Continuing on the upswing

Annual Report 2006

KARSTADT QUELLE AG

Karstadt

Karstadt Warenhaus GmbH operates three department store formats in the market: stores of the Premium Group (KaDeWe Berlin, Alsterhaus Hamburg, Oberpollinger Munich), Karstadt department stores and KarstadtSports sports stores. As an overall format, in addition karstadt.de will be expanded as an online department store under Karstadt's multichannel strategy. Thanks to their clear positioning and focus on the modern market place Karstadt's department stores have once more become the main points of attraction at excellent prime locations in city-centers. Karstadt department and sports stores offer interesting ranges, attractive product lines and cross-category theme presentations as well as friendly service and professional advice.

Operating segments in brief *

	Adjusted sales in bill. €		Adjusted EBITDA in mill. €		Investments in mill. €		Employees (at 31.12., number)	
	2006	2005	2006	2005	2006	2005	2006	2005
Karstadt	4.90	4.73	145.9	65.2	119.8	135.3	36,206	37,056
Mail order	4.21	4.50	-31.9	4.0	68.7	67.5	22,611	24,907
Thomas Cook	3.89	3.83	199.2	191.3	30.7	41.9	10,724	13,534

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

Mail order/Primondo

Mail order is concentrating on the Quelle brand as number one amongst universal mail-order suppliers in Europe, on the growth segments in special mail order and on expansion in the Central Eastern European growth markets and in Russia. Quelle will further improve its leading position as a multi-channel provider. Special mail order is concentrating on three growth segments: customers in the over-60s age group with high purchasing power ("Golden Agers"), Premium segments (e.g. exclusive fashion) and Communities (e.g. the ecology-conscious, mothers-to-be). By focusing international operations on the growth markets in Central Eastern Europe and Russia Quelle, together with international sales in Special mail order, will in the medium term achieve an internationalization level of 50 %.

Thomas Cook

The tourism group has at its disposal a large portfolio of important brands, such as Thomas Cook, Neckermann Reisen, Bucher Last Minute and Pegase. Thomas Cook offers its customers a wide selection of package holidays as well as holiday components and services tailored to their personal needs. These products are sold through a large number of channels, both the Group's own and those operated in partnership with others. Thomas Cook increasingly operates a highly flexible business model with the lowest possible capital tie-up (asset light). Thanks to the acquisition of Lufthansa's 50 percent share in Thomas Cook and the planned merger with the leading British tourism company MyTravel the newly positioned Thomas Cook Group will become an internationally leading tourism company.

At a glance *

			2006	2005*	Change in %
Sales	Karstadt	mill. €	4,898.8	4,734.1	3.5
	Mail order/Primondo	mill. €	4,205.4	4,500.3	-6.6
	Thomas Cook	mill. €	3,886.7	3,828.7	1.5
	Operating segments	mill. €	**12,990.9**	**13,063.1**	-0.6
	Other segments 1)	mill. €	216.8	236.0	–
	Reconciliation account	mill. €	-157.2	-127.6	–
		mill. €	**13,050.5**	**13,171.5**	-0.9
Earnings	Karstadt	mill. €	145.9	65.2	123.6
	Mail order/Primondo	mill. €	-31.9	4.0	–
	Thomas Cook	mill. €	199.2	191.3	4.1
	Operating segments	mill. €	**313.2**	**260.5**	20.2
	Other segments 1)	mill. €	166.1	330.0	–
	Reconciliation account/Holding company	mill. €	-70.4	-37.9	–
	EBITDA (adjusted)	mill. €	**408.9**	**552.6**	-26.0
	EBITDA margin (adjusted)	*in %*	*3.1*	*4.2*	–
	EBITDA (adjusted) before adjustments 3)	mill. €	**222.4**	**198.9**	11.8
	Group earnings after minorities	mill. €	**345.6**	**-316.5**	209.2
Financial situation	Free cash flow	mill. €	3,018.9	1,960.4	54.0
	Cash and cash equivalents	mill. €	1,152.1	707.2	62.9
	Investments	mill. €	233.7	258.8	-9.7
	Depreciation and amortization (not including amortization of goodwill)	mill. €	346.0	356.8	3.0
	Net financial assets/Net financial liabilities	mill. €	148.9	-2,689.5	105.5
	Working capital	mill. €	387.2	1,225.8	-68.4
Full-time employees at the balance-sheet date	Karstadt	number	26,608	28,701	-7.3
	Mail order/Primondo	number	17,966	19,803	-9.3
	Thomas Cook	number	9,548	11,649	-18.0
	Operating segments	number	**54,122**	**60,153**	-10.0
	Other segments 2)	number	1,450	1,468	-1.2
	Total	number	**55,572**	**61,621**	-9.8
KARSTADT QUELLE AG share	Shares on annual average	number in th.	200,610	199,374	0.6
	Earnings per share (undiluted)	€	1.72	-1.59	–
	Earnings per share (diluted)	€	1.62	–	–
	Dividend per no-par value share	€	0.00	0.00	–
	Rate applying at the balance-sheet date (31.12.)	€	21.96	12.83	71.2
	highest price (01.01. – 31.12.)	€	25.37	12.83	97.7
	lowest price (01.01. – 31.12.)	€	12.93	7.08	82.6

* The figures were adjusted. The adjustments relate to special factors and divestments.
1) The Other segments comprise: Services and Real estate.
2) The Other segments comprise: Services, Real estate and Holding company.
3) Before reclassification of the discontinued operations and without Real Estate, previous year adjusted.

We shall continue to press ahead with the transformation of the Group in the interest of our shareholders. Our shareholders are profiting from an important value-enhancing potential. The operating businesses at Karstadt, Primondo and Thomas Cook are gaining in dynamism and will increasingly generate solid, organic growth. At the same time the Group has high strategic potential. We want to actively pursue consolidation in our core business segments and create added value through acquisitions, mergers and partnerships. Our aim is to further improve our excellent market position in the core business segments and lastingly and considerably increase the value of the Group for our shareholders.

We are consistently continuing the program of restructuring and realignment of the Group.
Our aim is to create a focused, highly profitable Group.

Continuing on the upswing

We are consistently continuing the program of restructuring and realignment of the Group. Our aim is to create a focused, highly profitable Group.

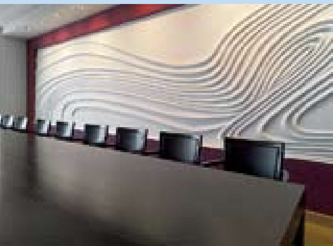
Following a successful reduction of debts and excellent progress in operating business, we are concentrating on three core business segments and the utilization of the high strategic potential of our Group. The focus is on the following issues:

- Expansion of leading market positions by organic growth and M&A
- Strategic partnerships
- Internationalization
- Expansion of the e-commerce operation
- Realization of hidden reserves (e.g. financial and information services)

Karstadt is becoming the talk of the town once more


125
Jahre



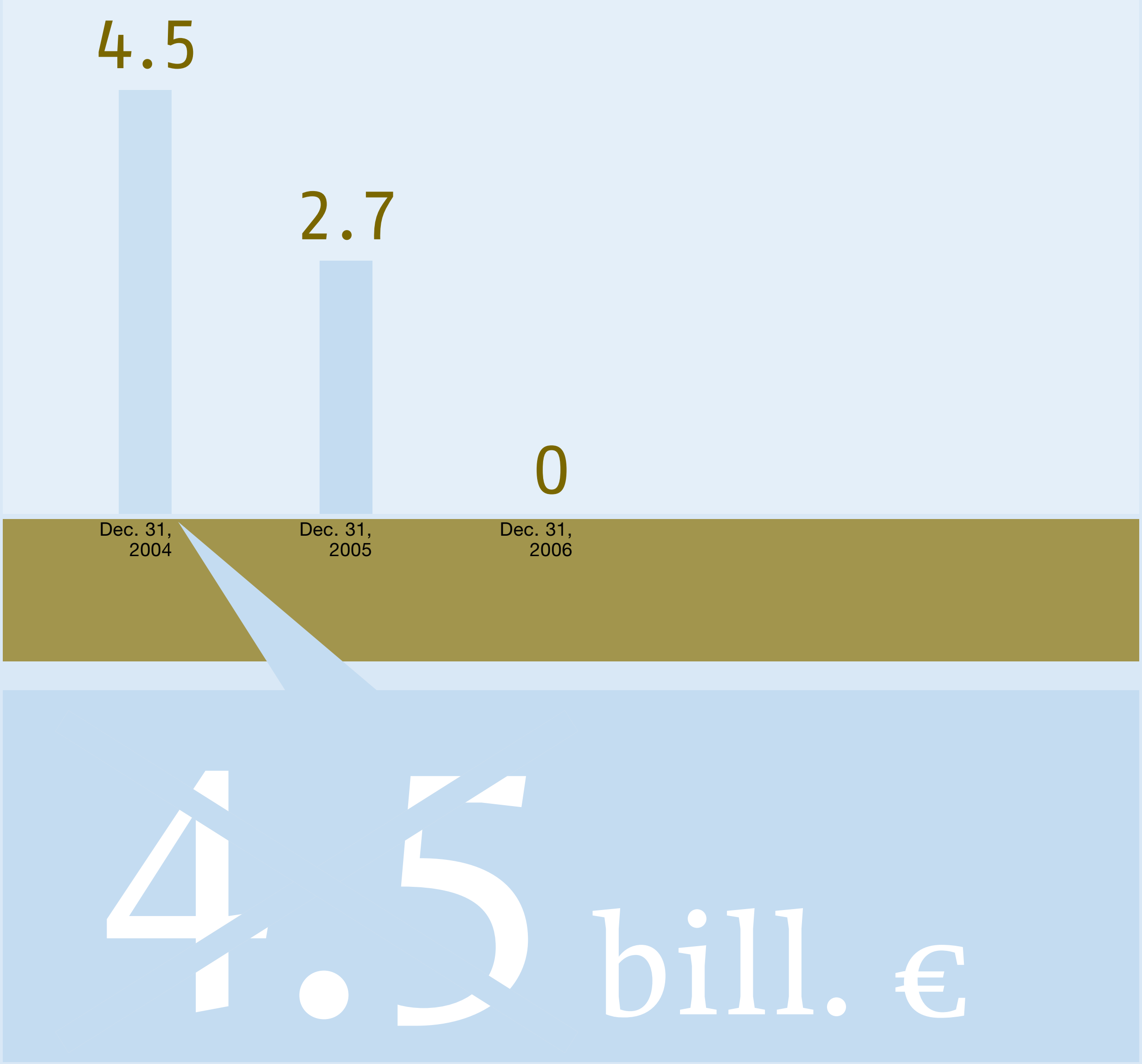







Schmuck mit Vergangenheit
Gabor

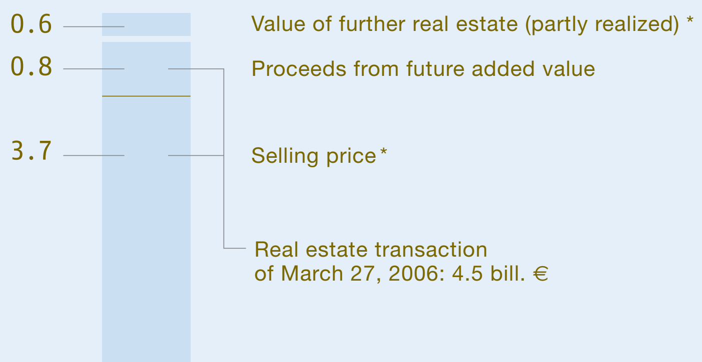

Net financial liabilities
bill. €



Net financial liabilities reduced to zero

In less than two years we have reduced to zero net financial liabilities of 4.5 bill. €. At the end of 2006 – sooner than planned – KarstadtQuelle is free of financial debt. We thus have the freedom and flexibility to take further strategic steps and achieve growth on the basis of what is now a less capital-intensive business model.

