Earnings before interest, tax and amortization of goodwill (EBITA)		**-852,836**	**584,685**	-245.9
Amortization of goodwill	8	-154,376	-80,639	-91.4
Earnings before interest and tax (EBIT)		**-1,007,212**	**504,046**	-299.8
Income from investments	9	-8,555	-85,318	90.0
thereof from associated companies		-15,905	-88,367	-
Net interest income	10	-241,585	-225,307	-7.2
Other financial income	11	-166,064	65	-
Earnings before taxes (EBT)		**-1,423,416**	**193,486**	-
Taxes on income	12	172,677	-35,760	-
Loss/Profit from continuing operations		**-1,250,739**	**157,726**	-
Loss from discontinued operations	13	-370,531	-44,515	-
Net loss/Net income before minority interests		**-1,621,270**	**113,211**	-
Profit/Loss due to other shareholders	14	-9,968	-5,661	-76.1
Net loss/Net income after minority interests		**-1,631,238**	**107,550**	-
Earnings per share in €	15	**-14.71**	**1.01**	-
thereof from continuing operations		-11.28	1.48	-
thereof from discontinued operations		-3.34	-0.42	-

Group balance sheet

for the year ended December 31, 2004

Assets

Amounts shown in th. €	Notes Text note	2004	2003	Change in %
Intangible assets		468,334	549,668	-14.8
Tangible assets		2,172,905	3,500,609	-37.9
Financial assets		616,001	661,596	-6.9
Fixed assets	16	**3,257,240**	**4,711,873**	-30.9
Inventories	17	1,811,682	2,417,169	-25.0
Receivables and other assets	18	1,659,581	1,724,420	-3.8
Securities	19	302,524	130,934	131.1
Cash and cash equivalents	19	496,492	156,692	216.9
Current assets		**4,270,279**	**4,429,215**	-3.6
Deferred taxes	20	98,162	15,347	-
Prepayments and accrued income		15,320	36,264	-57.8
Assets classified as held for sale	21	1,204,707	-	-
Balance sheet total		**8,845,708**	**9,192,699**	-3.8

Equity and liabilities

Amounts shown in th. €	Notes Text note	2004	2003	Change in %
Equity	22	**552,150**	**1,639,394**	-66.3
Minority interests	22	**67,606**	**69,299**	-2.4
Long-term financial liabilities	25	2,913,781	2,125,877	37.1
Other long-term liabilities	26	408,927	368,397	11.0
Pension provisions	23	794,017	838,335	-5.3
Other long-term provisions for liabilities and charges	24	365,334	239,686	52.4
Long-term liabilities		**4,482,059**	**3,572,295**	25.5
Short-term financial liabilities	25	740,938	1,471,132	-49.6
Trade payables	26	1,110,970	1,157,342	-4.0
Other short-term liabilities	26	727,712	854,734	-14.9
Short-term provisions for liabilities and charges	24	549,842	258,506	112.7
Short-term liabilities		**3,129,462**	**3,741,714**	-16.4
Deferred taxes	20	11,275	165,709	-93.2
Accrued expenses and deferred income		80,864	4,288	-
Liabilities from assets classified as held for sale	27	522,292	-	-
Balance sheet total		**8,845,708**	**9,192,699**	-3.8

Group fixed assets movement schedule

for the year ended December 31, 2004

Amounts shown in th. €	As of 01.01.2004	Additions/ disposals consolidated companies	Exchange differences	Additions current year	Transfers	Reclassification of assets classified as held for sale	Disposal current year	**As of 31.12.2004**
	Historic purchase or production costs							
Franchises, trademarks, patents, licenses and similar rights	343,024	-3,961	344	28,622	20,875	-15,427	45,717	327,760
Own developments	96,409	-	26	8,374	35,163	-582	921	138,469
Goodwill								
from individual account	4,976*	-	-3	159	-835	-460	74	3,763
from consolidation	260,050*	929	173	17,407	-	-	-	278,559
Advance payments								
intangible assets	75,800	-	-	63,767	-47,690	-13,591	1,532	76,754
intangible assets under development	45,224	-	-	21,865	-8,878	-83	5,265	52,863
Intangible assets	**825,483**	**-3,032**	**540**	**140,194**	**-1,365**	**-30,143**	**53,509**	**878,168**
Land, leasehold rights and buildings, including buildings on land owned by others								
Property	5,689,293	-7,606	450	57,679	24,664	-1,886,159	61,077	3,817,244
Finance lease	78,985	-	-	-	-	-	-	78,985
Capitalized restoration obligation	2,359	-682	-1	1,034	-	-1,238	361	1,111
Plant and machinery	211,088	-5,586	52	2,220	13,801	-	18,825	202,750
Other equipment, furniture and fixtures	3,090,742	-6,770	519	91,495	-10,833	-453,043	252,812	2,459,298
Advance payments and construction in progress	35,324	-443	1	25,220	-26,267	-5,674	2,891	25,270
Tangible assets	**9,107,791**	**-21,087**	**1,021**	**177,648**	**1,365**	**-2,346,114**	**335,966**	**6,584,658**
Shares in subsidiaries	47,976	-1,538	1,571	2,321	640	-215	482	50,273
Loans to subsidiaries	1,211	-250	-	-	-75	-337	148	401
Shares in associated companies	539,286	-	-	16,703	50,420	-12,421	4,542	589,446
Loans to associated companies	59,954	-	-	19,848	-50,000	-	8,811	20,991
Loans to companies in which investments are held	54,084	-	1	-	-	-	1,314	52,771
Other investments	92,031	-	-1	1,385	-985	-19,131	3,952	69,347
Financial investments in land and buildings	41,614	-	-1	1	-	-11,871	12,202	17,541
Securities of fixed assets	9,819	-	1	110	-	-	712	9,218
Other loans	8,177	-	-1	53,988	-	-197	1,457	60,510
Financial assets	**854,152**	**-1,788**	**1,570**	**94,356**	**0**	**-44,172**	**33,620**	**870,498**
	10,787,426	**-25,907**	**3,131**	**412,198**	**0**	**-2,420,429**	**423,095**	**8,333,324**

* Values carried forward set off in accordance with IFRS 3.

Accumulated depreciation and amortization								Net book value	
As of 01.01.2004	Additions/ disposals consolidated companies	Exchange differences	Additions current year	Transfers	Reclassification of assets classified as as held for sale	Disposal current year	**As of 31.12.2004**	**As of 31.12.2004**	As of 31.12.2003
235,268	-599	306	45,565	-2,260	-13,871	32,644	231,765	95,995	107,756
40,547	907	11	35,179	2,319	-146	124	78,693	59,776	55,862
-*	-	-	315	-	-	-	315	3,448	4,976
-*	-	-	96,392	-	-	-	96,392	182,167	260,050
-	-	-	2,669	-	-	-	2,669	74,085	75,800
-	-	-	-	-	-	-	-	52,863	45,224
275,815	**308**	**317**	**180,120**	**59**	**-14,017**	**32,768**	**409,834**	**468,334**	**549,668**
2,742,738	-1,666	177	334,229	-17,377	-1,028,598	28,222	2,001,281	1,815,963	2,946,555
17,984	-	-	1,709	-	-	-	19,693	59,292	61,001
872	-90	-2	922	-1	-900	342	459	652	1,487
158,461	-5,288	50	12,413	6,068	-7	17,450	154,247	48,503	52,627
2,687,127	-2,651	425	176,842	11,251	-420,139	216,782	2,236,073	223,225	403,615
-	-	-	-	-	-	-	-	25,270	35,324
5,607,182	**-9,695**	**650**	**526,115**	**-59**	**-1,449,644**	**262,796**	**4,411,753**	**2,172,905**	**3,500,609**
8,493	3,193	1,103	1,217	525	-77	337	14,117	36,156	39,483
-	-	-2	-	-	-	-	-2	403	1,211
145,470	-	-5	57,473	128	-53	-	203,013	386,433	393,816
-	-	-	891	-	-	-	891	20,100	59,954
1,888	-	2	3,004	-	-	242	4,652	48,119	52,196
11,446	-	-1	7,865	-653	-9	-	18,648	50,699	80,585
23,182	-	-3	668	-	-6,716	6,013	11,118	6,423	18,432
683	-	2	-	-	-	3	682	8,536	9,136
1,394	-	-2	-	-	-12	2	1,378	59,132	6,783
192,556	**3,193**	**1,094**	**71,118**	**0**	**-6,867**	**6,597**	**254,497**	**616,001**	**661,596**
6,075,553	**-6,194**	**2,061**	**777,353**	**0**	**-1,470,528**	**302,161**	**5,076,084**	**3,257,240**	**4,711,873**

Statement of changes in group equity and minority interests

for the year ended December 31, 2004

Amounts shown in th. €	Issued capital	Additional paid-in capital	Revenue reserves	Revaluation reserve	Translation reserve	**Total Group equity**	Minority interests	**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
Changes resulting from the disposals and the valuation of 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**
Opening balance at 01.01.2004	**272,212**	**317,471**	**1,127,622**	**-64,130**	**-13,781**	**1,639,394**	**69,299**	**1,708,693**
Capital increase and issue of convertible bond	238,186	311,953	-	-	-	550,139	-	550,139
Dividends	-	-	-75,496	-	-	-75,496	-1,232	-76,728
Generated capital/ group earnings	-	-	-1,631,238	-	-	-1,631,238	9,968	-1,621,270
Differences from foreign currency translation	-	-	-	-	4,875	4,875	-	4,875
Changes resulting from the disposals and the valuation of derivative financial instruments	-	-	-	62,785	-	62,785	-	62,785
Due to changes in consolidated companies	-	-	1,691	-	-	1,691	-10,429	-8,738
Closing balance at 31.12.2004	**510,398**	**629,424**	**-577,421**	**-1,345**	**-8,906**	**552,150**	**67,606**	**619,756**

Group cash flow statement

for the year ended December 31, 2004

Amounts shown in th. €	2004	2003
EBITDA	**-428,431**	**972,147**
Earnings/Loss from disposal of assets	15,079	-22,809
Profit/Loss from foreign currency	-798	-6,889
Increase/Decrease long-term provisions for liabilities and charges (not including pension and tax provisions)	-68,346	41,586
Addition to the provision for reorganization effects	572,354	-
Other costs/earnings not affecting cash flow	407,564	-289,061
Gross cash flow	**497,422**	**694,974**
Changes in the working capital (adjusted for changes in the group of consolidated companies)	48,776	510,854
Changes in other short-term assets and liabilities	103,448	-525,788
Dividends received	20,186	15,235
Payments/Refunds of taxes on income	-49,340	-51,853
Cash flow from operating activities	**620,492**	**643,422**
Cash flow from acquisitions/divestments of subsidiaries	-3,060	19,669
Purchase of tangible, intangible and non-current assets	-300,276	-355,075
Purchase of investment in financial assets	-77,653	-28,488
Proceeds from sale of tangible, intangible and non-current assets	78,821	65,935
Proceeds from sale of financial assets	27,035	23,223
Cash flow from investing activities	**-275,133**	**-274,736**
Free Cash Flow	**345,359**	**368,686**
Interest received	87,339	97,738
Interest paid	-258,097	-217,324
Provisions for pensions and appropriation to plan assets	-77,256	-38,614
Amounts paid in/paid under mortgage bond program and for (finance) loans	-203,168	-69,597
Payments for liabilities under finance lease	-3,376	-36,083
Proceeds from the issue of ordinary shares less dividends paid	473,411	-106,957
Cash flow from financing activities	**18,853**	**-370,837**
Changes in cash and cash equivalents affecting cash flow	**364,212**	**-2,151**
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	-12,151	-544
Cash and cash equivalents at the beginning of the period	166,118	168,813
Cash and cash equivalents at the end of the period	**518,179**	**166,118**

Segment information

KarstadtQuelle Group

Amounts shown in th, €	KarstadtQuelle Group 2004	KarstadtQuelle Group 2003	Reconciliation account 2004	Reconciliation account 2003	Holding company 2004	Holding company 2003
Sales	15,745,248	16,944,937	-	-	-	-
Interest from credit operations	200,931	224,215	-	-	-	-
Internal sales	-2,498,996	-2,741,184	-1,536,051	-1,743,246	-	-
Group sales	**13,447,183**	**14,427,968**	**-1,536,051**	**-1,743,246**	**-**	**-**
Cost of sales	-7,054,820	-7,699,096	699,757	844,999	-	-
Gross income	**6,392,363**	**6,728,872**	**-836,294**	**-898,247**	**-**	**-**
Other capitalized own work	53,519	57,338	33,052	33,410	-	-
Operating income and costs	-4,192,710	-2,989,596	803,226	853,151	-65,251	262,738
Staff costs	-2,655,538	-2,796,624	325	39	-34,646	-30,988
Other taxes	-26,065	-27,843	1	-719	-84	-41
EBITDA	**-428,431**	**972,147**	**310**	**-12,366**	**-99,981**	**231,709**
Depreciation and amortization (not including goodwill)	-424,405	-387,462	19,807	2,948	-2,227	-1,486
EBITA	**-852,836**	**584,685**	**20,117**	**-9,418**	**-102,208**	**230,223**
Amortization of goodwill	-154,376	-80,639	-	-	-	-
EBIT	**-1,007,212**	**504,046**	**20,117**	**-9,418**	**-102,208**	**230,223**
Loss from discontinued operations	-370,531	-44,515	-9,122	-8,861	-	-
EBITDA (adjusted/not including special factors)	**372,939**	**711,147**	**310**	**-12,366**	**-60,081**	**-57,291**
EBITDA margin in % (adjusted/not including special factors)	*2.8*	*4.9*	-	-	-	-
EBTA (adjusted/not including special factors)	**-146,389**	**60,125**	**-57,536**	**-58,738**	**-127,700**	**-129,719**
EBTA margin in % (adjusted/not including special factors)	*-1.1*	*0.4*	-	-	-	-
Segment assets	6,069,676	8,069,975	142,606	-10,237	-*	-*
Segment liabilities	2,951,082	2,585,178	136,481	125,619	-*	-*
Invested Capital	3,666,712	6,079,288	117,795	92,927	-*	-*
ROIC in %	*1.1*	*4.3*	-	-	-	-
Gross cash flow	497,422	694,974	-	-11,083	-103,154	-67,142
Investments[1)]	317,842	384,667	-	-	2,732	7,928
Employees (annual average/full-time employees)	74,340	80,046	-	-	183	170

* Because of the differring activity of the holding company the segment assets, the segment liabilities and the invested capital are shown in the reconciliation account.

