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Annual report 2005

KARSTADT QUELLE AG

Karstadt

Department store business concentrates on the large department stores and sports stores at excellent central locations in German cities. The department stores are subdivided into three groups: premium stores, that is, cosmopolitan stores like KaDeWe in Berlin or Alsterhaus in Hamburg, boulevard-plus stores and boulevard stores. For each of these three types appropiate marketing concepts are being developed. The Karstadt brand is being profiled in particular by offering customers the fascination of an inspiring world of goods through ever new, modern trends, themes and brands.

Mail order

With the two Quelle and neckermann.de brands KarstadtQuelle occupies an excellent position in European mail order. Quelle and neckermann.de are profiling themselves as modern and flexible multi-specialists concentrating on profitable product ranges for selected target groups via profitable sales channels. The Group's high-return special mail-order suppliers operating internationally in 20 countries are concentrating on precisely defined target groups. Mail order operates in a total of 31 countries. The still strongly growing e-commerce operation is the central element of the multi-channel strategy. Expansion of e-commerce operations is being further stepped up.

Corporate segments in brief *

	Adjusted sales in bill. €		Adjusted EBITDA in mill. €		Investments in mill. €		Employees (at 31.12., number)	
	2005	2004	2005	2004	2005	2004	2005	2004
Karstadt	4.73	4.92	65.2	21.6	135.3	156.5	37,056	39,980
Mail order	6.75	7.34	-4.4	15.6	67.5	108.1	31,492	34,393
Thomas Cook	3.83	3.74	191.3	120.1	41.9	28.1	13,534	13,727
Services	0.31	0.32	34.9	69.2	9.4	37.3	2,297	1,424
Real estate	0.42	0.44	295.2	350.8	3.9	16.3	78	86

* The figures were adjusted. The adjustments relate to special factors, divestments and joint ventures.

Thomas Cook

The Tourism segment with its 50 per cent investment in the Thomas Cook Group forms part of KarstadtQuelle's core business. The internationally positioned tourism group Thomas Cook is number two in the tourism sector in Europe and offers services along the entire tourism value chain through air-flights, hotels, operators, sales and service agencies. The internationally diversified brand portfolio is constructed around the main brands, Neckermann Reisen and Thomas Cook. In Germany the Condor brand completes the portfolio with pure flight offerings.

Services

KarstadtQuelle consistently concentrates the Group's retail-related service operations in its Services subsegment. Here the Group focuses on the high-return tourism sales, financial and information services, customer loyalty card bonus program and purchasing.

Real estate

The Real estate subsegment is functionally divided up into the Property, Leasing and Real estate services subsegments and is controlled through KARSTADT Immobilien AG & Co. KG. Operations concentrate mainly on portfolio management and the initiation and implementation of project developments. The emphasis of the portfolio is on department store real estate at top locations in German cities. The management is considering options for utilizing real estate assets more consistently.

This annual report presents the key features and events of the most important year in the long history of the KarstadtQuelle Group so far. It was a year of change and of radical reconstruction with the express aim of getting KarstadtQuelle back on track to success, after the company had run into a crisis in the 2004 financial year that threatened its very existence.

In 2005 we realigned the Group, radically simplified Group structures, shortened reporting lines and strengthened local management. We disposed of marginal operations and unprofitable units, strengthened the core business and within a few months we achieved what has not been achieved for many years: the KarstadtQuelle Group is plannable and manageable again.

The target figures were achieved for the first time in a long time. Four out of five business segments are above plan. The Department store segment has defied the poor retail climate, the Tourism business at Thomas Cook is once more in the black, and the Services and Real estate sectors are performing well. In Mail order the previous year's earnings were achieved, but targets were fallen short of. The cause lies in German Universal mail order, which is now thoroughly reorganized and reconstructed.

The results achieved are a good basis, but there is still a lot to do. Accordingly we are continuing with the consistent reconstruction of the company. When our program is completed in 2008, the Karstadt Quelle Group you invested in will once again be a healthy and profitable company.

At a glance *

			2005	2004	Change in %
Sales [1]	Karstadt				
	Department and sports stores	mill. €	4,734.1	4,918.1	-3.7
	of which core department stores	mill. €	3,607.3	3,762.5	-4.1
	of which core sports stores	mill. €	272.4	277.3	-1.8
	Mail order	mill. €	6,752.6	7,340.0	-8.0
	Thomas Cook	mill. €	3,828.7	3,735.3	2.5
	Services	mill. €	305.5	324.1	-5.7
	Real estate	mill. €	421.3	438.5	-3.9
	Reconciliation account	mill. €	-588.6	-620.2	-
		mill. €	**15,453.6**	**16,135.8**	-4.2
Earnings	EBITDA	mill. €	274.7	-275.1	199.8
	EBITDA adjusted	mill. €	544.1	517.5	5.1
	EBITDA margin adjusted	in %	3.5	3.2	-
	Loss for the year after minority interests	mill. €	-316.5	-1,625.3	80.5
Financial situation	Free cash flow	mill. €	1,958.2	370.9	-
	Cash and cash equivalents	mill. €	707.2	661.2	7.0
	Investments	mill. €	258.8	349.0	-25.9
	Depreciation and amortization (not including amortization of goodwill)	mill. €	391.5	526.8	-25.7
	Net financial liabilities	mill. €	2,983.9	4,524.9	-34.1
	Working capital	mill. €	1,225.8	2,348.5	-47.8
Full-time employees at the balance-sheet date	Karstadt	number	28,701	30,521	-6.0
	Mail order	number	25,426	27,466	-7.4
	Thomas Cook	number	11,649	11,790	-1.2
	Services	number	2,183	1,358	60.8
	Real estate	number	73	82	-11.0
	Holding company	number	158	182	-13.2
	Total	number	**68,190**	**71,399**	-4.5
KARSTADT QUELLE AG share	Shares on annual average	number in th.	199,374	110,921	79.7
	Earnings per share	€	-1.59	-14.65	89.2
	Dividend per no-par value share	€	0.00	0.00	-
	Rate applying at the balance-sheet date	€	12.83	7.59	69.0
	highest price (01.01. - 31.12.)	€	12.83	17.51	-
	lowest price (01.01. - 31.12.)	€	7.08	6.52	-

* The figures were adjusted. The adjustments relate to special factors, divestments and joint ventures.

1) Comparison with previous year only limitedly possible because of radical restructuring.

Contents

Key points 2005


February


April

July

February

21.02.2005__Karstadt begins implementing its new fashion concept in the department stores.

March

03.03.2005__Quelle and Neckermann launch a marketing campaign for expansion in Europe to improve their clear leading position in growing markets.

10.03.2005__The newly opened “Stadtpalais” in Potsdam represents the successful realignment of the Karstadt department stores.

18.03.2005__KarstadtQuelle sells the department store logistics operation and the large- and part-load despatch operation to the Deutsche Post subsidiary DHL.

April

06.04.2005__The foundation stone for a Karstadt department store with space totaling 35,000 sq. m. is laid in Leipzig city center.

late April__By the despatch of its new catalog Neckermann demonstrates its realignment towards young target groups.

May

12.05.2005__Thomas Middelhoff takes over Chairmanship of the Board of Management of KARSTADT QUELLE AG.

July

05.07.2005__Quelle splits main catalog into two catalogs, one for fashion and one for living/technology.

14.07.2005__KarstadtQuelle AG reorganizes Mail order in order to create fast, flat management structures.

September

November

December

August

03.08.2005__By the sale of the 74 Karstadt Kompakt department stores and the SinnLeffers und Runners Point specialty store chains KarstadtQuelle completes the first phase of its divestment program earlier than planned.

September

05.09.2005__The department store logistic real estate in Unna, Essen and Brieselang is sold and leased back.

07.09.2005__After a two-year conversion phase the new Alsterhaus opens with high-quality product ranges and international brands.

21.09.2005__The Thomas Cook tourism group successfully completes its reconstruction program.

30.09.2005__The number of Official FIFA WM™ shops rises to 180.

October

19.10.2005__KarstadtSport opens in Karlsruhe one of the largest sports stores in Germany.

November

15.11.2005__Neckermann becomes neckermann.de.

December

02.12.2005__At the Quelle mail-order center in Leipzig the billionth parcel comes off the conveyor belt.

08.12.2005__KarstadtQuelle successfully completes its restructuring year and looks at options for the sale of Group real estate. Thomas Cook is core business.

31.12.2005__For the first time for 10 years Karstadt is able to return an increase in department store sales in the fourth quarter.

Letter to Shareholders

Marc Sommer,
born in 1962, Mail order

Prof. Dr. Helmut Merkel,
Born in 1949, Karstadt, Social policy, Group imports and Purchasing, IT services

Dr. Thomas Middelhoff,
born in 1953, Chairman, Corporate communications, Law, Revision, Management projects, Group tourism segment

Dr. Matthias Bellmann,
born in 1953, Human resources/Director of industrial relations, “KarstadtQuelle Neu” project, KarstadtQuelle Management Consulting

Harald Pinger,
Born in 1960, Controling, Finance, Consolidated balance sheets, Tax, Investor Relations, Services, Real Estate

Dear Shareholders,

I am pleased to be able to begin my report with good news. Your company, the KarstadtQuelle Group, is again operationally and financially stable and plannable. This is an indication that the restructuring and realignment are achieving excellent results in the 2005 financial year. We have delivered what we promised. This is also reflected by the positive development of our share price on the stock exchange. The price of your KarstadtQuelle share rose 69 % in the year under review and was thus one of the highest-performing MDAX shares.

At the start of 2005 most people did not think this would be possible. Many were of the opinion that this Group could not be turned around, the business was deep in debt, the staff were demotivated and the management were in turmoil.

Retrospective: 2004 – the Year of the Rescue

Such scepticism is not surprising, if we bear in mind under what conditions we began our comprehensive restructuring.

In autumn 2004, at the height of the crisis, the KarstadtQuelle Group had in fact gone completely out of control. The Group had not reached its target figures for years, and there was a lack of operational focus. Core operations were not only no longer growing but were actually losing value. In 2004 only special mail-order, international mail order and real estate were generating an appreciable return. The real threat to the Group's existence, however, was the critical financial situation. The Group had been building up serious debts over many years and had no secured long-term financing.

In retrospect, therefore, 2004 may be described as the "Year of the Rescue". We had to rescue the Group from serious trouble. This had come about through mismanagement and was further exacerbated by a difficult market environment. The ship had to put back on course as fast as possible. We took drastic measures. We successfully negotiated with the banks a new syndicated credit facility, successfully placed a capital increase, issued a convertible bond and initiated massive cost savings.

Insight: 2005 – the Year of Restructuring

Without question the year 2005 may be regarded as the Year of Restructuring, both operationally and financially. We analyzed, stabilized and motivated, and we divested. We reduced debt and put the Group on a sound financial basis. The entire restructuring – especially the divestments – was implemented faster than planned. We took a big step towards streamlining the Group down to a strong core portfolio.

Initial results confirm the merits of the realignment of the **Department stores**. Our strategy of concentration on large department stores and the sports segment as well as the realignment and profiling of the core business towards service and customer orientation have paid off. For the first time in ten years we were able to achieve a sales increase in the core department store business in the important fourth quarter. We outperformed the market, and we are gaining market share – all of this without extensive discount campaigns.

In **Mail order** we unfortunately lost a great deal of time because of the over-optimistic estimates of the then management. In summer 2005, when we discovered how badly awry things had gone, we had to considerably reduce the sales and earnings forecasts for Mail order and immediately set about developing a restructuring concept. That had consequences for the management. But it also led to a tough reconstruction concept which we are already halfway through implementing. In the course of it we are realigning the business model. At the same time in Universal mail order we are focusing on stabilization of the operation in Germany and growth abroad. One of the first measures was to convert Quelle AG and Neckermann AG into limited liability companies to, amongst other things, speed up the decision processes. Quelle and neckermann.de are being operated separately under their own management. In terms of market positioning Quelle and neckermann.de were sharply distinguished and separately positioned. The service units, i.e. back offices, were amalgamated. In this way we shall substantially reduce costs, including staff costs. In this context I should like to sincerely thank the employees' representatives on the staff council and in the ver.di union for their constructive cooperation, which was sustained by the idea of safeguarding the future viability of Quelle and neckermann.de in the interest of the workforce.

The entire restructuring has been implemented faster than planned. We thus came closer to slimming the Group down to a strong portfolio.

In Special mail-order we are well positioned. Nine out of 16 formats are above plan and five on plan. The international roll-out of Speciality mail order is progressing successfully.

Quelle and neckermann.de are already Number Two in Germany in the fast growing e-commerce business. I see it as a personal challenge to consistently further expand this sector. Accordingly, we have, for example, aligned Neckerman mail order more closely towards online retail and renamed it "neckermann.de". E-commerce sales for the 2005 financial year rose again strongly, namely, by 14 %. Our aim is to grow E-commerce sales from currently 2.58 bill. € to well over 3 bill. € in 2008.

After a successful turn-around our 50-per-cent investment, **Thomas Cook**, achieved a positive result in 2005. The tourism group, which for the first time we consolidated proportionately in the year under review, has for the first time in four years again generated a substantial profit and contributed 191.3 mill. € to consolidated EBITDA.

We successfully completed a comprehensive **Divestment Program** announced in 2004 faster than planned and sold marginal operations and loss-makers. This included the sale of the specialty stores, small department stores and logistics real estate. We also sold or outsourced numerous service segments. Furthermore, halfway through the 2005 financial year we announced additional divestments. These include KARSTADT Hypothekenbank AG and the instalment credit operation (ABS program) in mail order. The additional program had for the most part already been completed by the end of the year.

Under our Group restructuring we reduced our workforce by 25,000 employees, that is, around a quarter of all our employees. Most of these were transferred to new jobs. There is no other company in Europe that had to cope with such demanding tasks in such a short time. Because at one and the same time we had to motivate, carry out the realignment and mount a sales campaign.

The KarstadtQuelle Group today comprises five segments:

- Karstadt (department and sports stores)
- Mail order (Quelle and neckermann.de, special mail-order, international business e-Commerce)
- Thomas Cook
- Services
- Real estate

A visible sign of our progress is that adjusted EBITDA in four out of these five segments was above plan in the year under review. One segment is substantially below plan: Mail order. We mainly reached our targets. Adjusted consolidated sales came to 15.45 bill. €. Adjusted consolidated EBITDA reached 544.1 mill. €. Net financial liabilities were successfully reduced by 34.1 % to 2.98 bill. €. Working capital decreased by 47.8 % to 1.23 bill. €. This represents an operative increase of 11 %.

Outlook: 2006 – Year of Opportunities and Further Strategic Steps

We see 2006 as a great opportunity for our Group. On the basis of the progress achieved so far our Karstadt department stores will be able not only to stabilize but also to actually increase adjusted sales. Because of the attractiveness of the department stores to foreign tourists and the partnership with the international FIFA association we should be able to profit above average from the football world championship. Moreover, Karstadt in 2006 is celebrating its 125th anniversary, supported by effective marketing campaigns and unique product offers.

Likewise we forecast rising sales for Thomas Cook. In Mail order we expect a marked slowing down of the negative sales trend. The decisive factor here will be the continued implementation of the realignment in Universal mail order, which should be showing initial success.

At Group level, after adjustment, we expect a slight rise in adjusted sales. We have not taken into consideration here the carry-forward effects of the VAT increase planned for January 1, 2007, although these should have an additional positive effect. Adjusted EBITDA is set to rise by 20 % (not including the real estate transaction).

Over the current year we shall consistently implement the strategy announced in December 2005 for ensuring continuity for the Group. The goal is “Profitable growth for KarstadtQuelle”. Initially there are two priorities here:

First, we want to integrate Thomas Cook’s tour operator business more tightly into our other core business and further expand it. Tourism was already closely linked into our business portfolio through the travel sales operated though the Karstadt department stores or Quelle/Neckermann mail order. This cohesion we want to further strengthen by utilizing technological development, the changed pattern of consumer behavior and, above all else, online sales.

Second, we no longer regard Group real estate as a strategic business segment. For this reason we consider it sensible to reallocate our real-estate capital to operationally different purposes that generate a higher return. Here we can rely on contacts and the experience we gained from marketing and disposing numerous properties over the past year. We are also currently seeing very high demand from international investors in the Real estate segment at present. From this point of view we may have a unique window of opportunity which considerably affects the value of the Group. By taking this strategic step we want to achieve the following:

- Freedom of the Group from debt
- Improvement in the equity position
- Marked improvement in Group EBT

The future KarstadtQuelle Group will be further focused on strong Department store, Mail order and Tourism businesses. From 2007 – and in Universal mail order from 2008 – these core business segments will be high-growth and high-earning. We shall operate the new business models with considerably reduced capital employed. The new Group stands for shopping as an experience, an outstanding product range and service and customer orientation. We are continuing to work on this with great intensity.

We have strengthened our management team where it matters. In Marc Sommer as head of the Mail-order business we have appointed an internationally experienced manager to be Management Board member responsible for Holdings. Michael Krause, the new CFO in Mail order, came to us from Siemens. This shows that this Group attracts enterprising people, because it is exciting, because it wants change and because it is actually doing something to achieve these goals.

Furthermore, it is one of the Management Board's most important tasks to develop a new generation of managers and leaders at KarstadtQuelle Group. And that – as I have always made clear – is one of my main concerns. Here too we have now achieved initial success.

2005 was an interesting year, and we have achieved our targets, and the Group is in far better shape than was to be expected at the beginning of the year. Our thanks are due to you, Dear Shareholders, for positively supporting the process of restructuring and realignment by showing us your confidence at this time.

For the Management Board

Your

Dr. Thomas Middelhoff
Chairman

Report of the Supervisory Board

Dear Shareholders,

The Supervisory Board of KARSTADT QUELLE AG at its extraordinary meeting in May 12, 2005, appointed the then Supervisory Board Chairman Dr. Thomas Middelhoff Chairman of the Management Board. At the same meeting I was elected Chairman of the Supervisory Board. I shall do all in my power to discharge the duties of this office and so make a personal contribution to the reconstruction and further development of one of Europe's largest retail groups.

In this report the Supervisory Board of KARSTADT QUELLE AG informs you about its activity in the 2005 financial year.

Main emphases of the Supervisory Board's activity

One emphasis of the Supervisory Board's work was – as described in greater detail in the following – the deliberations and passing of resolutions relating to the program of operative and financial restructuring and realignment of the KarstadtQuelle Group. Also dealt with were other comprehensive topics of Supervisory Board meetings, Corporate Governance, the financial statements, the consolidated financial statements and the dependent companies report, the work of the committees and changes to the membership of the Supervisory Board and Management Board.

During the 2005 financial year the Supervisory Board of KARSTADT QUELLE AG performed its duties as required by the law and the corporation's articles of incorporation, audited the financial statements and the dependent companies report and continuously monitored and supported the Management Board's managerial activity. The Supervisory Board, in an advisory capacity, constructively accompanied, supported and monitored the development and implementation of the Group's realignment. The Management Board kept the Supervisory Board fully informed both by word of mouth and in writing.

Meetings, object and methods of the audit conducted by the Supervisory Board

At eight Supervisory Board meetings – of which three were conference calls – the Supervisory Board was kept fully informed by the Management Board about all questions of planning relevant to the corporation, 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. A regular exchange of information was conducted at fixed monthly meetings. Each time the Supervisory Board was given a full report of the proceedings.

The Supervisory Board was kept informed about the state of business, important business transactions, plans and resolutions of the Management Board. Likewise between meetings the Supervisory Board was kept fully informed by written reports about all plans and projects of especial importance for the corporation. For example, it was given written information about the sale of parts of the Group's logistics operation to Deutsche Post, the restructuring of Mail order, the conception of the investment strategy of the CTA program and about the divestment of a logistics real estate portfolio.

Furthermore, the Management Board kept the Supervisory Board informed about the most important financial figures by means of monthly reports and duly submitted to it for resolution matters which the Supervisory Board identified as requiring its approval. At its meetings it examined in detail and discussed proposals put forward by the Management Board and in all cases gave them the necessary approval. The following particularly required approval in the year under review:

- Sale of the Unna, Essen-Vogelheim and Brieselang logistics real estate to subsidiaries of IXIS Corporate & Investment Bank
- Sale of Karstadt Kompakt GmbH & Co. KG an Dawnay, Day Principal Investments and HILCO UK Ltd.
- Sale of Sinn Leffers AG to DIH GmbH, HMD Partners and Curzon Global Partners/IXIS AEW Europe
- Sale of Runners Point Warenhandelsgesellschaft mbH to the HANNOVER Finance Group

- Conclusion of the agreements on the second lien financing of the original syndicated bank loan
- New pension fund investment strategy (CTA)
- Sale of a logistics real estate portfolio to Slough and IXIS

Approval for the conception of the investment strategy of the CTA program and approval for divestment of the logistics real estate were the subject of a written resolution procedure on December 2, 2005. Comprehensive documents stating the main points of the subjects of the resolutions were sent to the members of the Supervisory Board in advance.

Except where separately set out in this report, the Supervisory Board fulfilled its audit activity by receiving and discussing oral and written reports by the Management Board, employees and external auditors and consultants.

The Supervisory Board dealt in detail with the business performance and financial and liquidity situation of the KarstadtQuelle Group. All meetings were devoted to the implementation of the program for restructuring and realigning the Group. The following topic areas dealt with at Supervisory Board meetings must be mentioned in particular:

- The Group's new structure, particularly the legal conversion of Karstadt Warenhaus AG, Quelle AG and Neckermann Versand AG to limited liability corporations (on October 6, 2005). The Supervisory Board noted and approved the conversion of the three stock corporations to limited liability corporations.
- Positioning and realignment of the department store operation (on April 7, 2005). The Supervisory Board held its meeting at the Karstadt store in Wiesbaden and had an opportunity to get an idea of the new concepts close up.

- Reconstruction of Universal mail order in Germany

- The implementation of the divestment program, in particular
  - Sale of Karstadt Kompakt GmbH & Co. KG (August 12, 2005)
  - Sale of Sinn Leffers AG and Runners Point Warenhandelsgesellschaft mbH (August 12, 2005)
  - Sale of real estate, particularly that in the Logistics segment (April 7, 2005, and December 2, 2005)

  The Supervisory Board, after thorough discussion of the advantages and disadvantages, gave the sale its unanimous approval.

- Second lien financing and adjustment of the syndicated bank loan (December 1, 2005). The Supervisory Board has received a list of the main points of the syndicated second lien loan and of the main changes to the syndicated first lien loan agreement to help it with the preparation of its decision. In a conference call on December 1, 2005, it unanimously approved the conclusion of all necessary agreements.

- Economic situation of the development real estate with the Oppenheim/Esch Fund

- Pension fund investment strategy (CTA): Transfer of KARSTADT Hypothekenbank AG (KHB) to the CTA and simultaneous takeover of the instalment credit operation by KHB (December 2, 2005). The Supervisory Board dealt with this topic at its meeting on October 6, 2005. To help it prepare its decision, it instructed the standing committee and the audit committee to discuss the questions to be decided and, when ready for a decision, to submit a proposal for conducting a written decision procedure. Comprehensive resolution documents were sent to the Supervisory Board with a letter dated November 24, 2005. By written decision procedure on December 2, 2005, it unanimously approved the new conception for the investment strategy of the CTA program.

- Changes to the membership of the Management Board

- Changes to the rules of internal procedure, particularly in connection with adaptation to comply with the Law concerning Corporate Integrity and modernization of the Right to Contest (UMAG) (December 2, 2005)

- Changes to the Supervisory Board's rules of internal procedure relating to the regulations for the audit committee (December 22, 2005)

- Strategic options for the further development of the Group

All members of the Supervisory Board participated in at least half of the Supervisory Board meetings during their period of office in 2005.

Corporate Governance

The Supervisory Board at its meetings continually discussed the German Corporate Governance Code and approved its implementation in the KarstadtQuelle Group. Corporate Governance will be audited at regular intervals and further developed.

In the period under review no conflicts of interest arose among Supervisory Board members.

The Management Board and Supervisory Board on March 21, 2006 updated the Declaration of Compliance issued in accordance with the German Corporate Governance Code. In it the Management Board and Supervisory Board declared that with the exception of the retention in the case of the D & O insurance (Code Subsection 3.8 Para. 2) and the individualized statements of the Management Board's remuneration (Code Subsection 4.2.4 Sent. 2) and the Supervisory Board's remuneration (Code Subsection 5.4.5 Para. 3 Sent. 1) the recommendations of the German Corporate Governance Code in the version of May 21, 2003, have been complied with since the last declaration of compliance of April 7, 2005. They also declared that with the exception of the retention in the case of the D & O insurance (Code Subsection 3.8 Para. 2) all the recommendations of the German Corporate Governance Code in the version of June 2, 2005, are being complied with. This Declaration of Compliance has been made continuously accessible to shareholders on the corporation's Website. Further information on Corporate Governance at KarstadtQuelle is given in the joint report of the Management Board and Supervisory Board on pages 148 to 152 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). In individual cases the Supervisory Board's powers of decision were transferred to the committees. A list of the present membership of the committees and their chairpersons is given on page 20. The meetings, the work and in particular the resolutions of the committees were reported on in detail at the plenary meetings.

- The standing committee at ten meetings dealt with important business events and transactions requiring approval. It concerned itself in particular with the financial situation, restructuring and Management Board matters, amongst other things, with regard to the structure and level of remuneration. One meeting was conducted in the form of a conference call. The standing committee has prepared the Supervisory Board's resolution procedure and in some cases – for example, that of the pension fund investment strategy and changes to the membership of the Management Board – made recommendations.

- The audit committee met four times during the year under review. At its meeting on October 6, 2005, it elected Dr. Diethart Breipohl its new Chairman. The audit committee discussed in the presence of the auditor and the Management Board the financial statements of KARSTADT QUELLE AG, the consolidated financial statements, the management reports and the proposal for the appropriation of the profit. It also analysed 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 impartiality of the auditor. The audit committee also kept itself informed about the risk management and its further development in the corporation. Finally, the audit committee examined the efficiency of its own activity and reached decisions about future work.

- There was no occasion for the arbitration committee to meet.

The methods employed in the committees' audits were identical to those employed by the plenary board.

Financial statements, consolidated financial statements and dependent companies report

The BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, appointed by the annual meeting of May 24, 2005, audited the 2005 financial statements, the consolidated financial statements to IFRS, the consolidated management report and the dependent companies report and gave each of them its unqualified approval. The audit instruction was issued by the audit committee of the Supervisory Board in accordance with the resolution of the annual general meeting on October 6, 2005. The financial statements and management report of KARSTADT QUELLE AG, the consolidated financial statements, and consolidated management report and the audit reports and the proposal for the appropriation of the profits were duly submitted to all members of the Supervisory Board.

The audit committee conducted a preliminary audit of the financial statements, the associated management reports and audit reports and the proposal for the appropriation of the profits. These documents were discussed at the meeting of the Supervisory Board on March 21, 2006. 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 reservation and approves the auditor's findings. In its own audit it found the presentations to be complete, correct and plausible. At its meeting on March 21, 2006, the Supervisory Board approved the financial statements of KARSTADT QUELLE AG and the Group prepared by the Management Board for the period ending December 31, 2005; the financial statements of KARSTADT QUELLE AG have therefore been adopted.

In accordance with the findings of its own audit the Supervisory Board approved the Management Board's proposal that again because of the Group's economic situation no dividend be paid.

The Management Board has submitted to the Supervisory Board the report on relations with associates, which was prepared by the Management Board in accordance with Section 312 of the German Stock Corporation Law and which was given an unqualified auditor's opinion, the account records and the auditor's report. The auditor reported on the findings of his audit at the meeting of the Supervisory Board on March 21, 2006 and answered in full all questions put to him by the Board. In accordance with the findings of its own audit the Supervisory Board finds no cause for reservation in the Management Board's concluding remarks in its report prepared in accordance with Section 312 of the German Stock Corporation Law and approves the auditor's findings.

Auditor's opinion of the dependent companies report

The auditor's opinion is as follows:
We are not aware of any circumstances which under Section 313 Para. 4 German Stock Corporation Law would have caused us to qualify or withhold our opinion. In accordance with the findings of our audit no cause has been found for reservation with regard to the dependent companies report. In accordance with Section 313 Para. 3 German Stock Corporation Law we issue the following unqualified opinion:

> "In accordance with our duly conducted audit and assessment we confirm that the factual information given in the report is correct."

Düsseldorf, February 28, 2006

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harnacke	Rauscher
(Public auditor)	(Public auditor)

Changes to the membership of the Supervisory Board and Management Board

There were a number of changes in the membership of the Supervisory Board and the Management Board in the 2005 financial year and at the beginning of 2006.

a. Supervisory Board

As stated at the beginning, I was elected Chairman of the Supervisory Board with effect from May 12, 2005. I succeeded in this post Dr. Thomas Middelhoff, who had been appointed Chairman of the Management Board of KARSTADT QUELLE AG. The vacant seat on the Supervisory Board has not yet been filled. Dr. Franziska Wiethold retired from the Supervisory Board with effect from the close of the annual general meeting. The Essen District Court appointed Mrs. Margret Mönig-Raane as employees' representative on the Supervisory Board with effect from May 24, 2005.

b. Management Board

Dr. Thomas Middelhoff was appointed Chairman of the Management Board with effect from May 12, 2005. Mr. Marc Sommer was newly appointed to the Management Board with effect from January 1, 2006.

Dr. Christoph Achenbach retired as Chairman and member of the Management Board at April 7, 2005. Mr. Arwed Fischer retired from the Management Board with effect from May 31, 2005.

The Management Board members' areas of responsibility and duty are shown in the overview on page 6 of this annual report.

The Supervisory Board thanks the retired members of the executive bodies for their work.

A thank you to our staff and shareholders

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 during the 2005 financial year.

Essen, March 21, 2006

For the Supervisory Board

Hero Brahms
Chairman

The Supervisory Board

Members

Hero Brahms
Chairman

Wolfgang Pokriefke *
Deputy Chairman

Jochen Appell
Wilfried Behrens *
Dr. Diethart Breipohl
Bodo Dehn *
Leo Herl
Ulrich Hocker
Peter Kalow *
Franz Lajosbanyai *
Margret Mönig-Raane *

Hans Reischl
Rita Rodenbücher *
Christa Schubert *
Michael Stammler
Dr. Jürgen Than
Gertrud Tippel-Kluth *
Werner Wild *
Dr. Klaus Zumwinkel

Committees

Standing committee

Hero Brahms, Chairman
Leo Herl
Peter Kalow *
Wolfgang Pokriefke *
Hans Reischl
Michael Stammler

Audit committee

Dr. Diethart Breipohl, Chairman
Hero Brahms
Leo Herl
Peter Kalow *
Wolfgang Pokriefke *

Arbitration committee
(Section 27 Para. 3 Codetermination Law)

Hero Brahms, Chairman
Leo Herl
Peter Kalow *
Wolfgang Pokriefke *

* Representing the employees

Complete information about members of the Supervisory Board and Management Board in accordance with Art. 285 No. 10 HGB (German Commercial Code) is given on pages 140 to 142.

The year could well be described as the "Year of Restructuring", both operating and financially.

Our aim is to offer people shopping experiences.

Between six and twelve times a year we offer e.g. new fashion collections.
It is worthwhile looking in often.

Key points 2005

Restructuring progressing well

- Group soundly financed for long term
- Comprehensive divestment program completed earlier than expected
- Further divestments partly already implemented
- Realignment of the department stores progressing well
- Reconstruction program in Universal mail order Germany being implemented

Group once more plannable and manageable – four out of five business segments above plan

- Earnings target reached
- Karstadt, Thomas Cook, Services, Real estate above plan
- Mail order below plan

Important key figures improved

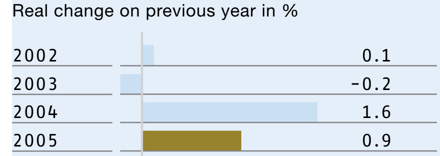
- Staff costs (after adjustment for divestments and non-recurring effects) decreased by 281.4 mill. €
- Net financial liabilities and working capital, in particular through sale of receivables, markedly reduced

Forecast for the 2006 financial year

- Consolidated sales (adjusted): slight rise
- EBITDA (adjusted): plus 20 % (not including changes resulting from the sale of real estate)
- Equity: considerable boost from the sale of real estate
- Reduction of net financial liabilities (to zero, depending on the structure of the real estate transaction)

Gross domestic product

Real change on previous year in %



Source: Destatis (Federal German Statistics Office)

Four out of five business segments above plan

Karstadt	above plan
Thomas Cook	above plan
Services	above plan
Real estate	above plan
Mail order	below plan

Basis: EBITDA adjusted

General economic conditions

Overall economic situation

Domestic demand still weak, foreign trade continuing to grow

Real overall economic growth in Germany in 2005 came to 0.9 %. This performance was contributed by international trade alone. As a result of the still weak consumption, domestic demand once again made no positive contribution to overall economic performance.

Consumers continue to exercise restraint

Private consumption at home was disappointing for the fourth year in succession. The positive effect of the last relief stage of the tax reform effective at the beginning of the year was cancelled out by, amongst other things, further increased social contributions. While available incomes rose by 1.4 %, wages fell by 0.1 %. Income losses through wage concessions and cuts in Christmas bonuses and holiday pay had a damping effect on consumption. Furthermore, the still difficult situation in the labor market contributed to consumer uncertainty. As a result, real consumer spending stagnated in 2005. The savings ratio, at 10.7 %, was even higher than that of the previous year (10.5 %).

Cost of living appreciably higher

The rise in the cost of living gathered pace appreciably in 2005. The inflation rate rose to 2.0 %. Prices of mineral oil products reached a record level. Prices of domestic energy resources likewise rose at a higher than average rate However, retail prices rose by only 0.6 %.

Situation in the trade

Retail sales up slightly due to growth in the food sector

According to figures from the Federal German Statistics Office retail sales in the year under review went up by a nominal 1.7 % to 529.7 bill. €. Due mainly to continuing space increases the "true" retail trade, i.e. not including motor vehicles, fuels and combustibles and pharmaceuticals, including motor vehicle parts and accessories, rose by 0.5 % to 381.6 bill. €. This positive performance is however due mainly to growth in the business forms of the food trade, i.e. food discounters, consumer markets and super markets, self-service department stores. The share contributed by the "true" retail trade to private consumer expenditure again stood at nearly 29 %.

Decreasing sales at large and department stores

An important yardstick for the KarstadtQuelle Group is the overall performance of all large stores and department stores in Germany. In 2005 they returned a nominal sales decrease of 3.5 %.

Mail order returns varied performance

German consumers' reluctance to spend is also reflected in the performance of the mail-order trade. The decrease here totaled around 3 %. The retail trade volume thus decreased to 19.7 bill. €. The share contributed by mail order to the "true" retail trade is 5.2 %. The different types of mail order in Germany returned a varied performance. While online business and special mail-order increased their sales, universal providers recorded marked decreases.

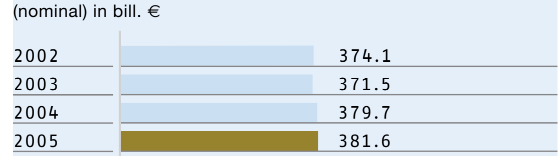
Real estate lease payments at top locations steady

Lease payments from retail formats at first-class locations held steady during the year under review. A slight rise in retail trade lease payments in East German cities was observed. The growth in retail space continued unabated. Decisive for the increase in space was the expansion of aggressively priced, small-scale sales formats and shopping center space. Demand for commercial real estate, especially retail real estate, rose further in 2005. Here foreign investors in particular came forward as purchasers.

E-commerce business in tourism still growing strongly

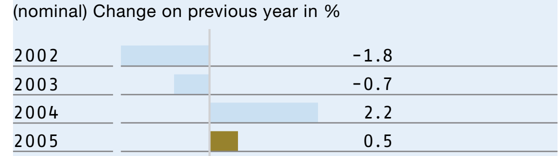
The tourism sector continued to be characterized by a strongly growing e-commerce business in the year under review. The most important market trends, such as high price-sensitivity, the short-term nature of bookings and demand for individual products, were sustained in 2005. All-inclusive offers further gained in importance, particularly in the German market. Because of moderate economic growth the market for operators' holidays performed reasonably well. While in Germany and Belgium customer numbers followed a moderately positive pattern, those in Great Britain and The Netherlands decreased.

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



Source: Destatis (Federal German Statistics Office)

Performance of sales in the true retail trade
(nominal) Change on previous year in %



Source: Destatis (Federal German Statistics Office), Hauptverband des deutschen Einzelhandels (Main Association of the German Retail Trade, HdE)

Outlook - overall economic recovery expected in 2006

Economic research institutes predict economic revival in the current year. Private consumption in the second half of the year is expected to benefit from, amongst other things, earlier than planned buying owing to the announced value-added tax increase. Additional sales of around 1 bill. € are expected to result from the football world championship. The prices of mineral oil products are expected to steady and price rises to ease off. On the labor market there are first cautious signs of an improvement.

The 2005 financial year of the KarstadtQuelle Group

Preliminary remarks

The KarstadtQuelle Group is undergoing a phase of radical restructuring and realignment. Figures for the 2004 and 2005 financial years are therefore significantly affected by special factors. The values shown on the balance sheet and the income statement are not or are only limitedly comparable. We have tried to improve comparability by appropriate reconciliations, particularly in the annotation to the income statement. Nevertheless, even these reconciled values are in part materially informative only to a limited extent because of drastic changes in the Group.

Important changes in balance sheet entry

In the 2005 financial year the KarstadtQuelle Group is including joint ventures in the consolidated financial statements proportionately for the first time. The previous year's amounts were adjusted accordingly and thus made comparable.

In accordance with the procedure in the interim financial statements the receivables sale program (ABS) was treated as a non-disposal (on-balance recognition) in the previous year. The reorganization of the program for the period to the end of the 2005 financial year, on the other hand, resulted in an actual disposal and so to a considerable reduction of net financial liabilities.

Sales performance and earnings

Sales performance

Group sales strongly affected by restructuring

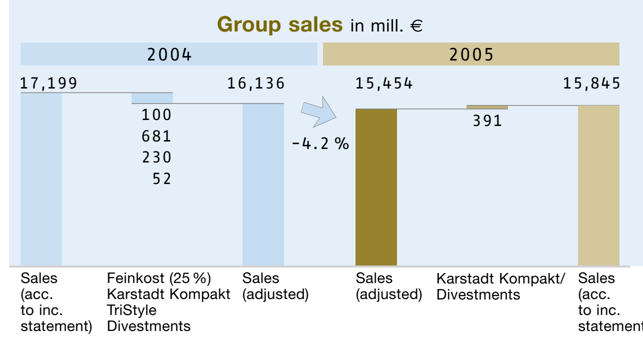
The KarstadtQuelle Group achieved sales of 15.45 bill. € (previous year: 16.14 bill. €) in the 2005 financial year (on a comparable basis). This represents a decrease by 4.2 %. However, it must be borne in mind here that part of the sales decrease was caused by the temporary closure or partial closure of reorganized department stores, dispensing with large-scale discounting campaigns and selective discontinuation of product lines and the associated considerable reduction in catalog pages in Universal mail order Germany. Around 26 % of sales was achieved abroad.