Real estate to the value of over 5 bill. €



* Incl. pension fund.

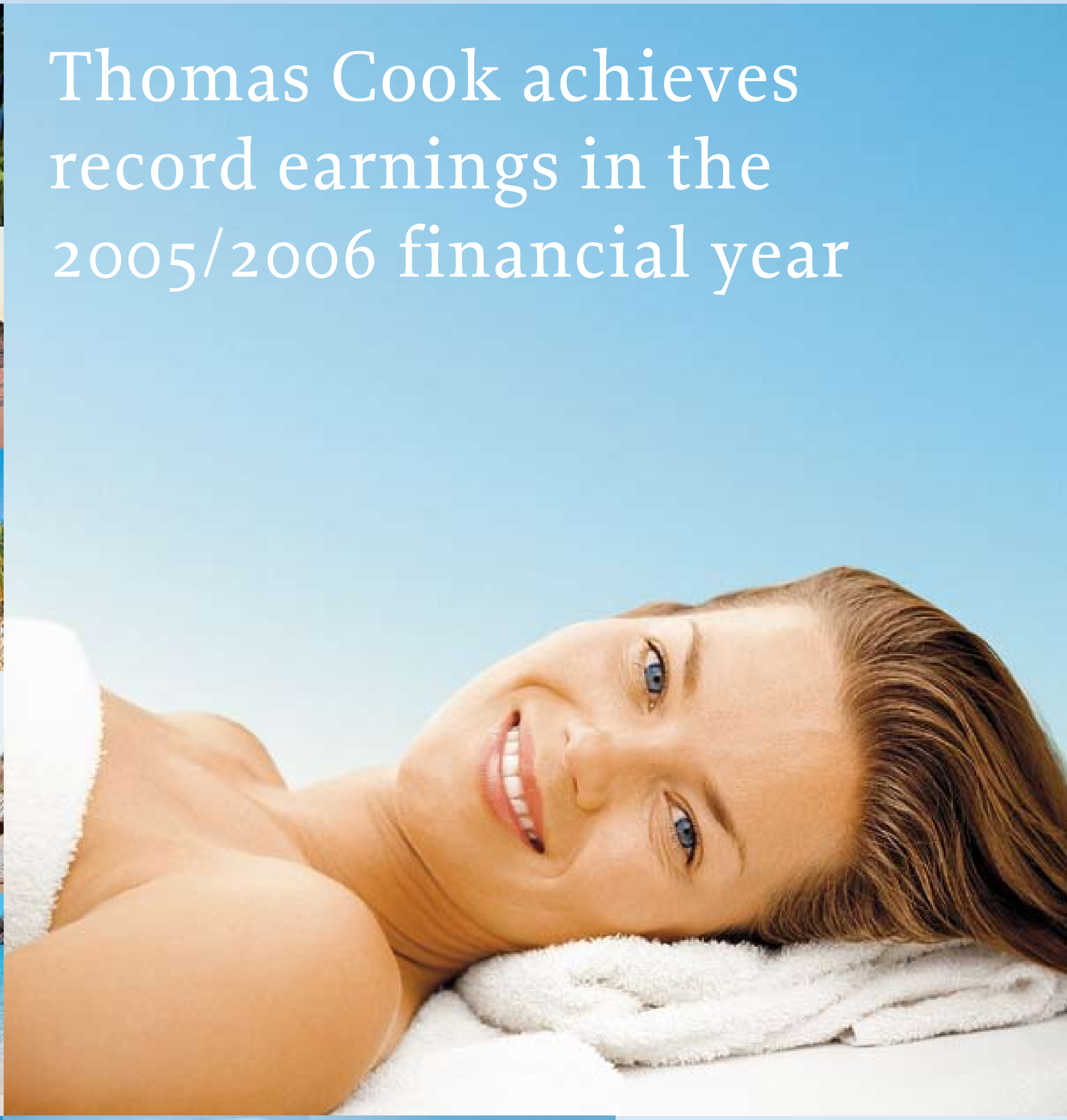
4.5 bill. €

Real estate sold for an optimum price

We sold our comprehensive real estate portfolio at the right time for an optimum price. For this we chose a structure based on international transactions and so were able to successfully coordinate two strategic moves in the interest of our shareholders. On the one hand, high liquid funds accrued to us in the short term, enabling us to pay off our net financial liabilities; on the other hand, we retained the right of access to the anticipated rise in the value of the real estate.


Thomas Cook
Reisen
Traumurlaub nach Maß
Thomas Cook
Reisen
Kreuzfahrten
Condor
JETZT NEU
Neckermann
Afrika & Asien
Neckermann

Thomas Cook achieves record earnings in the 2005/2006 financial year



100 %

Expansion of Tourism creates added value for shareholders

The KarstadtQuelle Group has many decades of experience in the field of tourism and is among the market pioneers. Following acquisition of Deutsche Lufthansa's 50 % shareholding in Thomas Cook, we shall set up an internationally leading tourism company by the planned merger of Thomas Cook and MyTravel. We can then effectively combine our core competencies in the Travel and Retail segments and so create further added value for our shareholders.

5–10 %

International purchasing reorganized

We transferred the organization of and negotiation for international purchasing to Li & Fung, one of the international market leaders. We want to concentrate on our core competencies of design, product line management and product presentation. Through this strategic step we are profiting from, amongst other things, purchase prices which are on average 5 to 10 % lower, considerably longer payment targets and, on the basis of a planned volume of imports of 2 bill. €, a substantial reduction of working capital by 500 mill. €.

3



Expansion of the leading market positions in all core operations

KARSTADT QUELLE AG

Karstadt

- No. 1 in Germany
- No. 1 in the German textile market
- No. 1 in the German sports market
- Top locations

Mail order / Primondo

- No. 1 in Germany
- No. 2 in e-commerce
- Market leader in many European countries
- Strong portfolio in Special mail order

Thomas Cook

- No. 2 in Germany
- No. 2 in Europe

Three strong operating segments

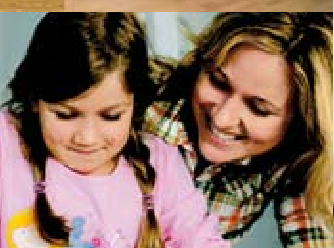
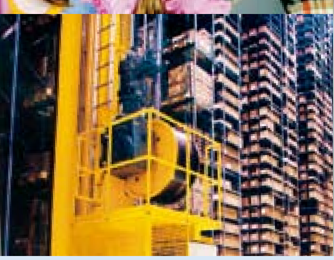
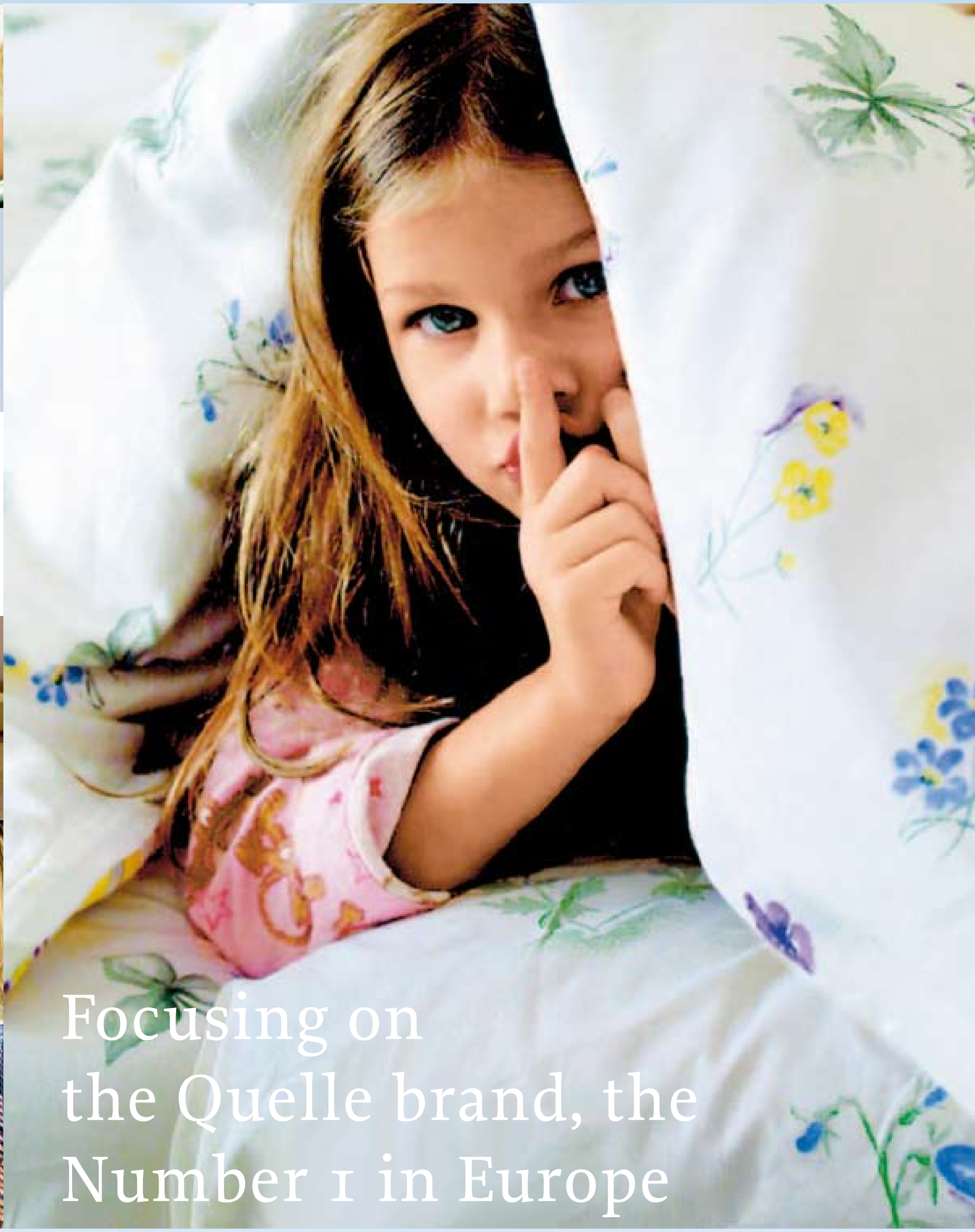
We redefined our core businesses and competences and are concentrating on three strong operating segments: Karstadt, Primondo and Thomas Cook. They are Number 1 or 2 in their respective markets and will further expand their leading positions through organic growth, acquisitions, mergers and partnerships.


TREND
FAVOURITES
QUELLE
mirabeau
www.madeleine.de
MADELEINE
favourites
QUELLE
baby-walz
BOGNER
QUELLE.







Focusing on the Quelle brand, the Number 1 in Europe

Strategy

Preconditions for growth created

In the year under review we created the decisive preconditions for growth. Through the successful, timely completion of the financial restructuring we have achieved the necessary flexibility for further strategic steps. We are relying on a less capital-intensive business model in the three core segments, Karstadt, Primondo und Thomas Cook (“asset-light model”). All three core segments were realigned. In future they will be concentrating on highly profitable growth areas.

Focus 2007+: Growth, strategic options and operating excellence

The management focus for the coming financial years will be on growth, strategic options and operating excellence. These include further operating and strategic improvements in the core segments, the utilization of our financial leeway to invest, acquire and form strategic alliances as well as the realization of hidden reserves in the case of other assets, for example, in the case of financial and information services.

Karstadt

Where do we stand today?