1) Not including financial assets.

Segment information by region

Amounts shown in th. €	KarstadtQuelle Group 2004	KarstadtQuelle Group 2003	Reconciliation account 2004	Reconciliation account 2003	Domestic 2004	Domestic 2003
Sales	15,745,248	16,944,937	-	-	13,267,898	14,547,946
Interest from credit operations	200,931	224,215	-	-	151,225	174,295
Internal sales	-2,498,996	-2,741,184	-590,418	-537,184	-1,596,606	-1,904,916
Group sales	**13,447,183**	**14,427,968**	**-590,418**	**-537,184**	**11,822,517**	**12,817,325**
Cost of sales	-7,054,820	-7,699,096	581,928	521,136	-6,492,088	-7,125,487
Gross income	**6,392,363**	**6,728,872**	**-8,490**	**-16,048**	**5,330,429**	**5,691,838**
EBITDA	**-428,431**	**972,147**	**8**	**13**	**-490,852**	**860,381**
EBITA	**-852,836**	**584,685**	**10**	**14**	**-890,513**	**496,467**
EBIT	**-1,007,212**	**504,046**	**10**	**14**	**-1,044,873**	**421,068**
EBTA	**-1,269,040**	**274,125**	**9**	**10**	**-1,328,270**	**170,637**
Loss from discontinued operations	-370,531	-44,515	-	-	-370,531	-44,515
Segment assets	6,069,676	8,069,975	508	-317	5,096,082	7,248,544
Segment liabilities	2,951,082	2,585,178	4,557	3,342	2,586,021	2,211,075
Investments	317,842	384,667	-	-	283,324	371,819

Over-the-counter retail		Mail order		Services		Real estate	
2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
5,737,595	6,276,177	8,147,594	8,598,722	1,289,911	1,483,423	570,148	586,615
-	-	200,931	224,215	-	-	-	-
-38,210	-145,706	-874,501	-800,661	-50,234	-51,571	-	-
5,699,385	**6,130,471**	**7,474,024**	**8,022,276**	**1,239,677**	**1,431,852**	**570,148**	**586,615**
-3,276,393	-3,570,382	-3,706,478	-4,083,875	-771,706	-889,838	-	-
2,422,992	**2,560,089**	**3,767,546**	**3,938,401**	**467,971**	**542,014**	**570,148**	**586,615**
13,346	12,475	1,165	1,331	5,956	10,122	-	-
-1,488,363	-1,085,982	-2,951,575	-2,653,319	-198,735	-204,049	-292,012	-162,135
-1,334,161	-1,452,803	-1,031,743	-1,052,057	-247,611	-254,738	-7,702	-6,077
-366	-190	-12,073	-8,510	-73	-1,323	-13,470	-17,060
-386,552	**33,589**	**-226,680**	**225,846**	**27,508**	**92,026**	**256,964**	**401,343**
-118,421	-116,569	-99,399	-105,517	-48,484	-50,741	-175,681	-116,097
-504,973	**-82,980**	**-326,079**	**120,329**	**-20,976**	**41,285**	**81,283**	**285,246**
-78,113	-	-18,552	-14,231	-57,711	-66,196	-	-212
-583,086	**-82,980**	**-344,631**	**106,098**	**-78,687**	**-24,911**	**81,283**	**285,034**
-361,409	-35,654	-	-	-	-	-	-
21,569	**55,589**	**-7,871**	**262,846**	**68,253**	**84,026**	**350,759**	**378,343**
0.4	*0.9*	*-0.1*	*3.3*	*5.5*	*5.9*	*61.5*	*64.5*
-111,310	**-85,682**	**-103,643**	**128,098**	**24,258**	**-35,062**	**229,542**	**241,228**
-2.0	*-1.4*	*-1.4*	*1.6*	*2.0*	*-2.4*	*40.3*	*41.1*
1,262,802	2,070,480	2,804,543	2,997,548	162,276	221,539	1,697,449	2,790,645
1,012,913	941,049	1,339,225	1,211,714	99,702	139,976	362,761	166,820
275,356	1,231,722	1,557,863	1,904,920	481,044	529,877	1,234,654	2,319,842
-31.9	*-5.0*	*-6.9*	*7.5*	*5.8*	*-6.2*	*21.8*	*11.9*
-25,336	20,882	148,199	276,085	65,134	93,059	412,579	383,173
156,480	207,158	108,109	109,970	34,229	50,939	16,292	8,672
41,492	45,601	27,774	28,539	4,786	5,651	105	85

Western Europe		Eastern Europe	
2004	2003	**2004**	2003
2,256,475	2,252,561	220,875	144,430
49,455	49,683	251	237
-298,844	-293,964	-13,128	-5,120
2,007,086	**2,008,280**	**207,998**	**139,547**
-1,031,284	-1,018,030	-113,376	-76,715
975,802	**990,250**	**94,622**	**62,832**
51,356	**105,700**	**11,057**	**6,053**
28,180	**83,458**	**9,487**	**4,746**
28,164	**78,334**	**9,487**	**4,630**
49,467	**98,701**	**9,754**	**4,777**
-	-	-	-
934,230	795,960	38,856	25,788
345,426	362,527	15,078	8,234
28,361	10,270	6,157	2,578

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) with regard to 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 Code have been satisfied.

The evaluation of these requirements is based on German Accounting Standard Number One (DRS 1) published by the German Standardization Council. The Group Account has been prepared in euros.

In deviation from the Group balance sheet date for the period to December 31, 2004, Thomas Cook AG, Oberursel, is included on the basis of the Group Account at October 31, 2004.

Methods of consolidation

Included in the Group Account of KARSTADT QUELLE AG are all important subsidiary companies under the direct or indirect 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 fair value cannot be reliably determined.

The accounts for the domestic and foreign subsidiary companies included in the consolidation are prepared 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 realization of identifiable hidden reserves and charges. A remaining asset-side differential amount from the capital consolidation is recorded under assets as goodwill and tested for impairment at least once a year.

As part of the subsequent consolidation, realized hidden reserves and charges are accounted for 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 carry of equity in the investments valuation is effected for the earnings-related components of the items Income from investments, Amortization of goodwill and Taxes on income.

For the carry 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

Changes to presentation and valuation in connection with changed/new IAS/IFRS

In the course of the Improvements project the International Accounting Standards Board has revised already existing International Accounting Standards. Moreover, some new International Financial Reporting Standards have been published. The changes and new applications are binding for financial years beginning January 1, 2005.

The IASB recommends IFRS users early application of the standards. KarstadtQuelle has partly followed this recommendation and applied the following revised and newly issued standards early: IAS 17 "Leases", IAS 36 "Impairment of Assets", IFRS 3 "Business Combinations" und IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

In accordance with the revised IAS 17 application is to the commencement of the lease with regard to the time at which the assets and liabilities under a lease are accounted for on the balance sheet for the first time. The commencement of the lease is defined as the time at which the lessee acquires the right to actual use. The classification of the lease and the calculation of the values must, as hitherto, be undertaken at the beginning of the lease, i.e. at the time when the agreement is concluded or agreement reached about the essential content. The application of the revised IAS 17 in the KarstadtQuelle Group tends to result in later balance sheet accounting of assets and liabilities under leases entered into.

The newly issued IFRS 3 standard in conjunction with the revised IAS 36 means that the scheduled straight-line amortization of goodwill hitherto undertaken no longer applies. Scheduled amortization has been replaced by the impairment test for reviewing goodwill for impairment to be carried out at least once a year. If value has been impaired, then impairment loss must be recorded.

The application of the new IFRS 5 standard for the first time has the result that components of the entity which are to be defined according to the criteria of the standard as discontinued operations must be shown separately from the income and expenditure of the continuing operations. Furthermore, separate disclosures must be made for these discontinued operations. The figures in the previous year's profit and loss account and segment reporting were adjusted. Transactions between continuing and discontinued operations are shown unconsolidated. A distorted view of the earnings is thus avoided.

Moreover, all non-current assets and so-called disposal groups, that is, entities or parts of entities which there is a specific, planned intention of selling within one year, must be shown as assets classified as held for sale or liabilities under a separate item on the Group balance sheet and explained in the notes. The valuation for these assets and disposal groups is done at the lower of fair value, less costs to sell and the value resulting from other regulations to be applied.

In connection with the restructuring of the profit and loss account the KarstadtQuelle Group has, for the sake of better comparability, undertaken a change to presentation in the case of gross income. Thus, Income from investments hitherto shown under EBITDA is this year only included in EBT with Net interest earnings. This modified presentation leads in the case of positive Earnings from investments ceteris paribus to a decrease in EBITDA. The figures for the previous year were adjusted to create comparability.

Recognition of revenue and expenditure

The recording of sales and other operating income is not undertaken until the services have been provided or the goods or products delivered and so the risk has passed to the customer.

Operating expenses are recorded as expenditure when the service is provided or at the time they are incurred.

Dividends are collected when the legal right to payment arises. Interest is recorded on an accrual basis as expenditure or income.

Goodwill

Goodwill arising from consolidation represents the amount by which the cost of a business combination exceeds the Group's share in the fair value of the identifiable assets and liabilities of a subsidiary company, associated company or joint venture at the time of acquisition. Goodwill is recorded as an asset and is tested for impairment at least once a year. Every impairment loss is immediately recorded with effect for income.

When a subsidiary company, associate company or joint venture is sold, the fair value of the goodwill is included in the determination of the profit or loss from the sale. Setting off goodwill against reserves in accordance with Section 309 Para. 1 Sentence 3 of the German Commercial Code was not reversed at first-time adoption of IFRS. Accordingly, such goodwill set off against reserves is, if the acquired company is later sold, not taken into account when recognizing the profit or loss from the sale.

Intangible assets not including goodwill

Intangible assets with the exception of goodwill have been measured at cost less scheduled linear depreciation and amortization. There are no intangible assets with an indefinite useful life. Depreciation and amortization was calculated on the basis of the following useful life:

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

In the case of anticipated decreases in value impairment losses are recorded.

If the requirements of IAS 38 have been satisfied, development costs which are based mostly on services inside the Group are carried as own-developed Intangible assets at manufacturing cost. Manufacturing costs also include reasonable shares of overhead expenses in addition to individual costs. Financing costs are not capitalized.

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 assets are valued at purchase or manufacturing cost less scheduled depreciation and amortization. Financing costs are capitalized 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. They are amortized straight-line over the expected useful life. Maintenance expenses are in general set off with effect for income. They are capitalized 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 amortization are applied as scheduled for the economic useful life. Payment commitments resulting from future lease rates are shown as liabilities under Financial liabilities. Restoration obligations are allocated to corresponding acquisition costs and, like the capitalized assets, spread straight-line over the anticipated economic useful life.

Financial assets

Financial instruments as defined in 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 recognized individually at fair value, if they are not held until final maturity and a fair value can be measured. Changes in income from securities available for sale are shown under Equity without effect for income until sale.

Financial instruments held until final maturity are recognized at adjusted purchase cost and, in the case of anticipated permanent decrease in value, at the lower fair value.

All classes within the meaning of IAS 39 are recorded as at the trading date.

Financial investments in land and buildings are likewise recognized at adjusted purchase cost. In the case of anticipated permanent decrease in value an impairment loss to the lower fair value is recorded.

Inventories

Inventories are shown at purchase or manufacturing cost, or, if necessary, at the lower net realizable value. Here recognition in the Over-the-counter retail segment is undertaken by the inverse method, starting with sales prices, applying a suitable reduction. 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 realized in accordance with the progress of the project, unless a loss is anticipated. Anticipated losses are immediately taken into account in full by value reductions or provisions.

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

Non-current assets classified as held for sale and discontinued operations

Non-current assets and groups of assets are classified as held for sale, if sale is very probable and the asset (or the group of assets classified as held for sale) is available for sale.

Non-current assets (and groups of assets) which are classified as held for sale are valued at the lower of its carrying amount and fair value less costs to sell.

A component of an entity is classified as discontinued operation, if it has either already been sold or is being held for sale. The component of the entity must represent a separate major line of busines – at least a subsegment – or operating activities in a geographically distinct area.

Receivables and Other assets

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

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

Sale of receivables

Individual Group companies are selling trade receivables to a finance company which was transferred to the II. KarstadtQuelle Pension Trust e. V. under the CTA program. Part of these receivables is then passed on by this finance company to a non-Group trust under the asset-backed securitization transaction (ABS) program. Under the ABS program the purchaser of these Receivables withholds part of the purchase price as security until receipt of the payments. If there is sufficient likelihood of realization, 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 program fee, which is shown under Other operating expenses.

Securities of current assets

Securities of current assets are recognized under IAS 39 at fair values. The fair value is adjusted with effect for income in the case of securities which are classified as “held for trading”. Market value adjustments on securities in the “Available for sale” category are included under equity without effect for income.

Deferred taxes

Deferred tax assets or liabilities are shown for temporary differences between valuations on the Group and tax balance sheets of the consolidated companies.

The recognition and measurement of deferred tax assets are regularly tested. Unscheduled depreciation is applied, if there is any doubt that the item will retain its value.