Karstadt: Reversal of trend with positive sales performance achieved in fourth quarter

Adjusted sales at the Karstadt department and sports stores came to 4.73 bill. € (previous year: 4.92 bill. €). For the first time in years Karstadt in its core business once again achieved a sales increase in the decisive fourth quarter of 2005. The newly positioned stores in particular contributed to this reversal of trend.

Mail order: Special mail order steady, Universal mail order Germany sharply declining

In Mail order adjusted sales came to 6.75 bill. € (previous year: 7.34 bill. €) during the year under review. While the first three quarters were still strongly dominated by large sales decreases in German and European universal mail order, sales performance in the fourth quarter was stabilized because of the initiated restructuring measures. The sales target revised during the year was reached. Outside Germany adjusted sales came to 1.88 bill. € (previous year: 1.94 bill. €). The share contributed by international sales rose by 1.4 percentage points to 27.8 % on the previous year. E-commerce continues to return high growth rates. Online demand rose by 14 % to 2.58 bill. € (previous year: 2.26 bill. €) over the year under review.



Positive sales performance at Karstadt and steadying of mail-order sales in the fourth quarter.

Thomas Cook: Good sales performance in all sales markets

The proportionately consolidated sales of the tourism group were increased by 2.5 % to 3.83 bill. € (previous year: 3.74 bill. €) during the year under review. The share contributed by international sales came to 56.3 % (previous year: 56.2 %) and thus rose slightly on the previous year. The share contributed by Great Britain to overall sales rose to 32.6 % thanks to a positive sales performance. Altogether the expansion of the early-bird advantage offering caused the share contributed to overall sales by low-margin last-minute travel to decrease once more.

Services: New sales structure through streamlining of the portfolio

In the 2005 financial year sales – including KarstadtQuelle Finanz Service GmbH, included proportionately for the first time – came to 305.5 mill. € (previous year: 324.1 mill. €). The sales performance was affected materially by the focus on the core business.

Real Estate: Decrease in sales through divestment program

The Real Estate business segment shows adjusted sales of 421.3 mill. € over the 2005 financial year (previous year: 438.5 mill. €). The performance in this business segment is largely determined by comprehensive disposals under the divestment program.

Sales by business segment *

Amounts shown in mill. €	2005	2004	Change in %
Karstadt			
Department and sports stores	4,734.1	4,918.1	-3.7
of which core department stores	3,607.3	3,762.5	-4.1
of which core sports stores	272.4	277.3	-1.8
Mail order	6,752.6	7,340.0	-8.0
Thomas Cook	3,828.7	3,735.3	2.5
Services	305.5	324.1	-5.7
Real estate	421.3	438.5	-3.9
Reconciliation account	-588.6	-620.2	–
	15,453.6	16,135.8	-4.2

* The data were adjusted. The adjustments relate to special factors, divestments and joint ventures. Comparison with previous year only limitedly possible because of radical restructuring.

Earnings

Adjusted operating earnings before interest, tax, depreciation and amortization (EBITDA) came to 544.1 mill. € (previous year: 517.5 mill. €) at Group level. This represents a growth by 5.1 %. Gross income, which decreased because of sales, was more than made up for by effective cost-cutting measures and restructuring successes at Thomas Cook.

Earnings forecast clearly achieved

In summer 2005 we published an adjusted earnings forecast for the 2005 financial year. This provided for an adjusted EBITDA of over 350 mill. €. The proportionately consolidated companies were not included in this forecast because their inclusion was not provided for at this time. We clearly achieved our results forecast and are showing adjusted EBITDA – not including proportionate consolidation – of 373 mill. €. Furthermore, the proportionately consolidated companies contributed an adjusted EBITDA of 171 mill. €.

EBITDA adjusted*

Amounts shown in mill. €	2005	2004	Change in %
Karstadt	65.2	21.6	202.4
Mail order	-4.4	15.6	-128.3
Thomas Cook	191.3	120.1	59.3
Services	34.9	69.2	-49.6
Real estate	295.2	350.8	-15.9
Reconciliation account	-38.1	-59.8	-
	544.1	517.5	5.1

EBITDA

Amounts shown in mill. €	2005	2004	Change in %
Karstadt	-27.4	-386.6	92.9
Mail order	-156.8	-185.7	15.5
Thomas Cook	190.4	111.4	70.9
Services	48.6	28.4	70.9
Real estate	337.8	257.0	31.5
Reconciliation account	-117.9	-99.6	-
	274.7	-275.1	199.8

* The data were adjusted. The adjustments relate to special factors, divestments and joint ventures.

Four out of five business segments above plan

The Karstadt department stores, Thomas Cook, the Real-Estate segment and Services return an adjusted EBITDA above plan. Four out of five companies thus performed better than planned. Mail order failed to achieve planned figures because of the weak earnings performance in Universal mail order Germany.

Karstadt: Realignment boosts earnings performance

Adjusted EBITDA of the Karstadt department stores stood at 65.2 mill. € (previous year: 21.6 mill. €). This represents an increase by 43.6 mill. €. Operating successes from the continuous realignment of the department stores and considerably reduced business system costs, particularly in the staff sector, not only offset the charges on earnings due to decreasing sales but also gave rise to a gratifying development in earnings.

Mail order suffering from weak universal mail order in Germany

The Mail-order business segment returns adjusted EBITDA amounting to minus 4.4 mill. € (previous year: plus 15.6 mill. €). Earnings were seriously impaired by weak business in German universal mail order. International business returned an uneven performance. Special mail order returned a steady performance overall after years of above-average growth.

Thomas Cook once again generates a positive result

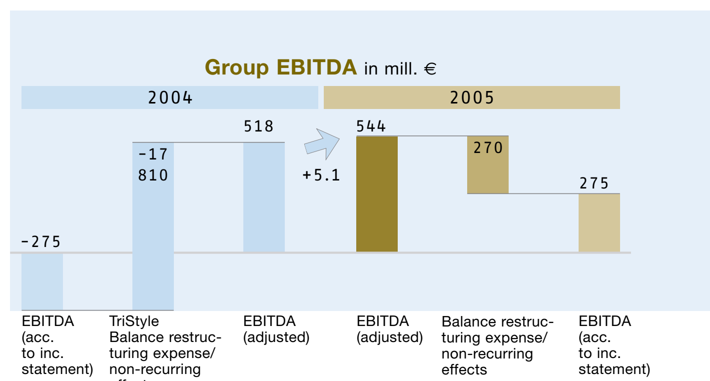
The tourism group returns a proportionately adjusted EBITDA amounting to 191.3 mill. € (previous year: 120.1 mill. €). Earnings were thus improved by a full 59 %. The gross income margin (according to the Group segment report) rose by 0.2 percentage points to 30.9 %. The considerable earnings rise is visible proof of successful reconstruction.

Services focused on retail-related operations

The Services segment achieved adjusted EBITDA of 34.9 mill. € (previous year: 69.2 mill. €). Now that marginal operations have been disposed of, this business segment is concentrating exclusively on retail-related services.

Real estate returns respectable result

The Real-estate business segment achieved adjusted EBITDA of 295.2 mill. € (previous year: 350.8 mill. €). Decisive for the decrease in earnings are the extensive real-estate sales. On the other hand they resulted in positive extraordinary EBITDA of 52.1 mill. € in the 2005 financial year.



Special factors: Restructuring costs and profit from sales

In the year under review significant special expenses and income were generated by further implementation of the measures for restructuring and realigning the Group. EBITDA was impaired by restructuring costs. These relate mainly to staff measures (redundancy payments, pre-retirement part-time work arrangements) and closures and valuation measures under the divestment program. Results were impaired by around 220 mill. € for reconstruction of the company in the year under review. Proceeds from sales under the divestment program, on the other hand, had a positive effect on EBITDA. On balance charges of 269.4 mill. € on EBITDA result from special factors in the year under review.

Special factors gave rise to a charge of 810.1 mill. € on balance in the 2004 financial year. The decisive factor was the comprehensive valuation and restructuring measures under the strategic realignment.

Notes to the consolidated income statement

Gross income decreased by 633.9 mill. €, that is, somewhat disproportionately relative to sales, in the financial year. After adjustment for the changes under the restructuring and realignment process the gross income margin was increased by 0.8 of a percentage point to 49.5 %. The decisive factors here were the improved product mix and once again restrained discounting in Christmas business.

Staff costs came to 2.63 bill. € (previous year: 3.11 bill. €). They include redundancy payments and expenses for pre-retirement part-time work arrangements amounting to 59.2 mill. € (previous year: 54.2 mill. €). The decrease on the previous year – after adjustment for redundancy payments and expenses for pre-retirement part-time work arrangements, effects of divestments and proportionately consolidated companies – comes to 10.5 %. Relative to consolidated sales, the staff cost ratio is 16.6 % (previous year: 18.1 %).

Consolidated income statement - abridged -

Amounts shown in mill. €	2005	2004	Change in %
Sales	15,845.0	17,199.0	-7.9
Cost of sales and expenses for tourism services	-8,911.8	-9,631.9	7.5
Gross income	6,933.2	7,567.1	-8.4
Gross income margin in %	*43.76*	*44.00*	-
Operating income	1,102.6	819.7	34.5
Operating expenses	-5,152.1	-5,575.7	7.6
Staff costs	-2,630.3	-3,109.4	15.4
Share of sales in %	*16.60*	*18.08*	-
Amortization of goodwill	-8.4	-152.4	94.5
Income from investments	7.2	13.8	-47.6
Net interest income	-293.0	-326.9	10.4

Under the restructuring initiated the previous year staff levels fell by a total of about 25,000 since 2004 through divestment and further measures for staff reduction. Over the 2005 financial year around 19,800 employees were transferred to new jobs and around 4,700 employees reduced by welfare plan measures or by way of normal fluctuation.

The rise in operating earnings is mainly due to income from the disposal of assets classified as held for sale and of non-current assets of around 240.2 mill. € under the divestment program.

Operating expenses include charges from restructuring measures amounting to 269.3 mill. € (previous year: 651.5 mill. €). They are due mainly to the radical structural change in Universal mail order Germany. Furthermore, deconsolidation losses of 109.1 mill. € and losses from disposal of assets and from assets worth 64.5 mill. € classified as held for sale.

Net interest stood at minus 293.0 mill. € (previous year: minus 326.9 mill. €) over the financial year. The rise in expenses from the syndicated loan facility in the year under review was in part offset by earnings from interest swap transactions. Non-recurring charges of 51.9 mill. € from restructuring were included the previous year.

Earnings from discontinued operation stood at minus 0.3 mill. € (previous year: minus 370.5 mill. €) during the year under review. It includes deconsolidation profits of 18.0 mill. € resulting from disposal of the SinnLeffers, Wehmeyer, Runners Point and Golf House specialty stores. The previous year's figure includes a charge of around 317 mill. € on results from restructuring.

The net loss after minority interests amounts to 316.5 mill. € after 1,625.3 mill. € the previous year. This development reflects the progress of the restructuring program.

Investments and financing

Investments amounting to 258.8 mill. €

The volume of investment in the KarstadtQuelle Group in the year under review amounted to 258.8 mill. € (previous year: 349.0 mill. €).

Karstadt department stores invested around 135 mill. € in their realignment. The overwhelming part went on modernization of the branches and the implementation of a customer-oriented, trend-focused re-presentation of the product ranges.

Mail order invested around 68 mill. €. The investments were mainly directed at the further development of the shopping portals (e-commerce) and customer accounting. Furthermore, the various special mail-order suppliers invested in extension.

Investments

Amounts shown in mill. €	2005	2004	Change in %
Karstadt	135.3	156.5	-13.6
Mail order	67.5	108.1	-37.6
Thomas Cook	41.9	28.1	49.1
Services	9.4	37.3	-74.9
Real estate	3.9	16.3	-75.8
Holding	0.8	2.7	-68.3
	258.8	349.0	-25.9

Depreciation and amortization (not including amortization of goodwill)

Amounts shown in mill. €	2005	2004	Change in %
Karstadt	99.3	118.4	-16.1
Mail order	109.9	99.4	10.6
Thomas Cook	90.8	99.4	-8.6
Services	22.8	51.4	-55.7
Real estate	67.5	175.7	-61.6
Holding/ Reconciliation account	1.2	-17.5	106.6
	391.5	526.8	-25.7

At Thomas Cook investments amounted pro rata to 42 mill. €. The emphasis here was on the technical further development of EDP systems. Nearly 60 % of the volume of investment went on adaptation of the EDP systems to suit the changed tourism environment. Further investments were undertaken in aircraft and technology, business and office equipment and hotel and club activities.

Net financial liabilities appreciably reduced

Net financial liabilities of the KarstadtQuelle Group (not including pension provisions) amounted to 2.98 bill. € (previous year: 4.52 bill. €) at the balance sheet date. This represents a reduction by around 34 %. The decisive factors here were cash inflows from the divestment program and the sale of receivables to the value of 1.04 bill. €. In the year under review this measure was treated as an actual disposal.

Net financial liabilities

Amounts shown in mill. €	2005	2004	Change in %
Non-current financial liabilities	3,050.7	3,471.0	-12.1
thereof from discontinued operations	30.8	38.7	-20.4
Current financial liabilities	724.8	2,073.9	-65.1
thereof from discontinued operations	–	2.2	–
Gross financial liabilities	**3,775.5**	**5,544.9**	-31.9
Cash and cash equivalents	-791.6	-1,020.0	-22.4
Net financial liabilities	**2,983.9**	**4,524.9**	-34.1

Breakdown of financing

Amounts shown in mill. €	Current (< 1 year)	Non-current (> 1 year)	Total 31.12.2005
Mortgage loans [1]	34	1,698	1,732
Syndicated loan	–	275	275
Convertible bond	–	141	141
Asset-Backed Securitization (ABS)	165	–	165
Pension Trust	147	–	147
Second-rank financing (second lien)	–	295	295
Other	378	604	982
	724	**3,013**	**3,737**
Liabilities under IFRS 5	–	31	31
Derivatives	–	7	7
Gross financial liabilities	**724**	**3,051**	**3,775**

[1] Mortgage-secured loans.

To secure long-term financing, the Group undertook second-rank financing (second lien) to the value of 309 mill. € in December 2005. This provides for a fixed term of 48 months. The terms and conditions are those usual for the class of risk.

Group placed on a sound financial basis for the long term

With mortgage loans amounting to 1.72 bill. €, second-ranking financing amounting to 0.30 bill. € and the syndicated bank loan amounting to 1.65 bill. € until the end of 2007, of which only 0.28 bill. € was utilized by the balance sheet date, the Group has at its disposal a structured, long-term financing basis. As is usual for a retail and tourism group, there is also non-recognized financing from operating leases in the building and aircraft lease sector.

The syndicated bank loan and second-rank financing are conditional on adherence to financial covenants. These relate to adjusted EBITDA, interest coverage, debt coverage and equity. In the year under review the key figures on which the covenants are based were fulfilled by each balance sheet date.

Notes to the cash flow statement

Cash flow from operating activities amounts to 1,227.2 mill €. Positive effects were achieved by EBITDA amounting to 274.7 mill. € and the substantial reduction in working capital (1,006.8 mill. €), particularly that resulting from the sale of receivables (1,017.6 mill. €). Cash outflows of 313.3 mill. € resulted from the restructuring measures.

Cash flow from investing activities amounted to 731.0 mill. €. It is mainly determined by the divestment program. This resulted in cash inflows amounting to 1,000.4 mill. €. Investments (incl. financial investments of 7.9 mill. €) resulted in a cash outflow of 266.7 mill. €.

Cash flow statement -abridged-

Amounts shown in mill. €	2005	2004	Change in %
Cash flow from operating activities	1,227.2	636.5	92.8
Cash flow from investing activities	731.0	-265.6	-
Cash flow from financing activities	-1,900.6	-55.6	-
Changes in cash and cash equivalents affecting cash flow	**57.6**	**315.3**	-81.7
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	-14.9	-14.4	-3.4
Cash and cash equivalents at the beginning of the period	653.2	352.3	85.4
Cash and cash equivalents at the end of the period	**695.9**	**653.2**	**6.6**

Cash flow from financing activity reflects the repayment of loans from funds of the divestment program and the reduction of liabilities under the ABS program (840.1 mill. €).

Asset and capital structure

Balance sheet total down by 21.5 %

The KarstadtQuelle Group's balance sheet total decreased by 21.5 % to 9.14 bill. € (previous year: 11.64 bill. €).

Assets

Non-current assets came to 4.51 bill. € (previous year: 5.68 bill. €). This represents a decrease by 1.17 bill. €. The decisive factors were mainly the reduction by 0.61 bill. € of non-current financial assets from

Structure of the balance sheet

Amounts shown in mill. €	2005	2004	Change in %	2005 in %	2004 in %
Balance sheet total	**9,138.6**	**11,643.2**	**-21.5**	**100.00**	**100.00**
Assets					
Intangible and tangible assets	3,557.7	3,887.2	-8.5	38.93	33.39
Other non-current assets	956.0	1,792.9	-46.7	10.46	15.40
Inventories	1,621.1	1,823.9	-11.1	17.74	15.66
Trade receivables	844.4	1,295.5	-34.8	9.24	11.13
Other current assets	1,896.7	1,634.1	16.1	20.76	14.03
Assets classified as held for sale	262.7	1,209.6	-78.3	2.87	10.39
Equity and liabilities					
Equity	290.1	595.8	-51.3	3.17	5.12
Pension provisions	906.7	891.9	1.7	9.92	7.66
Non-current financial liabilities	3,012.8	3,372.4	-10.7	32.97	28.96
Other non-current liabilities	962.0	986.7	-2.5	10.53	8.48
Current financial liabilities	724.8	2,062.5	-64.9	7.93	17.71
Trade payables	1,600.9	1,554.5	3.0	17.52	13.35
Other current liabilities	1,580.3	1,655.2	-4.5	17.29	14.22
Liabilities from assets classified as held for sale	61.0	524.2	-88.4	0.67	4.50

the sale of receivables and the reclassification of assets worth 0.17 bill. € classified as held for sale. Furthermore, non-current securities return a marked decrease by 277.1 mill. € owing to the sale of Karstadt Hypothekenbank.

Investments were selectively reduced in the year under review and amount to 258.8 mill. € (previous year: 349.0 mill. €). Set against these were depreciation and amortization amounting to 391.5 mill. € (previous year: 526.8 mill. €). These include non-scheduled components amounting to 48.2 mill. €. Depreciation and amortization of the previous year included non-scheduled factors amounting to 101.6 mill. €.

Current assets decreased by 391.4 mill. € to 4.36 bill. €. Inventories decreased markedly by 202.8 mill. € to 1.62 bill. €. The decisive factor here was the programs for selective, sustained reduction of inventories. “Receivables and Other assets” rose appreciably as a result of the sale of receivables and the recognition of security retentions amounting to 227.9 mill. €.

For details of the assets and liabilities held for sale, please see the Notes on page 124.

Equity and liabilities

Equity capital at the balance sheet date stood at 290.1 mill. € (previous year: 595.8 mill. €). The equity ratio was 3.2 % (previous year: 5.1 %). The decrease is due mainly to the high restructuring charges.

The reduction of non-current financial liabilities by 369.4 mill. € to 4.88 bill. € is mainly due to the reduction of loans through inflows from the divestment program.

Current liabilities decreased by 1.37 bill. € to 3.91 bill. €. The decisive factor here was the reorganization of the receivables sale program, which resulted in a reduction in current financial liabilities by 1.35 bill. € to 0.72 bill. €.

Operating working capital reduced by 11 %

Working capital at the balance sheet date came to 1.23 bill. € (previous year: 2.35 bill. €). The decisive factor behind the substantial decrease was the reorganization of the receivables sales program (ABS) in domestic mail order. Disregarding special effects, an operating reduction of working capital by 151 mill. €, or around 11 %, results. The selective reduction of inventories under optimization programs is also having a positive effect here. The share of sales made up by working capital decreased by 5.9 percentage points to 7.7 %.

Working capital

Amounts shown in mill. €	2005	2004	Change in %
Inventories	1,621.1	1,823.9	-11.1
Trade receivables [1]	1,205.7	2,079.1	-42.0
Trade payables [1]	-1,601.0	-1,554.5	3.0
	1,225.8	2,348.5	-47.8

Key figures on financial situation

		2005	2004
Equity	mill. €	290.1	595.8
Equity ratio	in %	3.2	5.1
Equity-to-fixed-assets ratio	in %	7.9	14.9
First-degree liquidity	in %	17.4	8.3
Second-degree liquidity	in %	39.7	37.1
Third-degree liquidity	in %	81.2	71.7
Working capital	mill. €	1,225.8	2,348.5

[1] Including long-term trade items.

Product ranges, purchasing, marketing and sales

Target-group-oriented product ranges and strategic purchasing

Our success as a specialized retail group is substantially determined by our product range policy and product procurement management. Through the strategic realignment of the Karstadt and Mail-order Group segments customer target groups were redefined and the product range policy adapted accordingly. As well as the streamlining of the product ranges, the weighting of manufacturers' and own brands and basic and trend goods played an important role.

Since 2002 we have concentrated our procurement management in KarstadtQuelle Konzern-Einkauf GmbH (KQKE). That way we increase synergies in the Group's purchasing segments, can shape organization and processes more efficiently, make strategic choices of suppliers and optimize purchasing conditions.

The strategic choice of the optimum source of supply at any one time is made on the basis of our comprehensive knowledge of source countries, procurement channels and suppliers. As well as quality and price, it takes into consideration all the specific requirements like creative performance by the supplier, security of delivery and high delivery speed with trend goods. The lifting of regulated quotas for textiles resulted in further transfer of our imports to the Far East in the year under review.

2005 was a year of radical renewal. As well as the repositioning of our Karstadt, Quelle and neckermann.de brands, customer orientation, competence and quality were at the forefront.

After the import formalities for China have been clarified as far as possible, we shall intensify our commitment to this procurement market. China especially offers us highly attractive direct sourcing potential without the mediation of outside importers.

Higher customer orientation in marketing and sales

2005 was a year of radical renewal. Quelle and Neckermann were repositioned and the catalog structures for both brands completely realigned. In the department stores we are strengthening the profiling of the Karstadt brand by a new presentation with higher customer-orientation. We are thereby emphasizing competence and quality. Price no longer takes priority. Accordingly, our department stores ceased to participate in the discount wars usual in the industry over the Christmas period.

Our Karstadt branches at central city-center locations with long opening times are enjoying a high customer footfall. The offering in mail order is available nationally and internationally round the clock via catalogs, portals or mobile terminal units. The entire Group is to continue to grow in the e-commerce sales channel. Currently the KarstadtQuelle Group offers ordering options and information at over 60 shopping portals.

Balance sheet of KARSTADT QUELLE AG

for the year ended December 31, 2005

Assets

Amounts shown in th. €	2005	2004	Change in %
Intangible assets	5,308	6,343	-16.3
Tangible assets	679	1,501	-54.8
Financial assets	4,595,706	4,852,808	-5.3
Fixed assets	**4,601,693**	**4,860,652**	-5.3
Receivables and other assets	1,056,910	680,386	55.3
Securities	151,534	94,124	61.0
Cash and cash equivalents	100,587	205,564	-51.1
Current assets	**1,309,031**	**980,074**	33.6
Prepaid expenses	1,718	171	–
Balance sheet total	**5,912,442**	**5,840,897**	1.2

Liabilities

Amounts shown in th. €	2005	2004	Change in %
Subscribed share capital	539,646	539,646	–
Additional paid-in capital	570,969	821,145	-30.5
Revenue reserves	204,863	221,701	-7.6
Equity	**1,315,478**	**1,582,492**	-16.9
Provisions	925,719	950,047	-2.6
Liabilities	3,669,948	3,306,792	11.0
Deferred income	1,297	1,566	-17.2
Balance sheet total	**5,912,442**	**5,840,897**	1,2

Income statement of KARSTADT QUELLE AG

for the year ended December 31, 2005

Amounts shown in th. €	2005	2004	Change in %
Income from investments	-166,971	-2,408,612	93.1
Net interest income	-56,116	-12,148	–
Other operating income	164,249	7,682	–
Staff costs	-54,809	-64,156	14.6
Depreciation and amortization of intangible assets and tangible assets	-2,162	-2,061	-4.9
Amounts written off other loans and current investments	-37	-113,467	–
Other operating expenses	-151,146	-210,206	28.1
Earnings from ordinary activities	**-266,992**	**-2,802,968**	90.5
Taxes on income	–	-167,109	–
Other taxes	-22	-28	21.4
Net loss	**-267,014**	**-2,970,105**	91.0
Profit carried forward	–	577,747	–
Withdrawals from revenue reserves	16,838	2,392,358	-99.3
Withdrawals from additional paid-in capital	250,176	–	–
Net profit	**–**	**–**	**–**

Business performance of KARSTADT QUELLE AG

Net loss stands at 267 mill. €

KARSTADT QUELLE AG once again returns a net loss owing to the transferred losses of the operating companies – particularly those of mail order. Charges also resulted for KARSTADT QUELLE AG from preparation of the divestment program, the additional second-ranking credit facility and the transfer of provisions for risks to investments under the Group's restructuring program.

To cover the net loss, 16,838 th. € were withdrawn from the revenue reserves and 250,176 th. € from additional paid-in capital.

Balance sheet total up slightly

The balance sheet total has risen slightly despite the divestment program and the disposal of shares worth 216,565 th. € in real estate companies and comes to 5.9 bill. €, compared with 5.8 bill. € the previous year. This is due to the increase in receivables in the Group sector from the financing of the restructuring process.

Own shareholdings were again written up to the value of 58,724 th. € owing to the positive trend of the share price in the 2005 financial year, following write-down the previous year.

The increase in liabilities relates mainly to subsidiaries and is mainly due to the transfer of losses at Karstadt Quelle Versand GmbH as a result of the massive reconstruction program in Universal mail order Germany.

Proposed payment of dividends

The Management Board and Supervisory Board will propose to the annual general meeting on May 8, 2006, that in view of the Group's economic situation once again no dividend be paid.

Unqualified auditor's opinion accorded

The complete financial statements of KARSTADT QUELLE AG, which were 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 report

Preliminary remarks

The 2005 risk report analyses and explains the currently foreseeable "most important risks" in the Karstadt Quelle Group. It was prepared on the basis of the legal Group structure at the balance sheet date. In accordance with the agreement reached with individual shareholders in the 2004 financial year the scope of the risk report was, as in the previous year, extended to include "risks to be monitored."

Risk management system

The KarstadtQuelle Group is exposed to various risks in its business segments. The function of the Group-wide risk management system is to identify risks in good time, to systematize them and 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 may accumulate in the Group as a whole are assessed and controlled centrally. Where possible and economically practicable, we transfer risks to third parties.

Examination by the auditor

The risk early warning system as part of a risk management system was the subject of the audit by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf.

Business risks

Risks from general economic conditions/business sector risk

The KarstadtQuelle Group's business activities are oriented towards the German retail sector. Accordingly business performance is decisively affected by years of unsatisfactory domestic demand and stagnating domestic economy. Current economic forecasts assume a revival of domestic demand and a propensity to consume. These forecasts are seriously attended with risks and in the past have frequently been incorrect. It is also unclear how consumer behavior is being affected by the 3 percentage point sales tax increase planned for January 1, 2007. In view of these imponderables sales, earnings and operating cash flow targets incorporated in our planning are naturally attended with risks.

Furthermore, internal factors may negatively affect the quality of the forecast. 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. Because of the internal improvements achieved by the advanced implementation of the projects of the restructuring program the risks have been reduced in their effects by comparison with the previous year, but from a Group point of view remain risks "to be monitored".

Risks from the realignment of the business segments and restructuring

The realignment of the existing business segments relates particularly to the trade segments of the Karstadt-Quelle Group: Karstadt and the mail order. After an important step towards unifying the new sales concept in the department store has already been successfully implemented by the sale of the 74 Kompakt branches, a solution is currently being developed for the branches which can be only limitedly adapted to the new sales concept. In Mail order the fundamental realignment of the universal mail-order suppliers at home and abroad, the progressing of the e-commerce operation and the intensified continuation of profit-oriented growth in special mail order are at the forefront in the 2006 financial year.

The sales and gross income planning for the 2006 financial year and later years is based on, amongst other things, the scheduled implementation of the realignment. The resulting risks to achievement of the target must also be measured in the light of the development of the economic and sector-specific environment in 2006 and later years and are thus attended with risks. To safeguard the planning premises, comprehensive catalogs of measures were developed (particularly for improving gross income and the reduction of staff and material costs). At the same time continuous and effective monitoring of the realignment processes was implemented.

As part of the realignment of the Group as a whole and the concentration on the core competences, the sale of Group real estate was also included in the scenarios that are relevant for planning. It is assumed that the purchase price to be realized will result in an extensive reduction of the Group's debts. As the sales process is at an early stage, it cannot be predicted with certainty if, when and at what purchase price the real estate will be sold.

In the course of restructuring and realignment of the KarstadtQuelle Group, a large number of extremely urgent and complex tasks is being carried out. This confronts the management of the Group both with new qualitative and quantitative tasks. Because of the interaction of line organization and project organization in the process of controling the restructuring process and the strategic realignment risks to stringent Group control may arise. These risks are being reduced by the qualitative and quantitative strengthening of the intragroup management and control resources and the creation of an internal management consulting team.

Risks from financing

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 credit line the lenders have at their disposal an extraordinary right of foreclosure. This applies especially to non-adherence to contractually agreed finance relations (covenants) for the Group. There is also a right of foreclosure in the event that the rules of conduct are breached and in the event that the entire facility or individual facilities are exceeded. Furthermore, considerable demands are made of the accounting function and controling in connection with obligations to give regular information to the creditors. Likewise, a breach of these information obligations can lead to a premature right of termination. Comparable regulations also apply to the second lien agreement. Any breaches of the information obligations and agreed rules of conduct would very likely be of a technical nature and thus organizationally avertable or curable. Breaches of the financial covenants would result mainly from failure to achieve operating targets and thus be tendentially difficult to cure. The financial covenants were adjusted in November 2005 for the syndicated 3-year credit facility on the basis of a simplified top-down review of the planning of April 2005 or were extended for the second lien financing. Because of the simplified procedure the assumptions applied are attended with corresponding risks.

Even if secure availability of the credit facility is assumed, it must be ensured that the Group's liquidity requirement does not exceed the set disposal limits. This applies, on the one hand, in the seasonally important months of August and September and, on the other, – because of the seasonal component of the syndicated credit – from December to January. A minimization of the required liquidity requirement on financing peaks during the year can be achieved by the consistent implementation of the countermeasures with regard to the business and restructuring risks and the risks arising from the reorientation of the business models. Our considerably improved liquidity planning is contributing to further reduction of the risk.

Owing to possibly future decreases in the market and collateral values of real estate used for financing purposes banks or mortgage banks may require the provision of additional collateral security. This could have the result that in the absence of further security the financing made available so far might no longer be granted in the same amount.

As a result of the negative earnings performance at individual Group companies, we have considerable tax loss carry-forwards. Because of new legal general conditions (minimum taxation) their utilization is limited by a spread over time. Here initially there will be a negative earnings effect which will, however, be evened out again over the total period. A negative liquidity risk equal to the interest effect will arise through transfer of the loss utilization to later years. In the utilization of deferred tax assets there is a risk in the time limit on the forecast period. The effect will be not a liquidity but solely a result effect, which in the most unfavourable case might be in the region of the upper tens of millions.

Moreover, in the case of an unscheduled business performance considerable risks may result from the balance-sheet measurement of investments and assets classified as held for sale. Thanks to timely countermeasures based on sound management and controling data, however, this risk can be reduced.

Litigation risks

The main litigation risks are actions or possible actions brought by some Wertheim heirs and the Jewish Claims Conference (JCC) in the USA and Germany. These relate to the acquisition of the shares in the Wertheim Group parent company and the transfers of the Lenné-Dreieck real estate asset in Berlin to Warenhaus Wertheim GmbH. The ancestors of the Wertheim heirs, who, as legal successors, have brought or may bring an action against KARSTADT QUELLE AG, held a total of 36.5 % of the Wertheim group controling company. In the opinion of the company any claims by the litigating Wertheim heirs may be limited accordingly.

In the at present unlikely event of a substantiated demand by the State of Berlin, because of contractual agreements with the State of Berlin, any claims by the Wertheim family could, as things stand, result indirectly in financial obligations amounting to 145 mill. € at most for the Lenné-Dreieck. The time limit for appeal expired mid-February 2006. Detailed explanations of this were given in the 2004 annual report. In 2005 the action brought by the Wertheim heirs in the USA was also dismissed as inadmissible in the 2nd instance. Whether an appeal, the time limit for which expired mid-February 2006, has been lodged we have not been able to ascertain.

KARSTADT QUELLE AG was unsuccessful with its own claims for the transfer of a number of pieces of land in the year under review (judgment by the Federal German Administration Court delivered in October 2005). A worsening of the net assets, financial and earnings position is not linked to this, although there is a possibility that the judgement might affect the assessment of the legal position in the case concerning the so-called Postblock real estate. This risk has already been provided for by the current maximum amount of 25.5 mill. €.

Other risks

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

In the staff sector the situation improved in the year under review. Staff changes and work overloads were successfully reduced. We have nevertheless retained in place our package of measures. These include employee surveys and discussions, management development and flexibilization of working hours.

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 58.23 % 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

The sales and gross income planning for the 2006 financial year is based on, amongst other things, the scheduled implementation of the realignment.

Accordingly, the Management Board has prepared a dependent companies report for the 2005 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.”

Outlook

2006 – Year of Opportunities and Further Strategic Steps

We see 2006 as a great opportunity for our Group. On the basis of the progress achieved so far our Karstadt department stores will be able not only to stabilize but also to actually increase adjusted sales. Because of the attractiveness of the department stores to foreign tourists and the partnership with the international FIFA association we should be able to profit above average from the football world championship. Moreover, Karstadt in 2006 is celebrating its 125^{th} anniversary, supported by effective marketing campaigns and unique product offers.

Likewise we forecast rising sales for Thomas Cook. In Mail order we expect a marked slowing down of the negative sales trend. The decisive factor here will be the continued implementation of the realignment in Universal mail order, which should be showing initial success.

At Group level, after adjustment, we expect a slight rise in adjusted sales. We have not taken into consideration here the carry-forward effects of the VAT increase planned for January 1, 2007, although these should have an additional positive effect. Adjusted EBITDA is set to rise by 20 % (not including the real estate transaction).

Over the current year we shall consistently implement the strategy announced in December 2005 for ensuring continuity for the Group. The goal is “Profitable growth for KarstadtQuelle”. Initially there are two priorities here:

First, we want to integrate Thomas Cook’s tour operator operation more tightly into our other core business and further expand it. Second, we no longer regard Group real estate as a strategic business segment. For this reason we consider it sensible to realize the high value linked to it and to channel it towards operationally different purposes to generate a higher return. We are seeing in the Real estate segment very high demand from international investors at present. From this point of view we may have a unique window of opportunity which considerably affects the value of the Group and by taking this strategic step want to achieve the following:

- Freedom of the Group from debt
- Improvement in the equity position
- Marked improvement in Group EBT

Supplementary report

Karstadt sets up Premium Group

KARSTADT QUELLE AG is continuing to push forward the consistent profiling of department store business and to this end in February 2006 concentrated five department stores in a newly set up Premium Group. The potential value of the department stores at prime locations was further developed so as to be able to offer customers more service, more brands and a better shopping experience.

As an initial step, the department stores such as KaDeWe in Berlin, Alsterhaus in Hamburg, Karstadt in Dresden, Karstadt an der Zeil in Frankfurt/Main and Hertie am Bahnhof in Munich are grouped together in the new Premium Group. This segment is also being expanded step by step. Plans are for the department stores Wertheim am KuDamm and Schlossstraße in Berlin, Karstadt in Düsseldorf, Karstadt Limbecker Platz in Essen, Karstadt in Cologne (Breite Strasse), Karstadt an der Lorenzkirche in Nuremberg and Karstadt in Stuttgart to be developed into premium stores at prime locations, with high-quality product ranges and brands and to become part of the new Premium Group.

Sale of Karstadt real estate going to plan

The process of selling Karstadt real estate at prime locations in German city centers is going to plan. By the beginning of February 2006 over 20 potential buyers had declared their interest in Karstadt real estate. The aim of the real estate transaction is to reduce the KarstadtQuelle Group's burden of debt to zero. The Goldman Sachs investment bank has been engaged by KARSTADT QUELLE AG to market the real estate. Furthermore, Rothschild will support the transaction in an advisory capacity.

The aim is to complete the process of optimizing the real estate assets of Karstadt department stores by September 30, 2006. As regards the structure of the transaction there are a number of options. The real estate is to be sold and then leased back.

Thomas Cook starts the 2005/2006 financial year successfully

During the 2005/06 winter season (to the end of March 2006) Thomas Cook AG's German operators – Neckermann Reisen, Thomas Cook Reisen and Bucher Reisen – achieved an increase of 6.7 % in the number of customers by the end of January 2006. All categories return increases for the coming summer season (April to October 2006) in which traditionally around three quarters of total sales in a financial year are generated. Altogether by the end of January 11.8 % more customers opted for a summer holiday with a Thomas Cook AG operator than had by the same time the previous year. The decisive factor behind this successful development was the fact that the Neckermann brand is price leader in the market and furthermore all the brands offer a high product quality and a high degree of product differentiation.

Thomas Cook has continued the process of concentration on the core business by the sale of shares in two companies. Thus, as early as in September 2005, 75.1 % of the shares in Aldiana GmbH were sold to the Spanish Grupo Santana Cazorla. In December 2005 an agreement for the sale of the entire shareholding (60 %) in Thomas Cook India Ltd., which was listed on the Indian stock exchange, to Dubai Holding (LLC), Dubai, was signed. Fulfilment of the final elements of the agreement took place after the balance sheet date.

Core business strengthened. The Group is plannable and manageable once more.

Home shopping is an issue with future. Round the clock in all ordering channels.

The biggest potential is offered by e-commerce, special mail order and international business.


MADELEINE

Strategy

On September 28, 2004, we introduced to the public "KarstadtQuelle Neu", the program for restructuring and realignment of the Group. It defines the strategic approach for the 2004 to 2008 financial years. "KarstadtQuelle Neu" is based on a fundamental reconstruction of the finances and a radical realignment of the business models, particularly in the retail segments. The basic concept "KarstadtQuelle Neu" was supplemented by further divestments in mid-2005 and extended to include a massive reconstruction program in Universal mail order Germany. At the end of 2005 strategic realignment was specified for Thomas Cook and the real estate portfolio. "KarstadtQuelle Neu" has the following goals:

Phase 1 (2004 and 2005 financial years):

- Focusing on the core competences
- Realignment of the business models
- Reconstruction and restructuring of finances
- Reduction of employed capital
- Cost reductions

Phase 2 (from the 2006 financial year):

- Reconstruction of Universal mail order Germany
- Reduction of net financial liabilities towards zero
- Concentration on profitable growth segments
- Further considerable reduction of the employed capital

The core elements of "KarstadtQuelle Neu"

Item 1: Reconstruction and restructuring of finances

Comprehensive restructuring of Group finances

The restructuring of Group finances has the following aims:

- a solid financial structure
- long-term alignment of finances
- strengthening of the equity base

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

- Capital increase (517.6 mill. €)
- 3 year bank loan (1.65 bill. €)
- Convertible bond (170 mill. €)
- Second lien financing (309 mill. €)

The new refinancing concept was already successfully implemented in its most important parts in the fourth quarter of 2004. In the year under review KARSTADT QUELLE AG also took out a second lien syndicated loan of nominal 309 mill. €, secured with secondary collateral. The loan is for a maximum term of 48 months. By this measure the restructuring of Group finances in the 2005 financial year was successfully concluded. The KarstadtQuelle Group has thus been placed on a secure, sound financial base.