Following successful reconstruction, Karstadt is in the process of implementing the strategic realignment in the department stores. The “Karstadt” brand is being positioned as a modern, attractive market place. The new culture in our department stores stands for ideas, service, high-quality products and a shopping experience. This culture is being transferred with varying emphasis to our three department store formats:

- Premium department stores (“Top of Europe”) offer a shopping experience with cosmopolitan style, luxury and designer brands, high-quality product presentation, a high level of service and top events at top locations.

- Karstadt department stores (“Top of City”) present a modern ambience with brands in the middle to upper ranges and a large proportion of own designer brands at top locations. They organize events with a high regional interest.

- KarstadtSports, as market leader, presents sports stores with a lifestyle-oriented range of international brands and own brands at top locations.

Which are the value drivers?

Karstadt is being repositioned with a clear, unmistakable brand profile. The central element is trading-up: the product line focus is becoming more sophisticated: we emphasize the quality and not the price. In addition, we attach especial weight to service and advice. One decisive value-driver is the uniqueness of our Premium Group. Through this cosmopolitan format we are very clearly differentiating ourselves from our competitors; moreover, the format is hard for competitors to copy. The outstanding performance of the Premium Group, as well as that of the other reorganized department stores, and considerably higher customer satisfaction all round show that we are on the right track.

From March 2007 on we shall be presenting monthly varying themeworlds in high-selling areas of our department stores. In this way we are stressing our competence in product line management, product presentation and fast implementation of current trends. This strategy will therefore have not only a sales-boosting but also an image- and brand-boosting effect.

Concerning external growth our focus will be on partnerships, if necessary, at an international level, and on active participation in the consolidation of the markets.

Primondo

Where do we stand today?

In the 2006 financial year we began the consistent reconstruction and realignment of Mail order. In Universal mail order we shall be concentrating on the market leader, Quelle. We want the second universal mail order supplier, neckermann.de, to be listed on the stock exchange in 2007. Alternatively, we are considering a sale.

By concentration on the market leader we are reducing Universal mail order's share of consolidated sales and our dependence on the German market. This is enabling us to focus our resources on the further development of Quelle. Quelle is Europe's leading multichannel provider and Number 1 in E-commerce amongst German mail-order companies. This position we shall expand intensively. Quelle wants to gain entry to the still growing teleshopping sector and so open up an additional sales channel. From 2007 on sales through the traditional catalog will be boosted by the new concept of monthly catalogs, which offer the latest fashions and trends considerably faster than hitherto. The monthly catalogs will be backed up by TV commercials, which will link to the image campaign successfully launched at the end of September 2006.

Quelle's international business will be focused to follow future market development. Mail order is concentrating on the German-speaking area, particularly Central and Eastern Europe, with a special emphasis on Russia. Sales of around 1 bill. € are aimed for for Russia in the mid term.

In Europewide Special mail order we are concentrating on three segments: the 60+ target group ("Golden Agers") and the Premium and Communities segments. We are disposing of special mail-order companies outside these three segments and want to take advantage of opportunities for the acquisition of companies in this target group.

In Europewide Special mail order we are concentrating on three segments.

The service group, consisting of 14 call centers, five logistics locations and IT service providers with a total of 10,000 employees, is to be sold either whole or in parts or further developed jointly with a strategic partner.

Which are the value drivers?

The success of the repositioning of Quelle has already shown itself during the financial year in the form of considerably improved performance key figures: Thus, the number of regular customers in the second half of 2006 rose by 22 % on the first half of the year; the number of new customers rose by no less than 25 %. Delivery capacity improved by 4 percentage points during the same period. In E-commerce the number of visits in the record month of December rose to 1.3 million per day, and the number of orders reached peak levels of 2,000 per hour. There is great added-value potential for Quelle in the further expansion of E-commerce and from the new marketing campaign, expansion in Russia and further consistent reduction of infrastructure costs.

In Mail order, too, we want to utilize all the options for acquisition and strategic partnerships, both in Germany and internationally.

Thomas Cook

Where do we stand today?

After several years of consolidation, accompanied by a drastic reduction in capacity, Thomas Cook is back on the road to success. In the 2005/2006 financial year record earnings were achieved. On the basis of the successful package holiday business Thomas Cook is continuing to consistently develop holiday components and the profitable online sales system with specific local emphasis. This business model is less capital-intensive, future-focused and highly profitable.

Thomas Cook
is back on
the road to success.

Which are the value drivers?

Thomas Cook is accelerating organic growth and at the same time participating actively in the consolidation of markets in Europe.

Important drivers of organic growth are the opening up of new markets and the accelerated expansion of new sales channels, such as online platforms and department stores, as well as innovations, such as financial services.

Thomas Cook is actively participating in the consolidation of European markets. In February 2007 we announced the planned merger of Thomas Cook AG with British MyTravel plc.

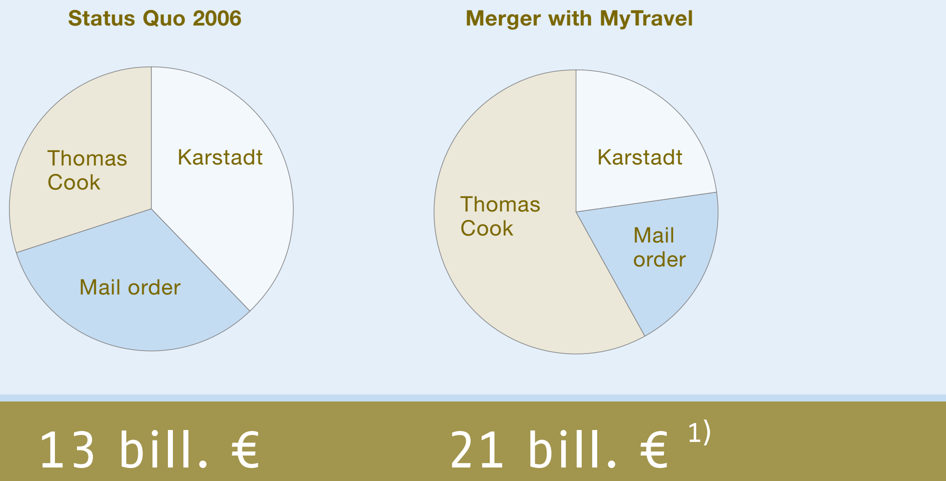
From the planned merger arose Thomas Cook Group plc, a company with sales of around 12 bill. €. The common market position is being strengthened and regional diversification improved. In Thomas Cook Group plc one of the world's leading tourism companies with leading brands in the various markets, a strong balance sheet structure and experienced management will be created.

Our shareholders are profiting from the transaction in a number of ways: Thomas Cook will be listed on the stock exchange and valued by applying the higher multiples usual in the market. Also the synergies in the region of a three-digit million amount set up by the merger will indirectly be reflected positively on the KarstadtQuelle balance sheet. Furthermore, the new company can utilize MyTravel's loss carry-forward amounting to 1.2 bill. €.

Outlook

The strengthened tourism business will enable the Group, which will remain free of financial liabilities, to achieve sales amounting to around 21 bill. €. Half of consolidated sales will then be achieved in tourism and the other half in retail.

Distribution of sales in the three core segments



1) Full consolidation (100 %) of Thomas Cook Group plc.

21 bill. €

We want to increase consolidated sales to around 23 bill. € in 2008/2009. Sales will be affected by organic growth as well as by acquisitions and mergers. Through active participation in consolidation in the core business segments in Europe the sales weighting can then shift again in favour of retail. EBITDA will then stand at over 1.3 bill. € and the equity ratio rise to around 25 %.

Sustained rise in value for KarstadtQuelle shareholders
Medium-term targets

		2005		2008/2009
Sales	bill. €	13.2	x > 1.7	> 23 [1]
EBITDA	bill. €	0.6	x > 2.2	> 1.3
Net financial liabilities	bill. €	2.7	reduced to 0	0
Equity ratio	in %	3.2	x 7.8	~25

[1] Further organic growth and M&A operations.

Continuing on the upswing I–XXX
Strategy

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Letter to Shareholders

Dr. Thomas Middelhoff – Chairman –
Born in 1953
Corporate Communications, Investor Relations
Law, Revision, Management projects,
Group tourism segment

Dr. Matthias Bellmann
Born in 1953
Human Resources/Labour Relations Director
"KarstadtQuelle Neu" project
KarstadtQuelle Management Consulting

Dr. Peter Diesch
Born in 1954
Controling, Finance
Corporate Accounting Financial Services
Taxes, Real estate

Prof. Dr. Helmut Merkel
Born in 1949
Purchasing, Logistics, IT
Environmental and social affairs

Marc Sommer
Born in 1962
Mail order

Peter Michael Wolf
Born in 1959
Over-the-counter retail

Dear Shareholders,

2006 was yet another successful year for both the KarstadtQuelle Group and for you as Shareholders. Your company's share price rose by 71 % and so, as in 2005, once again conspicuously outperformed all the comparable indexes. The market capitalization of your Group in 2006 rose correspondingly by 2 bill. € to 4.7 bill. €. The stock exchange is thus acknowledging our strategic and operating success and at the same time reflecting the successful and very rapid transformation in the KarstadtQuelle Group.

We completed the difficult phase of rescue and reconstruction of the Group in the 2006 financial year and created all the preconditions necessary for moving from the defensive to the offensive. Your Group is now receiving a new, far more profitable structure. We are growing consistently in areas where we perceive the greatest sales and earnings potential to lie and are continuing to wind down our operations where we are not achieving sufficient value added. The expansion of our tourism business is an initial proof of your Group's new identity.

2006 – strategic progress and operating success

To enable your Group to develop further, we need room to manoeuvre strategically. This we gained by a number of strategic and operating moves in the 2006 financial year. These included, for example, the successful disposal of the real estate portfolio, the realignment of our purchasing through collaboration with Li & Fung and the agreement with Deutsche Lufthansa AG on the takeover of its 50 % shareholding in Thomas Cook. At the same time we also made operating progress and are going forward step by step with the repositioning of our business segments.

Consolidated sales reach 13.1 bill. € – net profit after minorities rises to 346 mill. € – earnings target reached

Comparable Group sales came to 13.1 bill. € in the 2006 financial year and were thus slightly below the previous year's level. Karstadt considerably outperformed the market and substantially increased sales. Thomas Cook likewise gained market share and also increased its sales. As expected, Mail order put in a substantially lower sales performance owing to difficult business in Universal mail order Germany.

The earnings performance was good. Group earnings after minority interests rose to 345.6 bill. € (previous year: minus 316.5 mill. €). Particularly the gains from the successful disposal of the real estate portfolio had a positive effect.

Adjusted EBITDA in the operating segments stood at 313.2 mill. € (previous year: 260.5 mill. €). This represents a growth of 20.2 %. Karstadt more than doubled its earnings. Mail order was, as expected, below the previous year's level. Thomas Cook returns a rise by 4.1 % in earnings despite substantial rises in kerosene prices.

Our adjusted earnings target has therefore meanwhile been achieved. Adjusted EBITDA (not including the Real estate segment) stood at 222.4 mill. € (previous year: 198.9 mill. €). This represents an increase by around 12 %, compared with the 10 % increase forecast by us.

Group net financial liabilities zero – equity ratio multiplied – Working capital considerably reduced

Net financial indebtedness was – as scheduled – for the first time zero at the balance sheet date. Hardly anyone would have believed this of us a year ago. We were able to multiply our equity ratio a number of times during the year under review. At the balance sheet date it stood at 14 %. A further indicator of our improvement is working capital. Here we achieved a total reduction by 68 % in the framework of realignment. Operatively, the reduction came to 16 %.

2006 – Strategic progress and operating success.

Where do we stand operatively?