Liabilities

Long-term financial liabilities are shown as liabilities at their market value. Directly attributable transaction costs are deducted on receipt of liabilities and spread over the term with effect for income.

Provisions for liabilities and charges

Pension provisions are calculated actuarially by the projected unit credit method. Plan assets formed by the transfer of assets to two outside non-profit associations serve to secure pension commitments; the net income generated by the assets is used to reimburse for pension payments.

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 plan assets. Actuarial gains and losses due to changes in the assumptions used as a basis for calculating liabilities are included and distributed over the average remaining service period only so far as they exceed a corridor corresponding to the higher of 10 % of the respective commitment or 10 % of the plan assets. In the case of unusual fluctuations in the value of the plan assets under certain circumstances losses are taken into account outside the general application of the corridor method.

Other provisions are made for contingent liabilities and losses resulting from pending transactions. The provisions are valued at the best estimated value of the settlement sum. In the event of different scenarios to which different probabilities may be apportioned an anticipated value of the settlement sum is provided for. Long-term provisions are discounted.

Accrued expenses and deferred income

Payments deriving from outsourcing transactions made for agreed future service and purchase obligations are deferred at the time of the money inflow and written back to income over the term of the agreements.

Derivative financial instruments

All derivative financial instruments are shown on the balance sheet at their market value. In the case of derivative financial instruments which were contracted for as a hedge against the risk of fluctuating liquidity inflows (cash-flow hedges), e.g. from foreign exchange risks, changes in market value are, if the efficiency of risk limitation is adequate, recognized directly in Equity under the item “Changes resulting from the valuation of derivative financial instruments” (Revaluation reserve). If the financial instruments were applied as a hedge against the risk of fluctuation in the value of assets or liabilities entered on the balance sheet (fair value hedges), the changes in the fair value of the derivative financial instruments are shown with effect for income under Valuation results in Other financial income.

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.

Use of assumptions and estimates

In preparing the Group Account assumptions and estimates are made which affect the presentation and value of the assets, liabilities, income, expenditure and contingent liabilities entered on the balance sheet. These assumptions and estimates relate mainly to the Group-wide determination of economic useful lives, assumptions with regard to the retention of the value of land, buildings and goodwill, the valuation of provisions and the realizability of future tax relief. The actual values may in individual cases differ from the assumptions and estimates made. Changes are included, when more definite information is available, with effect for income.

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 minus 801 th. € resulting (previous year: plus 6,889 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 income. The most important rates have developed relative to the euro as follows:

	Average rate		Rate applying at the balance sheet date	
Amounts shown in €	**2004**	2003	**2004**	2003
100 Danish kroner	13.441	13.457	13.444	13.432
1 English pound	1.473	1.445	1.418	1.144
100 Hongkong Dollars	10.324	11.354	9.445	10.216
100 Polish zlotys	22.021	22.686	24.464	21.162
100 Swedish kroner	10.955	10.962	11.087	11.024
100 Swiss francs	64.761	65.762	64.813	64.144
100 Slovakian korunas	2.496	2.406	2.582	2.430
100 Czech korunas	3.134	3.142	3.291	3.072
1 US Dollar	0.804	0.884	0.734	0.793

Most important acquisitions

KARSTADT QUELLE AG did not undertake any important long-term investments or acquire any other assets during the financial year.

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 346 (previous year: 368) domestic and 111 (previous year: 92) foreign companies consolidated. Eight companies (previous year: six) are valued by the equity method. Not included in consolidation are subsidiaries, if their influence on the Group Account is immaterial.

During the 2004 financial year 13 (previous year: 32) companies were newly included in the Group Account, the most important being:

Mega Verbund AG, Basel/Switzerland (at equity)

Happy Size Company Versandhandels AG, St. Gallen/Switzerland

Neckermann spol. sro. Prague/Czech Republic

NECKERMANN spol. s.r.o., Nové Zámky/Slovakia

Bon‘ A Parte Mode AG, St. Gallen/Switzerland

Neckermann Logistik sro. Nové Zámky/Slovakia

NEOFIN N.V., Temse/Belgium

Moda Plus Sp. z.o.o., Posen/Poland

Quelle HausProfis GmbH, Fürth

QUELLE KATALOŠKA PRODAJA društvo s ogranicenom odgovornošcu za trgovinu i usluge, Varaždin/Republic of Croatia

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

The most important subsidiaries and associated companies are listed on pages 96 to 97. The complete list of shareholdings is filed with the Commercial Register of the Essen District Court HRB 1783.

The effects of divestment in fixed assets, deferred taxes, long-term liabilities to the value of 13,063 th. € in current assets and 2,184 th. € in short-term liabilities relate to assets and liabilities from disposal groups.

Besides mergers in the KarstadtQuelle Group, the following six companies left the consolidated group as fully consolidated companies during the financial year:

Karstadt Coffee GmbH, Essen

Revue Colorlabor GmbH, Fürth

MediaQuelle GmbH, Nuremberg

DISTRIBUSIÓN QUELLE LA SOURCE S.A., Madrid/Spain

DIVAT PLUSZ Kereskedelmi Korlátolt Felelösségü Társaság, Törökbálint/Hungary

RISAL Beteiligungs GmbH & Co. Objekt Karlsruhe KG, Pöcking, Landkreis Starnberg

	Acquisitions	Divestments	Acquisitions	Divestments
Amounts shown in th. €	2004		2003	
Gross income	13,390	13,516	64,816	9,256
Earnings before interest, tax, depreciation and amortization (EBITDA)	845	-3,058	3,939	28,653
Earnings before interest, tax and amortization of goodwill (EBITA)	809	-5,662	3,209	22,965
Earnings before tax and amortization of goodwill (EBTA)	-1,288	-5,744	4,123	23,013
Fixed assets	140	14,868	13,938	337,875
Current assets	1,883	14,011	53,817	130,744
Deferred taxes	-	6,629	1,355	5
Prepayments and accrued income	38	-	190	15
Assets	**2,061**	**35,508**	**69,300**	**468,639**
Long-term liabilities	-	716	399	7,287
Short-term liabilities	2,011	4,526	16,266	38,110
Deferred taxes	61	12	427	-
Accrued expenes and deferred income	-	-	50	106
Debts	**2,072**	**5,254**	**17,142**	**45,503**

Important differences between accounting in accordance with IFRS and that in accordance with the German Commercial Code

Differences between accounting and valuation methods under German commercial law and those under IFRS affect particularly the following items:

- Intangible assets constructed in the Group itself are capitalized if they fulfill the requirements of IAS 38. In particular such assets must imply a future inflow of economic benefits which is monitorable by the company, and they must be distinguishable from general company goodwill. According to accounting under commercial law expenditure on the creation of self-constructed intangible assets cannot be capitalized.
- The setting off of goodwill arising out of initial consolidation is not permitted under IFRS. This is therefore capitalized under Intangible assets. From the 2004 financial year on it will no longer be regularly written down but subjected to an impairment test. Where necessary, an impairment is recorded on goodwill.
- Write-down options for tax purposes are – where not consistent with the actual use of the assets – not applicable under IFRS.
- In connection with ABS transactions commission claims are recognized at their anticipated value under Other assets. According to accounting under commercial law these claims are not capitalized until the time of the actual receipt of payment.
- Original financial instruments in the “Available for sale” category and derivative financial instruments are in the IFRS Group Account entered on the balance sheet at fair value, if this is determinable. In the account prepared under commercial law such financial instruments are adjusted to fair value only on the basis of the imparity principle.
- Transaction costs connected with capital raising (both for equity and for borrowed capital) are treated at the time of recording on the balance sheet without effect for income. According to accounting under commercial law such expenditure represents mainly expenditure of the period. The cost of borrowed-capital procurement is recorded under Net interest income over the term of the liability.
- Pension provisions and similar commitments under IAS 19 are determined by the projected unit-credit method. Here, unlike in the case of accounting under commercial law, anticipated salary increases are included. The applied interest rate for discounting is derived from current capital market data according to term.
- On the Group balance sheet plan assets which are used to finance and secure pension payments are, in accordance with IAS 19, set off at fair value against pension commitments. In the account under the German Commercial Code the pension commitment is shown in full and also plan assets are shown unbalanced.
- Leasing transactions are entered to the balance sheet according to the rules of IAS 17. A distinction is made here between a finance lease and an operate lease, depending on who bears the major risks and rewards and is to be regarded as the beneficial owner. In the case of a finance lease the leased object is capitalized by the lessee. The criteria for distinction of finance and operate leasing are extended under IAS 17 as compared with practice under commercial law.
- Deferred taxes are recorded by the balance-sheet-oriented method and consequently also include so-called “quasi-permanent” differences. There is under IFRS no optional right for the capitalization of deferred tax assets – in so far as the qualification of a claim at the time the difference is written back is to be anticipated in the form of taxable profits. The capitalization of deferred tax assets on losses carried forward is obligatory, taking into account appropriate value adjustments.
- Expenditure in connection with the preparation, production and despatch of catalogs is capitalized under short-term intangible assets, taking into consideration the term of these catalogs. In the account prepared under the German Commercial Code such assets are not capitalized.
- The other differences relate essentially to Other provisions where the focus is on the predominant likelihood of an outflow of funds due to contingent losses to a greater degree than in commercial code balance sheet accounting governed by the principle of caution.
- Individual non-current assets and so-called disposal groups the disposal of which within a year is highly likely are shown under a separate balance sheet item on the assets and liabilities side, even if the items have hitherto been shown as non-current assets under Fixed assets. Such a reclassification does not take place under the commercial code accounting system.
- Important components of the Group, the operations of which are to be discontinued, are shown with regard to their effect on the Group profit and loss account on one line as loss from discontinued operations. Here all income and expenditure of the companies affected by this are assigned to this line so that on the other lines of the profit and loss account only the income and expenditure from continuing operations appear. The previous year’s figures have been adjusted accordingly. Such a separation does not occur in commercial law accounting.

Effects of the current reorganization process on the Group Account

The reorganization plan resolved and published at the end of September and the realignment of the KarstadtQuelle Group connected with it, like the general business performance, resulted in important value adjustments and thus in impairment losses on both non-current assets and inventories during the period under review. In addition to this, provisions were made for anticipated redundancy payments and closures, and provisions were taken into account for losses in plan assets. Altogether the following facts negatively affected Group income taking into account neutral income:

Charges on income in the Group profit and loss account by the strategic realignment

Amounts shown in th. €	2004
Impairment loss on goodwill	154,375
Impairment losses/ allowances on fixed assets	176,483
Addition to provisions/structure of liabilities under the realignment	372,762
Value adjustments on inventories and addition to provisions for purchase commitments in Over-the-counter retail and Mail order	179,825
Addition to provisions for redundancy payments/ older employees' part-time employment	375,317
Addition to provisions for closure costs	56,218
Neutral income	-37,954
Income from continuing operations	**1,277,026**
Burden on income from discontinued operations	317,085
	1,594,111

Value adjustments to goodwill or tangible assets, like the other value adjustments, were undertaken on the basis of impairment tests in accordance with IAS 36. Value adjustments of 15 mill. € were undertaken owing to lower fair value, less costs to sell, in accordance with IFRS 5.

The specialty stores assigned to the Over-the-counter retail segment and intended for sale under the reorganization project are treated as discontinued operations as defined in IFRS 5. In the profit and loss account accordingly all expenditure and income and taxes incurred thereon are shown in the separate line "Loss from discontinued operations". The profit and loss account of the previous year was adjusted accordingly. All individual notes to items of the profit and loss account must be viewed in the light of the fact that the amounts attributable to the companies concerned are not contained in the figures. For further information on this, see the Notes to the profit and loss account.

Notes to the Group profit and loss account

1 Sales

Sales are broken down by segment and region and shown in the segment report. Sales also include other operating income in the form of interest from credit operations of mail-order companies amounting to 200,931 th. € (previous year: 224,215 th. €) at the mail-order companies included in the Group Account.

2 Cost of sales

Amounts shown in th. €	2004	2003
Cost of purchased goods, raw materials and supplies	6,966,410	7,607,827
Cost of purchased services	88,410	91,269
	7,054,820	**7,699,096**

3 Other capitalized own work

Other capitalized own work includes mainly own work from self-constructed Intangible assets to be capitalized in fixed assets, in so far as their developments were effected principally by employees of Group companies. Capitalization is carried out only in accordance with a strict interpretation of the criteria of IAS 38 (intangible assets).

4 Operating income

Amounts shown in th. €	2004	2003
Income from advertising cost subsidies	169,701	195,156
Income from rents and commissions	103,239	113,000
Income from charged-on goods and services	50,824	93,744
Income from other services	21,569	21,865
Income from the release of other provisions	13,262	32,511
Income from deconsolidation	9,778	367,898
Income from the release of allowances	8,310	6,559
Income from the disposal of fixed assets	4,921	32,701
Sundry income	311,672	280,180
	693,276	**1,143,614**

Sundry income includes mainly income from the write-off of liabilities (27,234 th. €, previous year: 28,061 th. €), exchange income (19,275 th. €, previous year: 24,980 th. €) and income from indemnities (21,077 th. €, previous year: 15,743 th. €).

5 Staff costs

Amounts shown in th. €	2004	2003
Wages and salaries	2,133,406	2,286,989
Social-security contributions and cost of pensions and welfare benefits	489,151	467,960
thereof for pensions	38,415	9,594
Other staff costs	32,981	41,675
	2,655,538	**2,796,624**

The expenditure for previous year's pension provisions was affected by income from plan amendments amounting to 40,928 th. €.

Other staff costs include mainly training and instruction costs.

Under the incentive stock option 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 87.