Comprehensive portfolio streamlining program

The aims of the 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 the small Karstadt department stores, the disposal of all the specialty store chains and small department stores and the sale of numerous items of real estate, particularly in the logistics sector. It is completed by the selective sale of non-current investments outside the defined core activities and the outsourcing of marginal activities. The portfolio streamlining program was successfully completed during the 2005 financial year, and faster than planned.

Divestments implemented faster than planned

	Divestments in 2005	
Small department stores	Karstadt Kompakt	03.08.2005
Specialty store chains	Golf House	21.06.2005
	Wehmeyer	12.07.2005
	Fitness	13.07.2005
	Runners Point	02.08.2005
	SinnLeffers	03.08.2005
Logistics real estate	Logistics real estate in Unna	25.05.2005
	Real estate mail-order logistics	08.12.2005

In summer 2005 we extended the portfolio streamlining program to include further items. These are KARSTADT Hypothekenbank AG and the instalment credit business in Mail order (operating business and ABS program). The most important part of the additional program was likewise concluded towards the end of 2005 faster than planned. KARSTADT Hypothekenbank AG adopted the ABS program (sales of receivables from instalment credits) and was transferred to the KarstadtQuelle pension fund with effect from December 23, 2005. KARSTADT Hypothekenbank AG will in future take over the financing of the domestic instalment credit business of Mail order.

Measures for improving profitability

The measures for improving profitability are aimed at mitigating the negative effect of sales decreases and establishing business system costs at a markedly lower level in the medium to long term. The following measures were adopted and already had positive effects in the 2005 financial year:

Reduction of staff costs

The Group's staff costs will be reduced by around 760 mill. € over the period from 2005 to 2007. A corresponding restructuring contribution was contractually agreed with staff councils, unions and the management in 2004. The program has so far been implemented to plan. The program for reducing staff costs was supplemented with further measures in Universal mail order Germany in summer 2005.

Reduction of material costs

We are achieving a reduction of material costs by, in particular, the reduction of complexity in the department stores and by product line adjustments and a more cost-effective catalog structure in mail order.

Improvement in the trade margin

Our trade margin is profiting from the realignment of our product lines towards higher-margin consumer segments, from the discontinuation of unprofitable product groups and from the further optimization of Groupwide purchasing conditions.

Furthermore, the control of the Group by a stronger alignment with 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 formulated goals were successfully achieved in the year under review. The measures are being strengthened by efficient organizational structures and appreciable improvements in systems, particularly in merchandize management and controling.

Considerable reduction of net financial liabilities

Alongside the restructuring of Group finances we also implemented a consistent reduction of indebtedness. In the year under review we also succeeded in reducing indebtedness considerably faster than planned. Cash inflows from the divestment program and the reduction of working capital in particular contributed to this.

At the end of 2005 the consolidated net financial liabilities, at around 2.98 bill. € (including Thomas Cook), are considerably below those of the previous year, which came to 4.52 bill. €. A complete reduction of Group indebtedness is planned by the end of 2006.

Item 2: The realignment of the business models in Over-the-counter-retail

At the center of the strategic realignment of our business models is refocusing on our strengths and core competences. We are aiming at 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.

Karstadt: Repositioning of the department stores

With our Karstadt portfolio, after successful repositioning, we want to once again generate growth. We are convinced that attractive department stores with a pleasant atmosphere at a central city center location offer good future opportunities. We are therefore directing our management capacity and the allocation of financial means consistently toward the further development of the core portfolio. This comprises large department and sports stores with sales space totaling 1.8 million sq. m. The department stores are situated in German cities with purchasing power above the average for Germany.

The repositioning of Karstadt department stores is based on a comprehensive survey of the needs and purchasing structures of our customers. Our customers' social structures determine our new market presentation:

The first core element is our customers' **life worlds**. We are reorganizing our space and ranges to suit our customers' life worlds.

- The "Ich" life world comprises all self-presentation ranges, such as fashion, beauty, watches/jewellery and shoes.
- With product ranges such as living and sleeping, kitchen and eating, bath and wellness we offer everything to do with the "Mein Zuhause" life world.
- Our customers can experience the "Meine Freizeit" life world in the sports, entertainment, toys and games, books, gastronomy and travel segments.

The second element is the **zone concept**. With trends, basics and brands we are aligning our ranges consistently towards our customers' needs. This changeover is most advanced in the fashion segment. Accordingly, this segment was able to improve its market position in a difficult environment.

The improvement of the **quality of service and advice** is the third core element of our realignment. Accordingly, we have launched a comprehensive qualification program for our employees.

The grouping of our department stores into the **Premium, Boulevard Plus and Boulevard** formats, as fourth core element, enables the ambience and range level to be accurately adapted to our customers' wants.

To transfer the effect of our realignment directly to the satisfaction of our customers, customer satisfaction is measured weekly. That Karstadt is mainly on the right track is shown by the continuous improvement in customer satisfaction by eight percentage points to 83 %.

Mail order: Varied strategies

Our Mail-order segment covers nearly the full range of universal and special 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 Special mail-order and International 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.

At the center is the clear profiling of the Quelle and neckermann.de brands. Besides having clear target group differentiation, these two strong brands will develop into multispecialists.

In the Special mail-order and international growth segments we are accelerating our expansion, particularly through organic growth. At the same time we are expanding our strong position in the strategic E-commerce growth segment. A reconstruction concept was developed for Universal mail order Germany on the basis of which the segment is being completely strategically realigned.

Reconstruction in Universal mail order Germany has high priority

The reconstruction of Universal mail order in Germany is one of the priority strategic management tasks. Its aim is to streamline the business model on the product and cost side, stabilize sales and create the basis for future growth.

Measures for stabilizing and stimulating sales

At the center here is the clear **profiling** of the two Quelle and neckermann.de brands. In this way what is for the customer the rather unclear profile of Universal mail order will be considerably more sharply defined. Besides having clear target group differentiation, the two strong mail-order brands will develop into multispecialists.

They are aligning themselves consistently with what are known as **profiling product lines**. In these product lines Quelle and neckermann.de 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.de will be profiled in particular by “Young fashion”, “Young living” and “Large sizes”.

A further emphasis is on the complete change and contemporary alignment of the **advertising campaign chain**, that means, addressing the customer through catalogs. In the year under review we abandoned the classical position of the main catalog with six-monthly cycles and heightened the attractiveness of the catalogs by increasing the product range frequency and cutting marginal product lines. The Quelle main catalog was split up into a six-monthly fashion catalog and an annual technology/furniture catalog. neckermann.de is presenting a slimmer main catalog at shorter seasonal intervals.

Measures for reducing business system costs

The successful reconstruction of Universal mail order requires a competitive cost base. Accordingly, we have developed a program with the idea of considerably reducing infrastructure costs. We want to reduce infrastructure costs by 20 %, or 300 mill. €, down from 1.5 bill. € by 2008. The core features of the program include:

- Streamlining the product portfolio
- Reduction in the number of printed catalog pages
- Reduction of logistic and IT costs
- Reduction of administrative costs
- Adjustment of staff levels and staff costs

By the successful implementation of these cost-cutting measures we are creating an effective counterweight to the sales-related gross income losses.

Consistent expansion of the growth segments

In **Special mail order** we are continuing to maintain our growth course. The catalogs positioned in attractive, highly specialized product range groups offer, in comparison with Universal mail order, higher margins and contribute to markedly better value creation. Nine out of 16 formats are currently performing better than planned, five are within plan. To promote growth, we shall consistently shift the emphasis of our investments in favour of operations abroad. As a result, we are planning for higher growth internationally than in Germany.

International growth will be of major importance in Mail order. We increased the contribution made to sales by international sales to 27.8 % in the year under review, and in 2008 it will come to over 30 %. In 2006 and 2007, under the Quelle and neckermann.de brand names, we plan entry into markets in 14 countries.

The emphasis of this expansion lies in Central Eastern Europe. Today we have leading market positions in mail order in nearly all the countries in which we are represented and want to consistently utilize the high growth potential of these fast developing national economies. In West European business, by contrast, we are aiming at consolidation and focus.

In **E-commerce** we want to boost the already strong growth. We already enjoy an outstanding starting position and are one of the leading companies in Germany and the European market. Over the period 2000 to 2005 we posted average yearly growth of 41.8 %. Online demand already accounts for 38.3 % of mail-order sales. We are planning further organic growth. Here neckermann.de with its strategy clearly aligned towards e-commerce will be one of the growth-drivers. We shall also be making use of any opportunities for acquisition which may present themselves.

Item 3: Utilization of further potential

As a first step, we have concentrated on the realignment of Karstadt department stores, Mail order and the considerably slimmed down Services segment. Following the implementation of this basic program, besides looking at the reconstruction of Universal mail order Germany currently being implemented, we are also looking in particular at the further development of the Group. Here we are emphasizing two key areas:

Expansion of the high-growth Tourism segment

The Tourism segment is core business. It is represented in our Group by Thomas Cook, the operations of neckermann.de and Quelle and the travel agencies in our Karstadt department stores. At the Thomas Cook Group, which successfully completed its restructuring in the year under review, we want to expand our operative influence on the travel business. We are convinced that the intermesh and synergies between Thomas Cook and our travel sales operation have great future potential – particularly under the umbrella of Internet sales. For example, neckermann.de can boost sales by Neckermann Reisen far more efficiently than up until now.

Utilization of options for Group real estate

Real estate will not be part of our core business for much longer. We are convinced that we can realize the capital tied up in our real estate and the hidden reserves in the interest of our shareholders and use it more effectively in our core business to achieve a higher return. Accordingly we are currently looking at various options. These include total sale, partial sale or separation, possibly accompanied by stock exchange listing. We are currently pursuing the total sale option.

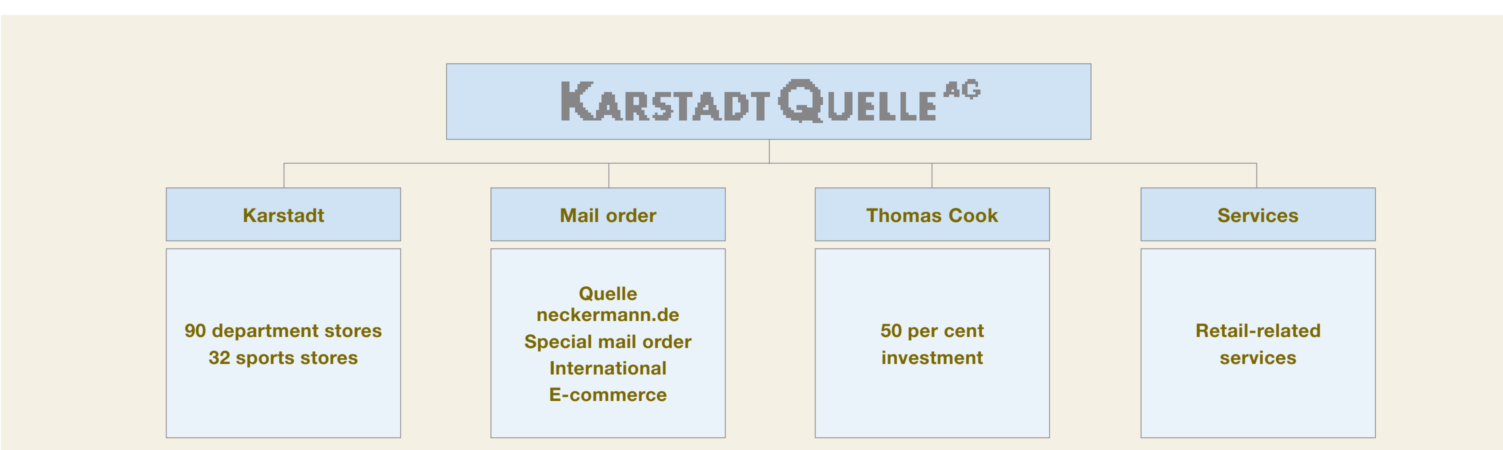
The timing for such a transaction is optimal. Values and demand in the German real estate market have risen extraordinarily. Many international investors are looking around for attractive investment opportunities. A basic precondition for this new option was, however, that the realignment of the department store business show success and that Karstadt today be once more the right kind of organization to let to.

With this transaction, besides a number of positive effects on our income statement, we are pursuing two important strategic aims: the complete reduction of the KarstadtQuelle Group's debts and a markedly improved equity ratio. We want to achieve these goals through timely implementation during 2006.

The goal: a focused, profitable KarstadtQuelle Group

Having successfully implemented our strategy, we converted a fragmented portfolio into a portfolio for the future, focused on the core business segments:

- with Karstadt department stores aligned towards a profitable core portfolio
- with a Mail order operation fully reconstructed and with growth prospects
- with a new, profitable, high-growth Tourism operation and
- a small, high-margin portfolio of retail-related Services



KarstadtQuelle share

Price performance 2005: KarstadtQuelle share risen 69 %

The KarstadtQuelle share recorded a price rise of 69 % in 2005 and ended the year at 12.83 €. During this period the German Share Index (DAX) rose 27 % to 5,408 index points. The MDAX, the index of medium-sized companies, closed 2005 at 7,312 points. This reflects an increase by a full 36 %.

The KarstadtQuelle share started 2005 at prices of around 7 €. It reached its yearly low on February 1 at 7.08 €. Over the year the price rose continuously and reached its yearly high on December 30, 2005, at 12.83 €. Besides the overall positive stock exchange environment, the increasingly apparent successes with the realignment of the Group positively affected the KarstadtQuelle share's price performance. The

Key figures KarstadtQuelle share

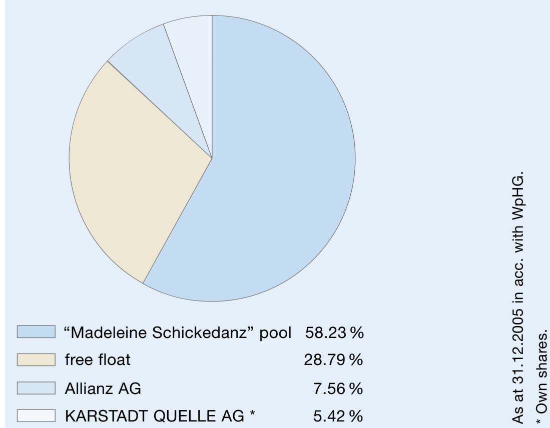
		2005	2004	Change in %
Earnings				
Earnings per share	€	-1.59	-14.65	89.2
Free cash flow	mill. €	1,958.2	370.9	–
Free cash flow per share	€	9.82	3.34	–
Return on invested capital (ROIC) [1]	in %	5.2	2.2	–
Dividends				
Dividend per no-par value share	€	0.00	0.00	–
Subscribed capital				
Subscribed capital	mill. €	510.4	510.4	–
Individual no-par value shares (year end)	number in mill.	210.8	210.8	–
Share price information				
Share price at end of year	€	12.83	7.59	69.0
highest price	€	12.83	17.51	–
lowest price	€	7.08	6.52	–
Market capitalization/market price at end of year [2]	mill. €	2,704.6	1,600.0	69.0
Stock exchange sales (average daily retail volume)	number of shares	1,320,719	1,239,996	6.5
Beta 250 (key date year end)		0.7353	1.1419	–

[1] EBIT after adjustment for special factors.

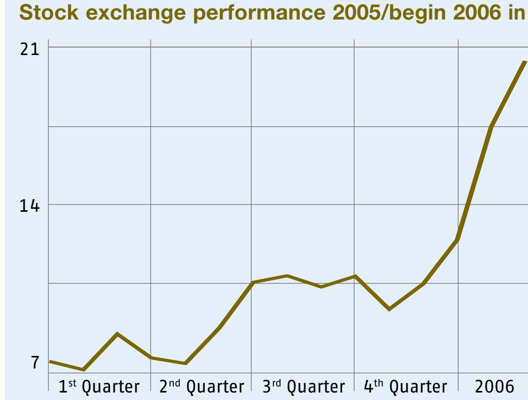
[2] Including own no-par value shares.

KarstadtQuelle share's performance reflects the successful measures implemented during the year under review – from the complete sale of Karstadt Kompakt branches and specialty stores through the reprofiling of the Karstadt brand to the option announced at the beginning of December of selling the real estate assets and reducing the Group's liabilities. Furthermore, the great confidence shown by KarstadtQuelle's major shareholder, the Madeleine Schickedanz Pool, had a positive effect on the price performance.

At the beginning of 2006 the KarstadtQuelle share price continued to rise. At the end of February it was being quoted at over 20 €.



Stock exchange performance 2005/begin 2006 in €



KarstadtQuelle listed on the Prime Standard

The KarstadtQuelle share is listed on the MDAX of the Prime Standard. It was represented with an index weighting of 1.04 % at December 31, 2005. Quotation on the Prime Standard requires inter alia the fulfilment of high transparency requirements. The KarstadtQuelle share is listed on all German stock exchanges and on the electronic trading platform Xetra.

Major shareholder shows confidence in KarstadtQuelle

The Madeleine Schickedanz Pool holds 58.23 % of Karstadt Quelle shares (based on reports in compliance with the Securities Trading Law) at the end of the year under review. The management regards this commitment as a demonstration of confidence in the company and the success of the restructuring. The free float stands at around 29 %.

High volume of KarstadtQuelle shares traded

During the year under review daily trading volume on the German stock exchanges was on average 1.3 million KarstadtQuelle shares. Accordingly, the average trading volume rose by around 6.5 % on the previous year.

Market capitalization rose markedly and reached a level of 2.70 bill. € (previous year: 1.60 bill. €) at the end of the year under review.

Corporate Communications

Investor Relations

Intensive communication on the new strategic realignment

Against the background of the restructuring and realignment of our group our dialog with capital markets was especially intensive in 2005. The central topic was the implementation of our "KarstadtQuelle Neu" Group strategy, which we explained comprehensively and transparently.

In the year under review we considerably strengthened our personal and direct contact with institutional investors and buy-side analysts. At road shows and on other occasions we took the opportunity to conduct numerous one-to-one discussions with investors. We also took the opportunity to present our strategy at important investor conferences – amongst them the German Investment Seminar of Dresdner Kleinwort Wasserstein in New York, the German Corporate Conferences of Crédit Agricole Cheuvreux in Kronberg/Taunus and Deutsche Bank in Frankfurt as well as the Goldman Sachs Retail Themed Seminar in London.

In April 2005 we extended an invitation to our analysts' conference in Essen. The main topics were the results for the 2004 financial year and the status and measures of our restructuring program. In conference calls, particularly on publication of the interim reports, and in numerous individual discussions with analysts we explained in detail the Group's financial and operating situation and its future alignment. In the year ended we continued our investor relations communication, amongst other things, through a series of interesting field trips, that gave direct experience of our realignment. Thus, in April we extended an invitation to a field trip to the newly opened "Stadtpalais" in Potsdam, followed by an exchange of information with the management. The KarstadtQuelle share is currently covered by more than 20 sell-side analysts.

Important Investor Relations dates

Annual General Meeting (Düsseldorf)	May 8, 2006
Interim reports	
1. Quarter	May 8, 2006
2. Quarter	August 9, 2006
3. Quarter	November 8, 2006

General information about the KarstadtQuelle-share

Securities code number	627 500
International Securities Identification Number (ISIN)	DE 0006275001
Reuters shortname	KARG.DE
Bloomberg shortname	KAR GR
Weight in MDAX (as at 31.12.2005)	1.04 %

But in the year under review we fostered above all a dialog with private investors. As part of a series of presentations with the German Security Owners' Protection Association (DSW) and the Capital Investors Protection Association (SdK) we introduced numerous private shareholders to "KarstadtQuelle Neu" and sought a discussion. We informed our shareholders in detail about the group's performance at the ordinary general meeting of shareholders in Düsseldorf in May 2005. We also maintained contact with our shareholders by telephone and email throughout the year.

We use the Internet to make the most important publications and information about the Group and the share available to all those interested. In the Investor Relations section of our homepage www.karstadtquelle.com there are annual reports and interim reports for downloading, IR releases, presentations, share prices and key figures, dates and times of financial events, facts and figures and Webcasts.

Public relations

KarstadtQuelle communication consists mainly in up-to-the-minute, continuous press and public relations. It is focused on the long term and is in keeping with the strategy of the KarstadtQuelle Group focused on sustained development.

The KarstadtQuelle Group continued to be the focus of public interest during the year under review. The unusually good media response concentrated on the measures for restructuring the Group. Further staff changes at the head of the Group and successful divestments in the process of concentration on the core business played the most important role here. To meet the public's and specialist media's need for information, twelve major press conferences and discussions were held. Even at the annual general meeting the unusually intensive press, radio and television reporting played an important role.

This continues a trend which has been observed since autumn 2004: the German public is as concerned about the KarstadtQuelle Group's recovery as it was about the company's earlier crisis. This was shown on the occasion of the Supervisory Board Chairman Dr. Thomas Middelhoff's succession to the position of Chairman of KARSTADT QUELLE AG Management Board. This topic dominated general press reports as much as it did the specialist press. A further major topic of communication was the successful sale of the 74 small Karstadt department stores and the specialty retail chains. A major emphasis of public relations was the open, up-to-the minute communication of information about the milestones passed in 2005 under the restructuring program. Interest in the Group is evenly divided between press, TV and radio.

A new and unusual feature was the public appeal by our Management Board Chairman to the company's customers to send him personally by email constructive criticism of KarstadtQuelle's customer service offering. The response to this offer was overwhelming.

Environmental and social commitment

Integrated environmental and social commitment

The concept of sustainability requires the reconciliation of commercial activity with the demands of social responsibility and the conservation of our environment. We are planning and effecting the implementation of this principle in many areas of activity: in our product range policy we are continuously extending our range of sustainable products and are complementing these efforts with individual customer advice and good service. The continuous optimization of our high environmental standards, the improvement of working conditions in production countries and the fostering of our employees at the locations are aims to which we are committed. An open dialog with all stakeholders, that is, our suppliers, customers, shareholders, employees and governmental and non-governmental organizations, forms the basis of mutual confidence.

Procurement markets: “Safeguard social standards” initiative

To check that manufacturers are adhering to minimum requirements in third-world countries, in the summer of 2003, together with other companies and under the umbrella of AVE/FTA, we started the “Safeguard social standards” initiative. The review of adherence to our code of conduct and the gradual improvement of working conditions along the procurement chain had priority in 2005 too. The information and training of suppliers in workshops contributed to this. During the period under review several hundred suppliers worldwide were reviewed by professional audit companies accredited at the internationally recognized Social Accountability International (SAI). Discovered defects were gradually rectified.

Round tables established in supplier countries

Alongside the AVE initiative round tables were established in supplier countries. Following the example of the German Round Table, socially important groups in each country are to be integrated into the process. Employees’ and employers’ representatives, governments and non-governmental organizations (NGO’s) will discuss country-specific problems arising from the introduction and implementation of social standards. They will thus also lastingly and sustainedly improve social acceptance of the social standards.

Promotion of sustainable products at Karstadt and in mail order

Karstadt Warenhaus GmbH gave prominence to the promotion of especially sustainable products, particularly through consumer information given out in the course of the campaigns for energy efficiency and ecological school entry. Furthermore, at the Bio- and TransFair Action Week held throughout Germany the interest of customers in these products was further increased. Our commitment was acknowledged again in 2005 by various awards.

Quelle and Neckermann extended their environmentally compatible product groups. Around 85 % of the large electrical appliances offered belong to energy efficiency class A; the proportion of hazardous-substance-tested textiles stands at around 40 %. Also the other product areas are being continuously ecologically optimized, e.g. by the promotion of articles certified as conforming to the criteria of the Forest Stewardship Council (FSC) or awarded the “Blue Angel” environmental symbol.

Employees

Number of staff considerably decreased in the process of restructuring

The successful implementation of staff adjustment in the process of restructuring and the transfer of business segments in connection with the process of focusing on the core business resulted in a reduction in the number of employees. The data for the proportionately consolidated joint ventures are carried proportionately in the segments.

Through divestments and transfers 22,188 employees were reduced and for the most part transferred to other employment in the year under review. After adjustment for divestments and transfers, 84,629 people were employed a the balance sheet date (previous year: 89,803 employees). This represents a decrease by 5.8 %. In full-time terms the number of staff at the balance sheet date decreased by 4.5 % to 68,190 (previous year: 71,399 employees).

The number of people employed abroad decreased by 2.9 % to 19,497 in the year under review. The decisive factor here was the consolidation of our international purchasing offices for the first time.

Key figures Employees*

	Employees at the balance sheet date			
	2005	2004	Change in number	Change in %
Karstadt	37,056	55,571	-18,515	-33.3
thereof international	–	59	-59	–
Mail order	31,492	35,560	-4,068	-11.4
thereof international	7,611	8,068	-457	-5.7
Thomas Cook	13,534	13,727	-193	-1.4
thereof international	10,865	10,899	-34	-0.3
Services	2,297	1,655	642	38.8
thereof international	1,021	161	860	–
Real estate	78	111	-33	-29.7
Holding company	172	193	-21	-10.9
Total	**84,629**	**106,817**	**-22,188**	-20.8
thereof international	**19,497**	**19,187**	**310**	1.6

* The figures were adjusted. The adjustments relate to the joint ventures.

Karstadt: Socially acceptable implementation of the collective reconstruction agreement

The number of employees in the Karstadt department and sports stores decreased by 33.3 % in the year under review. The decisive factors here were the sale of the Karstadt Kompakt branches, the transfer of logistics and divestment of the specialty stores. After adjustment for these special factors 37,056 people were employed (previous year: 39,980 employees), representing a reduction by 7.3 %. This corresponds to 28,701 full-time employees. There were 1,693 young people in training.

The staff cost reductions agreed in a collective reconstruction agreement with employees' representatives and the ver.di union were achieved and the solidarity contribution due from management and employees made.

Furthermore, the cost structures of the administrative and organizational activities were adjusted to suit market conditions. The staff changes resulting from this were implemented or initiated on a socially acceptable basis (without operational contract terminations). The option of moving to a transfer company for a year to prepare for new work prospects was taken up by around 1,600 employees.

A high value is placed on training in the KarstadtQuelle Group. Accordingly, 650 trainees were taken on as employees and 350 trainees were offered an employment contract in the year under review.

Key figures Employees*

	Employees at the balance sheet date		Employees on annual average[1]		Full-time employees at the balance sheet date		Full-time employees on annual average	
	2005	2004	2005	2004	2005	2004	2005	2004
Karstadt	37,056	39,980	36,291	38,731	28,701	30,521	27,793	30,559
Mail order	31,492	34,393	32,301	34,828	25,426	27,466	26,636	28,669
thereof international	7,611	7,902	7,788	7,897	6,809	6,897	6,989	7,144
Thomas Cook	13,534	13,727	13,368	13,573	11,649	11,790	11,669	12,355
thereof international	10,865	10,899	10,737	10,813	9,552	9,551	9,551	9,889
Services	2,297	1,424	2,362	1,518	2,183	1,358	2,254	1,427
thereof international	1,021	155	1,019	154	987	143	989	144
Real estate	78	86	82	87	73	82	77	84
Holding company	172	193	174	194	158	182	161	183
Total	**84,629**	**89,803**	**84,578**	**88,931**	**68,190**	**71,399**	**68,590**	**73,277**
thereof international	**19,497**	**18,956**	**19,544**	**18,864**	**17,348**	**16,591**	**17,529**	**17,177**

* The figures were adjusted. The adjustments relate to divestments, transfers and joint ventures.

[1] Not including trainees

Mail order: Consistent reconstruction and adjustment of staffing structures

In Mail order too the measures agreed in the collective reconstruction agreement were consistently implemented with the aim of reducing staff costs. Employees and management waived part of their remuneration, and full-time white-collar employees reduced their weekly working hours to 35 with a corresponding adjustment in salary. Moreover, the staff level was reduced by active adjustment measures on a voluntary and socially acceptable basis. The demanding cost-cutting targets were thus achieved.

At the end of 2005, after adjustment mainly for the transfer of the logistics operation, 31,492 people (previous year: 34,393 employees) were employed in mail order. This represents a decrease by 8.4 %.

To ensure the lasting success of the reconstruction, an intensive process of change and dialog was set in train. All employees and managerial staff were kept regularly informed about the aims and progress of the realignment. The Management Board also regularly receives direct feedback about identified optimization potential.

In the fourth quarter of 2005 the corporate restructuring of the Mail-order segment in five independent companies was in focus. The measures for the operational transfer were agreed with the codetermining partners. In this way a smooth transfer was assured at the end of the year.

Thomas Cook: Staff level reduced for the second year in succession

The staff level in the Thomas Cook Group was further reduced by the successful implementation of the reconstruction program. On average 13,368 people (previous year: 13,573 employees) were employed in the touristic financial year. This represents a decrease by 1.5 %. The staff reductions extended to nearly all the sales markets and business segments.

Services / Real estate: Process of focusing continued

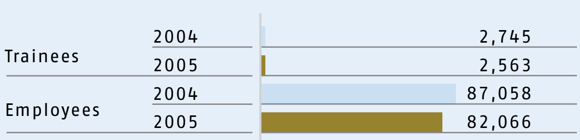
In the Services segment the concentration on retail-related services led to a decrease in the number of employees by 1,343. Including the international purchasing offices (892 employees), 2,297 people were employed at the balance sheet date (previous year, adjusted: 1,424 employees).

78 people were employed in the Real-estate segment at December 31, 2005. This represents a decrease by eight employees.

Qualification campaign for managerial staff and employees

To make the process of realignment lastingly successful, in 2005 too we invested in the systematic identification and assistance of management potential. A cross-group "Management Learning Program" was introduced to develop and implement strategic initiatives throughout the group. The assistance programs for trainees and managerial assistants were adapted more closely to fit the new management structures and tailored to future requirements in the management, customer and results orientation sectors.

Employees at the balance sheet date*
number



* The figures were adjusted. The adjustments relate to divestments, transfers and joint ventures.

Furthermore, the employees employed in sales were trained in the application of professional selling techniques to enable them to put their specialist and product knowledge to more customer-focused use.

KarstadtQuelle, with 2,563 trainees, is one of Germany's major training establishments. Extensive investments were made again in the year under review. At Karstadt a new general shop agreement was concluded for the qualification of trainees. At Quelle we introduced, amongst other things, the "The Way of the Product" training-support project. In the QUELLE Young Generation simulated company, trainees work on practical projects and so acquire a high degree of practical skill.

Thank you to all staff

The Management Board thanks all our staff at home and abroad for their high commitment and competent and committed work. Thanks are particularly due for the harmonious implementation of the solidarity contribution by management and staff. Our thanks, too, to all works councils, members of plenary staff councils, spokespersons' committees and youth and trainee representatives for their trustful and constructive cooperation. This helped substantially to the success and contributed to the successful implementation 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 general conditions.

EBITDA in four out of five segments is above plan.

With around 900,000 issued cards we are Germany's biggest issuer of Mastercards.

We have focused our offering on the 2006 World Cup.


adidas
13

Karstadt

Positioning

Karstadt consistently repositioned

The process of focusing on our core business was successfully implemented in 2005. Following the successful divestment of the small Karstadt Kompakt branches and all the specialty store chains, the department store business is concentrating on the large department and sports stores at prime locations in German cities. The department stores operate under the Karstadt brand name. Stores of international standing such as KaDeWe in Berlin, Alsterhaus in Hamburg and Hertie am Bahnhof in Munich are being operated as traditional brands. The Karstadt brand is being more sharply defined by the obvious new look of our department stores and an even more emphatic customer focus.

Key figures*

		2005	2004	Change in %
Sales*				
Department and sports stores	mill. €	4,734.1	4,918.1	-3.7
of which core department stores	mill. €	3,607.3	3,762.5	-4.1
of which core sports stores	mill. €	272.4	277.3	-1.8
Earnings				
EBITDA (adjusted)	mill. €	65.2	21.6	202.4
EBITDA margin (adjusted)	in %	1.4	0.4	–
Full-time employees at the balance sheet date	number	28,701	30,521	-6.0
Branches				
Department stores	number	90	88	–
Sports stores	number	32	32	–
Project branches	number	21	23	–
Total	number	143	143	–
Sales space	th. sq. m.	1,763.8	1,814.8	-2.8

* The figures were adjusted. The adjustments relate to special factors, divestments and joint ventures.

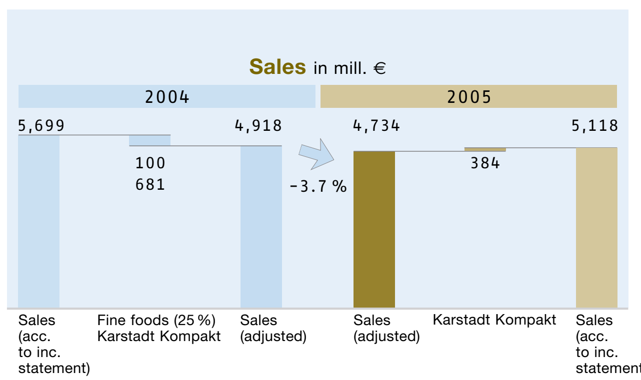
Segment performance

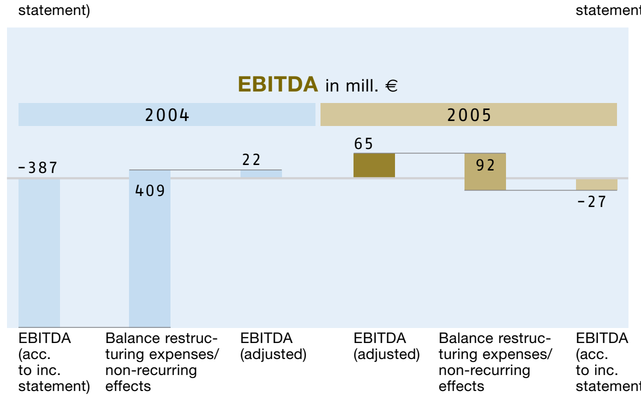
Reversal of trend with positive sales performance achieved in fourth quarter

Adjusted sales at the Karstadt department and sports stores came to 4.73 bill. € (previous year: 4.92 bill. €). For the first time in years Karstadt in its core business once again achieved a sales increase in the decisive fourth quarter of 2005. The newly positioned stores in particular contributed to this reversal of trend.

Realignment boosts earnings performance

Adjusted EBITDA of the Karstadt department stores stood at 65.2 mill. € (previous year: 21.6 mill. €). This represents an increase by 43.6 mill. €. Operational progress resulting from the continuous realignment of the department stores and markedly reduced business system costs, particularly in the staff sector, not only offset charges on earnings owing to decreased sales but also had a gratifying effect on earnings.





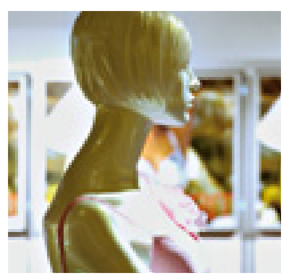
Productivity up thanks to disposals

Staff reductions implemented under the restructuring and especially sale of the small branches had, as planned, a positive effect on the productivity figures. Staff productivity was increased by 7.4 % (adjusted 4.4 %) and came to 166,803 € after 155,292 € the previous year. Sales density reached an average value of 2,592 € per square meter of sales space per year. The inventory turnover rate rose slightly to 3.32 (previous year: 3.18)

Focus on high-margin consumer segments

The fascination of an exciting world of products is being evoked especially by concentration on the high-margin Fashion, Personality, Sport and Living consumer segments.

In the Fashion segment the Karstadt department stores expanded their strong market position in a difficult environment. This highest-volume segment, thanks to a complete relaunch at the start of the year, in combination with a new, focused product range strategy, outperformed the market, which declined by 2.5 %. Karstadt achieved sales of 1.48 bill. € in the Fashion segment.



The Personality consumer segment includes personal requisite ranges such as beauty, watches, jewellery, toys and games, books and confectionery. The individual sectors were realigned and thus better positioned by reorganization of product ranges and the expansion of bestseller and trend ranges. While the Toy and Confectionery sectors increased their sales, Beauty, comprising the Fragrances and Health and Body Care sectors, came under considerable pressure. The decisive factor was the extreme price competition in the hard fought for Health and Body Care sector. The Personality consumer segment, where sales decreased overall, returned a sales volume of 838 mill. €.

KarstadtSport is presented in the sports departments of the department stores and in 32 sports stores. KarstadtSport in the year under review successfully further strengthened its identity as a leading sports goods retailer in Germany. In an unchangedly fierce competitive environment KarstadtSport focused on improvement of its sales quality. It succeeded in increasing its gross earnings margin by 3.7 percentage points. Sales came to 440 mill. €. One sales emphasis was on the Football sector. Here Karstadt, thanks to its collaboration with FIFA, is uniquely positioned in German retailing. The presentation of the Official FIFA WM 2006™ shops in all branches provided a considerable sales boost. Here Christmas business was especially gratifying. Likewise, the Confederations Cup in June 2005 gave an initial indication of sales potential in the 2006 World Cup year.

The Living consumer segment comprises the Homes and Food, Kitchen and Bath sectors. Furthermore, special offerings such as YornCasa complement the realignment of the segment. The YornCasa lifestyle concept is already established at 38 locations. The strategic space reduction in the Living segment was continued in the year under review by disposing of a further 15,000 sq. m. Sales accordingly decreased to 546 mill. €.

Important events during the financial year

Profiling of the Karstadt brand identity visibly successful

Following the successful conclusion of the divestment program, a further emphasis of the realignment is on profiling the Karstadt brand identity. Karstadt's aim is to offer customers the fascination of an inspiring product world through ever new, modern trends, themes and brands. Customers' life worlds determine the make-up of the product and experience worlds in the department store.

The cost reductions planned in the year under review were successfully implemented. Thus, administrative and organizational activities in sales and administration were effectively adapted to market conditions by an efficient organization of cost structures. Further improvements in goods management resulted in additional increases in efficiency.

We trained all department store staff for even more consistent customer orientation by a qualification campaign. So far around one million customers have participated in the survey of customer satisfaction introduced in the spring in Karstadt department stores. The customer satisfaction index level, which has now improved by eight percentage points to 83 %, shows that the realignment serves customer needs.

Good sales performance in modernized department stores

In the year under review 135 mill. € were invested in the realignment of the department stores. At the forefront here were mainly the modernization and renewal of the stores and the implementation of a new customer- and trend-oriented presentation of the product ranges. The realignment of the department stores was confirmed by initial results. Thus, the modernized and newly opened department stores in some cases achieved sales and earnings considerably above plan. The following important individual measures were implemented and pushed forward:

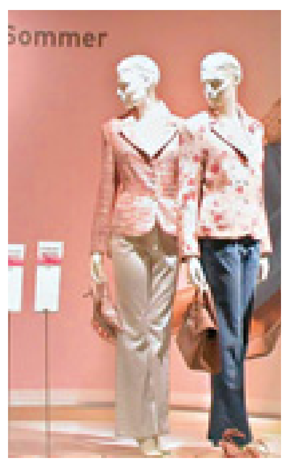
Karstadt is operating the Official FIFA 2006™ World Cup shops.