The realignment of Karstadt is proceeding successfully

Both the restructuring and the repositioning of the Karstadt brand are showing marked success. Particularly the realigned stores are returning outstanding performances and have considerably helped Karstadt to substantially outperform its competitors as part of a company success phase. The consistent trading-up had a positive effect on the time customers spend with us and led to higher-value purchases and so higher average receipts. The celebration of the "125 years of Karstadt" anniversary is visible proof of our new strength in marketing. The substantial increase in customer satisfaction shows that we are on the right track with our focus on customer service. Customers are increasingly acknowledging that we are once again concentrating on our traditional strengths, on good advice and up-to-the-minute, attractive product lines at prime locations in city centers.

Mail order gains customers – clear focus on growth areas

A positive result of the realignment of mail order was that we were able to further stabilize sales in the fourth quarter of the year under review. Sales performance thus continuously improved over the course of the year. The focus on the selective expansion of the growth areas Special mail order, International mail order (in Central and Eastern Europe) and particularly E-commerce is producing good results. We considerably reduced our dependency on the latterly difficult Universal mail order in Germany and are concentrating on Quelle, the market leader. The initiated measures are already having a positive effect on Quelle's operating business. The realignment of the brand and the new catalog presentation are going down very well with the customers. Accordingly, in the second half of the year the number of regular and new customers rose by over 20 % and in E-commerce visits and the number of orders was substantially increased. Quelle.de was amongst the most successful and best-selling portals in the fourth quarter of 2006.

Thomas Cook continuing to grow – merger with MyTravel to form Thomas Cook Group plc creates high value-added potential

The restructuring phase at Thomas Cook has been successfully completed. Thomas Cook can look back on a record year. An optimized product mix, new innovative products, reduction of capacities and consistent cost management have materially contributed to this. We regard tourism as one of our core competences and anticipate sustained growth in this segment. Accordingly, we acquired the remaining 50 % share in Thomas Cook AG from Deutsche Lufthansa AG. We now hold a 100 % share in the tour operator business and at the same time, with 75.1 %, the majority in the Condor airline.

The complete takeover of Thomas Cook opens up to us immense strategic potential. We want to expand Thomas Cook into an even stronger growing, profitable pillar of the Group. Accordingly, we are the driving force behind the market consolidation of the tourism segment in Europe. In February 2007 we took a further, important strategic step. We created the preconditions for a merger of Thomas Cook and the stock-exchange-listed MyTravel plc and want to create a new, stock-exchange-listed company under the name Thomas Cook Group plc. For you, Dear Shareholders, this means a tremendous value increase. Thanks to the planned merger Thomas Cook will in future be listed on the London stock exchange and will enjoy all the advantages of listing. A further positive effect is that the valuation and market capitalisation of the Thomas Cook Group plc will be adjusted upwards, corresponding to its international peer group. Furthermore, high, earnings-boosting synergies may be achieved in the British tourism market. The price of the MyTravel share rose by more than 30 % immediately after the announcement of the merger. You, Dear KarstadtQuelle Shareholders, are profiting from this value increase by 52 %.

A new international Group is being created

Thanks to the strengthening of Thomas Cook Group sales in the current financial year are being contributed in equal shares by Tourism and Retail, the international share being over 50 %. We have thus considerably reduced our dependency on Universal mail order in Germany and at the same time considerably progressed the internationalization of the Group. At the same time we are growing into a new, higher valuation. The stock exchange has acknowledged our strategy. In the first few weeks of 2007 our share price rose by a further 25 %.

Changes in management

The Group is meeting the new challenges and in particular the planned M&A activities with a newly formed management team. In January 2006 Marc Sommer took over the management of Mail order, since August 2006 Peter Wolf has been in charge of department store business and on January 16, 2007, Dr. Peter Diesch brought added strength as new CFO. Particularly because of his management board work at Tchibo Holding AG and Linde AG he has acquired considerable experience in the area of M & A. He will therefore play an important role in the further planned transactions for consolidation of the markets. After completion of the merger with the Thomas Cook Group plc its CEO, Manny Fontenla-Novoa, will complete the management team.

New financial year: October 1 to September 30

After intensive discussion the management has decided to change the financial year to the period October 1 to September 30.

For Retail the advantage consists in the fact that the decisive Christmas quarter comes at the start of each financial year and so the reliability of the planning and transparency for the year as a whole rises substantially. Furthermore, during the strongest-selling weeks of the year our employees need no longer concern themselves with stocktaking activities and can devote themselves completely to serving the customers.

As part of this changeover, there will be a short financial year from January 1 to September 30, 2007 for the retail segments. Thomas Cook's business year will remain unchanged.

Outlook

We will consistently press ahead with the realignment of the Group and want to grow organically. We anticipate in the short 2007 financial year a growth in comparable Group sales, compared with the respective previous year's period. We anticipate that in the operating segments at Group level adjusted EBITDA will grow substantially. The decisive factor here is the 100 % inclusion of Thomas Cook.

A further area of emphasis will be the active consolidation of the markets (M&A) in our core business segments. Other areas of emphasis in the short 2007 financial year will be the rapid realization of the targets in the Li & Fung collaboration and the IPO or the utilization of further options for neckermann.de.

We want to increase Group sales to around 23 bill. € as early as 2008/2009. Alongside organic growth, acquisitions and mergers in particular will have a positive effect. EBITDA will rise to over 1.3 bill. €. We want to continue to run the Group as far as possible free of net financial liabilities and so create further strategic room to manoeuvre. The equity ratio will rise to around 25 %.

For the Management Board

Your

Dr. Thomas Middelhoff
Chairman of the Management Board

Insights 2006

February

KQ ACADEMY

May

August

January

09.01.2006__In the fourth quarter 2005, which is decisive for the retail trade, for the first time in 10 years Karstadt department and sports stores succeeded in reversing the trend and returning a growth in sales.

February

16.02.2006__Karstadt sets up Premium Group: Grouped in this unique portfolio are department stores like KaDeWe in Berlin, Alsterhaus in Hamburg, Oberpollinger in Munich, Karstadt in Dresden and in future the store at the Zeil in Frankfurt.

March

27.03.2006__Real estate package sold – KarstadtQuelle 2006 net financial liabilities zero: “The reduction of the Group’s indebtedness to zero gives us more space to develop and grow on the basis of a less capital-intensive business model,” says Management Board Chairman, Dr. Thomas Middelhoff.

May

20.05.2006__KarstadtQuelle sets up own academy: Above and beyond a long-term career and competence development, the program is aimed particularly at the early sensitization of people of high potential to strategic Group questions.

July

17.07.2006__Thomas Cook outperforms the market: Thomas Cook AG returns a positive interim balance for the 2006 summer season. In the German operator market Europe’s second-largest tourism group records a rise by 5.6 percent in bookings by mid-July 2006, compared with the previous year.

August

25.08.2006__Karstadt celebrates its 125th anniversary: To the accompaniment of media-effective events like the unveiling of the golden anniversary bag at the Brandenburg Gate, Karstadt launches the anniversary celebrations to commemorate the founding of the department stores 125 years ago.


September


October


November

December

September

04.09.2006__KARSTADT QUELLE AG nearly doubled the number of its trainees in the Department store segment in 2006: 1,000 school leavers have begun their three-year training period at one of Karstadt's 90 department stores and at Karstadt's administrative headquarters in Essen.

13.09.2006__Laying of the foundation stone for the new shopping centre at Limbecker Platz, Essen. Karstadt will operate a modern department store and a sports store, as anchor tenant.

28.09.2006__Karstadt sets new standards in shopping experience: Jointly with attractive and competent co-tenants Karstadt sets up a supraregional shopping mecca on more than 33,000 sq. m. of sales space in the heart of the city of Leipzig.

October

01.10.2006__Far-reaching sourcing agreement signed with Li & Fung: KarstadtQuelle and Li & Fung Ltd., the world's largest sourcing company, based in Hong Kong, conclude an agreement on future cooperation. Li & Fung undertakes international sourcing for KarstadtQuelle.

November

09.11.2006__KarstadtQuelle leader in transparency of environmental and social standards: An international survey ranks KarstadtQuelle one of only three German companies amongst the world's top 50.

28.11.2006__KARSTADT QUELLE AG reorganizes its Mail-order segment. Germany's leading universal mail-order supplier is intensively developed. The second universal mail-order supplier, neckermann.de, will be listed on the stock exchange in 2007. Alternatively, a sale is being considered.

December

22.12.2006__KarstadtQuelle acquires Thomas Cook AG: The shareholders in Thomas Cook AG, Lufthansa und KarstadtQuelle, agree that KarstadtQuelle will acquire the 50 percent share in Thomas Cook.

Corporate Communications

Investor Relations

Intensive communication on the new Group strategy

2006 was dominated by numerous measures for the realignment of the Group. Investor Relations' main task was to actively prepare the capital market early for the imminent changes in the Group and to make new developments transparent.

We continued to strongly expand our contacts with institutional investors and buy-side analysts. We met with particularly great interest in the English and North American regions. We explained the realignment of our Group in detail at a number of road shows in, amongst other places, New York, London, Zürich and Frankfurt.

We also presented the KarstadtQuelle strategy at important investor conferences, amongst them, the German Investment Seminar and the German MidCap Investment Conference of Dresdner Kleinwort in New York, the Cheuvreux Conference on European Mid Cap Companies in New York, the Cheuvreux German Corporate Conference in Kronberg and the investors' conference of the Bank am Bellevue in Switzerland.

In telephone conferences and numerous individual discussions we made clear the Group's potential to investors and analysts.

Important Investor Relations dates

Annual General Meeting (Düsseldorf)	May 10, 2007
Interim reports	
1. Quarter	May 10, 2007
2. Quarter	August 9, 2007

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 31.12.2006)	1.42 %

At the end of March we hosted our annual analysts' conference in Düsseldorf. The main points for discussion were the results for the 2005 financial year, the future alignment of the Group and the sale of the real estate portfolio.

At a number of share forums of the Deutsche Schutzvereinigung für Wertpapierbesitz (DSW) we presented the KarstadtQuelle Group and its strategy to numerous private investors and sought a dialogue. We informed our shareholders in detail about the Group's performance at the ordinary general meeting of shareholders in Düsseldorf in May 2006. We also maintained contact with our shareholders by telephone and email throughout the year.

We use the Internet intensively to make the important publications and information about the Group and the share available to all those interested. On our homepage at www.karstadtquelle.com the Investor Relations section offers, amongst other things, financial reports, IR releases, presentations, share prices and key figures, financial calendar and events, facts & figures, the Annual Document in accordance with the German Securities Prospectus Law and information on corporate governance.

Public relations

Up-to-date and continuous information of the media in accordance with the long-term strategy of the KarstadtQuelle Group featured prominently in the communication work during the period under review. The continuing high response in the press, on the radio and on television reflects the great public interest in the further progress of the restructuring and realignment of the Group. A total of ten major press conferences were held to satisfy the demand for information among the public and in the media.

An important subject of media relations during the period under review was the total reduction of Group net financial debt to zero by the sale of the real estate portfolio. However, the new cooperation with Li & Fung also met with widespread media attention. In summer the media focused on the football world championship: the Official FIFA WM 2006™ Shops were successfully established in football fans' awareness. The 125 years of Karstadt company anniversary with numerous events at the stores drew the interest of the local and regional media in particular. At the end of the year media relations concentrated on the realignment of the Group in the Tourism segment, and specifically on the acquisition of Deutsche Lufthansa AG's entire shareholdings in Thomas Cook AG.

Environmental and social policy

Future-proof business management

KARSTADT QUELLE AG combines commercial success with social and ecological responsibility in keeping with Corporate Social Responsibility (CSR). This prescribes responsible, entrepreneurial action which goes beyond a company's actual business activity. For the company sustained management means being successful in establishing added value and innovation in the core business for the long term – a competitive advantage which also ensures business success in the long term.