6 Operating costs

Amounts shown in th. €	2004	2003
Distribution costs	2,567,386	2,621,740
Operating and office/workshop costs	693,749	733,033
Administrative costs	372,282	337,690
Discounts on and write-off of trade receivables	234,266	193,270
Losses from the disposal of fixed assets	20,001	9,877
Other expenditures	998,302	237,600
	4,885,986	**4,133,210**

Distribution costs include mainly the cost of catalogs, advertising, goods despatch and motor vehicles. Operating and office/workshop costs include expenditure for rents, energy and utility costs, maintenance and service costs.

Other expenditure at 799.6 mill. € includes expenditure from the reorganization carried out during the financial year which was already broken down as part of the separate disclosure on the effects of the reorganization on the Group Account. Furthermore Other expenses at 41,165 th. € (previous year: 27,747 th. €) include program fees from the sale of receivables at mail-order companies included in the Group Account. Moreover, shown under Other expenditure, are charges arising from the setting off of services and expenditure for outside staff and share price losses.

7 Depreciation and amortization (not including goodwill)

Amounts shown in th. €	2004	2003
Scheduled depreciation/amortization of tangible assets and intangible assets	329,822	371,584
Impairment losses on tangible assets	75,276	15,518
Impairment losses on intangible assets	11,415	14
Impairment losses on current assets	7,892	346
	424,405	**387,462**

Scheduled depreciation/amortization amounting to 32,933 th. € is shown separately as integral components of expenditure arising from discontinued operations.

Impairment losses applied mainly to buildings. They resulted from impairment of the value of companies belonging mainly to the discontinued operations.

8 Amortization of goodwill

Amounts shown in th. €	2004	2003
Scheduled amortization	-	58,789
Impairment loss	154,376	21,850
	154,376	**80,639**

Amortization of goodwill at 71,351 th. € includes amortization of the goodwill of the SinnLeffers Group and 57,421 th. € (previous year: 20,850 th. €) pro-rata impairment loss on goodwill in the Thomas Cook Group. In the previous year scheduled amortization included 43,744 th. €, resulting from the Thomas Cook Group.

9 Income from investments

Amounts shown in th. €	2004	2003
Losses/Income from investments in associated companies	-15,905	-88,367
Income from other investments	19,806	20,158
thereof from subsidiaries	13,706	-13,237
Profits received under profit and loss transfer agreements	526	800
Expenses from transfer of losses	-177	-6,466
Depreciation of financial assets	-12,805	-11,443
	-8,555	**-85,318**

Losses from investments in associated companies include losses from Thomas Cook AG, Oberursel, amounting to 16,997 th. € (previous year: 76,705 th. €). Equity capital and other equity capital changes without effect for income are adjusted pro-rata to take account of the result for the year, with the most important earnings components, amortization of goodwill and taxes, being treated separately. For Thomas Cook AG, therefore, amortization of goodwill is entered under the corresponding item. Thomas Cook contributed a total of minus 87,951 th. € (previous year: minus 141,299 th. €) to earnings before tax (EBT).

10 Net interest income

Amounts shown in th. €	2004	2003
Interest expenses due to additions to pensions reserves	-131,865	-136,262
Other interest and similar income	205,025	145,161
thereof from subsidiaries	642	3,148
Other interest and similar expenses	-314,745	-234,206
thereof to subsidiaries	-488	-488
	-241,585	**-225,307**

Other interest and similar income at 83,865 th. € include mainly income from plan assets and at 60,900 th. € income from contracted interest swaps. Income from plan assets at 43,888 th. € contribute to a rise in the item. Other interest and similar expenditure includes, besides a rise in expenditure arising from interest swaps to the value of 27,927 th. €, non-recurring charges arising from the reorganization to the value of 51,900 th. €.

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

11 Other financial income

Amounts shown in th. €	2004	2003
Other financial expenses	-239,771	-11,736
Other financial income	73,707	11,801
	-166,064	**65**

Other financial expenditure at 113,148 th. € include losses in the plan assets of KARSTADT QUELLE AG set off with effect for income and earnings effects of 51,123 th. € arising from discontinued hedge relations in the case of derivative financial instruments which were made necessary by refinancing planned or realized on the basis of the syndicated loan agreement in real estate. Other financial income includes the valuation of derivative financial instruments amounting to 70,869 th. € (previous year: minus 11,065 th. €).

12 Taxes on income

Amounts shown in th. €	2004	2003
Current taxes on income		
Germany	35,693	71,730
Other countries	15,954	3,695
	51,647	**75,425**
Deferred taxes		
from balance-sheet changes	-237,054	149,378
from losses carried forward	12,730	-189,043
	-224,324	**-39,665**
Tax expenditure in profit and loss account	**-172,677**	**35,760**
Tax expenditure shown under Earnings of discontinued operations	9,069	-8,794
	-163,608	**26,966**

In Germany a uniform corporation income tax rate of 25 % applies. As well as corporation tax, on which a German reunification charge of 5.5 % is levied, trade tax of approx. 16 % is levied before deductibility on corporation tax is taken into account.

Current taxes include tax expenses for other periods amounting to 1,687 th. € (previous year: 2,006 th. €). In the case of the German Group companies a deferred tax rate of 39 % was applied. In the case of land-administering partnerships, however, merely the corporation tax rate, including German reunification charge, totaling 26.25 %, was applied. In the case of the foreign companies an average country-specific tax rate is applied.

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

Amounts shown in th. €	2004	2003
Earnings before taxes	**-1,423,416**	**193,486**
Expected tax expenditure (39 %)	-555,132	75,460
Trade tax additions/reductions	-50,480	-20,476
Payments/refunds for previous years	14,570	2,634
Effects from foreign tax rates	-5,384	-7,064
Effects of non-taxable income	-76,256	-103,974
Amortization of goodwill	58,983	25,831
Operating expenses not deductible for tax	2,480	3,299
Dispensation with capitalization/value adjustment of accumulated losses carried forwards	406,530	64,918
Other divergences	32,012	-4,868
Tax expenditure in profit and loss account	**-172,677**	**35,760**

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

13 Loss from discontinued operations

Amounts shown in th. €	2004	2003
Sales and operating income	849,915	885,771
Operating and other expenditure	-1,196,356	-939,080
Earnings before taxes	**-346,441**	**-53,309**
Attributable tax expenditure/income	-9,069	8,794
Earnings after taxes	**-355,510**	**-44,515**
Loss from revaluation of assets classified as held for sale	-15,021	-
Loss from discontinued operations	**-370,531**	**-44,515**
Cash flow		
from operating activities	46,430	-67,809
from investing activities	-17,226	-35,919
from financing activities	-31,362	105,155

Because of the decision about divestment of the companies in which specialty store operations are concentrated these are – as already reported – treated as discontinued operations.

This relates to companies of the SinnLeffers Group, WEHMEYER GmbH & Co. KG, Aachen, Runners Point Warenhandelsgesellschaft mbH, Essen, and GOLF HOUSE Direktversand GmbH, Hamburg.

14 Profit/loss due to other shareholders

Amounts shown in th. €	2004	2003
Shares of profit	14,457	10,895
Shares of loss	-4,489	-5,234
	9,968	**5,661**

15 Earnings per share

		2004	2003
Number of shares on annual average	number	110,921,234	106,774,866
Total			
Loss/profit after minority interests	th. €	-1,631,238	107,550
Earnings per share	€	**-14.71**	**1.01**
Earnings from continuing operations	th. €	-1,250,739	157,726
Earnings per share	€	**-11.28**	**1.48**
Earnings from discontinued operations	th. €	-370,531	-44,515
Earnings per share	€	**-3.34**	**-0.42**

In accordance with IAS 33, earnings per share are calculated by dividing the net profit after minority interests by the average number of shares. Here the increase in the number of outside shares through the capital increase in December 2004 was taken into account pro rata.

The effects from the issue of the convertible bond by Karstadt Finance B.V., Hulst/Netherlands, result in a decrease in the loss per share. Accordingly, in accordance with IAS 33.38 disclosure of diluted earnings per share is waived.

Notes to the Group balance sheet

16 Fixed assets

All corporate acquisitions are entered by the acquisition method. Goodwill arising from the capital consolidation had until the previous year been capitalized and amortized straight-line over a useful life of 20 years in accordance with IAS 22.

Since the new IFRS are being applied in the business year, existing goodwill will be reviewed for value impairment at least once a year according to the requirements of IAS 36. Every value impairment will be recorded immediately with effect for income. A later reinstatement of original value will not occur. On initial application of IFRS 3 cumulative amortization of goodwill was set off against historic purchase cost.

When checking goodwill for possible value impairment the value in use is taken into consideration. This is determined on the basis of future estimated cash flows which are derived from medium-term planning. The planning horizon for detailed medium-term planning is four years. For the period after the detailed planning horizon growth rates will be applied which reflect the assumed average market or sector growth of the businesses concerned. The discount rates are determined on the basis of market data and for the cash generating units come to between 6.0 % and 8.4 % after tax or 8.0 % and 12.7 % before tax. Fluctuations in sales by plus or minus 10 % would not lead to any substantial devaluation requirement.

Balance sheet accounting and valuation of financial investments in land and buildings (investment properties) is done at continued cost of purchase or manufacture. The market values which are mainly based on internally updated specialist reports by third parties (independent valuation experts) on the other hand amount to 30,460 th. € (previous year: 47,305 th. €).

Included in the profit and loss account are rental income to the value of 1,016 th. € with the related operating expenditure of 949 th. € (of which 668 th. € are from scheduled depreciation) in connection with financial investment in land and buildings. In the previous year assets to the value of 5,650 th. € included in this group were written down unscheduled.

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 capitalized at the fair value at the time of the first use 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 have a book value at the balance sheet date of 49,869 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. Assets and corresponding commitments under leasing agreements will increase considerably in the 2005 financial year through the beginning of use of real estate in city-center shopping centers.

As part of a newly agreed syndicated loan, brand rights of KARSTADT QUELLE AG, Karstadt Warenhaus AG, Quelle AG and Neckermann Versand AG were assigned as security for liabilities of KARSTADT QUELLE AG. Furthermore, a partial land charge assignment declaration was agreed with 106 real estate management companies, and the provision of overall land charges and in some cases a security-purpose agreement on land charges was agreed with 51 real estate management companies. Furthermore, shares in Thomas Cook AG and various fully consolidated Group companies were assigned.

Operate leasing agreements mainly include building rents without purchase options. Rental payments under operate leasing are spread straight-line over the term of the relevant leasing agreement.

Commitments under finance and operate leasing agreements

	Total		up to 1 year		1 to 5 years		over 5 years	
Amounts shown in th. €	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
Finance leasing agreements								
Lease payments due in future	68,543	85,163	4,729	6,363	12,601	28,151	51,213	50,649
Discount	-18,674	-19,837	-1,146	-2,345	-3,366	-9,217	-14,162	-8,275
Cash value	**49,869**	**65,326**	**3,583**	**4,018**	**9,235**	**18,934**	**37,051**	**42,374**
Operate leasing agreements								
Lease payments due in future	2,017,953	2,124,532	311,629	311,229	863,627	1,097,417	842,697	715,886
Discount	-512,358	-525,800	-16,953	-10,538	-131,195	-288,594	-364,210	-226,668
Cash value	**1,505,595**	**1,598,732**	**294,676**	**300,691**	**732,432**	**808,823**	**478,487**	**489,218**
Lease payments under sublease (Sublease)	81,732	57,189	22,694	17,383	43,098	33,872	15,940	5,934

Operate leasing commitments include a cash amount of 454,589 th. € on commitments in various disposal groups in accordance with IFRS 5.

17 Inventories

Amounts shown in th. €	**2004**	2003
Raw materials and supplies	32,378	35,514
Merchandize	1,779,304	2,381,005
Advance payments	-	650
	1,811,682	**2,417,169**

Breakdown of inventories by business segment

Amounts shown in th. €	**2004**	2003
Over-the-counter retail	785,092	1,279,445
Mail order	1,012,552	1,125,936
Other	14,038	11,788
	1,811,682	**2,417,169**

Because of the valuation of inventories by the retrograde method usual in the trade no statement of the book value of inventories assessed for their net realizable value is possible.

18 Receivables and other assets

Amounts shown in th. €	**2004**	2003
Trade receivables	645,837	695,675
thereof with a remaining term exceeding 1 year	130,680	140,181
Amounts owed by subsidiaries	16,619	90,694
Amounts owed by associated companies	29,084	54,537
Amounts owed by companies in which investments are held	86,534	47,275
Other assets	881,507	836,239
thereof with a remaining term exceeding 1 year	65,340	156,944
thereof taxes	70,676	83,173
	1,659,581	**1,724,420**

From receivables and Other assets 24,690 th. € have been transferred to assets classified as held for sale.

Breakdown by business segment

Amounts shown in th. €	2004	2003
Over-the-counter retail	41,324	38,699
Mail order	540,931	594,323
Other	63,582	62,653
	645,837	**695,675**

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 entry of 1,489 th. € (previous year: 8,209 th. €) is the balance obtained from order costs (20,799 th. €; previous year: 18,296 th. €), realized profit (7,366 th. €; previous year: 9,193 th. €) and already collected payments on account amounting to minus 26,676 th. € (previous year: minus 19,280 th. €).

To secure claims under a global agreement on the sale of receivables, the ABS partners and QuelleNeckermann Versand Finanz GmbH & Co. KG were granted security on existing and future trade receivables.

Under the syndicated credit agreement newly concluded during the financial year receivables of various Group companies were assigned as security for borrower's liabilities.

During the financial year the short-term revolving sales volume of trade receivables went down (ABS program). At the key date receivables to the value of 1,244,996 th. € (previous year: 1,494,897 th. €) had been sold.

Receivables to the value of 345,384 th. € (previous year: 195,001 th. €) have been sold to QuelleNeckermann Versand Finanz GmbH & Co. KG, which was transferred to the II. KarstadtQuelle Pension Trust e.V.