Hamburg (Alsterhaus): Alsterhaus, which was opened in September, is, with its high-quality alignment, now positioning itself alongside KaDeWe and stands for international brands and an exclusive shopping experience in the premium segment. The central feature on 22,000 sq. m. of sales space is the exclusively aligned Fashion, Beauty, Homes and Food and Drink product ranges (investment: 35 mill. €).

Berlin (KaDeWe): September 2005 saw the opening of the new fashion floors at KaDeWe with a relaunch of high-quality brands. KaDeWe's international and trendsetting premium alignment will be completed in 2007 (investment: 46 mill. €).

Munich (Oberpollinger): The extension and upgrading of the traditional Oberpollinger store by around 13,700 sq. m. to 34,000 sq. m. was started in summer 2005. The renovation of the quality-aligned department store will be completed in October 2006 (investment: 36.5 mill. €).

Potsdam: The "Stadtpalais" city-center shopping center was opened on March 10, 2005. As the major lessor with 10,500 sq. m. of space, Karstadt is enjoying an outstanding customer response. The new presentation features product ranges focusing on the middle to high-quality segment.



Furthermore, the conditions were created Germanywide for a complete renewal of the Karstadt department stores. In Leipzig 2005 saw the start of construction work on the new Karstadt department store at the heart of the city. The opening in October 2005 of the Karstadt sports store in Karlsruhe with around 6,000 sq. m. of space underscores Karstadt's leading market position in the Sports sector. In January 2006 work began on the modernization of the largest Karstadt department store in Hamburg in Mönckebergstrasse. Karstadt is expected to open its new department store in Duisburg, as major lessee in the city-center "Forum" center, in autumn 2007. In Essen construction work will begin in April 2006 on Germany's largest city-center shopping center with 70,000 sq. m. of usable space.

Outlook

2006 – a year of opportunities

Once again in 2006 Karstadt will be focusing on continuous realignment and sharpening brand identity. The emphasis will be on further improvement of customer orientation, continuous qualification of staff and speedy modernization of the branches. With the forthcoming 125th Karstadt anniversary (the company was founded in Wismar in 1881) and the football world championship in Germany, Karstadt will be making 2006 a year of opportunities. Karstadt is amongst the retailers best prepared for the great event. KarstadtQuelle is the exclusive operator of Official FIFA World Cup 2006™ shops in Germany. Karstadt will also be exclusively operating the sale of fans' articles at all 64 World Cup games in the twelve World Cup stadiums.

Mail order

Positioning

Strong market position in Germany and Europe

KarstadtQuelle occupies an excellent position in European mail order. Quelle is market leader in Germany, neckermann.de the third-largest mail-order company.

In the international markets the two core brands are likewise amongst the leading providers. In the 2005 financial year over 40 million customers in Europe placed orders with Quelle, neckermann.de and the 20 special mail order suppliers. The level of internationalization rose further by 1.4 % to 27.8 %. Mail order operates in a total of 31 countries.

Quelle is already represented in 19 European countries under its own name and with catalogs in the respective national languages, while neckermann.de is represented in 15 countries. Particularly in Central Eastern Europe the national companies have developed into dynamic, profitable undertakings with leading market positions and excellent future prospects. Quelle and neckermann.de serve over 5 million customers in Central Eastern Europe.

Development into a multispecialist

As part of the reconstruction program, top management was in large part replaced and the organization repositioned. New, flat and fast structures are a decisive precondition for the strategic realignment of Quelle and neckermann.de. The traditional universal mail-order suppliers are developing into modern multi-specialists concentrating on profitable product ranges for selected target groups and with profitable, flexible sales channels at their disposal. The two core brands, Quelle und neckermann.de, are being separately defined and differentiated. With their brand-promoting product ranges both companies are offering their respective target groups the competence of a specialty store. Other product ranges are being set back or discontinued in favour of these brand-promoting product ranges.

Key figures *

		2005	2004	Change in %
Sales	mill. €	6,752.6	7,340.0	-8.0
thereof international sales	mill. €	1,875.7	1,940.2	-3.3
international sales share	in %	27.8	26.4	–
Earnings				
EBITDA (adjusted)	mill. €	-4.4	15.6	-128.3
EBITDA margin (adjusted)	in %	-0.1	0.2	–
Full-time employees at the reporting date	number	25,426	27,466	-7.4

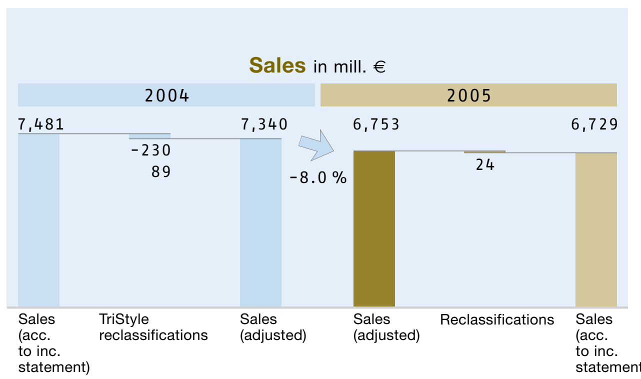
* The figures were adjusted. The adjustments relate to special factors, divestments and joint ventures.

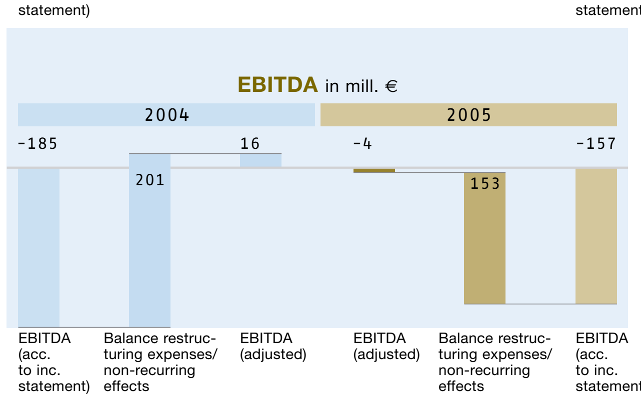
The catalogs were radically revised with regard to product range, design, scope and frequency of issue and thus adapted to the changed wants of the target groups. E-commerce as a sales channel is being consistently expanded and the successful acquisition of new customers online further pushed forward.

Segment performance

Special mail order steady, Universal mail order Germany sharply declining

In Mail order adjusted sales came to 6.75 bill. € (previous year: 7.34 bill. €) over the year under review. While the first three quarters were still strongly dominated by large sales decreases in German and European Universal mail order, sales performance in the fourth quarter was stabilized because of the initiated restructuring measures. Adjusted sales outside Germany came to 1.88 bill. € (previous year: 1.94 bill. €). The share contributed by international sales rose by 1.4 percentage points to 27.8 % on the previous year. Online demand rose by 14 % to 2.58 bill. € (previous year: 2.26 bill. €) over the year under review. The sales target revised during the year was achieved.





Universal mail order under pressure

In the 2005 financial year Universal mail-order sales decreased by 11 % to 4.10 bill. € (previous year: 4,60 bill. €). This was caused by the general market weakness of universal sales forms and by focused strategic streamlining of product ranges.

Elsewhere in Europe Quelle and neckermann.de achieved sales of 1.29 bill. € (previous year: 1.37 bill. €). Quelle achieved high two-digit growth rates in Switzerland, Poland and Croatia. neckermann.de grew in Switzerland and Serbia and Montenegro. Falling sales in France and Austria hampered a positive growth rate in international business. In both countries comprehensive programs of measures were set in train during the year under review.

Sales in Central and Eastern Europe rose by 22.4 % to 262 mill. € in 2005 (previous year: 214 mill. €). Quelle and neckermann.de want to make mail order even more attractive to consumers by new, customer-focused catalogs and by expanding the product ranges, services and Internet shops. The aim is to double sales to about 400 mill. € by 2008.

Special mail order steady

After years of above-average growth rates Special mail order returned an overall steady performance during the 2005 financial year. The Special mail order suppliers achieved sales of 1.37 bill. € and thus nearly previous year's value (previous year comparable: 1.37 bill €). After adjustment for closures Special mail order maintained its long-term growth course. Gratifying increases were recorded particularly by Hess-Natur, Mode & Preis, Madeleine, Afibel as well as thirty and more. Adjusted international sales rose by 1.9 % to 584.5 mill. € (previous year: 573.6 mill. €). The strongest growth rates were achieved by the Walz Group, Afibel and Madeleine with their operations in France. The share contributed by international sales rose from 41.9 % to 42.8 %. In the year under review TriStyle Holding GmbH & Co. KG (Atelier Goldner Schnitt, Madeleine Mode, Peter Hahn), until now consolidated at 100 %, was for the first time consolidated proportionately (51 %).

E-commerce returns high growth rates

The E-commerce segment continues to return a gratifying performance. Online demand rose by 14 % to 2.58 bill. € (previous year: 2.26 bill. €) over the year under review. Thanks to the increased linking of catalog product ranges and portals, which we are promoting by our multi-channel strategy, particularly in Universal mail order, e-commerce will still further gain in importance as a sales channel. The realignment of neckermann.de towards young, Internet-minded target groups plays a central role here.

Earnings affected by weak Universal mail order in Germany

The Mail-order business segment returns an adjusted EBITDA amounting to minus 4.4 mill. € (previous year: plus 15.6 mill. €). Results were seriously impaired by weak business in German Universal mail order. International business put in a varied performance. In 2005 special mail order returned a steady performance on the whole after years of above-average growth.

Important events during the financial year

Management and organization structure optimized

In the year under review radical structural changes at Quelle and neckermann.de were rapidly implemented. The top management responsible for the Mail-order segment as a whole was dissolved and replaced with a leaner, more flexible management organization. These changes are aimed at a markedly higher customer orientation and faster decision and implementation processes.

At the end of the financial year Quelle AG and die Neckermann Versand AG were converted to limited liability companies. Furthermore, Neckermann Versand AG was renamed neckermann.de GmbH. In sales and marketing both companies are being separately managed. Central functions like logistics, customer care and administration were transferred to joint service companies.

Quelle given new market profile

In July 2005 the realignment of Quelle became clearly visible for the customer. The prominent "fashion" and "homes and technology" product ranges so far concentrated in a single catalog were presented in separate main catalogs. They were divided up into a roughly 850-page fashion catalog with a six-month period of validity and an over 1,100-page catalog for homes and technology with a twelve-month period of validity. Quelle is thus intensifying its repositioning as a specialist for selected product range areas in which the company has great competence and a more than averagely strong market position.

Quelle's brand-promoting product ranges focus on the "modern to classical fashion", "modern to classical living" and "technology including kitchen" themes. At the same time Quelle is concentrating on the "family" target group and puts the quality concept of the product ranges at the forefront. A markedly more efficient sales organization was also established.

neckermann.de increasingly favouring online retail

Since December 22, 2005 Neckermann has been trading under the name of neckermann.de GmbH. The change of name and reorganization clearly indicates a consistent strategic alignment towards the strongly growing Internet sector. To strengthen the customer orientation a quality and customer management was established. The organization was optimized with regard to product ranges, marketing, advertising, quality development and e-commerce by setting up a sector-specific team.

The share contributed by e-commerce to overall sales was further boosted by redeployment of the advertising budget and the acquisition of partners for the various sales platforms. Thanks to these measures the cost structures, particularly in marketing and advertising, were substantially improved and flexibility increased.

Special mail order pushing forward E-commerce and internationalization

Clearly defined product ranges for selected and clearly defined target groups and a high level of product and customer service competence are the most important features of the high-return Special mail-order operation. The 20 special mail order suppliers are pursuing as strategic objectives further internationalization, the expansion of new business segments and the intensification of e-commerce operations.

Internationalization was pushed forward by improved working of the market in Great Britain (Afibel) and France (Madeleine). Furthermore, thirty and more, a special mail order supplier of young and trendy fashion, was launched in Switzerland. The joint venture with Bogner continued to perform very positively. The “Bogner Home-shopping Magazine”, since 2005 also on the market in Switzerland and Austria, was acknowledged at the German Mail-Order Congress as the “Best New Catalog of 2005.”

Online demand rose by 14 % in 2005.

Outlook

Competitive cost structures in focus

An important element of the strategic realignment is the reduction of infrastructure costs to a more competitive level. In the year under review Quelle and neckermann.de defined least-cost structures for putting together product ranges, the offering concept and the management of customer relations. By concentration on brand-promoting product ranges, more efficient advertising measures and reduced staff and advertising media costs substantial cost advantages are being gained. The aim is a reduction of infrastructure costs by over 20 %, or 300 mill. €, by 2008. The reconstruction of the Group’s Mail-order segment will then have been completed.

Market campaign for expansion in Europe

KarstadtQuelle in the year under review launched a hitherto unparalleled market campaign in European mail order, aimed at expanding its clear leading position in growth markets and at the same time progressing the internationalization of the Mail-order segment as a whole. Quelle and neckermann.de will considerably expand their international sales network. The emphasis of this market offensive lies in Central and South-Eastern Europe. Quelle launched its mail-order business in Romania and Serbia; these will be followed in 2006 by Finland and the Ukraine. Following the market entries in Estonia, Latvia, Poland and the Ukraine successfully implemented in 2005, the focus for neckermann.de in 2006 will be on Russia. neckermann.de will also be launched in Greece and Hungary.

Thomas Cook

Positioning

Leading market position in Europe

The Tourism segment with our 50 per cent investment in the Thomas Cook tourism group (for the first time consolidated proportionately) is part of KarstadtQuelle's core business. It is acquiring increasing significance in the process of the KarstadtQuelle Group's realignment.

The internationally positioned Thomas Cook group is one of the world's leading tourism companies and offers services along the entire tourism value chain through air-flights, hotels, operators, sales and service agencies. Thomas Cook is represented in the following sales markets: Germany, Great Britain, Ireland, France, Belgium, Luxemburg, Netherlands, Austria, Hungary, Poland, Slovakia, Slovenia, Egypt, India and Canada. The internationally diversified brand portfolio is constructed around the main brands, Neckermann Reisen and Thomas Cook Reisen. In Germany the portfolio is completed by the Condor brand with pure flight offerings.

In the 2004/2005 financial year the adaptation of tourism offers to demand trends and market development continued effectively. Thus the proportion

Key figures

		2005	2004	Change in %
Sales (proportionate)	mill. €	3,828.7	3,735.3	2.5
of which foreign contribution	in %	56.3	56.2	–
thereof tour operators	mill. €	3,241.0	3,197.6	1.3
thereof flights	mill. €	376.2	309.6	21.5
Earnings (proportionate)				
EBITDA (adjusted)	mill. €	191.3	120.1	59.3
EBITDA margin (adjusted)	in %	5.0	3.2	–
Other information [1]				
Passengers carried	number in mill.	13.2	13.1	1.1
Sales per pax	€	578.50	571.20	1.3
Average holiday duration	days	8.9	9.1	-2.2
Average holiday price	€	514.90	507.70	1.4
Full-time employees at the balance sheet date (proportionate)	number	11,649	11,790	-1.2

[1] 100 % disclosure.

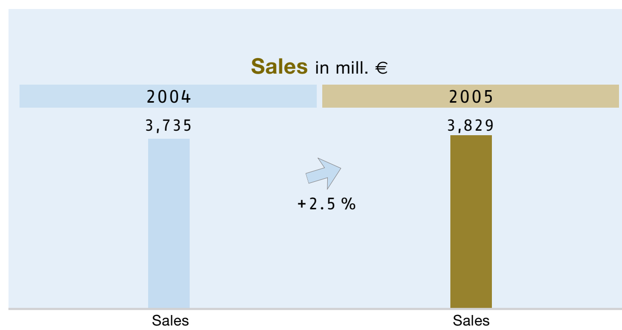
of individually bookable products and that of all-inclusive products was continually expanded. Sale over the Internet was strengthened by new Websites and functionalities. In the year under review Thomas Cook increased its share of the important German and British sales markets, compared with the previous year. In Germany the market share increased by 0.7 percentage points to 21.4 %, in Great Britain from 16.6 % to 16.9 %.

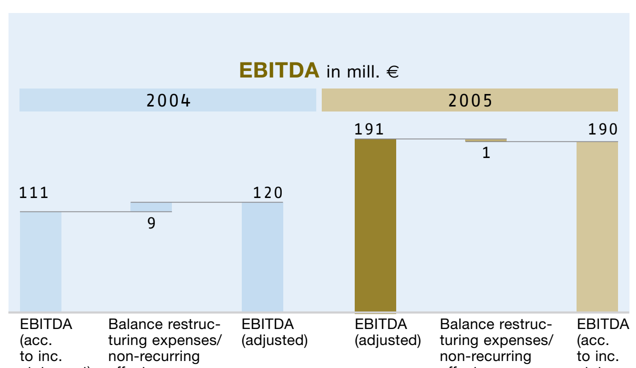
earnings rise is visible proof of successful reconstruction. Contributing to this was a better product mix and improved purchasing conditions. The reduction of guarantee undertakings to contract hotels also had a positive effect. Proportionate gross income rose by 3.0 % to 1.18 bill. €.

Segment performance

Good sales performance in all sales markets

The proportionately consolidated sales at the tourism group rose by 2.5 % to 3.83 bill. € (previous year: 3.74 bill. €) over the year under review. The share contributed to sales by international business came to 56.3 % (previous year: 56.2 %) and thus rose slightly on the previous year. The share contributed by Great Britain to overall sales rose to 32.6 %, owing to the positive sales performance. Altogether the expansion of the early-bird advantage offering caused the share contributed to overall sales by low-margin last-minute travel to decrease once more. In the year under review the number of customers rose by 1.1 % to 13.2 million.





Thomas Cook once again generates a positive result

The tourism group returns a proportionately adjusted EBITDA amounting to 191.3 mill. € (previous year: 120.1 mill. €). Thus, earnings were increased by a full 59 %. The gross earnings margin (according to Group segment reports) rose by 0.2 percentage points to 30.9 %. The substantial

In the process of reconstruction, investments were reduced to a level which keeps the financial burden as low as possible, while at the same time ensuring future alignment with the changed tourism environment. Over the year under review altogether 41.9 mill. € (proportionately) were invested (previous year: 28.1 mill. €). As in earlier years, the volume of investment was almost entirely financed from divestment proceeds.

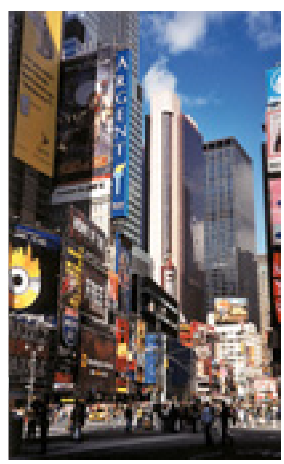
Important events during the financial year

Adaptation to market trends accelerated

In order to be able to serve customers' needs better, Thomas Cook in the year under review intensified the expansion of non-traditional sales forms and developed additional products. Against the background of rising demand for holidays individually put together from modules a large part of the offering in Germany and Great Britain can be booked in any desired combination. Thomas Cook is one of the driving forces behind the further development of the increasingly important e-commerce business. In Great Britain the electronic sale of holiday products now contributes a share of 15 % to the sales volume. Account was taken of customers' high price sensitivity in Germany by extending the concept of early-bird incentives to include an own advance sale prospectus for the first time. Thomas Cook met customers' need for budget security by expanding all-inclusive offerings.

Reconstruction program successfully completed

The reconstruction program initiated at the beginning of 2004 was successfully completed in the year under review. The Thomas Cook Group emerged from the red in the 2004/2005 financial year and laid the basis for future profitable growth by, amongst other things, radical measures in its cost structure. Under the reconstruction program aligned mainly towards the German sales market, the emphasis was on the reduction of guaranteed hotel quotas, staff level adjustment, a substantial reduction of all cost items, the flattening of management structures and the streamlining of the Group's central administration. The number of aircraft was further reduced from that of last year by two. Condor increased the number of seat-kilometers offered by just under 3 % in the year under review. Altogether the number of aircraft operated has decreased by 12 since the beginning of the reconstruction program.



Thomas Cook once again achieved a positive result in 2005.

The number of full-time employees on annual average was reduced for the second year in succession and decreased by 5.6 %. On average for the 2004/2005 financial year the Thomas Cook Group employed 13,368 people (previous year: 13,573 employees) proportionately. The staff reductions affected virtually all sales markets and business segments.

Portfolio adjustments further pushed forward

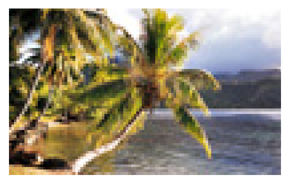
The process of concentration on the core business was continued by the sale of shares in two companies. Thus, in September 75.1 % of the shares in Aldiana GmbH were sold to the Spanish Grupo Santana Cazorla. In December 2005 an agreement for the sale of the entire shareholding (60 %) in Thomas Cook India Ltd., which was listed on the Indian stock exchange, to Dubai Holding (LLC), Dubai, was signed. Fulfilment of the final elements of the agreement took place after the balance sheet date.

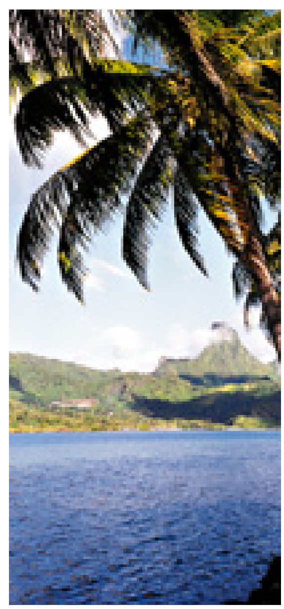
Outlook

Sustained, profitable growth aimed at

Under the completed reconstruction program Thomas Cook achieved a cost structure which gained the company a leading position in the cost competition. The important thing is to maintain this level. Accordingly, in future processes will be continuously optimized to generate further potential.

Furthermore, in the 2005/2006 financial year the preconditions will be created for the further realignment and further development of the Thomas Cook Group. The “MOVE” program is aimed at ensuring that Thomas Cook finds the right answers to the challenges of a changing market. At the center is the question of which business model is the future basis for sustained success in the coming years. Here ensuring the turnaround, strengthening the core business and sustained profitable growth are at the forefront. A central role in the future alignment will be played by the development of Web-based, virtual forms of product offerings.





Thomas Cook’s tourism operator business is to be integrated more closely into our main business and expanded.

The investment portfolio will be concentrated step by step on the core business. Investments in hotels, destination agencies or other operations not forming part of the core business will be cut down. Thus, all the most important measures have been put in place to secure the results achieved and achieve increasing profits in future.

Services

Positioning

Focusing on profitable business models

The KarstadtQuelle Group's retail-related service operations are concentrated in this segment. Under the Group realignment the Services sector was focused on profitable business models. The core competences include financial and information services, tourism sales and customer relations management and purchasing services.

Segment performance

New sales structure through streamlining of the portfolio

In the 2005 financial year sales – including KarstadtQuelle Finanz Service GmbH, included proportionately for the first time – came to 305.5 mill. € (previous year: 324.1 mill. €). The sales performance was decisively influenced by focusing on the core business.

Services focused on retail-related operations

The Services segment achieved an adjusted EBITDA of 34.9 mill. € (previous year: 69.2 mill. €). Following the disposal of marginal activities, this business segment is concentrating exclusively on retail-related services.

Most important business segments

Information services: Third-party customer business consistently expanded

In 2005 KARSTADT QUELLE Information Services GmbH (KQIS) successfully implemented its strategy as a provider of profitable direct marketing and credit risk and debt management. At the same time it expanded its positioning as internal service provider within the Group. By further acquiring third-party customers from important growth markets such as e-commerce and TV shopping, the KQIS also extended its third-party business.

Financial services: Credit card business growing

KarstadtQuelle Finanz Service GmbH (KQFS) offers a wide range of financial and insurance services During the year under review KQFS returned a satisfactory business performance and achieved an annual brokered contribution volume of around 82 mill. €.

Key figures*

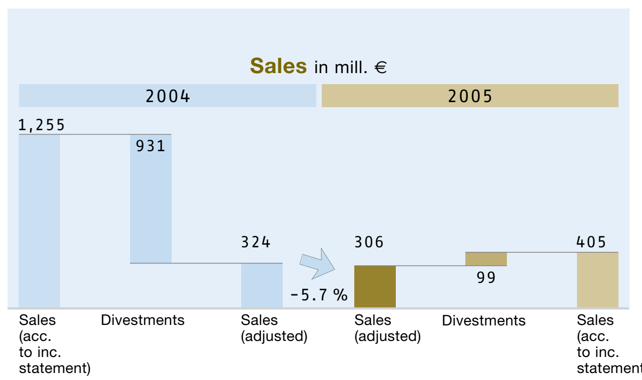
		2005	2004	Change in %
Sales	mill. €	305.5	324.1	-5.7
Earnings				
EBITDA (adjusted)	mill. €	34.9	69.2	-49.6
EBITDA margin (adjusted)	in %	11.4	21.4	-
Full-time employees at the balance sheet date	number	2,183	1,358	60.8

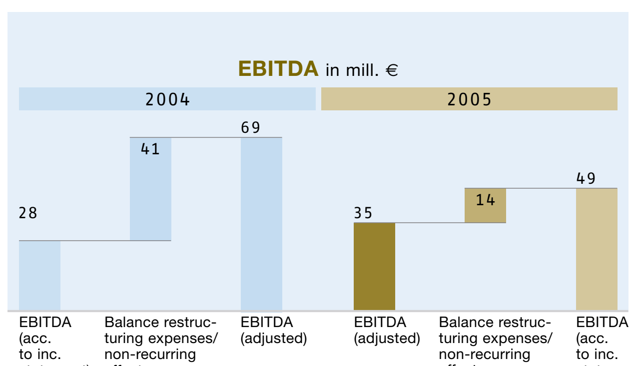
* The figures were adjusted. The adjustments relate to special factors, divestments and joint ventures.

The KarstadtQuelle Bank AG, a 100-per-cent subsidiary of KQFS, with about 900,000 cards, is the biggest issuer of MasterCards in Germany. Sales in credit card business grew by around 8 % on the previous year. Because of the 2006 Football World Cup the credit card offering was extended, for example, by the FIFA 2006™ World Cup MasterCard and the Deutsche Telekom FIFA 2006™ World Cup MasterCard.

Travel sales: Internet sales considerably risen

KarstadtQuelle tourism sales, with 379 sales outlets, is one of Germany's leading travel agency chains and is represented throughout Germany by the Karstadt Reisebüro, Neckermann Urlaubswelt and ReiseQuelle brands. In a slightly positively performing tourism environment operating earnings were once again increased in the year under review. The operator Paneuropa Reisen continued to perform to plan in its first full tourism financial year. The expansion of travel agency sales over the Internet is a strategic main emphasis. Here an increase of over 25 % is recorded.





Loyalty-card bonus program: upward trend continues

With "HappyDigits" the CAP Customer Advantage Program GmbH (Joint Venture with Deutsche Telekom AG) is the operator of the cross-sector loyalty-card bonus program in Germany. The 2005 financial year was dominated by effective marketing campaigns. Further customers were activated and sales stepped up. With nearly 25 million cards "HappyDigits" held its position as one of Germany's leading multi-partner bonus programs.

Successful concentration of procurement services

Through Karstadt Quelle International Services AG based in St. Gallen, Switzerland, comprehensive procurement services for the Karstadt Quelle Group and external customers were offered. The core competences of Karstadt Quelle International Services AG lie in the merchandising, quality control and logistics sectors, and in close cooperation with the suppliers. Its range of services covers all the relevant procurement markets in all the product groups. The company operates 22 offices worldwide and achieved sales of 1.2 bill. € over the year under review.

Real estate

Positioning

High-quality city-center portfolio

The valuable location portfolio of the Real estate segment is controlled by KARSTADT Immobilien AG & Co. KG. Functionally the Property/Renting and Real-estate services subsegments are covered. Operations concentrate mainly on portfolio management and the initiation and implementation of project developments.

With a book value of 1.47 bill. € the portfolio mostly comprises department store real estate at prime locations in German cities, including also exclusive real estate of international significance such as KaDeWe in Berlin. The property space totals around 1.8 mill. sq. m. The city-center department stores also offer interesting options for strategic further developments.

Segment performance

Decrease in sales through divestment program

The Real-estate business segment returns adjusted sales amounting to 421.3 mill. € (previous year: 438.5 mill. €) over the 2005 financial year. The performance in this business segment is governed mainly by extensive disposals under the divestment program. The sales comprised logistics real estate and real estate of the small Karstadt Kompakt branches, SinnLeffers textile stores and Wehmeyer branches.

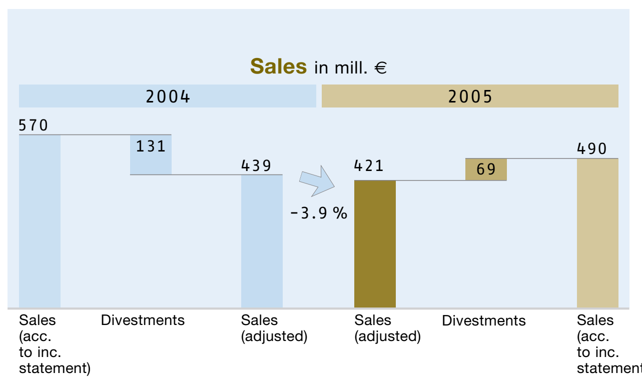
Key figures *

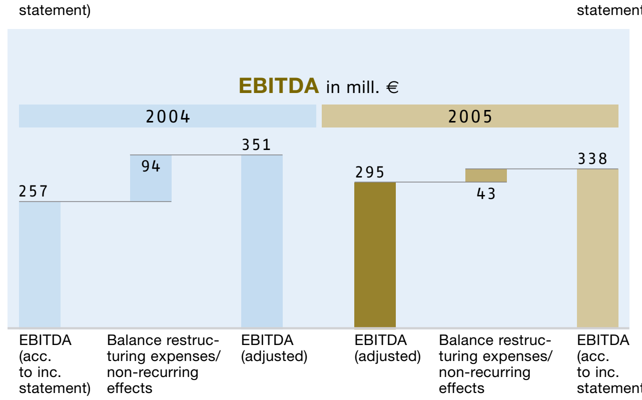
		2005	2004	Change in %
Sales	mill. €	421.3	438.5	-3.9
Earnings				
EBITDA (adjusted)	mill. €	295.2	350.8	-15.9
EBITDA margin (adjusted)	in %	70.1	80.0	-
Full-time employees at the balance sheet date	number	73	82	-11.0

* The figures were adjusted. The adjustments relate to special factors and divestments.

Real estate returns respectable income contribution

The Real-estate business segment achieved an adjusted EBITDA of 295.2 mill. € (previous year: 350.8 mill. €) in the year under review. Decisive for the decrease in earnings are the extensive real-estate sales. On the other hand they resulted in a positive extraordinary EBITDA contribution of 52.1 mill. € in the 2005 financial year.





Important events during the financial year

Project developments extended

The financing of new city-center projects, which are currently in the implementation phase, is being undertaken jointly with partners through investors or project development corporations. Following successful completion of project development, the shopping centers in Potsdam and Karlsruhe opened in March and September 2005 respectively. Particularly the opening of the “Stadtpalais” in Potsdam after a construction time of several years was rated very positively by both the local people and customers and retailers. Leaseholders’ sales in the opening phase very considerably exceeded expectations.

The implementation of further city-center projects in Munich and Leipzig is going to schedule. The openings are planned for 2006. The completion of the city-center shopping center in Wiesbaden is planned for 2008.

In 2005 the collaborative agreement for the start of one of the largest city-center shopping centers in Germany was concluded. KarstadtQuelle, together with ECE and DIFA, will be building and operating a city-center shopping center in Essen. The shopping center at Limbecker Platz will have over 70,000 sq. m. of usable space and, with more than 200 leaseholders, achieve supraregional importance. Planning permission was granted at the end of 2005; building work is scheduled to begin in early 2006.

Karstadt will be operating a department and a sports store with space totaling 24,000 sq. m. in the shopping center.

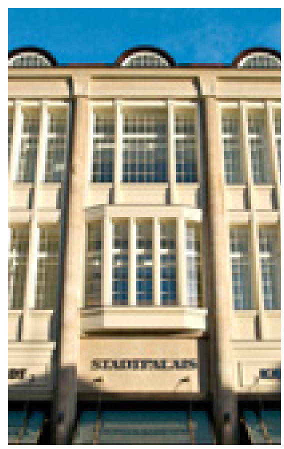
KARSTADT Hypothekenbank AG sold

The shares held by KARSTADT Immobilien Beteiligungs AG in KARSTADT Hypothekenbank AG were sold at the end of the 2005 financial year to the Group-owned pension fund. The financing costs of the ABS program are being lastingly positively affected by this measure.

Outlook

KarstadtQuelle is considering options for sale of real estate

The management is considering options for utilizing real estate assets more consistently. Intensive checks and valuations are currently in progress. Options under consideration are sale or separation, followed by flotation on the stock exchange.



We no longer regard Group real estate as a strategic business segment. It makes sense to realize the assets it represents and direct them at operatively different purposes which generate a higher return.

Our goal is still to be a healthy, profitable company.

Consolidated financial statements

Notes to the consolidated financial statements

Tourism is a central business segment for us today.

In future the dream holiday will be increasingly booked online. Accordingly, Thomas Cook is consistently expanding its Web presentation.

Consolidated income statement

for the year ended December 31, 2005

Amounts shown in th. €	Item Notes	2005	2004	Change in %
Sales	1	15,845,032	17,199,007	-7.9
Cost of sales and expenses for tourism services	2	-8,911,823	-9,631,912	7.5
Gross income		**6,933,209**	**7,567,095**	-8.4
Other capitalized own costs	3	50,691	53,519	-5.3
Operating income	4	1,102,555	819,669	34.5
Staff costs	5	-2,630,323	-3,109,417	15.4
Operating expenses	6	-5,152,129	-5,575,730	7.6
Other taxes	7	-29,344	-30,262	3.0
Earnings before interest, tax and depreciation and amortization (EBITDA)		**274,659**	**-275,126**	199.8
Depreciation and amortization (not including amortization of goodwill)	8	-391,522	-526,756	25.7
of which impairment loss		-48,193	-101,641	52.6
Earnings before interest, tax and amortization of goodwill (EBITA)		**-116,863**	**-801,882**	85.4
Amortization of goodwill	9	-8,399	-152,446	94.5
Earnings before interest and tax (EBIT)		**-125,262**	**-954,328**	86.9
Income from investments	10	-9,454	1,314	-
Income from investments in associates	11	16,681	12,481	33.7
Net interest income	12	-292,953	-326,863	10.4
Other financial results	13	15,783	-165,371	109.5
Earnings before tax (EBT)		**-395,205**	**-1,432,767**	72.4
Taxes on income	14	81,180	178,008	-54.4
Earnings from continuing operations		**-314,025**	**-1,254,759**	75.0
Result from discontinued operations	15	-258	-370,531	99.9
Net loss before minority interests		**-314,283**	**-1,625,290**	80.7
Profit/loss due to minority interests	16	-2,199	-24	-
Net loss after minority interests		**-316,482**	**-1,625,314**	80.5
Earnings per share in €	17	**-1.59**	**-14.65**	89.2
thereof from continuing operations		-1.58	-11.31	86.1
thereof from discontinued operations		0.00	-3.34	-

Consolidated balance sheet

for the year ended December 31, 2005

Assets

Amounts shown in th. €	Item Notes	2005	2004	Change in %
Intangible assets	18	1,104,831	1,100,986	0.3
Tangible assets	19	2,452,839	2,786,185	-12.0
Shares in associates	20	98,398	105,877	-7.1
Other financial assets	21	535,220	1,405,772	-61.9
thereof securities		11,684	289,332	-96.0
Other non-current assets	22	94,167	116,313	-19.0
Deferred taxes	23	228,249	164,914	38.4
Non-current assets		**4,513,704**	**5,680,047**	-20.5
Inventories	24	1,621,095	1,823,904	-11.1
Trade receivables	25	844,385	1,295,494	-34.8
Tax receivables		50,430	61,800	-18.4
Other receivables and other assets	26	1,139,128	911,201	25.0
Cash and cash equivalents and securities	27	707,163	661,156	7.0
Current assets		**4,362,201**	**4,753,555**	-8.2
Assets classified as held for sale	28	262,658	1,209,587	-78.3
Balance sheet total		**9,138,563**	**11,643,189**	-21.5

Equity and liabilities

Amounts shown in th. €	Item Notes	2005	2004	Change in %
Subscribed share capital		510,398	510,398	-
Reserves		-237,068	58,663	-
Minority interests		16,745	26,783	-37.5
Equity	29	**290,075**	**595,844**	-51.3
Long-term capital of minority interests	30	-	58,983	-
Non-current financial liabilities	31	3,012,793	3,372,376	-10.7
Other non-current liabilities	32	566,606	549,694	3.1
Pension provisions	33	906,756	891,911	1.7
Other non-current provisions	34	383,784	365,483	5.0
Deferred taxes	23	11,673	12,533	-6.9
Non-current liabilities		**4,881,612**	**5,250,980**	-7.0
Current financial liabilities	31	724,776	2,062,517	-64.9
Trade payables	35	1,600,870	1,554,497	3.0
Current tax liabilities	32	201,746	229,840	-12.2
Other current liabilities	32	768,855	799,186	-3.8
Current provisions	36	609,677	626,136	-2.6
Current liabilities		**3,905,924**	**5,272,176**	-25.9
Liabilities from assets classified as held for sale	28	60,952	524,189	-88.4
Balance sheet total		**9,138,563**	**11,643,189**	-21.5

Statement of changes in equity

for the year ended December 31, 2005

Amounts shown in th. €	Subscribed share capital	Additional paid-in capital	Revenue reserves: Other revenue reserves	Revenue reserves: Revaluation reserve	Revenue reserves: Cumulative foreign currency differences	Minority interests	Group equity Total
Opening balance 01.01.2004	**272,212**	**317,471**	**1,139,689**	**-59,836**	**-18,076**	**39,347**	**1,690,807**
Differences from foreign currency translation	-	-	-	-	3,987	-451	3,536
Changes resulting from disposals and the measurement of primary and derivative financial instruments	-	-	-	62,785	-	-	62,785
Changes in consolidated companies	-	-	26	962	512	-10,501	-9,001
Equity capital changes without effect for income	**-**	**-**	**26**	**63,747**	**4,499**	**-10,952**	**57,320**
Consolidated earnings	-	-	-1,625,314	-	-	24	-1,625,290
	-	**-**	**-1,625,288**	**63,747**	**4,499**	**-10,928**	**-1,567,970**
Capital increase and issue of convertible bond	238,186	311,953	-	-	-	-	550,139
Dividends	-	-	-75,496	-	-	-1,636	-77,132
	238,186	**311,953**	**-75,496**	**-**	**-**	**-1,636**	**473,007**
Closing balance 31.12.2004/ Opening balance 01.01.2005	**510,398**	**629,424**	**-561,095**	**3,911**	**-13,577**	**26,783**	**595,844**
Differences from foreign currency translation	-	-	-	-	4,225	361	4,586
Changes resulting from disposals and the measurement of primary and derivative financial instruments	-	-	-	23,097	-	-	23,097
Changes in consolidated companies	-	-	-5,526	-529	-516	-11,077	-17,648
Equity capital changes without effect for income	**-**	**-**	**-5,526**	**22,568**	**3,709**	**-10,716**	**10,035**
Consolidated earnings	-	-	-316,482	-	-	2,199	-314,283
	-	-	-322,008	22,568	3,709	-8,517	-304,248
Dividends	-	-	-	-	-	-1,521	-1,521
Closing balance 31.12.2005	**510,398**	**629,424**	**-883,103**	**26,479**	**-9,868**	**16,745**	**290,075**

Consolidated cash flow statement

for the year ended December 31, 2005

Amounts shown in th. €	Item Notes	2005	2004
EBITDA		**274,659**	**-275,126**
Profit/loss from the disposal of fixed assets		-155,154	-1,304
Profit/loss from foreign currency		-1,907	4,919
Increase/decrease of non-current provisions (not including pension and tax provisions)		-95,099	-59,880
Addition to the provision for restructuring effects		255,853	583,809
Other expenses/income not affecting cash flow		168,307	146,161
Gross cash flow		**446,659**	**398,579**
Changes in working capital (adjusted for changes in the group of consolidated companies)		1,006,822	93,576
Changes in other current assets and liabilities		-231,280	165,831
Dividends received		13,278	24,958
Payments/refunds of taxes on income		-8,253	-46,452
Cash flow from operating activities	41	**1,227,226**	**636,492**
Cash flow from acquisitions/divestments of subsidiaries		250,388	-3,060
Purchase of tangible and intangible assets		-258,785	-331,475
Purchase of investments in non-current financial assets		-7,953	-83,283
Cash receipts from sale of tangible and intangible assets		703,648	119,356
Cash receipts from sale of non-current financial assets		43,723	32,835
Cash flow from investing activities	42	**731,021**	**-265,627**
Free cash flow	43	**1,958,247**	**370,865**
Interest received		134,202	131,533
Interest paid		-377,162	-331,834
Pension payments		-62,272	-95,867
Cash receipts/cash payments under mortgage bond program and for (finance) loans		-1,546,621	-192,959
Payments of liabilities due under finance lease		-47,264	-39,489
Cash payments/cash receipts for dividends and capital increase		-1,520	473,006
Cash flow from financing activities	44	**-1,900,637**	**-55,610**
Changes in cash and cash equivalents affecting cash flow		**57,610**	**315,255**
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		-14,856	-14,367
Cash and cash equivalents at the beginning of the period		653,162	352,274
Cash and cash equivalents at the end of the period	45	**695,916**	**653,162**

Segment report

KarstadtQuelle Group

Amounts shown in th. €	KarstadtQuelle Group		Reconciliation account *		Karstadt	
	2005	2004	2005	2004	2005	2004
Sales	17,640,414	19,568,893	–	–	5,388,300	5,737,595
Interest from lending business	229,945	222,256	–	–	–	–
Internal sales	-2,025,327	-2,592,142	-724,631	-1,550,936	-270,511	-38,210
Group sales	**15,845,032**	**17,199,007**	**-724,631**	**-1,550,936**	**5,117,789**	**5,699,385**
Group sales (adjusted) [1]	***15,453,556***	***16,135,809***	***-588,607***	***-620,343***	***4,734,052***	***4,918,135***
Cost of sales and expenses for tourism services	-8,911,823	-9,631,912	147,123	711,886	-2,958,565	-3,276,393
Gross income	**6,933,209**	**7,567,095**	**-577,508**	**-839,050**	**2,159,224**	**2,422,992**
Other capitalized own costs	50,691	53,519	45,591	33,052	3,183	13,346
Operating income and costs	-4,049,574	-4,756,061	435,393	740,733	-1,106,742	-1,488,363
Staff costs	-2,630,323	-3,109,417	-21,278	-34,322	-1,082,907	-1,334,161
Other taxes	-29,344	-30,262	-75	-83	-159	-366
EBITDA	**274,659**	**-275,126**	**-117,877**	**-99,670**	**-27,401**	**-386,552**
EBITDA (adjusted) [1]	**544,106**	**517,537**	**-37,970**	**-59,671**	**65,215**	**21,569**
EBITDA margin in % (adjusted)	*3.5*	*3.2*	*–*	*–*	*1.4*	*0.4*
Depreciation and amortization (not including goodwill)	-391,522	-526,756	-1,152	17,580	-99,297	-118,421
Amortization of goodwill	-8,399	-152,446	–	–	–	-78,113
EBIT	**-125,262**	**-954,328**	**-119,029**	**-82,090**	**-126,698**	**-583,086**
Earnings from discontinued operations	**-258**	**-370,531**	**-6,634**	**-9,122**	**6,376**	**-361,409**
Segment assets	7,618,427	8,711,492	184,419	141,314	1,334,299	1,262,617
Segment liabilities	3,850,848	3,760,719	144,442	138,006	893,830	1,015,184
Invested capital	3,870,662	4,713,596	150,014	-675,804	459,827	439,585
ROIC in %	*5.2*	*2.2*	*-26.1*	*8.9*	*-6.2*	*-20.0*
Gross cash flow	446,659	398,579	-99,950	-93,093	17,543	53,807
Investments	258,785	349,041	866	2,732	135,252	156,480
Employees (on annual average) number	107,130	120,891	174	194	44,360	53,816
Employees (on annual average) adjusted [1] number	84,578	88,931	174	194	36,291	38,731

* The reconciliation account also includes the activities of the holding company. [1] The figures were adjusted. The adjustments relate to special factors, divestments and joint ventures.