Social commitment along the value-added chain

For KarstadtQuelle in its own value-added chain there are numerous opportunities for the Group to be able to assume responsibility in society and at the same time expand its competitive advantage. The underlying processes include company infrastructure, human resources management and purchasing and sourcing. The Group is very successful in the adoption of voluntary standards for corporate responsibility. Thanks to its customer proximity it is able to open up markets for environmentally friendly and socially friendly products and to meet their demands, amongst other ways, through the delivery chain. Guidance by eco- and social standards makes global supply chains more reliable, more cost-effective and more assured. Through its purchasing power KarstadtQuelle decisively influences environmental and social conditions in the product chain.

Guidance by eco- and social standards makes global supply chains more reliable, more cost-effective and more assured.

Sourcing markets

In the sourcing of products a special challenge results from the internationalization of purchasing, particularly from the threshold and developing countries. Besides its agreements on price and quality of the products ordered, the Group exerts an influence on their social and environmentally friendly production conditions and contributes lasting to the improvement of living conditions in the countries of manufacture. Since 2004 the Group has participated in the community "Business Social Compliance Initiative" (BSCI), which was developed under the aegis of the European Foreign Trade Association (FTA). The European retail companies represented by it vet their suppliers in the textile, sports goods and toys sectors in the high-growth, export-oriented countries of Asia and Eastern Europe for adherence to minimum social standards.

Initiatives for the advancement of corporate responsibility

International and national CSR networks and platforms are important forums for KarstadtQuelle to exchange ideas about activities and innovative approaches. These include e.g. the UN Global Compact, Global Reporting Initiative (GRI), the Deutsche Netzwerk Wirtschaftsethik (DNWE) and the Wissenschaftspressekonferenz (WPK). The Gesellschaft für technische Zusammenarbeit (GTZ) initiates and coordinates forums for stimulating a broader dialogue on social standards in the individual countries. Taking part in these "National Round Tables" are not only the International Trade Association of the German Retail Trade and its supplier companies, but also representatives of governments, trades unions and non-governmental organizations. In the dialogue they support the current inspection and qualification measures and also seek new ways of lastingly implementing the social standards in their countries. Under the BMZ's "Round Table Code of Conduct" KarstadtQuelle is participating in the debate about fundamental questions on the monitoring of the social standard jointly with the Federal German Government, trade unions, NGO's and others concerned with the economy.

Sustainability in the Department store and Mail order segments

Consistent customer orientation and information are binding conditions of business management for the Group. It is not only banking on product advertising, it is also sharpening its social profile. For example, for many years Karstadt Warenhaus GmbH has already been actively supporting the TransFair seal organization's product range. As part of regular eco-weeks, expert advice sessions and tastings are offered in Karstadt department stores. With its bio-markets Karstadt is among the biggest providers in the market. Since 2000 neckermann.de, one of the co-initiators of the Rugmark seal for fair working conditions in the carpet industry, has been offering garden furniture bearing the Forest Stewardship Council seal. The company is also a member of Group 98, an amalgamation of commercial companies which under the moderation of the German WWF want to promote wood (products) from sustainable forest management. All textiles offered in the retail group conform to legal requirements, so there is no risk to health from wearing them. Also the other product areas with Quelle and neckermann.de are being continuously ecologically optimized, e.g. by the promotion of articles certified as conforming to the criteria of the FSC or awarded the "Blue Angel" environmental symbol. Sustainable retailing – also meaning customers, consumers and investors, management and staff, politics and the local community, that is, we ourselves, who have to learn the value of the things that we buy.

KarstadtQuelle Share

KarstadtQuelle share achieves considerable price rise of over 71 %

In the 2006 stock exchange year the KarstadtQuelle share once again achieved a considerable price rise and once again became one of the high fliers on the German share market. The price performance reflected the successful realignment of the KarstadtQuelle Group and demonstrates the great interest of international investors in particular. After already returning a price rise of 69 % in 2005, in the 2006 financial year the KarstadtQuelle share gained over 71 %. By comparison the German Share Index (DAX) rose by 22 %. The MDAX as the index of mid-cap companies gained 29 % during this period.

Key figures KarstadtQuelle share

		2006	2005	Change in %
Earnings				
Earnings per share	€	1.72	-1.59	-
Free cash flow	mill. €	3,018.9	1,960.4	54.0
Free cash flow per share	€	15.05	9.83	53.0
Dividends				
Dividend per no-par value share	€	0.00	0.00	-
Subscribed capital				
Subscribed capital	mill. €	514.6	510.4	0.8
Individual no-par value shares (year end)	number in mill.	212.2	210.8	0.7
Share price information				
Share price at end of year	€	21.96	12.83	71.2
highest price	€	25.37	12.83	97.7
lowest price	€	12.93	7.08	82.6
Market capitalization/market price at end of year [1]	mill. €	4,659.5	2,704.6	72.3
Stock exchange sales (average daily retail volume)	number of shares in th.	985	1,321	-25.4
Beta 250		1.2514	0.7353	-

1) Including own no-par value shares.

On January 2, 2006, the KarstadtQuelle share recorded its yearly low with a price of 12.93 €. Over the year the price rose continuously and reached its yearly high on May 11, 2006, at 25.37 €. At the end of 2006 the KarstadtQuelle share was being quoted at a price of 21.96 €. After the balance sheet date the price continued to rise strongly. At mid-January 2007 it rose to over 25 € and since then has remained at prices between 26 € and 28 €.

Market capitalization rose by 2 bill. € and at the end of the year under review stood at 4.70 bill. €.

KarstadtQuelle listed on the Prime Standard

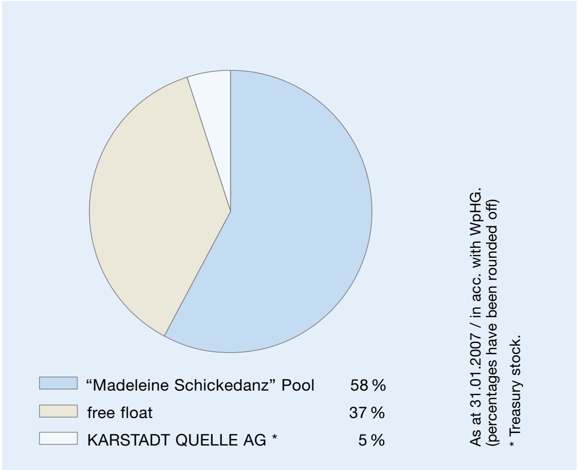
The KarstadtQuelle share is listed on the MDAX of the Prime Standard and at December 31, 2006, had an index weighting of 1.42 %. Quotation on the Prime Standard requires inter alia the fulfillment of high transparency requirements. The KarstadtQuelle share is listed on all German stock exchanges and on the electronic trading platform Xetra.

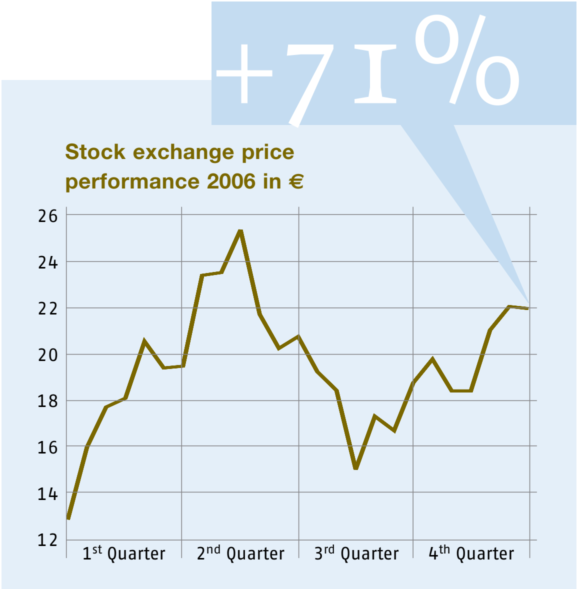
Great interest shown by international investment funds – free float increased to 37 %

The "Madeleine Schickedanz" Pool continues to hold 58 % of KarstadtQuelle shares (based on notifications in compliance with the Securities Trading Act) at the end of the year under review. The free float stood at a full 29 %. In January 2007 international investment funds acquired shares from Allianz AG, whose shareholding in KARSTADT QUELLE AG accordingly fell from 7.64 % to 2.64 %. The free float consequently stands at around 37 %.

High volume of KarstadtQuelle shares traded yet again

During the year under review on average around one million KarstadtQuelle shares were traded daily on the German stock exchanges. The average volume of shares traded thus remained at a high level.





Report of the Supervisory Board

Dear Shareholders,

In this report the Supervisory Board of KARSTADT QUELLE AG informs you about its activities in the 2006 financial year.

Emphasis of the Supervisory Board's activity

The emphasis of the Supervisory Board's work was consultation and the passing of resolutions on the program of operational and financial restructuring and realignment of the KarstadtQuelle Group, the sale of 174 pieces of real estate to The Whitehall Street Real Estate Funds and the acquisition of 50 % of the holdings in Thomas Cook AG from Deutsche Lufthansa AG. It also discussed other matters such as corporate governance, the annual statement, the consolidated statement and dependent companies report, the work of the committees and changes to the membership of the Supervisory Board and Management Board.

During the 2006 financial year the Supervisory Board of KARSTADT QUELLE AG discharged its duties as required by law and the articles of incorporation, audited the annual statement and the dependent companies' report and continuously monitored and supported the managerial activity of the Management Board. Accordingly, the Supervisory Board in an advisory capacity constructively accompanied, supported and monitored the implementation of the Group's realignment. The Management Board regularly kept the Supervisory Board fully informed both orally and in writing.

Meetings and object and methods of audit by the Supervisory Board

At six Supervisory Board meetings the Supervisory Board was kept informed by the Management Board about all important questions of planning, business performance, the risk situation and risk management, the economic situation and business policy.

The Chairman of the Supervisory Board maintained close contact with the Chairman of the Management Board. Information was regularly exchanged at regular monthly meetings and over the telephone. The Supervisory Board was then given a full report on the content of these exchanges.

The Supervisory Board was at all times kept informed about the state of business, important business transactions, plans and resolutions of the Management Board. The Supervisory Board was also kept fully informed about all projects of especial importance for the company by written report between meetings. For example, it was informed in writing about the reorganization of Mail order, the change in the chairmanship of the Management Board at Thomas Cook AG, press reports in connection with personal particulars of the Management Board and the takeover of Deutsche Lufthansa AG's shareholdings in Thomas Cook AG.

Furthermore, the Management Board informed the Supervisory Board about the most important financial key figures by monthly report and duly submitted to it for resolution matters which the Supervisory Board had designated as requiring approval. At its meetings it examined in detail and discussed proposals put forward by the Management Board and gave them the necessary approval. Approval was particularly required during the financial year for:

- Sale of the Berlin-Schloßstraße real estate to AM Development
- Sale of 174 pieces of real estate to The Whitehall Street Real Estate Funds
- Working Capital financing (take-up of a loan of 400 mill. €)
- CTA investment decisions (setting up of a dormant partnership between the pension trust units and QuelleNeckermann Spezialversand GmbH)
- Acquisition of 50 % of the shares in Thomas Cook AG from Deutsche Lufthansa AG

Members of the Supervisory Board were sent in advance comprehensive documents summarizing the main points of the matters requiring resolution.

Unless specifically stated in this report, the Supervisory Board carried out its auditing activity by receiving and discussing oral and written reports of the Management Board, employees and external auditors and consultants.