Because of the newly formulated IAS 39 to be applied in 2005 the ABS program is once again included in the Group balance sheet. According to this both receivables and liabilities to the purchasing company secured with receivables are shown on the balance sheet.

Other assets include catalog costs allocated to later years amounting to 197,612 th. € (previous year: 197,177 th. €). Tax refund claims, derivative financial instruments and debit balances from suppliers are also shown under this item.

19 Securities, Cash and cash equivalents

Amounts shown in th. €	2004	2003
Cheques	820	3,273
Cash in hand and Bundesbank credits	78,261	20,462
Cash at banks	417,411	132,957
	496,492	**156,692**

Marketable securities of current assets are assessed at fair values. These include mainly financial assets in the "Available for sale" category from the special funds and security investments of KARSTADT Hypothekenbank AG, Essen. Foreign exchange accounts are recorded at the rate applying at the balance sheet date.

In the previous year long-term liabilities amounting to 101,295 th. € to banks were set off against the accounts held at banks. In the 2004 financial year setting off could not be undertaken because of the terms and conditions of the syndicated credit agreement.

Under IFRS 5 regarding disclosure 13,854 th. € were transferred from Securities, Cash and Cash equivalents.

20 Deferred taxes

Deferred taxes are shown on the balance sheet in accordance with IAS 12. Deferred taxes shown on the balance sheet relate to the following balance sheet items:

	Assets	Liabilities	Assets	Liabilities
Amounts shown in th. €	2004		2003	
Fixed assets	92,716	361,878	137,326	587,908
Current assets	6,857	148,768	55,295	151,446
Long-term liabilities	330,657	1,879	194,315	7,036
Short-term liabilities	27,632	2,320	19,892	1,786
Loss carried forward	145,127	-	191,522	-
Other	9,557	10,814	-	536
Set off	-514,384	-514,384	-583,003	-583,003
Group balance sheet	**98,162**	**11,275**	**15,347**	**165,709**
In connection with assets classified as held for sale	81,473	128,439	-	-

Deferred tax assets on accumulated losses carried forward amounting to 497,137 th. € (previous year: 90,607 th. €) are not capitalized because of the restrictions of their future use already explained in Note 12.

Deferred taxes carried as assets and as liabilities are set off against each other to a total value of 514,384 th. € for the companies comprised in the German tax group.

21 Assets classified as held for sale

Amounts shown in th. €	2004
Intangible assets	15,510
Tangible assets	803,265
Financial assets	41,513
Total Fixed Assets	**860,288**
Inventories	221,709
Other short-term fixed assets/ prepayments and accrued income	41,237
Total fixed assets/ prepayments and accrued income	**262,946**
Deferred taxes	81,473
	1,204,707

In the financial year, IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" is applied for the first time. In connection with the realignment of the KarstadtQuelle Group the disposal of individual non-current assets and shares of various companies is provided for. These assets and liabilities are shown in accordance with IFRS 5. The assets belong to part-areas of individual Group companies and also represent disposal groups of various companies in the Over-the-counter retail, Mail-order and Services segments classified as held for sale.

An important component of the transferred tangible assets is real estate from individual, scheduled divestments and specialty store activities held for sale. The transferred financial investments include shares in Sport Media Holding GmbH, Essen, and in Home Shopping Europe AG, Ismaning, which were sold at the beginning of 2005.

The individual non-current assets and the asset values and debts of the disposal groups after impairment losses have been reclassified to the new group balance sheet items "Assets classified as held for sale" and "Liabilities from assets classified as held for sale".

22 Equity

The breakdown of equity capital and minority interests is shown on page 70.

By a resolution of the extraordinary general meeting on November 22, 2004, the company's authorized capital was increased from 301,460 th. € to 539,646 th. € by the issue of 93,041,375 no-par value bearer shares with a pro-rata share of the authorized capital of 2.56 € per no-par value share. The entry in the Commercial Register of the Essen District Court was made on December 10, 2004.

The capital contributed by outside shareholders is now divided into 199,374,267 (previous year: 106,332,892) no-par-value bearer shares with an individual share value of 2.56 €. If the shares held by the company (11,424,883) are also taken into account, the result is the authorized capital of 539,646 th. € shown on the balance sheet of KARSTADT QUELLE AG.

Approved Capital I

On July 20, 2000, the Annual General Meeting resolved the raising of Approved Capital I.

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase by June 30, 2005, the authorized 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 authorized, subject to the approval of the Supervisory Board, to increase by June 30, 2005, the authorized 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 authorized, 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. € however by June 30, 2007, the authorized 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 authorized 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 authorized capital of up to 50 mill. € on conditions defined more specifically in the conditions relating to convertible bonds and bonds with warrant.

The authorized 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 authorization.

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 authorized, 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 authorized 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.

Authorization to acquire own shares

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

The Management Board was also authorized to acquire company shares in order to offer these to managerial staff of the company under the aforementioned Incentive Stock Option plan in fulfillment of the subscription rights arising from this.

The Management Board was in addition authorized by a resolution of the Annual General Meeting on May 4, 2004, to appropriate own shares to service conversion and/or option rights (see Conditional Capital I).

The authorization is limited to the purchase of shares with a par value of 10 % of the authorized capital of 301,459,904 € existing on July 11, 2002. This represented 11,775,777 no-par value shares. The right of shareholders to purchase own company shares is precluded insofar as these shares are used in accordance with the aforementioned authorizations.

11,424,883 shares, representing 5.4 % of the existing share capital, had been repurchased by the balance sheet date.

Share-oriented remuneration

In stock-exchange-listed companies workforce shares and stock option rights have become effective components of a results-linked concept for remunerating employees. In the financial year KARSTADT QUELLE AG had 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 Option 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 exercize 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 33.45 €, 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. Possible effects of the capital increase on the percentages of the exercize levels are not taken into consideration here.

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 authorization 726 staff have acquired 1,000 stock options each. KARSTADT QUELLE AG issued a total of 1.941.000 stock options from the first two tranches by the balance sheet date.

The conditions for the exercize of the stock options had not been exercized at the balance sheet date.

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

Mrs. **Madeleine Schickedanz, Fürth,** die **Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG, Fürth,** Mr. **Leo Herl, Fürth, Grisfonta AG, Landquart/Switzerland,** Mr. **Martin Dedi, Freudenstadt,** and **Martin Dedi Vermögensverwaltungs GmbH & Co. KG, Fürth,** announced that as of December 14, 2004, their shares in our company, including assignable votes, now totalled 41,824 %.

Mrs. **Margarete Riedel, Fürth,** announced that as of October 26, 2004, 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, fell below 5 %.

Allianz AG, München, announced that as of December 17, 2004, its share of votes in our company, including the votes assignable under Section 22 Para. 1 No. 1 WpHG, fell below the level 10 % and now amounted to 7.56 %. The share of votes held by **Dresdner Bank AG, Frankfurt am Main,** on December 17, 2004, fell below the level of 10 % and amounted to 7.55 %. The share of votes held by **Allianz Finanzbeteiligungs GmbH, Munich,** on December 17, 2004, fell below the level of 10 % and its voting share amounted to 7.55 %. These voting rights are assignable to **Allianz Finanzbeteiligungs GmbH, Munich,** under Section 22 Para. 1 No. 1 WpHG.

Additional paid-in capital

In connection with the capital increase the amount of 279,315 th. € exceeding the mathematical value of the issued no-par value shares at 2.56 € was in accordance with Section 272 Para. 2 No. 1 German Commercial Code added to the capital reserve.

Under the refinancing program a convertible bond with a nominal value of 170,000 th. € and at a nominal interest rate of 4.5 % and with a term of 5 years was issued by Karstadt Finance B.V., Hulst, Netherlands in December of the financial year ended, KARSTADT QUELLE AG being the guarantor for the conversion rights. During the exercize period the creditors of the convertible bond may at any time convert their convertible bonds into 19,406,392 no-par value bearer shares with a pro-rata share of 49,680 th. € of the authorized capital of KARSTADT QUELLE AG.

At the date of issue the attributable fair value of the bond component, applying the relevant interest rate for a similar convertible bond without conversion rights, is estimated. The difference between the proceeds from the issue of the convertible bond and the calculated attributable fair value of 32,638 th. € for the bond component was added to the capital reserve in accordance with IAS 32 and 39. The capital reserve now amounts to 629,424 th. € (previous year: 317,471 th. €).

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

Performance of derivative financial instruments in the equity capital

Amounts shown in th. €	Before tax	Tax effect	Net
Unrealized profits/losses from derivative financial instruments as at 01.01.2004	-100,784	37,858	-62,926
Unrealized profits/losses from derivative financial instruments for the period under review			
Releases	86,861	-33,299	53,562
Transfers	-3,752	7,991	4,239
Unrealized profits/losse from derivative financial instruments as at 31.12.2004	**-17,675**	**12,550**	**-5,125**

Equity changes without effect for income in the Group Account of Thomas Cooke AG were added pro-rata to the appropriations to a value of 15,349 th. € before tax.

In accordance with IAS 39 derivative financial instruments fall into the category of "Financial assets and liabilities held for trading". 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. On fulfillment of the underlying transaction they are entered with effect for income. Changes of value on hedging transactions which do not fulfill the efficiency criteria of IAS 39 are entered into the profit and loss account.

Original financial instruments contribute 8,273 th. € before tax and 4,984 th. € to value changes in equity capital, taking into account deferred tax. In total, original financial instruments contribute 6,300 th. € before tax and 3,780 th. € taking into account deferred taxes.

Proposed distribution of dividends

Because of the Group reorganization no dividend payments are planned for the 2004 financial year.

23 Pension provisions

Provisions are set up for commitments arising from future pension rights and ongoing payments to active and former employees and surviving dependants.

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.

Corporate pension payments in the Group are mainly performance-oriented and usually based on employees' duration of employment and remuneration. Alongside this, a contribution-oriented pension system was introduced with senior staff by way of salary conversion. The converted amounts were invested in fund shares with two capital investment companies and at the same time irrevocably transferred to the II. KarstadtQuelle Pension Trust e.V. Further plan assets to the value of 37,590 th. € were created by the transfer.

Further payments to the value of 10,635 th. € from contribution-oriented plans were made.

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

Accounting parameters

Amounts shown in %	2004	2003
Interest rate	4.8	5.5
Anticipated development of income	2.0	3.0
Anticipated development of pensions	1.0	2.0
Anticipated return from plan assets	4.7 - 6.25	5.1 - 6.2
Average employee turnover	5.0	5.0

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

Because of the negative business performance giving rise to the reorganization high value losses amounting to 113,148 th. € were sustained in plan assets. These were recorded outside the general procedure directly under Financial results. The plan assets are used predominantly by Group companies.

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	**2004**	2003
Defined benefit obligation (DBO)	1,594,195	903,116	2,497,311	2,539,215
Actuarially calculated profits/losses not taken into account	-28,740	-36,097	-64,837	-139,910
Expenses under plan amendments from previous years not taken into account	-138	-495	-633	-732
Fair value of plan assets	-1,504,939	-	-1,504,939	-1,560,238
	60,378	**866,524**	**926,902**	**838,335**
Pension provisions from assets classified as held for sale	-	-132,885	-132,885	-
	60,378	**733,639**	**794,017**	**838,335**

Development of defined benefit obligation (DBO)

Amounts shown in th. €	Commitments financed from funds	Commitments financed from provisions	**2004**	2003
As at 01.01.	1,546,929	992,286	2,539,215	2,525,502
Service costs	5,412	5,216	10,628	14,302
Interest	86,875	49,620	136,495	141,915
Pension payments	-97,472	-47,563	-145,035	-137,853
Actuarially calculated profits/losses	-49,774	5,340	-44,434	38,723
Plan amendments	-	442	442	-44,921
Allocation to plan	37,590	-37,590	-	-
Addition from consolidated companies and other changes	-	-	-	1,547
As at 31.12.	**1,529,560**	**967,751**	**2,497,311**	**2,539,215**

Pension costs

Amounts shown in th. €	Commitments financed from funds	Commitments financed from provisions	**2004**	2003
Service costs	5,412	5,216	10,628	14,302
Interest	86,875	49,620	136,495	141,915
Anticipated return from plan assets	-83,865	-	-83,865	-39,977
Actuarially calculated profits/losses with effect on income	113,148	64	113,212	87
Post-service cost	-	99	99	87
Income from plan amendments	-	-351	-351	-44,921
	121,570	**54,648**	**176,218**	**71,493**

Whereas the cost of pension claims acquired during the financial year is shown under Staff costs, the interest and the anticipated income from plan assets and the actuarial losses affecting plan assets and recorded with effect for income are shown under Financial results. Interest costs of 4,630 th. € include amounts from discontinued operations. The same applies to costs of pension rights amounting to 529 th. € acquired during the financial year.

24 Other provisions

Amounts shown in th. €	2004 Total	up to 1 year	2003 Total	up to 1 year
Tax provisions	146,685	84,279	170,215	58,039
Other provisions	768,491	465,563	327,977	200,467
	915,176	**549,842**	**498,192**	**258,506**

A total of 114,607 th. € was transferred from other provisions to Liabilities resulting from assets classified as held for sale.

Development of Other provisions

Amounts shown in th. €	As at 01.01.2004	Changes in consolidated companies	Currency differences	Recourse	Release	Addition	Reclassification acc. to IFRS 5	As at 31.12.2004
Staff	152,285	-158	4	-104,640	-13,799	337,543	-10,597	360,638
Guarantees/warranties	47,165	-8	65	-31,773	-329	30,711	-10	45,821
Contingent losses resulting from pending transactions	31,149	-	2	-16,342	-474	184,147	-7,617	190,865
Other	97,378	-2,224	19	-66,392	-12,460	230,533	-75,687	171,167
	327,977	**-2,390**	**90**	**-219,147**	**-27,062**	**782,934**	**-93,911**	**768,491**

Staff provisions include, besides those from the appropriation for reorganization, provisions for anniversary payments and death benefit. The last items have already been dealt with above in the notes to reorganization. The additons to the provisions for contingent losses resulting from pending transactions at 152,501 th. € relate to five city center real estate development projects. Other provisions include commitments to the value of 92,686 th. € to third parties arising from actions and closure of branches under reorganizational measures initiated

Income from the release of staff provisions to the value of 13,799 th. € are shown under Staff costs.