Segment report by region

Amounts shown in th. €	KarstadtQuelle Group		Reconciliation account		Domestic	
	2005	2004	2005	2004	2005	2004
Sales	17,640,414	19,568,893	–	–	13,234,758	14,953,190
Interest from lending business	229,945	222,256	–	–	163,962	166,638
Internal sales	-2,025,327	-2,592,142	-439,640	-595,651	-1,218,521	-1,643,484
Group sales	**15,845,032**	**17,199,007**	**-439,640**	**-595,651**	**12,180,199**	**13,476,344**
Cost of sales and expenses for tourism services	-8,911,823	-9,631,912	520,148	673,581	-7,006,709	-7,717,348
Gross income	**6,933,209**	**7,567,095**	**80,508**	**77,930**	**5,173,490**	**5,758,996**
EBITDA	274,659	-275,126	1,994	48	132,140	-400,564
EBIT	-125,262	-954,328	1,994	91	-205,207	-969,625
Earnings from discontinued operations	-258	-370,531	-6,634	-9,122	6,376	-361,409
Segment assets	7,618,427	8,711,492	26,046	-536,484	5,391,242	7,342,045
Segment liabilities	3,850,848	3,760,719	3,208	-4,935,935	3,108,669	6,880,256
Investments	258,785	349,041	–	–	237,134	291,773

Mail order		Thomas Cook		Services		Real estate	
2005	2004	2005	2004	2005	2004	2005	2004
7,415,658	8,148,238	3,915,911	3,816,214	430,833	1,296,698	489,712	570,148
214,785	206,843	–	–	15,160	15,413	–	–
-901,518	-874,501	-87,220	-80,722	-41,447	-47,773	–	–
6,728,925	**7,480,580**	**3,828,691**	**3,735,492**	**404,546**	**1,264,338**	**489,712**	**570,148**
6,752,577	***7,340,039***	***3,828,691***	***3,735,349***	***305,532***	***324,082***	***421,311***	***438,547***
-3,305,839	-3,706,478	-2,644,397	-2,586,195	-150,145	-774,732	–	–
3,423,086	**3,774,102**	**1,184,294**	**1,149,297**	**254,401**	**489,606**	**489,712**	**570,148**
512	1,165	–	–	1,405	5,956	–	–
-2,621,471	-2,917,110	-549,925	-588,520	-77,061	-210,789	-129,768	-292,012
-950,009	-1,031,743	-438,728	-445,193	-129,695	-256,296	-7,706	-7,702
-8,941	-12,073	-5,231	-4,196	-496	-74	-14,442	-13,470
-156,823	**-185,659**	**190,410**	**111,388**	**48,554**	**28,403**	**337,796**	**256,964**
-4,413 *-0.1*	**15,620** *0.2*	**191,270** *5.0*	**120,075** *3.2*	**34,854** *11.4*	**69,185** *21.3*	**295,150** *70.1*	**350,759** *80.0*
-109,919	-99,399	-90,827	-99,405	-22,802	-51,430	-67,525	-175,681
-1,161	-18,552	-7,226	-55,491	-12	-290	–	–
-267,903	**-303,610**	**92,357**	**-43,508**	**25,740**	**-23,317**	**270,271**	**81,283**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2,963,771	3,830,109	1,511,792	1,618,907	274,706	222,367	1,349,440	1,636,178
1,435,599	1,245,995	924,179	888,258	76,600	110,559	376,198	362,717
1,404,348	3,190,198	666,446	509,390	229,837	15,450	960,190	1,234,777
-6.7	*-2.1*	*16.0*	*-6.8*	*5.8*	*539.7*	*25.3*	*21.8*
21,971	-120,662	194,120	129,968	34,664	50,839	278,311	377,720
67,467	108,109	41,911	28,117	9,354	37,311	3,935	16,292
33,242	36,622	26,732	27,144	2,515	3,006	107	109
32,301	34,828	13,368	13,573	2,362	1,518	82	87

Western Europe		Eastern Europe		Other countries	
2005	2004	2005	2004	2005	2004
4,084,643	4,340,236	299,865	251,378	21,148	24,089
65,612	55,367	371	251	–	–
-343,003	-337,066	-21,380	-13,766	-2,783	-2,175
3,807,252	**4,058,537**	**278,856**	**237,863**	**18,365**	**21,914**
-2,272,849	-2,450,108	-151,456	-137,010	-957	-1,027
1,534,403	**1,608,429**	**127,400**	**100,853**	**17,408**	**20,887**
119,651	106,794	15,111	13,163	5,763	5,433
60,609	-1,601	12,809	13,009	4,533	3,798
–	–	–	–	–	–
2,118,258	1,829,932	58,985	52,168	23,896	23,831
708,880	1,749,682	23,235	21,556	6,856	45,160
17,619	49,411	2,220	6,157	1,812	1,700

Notes to the consolidated financial statements

Accounting

Principles

The consolidated financial statements of KARSTADT QUELLE AG and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRS) in force at the balance sheet date and to be applied in the European Union. IFRS comprise IFRS newly issued by the International Accounting Standards Board (IASB), International Accounting Standards (IAS), as well as the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).

The supplementary requirements of Section 315a Para. 1 German Commercial Code relating to additional information in the notes and of Section 315 German Commercial Code relating to the management report are observed.

The consolidated financial statements have been prepared in euros. All amounts are expressed in thousands of euros (th. €). For the subsidiaries outside the European Currency Union financial statements prepared in the respective national currencies are translated into euros (€).

The joint ventures until now recognized at equity are included in the present financial statements proportionately. The previous year's figures have been adjusted accordingly. Thomas Cook AG, Oberursel, in deviation from the Group's balance sheet date, was included on the basis of the sub-group consolidated financial statements for the period to October 31, 2005. An interim financial statement was not prepared due to organizational restrictions. Important transactions between October 31 and December 31 are taken into account. The at-equity measurement of individual immaterial associates was undertaken on the basis of their proportionate equity at December 31, 2004.

The previous year's figures have been adjusted to take account of the treatment of the sale of trade receivables under IAS 39.106 f. The adjustment complies with exercise of the option in the interim financial statements and relates to the balance sheet items shown on page 103.

Important business transactions

The restructuring plan agreed and published in 2004 and the realignment of the KarstadtQuelle Group linked to it was expanded in the 2005 financial year to include further restructuring measures for the Mail-order segment and has resulted in further provisions for anticipated redundancy payments and closures. Expenses for these realignment measures negatively affected the Group result by a total of 203 mill. €.

Furthermore, divestments undertaken in the financial year have had an important effect on the consolidated financial statements. To be mentioned here are in particular the disposal of the specialty stores, which are recognized as discontinued operations. Also sold in the financial year were the small-format Karstadt stores (Karstadt Kompakt). These transactions also included the disposal of the real estate connected with these.

At the end of the financial year the reorganization of the asset-backed securitization program with qualification as an actual derecognition of receivables resulted in a substantial reduction of 1.04 bill. € in financial liabilities.

Significant differences between accounting in accordance with IFRS and that in accordance with the German Commercial Code (HGB)

Differences between accounting policies to be applied under the procedure authorized by the German Commercial Code (HGB) and those to be applied in accordance with IFRS relate particularly to the following facts:

- Internally generated intangible assets are capitalized if they fulfill the requirements of IAS 38. In particular such assets must imply a future economic benefit which can be monitored by the company, and they must be distinguishable from general company goodwill. According to accounting under commercial law expenditure on the creation of internally generated intangible assets cannot be carried as assets.
- The offsetting of goodwill arising out of initial consolidation is not permitted under IFRS. It is therefore capitalized under intangible assets.
- Goodwill has not been amortized since the 2004 financial year but instead assessed solely on the basis of an impairment test (IFRS 3 in conj. with IAS 36 (2004)). Where necessary, goodwill is written down.
- Options for recognizing depreciation for tax purposes are – where not consistent with the actual use of the assets – not applicable under IFRS.
- Major inspections of aircraft are capitalized as assets and allocated over the period until the next general overhaul.
- 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 included until the time of the actual receipt of payment.
- Financial instruments in the "Available for sale" and "Held for trading" categories and derivative financial instruments in the IFRS consolidated financial statements are recognized on the balance sheet at fair value, if this is determinable

(IAS 39). In the financial statements under German 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 recognition without effect for income. According to accounting under commercial law such expenses represent mainly expenses for the period. The cost of borrowed-capital procurement is under IFRS recognized under net interest income over the term of the liability.
- Pension provisions and similar liabilities recognized under IAS 19 were calculated 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 consolidated balance sheet plan assets which are used for financing and securing pension payments are in accordance with IAS 19 set off at fair value against pension commitments. In the financial statements under commercial law the pension commitment is shown in full and also plan assets are shown unbalanced.
- Leasing transactions are recognized according to the rules of IAS 17. A distinction is made here between a finance lease and an operating lease, depending on who takes the major risks and rewards and is to be regarded as the beneficial owner. In cases of finance lease allocation of economic ownership and thus capitalization of the lease object is undertaken by the lessee. The criteria for classification of finance and operating leases are extended under IAS 17, as compared with practice under commercial law.
- Deferred taxes are recognized by the balance-sheet-oriented liability method and consequently also include so-called "quasi-permanent" differences. There is under IFRS no option with regard to the recognition of deferred tax assets – so long as utilization is to be anticipated in the form of taxable profits at the time the difference is written back. The recognition of deferred tax assets on tax loss carry-forwards is obligatory, taking into account appropriate allowances.
- Expenses in connection with the preparation, production and despatch of catalogs are capitalized as a current intangible asset, taking into consideration the life of these catalogs. In the financial statements prepared under the German Commercial Code such assets are not capitalized.
- The other differences relate essentially to other provisions where the emphasis is on the overwhelming likelihood of an outflow of funds due to contingent losses to a greater degree than in commercial law accounting, which is governed by the principle of caution. No expense provisions are being set up for this contingency. Non-current provisions are recognized at their present value (IAS 37).
- 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 in accordance with IFRS 5, even if the items have hitherto been shown as non-current assets under fixed assets. Such reclassification does not occur in commercial law accounting.
- Important components of the Group the operations of which are to be discontinued are shown with regard to their effect on the consolidated income statement on one line as income from discontinued operations. Here all income and expenses of the companies affected by this are assigned to this line so that on the other lines of the income statement only the income and expenses from continuing operations appear. The previous year's figures have been adjusted accordingly. Such a separation does not occur in commercial law accounting.

Recognition and measurement changes in connection with changed/new IAS/IFRS and changed accounting policies

In the course of the "Improvements project" the International Accounting Standards Board has adapted already existing International Accounting Standards. Moreover, some new International Financial Reporting Standards have been published. The revisions and new applications that are binding for financial years beginning on January 1, 2005, have been included in the present financial statements.

The IASB has recommended IFRS users early application of the standards. KarstadtQuelle has partly followed this recommendation and applied the following adapted and newly issued standards early: IAS 17 "Leases", IAS 36 "Impairment of Assets", IFRS 38 "Intangible asssets" , IFRS 3 "Business Combinations" and IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". We refer in this regard to the statements in the Notes for the previous year.

Furthermore, the following revisions result in the 2005 financial year:

The revised IAS 1 requires the balance sheet to be classified using the current/non current distinction. This requirement is observed in the present consolidated financial statements, while at the same time a more detailed structure is applied than in the previous year. The comparable figures for the previous year were adjusted.

Joint ventures are included in the consolidated financial statements for the period to December 31, 2005, for the first time proportionately. In previous years joint ventures were measured by the equity method. The change to proportionate consolidation was made because it considerably improved the view of the net assets, financial position and operating results of the Group. This relates mainly to the joint ventures Thomas Cook AG, KarstadtQuelle Finanz Service GmbH and Karstadt Feinkost GmbH & Co. KG and Compagnie de Gestions et de Prêts S.A. Furthermore, the TriStyle subgroup, which has until now been fully consolidated, was changed at December 31, 2005, to proportionate consolidation, as in the financial year the Group lost control of this group.

IAS 32 (rev. 2004 "Financial Instruments: Disclosure and Presentation") under revised criteria for the classification of equity and borrowed capital requires the Group to treat share capital of German partnerships as borrowed capital. Accordingly, minority shareholdings in a number of limited partnerships are now disclosed as borrowed capital under the balance sheet item "Long-term capital of minority interests." Since the standard requires retroactive application, the previous year's figures were adjusted accordingly, although reliable fair values could not be ascertained. These liabilities are therefore measured at their carrying value. As at December 31, 2004 this commitment stood at 58,983 th. €. At the same time income from these shareholdings is recognized under net interest income. At the balance sheet date the corresponding obligation is no longer shown, as the minority interests of the unincorporated companies in the TriStyle subgroup are no longer recognized after the change to proportionate consolidation. Under the proportionate consolidation of the joint ventures for the first time the previous year's figures were adjusted accordingly. In the consolidated income statement for the previous year the following important effects result:

Effects from the first-time proportionate consolidation of the joint ventures in the consolidated income statement

Amounts shown in th. €	As shown in Annual Report 2004	Adjustment for proportionate consolidation	2004
Sales	13,447,183	3,751,824	17,199,007
Cost of sales and expenses for tourism services	-7,054,820	-2,577,092	-9,631,912
Gross income	**6,392,363**	**1,174,732**	**7,567,095**
Other capitalized own costs	53,519	-	53,519
Operating income	693,276	126,393	819,669
Staff costs	-2,655,538	-453,879	-3,109,417
Operating expenses	-4,844,821*	-730,909	-5,575,730
Other taxes	-26,065	-4,197	-30,262
Earnings before interest, tax and depreciation and amortization (EBITDA)	**-387,266**	**112,140**	**-275,126**
Depreciation and amortization (not including amortization of goodwill)	-424,405	-102,351	-526,756
Earnings before interest, tax and amortization of goodwill (EBITA)	**-811,671**	**9,789**	**-801,882**
Amortization of goodwill	-154,376	1,930	-152,446
Earnings before interest and tax (EBIT)	**-966,047**	**11,719**	**-954,328**
Income from investments (incl. associates)	-8,555	22,350	13,795
Net interest income	-282,750*	-44,113	-326,863
Other financial results	-166,064	693	-165,371
Earnings before tax (EBT)	**-1,423,416**	**-9,351**	**-1,432,767**
Taxes on income	172,677	5,331	178,008
Earnings from continuing operations	**-1,250,739**	**-4,020**	**-1,254,759**
Result from discontinued operations	-370,531	-	-370,531
Net loss before minority interests	**-1,621,270**	**-4,020**	**-1,625,290**
Profit/loss due to minority interests	-9,968	9,944	-24
Net loss after minority interests	**-1,631,238**	**5,924**	**-1,625,314**

* Including ABS program adjustment.

The earnings effect from adjustment of the previous year's figures results mainly from the changes to the recognition of minority interests in the TriStyle subgroup. Under IAS 32 these must be recognized as borrowed capital. Their contribution to earnings is thus included in interest income.

The changes in the consolidated balance sheet are shown in the following table:

Effects from the first-time proportionate consolidation of the joint ventures in the consolidated balance sheet

Amounts shown in th. €	As shown in Annual Report 2004*	Adjustment for proportionate consolidation	2004
Assets			
Intangible assets	468,334	632,652	1,100,986
Tangible assets	2,172,905	613,280	2,786,185
Shares in associates	376,190	-270,313	105,877
Other financial assets	1,289,867	115,905	1,405,772
Other non-current assets	65,784	50,529	116,313
Deferred taxes	98,162	66,752	164,914
Non-current assets	**4,471,242**	**1,208,805**	**5,680,047**
Inventories	1,811,682	12,222	1,823,904
Trade receivables	1,161,458 1)	134,036	1,295,494
Tax receivables	27,509	34,291	61,800
Other receivables and other assets	624,898 1)	286,303	911,201
Cash and cash equivalents and securities	518,212	142,944	661,156
Current assets	**4,143,759**	**609,796**	**4,753,555**
Assets classified as held for sale	1,204,707	4,880	1,209,587
Balance sheet total	**9,819,708**	**1,823,481**	**11,643,189**
Equity and liabilities			
Equity	**560,773**	**35,071**	**595,844**
Long-term capital of minority interests	58,983	-	58,983
Non-current financial liabilities	2,913,781	458,595	3,372,376
Other non-current liabilities	469,237	80,457	549,694
Pension provisions	794,017	97,894	891,911
Other non-current provisions	365,334	149	365,483
Deferred taxes	11,275	1,258	12,533
Non-current liabilities	**4,612,627**	**638,353**	**5,250,980**
Current financial liabilities	1,738,936 1)	323,581	2,062,517
Trade payables	1,110,970	443,527	1,554,497
Current tax liabilities	202,213 1)	27,627	229,840
Other current liabilities	524,058 1)	275,128	799,186
Current provisions	547,839 1)	78,297	626,136
Current liabilities	**4,124,016**	**1,148,160**	**5,272,176**
Liabilities from assets classified as held for sale	522,292	1,897	524,189
Balance sheet total	**9,819,708**	**1,823,481**	**11,643,189**

* Recognition of previous year's figures in accordance with new balance sheet structure under IAS 1 and under IAS 32.

1) Including ABS program adjustment.

The changes to presentation up until now result mainly from the proportionate consolidation of Thomas Cook AG and its subsidiaries.

Outlook for IFRS changes in 2006

As well as the IASB standards already applied in the KARSTADT QUELLE AG consolidated financial statements, there are further IFRS and revised IFRS, which are however not to be bindingly applied to companies whose financial year ends on December 31, 2005. The application of these IFRS requires that they be accepted by the EU as part of the IFRS endorsement procedure. These standards are as follows:

- IFRS 7 "Financial Instruments: Disclosures"
  This standard supersedes IAS 30 "Disclosure in the financial statements of banks and similar financial institutions" and parts of IAS 32 "Financial Instruments: Disclosure and Presentation". The standard requires information on the significance of financial instruments to the net assets, financial position and performance of entities. It also includes new requirements with regard to qualitative and quantitative reporting on risks connected to financial instruments. The standard must be bindingly applied to financial years beginning on January 1, 2007. Endorsement has not yet been given.

- IFRIC 4 "Determining whether an Arrangement contains a Lease"
  The interpretation specifies the application of the requirements for leasing, where corresponding elements exist in agreements which are not formally designated as lease agreements. The interpretation must be bindingly applied to financial years beginning on January 1, 2006. Endorsement has been given.

- IFRIC 6 "Recognition of Liability to Dispose of Electrical Equipment" regulates the recognition of provisions for liability to dispose arising from the EU directive on electrical and electronic appliances. IFRIC 6 must be bindingly applied to financial years beginning on or after December 1, 2005. Endorsement has not yet been given.

- IAS 1 Amendment: "Capital Disclosures"
  This revision of IAS 1 relates to additional disclosure on the capital of entities. The standard must be bindingly applied to financial years beginning on January 1, 2007. Endorsement has not yet been given.

- IAS 19 Amendment: "Actuarial Gains and Losses, Group Plans and Disclosures"
  As well as to additional disclosures in the notes to pension commitments and plan assets, the revision relates to the option of including in equity actuarial gains and losses without effect for results. It must be bindingly applied to all financial years beginning on January 1, 2006. Endorsement has been given by the EU.

- IAS 39 Amendment: "Cash Flow Hedge Accounting of Forecast Intra-group Transactions and The Fair Value Option"
  The revisions relate mainly to the hedge accounting of internal transactions and the fair value option, according to which all financial instruments may be classified into the category "Financial assets and financial liabilities at fair value with offsetting of value changes in the income statement", provided that certain preconditions have been fulfilled. The interpretation must be bindingly applied to financial years beginning on January 1, 2006. Endorsement has been given.

- IAS 39 / IFRS 4 Amendment: "Financial Guarantee Contracts"
  The revisions relate to the recognition of financial guarantees. The interpretation must be bindingly applied to financial years beginning on January 1, 2006. Endorsement has not yet been given.

Consolidation

Consolidated companies

Included in the consolidated financial statements of KARSTADT QUELLE AG are all important subsidiaries under the direct or indirect legal and/or factual control of KARSTADT QUELLE AG.

The group of consolidated companies is made up as follows:

Consolidated companies

	Total 2005	thereof domestic 2005	thereof abroad 2005	Total 2004
Number of fully consolidated companies (subsidiaries)				
As at 01.01.	457	346	111	460
Addition	25	11	14	13
Derecognition	-69	-65	-4	-16
Change in type of consolidation	-23	-6	-17	-
As at 31.12.	**390**	**286**	**104**	**457**
Number of proportionately included joint ventures				
As at 01.01.	137	23	114	138
Addition	11	3	8	4
Derecognition	-3	-1	-2	-5
Change in type of consolidation	23	6	17	-
As at 31.12.	**168**	**31**	**137**	**137**
Number of companies recognized at equity (associates)				
As at 01.01.	29	8	21	27
Addition	7	2	5	3
Derecognition	-5	-2	-3	-1
As at 31.12.	**31**	**8**	**23**	**29**

Not included in consolidation are subsidiaries, if their influence on the Group Account is immaterial.

The most important subsidiaries included in the consolidated financial statements are enclosed with the Notes as “Major investments“ (pages 153 to 154). The complete lists of investments will be filed with the Commercial Register of the Essen district court (HRB 1783).

The additions relate mainly to newly set up marketing companies in the Mail-order segment, particularly in Eastern Europe. Also consolidated for the first time in the Services segment were purchasing companies in which the purchasing activities of the Over-the-counter retail and Mail order segments are concentrated. In previous years the earnings of these companies were shown under the parent company in Group Income from long-term investments.

Principally the following specialty stores were disposed of in the Over-the-counter retail segment: Karstadt Sport Handelsgesellschaft mbH and GOLF HOUSE Direktversand GmbH were deconsolidated with effect from June 30, 2005, Wehmeyer with effect from July 31, 2005. The SinnLeffers Group, Karstadt Kompakt and Runners Point were transferred from the group of consolidate companies with effect from August 31, 2005. The associated real estate companies were likewise disposed of in the course of this sale. Furthermore, the number of consolidated companies was reduced through accruals of real estate management companies (land) which until now were recognized under the Real estate segment and are now included under Mail-order segment assets. In the Services segment the shares in Europapier N.V. to March 31, 2005, and the investment in Sport Media Holding to February 1, 2005, were sold.

In the year under review the shares in KARSTADT Hypothekenbank AG were exchanged for shares held by the II. KarstadtQuelle Pension Trust e. V. in QuelleNeckermann Versand Finanz GmbH & Co. KG and KARSTADT Hypothekenbank AG deconsolidated. During the year the company was treated as a disposal group and their assets and liabilities recognized under Assets classified as held for sale and Liabilities in connection with assets classified as held for sale. Impairment of 51,440 th. € resulting within the year from estimated sales proceeds from company assets has proved to be no longer necessary in connection with this exchange.

23 hitherto fully consolidated companies of the TriStyle Group are included proportionately in the Mail-order segment as joint ventures. In the Karstadt segment the group of consolidated companies was formally extended with effect from January 1, 2005, by the consolidation of the business operation of Karstadt Feinkost GmbH & Co. KG as a joint venture with the REWE retail group. The other changes to the joint ventures and associates measured at equity relate mainly to the Thomas Cook subgroup. Furthermore, of the associates hitherto measured at equity Sport Media Holding GmbH was sold in the first quarter of 2005.

Changes to the group of consolidated companies and acquisitions and divestments had the following effects on the income statement and balance sheet of the KarstadtQuelle Group:

Acquisitions / Divestments

	Acquisitions		Divestments	
Amounts shown in th. €	2005	2004	2005	2004
Gross income	134,330	13,390	377,256	13,516
Earnings before interest, tax and depreciation and amortization (EBITDA)	11,848	845	17,831	-3,058
Earnings before interest, tax and amortization of goodwill (EBITA)	6,300	809	-8,233	-5,662
Earnings before tax and amortization of goodwill (EBTA)	3,148	-1,288	19,463	-5,744
Non-current assets	25,144	140	1,821,606	21,497
Current assets	69,933	1,921	499,759	14,011
Assets classified as held for sale	-	-	582,111	-
Assets	**95,077**	**2,061**	**2,903,476**	**35,508**
Non-current liabilities	3,449	61	2,393,615	728
Current liabilities	28,372	2,011	686,990	4,526
Liabilities from assets classified as held for sale	-	-	83,697	-
Liabilities	**31,821**	**2,072**	**3,164,302**	**5,254**

These changes to the group of consolidated companies derive mainly from the full consolidation for the first time of the purchasing companies classified in the Services segment.

Consolidation methods

Included in the consolidated financial statements of KARSTADT QUELLE AG are all important subsidiaries under the direct or indirect legal and/or factual control of KARSTADT QUELLE AG. Such controling influence as defined in IAS 27 exists if there is a possibility of governing the financial and operating policies of an entity so as to obtain benefits from its activity.

If investments in subsidiaries are of subordinate importance, they must not be included on the materiality principle but measured at net book value.

Joint ventures are entities controlled by the company jointly with one or more other partners. These companies are consolidated proportionately in the consolidated financial statements, i.e. the assets and liabilities and the income and expenses of the joint ventures are included in the consolidated financial statements according to the share of the Group.

The following table shows proportionate non-current and current assets and liabilities and income and expenses at the joint ventures consolidated proportionately. These amounts are included in the individual lines of the consolidated balance sheet and income statement:

Proportionate items of joint ventures consolidated proportionately

Amounts shown in th. €	2005	2004
Non-current assets	1,547,129	1,593,399
Current assets	1,061,993	683,282
Non-current liabilities	682,761	638,350
Current liabilities	1,319,416	1,259,814
Sales	4,601,555	3,757,692
Gross income	1,465,758	1,171,496
EBITDA	198,563	112,285
EBIT	93,424	-45,555
Net income/loss before minority interests	58,314	-86,827

Major associates are recognized using the equity method, if the Group holds 20 to 50 % of shares and/or exerts a significant influence. Associates of subordinate importance are measured by the historical cost concept.

Other investments are recognized under IAS 39 at fair value, unless they are financial investments to be held to maturity or financial assets which have no quoted market price in an active market and whose fair value cannot be reliably determined.

The financial statements for the domestic and international subsidiaries included in the consolidation are prepared under group-wide uniform accounting policies.

Inclusion in the consolidated financial statements is done at the time at which the controling influence exists. Where subsidiaries are consolidated for the first time, the acquisition costs are offset against the proportionate equity. The proportionate equity results from the realization of identifiable hidden reserves and charges. A remaining capitalized difference from the capital consolidation is capitalized under assets as goodwill and reviewed for impairment at least once a year. A negative difference is recognized directly with effect for results.

As part of the subsequent consolidation, realized hidden reserves and charges are adjusted in accordance with the treatment of the corresponding assets and liabilities.

The cost of investments recognized using the equity method is adjusted by the amount by which the equity of the associate changes. The movement of equity in the carrying amount of investments is effected for the result-related components under income from investments in associates. Until now the movement has been divided into amortization of goodwill, taxes and income from investments. Because of the change to proportionate consolidation of the joint ventures no important effects on the consolidated financial statements have resulted from this. Changes in equity not affecting income are recognized pro-rata directly under equity. For the movement of a difference in the carrying amount of investments between the investment costs and the proportionate equity of the company the principles applying to full consolidation are applied correspondingly.

Sales, income and expenses as well as receivables, liabilities and provisions between companies included in the consolidation have been eliminated. Profits and losses results from intragroup transactions are eliminated, taking account of the deferred taxes arising from this.

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 plus 1,907 th. € resulting (previous year: minus 4,919 th. €) have been entered with effect for income.

The financial statements of the international subsidiaries 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 liabilities are translated at the closing-date rate, expenses and income at the average rate for the year.

Translation differences are shown under Equity without effect for result. The most important rates have developed relative to the euro as follows:

Most important exchange rates relative to €

Amounts in €	As at	Average rate 2005	Average rate 2004	Rate applying at the balance sheet date 2005	Rate applying at the balance sheet date 2004
100 Danish kroner	31.12.	13.420	13.441	13.404	13.444
1 English pound	31.10.	1.456	1.474	1.478	1.438
1 English pound	31.12.	1.462	1.473	1.459	1.418
100 Hongkong Dollar	31.12.	10.325	10.324	10.932	9.445
100 Japanese Yen	31.10.	0.733	0.751	0.716	0.740
100 Polish zlotys	31.12.	24.801	22.021	25.849	24.464
100 Swedish kroner	31.12.	10.776	10.955	10.646	11.087
100 Swiss francs	31.12.	64.585	64.761	64.305	64.813
100 Slowakian korunas	31.12.	2.591	2.496	2.641	2.582
100 Thai Baht	31.10.	1.971	2.030	2.041	1.912
100 Czech korunas	31.12.	3.359	3.134	3.449	3.291
1 Turkish Lira	31.10.	0.608	0.570	0.617	0.532
1 Tunisian dinar	31.10.	0.620	0.654	0.620	0.635
1 US Dollar	31.10.	0.789	0.785	0.833	0.817
1 US Dollar	31.12.	0.803	0.804	0.848	0.734

General accounting policies

Recognition of income and expenses

The recognition 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. It is assumed that on average operator services were half completed at the balance sheet date.

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

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

Under IAS 18 earnings from service agreements (for example, package holidays of Thomas Cook operators) are to be recognized according to fulfilment level, provided the criteria of IAS 18.20 have been fulfilled. For the correct allocation of proceeds to their periods, operators' holidays which began before the balance sheet date and were completed after the balance sheet date are allocated to other periods by the percentage-of-completion method. It is assumed that on average operator services were half completed at the balance sheet date.

Long-term development projects

In deviation from the general procedure for recognizing income and expenses, sales receipts from holiday services begun before the balance sheet date and completed after the balance sheet date are recognized in the Thomas Cook subgroup by the percentage-of-completion method. The same applies to real estate development projects. Here pro-rata results are realized according to the progress of the project, unless a loss is anticipated. Anticipated losses are immediately fully provided for by impairments 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.

Goodwill

Goodwill arising from consolidation is the amount by which the cost of a company acquisition exceeds the Group's share in the fair value of the identifiable assets and liabilities of a subsidiaries, associated or jointly controlled company at the time of acquisition. Goodwill is recorded as an asset and is reviewed at least once a year for impairment. Every impairment will be recognized immediately with effect for income.

When a subsidiary, associate or jointly controlled company is sold, the attributable value of the goodwill is included in the determination of the profit or loss from the sale. Offsetting of goodwill against reserves in accordance with Section 309 Para. 1 P. 3 of the German Commercial Code was in part not reversed on changeover to IFRS. Accordingly, such goodwill offset against reserves is, if the acquired company is later sold, not taken into account when determining the profit or loss from the sale.

Intangible assets not including goodwill

Intangible assets with the exception of goodwill are measured at cost less straight-line amortization. There are no intangible assets with an unlimited useful life. Amortization was calculated on the basis of the following useful lives:

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

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

If the requirements of IAS 38 have been satisfied, development costs which are based mostly on intragroup services are carried as internally generated intangible assets at cost. Costs also include reasonable shares of overhead expenses in addition to individual costs. Financing costs are not capitalized.

Tangible assets

Useful life of tangible assets

Assets	Useful life
Buildings	25 – 40 years
Aircraft and replacement engines	12 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 measured at purchase or production cost less depreciation. Financial costs are capitalized only in the case of long-term real estate projects.

Major inspections of aircraft are capitalized as assets over the year under review under SIC 23 and written down over the period until the next scheduled general overhaul.

Financial investments in land and buildings are measured at cost under IAS 40 and shown under Financial assets. They are amortized straight-line over the expected useful life. Maintenance expenses are offset with effect for income. They are capitalized, if this has resulted in an extension of or substantial increase in the respective asset value.

Leases

Leased tangible assets are recognized in accordance with IAS 17. Depreciation is applied over the economic useful life. Payment commitments resulting from future lease rates are shown as liabilities under Financial liabilities. Restoration liabilities are allocated to corresponding acquisition costs and, like the capitalised assets, depreciated straight-line over the anticipated economic useful life.

Financial assets

Financial instruments as defined by IAS 39 and shown under financial assets – specifically, shares in non-consolidated Group companies, associates not measured by the equity method, other investments, loans, non-current securities and non-current financial receivables – are recognized individually at fair value, if they are not held to maturity and a fair value can be calculated. Changes in income from securities available for sale are shown under Equity without effect for income until sale.

Financial instruments held to maturity are valued at amortized costs and, in the case of anticipated permanent decrease in value, at the lower fair value. Recognition of all classes as defined by IAS 39 is undertaken as at the trading date.

Financial investments in land and buildings are likewise recognized at lower net book value. In the case of anticipated permanent decrease in value a write-down to the lower fair value is applied.

Inventories
Inventories are shown at purchase or production cost, or, if necessary, at a lower net realizable value. Here measurement in the Karstadt segment is undertaken by the inverse method, starting with sales prices, applying a suitable reduction. Borrowed capital costs are not included. In the Mail-order segment measurement is done at updated composite prices.

Non-current assets 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 measured at the lower of its carrying value and fair value less costs to sell.

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

Receivables and Other assets
Trade receivables and other assets are recognized at nominal value. Individual 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
A financial asset is derecognized when the requirements of IAS 39.17 f. are fulfilled. In so far as the Group transfers its contractual rights to cash flows arising from an asset and essentially neither transfers nor retains all the risks and opportunities linked to the ownership of this asset, and also retains the power to dispose of the transferred asset, the Group continues to recognize the transferred asset to the extent of its ongoing commitment.

Individual group companies are selling trade receivables to KARSTADT Hypothekenbank AG, which was transferred to the II. KarstadtQuelle Pension Trust e. V. under the CTA program. KARSTADT Hypothekenbank AG at the end of the financial year took over from the finance companies the purchase of receivables being sold by these companies under ABS programs. In this connection the sale of receivables was classified as an actual derecognition under IAS 39. International companies in mail order are continuing to sell under asset-backed securitization (ABS) transactions their receivables to a finance company, which refinances the purchases on the capital market. Under the ABS program the purchasers of these receivables withhold 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 must assume responsibility for collecting the debts. At the balance sheet date adequate provisions are set aside for these commitments. For the assumption of the risks and interim financing the vendors pay a program fee, which, depending on the classification of the sales, is shown as a true sale or a sale which does not qualify for derecognition under other operating expenses or interest.