The Supervisory Board at all its meetings discussed in detail the business performance, corporate planning and strategy and the financial and liquidity situation of the KarstadtQuelle Group. The meetings focused on the implementation of the program for reorganizing and realigning the Group, especially Mail order. The following topic areas dealt with at Supervisory Board meetings must be mentioned in particular:

- Reorganization and restructuring of Mail order (March 21, 2006, September 27, 2006 and December 21, 2006). The Supervisory Board noted with approval the Management Board's recommendation to take neckermann.de into the stock exchange or to sell it, to give up the neckermann.de Service Group and to focus fully on a core reconstruction of Quelle and part of the Service Group.
- Positioning and realignment of the department store business (September 27, 2006 and December 21, 2006). Introduction to the new "Karstadt – Schöner shoppen in der Stadt" presentation and the new format strategy with the differentiation of services and formats.
- Sale of the Berlin-Schloßstraße real estate to AM Development (March 21, 2006).
- Sale of 174 pieces of real estate to The Whitehall Street Real Estate Funds (April 25, 2006).
  After detailed discussion of the advantages and disadvantages the Supervisory Board gave this sale its approval. The audit committee and the standing committee had gone into the transaction and agreements carefully beforehand at two joint meetings on March 26, 2006 and April 25, 2006 and recommended that the Supervisory Board give its approval.
- Take-up of a loan of 400 mill. € for working capital financing (June 23, 2006)
  The Supervisory Board was given a resumé of the essential points of the loan agreement to enable it to prepare its decision. The audit committee and the standing committee at a joint meeting on June 23, 2006, recommended that the Supervisory Board give its approval after an intensive audit.
- CTA investment decisions (June 23, 2006 and September 27, 2006).
  Setting up of a dormant partnership between the Pension Trust units and QuelleNeckermann Spezialversand GmbH up to the amount of 550 mill. €.
- Acquisition of 50 % of the shareholdings in Thomas Cook AG from Deutsche Lufthansa AG (September 27, 2006 and December 21, 2006).
  At the meeting on February 7, 2007, the Supervisory Board unanimously approved the acquisition.
- Analysis of the economic condition of the development properties with the Oppenheim/Esch Fund on the basis of comprehensive expert opinions in conjunction with the decision to refrain from possible recourse to former executive members (December 4, 2006).
- Changes to the membership of the Management Board (April 25, 2006 and December 21, 2006).
- Changes to the articles of incorporation recommended to the annual general meeting, e.g.
  Change of financial year and remuneration of the Supervisory Board (September 27, 2006).
- Change to the Supervisory Board's rules of procedure, relating to the value limits for approval
  (September 27, 2006).
- Strategic options for the further development of the Group, such as strengthening of the growth areas Special mail order, International mail order, E-commerce, higher-value department stores as well as portfolio adjustment for low-growth and low-earning segments (at all meetings).

With one exception, all the members of the Supervisory Board attended at least half of Supervisory Board meetings in 2006 during their period of membership.

Following the audit of the efficiency Supervisory Board conducted by external consultants in the review year 2005 and presented at the meeting on March 21, 2006, three new, competent Supervisory Board members joined the Supervisory Board.

Corporate Governance

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

During the period under review one Supervisory Board member disclosed a conflict of interests under subsection 5.5.2 of the Corporate Governance Code and did not attend the deliberations and passing of resolutions on this item.

The Management Board and Supervisory Board on March 21, 2007 updated the Declaration of Compliance issued in accordance with the German Corporate Governance Code. The Management Board and Supervisory Board declared in it that since the last Declaration of Compliance of March 21, 2006, all the recommendations of the German Corporate Governance Code in the version of June 2, 2005, had been complied with with the exception of the retention in the case of the D & O insurance (Code subsection 3.8 Para. 2). They furthermore declared that they are complying with and will continue to comply with all the recommendations of the German Corporate Governance Code in the version of June 12, 2006, with the exception of the retention in the case of the D & O insurance (Code subsection 3.8 Para. 2). This Declaration of Compliance has been made continuously accessible to the shareholders on the company's Website, together with earlier Declarations of Compliance. Further information on Corporate Governance at KarstadtQuelle is given in the joint report of the Management Board and Supervisory Board on pages 24 – 34 of 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. For the current constitution of the committees and their chairpersons, please see the list on page 23. The meetings, the work and in particular the resolutions of the committees were reported on in detail at the plenary meetings.

- The standing committee and the audit committee at seven joint meetings dealt with important business events and transactions requiring approval. They discussed mainly the financial situation, the sale of real estate, the restructuring of Mail order and the Oppenheim/Esch Fund. The committees prepared the Supervisory Board's respective resolutions and in some cases – for example, the CTA investment decision and working capital financing – made recommendations.

- The standing committee met three times alone during the year under review. It discussed mainly Management Board matters, amongst other things, the structure and amount of the remuneration. It prepared the Supervisory Board's respective resolutions on appointments to the Management Board and made recommendations.
- The audit committee met three times alone during the year under review. It discussed in the presence of the auditor and the Management Board the annual statement of KARSTADT QUELLE AG, the consolidated statement, 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 risk management and its further development in the company. Finally, the audit committee audited the efficiency of its own activity and laid down regulations for future work as well as reporting by the Management Board.
- There was no occasion for the arbitration committee to meet.

The committees' auditing methods were identical to those applied in the plenary meetings. The committee chairpersons in the plenary meetings reported fully on the committee meetings and the work of the committees.

Annual statement, consolidated statement and dependent companies report

The BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the 2006 annual statement, the management report of KARSTADT QUELLE AG, the consolidated statement to IFRS, the consolidated management report as well as the dependent companies report in accordance with a resolution of the general meeting of May 8, 2006, and gave each of them its unqualified approval. The audit committee of the Supervisory Board had issued the audit instruction in accordance with the resolution of the general meeting on November 7, 2006. It had also laid down areas of emphasis for the audit. The annual statement and management report of KARSTADT QUELLE AG, the consolidated statement, the consolidated management report, the audit reports of BDO and the proposal for the appropriation of the profits were duly submitted to all the members of the Supervisory Board.

The audit committee conducted a preliminary audit of the statements, the associated management reports and the audit reports, and the proposal for the appropriation of the profits. These documents were discussed in detail at the meeting of the Supervisory Board on March 21, 2007. The auditor was also present at this meeting, reported on the most significant results of his audit and answered questions put to him by members of the Supervisory Board. In accordance with the findings of its own examinations the Supervisory Board finds no cause for objection and approves the auditor's findings. It has audited the documents and found them to be complete, orderly and reliable. At its meeting on March 21, 2007, the Supervisory Board approved the annual accounts of KARSTADT QUELLE AG and the Group prepared by the Management Board for the period ending December 31, 2006; the annual account of KARSTADT QUELLE AG has therefore been adopted.

Because of the Group reorganization no dividend payments are planned for the 2006 financial year.

The Management Board has submitted to the Supervisory Board the report on relations with associated companies prepared by the Management Board pursuant to Section 312 of the German Stock Company Law and given an unqualified auditor's opinion, the annual account records and the auditor's report. The auditor reported on the findings of his audit at the Supervisory Board meeting on March 21, 2007, and after intensive discussion answered all the Board's questions in detail. In accordance with the findings of its own audit the Supervisory Board finds no cause for objection in the Management Board's concluding remarks in its report pursuant to section 312 of the German Stock Company Law and approves the auditor's findings.

Notes pursuant to the Takeover Rules Implementation Law

The Supervisory Board at its meeting on March 21, 2007, discussed the information given in the management report of KARSTADT QUELLE AG and the consolidated management report pursuant to section 289 para. 4 and 315 para. 4 German Commercial Code and the Management Board report relating thereto contained in the management report. Reference is made to the relevant notes in the management report/consolidated management report. The Supervisory Board has examined the information and notes and approves them. To the Supervisory Board's knowledge they are complete.

Auditor's opinion of the independent companies report

The auditor's opinion of the Management Board's report on relations between KARSTADT QUELLE AG and the associated companies is as follows:

We know of no circumstances which under section 313 para. 4 German Stock Corporation Law might have given cause to qualify or refuse an auditor's opinion. In accordance with the final result of our audit no objections are to be raised to the independent companies report. We issue the following unqualified auditor's opinion pursuant to section 313 para. 3 German Stock Corporation Law:

> "We have duly audited and assessed the independent companies report
> and confirm that the factual information given in it is correct."
>
> Düsseldorf, February 27, 2007
>
> BDO Deutsche Warentreuhand
> Aktiengesellschaft
> Wirtschaftsprüfungsgesellschaft
>
> Dyckerhoff (Public auditor)
>
> Rauscher (Public auditor)

Changes to Supervisory Board and Management Board

A number of changes were made to the constitution of the Supervisory Board and Management Board during the 2006 financial year and at the beginning of 2007.

a. Supervisory Board

By a resolution of March 28, 2006, Essen District Court has appointed Mr. Juergen Schreiber to succeed Dr. Thomas Middelhoff, who has retired from the Supervisory Board, as a further representative of the shareholders on the Supervisory Board of the company. With effect from May 8, 2006 the annual general meeting of KARSTADT QUELLE AG taking place on that day has elected Mr. Juergen Schreiber to the Supervisory Board. Furthermore, on May 8, 2006, the annual general meeting of KARSTADT QUELLE AG elected Mr. Udo Behrenwaldt and Mr. Holger Lampatz shareholders representatives on the Supervisory Board of the company with effect from July 1, 2006. At the end of June 30, 2006, Mr. Jochen Appell's and Dr. Jürgen Than's membership of the Supervisory Board ended.

b. Management Board

With effect from January 1, 2006 Mr. Marc Oliver Sommer was appointed a member of the Management Board. With effect from August 1, 2006, Mr. Peter Wolf was appointed a further member of the Management Board. With effect from the end of January 14, 2007, Mr. Harald Pinger retired from the Management Board. Dr. Peter Diesch was appointed to succeed him with effect from January 15, 2007.

The Management Board members' areas of responsibility and duty are shown on page 2 of this annual report.

The Supervisory Board thanks the retired members of the managerial 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 on behalf of the company during the 2006 financial year.

Essen, March 21, 2007

For the Supervisory Board

Hero Brahms
Chairman

The Supervisory Board

Members

Hero Brahms
Chairman

Wolfgang Pokriefke *
Deputy Chairman

Wilfried Behrens *
Udo Behrenwaldt
Dr. Diethart Breipohl
Bodo Dehn *
Leo Herl
Ulrich Hocker
Peter Kalow *
Franz Lajosbanyai *
Holger Robert Lampatz

Margret Mönig-Raane *
Dr. Hans Reischl
Rita Rodenbücher *
Juergen Schreiber
Christa Schubert *
Michael Stammler
Gertrud Tippel-Kluth *
Werner Wild *
Dr. Klaus Zumwinkel

Committees

Standing Committee

Hero Brahms, Chairman
Leo Herl
Peter Kalow *
Wolfgang Pokriefke *
Dr. 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 the 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 143.

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 general legal 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, in June 2005 and in June 2006.

KARSTADT QUELLE AG complies with the recommendations of the German Corporate Governance Code in the version of June 2, 2005 and June 12, 2006, with one deviation: The D & O insurance taken out for members of its executive bodies does not include a retention.

We remain of the opinion that the agreement of a retention is not suitable for increasing the sense of responsibility with which the members of the Management Board and the Supervisory Board discharge the duties and functions entrusted to them. Furthermore, a retention is not usual in other countries and at many German companies.

Lead- 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 approval 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. Instead, to encourage efficient Supervisory Board activity, we think it sensible to keep to a uniform period of office.

Under the Supervisory Board's rules of procedure every member of the Supervisory Board is subject to the principle of independence. Some representatives of the shareholders on the Supervisory Board occupy or occupied a senior position with other companies during the past year. Transactions conducted by KARSTADT QUELLE AG with these companies are conducted on the same terms and conditions as with third-party companies. These transactions do not in our judgement affect the independence of the members of our Supervisory Board associated with these companies.

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. Such an efficiency audit was conducted in 2005. According to the result of this audit the expectations were fulfilled.