25 Financial liabilities

Amounts shown in th. €	2004	thereof with a remaining term of: up to 1 year	1 to 5 years	more than 5 years
Bank loans and overdrafts	1,541,166	519,770	607,460	413,936
Previous year	*1,707,067*	*916,605*	*206,475*	*583,987*
Liabilities under leasing agreements	49,869	3,583	9,235	37,051
Previous year	*65,326*	*3,321*	*22,743*	*39,262*
Other financial creditors	2,063,684	217,585	645,496	1,200,603
Previous year	*1,824,616*	*551,206*	*281,353*	*992,057*
As at 31.12.2004	**3,654,719**	**740,938**	**1,262,191**	**1,651,590**
Previous year	***3,597,009***	***1,471,132***	***510,571***	***1,615,306***

In December of the financial year a syndicated loan was agreed with 16 participating banks for a term of three years. The syndicated loan is contingent on adherence to various information and conduct obligations and adherence to certain financial covenants.

As part of the syndicated credit line a comprehensive security package made up chiefly of the following was allowed:

- Liens on real property in disposable rank
- Assignment of receivables as security, unless already assigned as part of ABS transactions
- Pledge of shares in Thomas Cook AG and various fully consolidated companies
- Assignment of dividend claims of KARSTADT QUELLE AG against subsidiary companies and of shares in selected companies as security.

Claims made under the new loan carry variable interest on the basis of EURIBOR (or, in the case of drawings in other currencies than the euro, of LIBOR) plus margin and regulatory costs. The term loan is initially subject to a margin of 3.5 %, which will rise to 4.5 % p. a. in 2006 and 5.5 % p.a. in 2007. A margin of 2.75 % has been agreed for the seasonal and the revolving credit agreement, which, depending on the amount of the respective use of the credit facilities, will as a result of an added claim fee in each case effectively increase to a maximum of 3.75 % p.a.

Interest-bearing bank loans and overdraft loans are entered on the balance sheet at the amount paid out by the lenders less directly assignable issue costs. Financing costs, including fees payable as repayments or redemption, are recognized under profit and loss over the term of the loan. Costs amounting to 40,682 th. € were incurred under the syndicated loan. Liabilities under leasing agreements are shown at cash value. Other financial liabilities include liabilities from commercial paper amounting to 15,000 th. € (previous year: 300,400 th. €).

Other financial liabilities also include liabilities amounting to 133,712 th. € from the issue of a convertible bond. The interest coupon comes to 4.5 %, the conversion premium to 35 %.

Financial liabilities are secured by mortgages amounting to 1,238,752 th. € (previous year: 668,066 th. €) and amounting to 114,036 th. € by other rights. In addition, there is mortgage security amounting to 1,622,374 th. € (previous year: 1,419,737 th. €) under the KARSTADT Hypothekenbank AG's (Essen) mortgage bond program.

40,896 th. € were transferred from Financial liabilities to Liabilities resulting from assets classified as held for sale.

Market/book values and nominal values of the financial liabilities

	Market/book values		Nominal values	
Amounts shown in th. €	**31.12.2004**	31.12.2003	**31.12.2004**	31.12.2003
Short- and long-term financial liabilities	**3,654,719**	**3,597,009**	**3,593,528**	**3,624,861**

26 Trade payables and other liabilities

		thereof with a remaining term of		
Amounts shown in th. €	**2004**	up to 1 year	1 to 5 years	more than 5 years
Trade payables				
owed to third parties	1,059,921	1,059,921	-	-
previous year	*1,097,553*	*1,097,171*	*382*	*-*
owed to subsidiaries	14,098	14,098	-	-
previous year	*16,326*	*16,326*	*-*	*-*
owed to associated companies	28,213	28,198	15	-
previous year	*33,437*	*33,437*	*-*	*-*
owed to companies in which investments are held	15,776	8,753	-	7,023
previous year	*15,221*	*10,408*	*-*	*4,813*
	1,118,008	**1,110,970**	**15**	**7,023**
previous year	***1,162,537***	***1,157,342***	***382***	***4,813***
Other liabilities				
Advance payments received on orders	12,100	12,100	-	-
previous year	*16,074*	*16,074*	*-*	*-*
Liabilities on bills accepted	24,860	24,860	-	-
previous year	*33,088*	*33,088*	*-*	*-*
Other creditors	1,092,641	690,752	70,476	331,413
thereof taxes	214,382	202,212	12,170	-
thereof social security	107,639	107,542	-	97
previous year	*1,168,774*	*805,572*	*27,910*	*335,292*
thereof taxes	*223,044*	*210,910*	*12,134*	*-*
thereof social security	*107,760*	*107,656*	*95*	*9*
	1,129,601	**727,712**	**70,476**	**331,413**
previous year	***1,217,936***	***854,734***	***27,910***	***335,292***
As at 31.12.2004	**2,247,609**	**1,838,682**	**70,491**	**338,436**
previous year	***2,380,473***	***2,012,076***	***28,292***	***340,105***

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

Short-term trade payables owed to third parties also include outstanding supplier's invoices amounting to 143,200 th. €. In the previous year these were still shown to an amount of 146,008 th. € under Short-term provisions. Comparable figures for the previous year were adjusted.

27 Liabilities from assets classified as held for sale

Amounts shown in th. €	2004
Pension provisions	132,885
Financial payables	40,896
Other creditors/provisions	220,072
Deferred taxes	128,439
	522,292

28 Contingent liabilities, Other financial commitments

Amounts shown in th. €	2004	2003
Liabilities resulting from guaranties	7,126	2,263
Liabilities under warranty agreements	1,806	1,867
Collateral liabilities	14,033	600
	22,965	**4,730**

Contingent liabilities are 4,782 th. € owed to subsidiary companies.

Collateral liabilities amounting to 14,033 th. € result from rent guarantees for Karstadt Coffee GmbH, Essen, finally consolidated during the year under review. The rent guarantees are being replaced short-term by the acquirer, Starbucks Coffee International, Inc. They were secured at the key balance sheet date by letters of comfort from the acquirer.

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

As well as contingent liabilities, there are Other financial commitments of 1,505,595 th. € (previous year: 1,598,732 th. €) arising mainly from the lease of buildings and movables or before discounting to the value of 2,017,953 th. € (previous year: 2,124,532 th. €).

Other purchase commitments total 752,347 th. € (previous year: 985,366 th. €). Letters of credit to the value of 58,796 th. € exist for this. Further letters of credit existed to the value of 24,825 th. €.

Financial liabilities amounting to 23,552 th. € were incurred through outsourcing of certain services in the Mail-order segment.

In addition there are Further other financial commitments amounting to 36,773 th. € (previous year: 34,367 th. €).

In 2001 the KarstadtQuelle Group set up an Incentive Stock Option plan, which was further developed during the year under review. As it is not certain at present whether the required criteria for exercize of the option rights have been satisfied and thus the level of commitment cannot be determined sufficiently precisely, no provision was set up in the financial year.

Over and above the fixed commitments, there are also commitments to the value of 436,679 th. € or nominally 711,260 th. € from current real estate development projects.

Sales warranties to a value of 584,072 th. € with a term of at least six years result from the agreement concluded with ATOS Origin GmbH during the financial year in respect of the spin-off of certain IT operations. Furthermore, acceptance commitments amounting to 9 mill. € for paper deliveries and printing services relating to a period of five years were entered into in connection with the not yet legally effective sale of Euro-Papier N.V., Temse, Belgium.

There is an obligation to pay up shares of 75 mill. € resulting from the joint venture with the REWE Group, which was paid during the period this report was being prepared.

Pending legal actions

1. In 2001 successors of Franz Wertheim brought an action for compensation against the KarstadtQuelle Group in the USA. The plaintiffs base their claims on the sale of Wertheim shares in the 30’s, the abandonment of restitution claims by the brothers Günter and Fritz Wertheim in the 50’s and an allegedly illegal reassignment of the Lenné-Dreieck real estate in Berlin to Warenhaus Wertheim GmbH after the reunification. The amount at issue has not been disclosed.

   The Group is of the opinion that the action is not permissible both because the American courts have no jurisdiction here and because there is no cause. In May 2004 the action was dismissed at the first instance. The plaintiffs have appealed against the decision.

   The company is aware that in May 2003 an action was brought by other members of the Wertheim family in the same matter. Such action has so far not been formally served on the company. The KarstadtQuelle Group rates the chances which the actions have of success in the USA as “slight.” No provisions have so far been set up for this contingency.

2. In 1991 the Lenné-Dreieck was assigned by the State of Berlin to Warenhaus Wertheim GmbH without charge. The background was a possible illegal expropriation of Wertheim family property during the Soviet occupation or during the period of National Socialism. In the underlying assignment agreement Warenhaus Wertheim GmbH exempted the State of Berlin from any claims brought by third parties, particularly former partners in Warenhaus Wertheim GmbH. Warenhaus Wertheim GmbH, as a subsidiary of KARSTADT QUELLE AG, was transferred to

an internal pension fund to cover pension commitments. Claims brought against Warenhaus Wertheim GmbH therefore affect the KarstadtQuelle Group correspondingly.

In so far as the JCC is the legal successor of the Wertheim family, the JCC may be entitled to bring restitution claims against the State of Berlin in respect of the land in Lenné-Dreieck. In this case there is a risk that the State of Berlin may claim against the KarstadtQuelle Group on the grounds of the exemption given in 1991. In the worst case asset claims amounting to 145 mill. € by the State of Berlin may arise from the exemption declaration.

However, the Group is of the opinion that such a claim cannot stand because of changes to the law of claims, lack of formal qualifications and changes in the underlying basis of the exemption agreement.

29 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. To limit these risks, derivatives, primarily in the form of currency futures, are being deployed.

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, in particular interest swaps.

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 forward exchange purchase contracts are carried at a market value of 447 th. € (previous year: 527 th. €) under Other assets and at a market value of 23,857 th. € (previous year: 59,101 th. €) under Other short-term liabilities.

Interest derivatives

The market value of interest derivatives 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 forward they are carried at a market value of 78,186 th. € (previous year: 12,735 th. €) under Other assets and at a market value of 59,765 th. € (previous year: 46,895 th. €) under Other short-term liabilities.

Derivative financial instruments

	Market values		Nominal	
Amounts shown in th. €	**31.12.2004**	31.12.2003	**31.12.2004**	31.12.2003
Currency-related transactions Forward exchange purchase contracts	**-23,410**	**-58,574**	**372,178**	**600,251**
Interest-related transactions Forward rate agreements	-83	-314	1,476	3,484
Interest swaps	18,504	-33,847	2,278,103	1,959,033
CAPs	-	1	50,564	204,519
	18,421	**-34,160**	**2,330,143**	**2,167,036**
Other	-	151	17,000	8,500
	-4,989	**-92,583**	**2,719,321**	**2,775,787**

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 71.

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 operating activities, investing activities and financing activities.

During the year under review the cash flow statement was structurally revised to bring it into line with international report formats. The previous year was accordingly shown in comparable format.

Beginning with the result from operational activities (earnings before interest, tax, depreciation and amortization, EBITDA) expenditure and income not affecting liquidity are eliminated to show the gross cash flow. Here, mainly for greater comparability, the effects from provision appropriations under the reorganization are shown on a separate line.

After the gross cash flow the effects on the liquidity situation resulting from the change in working capital and from changes in other short-term assets and liabilities are shown. The resulting intermediate value cash flow from operating activities differs for the previous year's column amounting to 136,186 th. € from the figure for the reposted in- and outflows of interest and the change in pension provisions. Interest in- and outflow and cash flow from pension commitments were assigned to the financing sector.

Cash in the KarstadtQuelle Group comprises amounts included in Cash and cash equivalens from cheques, cash in hand and cash balances at banks with terms of up to three months amounting to 496,492 th. € (previous year: 156,694 th. €) as well as short-term securities amounting to 21,686 th. € (previous year: 9,424 th. €).

The change in cash flow resulting from changes in the consolidation group amounts to minus 12,151 th. € (previous year: minus 544 th. €). The main effect here is that of the sale of the shares in Karstadt Coffee GmbH, Essen.

Notes to the segment information

The segment information is shown on pages 72 to 73.

The segment report was prepared in accordance with the regulations of IAS 14 and segments the primary report format by business segment and the secondary report format by region.

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 Intangible assets and Tangible assets, Current assets, not including in-Group receivables, and Prepaid expenses and accrued income. Assets classified as held for sale are not included in segment assets.

Segment liabilities include both long- and short-term non-interest-bearing borrowed capital as well as accrued expenses and deferred income. Deferred taxes and liabilities from assets classified as held for sale are once again not shown.

Segment investments comprise intangible assets including accrued goodwill, tangible assets.

Gross cash flow comprises earnings from operational activities (EBITDA), adjusted to take account of profits or losses from the sale of fixed assets, changes in long-term provisions (not including pension and tax provisions) and other expenditure and income without effect for cash flow.

Invested capital comprises fixed assets, working capital, other non-interest-bearing assets and liabilities and non-interest-bearing income tax assets and liabilities. Return on Invested Capital (ROIC) is calculated as the quotient of EBIT (not including special factors) and Invested Capital.

Other information

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

Fees to the Management Board of KARSTADT QUELLE AG total 2,803 th. € (previous year: 2,895 th. €), the variable components 1,388 th. € (previous year: 2,394 th. €). Fees to the members of the Management Board for the year under review amount to 4,191 th. € (previous year: 5,289 th. €).