Securities of current assets
Securities of current assets are recognized under IAS 39 at fair value. 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 recognized under equity without effect for income.

Deferred taxes

Deferred tax assets or liabilities are recognized for temporary differences between carrying amounts on the Group and tax balance sheets of the consolidated companies. Deferred tax assets are also set up for tax loss carry-forwards, which may be used in later years, in so far as their realization is guaranteed with sufficient certainty.

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

Liabilities

Non-current financial liabilities are shown as liabilities at their market value. Directly attributable transaction costs are deducted on receipt of liabilities and amortized over the term.

Liabilities are recognized at amortized cost under IAS 39.

Deferred income

Payments deriving from outsourcing transactions made for agreed future service and purchase obligations are charged to later years at the time of the cash inflow and written back over the term of the agreements with effect for income.

Public authority contributions for assets are recognized as deferred income and are received proportionate temporis with effect for earnings according to the duration of use of the tangible fixed assets.

Provisions

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 and by the direct investment of cash and cash equivalents are being used to secure pension commitments; the net income generated by the assets serves to reimburse pension payments.

Pension provisions are calculated as the balance of the present 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 profits and losses due to changes in the premises used as a basis for calculating commitments are included and spread over the average future residual period of service only so far as they exceed a corridor corresponding to the higher of 10 % of the respective commitment or 10 % of the plan assets.

Other provisions are made for contingent liabilities and losses resulting from pending transactions. Provisions are measured at the best estimated value of the settlement sum. In the event of different scenarios to which different probabilities are allocated an anticipated value of the settlement sum is recognized. Non-current provisions are discounted.

Derivative financial instruments

The derivative financial instruments are hedging transactions used to control risks arising from interest and foreign currency fluctuations and at Thomas Cook as a hedge against the fuel price risk. In the KarstadtQuelle Group mainly interest swaps, foreign currency forward transactions, foreign currency options, crude oil spread options and hedging combinations are used.

All derivative financial instruments are recognized at their market value. First-time recognition is done at the trading date.

When recognizing hedging transactions, a distinction must be made between fair value hedges and cash flow hedges.

In the case of cash flow hedges which were contracted for as a hedge against the risk of fluctuating cash inflows und outflows, changes in market value are, if the efficiency of risk limitation is adequate, recognized directly in Equity capital under the item “Changes resulting from the measurement of derivative financial instruments”. In the case of fair value hedges undertaken as a hedge against the risk of market value fluctuations in recognized assets or liabilities, the changes in market value of the derivatives are shown with effect for results under measurement results in other financial results; the result-neutral adjustment results from the recognized changes in the value of the hedged underlying transaction, which are likewise recognized in the income statement.

In so far as commercially necessary individual hedging transactions partly do not fulfil the special effectiveness definitions of IAS 39, their market value fluctuations are recognized directly in the income statement with effect for results.

Use of assumptions and estimates

In preparing the consolidated financial statements assumptions and estimates are made which affect the recognition and value of the recognized assets, liabilities, income, expenses and contingent liabilities. These assumptions and estimates relate mainly to the Groupwide determination of useful economic lives, assumptions with regard to the value-retention of land, buildings, goodwill and participating interests, the valuation of provisions and the realizability of future tax relief. Actual values may in individual cases differ from the assumptions and estimates made. When more definite information is available, changes are taken into account with effect for income.

Contingent liabilities

Contingent liabilities are possible obligations which arise from past events and the existence of which depends on future events not under the company's control as well as existing obligations which cannot be recognized because either an outflow of resources is not likely or the level of the obligation cannot be sufficiently reliably estimated. Such contingent liabilities are disclosed with their extent of liability applying at the balance sheet date.

Most important acquisitions

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

Notes to the consolidated income statement

1 Sales

The breakdown of sales by segment and region and the detailed notes are set out in the segment report.

Sales also include other operating income in the form of interest from instalment credit operations of mail-order companies amounting to 214,785 th. € (previous year: 206,843 th. €) at the mail-order companies included in the consolidated financial statements.

With the proportionate consolidation of KarstadtQuelle Bank AG interest and commissions from credit business amounting to 15,160 th. € (previous year: 15,413 th. €) are recognized under this item.

Sales also include commission from the purchase and sale of foreign currencies at Thomas Cook exchange offices.

2 Cost of sales and expenses for tourism services

Amounts shown in th. €	2005	2004
Cost of purchased goods	6,196,424	6,966,410
Cost of tourism services	2,644,397	2,586,178
Cost of purchased services	71,002	79,324
	8,911,823	**9,631,912**

In Thomas Cook AG's integrated tourism group expenses for tourism services result mainly from the third-party purchase of materials and services further up the value chain. These include stay services, flight and engineering costs, commissions, fees, operating materials for aircraft, transfer and other transportation costs, in-flight services, on-board sales materials, etc.

As with the allocation of operators' proceeds to other periods under IAS 18, operators' expenses are allocated to other periods under expenses for tourism services.

3 Other capitalized own costs

Other capitalized own costs include own costs from internally generated non-current financial assets to be capitalized in fixed assets, provided these developments were undertaken mainly by employees of consolidated companies. Capitalization is undertaken only in accordance with a strict interpretation of the criteria of IAS 38 (intangible assets).

4 Operating income

Amounts shown in th. €	2005	2004
Income from the disposal of assets classified as held for sale	167,613	12,949
Income from advertizing cost subsidies	154,738	169,702
Earnings from rental income and commissions	131,155	103,239
Income from charged-on goods and services	57,800	55,283
Income from the disposal of non-current assets	52,080	11,885
Income from the reversal of other liabilities	37,514	27,883
Income from exchange rate differences	28,157	44,121
Income from the reversal of other provisions	27,697	19,851
Income from deconsolidation	20,471	10,659
Income from other services	18,779	21,569
Income from the reversal of allowances	9,783	8,310
Other income	396,768	334,218
	1,102,555	**819,669**

Consolidated real estate, in particular logistics real estate, was also sold, as part of the comprehensive divestment program, in the financial year ended. Income from the disposal of assets classified as held for sale includes mainly the profits resulting from these sales.

Other income includes mainly income from credit card business and income from indemnities and charged on costs. Exchange income is offset against exchange losses, which are recognized under operating expenses. Other income includes operating income from the release of deferred income. These relate to book profits from sale-and-lease-back transactions of aircraft which were assigned straight-line to other periods for the term of outsourcing agreements, as well as to released allocations from up-front fees of outsourcing agreements entered into.

5 Staff costs

Amounts shown in th. €	2005	2004
Wages and salaries	2,155,057	2,505,537
Social-security contributions and cost of pensions and welfare benefits	452,894	566,739
thereof for pensions	42,657	60,090
Other staff costs	22,372	37,141
	2,630,323	**3,109,417**

Wages and salaries included redundancy payments and costs of pre-retirement part-time work arrangements amounting to 59,218 th. € (previous year: 54,150 th. €). Expenses for old-age pensions comprise expenses for pension claims, not including the corresponding interest component, which is recognized under the item Interest and similar expenses.

Staff costs fell by 65.9 mill. € on the previous year as a result of the divestment program and outsourcing of logistics services.

Other staff costs include mainly training and instruction costs.

On average for the financial year the number of employees was 107,130 (previous year: 120,891). Of these 31,878 employees (previous year: 27,484 employees) are proportionately attributable to consolidated joint ventures.

6 Operating expenses

Amounts shown in th. €	2005	2004
Logistics costs	1,431,003	1,459,007
Catalog costs	893,853	861,938
Operating and office/workshop costs	693,058	777,016
Advertizing	615,761	648,103
Administrative costs	559,386	479,393
Restructuring costs	269,342	651,455
Allowances on and derecognition of trade receivables	223,506	256,577
Losses from the disposal of assets classified as held for sale	60,050	1,894
Outside staff	32,435	23,632
Expenses due to currency differences and losses	26,250	49,040
Losses from the disposal of fixed assets	4,491	21,636
Other expenses	342,994	346,039
	5,152,129	**5,575,730**

The KarstadtQuelle Group in the 2005 financial year ended concluded with companies of Deutsche Post AG comprehensive outsourcing agreements for logistics services. The corresponding costs amounting to 176.1 mill. € are shown for the first time under logistics costs. At the same time operating costs fell by 80.7 mill. €.

Expenses for operating and office/workshop costs include expenditure for leases, energy and utility costs, maintenance and service costs.

The rise in administration costs relates to increased service and consultancy costs.

Losses from the disposal of assets classified as held for sale resulted mainly from the disposal of logistics and other real estate in connection with the divestment program.

Other expenses include charges due from intercompany transactions and deconsolidation losses. These losses amounting to 104.5 mill. € relate to the disposal of the smaller Karstadt Kompakt GmbH & Co. KG department stores and of KARSTADT Hypothekenbank AG.

7 Other taxes

Other taxes include above all real estate tax from the Group's extensive real estate.

8 Depreciation and amortization (not including amortization of goodwill)

Amounts shown in th. €	2005	2004
Depreciation/amortization on tangible and intangible assets	343,329	425,115
Impairment of tangible assets	36,300	82,019
Impairment of intangible assets	4,704	11,730
Impairment of current assets	7,189	7,892
	391,522	**526,756**

Impairments relate mainly to the devaluation by 15.9 mill. € of administrative buildings in Mail order and by 9.1 mill. € of a department store in Leipzig.

9 Amortization of goodwill

The impairment of goodwill relates mainly to goodwill amounting to 7,500 th. € of the Dutch companies of Thomas Cook within the West European sales market on the value in use. The impairment – calculated on the basis of a DCF model extended to include a sensitivity analysis – allowed for the impairment arising in the Netherlands CGU. Impairments in the previous year related mainly to the SinnLeffers group (71,351 th. €) and Thomas Cook Voyages S.A., Paris (54,264 th. €).

10 Income from investments

Amounts shown in th. €	2005	2004
Income from other investments	4,253	20,776
thereof from subsidiaries	298	13,706
Income from related party relationships	1,473	-
Profits received under profit and loss transfer agreements	271	526
Expenses from transfer of losses	-147	-177
Impairment of financial assets	-15,304	-19,811
	-9,454	**1,314**

11 Income from investments in associates

This item includes the share of the movement with effect for income of the proportionate equity of financial investments measured at equity amounting to 16,681 th. € (previous year: 12,481 th. €). This includes, at 5,615 th. € (previous year: 244 th. €) the movement of CAP GmbH, Bonn, at 1,653 th. € (previous year: 1,575 th. €) the proportionate earnings of Viajes Iberoservice S.A., the movement with effect for income of Sun Express at 3,808 th. € (previous year: 960 th. €) and the movement of participating interests amounting to 7,627 th. € (previous year: 4,278 th. €) held by the subgroup Karstadt-Quelle Finanz Service and recognized at equity.

The result from financial investments measured at equity was negatively affected by an allowance on the carrying amount of 9,049 th. € of a hotel investment.

12 Net interest income

Amounts shown in th. €	2005	2004
Interest costs from pension expense	-133,384	-137,104
Other interest and similar income	254,790	217,699
thereof to subsidiaries	1,084	642
Other interest and similar expenses	-414,359	-407,458
thereof to subsidiaries	-4,113	-489
	-292,953	**-326,863**

The previous year's value included non-recurring charges of 51.9 mill. € from restructuring.

Through application of the new IAS 39 the Group's receivables sales were classified as non-disposal of receivables. Accordingly, the corresponding expenses from prefinancing of receivables (so-called program fees) are recognized under interest expenses. These amount to 55,641 th. € (previous year: 41,165 th. €) for the

2005 financial year. The previous year's amounts were adjusted accordingly for better comparability. The reorganization of the receivables sales program at home up to the end of the financial year (see General accounting principles, "Sale of receivables", page 110) will mostly again require recognition of the program fees of the domestic program under operating expenses.

Under the regulations of IAS 17 land and buildings as well as carriers from financial leasing agreements are shown under tangible fixed assets and the interest component in the leasing rates under net interest income.

Included in net interest income is interest from loans to tourism service partners.

13 Other financial results

Amounts shown in th. €	2005	2004
Other financial expenses	-30,024	-240,190
Other financial income	45,807	74,819
	15,783	**-165,371**

Other financial expenses of the previous year include non-recurrent value losses in plan assets at 113,148 th. € and earnings effects of 51,123 th. € from discontinued hedging relationships in respect of derivative financial instruments which were replaced by scheduled or refinancing measures in real estate adopted under the syndicated credit agreement. Other financial income includes measurement results arising from the reversal of credit relations amounting to 33,773 th. €.

14 Taxes on income

Amounts shown in th. €	2005	2004
Current taxes on income		
Germany	50,492	50,067
Other countries	17,638	17,206
	68,130	**67,273**
Deferred taxes		
from changes in temporary differences	-153,866	-252,680
from losses carried forward	4,556	7,399
	-149,310	**-245,281**
Tax expenditure in consolidated income statement	**-81,180**	**-178,008**
Tax expenses shown under income from discontinued operations	-16,908	9,069
	-98,088	**-168,939**

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

In the case of the German group companies a deferred tax rate of 39 % was applied. In the case of land-administering partnerships, however, merely the corporation tax rate, including reunification surcharge, totaling 26.375 %, was applied. In the case of the international companies an average country-specific tax rate is applied.

Current taxes include tax income for other periods amounting to 1,071 th. € (previous year 1,359 th. €).

Deferred tax assets set up with effect for income amount to 12,004 th. € (previous year: 1,474 th. €) at the balance sheet date.

Reconciliation from expected to actual tax expense in the income statement

Amounts shown in th. €	2005	2004
Net profit for the year before taxes on income	**-395,205**	**-1,432,767**
Expected tax expense (39 %)	-154,130	-558,779
Trade tax additions/reductions	-66,210	-50,480
Payments/refunds for previous years	16,872	22,946
Effects of foreign tax rates	-14,483	-12,248
Effects of tax-free income	-18,747	-65,063
Amortization of goodwill	2,602	79,655
Operating expenses not deductible for tax	16,400	2,480
Waiver of capitalization/ allowance on accumulated losses carried forwards	120,457	407,399
Other differences	16,059	-3,918
Tax expense in consolidated income statement	**-81,180**	**-178,008**

15 Result from discontinued operations

Amounts shown in th. €	2005	2004
Sales and operating income	1,058,915	849,915
Operating and other expenditure	-1,076,081	-1,196,356
Earnings before taxes	**-17,166**	**-346,441**
Attributable tax income/expense	16,908	-9,069
Earnings after taxes	**-258**	**-355,510**
Loss from remeasurement of assets classified as held for sale	-	-15,021
Result from discontinued operations	**-258**	**-370,531**
thereof from deconsolidation	18,030	-
Cash flow		
from operating activities	-45,282	46,430
from investing activities	-24,598	-17,226
from financing activities	70,828	-31,362

The "Specialty store" segment was discontinued in the 2005 financial year.

In the Karstadt segment GOLF HOUSE Direktversand GmbH, Hamburg, was deconsolidated as at June 30, 2005, WEHMEYER GmbH & Co. KG, Aachen, as at July 31, 2005, and the SinnLeffers Group and Runners Point Warenhandelsgesellschaft mbH, Essen, as at August 31, 2005.

16 Profit/loss due to minority interests

Amounts shown in th. €	2005	2004
Shares of profit	-2,359	-7,800
Shares of loss	160	7,776
	-2,199	**-24**

17 Earnings per share

		2005	2004
Shares on annual average	number	**199,374,267**	**110,921,234**
Total			
Loss for the year after minority interests	th. €	-316,482	-1,625,314
Earnings per share	€	**-1.59**	**-14.65**
Earnings from continuing operations	th. €	-314,025	-1,254,759
Earnings per share	€	**-1.58**	**-11.31**
Result from discontinued operations	th. €	-258	-370,531
Earnings per share	€	**0.00**	**-3.34**

Earnings per share are calculated in accordance with IAS 33 by division of the net loss attributable to the KarstadtQuelle Group and the weighted average number of outstanding shares during the financial year. In the previous year the increase in the number of outstanding shares due to the capital increase in December 2004 was taken into account here proportionate temporis.

A dilution of the earnings per share may result from so-called potential shares. Because of the issue of the convertible bond by Karstadt Finance B.V., Hulst, Netherlands, a dilution effect must be expected. The inclusion for the period to the balance sheet date of diluting potential shares due to the issue of the convertible bond on December 22, 2004, is not necessary when calculating the diluted earnings per share, since at the balance sheet date none of the set conditions for conversion had been fulfilled. For the basic features of the convertible bond, we refer to item 29 Equity.

Notes to the consolidated balance sheet

18 Intangible assets

Performance 2005

Amounts shown in th. €	Acquired intangible assets	Internally generated intangible assets	Goodwill from individual fin. statements	Goodwill from consolidation	Manufacturing costs	Total
Historic purchase and manufacturing costs As at 01.01.	383,155	163,800	114,393	819,994	129,763	1,611,105
Addition to/derecognition from consolidated companies	-6,207	-1,971	–	-76,349	-160	-84,687
Translation differences	669	-23	2,974	218	-4	3,834
Addition	30,805	5,418	2,185	898	63,111	102,417
Reclassifications	40,343	18,234	–	–	-55,062	3,515
Reclassification of assets classified as held for sale	-2,324	582	–	-6,843	-344	-8,929
Derecognition	-10,360	-559	–	–	-8,982	-19,901
As at 31.12.	**436,081**	**185,481**	**119,552**	**737,918**	**128,322**	**1,607,354**
Accumulated depreciation As at 01.01.	260,930	92,746	1,087	152,683	2,673	510,119
Addition to/derecognition from consolidated companies	-2,631	-1,833	–	-78,469	–	-82,933
Translation differences	681	-20	–	25	-4	682
Addition	53,054	25,053	13	8,678	3,331	90,129
Reclassifications	7,186	-6,079	–	–	–	1,107
Reclassification of assets classified as held for sale	-2,124	146	–	–	–	-1,978
Derecognition	-8,193	-410	–	–	-6,000	-14,603
As at 31.12.	**308,903**	**109,603**	**1,100**	**82,917**	**–**	**502,523**
Book value as at 31.12.	**127,178**	**75,878**	**118,452**	**655,001**	**128,322**	**1,104,831**

Performance 2004

Amounts shown in th. €	Acquired intangible assets	Internally generated intangible assets	Goodwill from individual fin. statements	Goodwill from consolidation	Manufacturing costs	Total
Historic purchase and manufacturing costs As at 01.01.	394,798	116,196	164,124	951,896	122,411	1,749,425
Addition to/derecognition from consolidated companies	-3,926	–	11	928	–	-2,987
Translation differences	1,219	28	-1,189	-2,859	-3	-2,804
Addition	30,894	13,986	330	18,190	85,777	149,177
Reclassifications	21,727	35,093	-10,280	9,444	-57,930	-1,946
Reclassification of assets classified as held for sale	-15,427	-582	-460	–	-13,674	-30,143
Derecognition	-46,130	-921	-38,143	-157,605	-6,818	-249,617
As at 31.12.	**383,155**	**163,800**	**114,393**	**819,994**	**129,763**	**1,611,105**
Accumulated depreciation As at 01.01.	253,239	53,018	38,937	156,707	–	501,901
Addition to/derecognition from consolidated companies	-599	907	–	–	–	308
Translation differences	196	13	2	3	-2	212
Addition	56,397	37,210	1,088	151,109	2,675	248,479
Reclassifications	-1,708	1,868	-897	897	–	160
Reclassification of assets classified as held for sale	-13,871	-146	–	–	–	-14,017
Derecognition	-32,724	-124	-38,043	-156,033	–	-226,924
As at 31.12.	**260,930**	**92,746**	**1,087**	**152,683**	**2,673**	**510,119**
Book value as at 31.12.	**122,225**	**71,054**	**113,306**	**667,311**	**127,090**	**1,100,986**

All corporate acquisitions are recognized by the purchase method. Allocation of goodwill by segment is as follows:

Carrying amounts of goodwill

Amounts shown in th. €	2005	2004
Thomas Cook	585,305	595,004
Mail order	160,839	158,599
Services	27,309	27,014
	773,453	**780,617**

Goodwill was allocated to the cash generating units (CGU's) in accordance with the Group's management structure. The following are therefore treated as CGU's: Karstadt, Universal mail order, Special mail order, within Tourism the CGU's Germany, Great Britain, France, The Netherlands and International, Services and Real estate.

Under IFRS 3 existing goodwill is tested for impairment at least once a year in accordance with the requirements of IAS 36. Every impairment will be recognized immediately with effect for income. Later reinstatement of original value will not occur. On initial application of IFRS 3 cumulative amortization of goodwill was offset against historic purchase cost.

When testing goodwill for possible impairment in accordance with IAS 36 (2004), the recoverable amount from cash-generating units is determined in the impairment test by the fair value less cost to sell or value in use. The fair value reflects the best possible estimate of the amount for which an independent third-party would acquire the cash-generating units at the balance sheet date.

The fair value is calculated on the basis of a discounted cash flow model. The calculation of the fair value and value in use are based on cash flow plans approved by the Management Board which are based on the detailed medium-term planning for a period of four years. These plans result from the experiences of the past and expectations of future market performance. 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 9.7 % after tax or 8.6 % and 13.2 % before tax.

The major parameters are summarized in the following table:

	Growth rate	Discount rate [1]
Thomas Cook	1.0	9.7 – 13.2 %
Mail order	1.0 – 2.0	8.6 – 9.3 %
Services	1.0	9.1 %

[1] Before tax

The value in use of the CGU Great Britain, which represents the largest goodwill value by amount, is currently proportionately 43.3 mill. € above its carrying amount. If the planned result were reduced by ten per cent, a charge of 8.3 mill. € on the result would be applied; a pretax discount rate of 13.9 % would result in an impairment requirement of 17 mill. €.

The CGU Netherlands is facing intensified competition. Thomas Cook Netherlands is responding to this changed environment by adjusted earnings expectations and an increased discount rate within the three-year planning on which the impairment consideration is based. From this a goodwill impairment of 7.5 mill. € results.

19 Tangible assets

Performance 2005

Amounts shown in th. €	Land and buildings	Aircraft and replacement engines	Technical plant and machinery	Other plant, fixtures, furniture and office equipment	Advance payments and construction in progress	Total
Historic purchase and manufacturing costs						
As at 01.01.	4,065,364	853,078	222,106	2,657,241	25,610	7,823,399
Addition to/derecognition from consolidated companies	-58,772	–	-773	12,260	3,122	-44,163
Translation differences	1,229	78	66	3,761	15	5,149
Addition	78,308	24,408	1,529	84,652	20,374	209,271
Reclassifications	451,605	-231	-2,781	-438,674	-13,434	-3,515
Reclassification of assets classified as held for sale	-368,263	–	-22,103	-4,951	-8,228	-403,545
Derecognition	-140,993	-97,490	-13,570	-124,832	-1,976	-378,861
As at 31.12.	**4,028,478**	**779,843**	**184,474**	**2,189,457**	**25,483**	**7,207,735**
Accumulated depreciation						
As at 01.01.	2,058,174	439,716	163,841	2,375,478	5	5,037,214
Addition to/derecognition from consolidated companies	-70,193	–	-1,057	2,782	–	-68,468
Translation differences	976	50	36	2,925	–	3,987
Addition	137,776	51,850	12,173	109,572	1,337	312,708
Reclassifications	433,136	1	-2,424	-431,820	–	-1,107
Reclassification of assets classified as held for sale	-212,744	–	-18,746	-4,084	-1	-235,575
Derecognition	-84,258	-75,353	-12,750	-121,502	–	-293,863
As at 31.12.	**2,262,867**	**416,264**	**141,073**	**1,933,351**	**1,341**	**4,754,896**
Book value as at 31.12.	**1,765,611**	**363,579**	**43,401**	**256,106**	**24,142**	**2,452,839**

Performance 2004

Amounts shown in th. €	Land and buildings	Aircraft and replacement engines	Technical plant and machinery	Other plant, fixtures, furniture and office equipment	Advance payments and construction in progress	Total
Historic purchase and manufacturing costs						
As at 01.01.	6,013,067	979,016	228,658	3,280,415	36,332	10,537,488
Addition to/derecognition from consolidated companies	-7,960	–	-5,586	-6,575	-443	-20,564
Translation differences	-71,872	-48	93	-913	-2	-72,742
Addition	60,102	1,997	3,488	108,964	25,555	200,106
Reclassifications	22,012	1,000	14,530	-8,575	-27,024	1,943
Reclassification of assets classified as held for sale	-1,887,397	–	–	-453,043	-5,674	-2,346,114
Derecognition	-62,588	-128,887	-19,077	-263,032	-3,134	-476,718
As at 31.12.	**4,065,364**	**853,078**	**222,106**	**2,657,241**	**25,610**	**7,823,399**
Accumulated depreciation						
As at 01.01.	2,836,613	495,683	166,516	2,814,973	–	6,313,785
Addition to/derecognition from consolidated companies	-1,756	–	-5,288	-2,651	–	-9,695
Translation differences	-42,821	-39	59	-1,004	-2	-43,807
Addition	343,774	60,109	14,124	197,583	7	615,597
Reclassifications	-19,111	–	6,068	12,883	–	-160
Reclassification of assets classified as held for sale	-1,029,498	–	-7	-420,139	–	-1,449,644
Derecognition	-29,027	-116,037	-17,631	-226,167	–	-388,862
As at 31.12.	**2,058,174**	**439,716**	**163,841**	**2,375,478**	**5**	**5,037,214**
Book value as at 31.12.	**2,007,190**	**413,362**	**58,265**	**281,763**	**25,605**	**2,786,185**

Aircraft and replacement engines comprise at Thomas Cook 65 aircraft (previous year: 67, of which two are not in operation). Of the 36 aircraft (previous year: 36 plus two in inventories) recognized among the fixed assets of the Thomas Cook Group at the balance sheet date 18 are in legal ownership (previous year: 19), eleven being loan-financed (previous year: 11). The 18 remaining aircraft recognized (previous year: 19) are only in economic ownership, the legal ownership being held by lessors outside the Group. 29 aircraft (previous year: 29) are leased under operating lease agreements and are not in either legal or economic ownership of the Group.

In the previous year twelve Boeing B757-200's were sold to a Russian investor as part of the fleet reduction. Of these ten had been transferred from Group assets as at October 31, 2004. The latter two aircraft, which were recognized under current assets to the balance sheet date the previous year, were transferred to the purchaser in November 2004; pro-rata income from the sale amounted to 1,628 th. €.

Two Boeing B767-300's were subject to sale-and–lease-back agreements in December 2004. The corresponding derecognition from fixed assets amounts to 11,217 th. € proportionate. The aircraft were subsequently capitalized under Carriers at the carrying amount of the minimum lease payments of 18,869 th. €, of which 17,970 th. € were attributable to carriers under a finance lease and 720 th. € on major inspections. A book profit of 10,508 th. €, which was recognized as a liability, resulted from the transaction.

Condor Flugdienst GmbH sold a large part of the line replaceable units for the Boeing fleet to Lufthansa Technik AG, Hamburg (minus 8,789 th. €) during the financial year. In determining the disposal value a write-up of 1,153 th. € was applied. The result was a book profit of 3,733 th. €. At the same time, as part of the sale of material, an agreement was concluded with Lufthansa Technik AG for future spare part provision and repair.

Financial investments in land and buildings (investment properties) are recognized and measured at adjusted purchase or manufacturing cost. The market values, which are based mainly on internally adjusted assessments by outside third parties (independent measurers), amount, by contrast, to 24,818 th. € (previous year: 30,460 th. €).

Included in the income statement is lease income totaling 267 th € (previous year: 1,016 th. €) with the associated operating expenditure of 344 th. € (previous year: 949 th. €) – of which 95 th. € (previous year: 668 th. €) are from depreciation, in connection with financial investment in land and buildings.

Leases

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 fair value at the time of the commencement of the lease term or at the lower of the present value of the lease payments. The present value of the lease payments is shown correspondingly as a liability.

Finance lease agreements have a firmly agreed basic leasing period of between 20 and 25 years or in the case of Thomas Cook of between 7.5 and 12.5 years and include a purchase option for the lessee after expiry of the basic leasing period. Assets under finance lease agreements have a carrying amount of 237,783 th. € (previous year: 262,686 th. €) at the balance sheet date. These assets relate to buildings, aircraft and reserve engines where the carrying value of the future minimum lease payments covers the material purchase costs. For aircraft financing normally a purchase option for the residual value plus an amount equal to 25 % of the amount by which the fair value exceeds the residual value exists after the expiry of the lease period. If the purchase option is not exercised, the aircraft is sold by the lessor. If the proceeds from the sale are lower than the residual value, the lessee must pay the difference to the lessor. The lessee is entitled to up to 75 % of the amount by which the sales proceeds exceed the residual value.

Commitments under finance and operating lease agreements

	Total		up to 1 year		1 to 5 years		over 5 years	
Amounts shown in th. €	2005	2004	2005	2004	2005	2004	2005	2004
Finance lease agreements								
Lease payments due in future	497,294	382,534	38,328	65,875	320,653	185,498	138,313	131,161
Discount	-68,140	-99,295	-759	-36,209	-35,783	-48,924	-31,598	-14,162
Present value	**429,154**	**283,239**	**37,569**	**29,666**	**284,870**	**136,574**	**106,715**	**116,999**
Lease payments under subleases	11,516	–	1,152	–	4,606	–	5,758	–
Operating lease agreements								
Lease payments due in future	2,484,269	2,017,953	343,359	311,629	919,291	863,627	1,221,619	842,697
Discount	-735,577	-512,358	-11,072	-16,953	-124,498	-131,195	-600,007	-364,210
Present value	**1,748,692**	**1,505,595**	**332,287**	**294,676**	**794,793**	**732,432**	**621,612**	**478,487**
Lease payments under sublease	162,528	81,732	23,847	22,694	63,318	43,098	75,363	15,940

The operating lease agreements comprise mainly building leases without purchase option or aircraft leases where the assessment of the criteria of IAS 17 resulted in classification as operating lease. For the provided securities for consolidated liabilities and restrictions on availability, see also item 31 Financial liabilities.

20 Shares in associates

The KarstadtQuelle Group has included joint ventures in the consolidated financial statement proportionately since the 2005 financial year. The previous year's figures have been adjusted accordingly. Companies on which a significant influence is exerted are recognized at equity in the account.

The conduct of impairment tests on financial investments measured at equity resulted in a carrying amount for investments reduced by 9,105 th. €, which relates mainly to an impairment on a Spanish hotel investment (9,049 th. €).

21 Other financial assets

Other financial assets include receivables from the instalment credit business, non-consolidated shares in subsidiaries and investments, and loans.

Owing to the retrospective application of IAS 39 to the ABS program non-current assets from domestic instalment credit sales were shown here in the previous year. Because of the reorganization of the ABS program these are qualified at the balance sheet date as derecognized receivables and therefore no longer capitalized. From this a marked reduction results.

Furthermore, the reduction in securities is due to the disposal of KARSTADT Hypothekenbank AG.

22 Other non-current assets

Other non-current assets include hotel prepayments as well as security deposits.

23 Deferred taxes

Deferred taxes are recognized in accordance with IAS 12. Recognized deferred taxes relate to the following balance sheet items:

Amounts shown in th. €	Assets		Liabilities	
	2005	2004	2005	2004
Non-current assets	121,285	92,716	237,923	373,769
Current assets	35,161	13,195	173,521	148,768
Non-current liabilities	260,233	344,189	24,700	1,879
Current liabilities	47,028	28,917	8,230	2,329
Losses carried forward	214,433	207,458	0	0
Other	1,700	9,387	18,890	16,736
Balancing	-451,591	-530,948	-451,591	-530,948
Group balance sheet	**228,249**	**164,914**	**11,673**	**12,533**
In connection with assets classified as held for sale	2,309	81,480	6,297	128,439

Deferred tax assets on tax loss carry-forwards are recognized in so far as positive results of the calculation of taxable profit for utilization of the tax loss carry-forwards are expected in the future. A planning period of ten years is applied uniformly throughout the Group. The deferred tax assets resulting actuarially on the totality of the loss carry-forwards for tax purposes amounting to 654,289 th. € (previous year: 533,832 th. €) are not recognized against this background. Deferred tax assets amounting to 68,455 th. € resulted from loss carry-forwards of Thomas Cook.

Deferred taxes carried as assets and as liabilities are balanced against each other to a total value of 451,591 th. € (previous year: 530,948 th. €) at the consolidated companies.

24 Inventories

Amounts shown in th. €	2005	2004
Raw materials and supplies	31,207	40,963
Merchandize	1,586,590	1,782,926
Advance payments	3,298	15
	1,621,095	**1,823,904**

Breakdown of inventories by business segment

Amounts shown in th. €	2005	2004
Karstadt	783,234	785,092
Mail order	817,842	1,012,552
Thomas Cook	4,146	12,221
Other	15,873	14,039
	1,621,095	**1,823,904**

Because of the measurement of inventories by the retrograde method usual in retail no statement of the carrying value of inventories recognized at their net realizable value is possible.

The carrying amount of the inventories offered as security amounts to 750,934 th. €. For securities, see Financial liabilities under item 31 .

25 Trade receivables

Breakdown of trade receivables by business segment

Amounts shown in th. €	2005	2004
Karstadt	82,441	41,324
Mail order	602,074	1,093,715
Thomas Cook	82,113	73,508
Services	76,626	79,287
Other	1,131	7,660
	844,385	**1,295,494**

In connection with the application of IAS 39 sales of receivables under ABS programs were not subject to any further disposals at the beginning of the 2005 financial year. Accordingly, the previous year's figures of 622 mill. € have been adjusted to suit the change in recognition. The reorganization of the receivables sale program at home (see also under General accounting policies, "Sale of receivables", page 110) with the sale of receivables amounting to 613 mill. € to KARSTADT Hypothekenbank AG at the end of the financial year, however, resulted in an actual disposal and thus to a marked reduction in trade receivables.

To secure claims under a global agreement for the sale of receivables, security was provided to KARSTADT Hypothekenbank AG on existing and future trade receivables.

Under the syndicated loan agreement and the second lien financing amounts totaling 243,414 th. € owed by customers to various Group companies were assigned as security for debtors' liabilities.

26 Other receivables and other assets

Amounts shown in th. €	2005	2004
Amounts due from subsidiaries	15,239	16,610
Amounts due from associates	16,371	8,641
Amounts due from proportionately consolidated joint ventures	10,560	13,167
Amounts due from companies in which investments are held	7,564	5,756
Allocated catalog costs	141,719	201,827
Market values of derivative financial instruments	141,268	123,910
Amounts due from security deposits	22,790	40,107
Other amounts due from financing	212,610	126,636
Other assets	571,007	374,547
	1,139,128	911,201

Allocated catalog costs are written down over the period of validity of the respective catalogs. Other amounts due from financing include receivables amounting to 161,744 th. € (previous year: 63,229 th. €) due from companies which are held by the Karstadt Quelle pension trusts and so are treated as affiliated companies.

Tax refund claims, derivative financial instruments and debit balances of suppliers are also shown under this item.

The rise in positive market values for derivatives (17,358 th. €) is due to comprehensive currency hedging by Thomas Cook for fuel services at a favourable price level. Thus, the positive market values at the balance sheet date of the derivatives employed in currency hedging changed by 15,116 th. € in comparison with the previous year.

Other assets in 2005 include the retention under the ABS transaction amounting to 206,544 th. € (previous year: zero €).

Furthermore this item includes night money or fixed-term deposits to secure the fulfilment backlog under pre-retirement part-time work agreements. These are subject to an availability restriction by the Group as part of security by way of a contractual trust agreement.

27 Cash and cash equivalents and securities

Amounts shown in th. €	2005	2004
Cheques	2,063	1,366
Cash in hand and Bundesbank credits	72,865	104,227
Cash at banks	604,695	525,878
Securities	27,540	29,685
	707,163	661,156

Marketable securities of current assets are recognized at fair value. These are financial assets of the "held for sale" category. The item includes money market paper for securing the fulfilment backlog under pre-retirement part-time work agreements at Thomas Cook AG amounting to 2,040 th. € (previous year: 1,338 th. €).

The market value of the securities at the balance sheet date corresponds to the balance-sheet recognition. Foreign exchange balances are recognized at the rate applying at the balance sheet date.

Cash at banks include balances under the agency collection at Thomas Cook UK travel agencies as well as balance-sheet-date-related investments at banks belonging to the consortium banks of the Group's syndicated loan facility.

We have shown the reduction of cash and cash equivalents in the Thomas Cook subgroup over the period from October 31, 2005 to December 31, 2005 at 161.8 mill. € (previous year: 149.8 mill. €) in cash at banks.

28 Assets classified as held for sale and liabilities from assets which are classified as held for sale

Amounts shown in th. €	2005	2004
Assets classified as held for sale		
Intangible assets	7,327	15,840
Tangible assets	205,731	803,415
Other financial assets	15,891	45,076
Deferred taxes	2,309	81,480
Non-current assets	**231,258**	**945,811**
Inventories	641	221,709
Other current assets	30,759	42,067
Current assets	**31,400**	**263,776**
	262,658	**1,209,587**
Liabilities from assets classified as held for sale		
Pension provisions	2,761	132,906
Deferred taxes	6,297	128,439
Non-current liabilities	**9,058**	**261,345**
Current financial liabilities	30,790	40,896
Other liabilities	21,104	221,948
Current liabilities	**51,894**	**262,844**
	60,952	**524,189**

In connection with the realignment of the KarstadtQuelle Group individual non-current assets and shares of various companies were sold. These assets and liabilities are recognized in accordance with IFRS 5. The assets on the one hand belong to subsections of individual Group companies, in particular real estate, and on the other represent disposal groups of several companies in the Karstadt, Mail order, Thomas Cook and Services segments held for sale. As regards the real estate sold in the year under review, the conditions for the transfer of profit and loss have partly not yet arisen. Therefore they continue to be shown with an amount of 86,100 th. € with assets classified as held for sale.

Individual non-current fixed assets and the assets and liabilities of the disposal groups have after partial impairment been reposted to the items “Assets classified as held for sale” and “Liabilities directly associated with assets classified as held for sale”.

In the year under review further reclassification of real estate amounting to 56,300 th. € was undertaken. Furthermore, at Thomas Cook assets amounting to 107,131 th. € and liabilities amounting to 54,651 th. € were reclassified in connection with disposal groups held for sale, mainly companies of the Thomas Cook (India) Limited group and Aldiana.

29 Equity

The breakdown of equity capital is shown on page 96.

The capital contributed by outside shareholders remains divided into 199,374,267 no-par value bearer shares with an individual 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 and II

The arrangements for Approved Capital I and II ceased to apply as at June 30, 2005, through lapse of time.

Approved Capital III

On July 11, 2002, the Annual General Meeting resolved the raising of Approved Capital III.

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. € by June 30, 2007, the share 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 subsidiaries 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 share capital of up to 50 mill. € on conditions defined more specifically in the conditions relating to convertible bonds and bonds with warrant.

The share 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 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 Conditional 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 share 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 Options Plan in fulfilment 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 share 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.

Altogether 11,424,883 shares, representing 5.4 % of the existing share capital after the capital increase, have been repurchased.