The **audit committee** is made up of the Chairman of the Supervisory Board, two representatives of the shareholders and two representatives of the employees. Dr. Diethart Breipohl, Chairman of the audit committee since October 2005, has special knowledge of and experience in the application of accounting principles and internal control procedures. A recommendation in the German Corporate Governance code is thus being implemented. 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, 2006, 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 were 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 arbitration committee submits to the Supervisory Board proposals for the appointment of Management Board members, if the necessary majority of two thirds of the votes of the Supervisory Board members is not achieved in the first ballot.

The Management Board

The Management Board of KARSTADT QUELLE AG, which consisted of five members, was extended with effect from August 1, 2006, to include Mr. Peter Wolf as member responsible for the over-the-counter retail sector. Following the retirement of Mr. Harald Pinger Dr. Peter Diesch was with effect from January 15, 2007 appointed new Management Board member responsible mainly for the tax, controling, accounting and finance sectors.

Corporate Governance is responsible management and control aimed at long-term added value.

Transparency

Since the introduction of the Corporate Governance Code KARSTADT QUELLE AG has published a financial calendar on its Website. This gives prompt information about relevant dates and events. Furthermore, all IR, press and ad-hoc reports released since 2004 are accessible on the Internet. Finally, all, including earlier, Declarations of Compliance with the code of the company have been 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.

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 Group Management Report on pages 58 and 62.

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 2006 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.

Share option programs and securities-oriented incentive systems

In the 2001 financial year the Group launched an Incentive Stock Options Plan with a total term of eight years, to be effected in several tranches. The details of this plan are set out in full in the Notes on pages 120 and 121.

The second tranche was set up in September 2002. Under this authorization, as a rule, 726 employees have acquired 1,000 stock options. In 2003 it was decided not to issue any further options in future under this share option program. The conditions for the exercise of the options arose for the second tranche on April 28, 2006. At this time 593 employees were still entitled to exercise a total of 592,500 options. Of these 266 employees have exercised a total of 257,250 share option rights and acquired KarstadtQuelle shares at an exercise price of 16.68 €.

Declaration of Compliance with the German Corporate Governance Code

On March 21, 2007, we issued and subsequently made continuously accessible to the shareholders on the corporation's Internet site at www.karstadtquelle.com: Investor Relations / Corporate Governance / Declaration of Compliance 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 June12, 2006 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 making the last Declaration of Compliance on March 21, 2006, KARSTADT QUELLE AG has complied with the code in the version of June 2, 2005, with the exception stated in it, namely, no retention on the D & O insurance (code subsection 3.8 para. 2)."

Remuneration report

This remuneration report is an integral part of the audited consolidated management report.

The remuneration report explains the bases for fixing the remuneration of the Management Board and Supervisory Board and its level and structure.

It also provides information about the shareholdings of the Management Board and Supervisory Board and transactions with shares of KARSTADT QUELLE AG to be disclosed under the Securities Trading Law.

The report follows the recommendations of the German Corporate Governance Code and contains information which is required under the provisions of German commercial law, extended by the Management Board Remuneration Disclosure Law, pursuant to sections 314, 315 German Commercial Code.

Remuneration of the Management Board

Remuneration structure

The fixing of the Management Board's remuneration is the responsibility of the standing committee of the Supervisory Board, of which, amongst others, the Supervisory Board Chairman Hero Brahms and his deputy Wolfgang Pokriefke are members.

The Management Board's remuneration is determined by the size of the segment controled, 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.

In the 2006 financial year the total remuneration comprises the following components:

- Fixed remuneration
- Variable bonus
- Dividend-related remuneration (management bonus)
- Contribution to retirement pension
- Fringe benefits

The total remuneration for the members of the Management Board thus includes non-performance-related and performance-related components. The non-performance-related parts of the remuneration comprise a fixed remuneration (including the guaranteed part of the dividend-related profit-sharing payment) and fringe benefits as well as the contribution to the retirement pension, while the performance-related components are divided into a variable bonus and a profit-sharing payment.

The individual components of the remuneration:

- The fixed remuneration comprises the fixed salary and a guaranteed part of the management bonus and is paid monthly.

- The members of the Management Board also receive as fringe benefits non-monetary and other benefits, which include the private use of company cars, inclusion in the Group accident and D & O insurance cover as well as travel to and from home and housing costs under the two-households provision. For use of the company car the value to be applied in accordance with tax guidelines is applied.

- The variable bonus is dependent on the company's achieving a result annually agreed beforehand and the level of fulfillment of an individual target agreement to be concluded yearly. Under the reconstruction concept these two components were combined into a "performance target" for each of the 2005 to 2007 financial years. The performance target comprises 50 % from the EBITDA and 50 % from the operating cash flow subcomponents. The bonus is limited to a maximum of 200 % of the agreed basic amount. If the performance target for the years 2005 – 2007 is fulfilled to an average target fulfillment level of 90 % or more, a results-related graduated special bonus will be granted in 2008. This special bonus represents a remuneration component with long-term incentive effect. Members of the Management Board were not granted any share options in the 2006 financial year.

- Additionally, in cases of special performance the Supervisory Board may at its obligatory discretion fix a special remuneration. The standing committee laid down the amount of the bonuses and special remunerations at its meeting on March 21, 2007, after examining the fulfillment of the targets set at the beginning of the financial year.

- The profit-sharing payment depends on the amount of the dividend per no-par value share paid to shareholders for the respective financial year. However, part of this remuneration component is guaranteed as a fixed salary independently of the actual payment of a dividend and is paid out monthly (see above). Since no dividend is being paid for the 2006 financial year, the members of the Management Board will receive no profit-sharing payment over and above the guaranteed amount.

- Under the reconstruction concept the members appoint to the Management Board up until the end of 2005 agreed to a reduction by 15 % of all the aforementioned remuneration components for the 2005 to 2007 financial years.

- The fixed salary, the profit-sharing payment and the bonus are examined at regular intervals of up to three years. During the examination the company's economic position and future prospects and the general growth of incomes in German industry and trade are taken into consideration, as well as the Management Board member's performance and duties.

Level of remuneration

The following remuneration resulted for individual members of the Management Board for the 2006 financial year:

The Management Board's remuneration in 2006 in detail

Amounts shown in th. €	Results-related remuneration (fixed salary, Guaranteed profit-sharing remuneration, Fringe benefits)	Variable monetary remuneration with short-term incentive effect (Bonus, Profit-sharing remuneration, Special remuneration)	Total 2006	Transfer to pension provisions / Pension fund in the financial year	Changes in membership
Dr. Thomas Middelhoff – Chairman –	809	765	1,574	144	
Dr. Matthias Bellmann	435	328	763	69	
Dr. Peter Diesch	–	–	–	–	since 15.01.07
Prof. Dr. Helmut Merkel	522	510	1,032	285	
Harald Pinger	494	623	1,117	43	until 14.01.07
Marc Sommer	1,229	1,700	2,929	110	since 01.01.06
Peter Wolf	379	289	668	16	since 01.08.06
	3,868	**4,215**	**8,083**	**667**	

Remark: no variable, monetary payments with long-term incentive effect were granted in 2006.

In the above table the transfer to pension provisions in the financial year ended is shown individually for each member of the Management Board. Members of the Management Board have a right to future retirement pension payments after the end of their service contract and on reaching the age limit or because of permanent unfitness for work.

A Management Board member's retirement pension is determined according to a percentage share of the last fixed salary payment which the member received before the end of his service contract. This percentage share of 25 % rises by 2 percentage points for every year of membership of the Management Board from the time of the first re-appointment of the Management Board member. The maximum percentage share is limited to 50 %. In a service contract the initial percentage share amounts to 32 %, which rises by 2 % for every year of membership of the Management Board from the time of initial appointment. The maximum percentage share here is limited to 60 %.

If the service contract ends because

- the appointment to the Management Board is not repeated or the period of office is not extended or
- the appointment is revoked and no reason exists for termination without notice or

- the appointment and the service contract are terminated prematurely at the earliest on the 62nd birthday,

the Management Board member will receive a retirement pension under the foregoing provisions from the end of the service contract, if he has reached his 55th birthday. If the service contract ends before the member's 55th birthday and any of the foregoing conditions is fulfilled, he is entitled to a retirement pension under the provisions of the Occupational Pension Schemes Law (BetrAVG). In this case the company will waive adherence to the periods for non-forfeitability of entitlement under the Occupational Pension Schemes Law.

Until his 65th birthday the Management Board member must have amounts earned from regular employment of his services elsewhere credited against the pension, if these earnings, together with the pension, exceed the total earnings last received from the company.

The system of income- and service-time-related pension rules was discontinued for Management Board members appointed after January 1, 2006, and replaced with a yearly contractually fixed payment into a fund, which in the insured event is paid out in a capitalized form.

The defined benefit obligation – DBO – of all pension commitments to active members of the Management Board amounts to 3.4 mill. € (previous year: 2.3 mill. €).

For the case of premature termination of the service contract the Management Board contracts – with the exception of the following ruling on the change of control clauses – contain no express severance pay guarantee. Severance pay may, however, result from an individually reached severance agreement.

Management Board members who were appointed for the first time before August 1, 2006, are entitled to transitional payments for 12 months, if they retire from the Management Board after their 55th birthday. The transitional payments are equal to the fixed salary in the year of retirement and the average of the paid performance-related payments and variable bonuses of the last three years before retirement. Only then do the retirement pension rules apply.

Three employment contracts of serving Management Board members contain change of control clauses. In the event of a change of control two Management Board members have the right to termination of the employment contract within six months without notice. If the right to termination is exercized, the Management Board member has a claim to severance pay equal to the remuneration that he would have received on the basis of his yearly target income for the remainder of the contractual term or at least equal to an annual target income for 100 % target fulfillment for the variable remuneration. A change of control in this sense has taken place, if on grounds of direct or indirect participation or attribution under section 30 German Securities Acquisition and Takeover Law (WpÜG) another shareholder or company member than the Madeleine Schickedanz pool acquires at least half of the shares or voting rights. A change of control has also taken place, if this shareholder or company member acquires a shareholding which procures him the majority of votes at the annual general meeting, taking into account the average capital represented at the last three annual general meetings, or the Madeleine Schickedanz pool transfers to another Group company a material holding in the company. Similar rules apply, if the KARSTADT QUELLE AG share is delisted or the company form changes.

If a Management Board member loses his Management Board seat through changes in majority relations at KARSTADT QUELLE AG, Quelle GmbH and neckermann.de GmbH, he will continue to receive the remuneration under his employment contract for the remainder of the contractual term. Here a 100 % target fulfillment will be assumed for the variable components of the remuneration. In such cases the Management Board member has the right to terminate his employment contract without forfeiting his claim to remuneration for the remainder of the term of the contract.

The members of the Management Board receive no remuneration from mandates for Group subsidiaries.

No loans or advance payments were granted to Management Board members during the year under review. During the period under review no Management Board member was granted or promised payments by third parties in respect of his activity as a member of the Management Board.

Remuneration of the Supervisory Board

Remuneration structure

The remuneration of the Supervisory Board is fixed by the annual general meeting and is regulated in Article 13 of the articles of incorporation of KARSTADT QUELLE AG. It is determined by the size of the company and the associated responsibility of the Supervisory Board members and the economic situation and performance of the corporation. As well as the refund of their expenses, members of the Supervisory Board receive an annual fixed remuneration of 3,000 €, which increases by 650 € for each profit share of 0.01 € per share resolved by the annual general meeting and paid to shareholders over and above a profit share of 0.10 €.