Fees to the members of the Supervisory Board of KARSTADT QUELLE AG for the financial year total 153 th. € (previous year: 105 th. €). Variable components (previous year: 600 th. €) were not paid during the year under review. For further mandates in the KarstadtQuelle Group members of the Supervisory Board received fixed remuneration amounting to 129 th. € (previous year: 215 th. €). Remuneration thus totals 282 th. € (previous year: 920 th. €).

Payments totaling 8,868 th. € (previous year: 5,329 th. €) were made to former members of the Management Board and their surviving dependants. 47,689 th. € (previous year: 46,661 th. €) were set aside for pension commitments to former members of the Management Board and their dependants.

The members of the Supervisory Board are listed on pages 7, 98 and 99. The members of the Management Board are listed on pages 2 and 3 as well as page 100.

Relations with affiliated companies and persons

The KarstadtQuelle Group delivered goods and provided services to the value of 4,441 th. € (previous year: 42 th. €) to affiliated companies and persons.

At the key date receivables totaling 317 th. € (previous year: 10 th. €) are due from affilitated companies and persons.

During the year under review cash an cash equivalents totaling 35,873 th. € for insolvency insurance of work-credit accounts and the respective administrative expenses for liabilities of Group companies arising from older-employees' part-time work were transferred to the II. KarstadtQuelle Pension Trust e.V.

Over and above the goods and services supplied, relations between the Group and non-consolidated subsidiary companies have arisen from the reciprocal right to provision of services. In these cases settlement of accounts is done on a cost basis.

The Chairman of the Supervisory Board and his wife hold shares in closed real estate funds which maintain contractual relations with the KarstadtQuelle Group. Because of the low level of the holding influence is not anticipated. The shares in the funds had already been subscribed to before the beginning of the activity on the Supervisory Board of KARSTADT QUELLE AG.

The wife of one member of the Management Board of Quelle AG and Neckermann Versand AG is a shareholder in a company which maintains normal business relations with Quelle AG.

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 last issued a Declaration of Compliance in accordance with Section 161 German Stock Corporation Law on March 18, 2004. 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 "2004 Corporate Governance Report 2004" section on pages 12 to 14 of the Annual Report.

Waiver of disclosure under Section 264 Para. 3 and Section 264b German Commercial Code

The following domestic subsidiaries having the legal form of a corporation or commercial partnership within the meaning of Section 264a German Commercial Code have satisfied the requirements of Section 264 Para. 3 and Section 264b German Commercial Code for exemption and therefore dispense with the disclosure of their annual accounts.

Exemption under Section 264 Para. 3 German Commercial Code

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;
Madeleine Mode GmbH, Zirndorf;
Mercatura Holding GmbH, Nuremberg;
Mode & Preis Versandhandels GmbH, Lörrach;
Neckermann Versand Handelsgesellschaft mbH, Berlin;
Optimus Logistics GmbH, Nuremberg;
Peter Hahn GmbH, Winterbach;
Producta Daten-Service GmbH, Frankfurt/Main;
Profectis GmbH Technischer Kundendienst, Nuremberg;
Quelle Customer Care Center GmbH, Nuremberg;
Quelle HausProfis GmbH, Fürth;
QuelleNeckermann Spezialversand GmbH, Fürth;
RWA Regina Werbeagentur GmbH, Essen;
Saalfrank Qualitätswerbeartikel GmbH, Sennfeld;
servicelogiQ GmbH logistische Dienstleistungen, Nuremberg;
TRI Kottmann GmbH, Bad Waldsee;
Universum Inkasso GmbH, Frankfurt/Main;
Versandhaus Walz GmbH, Baby-Walz, Die moderne Hausfrau, Bad Waldsee;
4 Wände Wohnversand GmbH, Frankfurt am Main.

Exemption under Section 264b German Commercial Code

Atelier Goldner Schnitt GmbH & Co. KG, Münchberg;
CJD clinic + job-dress GmbH & Co. KG, Bramsche;
DK Berufsmoden GmbH & Co. KG, Osnabrück;
DK-Profashion GmbH & Co. KG, Osnabrück;
Fritz Berger GmbH & Co. KG, Neumarkt i.d. Opf.;
Hess Natur-Textilien GmbH & Co. KG, Butzbach;
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;
KATEC Leasing GmbH & Co. Vermietungs KG, Pöcking, Landkreis Starnberg;
Krähe Versand GmbH & Co. KG, Schlierbach;
OPTIMUS GmbH Logistik & Co. Warendienstleistungs KG, Brieselang;
Peter Hahn Grundstücksgesellschaft mbH & Co., Winterbach;
Quelle Contact GmbH & Co. KG, Chemnitz;
TRADO Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Dresden KG, Pöcking, Landkreis Starnberg;
TriStyle Holding GmbH & Co. KG, Fürth;
WEHMEYER GmbH & Co. Kommanditgesellschaft, Aachen.

Major subsidiary companies

As at 31.12.2004

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	5,676,498	45,436
Le Buffet System- Gastronomie und Dienstleistungs-GmbH, Essen	(C)	100	2,212	30,024	531
Mail order					
KARSTADT QUELLE Versand GmbH, Essen [3)]	(C)	100	1,294,000	-	-
Quelle Aktiengesellschaft, Fürth	(C)	100	425,992	3,366,803	11,817
Neckermann Versand Aktiengesellschaft, Frankfurt/Main	(C)	100	555,431	1,361,250	5,668
TriStyle Holding GmbH & Co. KG, Fürth [2)]	(C)	51	21,797	469,379	1,550
QUELLE S.A.S., Saran, France [2)]	(C)	100*	40,912	402,083	1,508
Neckermann B.V., Hulst, Netherlands [2)]	(C)	100	58,012	270,043	935
Quelle Aktiengesellschaft, Linz, Autria	(C)	100*	43,979	249,612	1,613
Versandhaus Walz GmbH, Baby-Walz, Die moderne Hausfrau, Bad Waldsee	(C)	100	5,113	246,924	1,309
Neckermann Versand Österreich AG, Graz, Austria [2)]	(C)	100	29,970	217,487	907
AFIBEL S.A., Villeneuve d`Ascq, France	(C)	99.49*	32,664	163,445	486
Mode & Preis Versandhandels GmbH, Lörrach [2)]	(C)	100	10,053	140,616	104
Mercatura Holding GmbH, Nuremberg [2)]	(C)	100	9,459	132,064	1,316
Happy Size-Company Versandhandels GmbH, Frankfurt/Main [2)]	(C)	100	1,480	98,542	57
Elegance Rolf Offergelt GmbH, Aachen [2)]	(C)	100	11,324	81,930	397
Bon' A Parte Postshop A/S, Ikast, Denmark [2)]	(C)	100	6,401	70,777	396
Nebus Loyalty B.V., Hulst, Netherlands [2)]	(C)	100	4,320	66,257	178
Hess Natur-Textilien GmbH & Co. KG, Butzbach [2)]	(C)	100	3,689	52,949	243
Quelle Versand AG, St. Gallen, Switzerland	(C)	100	21,252	50,267	141
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	-	-
ITELLIUM Systems & Services GmbH, Essen	(C)	100	5,000	284,565	1,557
Profectis GmbH Technischer Kundendienst, Nuremberg	(C)	100	2,556	104,737	1,644
servicelogiQ GmbH logistische Dienstleistungen, Nuremberg	(C)	100	521	60,180	960
Karstadt Quelle International Services AG, St. Gallen, Switzerland	(C)	100	21,847	51,173	114
KARSTADT QUELLE Information Services GmbH, Essen	(C)	100	123,480	20,869	127
KARSTADT QUELLE New Media AG, Essen	(C)	100	21,777	-	41

Company name and registered office	Capital holding in %		Equity th. €	**Sales th. €**	Staff[1)] number
Real estate					
KARSTADT Immobilien AG & Co. KG, Essen [3)]	(C)	100	840,604	10,856	81
MOSTIA Grundstücksgesellschaft mbH & Co. KG, Grünwald bei München	(C)	100	-21,349	19,707	-
TRADO Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Dresden KG, Pöcking, Landkreis Starnberg	(C)	99	-69,985	11,591	-
TRADO Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Dresden KG, Pöcking, Landkreis Starnberg	(C)	100*	-12,787	5,009	-
KINTO Grundstücks-Verwaltungsgesellschaft mbH, Grünwald bei München	(C)	94.5	-39	-	-
KARSTADT Hypothekenbank AG, Essen	(C)	100	254,174	-	22

(K) Fully consolidated.
1) Annual average, not including trainees.
2) Including subsidiaries.
3) Intermediate holding company.
* Group participating interest calculated.

Major associated companies of the KarstadtQuelle Group

As at 31.12.2004

Company name and registered office	Capital holding in %		Equity th. €	**Sales th. €**
Thomas Cook Aktiengesellschaft, Oberursel (Taunus) [1)]	(E)	50	420,453	63,466
TC Touristik GmbH, Oberursel (Taunus) [1)]	(E)	55*	116,961	2,588,494
CAP Customer Advantage Program GmbH, Cologne	(E)	49	13,893	69,011
KarstadtQuelle Finanz Service GmbH, Düsseldorf	(E)	50	126,287	11,274

(E) Consolidated at equity.
1) Financial year from 01.11.2003 to 31.10.2004.
* Group participating interest calculated.

Corporate officers and their supervisory functions in accordance with KonTraG

Supervisory Board

Dr. Thomas Middelhoff, Bielefeld
Chairman (w.e.f. 01.07.2004)
w.e.f. 04.05.2004
Partner of Investcorp International Ltd., Great Britain

Supervisory board seats by law:
Apcoa Parking AG (Chairman)
Polestar Corporation PLC, Great Britain (Chairman)
Avecia Holdings PLC, Great Britain
New York Times Company, USA

Comparable supervisory functions:
Fitch, France

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

Jochen Appell, Heusenstamm
w.e.f. 01.07.2004
Attorney at Law, former Senior Corporation Counsel of Commerzbank AG
No notifiable mandates

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

Hero Brahms, Wiesbaden
former Member of the Management Board of Linde AG

Supervisory board seats by law:
Deutsche Post AG
EDAG Engineering + Design AG
Georgsmarienhütte Holding GmbH (Deputy Chairman)
Wincor Nixdorf AG

Comparable supervisory functions:
M.M. Warburg & Co. Gruppe KGaA
M.M. Warburg & Co. KGaA

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:
Crédit Lyonnais, Paris
Les Assurances Générales de France (AGF), Paris
EULER & Hermes, Paris

Bodo Dehn*, Mönchengladbach-Rheydt
Chairman of the Works Council of Karstadt Warenhaus Aktiengesellschaft, Mönchengladbach-Rheydt branch

Supervisory board seats by law:
Karstadt Warenhaus Aktiengesellschaft

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
Managing Director of Deutsche Schutzvereinigung für Wertpapierbesitz e. V.

Supervisory board seats by law:
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
former Chairman of the Plenary Works Council of Quelle Aktiengesellschaft, System development engineer
No notifiable mandates

Reinhard Koep, Mülheim/Ruhr
until 04.05.2004
former Member of the Management Board
of KARSTADT QUELLE Aktiengesellschaft
No notifiable mandates

Franz Lajosbanyai*, Unterpfleichfeld
Chairman of the Plenary Works Council
of Neckermann Versand Aktiengesellschaft
Supervisory board seats by law:
Neckermann Versand Aktiengesellschaft

Dr. Hans Meinhardt, Wiesbaden
Chairman
until 30.06.2004
former Chairman of the Management Board of Linde AG

Hans Reischl, Cologne
w.e.f. 04.05.2004
former Chairman of the Management Board of REWE-ZENTRAL AG
Supervisory board seats by law:
Maxdata AG
R+V Allgemeine Versicherung AG
RWE Umwelt AG
Zürich Agrippina Versicherung AG

Dr. Ingo Riedel, Fürth
until 30.11.2004
Chairman of the Management Board of
Riedel Holding GmbH & Co. KG
Supervisory board seats by law:
Quelle Bauspar Aktiengesellschaft (Deputy Chairman)
Quelle Aktiengesellschaft (until 30.11.2004)

Rita Rodenbücher*, Duisburg
Chairman of the Works Council of Karstadt Warenhaus
Aktiengesellschaft, 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
Member of the Management Board of Feri Finance AG
Supervisory board seats by law:
eCapital New Technologies Fonds AG

Dr. Jürgen Than, Hofheim am Taunus
w.e.f. 01.12.2004
Attorney at Law, former Chief Corporation Counsel
of Dresdner Bank AG
Supervisory board seats by law:
CSC Ploenzke AG (Chairman)

Dr. Gunter Thielen, Gütersloh
until 04.05.2004
Chairman of the Management Board of Bertelsmann AG
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
Secretary to the Federal Executive Committee of the German ver.di
Trade Union, trade section
Supervisory board seats by law:
Karstadt Warenhaus Aktiengesellschaft
Sinn Leffers Aktiengesellschaft

Dr. Franziska Wiethold*, Berlin
Member to the Federal Executive Committee of the ver.di
Trade Union
Supervisory board seats by law:
REWE Deutsche Supermarkt KGaA

Werner Wild*, Kirchentellinsfurt
Dep. Regional Agent of ver.di Baden-Württemberg
No notifiable mandates

Dr. Klaus Zumwinkel, Cologne
Chairman of the Management Board of Deutsche Post AG
Supervisory board seats by law:
Deutsche Lufthansa AG
Deutsche Postbank AG (Chairman)**
Deutsche Telekom AG (Chairman)
Comparable supervisory functions:
Morgan Stanley

* Representing the employees
** Group subsidiaries

The Management Board

Dr. Christoph Achenbach, Haan
Chairman (*from* 01.06.2004 *until 07.04.2005*)