Share-oriented remuneration

In the 2001 financial year the Group also launched an Incentive Stock Options Plan with a total term of eight years, to be effected in several tranches. For each tranche, after acquisition of the stock option rights and observance of the two-year legal qualifying period a further two-year period is provided for, during which those eligible to participate may exercise their stock option rights, subject to the usual insider rules, if

a) the average stock exchange closing price for KARSTADT QUELLE AG shares is on at least ten consecutive days at least 30 % higher than the subscription price of 16.68 €, and

b) from the date at which the option was granted the above mentioned stock exchange closing price is on at least ten consecutive days at least 10 percentage points higher relative to the subscription price than the value of the DAX-30 Index over the same period.

The subscription price was recalculated in 2004, taking the capital increase into account.

The subscription rights lapse if the employee terminates the employment contract or the company at which he is employed leaves the KarstadtQuelle Group.

The first tranche, which was issued in 2001 with over 1,000 subscribers, expired at the end of the 2005 financial year without the conditions for exercise of the options arising.

The second tranche was set up in September 2002. Under this authorization, as a rule, 726 employees have acquired 1,000 stock options. At December 31, 2005, 541 employees in the second tranche were entitled to exercise a total of 541,500 options.

The conditions for the exercise of the stock options had not arisen at the balance sheet date.

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

Mrs. **Madeleine Schickedanz, Fürth**, **Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG, Fürth**, Mr. **Leo Herl, Fürth, die Grisfonta AG, Landquart/Switzerland**, **Martin Dedi Vermögensverwaltungs GmbH & Co. KG, Fürth** and Mr. **Martin Dedi, Freudenstadt**, announced that as of May 23, 2005, their shares in our company, including assignable votes in accordance with Art. 22, Sect. 2 WpHG, exceeded the threshold of 50 % and now totaled 50.0015 %. At the balance sheet date the share of voting rights amounted to 58.2279 %.

Additional paid-in capital

The capital reserve still stands at 629,424 th. €, as in the previous year.

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 01.01.2005	-1,361	1,046	-315
Reversal	-24,283	6,535	-17,748
Appropriation	65,326	-21,849	43,477
as at 31.12.2005	**39,682**	**-14,268**	**25,414**

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 measurement a distinction must be made between "fair value hedges" and "cash flow hedges". Changes in the value of cash flow hedging transactions must be entered under Equity without effect for income. Non-hedge-effective parts are shown with effect for income. On fulfilment of the underlying transaction they are entered with effect for income.

Primary financial instruments contribute minus 5,543 th. € before tax and minus 3,318 th. € to value changes in equity capital, taking into account deferred taxes.

Proposed payment of dividends

Because of the Group restructuring no dividend payments are planned for the 2005 financial year.

Minority interests

Minority interests relate mainly to the remaining minority shares of Deutsche Lufthansa AG in Condor Flugdienst GmbH and the free float of Thomas Cook (India) Limited listed in India.

The result attributable to shares held by third parties is attributable mainly to the shareholders of Thomas Cook (India) Limited (1,056 th. €).

30 Long-term capital of minority interests

The amount of 58,983 th. € shown in the previous year related to minority interests in two domestic partnerships in the TriStyle subgroup, which under IAS 32 must be shown as borrowed capital. Owing to the loss of control over this subgroup and the resulting proportionate consolidation as joint ventures the minority interests are no longer recognized.

31 Financial liabilities

		thereof with a remaining term of		
Amounts shown in th. €	2005	up to 1 year	1 to 5 years	more than 5 years
Bank loans and overdrafts	1,356,148	231,438	797,776	326,934
Previous year	*1,897,646*	*734,047*	*694,086*	*469,513*
Liabilities under leasing agreements	331,532	18,800	244,719	68,013
Previous year	*342,235*	*33,249*	*145,809*	*163,177*
Other financial liabilities	2,049,889	474,538	200,511	1,374,840
Previous year	*3,195,012*	*1,295,221*	*677,130*	*1,222,661*
as at 31.12.2005	**3,737,569**	**724,776**	**1,243,006**	**1,769,787**
previous year	***5,434,893***	***2,062,517***	***1,517,025***	***1,855,351***

Interest-bearing bank loans and overdraft loans are recognized at the amount paid out less directly assignable issue costs.

Financing costs, including premia payable as repayments or redemption, are allocated with effect for income. Liabilities under lease agreements are shown at present value.

The terms and conditions of the facility were adjusted in December 2005 mainly with regard to the conclusion of the secondary loan facility explained below with regard to adherence to financial ratios. 275 mill. € of the loan facility had been utilized at the balance sheet date. The financial ratios to be adhered to relate to adjusted EBITDA, interest coverage, debt coverage and the level of equity. For the Mail-order segment there is a further financial ratio relating to adjusted EBITDA.

To secure the Group‘s finances for the long term, in December of the financial year the KarstadtQuelle Group also agreed a further secondary loan facility amounting to nominally 309 mill. €, which had been fully utilized by the balance sheet date. The security provided for these liabilities is for the most part identical with the security underlying the syndicated loan facility, although ranking below the syndicated facility (see on this the statements on non-current and current assets and the corresponding information on the provision of security).

The loans secured by mortgage bear interest at rates between 2.75 % p.a. and 7.24 % p.a. at the balance sheet date. The syndicated loan facility taken up the previous year and the recently concluded second-ranking loan facility bear interest on the basis of EURIBOR (or LIBOR, if drawing in currencies other than euros) plus margin and regulatory costs. In the case of the syndicated loan facility the bullet facility is initially subject to a margin of 3.5 % p. a., which will rise to 4.5 % p. a. in 2006 and to 5.5 % p.a. in 2007. For the seasonal facility and the revolving loan facility initially a margin of 3.75 % p.a. has been agreed from December 10, 2005, for the period of one year. Thereafter under certain circumstances it will rise to 4.75 % p.a. The second-ranking loan facility bears interest with a margin of 12 %.

Financial liabilities also include liabilities to customers of the KarstadtQuelle Bank from savings deposits, night money, balances on card accounts, promissory notes and savings certificates amounting to 77,542 th. €.

Of first-ranking financial liabilities 484,674 th. € (previous year: 742,172 th. €) are secured by mortgages and 350,372 th. € by other rights. In addition, there is first-ranking mortgage security amounting to 1,249,465 th. € (previous year: 1,419,737 th. €) under the KARSTADT Hypothekenbank AG’s (Essen) mortgage bond program. Liabilities of 91,238 th. € proportionate (previous year: 74,060 th. €) arising from real estate financing at Thomas Cook are likewise supported by mortgage or similar security.

KARSTADT QUELLE AG has undertaken a guarantee to the KARSTADT Hypothekenbank AG, Essen, for loans of Karstadt Finance B.V., Hulst, Netherlands, amounting to 1.8 bill. €, which translates to 1.3 bill. € at the balance sheet date.

Under the agreed syndicated loan facility a partial land charge assignment declaration was agreed with real estate management companies, and the creation of overall land charges and in some cases binding security pledges in respect of land charges was agreed. Furthermore, shares in Thomas Cook AG and various fully consolidated Group companies and amounts due from customers of various Group companies were assigned. Furthermore, unrecognized brand rights held by KARSTADT QUELLE AG, Karstadt Warenhaus GmbH, Quelle GmbH and neckermann.de GmbH were assigned as security for liabilities of KARSTADT QUELLE AG.

Fair, book and nominal values

	Fair/book values		Nominal values	
Amounts shown in th. €	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Current and non-current financial liabilities	3,737,569	5,434,893	3,600,642	5,386,611

Liabilities of 350,273 th. € (previous year: 391,850 th. €) arising from aircraft financing are secured by aircraft mortgages or are subject to availability limitations resulting from the financing structure.

Leasing liabilities carried as liabilities are effectively secured by the lessor’s rights to buildings or aircraft specified in the finance lease.

32 Other liabilities

The remaining terms of other liabilities are shown in the following table:

Amounts shown in th. €	2005	thereof with a remaining term of up to 1 year	1 to 5 years	more than 5 years
Amounts owed to subsidiaries	4,655	4,655	–	–
Previous year	*14,112*	*14,112*	–	–
Amounts owed to proportionately consolidated companies	2,170	2,170	–	–
Previous year	*2,836*	*2,836*	–	–
Amounts owed to associates	21,192	21,170	22	–
Previous year	*26,641*	*26,626*	*15*	–
Amounts owed to companies in which investments are held	563	563	–	–
Previous year	*18,442*	*11,419*	–	*7,023*
Amounts owed to affiliated companies	58	58	–	–
Previous year	*146*	*146*	–	–
Non-current trade payables	165	–	165	–
Previous year	*16*	–	–	*16*
Advance payments received	167,724	167,420	103	201
Previous year	*153,828*	*153,802*	–	*26*
Liabilities on bills accepted	1,854	1,854	–	–
Previous year	*24,990*	*24,990*	–	–
Derivative financial instruments	83,851	20,136	63,715	–
Previous year	*113,564*	*58,944*	*54,620*	–
Liabilities under social security	77,415	75,834	1,581	–
Previous year	*108,539*	*108,349*	*93*	*97*
Other liabilities related to staff	148,958	147,391	1,539	28
Previous year	*133,016*	*131,361*	*1,653*	*2*
Deferred income	248,965	63,316	146,623	39,026
Previous year	*144,377*	*32,320*	*99,364*	*12,693*
Other creditors	566,268	264,288	20,650	281,330
Previous year	*595,917*	*234,281*	*30,125*	*331,511*
	1,323,838	**768,855**	**234,398**	**320,585**
Previous year	***1,336,424***	***799,186***	***185,870***	***351,368***
Taxes	213,369	201,746	11,623	–
Previous year	*242,296*	*229,840*	*12,456*	–
As at 31.12. 2005	**1,537,207**	**970,601**	**246,021**	**320,585**
Previous year	***1,578,720***	***1,029,026***	***198,326***	***351,368***

The carrying amounts of the recognized financial liabilities are identical with their market values.

Also entered under other liabilities are liabilities arising from long-term real-estate development projects, which are recognized by the percentage-of-completion method. The amount of 6,625 th. € shown is the balance resulting from job order costs amounting to 24,984 th. €, realised profits amounting to 8,012 th. € and instalment payments amounting to 39,621 th. € already received. The overhang of instalment payments does not, as in the previous year, result in recognition under Trade receivables (1,489 th. €) but as a non-current trade payable.

The considerable rise in initial payments by customers (13,896 th. €) compared with the previous year results mainly from the improved booking situation at Thomas Cook, reflecting bookings between October 31, 2005 and December 31, 2005 at 161.8 mill. € (previous year: 149.8 mill. €).

Deferred income

The Group in the past year also entered into outsourcing agreements, from which up-front payments resulted. These were entered under deferred income and are being accounted for straight-line with effect for income over the term of the agreements. The carrying amount of these accrued items is 80.8 mill. €.

Deferred income at 44,620 th. € (previous year: 42,486 th. €) includes accrued book profits from the sale of aircraft under the sale-and-lease-back transaction at Condor Berlin GmbH, Schönefeld, and Condor Flugdienst GmbH, Kelsterbach. The book profits thus generated are being amortized over the term of the lease agreements in accordance with IAS 17. In the 2004/05 financial year book profits amounting to 10,508 th. € accrued from the sale-and-lease-back transaction in respect of two Boeing B767-300's. The amortization of the accrued book profits from the sale of aircraft amounted to 8,375 th. €.

Deferred income also includes subsidies amounting to 6,470 th. € (previous year: 6,825 th. €). These are subsidies granted by the Spanish government to Hotel Vela S.L., Chiclana de la Frontera, Spain, and Sociedad Royal Cupido S.A., Palma de Mallorca, Spain, for the creation of jobs and the building of the Aldiana Andalusia and Aldiana Alcaidesa clubs and investment assistance amounting to 34 th. € (previous year: 59 th. €) to Condor Berlin GmbH by the State of Brandenburg. This item is being amortized in accordance with the depreciation of the subsidized fixed assets.

33 Pension provisions

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

Pension provisions are recognized and measured in accordance with IAS 19. Future obligations are measured by applying actuarial methods and careful estimation of the relevant influencing factors.

Corporate pension schemes in the Group are mainly defined benefit plans and usually based on employees' duration of employment and remuneration. Alongside this, a performance-related defined benefit pension plan was introduced for senior staff by way of deferred compensation. There is also a defined contribution system based on a pension fund, into which payments totaling 7,772 th. € were made during the financial year. The converted amounts were invested in fund shares with two capital investment companies and at the same time irrevocably transferred to the II. Karstadt Quelle Pension Trust e.V. Further plan assets to the value of 2,494 th. € were created by the transfer.

For employees who joined companies of the Condor Group before 1995 the global pension obligation of the German Federal and State Government Employees Retirement Fund (VBL) is being continued as a company pension obligation. Ground personnel additionally receive a transitional pension for the period between termination of flight crew contracts and the commencement of statutory/company old-age pension payments. In either case defined benefits depend on the final salary received before retirement (final salary schemes).

Corporate old-age pension obligations for employees of Thomas Cook UK and the Dutch companies are being managed through external pension funds. The companies pay contributions to these pension funds.

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

Actuarial assumptions

Amounts in %	31.12.2005	31.12.2004
Discount rate	4.25	4.75-5.50
Salary increase trend	0.0-2.8	1.5-2.8
Pension increase trend	1.0-2.8	1.0-2.8
Expected return on plan assets	4.7-7.8	4.7-6.25
Average fluctuation	5.0	5.0

Pension-type obligations of the British subgroup are determined on the basis of local parameters:

Amounts in %	2005	2004
Discount rate	5.1	5.5
Salary increase trend	4.2	4.2
Pension increase trend	2.7	2.7

Pension provisions are always measured by applying the 10% corridor rule. Actuarial gains and losses are not taken into account with effect for income if they do not exceed 10% of the higher of defined benefit obligation or market value of the plan assets. The amount by which the corridor is exceeded is amortized over the average remaining service period of active employees.

Prof. Dr. Klaus Heubeck's new 2005 G mortality tables published in July 2005 were used as a biometric base for the first time. The probability of fluctuation was estimated on an age and gender basis.

The recognized amount from pension obligations results as follows:

Balance-sheet commitments

Amounts shown in th. €	Commitments financed from funds	Commitments financed from provisions	2005	2004
Present value of future pension commitments (DBO)	1,564,743	1,019,941	2,584,684	2,602,586
Unrecognized actuarial gains/losses	-71,678	-117,610	-189,288	-72,217
Unrecognized past service costs	-119	-336	-455	-634
Fair value of plan assets	-1,485,424	-	-1,485,424	-1,504,939
	7,522	**901,995**	**909,517**	**1,024,796**
Pension provisions in connection with disposal groups	-	-2,761	-2,761	-132,885
	7,522	**899,234**	**906,756**	**891,911**

Development of defined benefit obligation (DBO)

Amounts shown in th. €	Commitments financed from funds	Commitments financed from provisions	2005	2004
As at 01.01.	1,529,560	1,073,026	2,602,586	2,643,948
Service costs	3,856	8,378	12,234	15,126
Interest costs	70,151	39,009	109,160	141,735
Pension payments	-97,184	-47,967	-145,151	-147,089
Actuarial gains/losses	62,830	18,914	81,744	-48,880
Losses on curtailments and settlements	-	-	-	442
Addition from consolidated companies and other changes	-4,470	-71,419	-75,889	-2,696
As at 31.12.	**1,564,743**	**1,019,941**	**2,584,684**	**2,602,586**

Pension costs

Amounts shown in th. €	Commitments financed from funds	Commitments financed from provisions	2005	2004
Service costs	3,856	8,378	12,234	15,126
Interest costs	70,151	39,009	109,160	141,735
Expected return on plan assets	-84,723	-	-84,723	-83,865
Actuarial gains/losses with effect on income	32	305	337	113,424
Past service costs	1,255	2,386	3,641	99
Income from changes in plans/expenses from deconsolidation	4,987	3,201	8,188	-351
	-4,442	**53,279**	**48,837**	**186,168**

Whereas the cost of pension claims acquired during the financial year is shown under staff costs, the interest and the expected return on plan assets and the actuarial losses affecting plan assets are recorded with effect for income are shown under financial results.

The assets transferred to funds performed as follows:

Development of assets transferred to the pension fund

Amounts shown in th. €	2005	2004
Fair value of plan assets		
As at 01.01.	1,504,939	1,560,238
Expected return on assets	84,723	83,865
Contributions paid	2,419	37,590
Benefits paid	-97,184	-97,472
Actuarial gains/losses	-6,311	-79,174
Changes in consolidated companies, currency adjustments, other changes	-3,162	-108
As at 31.12.	**1,485,424**	**1,504,939**

The composition of plan assets is calculated from the following table:

Composition of plan assets

Amounts shown in th. €	2005	2004
Real estate, incl. dormant holdings	987,966	1,091,060
Corporate investments	351,000	348,674
Financial resources	146,458	65,205
Plan assets	**1,485,424**	**1,504,939**

The Group utilizes important parts of real estate assets itself. The lease payments are made on the basis of usual market estimates. Furthermore, under their articles of incorporation the pension trusts may lend up to 10 % of their assets back to the Group in the form of cash and cash equivalents. An amount of 72,982 th. € (previous year: 26,971 th. €) results here at the balance sheet date.

Since at the balance sheet date there is deficit of pension fund assets at the companies of Thomas Cook UK because of the measurement regulations to be applied under IAS 19, a liability of 14,762 th. € (previous year: 9,783 th. €) is recognized under non-current liabilities. It is assumed that plan assets will bear interest at a rate of 4.0 % to 7.0 %. Expense resulting from the deficit and exceeding the 10 % corridor is here spread proportionately over employees' expected average residual service period. The performance of the funds is shown in the following:

Financial position

Amounts shown in th. €	2005	2004
Defined benefit obligation of fund-financed pension obligations	405,377	322,914
Fair value of plan assets	-272,493	-225,608
Unrecognized actuarial losses	-118,122	-87,524
Liabilities to pension funds	**14,762**	**9,782**

Movements of liabilities to pension funds

Amounts shown in th. €	2005	2004
As at 01.01.	9,782	5,312
Reclassification from provisions	0	2,020
Fund allocation	-11,543	-12,364
Differences from foreign currency translation	288	-112
Addition	16,235	14,926
As at 31.12.	**14,762**	**9,782**

34 Other non-current provisions

Other non-current provisions

Amounts shown in th. €	2005	2004
Tax provisions	55,636	62,407
Other non-current provisions for liabilities and charges	328,148	303,076
	383,784	**365,483**

Movements 2005 of the other non-current provisions

Amounts shown in th. €	Staff	Guarantees/ warranties	Contingent losses resulting from pending transactions	Restructuring effects	Other	Total
As at 01.01.	31,866	958	298	235,295	34,659	303,076
Changes in consolidated companies	-123	–	–	-626	-128	-877
Currency differences	-8	-2	–	8	–	-2
Recourse	-705	-642	276	-43,444	-1,804	-46,319
Reversal	-13,283	-23	-248	-6,704	-678	-20,936
Appropriation	965	647	–	72,227	11,660	85,499
Reclassification acc. to IFRS 5	-285	-1	–	8,694	-701	7,707
As at 31.12.	**18,427**	**937**	**326**	**265,450**	**43,008**	**328,148**

Movements 2004 of the other non-current provisions

Amounts shown in th. €	Staff	Guarantees/ warranties	Contingent losses resulting from pending transactions	Restructuring effects	Other	Total
As at 01.01.	45,171	969	838	50,958	29,716	127,652
Changes in consolidated companies	-26	–	–	-112	-1,106	-1,244
Currency differences	4	1	–	–	-1	4
Recourse	-15,112	-711	-370	-81,546	–	-97,739
Reversal	-592	–	-170	-856	-2,468	-4,086
Appropriation	2,421	699	–	266,851	8,518	278,489
As at 31.12.	**31,866**	**958**	**298**	**235,295**	**34,659**	**303,076**

Staff provisions include provisions for severance payments and jubilee payments and death benefit. Income of 13,283 th. € from the release of staff provisions result mainly from unutilized jubilee obligations at Karstadt Warenhaus GmbH. The restructuring effects include provisions for leasing risks amounting to 187,339 th. €, for pre-retirement part-time work (33,981 th. €) and for other obligations arising from the restructuring process. Other provisions relate mainly to litigation risks and restoration liabilities.

35 Trade payables

Break-down is by business segment

Amounts shown in th. €	2005	2004
Karstadt	434,682	506,057
Mail order	598,914	490,939
Thomas Cook	510,932	492,729
Services	26,936	37,245
Other	29,406	27,527
	1,600,870	**1,554,497**

The carrying amounts of the recognized financial liabilities are identical with their market values.

In the 2005 financial year first-ranking security to the favour of Group suppliers' credit sale insurers was provided on inventories. Inventories were also provided as security with regard to the Group's syndicated loan facility or secondary (second lien) financing undertaken in the 2005 financial year.

36 Current provisions

Amounts shown in th. €	2005	2004
Tax provisions	94,112	98,841
Other current provisions for liabilities and charges	515,565	527,295
	609,677	**626,136**

Movements 2005 of the other current provisions

Amounts shown in th. €	Staff	Guarantees/ warranties	Contingent losses resulting from pending transactions	Restructuring effects	Other	Total
As at 01.01.	10,087	64,071	35,596	331,912	85,629	527,295
Changes in consolidated companies	–	-533	-846	821	1,098	540
Currency differences	–	387	40	–	12	439
Recourse	-173	-56,418	-17,912	-147,366	-48,951	-270,820
Reversal	-4,275	-748	-1,557	-11,759	-12,354	-30,693
Appropriation	1,845	47,728	19,191	183,626	57,404	309,794
Reclassification acc. to IFRS 5	–	12	–	-21,351	349	-20,990
As at 31.12.	**7,484**	**54,499**	**34,512**	**335,883**	**83,187**	**515,565**

Movements 2004 of the other current provisions

Amounts shown in th. €	Staff	Guarantees/ warranties	Contingent losses resulting from pending transactions	Restructuring effects	Other	Total
As at 01.01.	10,528	68,932	17,287	78,439	81,041	256,227
Changes in consolidated companies	–	-8	–	-20	-1,118	-1,146
Currency differences	-2	-159	-1	19	-54	-197
Recourse	-643	-35,016	-13,765	-109,172	-91,784	-250,380
Reversal	-4,259	-1,724	-1,773	-11,880	-11,731	-31,367
Appropriation	4,463	32,074	33,848	374,526	109,275	554,186
Reclassification acc. to IFRS 5	–	-28	–	–	–	-28
As at 31.12.	**10,087**	**64,071**	**35,596**	**331,912**	**85,629**	**527,295**

Restructuring effects include provisions for redundancy payments (201,865 th. €), pre-retirement part-time work (10,304 th. €) and other obligations amounting to 123,714 th. €. Other provisions relate mainly to litigation risks and restoration liabilities.

37 Contingent liabilities and Other financial obligations

Amounts shown in th. €	2005	2004
Contingent liabilities		
Liabilities resulting from guarantees	6,101	10,486
Liabilities under warranty agreements	67	1,806
Collateral liabilities	24,400	15,602
	30,568	**27,894**

Purchase committments exist for goods purchases to the value of 736,202 th. € (previous year: 752,347 th. €). The goods purchases contracted for are covered by letters of credit amounting to 35,456 th. € (previous year: 58,796 th. €). Further letters of credit exist to the value of 27,353 th. € (previous year: 24,825 th. €).

Minimum sourcing obligations to the following companies exist under outsourcing agreements concluded in the year under review and 2004:

Arvato direct services GmbH with a remaining term of five years and amounting to 26,467 th. €, ATOS Origin GmbH with a remaining term of five years and amounting to 447,722 th. €, DHL Solutions GmbH with a remaining term of nine years and amounting to 3,084,583 th. €.

Thomas Cook has concluded a framework agreement for the provision of IT services to the value of 23,295 th. €. Because of a special right of termination, despite a ten-year basic leasing period, only the running costs for one year are shown.

Obligations arising from tourism guarantee agreements amount to 46,541 th. € (previous year: 72,426 th. €); they relate mainly to guarantee obligations to the value of 34,738 th. € (previous year: 54,630 th. €) by Thomas Cook UK to hotels, and by TC Touristik GmbH to the value of 9,507 th. € (previous year: 17,285 th. €). The rent, hire and lease agreements are pure hire agreements (operating lease agreements) under which the companies of the Thomas Cook Group are not the legal or economic owners of the hired assets. This item includes obligations amounting to 156,815 th. € arising from the lease of 29 aircraft (previous year: 28).

In addition there are further other financial commitments amounting to 29,456 th. € (previous year: 45,479 th. €).

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

In 2001 the KarstadtQuelle Group set up an incentive stock options plan, which was further developed in 2002. As it is not certain at present whether the required criteria for exercise of the option rights have been satisfied and thus the level of obligation cannot be determined sufficiently precisely, no provision was set up in the financial year.

38 Derivative financial instruments relating to risk management

The basis of adequate risk management is a sound data base. The risk management is responsible for all hedging and financing activities in the KarstadtQuelle Group and operates a financial reporting system covering the entire Group. The financial reporting system enables interest, currency and liquidity risks affecting the Group to be identified and appropriate measures and strategies to be adopted to meet them. These risks are managed centrally in accordance with guidelines laid down by the Management Board.

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.

Currency risks

Because of its international purchasing operations the Karstadt Quelle Group is exposed to foreign exchange risks in the course of its ordinary business operations. These risks emanate mainly from fluctuations in the value of the US dollar and the Japanese yen in the case of receivables and payables or anticipated cash flows and pending transactions.

To limit these risks, derivatives, primarily in the form of forward exchange contracts, are being deployed.

Interest rate risks

Interest rate risk results from the sensitivity of financial liabilities in regard to changes in the market level of interest. The company is concerned to limit such risks by the deployment of interest derivatives such as interest swaps and interest futures.

Fuel price risks

To limit the risk of unfavourable developments in the price of fuel, Thomas Cook undertook price hedging transactions. The Thomas Cook Group's price hedging policy provides for 95 % hedging of the fuel requirement for the current flight schedule. Under the Thomas Cook hedging schedule, lower minimum hedging levels are to be secured for up to three subsequent flight schedule periods. As at October 31, 2005, hedging transactions for a fuel quantity of 1,144,400 tonnes (100 %) for periods up to April 2007 had been undertaken for the Thomas Cook Group. Mainly crude-oil price range options and hedge combinations were used as hedging instruments; to a lesser extent gasoil and kerosene derivatives and derivatives for hedging the price differentials between the various product groups (cracks) were used.

Derivative financial instruments

The positive and negative market values in the case of derivative financial instruments are set against contrary developments in the underlying transactions. Derivative financial instruments are recognized in full as assets or liabilities with corresponding market values.

At the balance sheet date the following derivative financial instruments were held:

Derivative financial instruments

	Market values		Nominal	
Amounts shown in th. €	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Currency-related transactions				
Forward exchange purchase contracts	**19,035**	**-41,394**	**1,129,381**	**1,125,564**
Interest-related transactions				
Forward rate agreements	49	-83	1,498	1,476
Interest swaps	20,658	13,994	1,586,649	2,502,733
CAPs	25	-	15,000	51,129
	20,732	**13,911**	**1,603,147**	**2,555,338**
Fuel hedging transactions *	24,482	43,515	-	-
Other	-	-	-	17.000
	64,249	**16,032**	**2,732,528**	**3,697,902**

* Fuel hedging transactions relate to the hedging of 572.2 th. tonnes of kerosene (previous year: 506.9 th. tonnes).

The nominal volume is obtained by adding together all the buying and selling amounts underlying the transactions.

The market values correspond to the changes in value obtained by a fictitious revaluation of the forward transactions, taking into account the market parameters applying at the balance sheet date. The market values are determined with the aid of standardized valuation procedures (discounted cash flow und option pricing models). Market values are mainly influenced by forward exchange rates (forward exchange purchase contracts) and the discounting of anticipated future cash flows over the residual term of the contract on the basis of current market interest rates and the interest structure curve (e.g. interest rate swaps).

Cash flow hedges

Total revaluation surpluses of 41,043 th. €, which were recognized under IAS 39 without effect for income and will be entered into the income statement in the next 24 months, thus resulted from the hedging transactions for the period to the balance sheet date.

Contract partners

The company's contract partners in the case of derivative financial instruments are banks of first-class credit standing. Actual loss of the derivatives is thus not expected.

Terms

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.

39 Pending legal actions

1. In 2001 successors of Franz Wertheim entered claims 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.

   KarstadtQuelle is of the opinion that the action is not admissible 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 and in October 2005 at the second instance. Whether an appeal, the time limit for which expired mid-February 2006, has been lodged we have not been able to ascertain.

   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. KarstadtQuelle 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. The Lenné-Dreieck was assigned by the State of Berlin to Warenhaus Wertheim GmbH without charge in 1991. 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 a company pension fund to cover pension obligations. Claims brought against Warenhaus Wertheim GmbH therefore affect the KarstadtQuelle Group correspondingly.

   The JCC as the legal successor of the Wertheim family 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 lodge a claim against Karstadt Quelle on grounds of the exemption granted in 1991. In the unlikely event of a substantiated claim anticipated amounts totaling up to 145 mill. € will become due to the State of Berlin under the declaration of exemption.

   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.

40 Events after the balance sheet date

KarstadtQuelle issued the order to examine possible options with regard to the sale of all or part of the Group real estate. The conditions for recognition of the Real estate segment under IFRS 5 did not arise during the preparation period.

Sales agreements for 75.1 % of the shares in Aldiana GmbH and 60 % of the shares in Thomas Cook India Ltd. were concluded shortly before or after the balance sheet date. The shares will not be transferred until the 2005/06 financial year. A book profit is anticipated from the proceeds of the sales.

During the preparation period parts of the convertible bond issued in December 2004 amounting to 11,750 th. € were converted to 1,341,320 shares in KARSTADT QUELLE AG.

Notes to the consolidated cash flow statement

The consolidated cash flow statement is shown on page 97. 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 activities (gross cash flow), cash flow from operating activities, investing activities and financing activities.

The sale of receivables shortly before the balance sheet date resulted in an improvement in working capital by 1,017.6 mill. € and a reduction of financial resources by 840.1 mill. €. In addition, other current assets/liabilities decreased by 177.5 mill. €.

41 Cash flow from operating activities

Beginning with the result from operational activities (earnings before interest and 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 appropriations to the restructuring provisions 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.

42 Cash flow from current activities

For investments in intangible and tangible assets 258,785 th. € (previous year: 331,475 th. €) are included. Cash receipts from the sale of tangible assets and intangible and non-current assets under the comprehensive divestment program amount to 1,000,371 th. € (previous year: 152,191 th. €).

43 Free cash flow

The free cash flow resulting from the cash flow from operating activities and cash flow from investing activities amounts to 1,958,247 th. € (previous year: 370,865 th. €).

Including interest received and paid and changes in pension provisions and plan assets, net free cash flow comes to 1,653,015 th. € (previous year: 74,697 th. €).

44 Cash flow from financing activities

The cash flow from financing activity derives mainly from the reversal of financial liabilities amounting to 840.1 mill. € under the ABS program.

45 Cash and cash equivalents

Cash and cash equivalents comprise:

Cash and cash equivalents

Amounts shown in th. €	2005	2004
Cash and bank accounts	679,686	631,471
Current securities	16,230	21,691
	695,916	**653,162**

The change in cash flow resulting from changes in the consolidation group amounts to minus 12,837 th. € (previous year: 2,432 th. €) and results mainly from the disposal of KARSTADT Hypothekenbank AG. Cash and cash equivalents do not include the short-term component of non-current securities (11,310 th. €).

Notes to the segment report

The segment report is shown on pages 98 to 99. The segment report was prepared in accordance with the regulations of IAS 14 and breaks down the primary report format by business segment and the secondary report format by region.

On the basis of the "risk and reward" principle the Holding segment does not represent any material value contribution by comparison with the operating segments. Accordingly, by contrast with the previous year information about the Holding segment is grouped with the reconciliation account.

By contrast with the previous year an additional "Thomas Cook" segment (Tourism) was also shown. In previous years the major company in this segment, Thomas Cook, was shown at equity. It is only because of the proportionate inclusion in the consolidated financial statement for this financial year that the contribution made by this segment to the Group can be shown appropriately.

In the secondary format the need to provide separate information about regions outside Europe results from Thomas Cook's international activities.

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 and segment liabilities are as follows:

Amounts shown in th. €	2005	2004
Segment assets		
Balance sheet total	9,138,563	11,643,189
Investments and shares in subsidiaries and associates	-192,048	-304,572
Deferred taxes	-228,249	-164,914
Intragroup receivables/loans	-56,513	-196,145
Cash and cash equivalents, non-current and current securities and other loans	-780,668	-1,056,479
Assets classified as held for sale	-262,658	-1,209,587
	7,618,427	**8,711,492**
Segment liabilities		
Balance sheet total	9,138,563	11,643,189
Equity	-290,075	-595,844
Financial liabilities	-3,737,569	-5,493,876
Pension provisions	-906,756	-891,911
Other interest-bearing liabilities	-252,110	-302,086
Intragroup liabilities	-28,580	-62,031
Deferred taxes	-11,673	-12,533
Liabilities from assets classified as held for sale	-60,952	-524,189
	3,850,848	**3,760,719**

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

Gross cash flow comprises the net profit for the year before taxes on income, depreciation, amortization of goodwill and financial income, after adjustment for earnings or losses from disposal of assets, changes in long-term provisions and other expenses and income with no effect for payments.

Invested capital comprises fixed assets, working capital, other non-interest-bearing assets and liabilities and non-interest-bearing income tax receivables and liabilities. Return on Invested Capital (ROIC) is calculated as the quotient of adjusted EBIT and Invested Capital.

Other information

Executive bodies of the company

The members of the Supervisory Board and Management Board are shown in the separate overview on pages 140/141 (Supervisory Board) and 142 (Management Board).

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

Amounts shown in th. €	2005	2004
Management Board		
Fixed remuneration	2,262	2,803
Variable components	2,165	1,388
	4,427	**4,191**
Supervisory Board		
Fixed remuneration	152	153
For other mandates in the KarstadtQuelle Group	21	129
	173	**282**
Former members of the Board of Management and and their surviving dependants		
Payments	12,086	8,868
Defined pension obligations (DBO)	49,956	47,689

The Management Board's remuneration is determined by the size of the segment managed, its economic and financial situation and the level and structure of the remuneration at comparable companies. In addition, the duties of and contribution made by the respective Management Board member are taken into account.

The Management Board's remuneration is performance-related; it consists of five components:

- a fixed remuneration
- a guaranteed bonus
- a variable bonus determined by the level of fulfilment of a target agreement to be reached annually
- a bonus proportionate to the annually agreed earnings of the company
- a pension commitment

Pension commitments are agreed individually on an individual contract basis. The Defined Benefit Obligation – DBO – of all pension commitments to active members of the Management Board amounts to 2.3 mill. € (previous year: 1.5 mill. €).

The emoluments of the Supervisory Board are shown individually on page 150 in the section on "Corporate Governance". The Supervisory Board members do not receive any variable remuneration.

The Management Board's remuneration in 2005 in detail

Amounts shown in th. €	Fixed remuneration	Variable components	Total 2005	Changes in membership
Dr. Thomas Middelhoff – Chairman –	468	487	955	w.e.f. 12.05.05
Dr. Christoph Achenbach	192	200	392	until 07.04.05
Dr. Matthias Bellmann	394	328	722	
Arwed Fischer	204	–	204	until 31.05.05
Prof. Dr. Helmut Merkel	528	510	1,038	
Harald Pinger	476	640	1,116	
Marc Sommer	–	–	–	w.e.f. 01.01.06
	2,262	**2,165**	**4,427**	

Disclosure of auditor's fees

In accordance with accounting instruction IDW RH 1.006 we disclose the fees paid to the auditor of KARSTADT QUELLE AG and accordingly of the consolidated financial statements, BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.

Auditors' fees

Amounts shown in th. €	2005	2004
Annual audit	1,333	1,347
Confirmation and/or measurement services	452	520
Tax consultancy	5	8
Other services	454	139
	2,244	2,014

Related party transactions

The Karstadt Quelle Group maintained the following business relations with affiliated companies and persons in 2005 and 2004:

Relation with affiliated companies and persons

Amounts shown in th. €	2005	2004
Goods and services supplied	1,700	4,441
Goods and services received	114,040	81,072
Receivables	161,963	317
Non-current liabilities	1,439,660	–

Companies in mail order have without recourse sold trade receivables to KARSTADT Hypothekenbank AG, which was transferred to the Group pension fund in the financial year. At December 31, 2005, the assigned receivables amounted to 1,227 mill € gross. Under the sale KARSTADT Hypothekenbank set up a contingency account which is paid back to the Group as long as actual losses on outstanding receivables do not exceed this amount. At the balance sheet date the reserve account stood at 207 mill. €.

In the financial year ended neckermann.de GmbH sold a participating interest in the land and building of their headquarters to a company of the Group's own pension trust for 170 mill. €. Part of the purchase price was financed to the amount of 110 mill. € by the Group in the form of a loan to the purchasing company.

Service relations exist with companies of the KarstadtQuelle Pension Trust e. V. and II. KarstadtQuelle Pension Trust e. V. under the leasing of real estate. The Group's leasing costs amount to 72,828 th. € (previous year: 81,072 th. €). Furthermore, companies of the KarstadtQuelle Pension Trust e. V. have made short-term loans totaling 183 mill. € to KarstadtQuelle in accordance with statutory requirements.

Non-current liabilities include mortgage bond loans amounting to 1,249 mill. € passed on from KARSTADT Hypothekenbank AG.

In December 2005 KARSTADT Hypothekenbank AG was exchanged for QuelleNeckermann Versand Finanz GmbH & Co. KG.

Over and above the goods and services supplied, relations between the group and non-consolidated group companies have arisen from the reciprocal right to provision of services. In these cases settlement of accounts is done on a cost basis. Relations with affiliated companies are maintained on the same conditions as between outside third parties.

In the 2005 financial year individual Group companies sold assets to Deutsche Post World Net AG or its subsidiaries and long-term service contracts were entered into with companies of this group, the chairman of the Management Board of which is a member of the Supervisory Board of KARSTADT QUELLE AG.

The Chairman of the Management 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 as corporate officers of KARSTADT QUELLE AG.

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 April 7, 2005 for the 2004 financial year. This Declaration of Compliance has been made continuously accessible to the shareholders on the company's Internet site. The Declaration of Compliance relating to the 2005 financial year is also reproduced in the section on the "2005 Corporate Governance Report" on page 152 of the Annual Report.

Corporate officers and their supervisory functions in accordance with KonTraG

Supervisory Board

Hero Brahms
Chairman w.e.f. 12.05.2005
Business Consultant

- Deutsche Post AG
- Georgsmarienhütte Holding GmbH (Dep. Chairman)
- Wincor Nixdorf AG

- ❙ M.M. Warburg & Co. Gruppe KGaA
- ❙ M.M. Warburg & Co. KGaA

Wolfgang Pokriefke *
Dep. Chairman
Chairman of the Plenary Staff Council
of Karstadt Warenhaus GmbH

Jochen Appell
Attorney At Law, formerly Chief Legal Adviser
to Commerzbank AG

Wilfried Behrens *
Managing Director of Karstadt Warenhaus GmbH,
Gießen branch

Dr. Diethart Breipohl
Member of the Supervisory Board of Allianz AG

- Allianz AG
- Continental AG
- KM Europa Metal AG (Chairman)

- ❙ Atos Origin, France
- ❙ Crédit Lyonnais, France
- ❙ EULER & Hermes, France
- ❙ Les Assurances Générales de France, France (AGF)

Bodo Dehn *
Chairman of the Staff Council of Karstadt Warenhaus GmbH,
Möchengladbach-Rheydt branch

- Karstadt Warenhaus GmbH

Leo Herl
Chairman of the Board of Madeleine Schickedanz
Vermögensverwaltungs GmbH & Co. KG

- Karstadt Warenhaus GmbH
- neckermann.de GmbH
- Quelle GmbH
- Quelle Bauspar AG (Chairman)

Ulrich Hocker
Managing Director of Deutsche Schutzvereinigung
für Wertpapierbesitz e.V.