Supervisory board seats by law:
GfK Aktiengesellschaft
KARSTADT Immobilien Beteiligungs AG (Chairman)*
Karstadt Warenhaus Aktiengesellschaft (Chairman)*
Neckermann Versand Aktiengesellschaft (Chairman)*
Quelle Aktiengesellschaft (Chairman)*
Thomas Cook Aktiengesellschaft (Deputy Chairman)

Comparable supervisory functions:
KARSTADT QUELLE Information Services GmbH (Chairman)*
KARSTADT QUELLE New Media AG (Chairman)*

Dr. Matthias Bellmann, Icking
w.e.f. 27.09.2004

Supervisory board seats by law:
Thomas Cook Aktiengesellschaft

Arwed Fischer, Aschaffenburg
w.e.f. 16.06.2004

Supervisory board seats by law:
KARSTADT Immobilien Beteiligungs AG (Deputy Chairman)*
Neckermann Versicherung AG (Deputy Chairman)*
Neckermann Lebensversicherung AG (Deputy Chairman)*

Comparable supervisory functions:
KARSTADT QUELLE Information Services GmbH*
TriStyle Holding Beteiligungs GmbH*

Peter Gerard, Düsseldorf
until 31.12.2004

Supervisory board seats by law:
IDS Scheer AG
ITELLIUM Systems & Services GmbH (Chairman, until 31.12.2004)*
KarstadtQuelle Krankenversicherung AG (Chairman, until 31.12.2004)
KarstadtQuelle Lebensversicherung AG (until 31.12.2004)
KarstadtQuelle Versicherung AG (Chairman, until 31.12.2004)
Karstadt Warenhaus Aktiengesellschaft (until 31.12.2004)*
Neckermann Versand Aktiengesellschaft (until 31.12.2004)*
Quelle Aktiengesellschaft (until 31.12.2004)*
Thomas Cook Aktiengesellschaft (until 31.12.2004)

Comparable supervisory functions:
CAP Customer Advantage Program GmbH
(Deputy Chairman, until 31.12.2004)
DSF Deutsches Sportfernsehen GmbH (Chairman, until 31.12.2004)
KARSTADT QUELLE Bank AG (Chairman)
KARSTADT QUELLE Financial Services GmbH
(Chairman, until 31.12.2004)
KARSTADT QUELLE Information Services GmbH
(Chairman, until 31.12.2004)*
KARSTADT QUELLE New Media AG (Chairman, until 31.12.2004)*
SPORT1 GmbH (Chairman, until 31.12.2004)
Sport Media Holding GmbH (Chairman, until 31.12.2004)

Prof. Dr. Helmut Merkel, Mannheim

Supervisory board seats by law:
ITELLIUM Systems & Services GmbH*
KARSTADT Immobilien Beteiligungs AG*
Novasoft AG (Chairman)
Sinn Leffers Aktiengesellschaft

Comparable supervisory functions:
WEHMEYER GmbH & Co. KG (Chairman)*

Harald Pinger, Wiesbaden
w.e.f. 01.10.2004

Supervisory board seats by law:
Karstadt Warenhaus Aktiengesellschaft*
Neckermann Versand Aktiengesellschaft*
Quelle Aktiengesellschaft*
KarstadtQuelle Krankenversicherung AG (Chairman)
KarstadtQuelle Lebensversicherung AG
KarstadtQuelle Versicherung AG (Chairman)

Comparable supervisory functions:
KarstadtQuelle Finanz Service GmbH (Chairman)

Wolfgang Urban, Brühl
until 31.05.2004

Supervisory board seats by law:
ERGO Versicherungsgruppe AG
KARSTADT Hypothekenbank AG (Chairman, until 31.05.2004)*
KARSTADT Immobilien Beteiligungs AG (Chairman, until 31.05.2004)*
KARSTADT QUELLE New Media AG (Chairman, until 31.05.2004)*
Karstadt Warenhaus Aktiengesellschaft (Chairman, until 31.05.2004)*
Neckermann Versand Aktiengesellschaft (Chairman, until 31.05.2004)*
Quelle Aktiengesellschaft (Chairman, until 31.05.2004)*
Sinn Leffers Aktiengesellschaft (until 31.05.2004)*
Thomas Cook Aktiengesellschaft (Deputy Chairman, until 31.05.2004)

* Group subsidiaries

KARSTADT QUELLE Aktiengesellschaft

Essen, March 14, 2005
Supplemented: Essen, April 7, 2005

The Management Board

Dr. Christoph Achenbach | Dr. Matthias Bellmann | Arwed Fischer | Prof. Dr. Helmut Merkel | Harald Pinger

Auditors' Report
(Translation of the German Auditors' 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, 2004. 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, 2004, 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, 2004 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.

Without qualifying this opinion, we draw the attention to the explanations in the group management report. In the section „Risk management and risk report" it is explained, that the further existence of the KarstadtQuelle group is dependent especially on the successful implementation of the program for the reorganization and realignment as well as the maintenance of the syndicated loan. The syndicated loan is connected with covenants for KARSTADT QUELLE AG, Karstadt Warenhaus AG, Quelle AG and Neckermann Versand AG.

Düsseldorf, Germany
March 16, 2005

BDO Deutsche Warentreuhand Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

5-year summary

			2000	2001	2002	2003	2004
Group sales	Sales [1]	mill. €	15,444.5	16,067.1	15,814.6	14,428.0	13,447.2
Earnings	EBIT [1) 2)]	mill. €	533.7	630.7	484.4	504.0	-1,007.2
	EBT [1]	mill. €	238.2	332.8	200.4	193.5	-1,423.4
	EBT margin	in %	1.5	2.1	1.3	1.3	-
	Profit/Loss for the year	mill. €	165.2	234.9	162.2	107.6	-1,631.2
Financial situation and dividends	Gross cash flow	mill. €	784.7	1.092.3	701.0	695.0	497.4
	Cash an cash equivalents [3]	mill. €	253.1	343.2	144.4	156.7	496.5
	Depreciation and amortization [1]	mill. €	453.6	462.3	474.8	387.5	424.4
	Dividends	mill. €	78.8	83.6	77.1	75.5	-
Structure of the balance sheet	Balance sheet total	mill. €	9,814.9	10,510.0	10,215.7	9,192.7	8,845.7
	Equity	mill. €	1,653.2	1,803.4	1,676.4	1,639.4	552.1
	Equity ratio	in %	16.8	17.2	16.4	17.8	6.2
	Fixed assets [3]	mill. €	4,846.0	5,450.7	5,261.4	4,711.9	3,257.2
	Current assets [3]	mill. €	4,915.0	5,000.6	4,908.4	4,429.2	4,270.3
Other informaton	Employees at 31.12.	number	133,120	112,141	104,536	100,956	92,546
	Staff costs [1]	mill. €	3,109.8	3,157.2	3,014.1	2,796.6	2,655.5
	Investments [3) 4)]	mill. €	676.9	1,230.9	738.3	384.7	317.8
	Department stores and Specialty stores in Over-the-counter-retail	number	390	465	509	517	520
	Sales space at 31.12. in Over-the-counter retail	th. sq. m.	2,390.2	2,613.8	2,646.0	2,621.4	2,601.2
KARSTADT QUELLE AG share	Dividend per no-par value share [5]	€	0.67	0.71	0.71	0.71	-
	Earning per share [6]	€	1.41	2.00	1.40	1.01	-14.71
	Market price at end of year	€	32.90	44.40	16.50	15.88 [7]	7.59
	highest price	€	40.73	44.85	45.45	20.98	17.51
	lowest price	€	27.30	30.15	13.80	8.24	6.52
	Market value at end of year	mill. €	3,867.4	5,228.4	1,943.0	2,308.1	1,600.0

1) From 2003 not including discontinued operations.
2) EBIT from 2003 not including income from investments.
3) 2004 not including assets classified as held for sale.
4) From 2003 not including financial assets.
5) 2000 on 117,550,400 no-par value shares.
2001 on 117,757,775 no-par value shares.
2002 on 108,537,135 no-par value shares.
2003 on 106,332,892 no-par value shares.
2004 on 106,332,892 no-par value shares.
6) 2000 number of no-par value shares as shown under 5).
2001 on 117,602,244 no-par value shares.
2002 on 115,611,968 no-par value shares.
2003 on 106,774,866 no-par value shares.
2004 on 110,921,234 no-par value shares.
7) Information adjusted due to capital measure.

Asset-backed securitization (ABS)
The sale of receivables to a company, which refinances itself by the issue of securities, to obtain liquidity.

Back-up facilities
Confirmed credit lines that can be drawn on in the event of insufficient market liquidity of a capital market product and so ensure continuous solvency.

Capital increase
Increase in the share capital of a stock corporation (AG) by contributions from existing or new stockholders.

Cash flow
An index for assessing the financial and earning power of a company. The cash flow provides information about the supply of cash and cash equivalents generated during a period.

Commercial paper
Discounted money-market paper with a fixed term of between seven days and two years, minus one day.

Concession shop
Shops inside the department store in which attractive partners offer their own brands. The product risk is borne by the partners, who operate the shops with their own staff. The increase in the proportion of concession shops is a component of the strategic department store development.

Contractual trust arrangement (CTA)
Contractually regulated, company trust fund for the transfer of assets to be used to finance pension payments.

Convertible bond
Fixed-interest security issued by a stock corporation. It entitles the owner to exchange the bond for shares of the concerned stock corporation from a specified time on and in a prespecified ratio.

Core portfolio
89 Karstadt department stores with more than 8,000 sq. m. of sales space each as well as 32 sports stores. Their locations enable them to cover wide trading areas with high purchasing power. The core portfolio is being repositioned and consistently further developed.

Corporate governance
Comprises the entire management and control of a company, including its organizational structure, business policy principles, guidelines, and internal and external regulation and monitoring mechanisms.

Credit facility
Credit limit or credit line.

Customer relations management (CRM)
Selection, development and maintenance of relations with present and potential Group customers with the aim of adding to the value of the circle of customers and thus the value of the undertaking.

Currency swap
Exchange of currencies at a time and price fixed in advance.

Depot
Form of alternative space utilization in department stores. By agreement the goods offered remain in the supplier‘s possession up until the time of sale.

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 tax.

EBITA
Earnings before interest, tax and amortization of goodwill.

EBITA margin
Earnings before interest, tax and amortization of goodwill relative to sales.

EBITDA
Earnings before interest, tax, depreciation and amortization.

EBITDA margin
Earnings before interest, tax, depreciation and amortization relative to sales.

EBT
Earnings before tax.

EBT margin
Earnings before tax relative to sales.

EBTA
Earnings before tax and amortization of goodwill.

EBTA margin
Earnings before tax and amortization of goodwill relative to sales.

E-commerce
Electronic trade between companies and consumers.

Equity ratio
The percentage share of equity capital in the balance sheet total.

Forward rolling financial planning
Rolling planning is always based each time on the respective (cumulative) actual levels attained in the previous month ended. It thus takes into account any budget variances which have occurred.

Identity-promotive product lines
Identity-promotive product lines are sectors in which a product line competence is offered which is comparable with that of a specialist. The product lines, together with obligatory and supplementary product lines, form the overall range offered by our multispecialists in mail order.

Impairment depreciation
Impairment loss to take account of decreases in value, e.g. where an internal use value or the net sales value of a good is higher than its book value.

Incentive stock option plan
A form of performance-related remuneration where under certain conditions the management is given the option of acquiring shares in its own company on fixed terms.

Invested capital
Balance of intangible assets, tangible assets, working capital, other non-interest-bearing components of short term assets and liabilities and of the net tax position.

KarstadtQuelle Neu
All reorganization and realignment measures are concentrated in the “KarstadtQuelle Neu” project. The project name emphasizes the new departure and radical change at KarstadtQuelle.

KonTraG
German Law on Corporate Control and Transparency.

Market capitalization
The valuation of a company on the stock exchange (market value), obtained by multiplying the stock exchange price by the number of (freely tradable) shares of a company.

Multispecialist
The multispecialist does not offer all the universal mail-order supplier‘s product lines but rather concentrates on a limited number of focal product lines which it offers in a depth and with a competence comparable with those of a specialist.

Non-core portfolio/Medium-size town portfolio
Department stores with under 8,000 sq. m. of sales space each and a locally limited trading area which are concentrated in a separate company under Karstadt Kompakt. Product line orientation towards local supply. It is planned to dispose of the non-core portfolio in a timely manner.

Portfolio streamlining program/divestment program
Inflow of liquidity particularly through the separation of loss-makers and marginal operations as well as the reduction of complexity in the business models.

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

Return on invested capital (ROIC)
EBIT after adjustment for special factors relative to invested capital.

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.

Sale-and-lease-back
Sale of a business asset and its simultaneous lease-back by leasing agreement.

Sales on comparable space
The comparison of two periods on the premiss that the space in which the sales were achieved has not changed.

Second-lien financing
Normally a form of financing which is subordinate to already existing forms of financing.

Share repurchase
Purchase of own shares in the company on the basis of an authorization by the Annual General Meeting.

Solidarity pact
The reorganization and realignment of the KarstadtQuelle Group are based on a solidarity pact between banks, shareholders and staff.

Syndicated bank loan
Credit line provided by a group of financial institutions on identical terms and conditions.

Working capital
Balance of inventories and short-term customer receivables and short-term trade payables.

YornCasa concept
Lifestyle concept and brand name of Karstadt Warenhaus AG. The YornCasa concept, sustained by inspiration and ideas, offers trend goods from the bath, bed, house & home, table and season sectors. The shops feature functional quantity presentations in up to 500 sq. m. of space in an emotionally appealing home setting.

Calendar 2005

Annual General Meeting

(Düsseldorf)	May 24, 2005

Interim reports

1st quarter	May 12, 2005
2nd quarter	August 3, 2005
3rd quarter	November 3, 2005

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