- E.ON AG
- Feri Finance AG
- Gildemeister AG
- ThyssenKrupp Stainless AG

- ❙ Gartmore SICAV, Luxemburg
- ❙ Phoenix Mecano AG, Switzerland
(President of the Administrative Board)

Peter Kalow *
formerly Chairman of the Plenary Staff Council
of Quelle GmbH; Systems Developer

Franz Lajosbanyai *
Chairman of the Plenary Staff Council of neckermann.de GmbH

- neckermann.de GmbH (Dep. Chairman)

* Representing the employees
** Group subsidiaries
• Supervisory Board seats by law
❙ Comparable supervisory functions

Dr. Thomas Middelhoff
Chairman until 12.05.2005
Chairman of the Management Board of KARSTADT QUELLE AG w.e.f. 12.05.2005

- Apcoa Parking AG (Chairman)
- Avecia Holdings PLC, Great Britain
- New York Times Company, USA
- Polestar Corporation PLC, Great Britain (Chairman)

▎ Fitch, France

Margret Mönig-Raane *
Dep. Chairwoman of the Vereinte Dienstleistungsgewerkschaft trade union (ver.di), Federal Retail Trade Section Head w.e.f. 24.05.2005

- Deutsche Bank

▎ Kreditanstalt für Wiederaufbau (Member of the Administrative Board)

Hans Reischl
Former Chairman of the Management Board of REWE-ZENTRAL AG

- Alte Leipziger Holding AG
- Alte Leipziger Versicherungsverein aG
- Eurohyp AG
- Maxdata AG

Rita Rodenbücher *
Chairman of the Staff Council of Karstadt Warenhaus GmbH, Duisburg branch; Commercial Assistant

- ip69 internet solutions AG

Christa Schubert *
Deputy Chairman of the Staff Council of Karstadt Warenhaus, Recklinghausen branch; Commercial Assistant

Michael Stammler
Spokesman Management Board of Feri Finance AG

- eCapital New Technologies Fonds AG

Dr. Jürgen Than
Attorney At Law, former Chief Syndic to Dresdner Bank AG

- CSC Ploenzke AG (Chairman)

Gertrud Tippel-Kluth *
Secretary to the Executive Committee of the German ver.di Trade Union, Retail Section

- Karstadt Warenhaus GmbH
- Sinn Leffers Aktiengesellschaft

Dr. Franziska Wiethold * until 24.05.2005
Member of the Executive Committee of the German ver.di Trade Union

- REWE Deutsche Supermarkt KGaA

Werner Wild *
Dep. Regional Head, ver.di Baden-Württemberg

Dr. Klaus Zumwinkel
Chairman of the Management Board of Deutsche Post AG

- Deutsche Lufthansa AG
- Deutsche Postbank AG (Chairman) **
- Deutsche Telekom AG (Chairman)

▎ Morgan Stanley, USA

* Representing the employees
** Group subsidiaries
• Supervisory Board seats by law
▎ Comparable supervisory functions

Corporate officers and their supervisory functions in accordance with KonTraG

Management Board

Dr. Thomas Middelhoff

Chairman w.e.f. 12.05.2005

- Apcoa Parking AG (Chairman)
- Avecia Holdings PLC, Great Britain
- Karstadt Warenhaus GmbH (Chairman)*
- neckermann.de GmbH (Chairman)*
- New York Times Company, USA
- Polestar Corporation PLC, Great Britain (Chairman)
- Quelle GmbH (Chairman)*
- Thomas Cook Aktiengesellschaft (Chairman)

I Fitch, France
I RWE AG

Dr. Christoph Achenbach

formerly Chairman of the Management Board of KARSTADT QUELLE AG until 07.04.2005

- GfK Aktiengesellschaft
- KARSTADT Immobilien Beteiligungs AG (Chairman)* until 07.04.2005
- Karstadt Warenhaus GmbH (Chairman)*, until 07.04.2005
- neckermann.de GmbH (Chairman)*, until 07.04.2005
- Quelle GmbH (Chairman)*, until 07.04.2005
- Thomas Cook Aktiengesellschaft (Dep. Chairman), until 07.04.2005

I KARSTADT QUELLE Information Services GmbH (Chairman)*, until 07.04.2005
I KARSTADT QUELLE New Media AG (Chairman)*, until 07.04.2005

Dr. Matthias Bellmann

Member of the Management Board

- neckermann.de GmbH*
- Quelle GmbH*
- Thomas Cook Aktiengesellschaft

Arwed Fischer

former member of the Management Board of KARSTADT QUELLE AG until 31.05.2005

- KARSTADT Immobilien Beteiligungs AG (Dep. Chairman)*, until 31.05.2005
- Neckermann Versicherung AG (Dep. Chairman)*, until 31.05.2005
- Neckermann Lebensversicherung AG (Dep. Chairman)*, until 31.05.2005

I KARSTADT QUELLE Information Services GmbH*, until 31.05.2005
I TriStyle Mode Beteiligungs GmbH, until 31.05.2005

Prof. Dr. Helmut Merkel

Chairman of the Board of Karstadt Warenhaus GmbH

- ITELLIUM Systems & Services GmbH (Chairman)*
- KARSTADT Immobilien Beteiligungs AG (Chairman)*

I Bundesarbeitsgemeinschaft der Mittel- und Großbetriebe des Einzelhandels e.V. (President)

Harald Pinger

Member of the Management Board

- KARSTADT Hypothekenbank AG (Chairman)*
- Karstadt Warenhaus GmbH*
- neckermann.de GmbH* (until 31.05.2005)
- Quelle GmbH* (until 31.05.2005)
- KarstadtQuelle Bank AG*
- KarstadtQuelle Krankenversicherung AG (Dep. Chairman)
- KarstadtQuelle Lebensversicherung AG (Dep. Chairman)
- KarstadtQuelle Versicherung AG (Dep. Chairman)

I KarstadtQuelle Finanz Service GmbH (Chairman)*

Marc Sommer

Member of the Management Board w.e.f. 01.01.2006

- Quelle AG, Austria*

* Group subsidiaries
• Supervisory Board seats by law
I Comparable supervisory functions

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 financial statements.

Exemption under Section 264 Para. 3 German Commercial Code

CJD clinic+job-dress GmbH, Bramsche;
DK Profashion GmbH, Osnabrück;
Elegance Rolf Offergelt GmbH, Aachen;
Happy Size-Company Versandhandels GmbH, Frankfurt am Main;
Hess Natur-Textilien GmbH, Butzbach;
HSM Direkt AG, Karlsruhe;
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 Service GmbH, Essen;
KARSTADT Vermietungsgesellschaft mbH, Essen;
Krähe Versand GmbH, Schlierbach;
Madeleine Mode GmbH, Zirndorf;
Mercatura Holding GmbH, Nuremberg;
Mode & Preis Versandhandels GmbH, Lörrach;
neckermann.de GmbH, Frankfurt am Main;
Neckermann Versand Handelsgesellschaft mbH, Berlin;
Optimus Logistics GmbH, Nuremberg;
Peter Hahn GmbH, Winterbach;
Producta Daten-Service GmbH, Frankfurt am Main;
Profectis GmbH Technischer Kundendienst, Nuremberg;
Quelle GmbH, Fürth;
Quelle.Contact GmbH, Chemnitz;
Quelle.Contact Holding GmbH, Fürth;
Quelle Customer Care Center GmbH, Nuremberg;
Quelle HausProfis GmbH, Fürth;
QuelleNeckermann Logistik GmbH, Fürth;
QuelleNeckermann Spezialversand GmbH, Fürth;
QuelleNeckermann Versandservice GmbH, Fürth;
RWA Regina Werbeagentur GmbH, Essen;
Saalfrank Qualitätswerbeartikel GmbH, Sennfeld;
servicelogiQ GmbH logistische Dienstleistungen, Nuremberg;
thirty and more versand GmbH, Winterbach;
TRI Kottmann GmbH, Bad Waldsee;
Universum Inkasso GmbH, Frankfurt am 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;
Fritz Berger GmbH & Co. KG, Neumarkt i.d. Opf.;
Holstenflor Beteiligungs GmbH & Co. Holding KG, Fürth;
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;
OPTIMUS GmbH Logistik & Co. Warendienstleistungs KG, Brieselang;
Peter Hahn Grundstücksgesellschaft mbH & Co., Winterbach;
TRADO Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Dresden KG, Pöcking, Landkreis Starnberg;
TriStyle Holding GmbH & Co. KG, Fürth.

KARSTADT QUELLE Aktiengesellschaft
Essen, February 28, 2006

The Management Board

Dr. Thomas Middelhoff | Dr. Matthias Bellmann | Prof. Dr. Helmut Merkel | Harald Pinger | Marc Sommer

Auditors' report

(Translation of the German Auditors' report)

We have audited the consolidated financial statements prepared by KARSTADT QUELLE Aktiengesellschaft – comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the consolidated management report for the financial year from January 1, 2005 to December 31, 2005. The preparation of the consolidated financial statements and the consolidated management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the consolidated management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB 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 misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the consolidated management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the consolidated management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the consolidated management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The consolidated management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

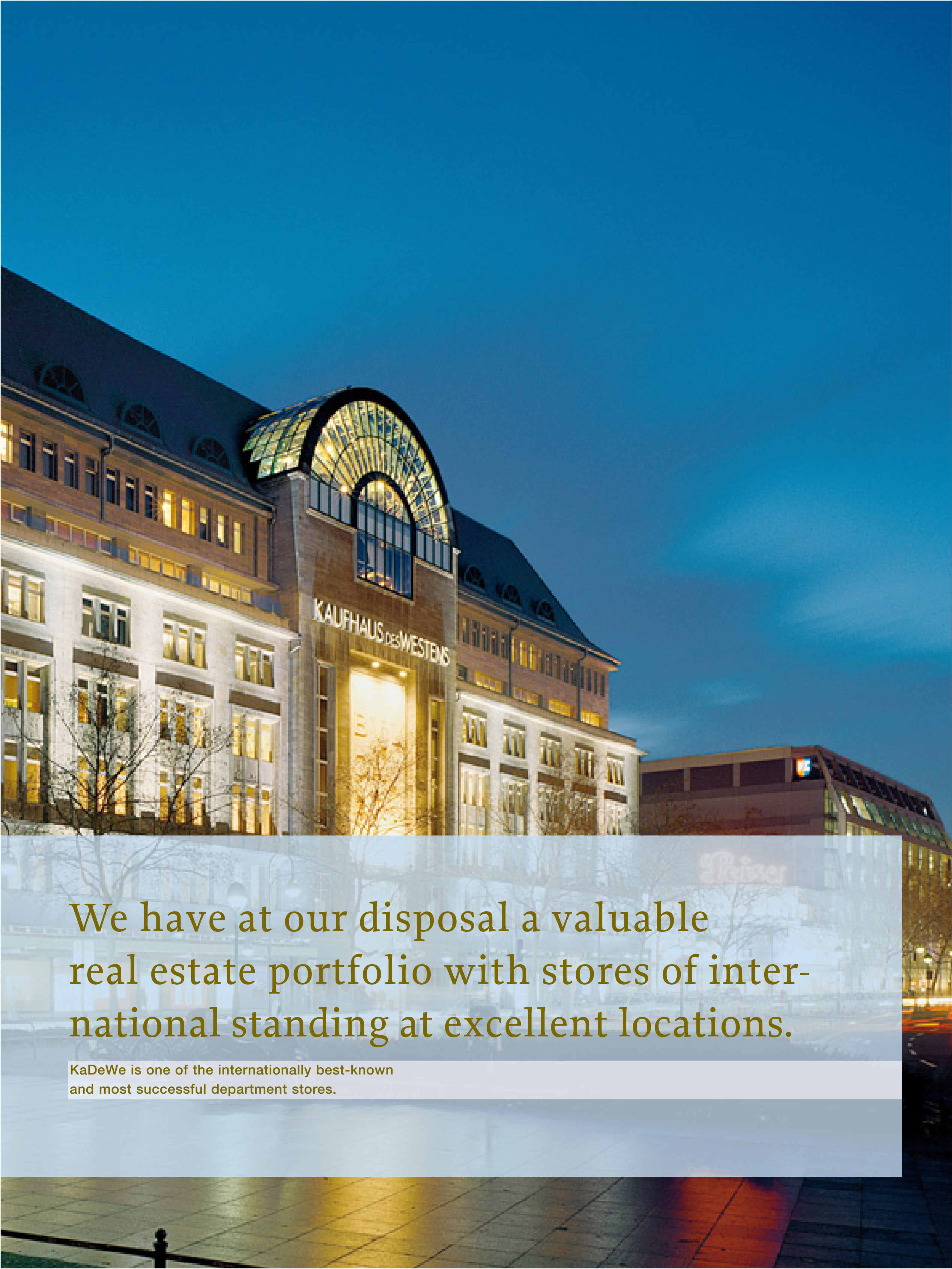
Düsseldorf, March 3, 2006

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

We shall continue to consistently implement the announced strategy.


KaDeWe



We have at our disposal a valuable real estate portfolio with stores of international standing at excellent locations.

KaDeWe is one of the internationally best-known and most successful department stores.

Corporate Governance

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 and staff and the public in the KarstadtQuelle group.

Bases and framework of Corporate Governance

The legal general conditions for corporate governance are to be found mainly in stock corporation law. In addition the government commission in February 2002 formulated in the German Corporate Governance Code uniform principles for German corporations to make the regulations for good corporate governance transparent, particularly for foreign investors. The Corporate Governance Code was extended in May 2003 and in June 2005.

Management and control structure

KARSTADT QUELLE AG has a dual management and control structure in the Management Board and Supervisory Board in accordance with German stock corporation law. The Management Board and Supervisory Board work closely together on the basis of a balanced division of duties and responsibility for the benefit of the corporation. The legal framework for the cooperation is provided by the corporation'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 articles of incorporation. In accordance with the German Law of Codetermination it is made up of shareholders and employees' representatives in equal proportions. Whereas the shareholders' representatives are elected by the annual general meeting, the employees' representatives are appointed in accordance with the German 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 Management Board's 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. As a consequence of Dr. Thomas Middelhoff's transfer from the Supervisory Board to the Management Board the number of representatives to be elected by the shareholders fell to nine after May 2005. A judicial replacement appointment was refrained from in order to give the annual general meeting an opportunity to elect a new Supervisory Board member for the remaining period of office.

The new regulation for the independence of Supervisory Board members is in our understanding not adhered to if a Supervisory Board member maintains either a business or personal relationship with the corporation or is a member of the management board or board of directors of a corporation as an active member maintaining a business relationship with KARSTADT QUELLE AG. According to this at least six Supervisory Board representatives on the shareholder side must be regarded as impartial.

Committees on the Supervisory Board

Under its rules of procedure the Supervisory Board forms 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. At present the Standing Committee consists of six members. The standing committee is responsible for the regulation of matters between Management Board members and the corporation. In urgent matters the standing committee may further, 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. As announced in 2004, an efficiency audit was conducted in the year under review. The result of this audit, according to which the expectations were being met, were presented at the Supervisory Board meeting on March 21, 2006. Possible measures in the interest of a continuing process of improvement will be discussed at the next Supervisory Board meeting.

The **audit committee** is made up of the Chairman of the Supervisory Board, two representatives of the shareholders and two representatives of the employees. In October 2005, in conformity to the recommendation in the Corporate Governance Code Dr. Diethart Breipohl took over the chairmanship of the audit committee from Mr. Brahms. At the same time the rules of internal procedure were changed so that the chairman of the audit committee must be a Supervisory Board member representing the shareholders who has at his disposal special knowledge and experience in the application of accounting principles and internal monitoring processes. As required, the audit committee has prepared the Supervisory Board's decision about the approval of the financial statements and the approval of the consolidated financial statements for the period to December 31, 2005, and in particular a pre-audit of the financial statements, the consolidated financial statements and the summarized management report and the proposal for appropriation of the profit. These meetings of the audit committee have been attended by the auditor. Finally, the audit committee has implemented the agreement to be reached annually with the auditor.

The duties of the **arbitration committee**, which is made up of two shareholders' and two employees' representatives, are determined in Section 27, Para. 3 of the German 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

The Management Board of KARSTADT QUELLE AG, which has consisted of four members since June 1, 2004, was extended with effect from January 1, 2006, to include Mr. Marc Sommer as member responsible for the "Mail order" sector. The central steering committee set up at KARSTADT QUELLE AG in December 2004 met in 2005 and monitored and regulated the implementation of the restructuring program.

Remuneration of Management Board and Supervisory Board

The **remuneration of the Management Board** is explained in the notes.

The **remuneration of the Supervisory Board** was fixed by the annual general meeting at the proposal of the Management Board and Supervisory Board. This is regulated in Section 13 of the articles of incorporation of KARSTADT QUELLE AG in the version of December 14, 2005.

The remuneration of the Supervisory Board is determined by the size of the entity and the associated responsibility of the Supervisory Board members and the economic situation and performance of the corporation. As well as a fixed remuneration, Supervisory Board members receive a remuneration proportionate to the corporation's short-term results. The chairmanship, deputy chairmanship as well as the membership of the standing committee and of the audit committee are additionally remunerated.

Accordingly, the remuneration for the 2005 financial year comprises only a fixed component.

In detail the remuneration paid to Supervisory Board members is as follows:

Supervisory Board remuneration in 2005 in detail

Amounts shown in th. €	Fixed remuneration	Additional remunera-tion **	Total 2005	Changes in membership
Hero Brahms [2] [5] [9] – Chairman –	3	16	19	Chairman w.e.f. 12.05.05
Wolfgang Pokriefke* [3] [7] – Deputy Chairman –	3	15	18	
Jochen Appell	3	–	3	
Wilfried Behrens*	3	–	3	
Dr. Diethart Breipohl [8] [6]	3	19	22	
Bodo Dehn*	6	–	6	
Leo Herl [3] [7]	12	17	29	
Ulrich Hocker	3	–	3	
Peter Kalow* [3] [7]	3	15	18	
Franz Lajosbanyai*	6	2	8	
Dr. Thomas Middelhoff [1] [4]	1	11	12	until 12.05.05
Margret Mönig-Raane	2	–	2	w.e.f. 24.05.05
Hans Reischl [3]	3	2	5	
Rita Rodenbücher*	3	–	3	
Christa Schubert*	3	–	3	
Michael Stammler* [3]	3	2	5	
Dr. Jürgen Than	3	–	3	
Gertrud Tippel-Kluth*	6	–	6	
Dr. Franziska Wiethold*	1	–	1	until 24.05.05
Werner Wild*	3	–	3	
Dr. Klaus Zumwinkel	3	–	3	
	76	**99**	**175**	

* Representing the employees
** For membership of standing committee and audit committee and for chairmanship/deputy chairmanship of Supervisory Board
[1] Chairman of the standing committee until 12.05.2005
[2] Chairman of the standing committee w.e.f. 12.05.2005
[3] Member of the standing committee
[4] Chairman of the audit committee until 12.05.2005
[5] Chairman of the audit committee from 12.05.05 to 06.10.2005
[6] Chairman of the audit committee w.e.f. 06.10.2005
[7] Member of the audit committee
[8] Member of the audit committee until 06.10.2005
[9] Member of the audit committee w.e.f. 06.10.2005

Supervisory Board members do not receive variable remuneration.

For the Management Board's remuneration we refer to the statements in the Notes to the Consolidated Financial Statements on page 138.

Transparency

Since the introduction of the Corporate Governance Code KARSTADT QUELLE AG has published a financial calendar on its Website. This gives information about relevant dates and events. Furthermore, all IR, press and ad-hoc reports released since 2004 have been accessible on the Internet since 2004. At the beginning of 2006 all earlier declarations of compliance with the code were made accessible on the Website. Insider information directly concerning KARSTADT QUELLE AG is published immediately in the form of ad-hoc reports, unless later publication is advisable owing to special corporate interests.

Share transactions/shareholdings of the Management Board and Supervisory Board

Members of the Management Board and Supervisory Board are required under Section 15a German Securities Trading Law (WpHG) to disclose the acquisition or disposal of securities of KARSTADT QUELLE AG, if the value of transactions conducted by the member or his affiliates within one calendar year amounts to or exceeds 5,000.00 €. The following transactions undertaken over the past financial year were notified to KARSTADT QUELLE AG:

List of KarstadtQuelle share purchases (WKN 627500/ISIN DE 0006275001) undertaken by members of executive bodies and affiliated persons

Purchaser	Trading date	Quantity	Rate/price per share in €
Grisfonta AG [1]			
	23.03.2005	1,210,000	7.44240
	24.03.2005	320,000	7.63654
	29.03.2005	510,000	7.45398
	30.03.2005	160,000	7.47843
	31.03.2005	222,000	7.61520
	01.04.2005	448,000	7.86269
	04.04.2005	580,000	7.96370
	05.04.2005	710,000	7.96590
	06.04.2005	440,000	7.90979
	07.04.2005	1,100,000	8.08710
	08.04.2005	630,000	7.88073
Madeleine Schickedanz [2]			
	22.04.2005	55,000	7.53300
	25.04.2005	200,000	7.57280
	26.04.2005	390,000	7.59270
	27.04.2005	600,000	7.54020
	28.04.2005	920,000	7.51950
	29.04.2005	630,000	7.47733
	02.05.2005	650,000	7.80700
	03.05.2005	1,000,000	8.04466
	04.05.2005	1,065,558	8.36427
	05.05.2005	60,300	8.51500
	06.05.2005	648,000	8.70859
	09.05.2005	1,072,000	8.96800
	10.05.2005	2,105,716	9.01518
	11.05.2005	3,030,000	9.01754
	12.05.2005	831,108	9.01613
	13.05.2005	273,366	9.01715
	16.05.2005	177,020	9.01800
	17.05.2005	400,000	9.01748
	18.05.2005	180,453	9.01800
	19.05.2005	357,614	9.01506
	20.05.2005	92,025	9.01800
	27.05.2005	600,000	8.79433
	30.05.2005	90,630	8.96455
	31.05.2005	55,000	9.01260
	02.06.2005	161,163	9.01800
	06.06.2005	102,799	9.01800
	07.06.2005	84,484	9.01800
	08.06.2005	100,000	9.01800
	28.06.2005	426,839	10.72290
	29.06.2005	6,390,000	10.96690
	30.06.2005	850,712	11.05800
	01.07.2005	319,000	10.82000
	04.07.2005	340,104	10.82160
	05.07.2005	882,503	10.82160
	07.07.2005	483,750	10.81696
	20.07.2005	220,000	10.82160
	16.08.2005	21,772	10.82160
	17.08.2005	411,979	10.82016
	21.09.2005	1,169,856	10.72277
	22.09.2005	568,000	10.72164
	23.09.2005	340,500	10.78150
	26.09.2005	263,000	10.79150
	27.09.2005	97,000	10.72300
	27.09.2005	100,000	10.69130
	28.09.2005	125,000	10.76450
	29.09.2005	116,112	10.83540
	30.09.2005	41,006	10.95170
	06.10.2005	191,000	11.02920
	07.10.2005	220,000	11.06210
	31.10.2005	400,000	9.82422
	01.11.2005	1,325,000	9.82422
	02.11.2005	826,170	9.82422
	03.11.2005	17,800	9.82422

[1] Affiliated persons, because majority shares are held by Mr. Leo Herl.
[2] Wife of Supervisory Board member Mr. Leo Herl.

All transactions were published on the corporation Website at www.karstadtquelle.com.

Furthermore, the holding of securities of KARSTADT QUELLE AG must be disclosed by Management Board and Supervisory Board members, if it directly or indirectly exceeds 1 % of the shares issued by the corporation. If the total of shares held by all Management Board and Supervisory Board members exceeds 1 % of the shares issued by the corporation, the totals of shares held by Management Board and Supervisory Board must be disclosed separately.

First and family name	Financial instrument	number	Shareholding in %
Supervisory Board			
Leo Herl	Shares	103,052,336	48.886

The members of the Supervisory Board together hold 48.89 % of the shares issued by the corporation. The members of the Management Board do not hold any shares of the corporation.

Risk management, accounting, liability audit

To enable early identification of material risks, KARSTADT QUELLE AG has set up a risk management system. A detailed account is given in the consolidated management report on pages 42 to 46.

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

The Supervisory Board has appointed BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft to be auditors for the 2005 financial year. The Supervisory Board first ascertained that no business, financial personal or other relations which could give rise to doubts about the auditor's impartiality existed between the auditor and his executive bodies and audit managers, on the one hand, and the corporation and the members of its executive bodies, on the other. 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.

Declaration of Compliance with the German Corporate Governance Code

On March 21, 2006, we issued and subsequently made continuously accessible to the shareholders on the corporation's Internet site at **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 that:

KARSTADT QUELLE AG complies with all the recommendations of the German Corporate Governance Code in the version of June 2, 2005 with the exception of the retention in the case of the D & O insurance (Code Subsection 3.8 Para. 2) and will continue to comply with them to the aforementioned extent in future. Since issuing the last declaration of compliance on April 7, 2005, KARSTADT QUELLE AG has complied with the code in the version of May 21, 2003, with the exceptions mentioned there, namely, no retention in the case of the D & O insurance (Code Subsection 3.8 Para. 2) and no individualized statement of the Management Board's remuneration (Code Subsection 4.2.4 Sentence 2) and the Supervisory Board's remuneration (Code Subsection 5.4.5 Para. 3 Sentence 1)."

Essen, March 21, 2006

KARSTADT QUELLE Aktiengesellschaft

The Management Board The Supervisory Board

Major subsidiaries and proportionately consolidated joint ventures included in the consolidated financial statements

(as at 31.12.2005)

Corporation name and registered office		Capital holding in %	Equity in th. €	Sales in th. €	Employees number [1]
Karstadt					
Karstadt GmbH, Essen [3]	(V)	100	453,839	–	–
Karstadt Warenhaus GmbH, Essen	(V)	100	535,428	4,636,710	33,338
Karstadt Feinkost GmbH & Co. KG, Cologne	(Q)	74.90	83,396	439,270	2,441
Le Buffet System- Gastronomie und Dienstleistungs-GmbH, Essen	(V)	100	4,044	28,773	355
Mail order					
KARSTADT QUELLE Versand GmbH, Essen [3]	(V)	100	1,294,000	–	–
Quelle GmbH, Fürth	(V)	100	425,992	2,961,959	9,632
neckermann.de GmbH, Frankfurt/Main	(V)	100	555,431	1,195,900	4,497
QUELLE S.A.S., Saran, France [2]	(V)	100 *	53,356	363,275	1,188
Versandhaus Walz GmbH, Baby-Walz, Die moderne Hausfrau, Bad Waldsee	(V)	100	5,113	242,300	1,293
TriStyle Mode GmbH & Co. KG, Fürth [2]	(Q)	51	16,043	237,175	1,582
Neckermann B.V., Hulst, Netherlands	(V)	100	50,211	236,198	924
Neckermann Versand Österreich AG, Graz, Austria [2]	(V)	100	30,244	225,090	993
Quelle Aktiengesellschaft, Linz, Austria [2]	(V)	100 *	28,580	223,103	1,509
AFIBEL S.A., Villeneuve d`Ascq, France	(V)	99.49 *	15,945	167,155	529
Mode & Preis Versandhandels GmbH, Lörrach [2]	(V)	100	10,053	149,086	119
Mercatura Holding GmbH, Nuremberg [2]	(V)	100	9,458	123,857	1,213
Fox Markt Handelsgesellschaft mbH & Co. KG, Fürth	(V)	100	-7,951	100,927	1,158
Profectis GmbH Technischer Kundendienst, Nuremberg	(V)	100	2,556	92,427	1,409
Happy Size-Company Versandhandels GmbH, Frankfurt/Main	(V)	100	1,480	90,103	59
Elegance Rolf Offergelt GmbH, Aachen [2]	(V)	100	11,323	80,765	393
servicelogiQ GmbH logistische Dienstleistungen, Nuremberg	(V)	100	521	72,488	974
Bon' A Parte Postshop A/S, Ikast, Denmark	(V)	100	8,288	70,182	375
Nebus Loyalty B.V., Hulst, Netherlands [2]	(V)	100	4,927	68,362	221
Quelle Versand AG, St. Gallen, Switzerland	(V)	100	7,028	61,976	208
Hess Natur-Textilien GmbH & Co. KG, Butzbach	(V)	100	3,711	56,005	255

(E) Consolidated at equity
(V) Full consolidation
(Q) Proportionate consolidation
[1] Annual average, not including trainees
[2] Including subsidiaries
[3] Intermediate holding
[4] Financial year from 01.11.2004 to 31.10.2005
* Group participating interest calculated

Corporation name and registered office		Capital holding in %	Equity in th. €	Sales in th. €	Employees number 1)
Thomas Cook					
Thomas Cook Aktiengesellschaft, Oberursel (Taunus) 2) 4)	(Q)	50	420,080	69,348	556
TC Touristik GmbH, Oberursel (Taunus) 4)	(E/Q)	5/50	116,961	2,632,955	1,118
Services					
KARSTADT QUELLE Service GmbH, Essen 3)	(V)	100	1,378,300	–	–
KARSTADT QUELLE Kunden-Service GmbH, Essen 3)	(V)	100	1,358,300	–	–
KARSTADT QUELLE Business Services GmbH, Essen 3)	(V)	100 *	147,215	–	2
ITELLIUM Systems & Services GmbH, Essen	(V)	100	5,000	143,365	672
Karstadt Quelle International Services AG, St. Gallen, Switzerland	(V)	100	34,859	39,267	76
KARSTADT QUELLE Information Services GmbH, Essen	(V)	100	123,480	19,471	126
KarstadtQuelle Finanz Service GmbH, Düsseldorf	(Q)	50	120,514	12,882	105
Real estate					
KARSTADT Immobilien AG & Co. KG, Essen 3)	(V)	100	624,039	2,000	76
MOSTIA Grundstücksgesellschaft mbH & Co. KG, Grünwald, Landkreis München	(V)	100	-21,347	20,411	–
TRADO Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Dresden KG, Pöcking, Landkreis Starnberg	(V)	99.06 *	-69,059	11,722	–
“HOLM” Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Brieselang KG, Pöcking, Landkreis Starnberg	(V)	100 *	-406	4,326	–

(E) Consolidated at equity
(V) Full consolidation
(Q) Proportionate consolidation
1) Annual average, not including trainees
2) Including subsidiaries
3) Intermediate holding
4) Financial year from 01.11.2004 to 31.10.2005
* Group participating interest calculated

Glossary

Asset Backed Securitization (ABS)

The sale of receivables to a company, which refinances itself by the issue of securities, to obtain liquidity.

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. In accordance with IAS 7 cash flow is broken down into cash flow from business activities (gross cash flow), cash flow from operating activities, investing activities and financing activities.

Contractual Trust Agreement (CTA)

Contractually regulated, company trust fund for the transfer of assets to be used to finance pension payments.

Convertible bond

A fixed-interest security issued by a stock corporation. It entitles the owner to exchange the bond for shares of the stock corporation concerned during a specified period of time and in a specified ratio.

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. The Corporate Governance Code represents significant legal requirements, recommendations and suggestions for the management and monitoring of German stock-exchange-listed companies, contains standards for good, responsible corporate management and is aimed at making the German corporate governance system transparent and comprehensible.

DIFA

DIFA Deutsche Immobilien Fonds AG, Hamburg; second-largest capital investment company for open-ended real estate funds (DIFA-Fonds Nr. 1, DIFA-GRUND, DIFA-GLOBAL).

EBIT

Earnings before interest and tax.

EBITDA

Earnings before interest, tax, depreciation and amortization.

E-commerce

Electronic trading between companies and consumers.

ECE

ECE Projektmanagement G.m.b.H. & Co. KG, Hamburg; Europe‘s largest project developer and operator of inner-city shopping centers.

Equity-to-fixed-assets ratio

The equity-to-fixed assets ratio specifies the percentage rate at which parts of non-current assets are financed by equity capital. It is calculated by dividing equity capital by the sum of intangible assets, tangible assets and shares held in associates.

Fashion

Karstadt’s Fashion consumer segment comprises ladies’, men’s and children’s clothing.

Free cash flow

Specific indicator in the cash flow statement. Free cash flow is calculated from the cash flow from operating activities and cash flow from investing activities. Calculation of net free cash flow takes into account interest received and paid and changes in pension provisions and plan assets.

“HappyDigits”

Loyalty card bonus program operated jointly by KarstadtQuelle and Deutsche Telekom.

Impairments

Impairment loss which is incurred, if the present value of the estimated future cash flows of an asset is lower than its carrying amount. When testing goodwill for possible impairment in accordance with IAS 36 (2004), the recoverable amount from cash-generating units is determined by the fair value less cost to sell or the value in use. The fair value reflects the best possible estimate of the amount for which an independent third-party would acquire the cash-generating units at the balance sheet date.

Jewish Claims Conference (JCC)

Conference on Jewish Material Claims Against Germany, Inc., also known as JCC, is an international federation of Jewish organizations and represents indemnity claims by Jewish victims of National Socialism and holocaust survivors. The organization is based in New York and maintains an agency in Frankfurt.

“KarstadtQuelle Neu”

Program for comprehensive restructuring of the KarstadtQuelle Group and its companies Karstadt, Quelle and neckermann.de. The addition “Neu” clearly stands for a new departure and change in the Group.

KonTraG
German Law on Corporate Control and Transparency.

Liquidity Ist – IIIrd Grade
Liquidity is a general expression used to describe a company's ability to meet current payment obligations or enter into new ones. To find first-grade liquidity, cash and cash equivalents are divided by current liabilities. In the case of second-grade and third-grade liquidity current trade receivables and other securities (second grade) and inventories (third grade) are added to cash and cash equivalents.

Living
The Karstadt Living consumer segment comprises the Homes and Food and Drink, Kitchen and Bath segments and the YornCasa Lifestyle Concept.

Market capitalization
The valuation of a company on the stock exchange, obtained by multiplying the stock price by the number of shares of a company.

Multi-Channel Strategy
Strategy where a number of sales and communication channels complement one another. Important sales channels in the KarstadtQuelle Group are department stores, catalogs, e-commerce and TV-commerce.

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.

Personality
The Karstadt Personality consumer segment includes personal requisite ranges such as fragrances, watches and jewellery, leather goods, toys and games, books and confectionery.

Profiling product lines
Segments in which a product range competence comparable with that of specialists is offered. The product lines are expanded to include obligatory and supplementary product lines and form the overall range offered by the multispecialist.

Proportionate consolidation
In the case of proportionate consolidation assets and liabilities as well as expenses and income are included in the consolidated financial statements according to the shares in the capital of the joint venture which are to be allocated to the partner.

Risk management
In the KarstadtQuelle Group the corporate segments autonomously analyze and control their respective business risks on the basis of a Groupwide risk management system.

ROIC
Return on Invested Capital. Quotient of adjusted EBIT and invested capital. Invested capital comprises intangible assets, tangible assets, working capital, other non-interest-bearing assets and liabilities and non-interest-bearing income tax receivables and liabilities.

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

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

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

WpHG
Securities Trading Law.

Working capital
Sum of inventories and trade receivables less trade payables.

YornCasa
Karstadt Warenhaus GmbH Lifestyle Concept. The ideas- and inspiration-led YornCasa Concept offers trend products in the Bath, Bed, Living and Table segments.

5-year summary

			2001	2002	2003	2004 *	2005 *
Group sales	Sales [1]	mill. €	16,067.1	15,814.6	14,428.0	17,199.0	15,845.0
Earnings	EBIT [1] [2]	mill. €	630.7	484.4	504.0	-954.3	-125.3
	EBT [1]	mill. €	332.8	200.4	193.5	-1,432.8	-395.2
	EBT margin	in %	2.1	1.3	1.3	–	–
	Profit/loss for the year after minority interests	mill. €	234.9	162.2	107.6	-1,625.3	-316.5
Financial situation and dividends	Gross cash flow	mill. €	1,092.3	701.0	695.0	398.6	446.7
	Cash and cash equivalents [3]	mill. €	343.2	144.4	156.7	661.2	707.2
	Depreciation and amortization [1]	mill. €	462.3	474.8	387.5	526.8	391.5
	Dividends	mill. €	83.6	77.1	75.5	–	–
Structure of the balance sheet	Balance sheet total	mill. €	10,510.0	10,215.7	9,192.7	11,643.2	9,138.6
	Equity	mill. €	1,803.4	1,676.4	1,639.4	595.8	290.1
	Equity ratio	in %	17.2	16.4	17.8	5.1	3.2
	Fixed assets	mill. €	5,450.7	5,261.4	4,711.9	–	–
	Current assets	mill. €	5,000.6	4,908.4	4,429.2	–	–
	Non-current assets [3]	mill. €	–	–	–	5,680.0	4,513.7
	Current assets [3]	mill. €	–	–	–	4,753.6	4,362.2
	Net financial liabilities	mill. €	2,801.6	3,377.8	3,342.8	4,524.9	2,983.9
Other information	Employees on annual average	number	108,204	101,593	97,416	120,891	107,130
	Staff costs	mill. €	3,157.2	3,014.1	2,796.6	3,109.4	2,630.3
	Investments [4]	mill. €	1,230.9	738.3	384.7	349.0	258.8
KARSTADT QUELLE AG share	Dividend per no-par value share [5]	€	0.71	0.71	0.71	0.00	0.00
	Earnings per share [6]	€	2.00	1.40	1.01	-14.65	-1.59
	Price applying at the balance sheet date (31.12.)	€	44.40	16.50	15.88 [7]	7.59	12.83
	Highest price (01.01. - 31.12.)	€	44.85	45.45	20.98 [7]	17.51	12.83
	Lowest price (01.01. - 31.12.)	€	30.15	13.80	8.24	6.52	7.08

* From 2004 the joint ventures hitherto consolidated at equity will be consolidated proportionately.

1) From 2003 not including discontinued operations

2) EBIT from 2003 not including income from investments

3) With effect from 2004 not including assets classified as held for sale

4) From 2003 not including financial assets

5) 2001: 117,757,775 share certificates
2002: 108,537,135 share certificates
2003: 106,322,892 share certificates
2004: 106,322,892 share certificates
2005: 199,374,267 share certificates

6) 2001: 117,602,244 share certificates
2002: 115,611,968 share certificates
2003: 106,774,866 share certificates
2004: 110,921,234 share certificates
2005: 199,374,267 share certificates

7) Information adjusted due to capital measure

Future-focused statements

Also to be found in this annual report are future-focused statements based on estimates by the KarstadtQuelle management. Such statements reflect KarstadtQuelle's view with regard to future events at the time at which they were undertaken and are subject to risks and uncertainties. Many factors may cause the actual results to deviate not inconsiderably from the estimates given here. Such factors include – besides other changes in general economic and business conditions – changes in exchange rates and interest levels or changes in corporate strategy. KarstadtQuelle rejects any intention or obligation to update these statements about the future made at a specific point in time.

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