The chairmanship, deputy chairmanship as well as the membership of the standing committee and of the audit committee are additionally remunerated. The Chairman of the Supervisory Board receives twice, the Deputy Chairman and each member of the standing committee one-and-a-half times the aforementioned payments to be allowed. The Chairman of the audit committee receives 30,000 € and all other members of the audit committee 15,000 € each in addition to the fixed remuneration. If a member of the Supervisory Board at the same time holds a number of offices for which a higher remuneration is allowed, he receives only the remuneration for the most highly remunerated office. Supervisory Board members who serve on the Supervisory Board for only a part of the financial year receive a proportionately lower remuneration.

The Management Board and the Supervisory Board will propose to the annual general meeting that Supervisory Board members' fixed remuneration be increased and the remuneration for the committee members be modified.

Level of remuneration

The following remuneration resulted for individual members of the Management Board for the 2006 financial year. No loans or advance payments were granted to Supervisory Board members during the year under review.

Supervisory Board remuneration in 2006 in detail

Amounts shown in th. €	Fixed remuneration	Additional remunera-tion **	Total 2006	Changes in membership
Hero Brahms 1) 4) – Chairman –	3.0	15.0	18.0	
Wolfgang Pokriefke* 2) 4) – Deputy Chairman –	3.0	15.0	18.0	
Jochen Appell	1.5	–	1.5	until 30.06.06
Wilfried Behrens*	3.0	–	3.0	
Udo Behrenwaldt	1.5	–	1.5	since 01.07.06
Dr. Diethart Breipohl 3)	3.0	30.0	33.0	
Bodo Dehn* 5)	9.0	–	9.0	
Leo Herl 2) 4) 5)	6.0	15.0	21.0	
Ulrich Hocker	3.0	–	3.0	
Peter Kalow* 2) 4)	3.0	15.0	18.0	
Franz Lajosbanyai* 5)	9.0	–	9.0	
Holger Robert Lampatz	1.5	–	1.5	since 01.07.06
Margret Mönig-Raane	3.0	–	3.0	
Hans Reischl 2)	3.0	1.5	4.5	
Rita Rodenbücher*	3.0	–	3.0	
Juergen Schreiber	2.3	–	2.3	since 28.03.06
Christa Schubert*	3.0	–	3.0	
Michael Stammler* 2)	3.0	1.5	4.5	
Dr. Jürgen Than	1.5	–	1.5	until 30.06.06
Gertrud Tippel-Kluth* 5)	9.0	–	9.0	
Werner Wild*	3.0	–	3.0	
Dr. Klaus Zumwinkel	3.0	–	3.0	
	80.3	**93.0**	**173.3**	

* 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.
2) Member of the standing committee.
3) Chairman of the audit committee.
4) Member of the audit committee.
5) Includes also the remuneration for other Supervisory Board seats in the KarstadtQuelle Group.

Shareholdings of Management Board and Supervisory Board

The holding of securities of KARSTADT QUELLE AG by members of the Management Board and Supervisory Board of the corporation must be disclosed in accordance with the German Corporate Governance Code, 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	48.568

The members of the Supervisory Board together hold 48.57 % of the shares issued by the corporation. The members of the Management Board do not hold any shares of the corporation.

Share transactions 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 associates within one calendar year amounts to or exceeds 5,000 €. No such transactions undertaken over the past financial year were notified to KARSTADT QUELLE AG.

Other information

The members of the executive bodies are, in so far as the law permits, released by KARSTADT QUELLE AG from claims by third parties. To this end KARSTADT QUELLE AG maintains group asset liability insurance (D & O insurance) for the members of its executive bodies.

Restructuring and realignment consistently continued

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Key points 2006

Restructuring and realignment consistently continued

- Financial restructuring successfully completed
- Real estate portfolio sold on attractive terms and conditions
- International purchasing reorganized
- Karstadt realignment successfully continued
- Structural changes in Mail order initiated
- Thomas Cook taken over completely after successful restructuring

Sales and earnings

- Group sales almost at last year's level
- Consolidated earnings reached around 346 mill. €
- Earnings target (adjusted EBITDA) reached
- Karstadt maintains upward trend in sales and can more than double its earnings (adjusted EBITDA)
- Further stabilization successes in Mail order
- Thomas Cook gains market shares and achieves record earnings

Key figures improved

- Equity ratio multiplied
- Staff cost ratio reduced to 16.7 %
- Net financial liabilities completely reduced
- Working capital considerably reduced

Outlook

- Increases in sales and earnings
- Active consolidation of markets through M&A
- Stock exchange listing and other options for neckermann.de

General economic conditions

Overall economic situation

German economy grows in 2006

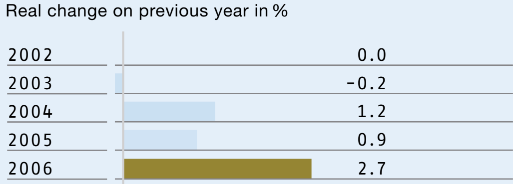
The German economy grew strongly in 2006. The price-adjusted gross domestic product rose by 2.7 %. That is the strongest economic revival since 2000. The positive impulses for growth came not only from foreign trade as in previous years but also more and more from increased domestic demand.

Real private consumption rises by 0.8 %

After virtually no change in the level of private consumption for three years, in 2006 real private consumption rose by 0.8 %. This development is due mainly to the rise in paid employment. Available income went up by 1.8 % and consequently in 2006 also private households' willingness to buy, which had held back economic growth since 2001. Accordingly, the savings ratio fell slightly from 10.6 % in 2005 to 10.5 % in the year under review.

Gross domestic product

Real change on previous year in %



Source: Destatis (Federal German Statistics Office)

Rise in cost of living slowed

The cost of living rose by 1.7 % in 2006 (previous year: 2.0 %). Responsible for this development was mainly the energy sector, which tended to send up prices over the year as a whole. Retail prices rose on annual average by only 1.0 % in 2006.

Situation in the trade

Retail sales again rise only through growth in food retailing

According to figures from the Federal German Statistics Office retail sales in 2006 went up by nominally 2.1 % to 567.4 bill. €. The "true" retail trade, i.e. not including motor vehicles, fuels and combustibles and pharmaceuticals, including motor vehicle parts and accessories, rose nominally by 0.6 % to 392.1 bill. €. This positive performance is however due solely to growth in some organizational forms of the food retail trade, i.e. supermarkets and food discount operators and speciality retailers. The share contributed to private consumer expenditure by the "true" retail trade again stood at around 29 %.

Decreasing sales at large and department stores

A yardstick for the KarstadtQuelle Group is the overall performance of all large stores and department stores in Germany. In 2006 they returned a nominal sales decrease of 1.2 %.

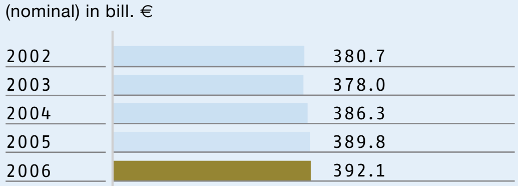
Mail order: E-commerce as growth driver – Universal mail order returns sales deficit

Mail-order sales in the year under review decreased by 4.8 % to 18.8 bill. €. The share contributed by mail order to the “true” retail trade was 4.8 %. The different types of mail order in Germany continued to return a varied performance. The E-Commerce segment once again proved a growth driver. Special mail ordercontinued to return a moderate fall in sales; sales by universal providers decreased considerably.

Tourism

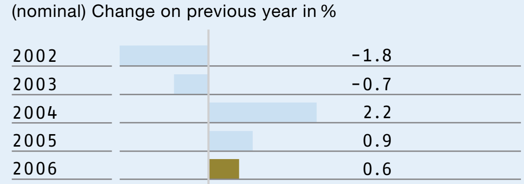
The tourism sector achieved rises in bookings, particularly in the French, German and Belgian operator market. The markets in Great Britain and Austria, on the other hand, declined. The strongly growing E-commerce segment continued to return marked increases. The offerings on the Internet are increasingly aimed at individuality, greater variety and new trend themes. For the coming years an average demand growth of 4.2 % a year is expected for the tourism environment. The modular travel and special offers especially will profit from this growth.

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



Source: Hauptverband des Deutschen Einzelhandels
(Main Association of the German Retail Trade, HDE)

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 – German economy continues to expand

The German Institute for Economic Research forecasts that the economy will continue to expand in the current year. Employment should thus also continue to grow, a development which will have a positive influence on available income, retail sales and tourism. On the other hand, the increase in value-added tax is expected to cause inflation to rise to over 2 %. This could have a damping effect on the purchasing power of private households’, with the result that private consumer expenditure will probably remain at the previous year’s level.

The 2006 financial year

In the fourth quarter of 2006 the KarstadtQuelle Group announced the planned sale of its neckermann.de, Quelle Region West (France, Spain and Belgium) operations and some non-core business operations of special mail order and various mail-order-related service companies. The sale of these companies is part of the strategic realignment of Mail order and focuses on a comprehensive structural change. In accordance with IFRS 5 the results of the Neckermann, Quelle Region West operations and the special mail order suppliers not forming part of the core business were shown only under "Earnings from discontinued operations" in the income statements for 2005 and 2006. At the balance-sheet date the assets and liabilities assigned to these operations were shown under "Assets classified as held for sale" and "Liabilities in connection with assets classified as held for sale". No adjustment of the previous year's figures was made for the balance sheet.

Key figures for breakdown of the continuing and discontinued operations

		Continuing operations		Discontinued operations		Total	
		2006	2005	2006	2005	2006	2005
Sales	bill. €	**13.15**	**13.70**	**1.93**	**2.60**	**15.08**	**16.30**
EBITDA	mill. €	1,032.2	388.5	-51.6	-116.9	980.6	271.6
Special factors	mill. €	-623.3	164.1	8.3	61.1	-615.0	225.2
EBITDA adjusted	mill. €	**408.9**	**552.6**	**-43.3**	**-55.8**	**365.6**	**496.8**

At the same time the figures for the 2005 and 2006 financial years were affected by special factors resulting from the restructuring and realignment of the KarstadtQuelle Group. The values shown on the balance sheet and the income statement are not or are only limitedly comparable. Therefore comments on sales and earnings normally relate to adjusted values.

Sales and earnings performance

Sales performance

Group sales of the operating segments at previous year's level

In the 2006 financial year the operating segments of the KarstadtQuelle Group (on a comparable basis) achieved sales amounting to 12.99 bill. € (previous year: 13.06 bill. €). Particularly in the fourth quarter expectations were fulfilled by a sales increase by 1.0 %. In the year under review 23.1 % (previous year: 22.6 %) of sales were achieved abroad.

Karstadt: Upward trend in Department stores continues

Adjusted sales at the Karstadt department and sports stores came to 4.90 bill. € (previous year: 4.73 bill. €). The Fashion and Living segments in particular as well as "125 years of Karstadt" contributed to this positive development. Accordingly, the stores of the Premium group returned an above-average performance with a sales increase by 6.7 %. KarstadtSports especially succeeded in strengthening its position as Germany's leading sports retailer with a rise by 12.8 %. KarstadtSports was thus able to successfully utilize the football world championship as "outfitter to the fans".

Sales by business segment *

Amounts shown in mill. €	2006	2005	Change in %
Karstadt	4,898.8	4,734.1	3.5
Mail order	4,205.4	4,500.3	-6.6
Thomas Cook	3,886.7	3,828.7	1.5
Operating sectors	**12,990.9**	**13,063.1**	-0.6
Other segments	216.8	236.0	-8.2
Reconciliation account	-157.2	-127.6	-
	13,050.5	**13,171.5**	-0.9

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

Mail order: Further stabilization successes in the fourth quarter

Adjusted sales in the year under review came to 4.21 bill. € (previous year: 4.50 bill. €) and thus remained 6.6 % below the previous year's value. In the fourth quarter the declining trend on the previous quarters was considerably slowed. Sales decreased by a mere 3.2 %. While Special mail order and international business in Central Eastern Europe increased their sales, Universal mail order at Quelle, as expected, returns a sales decrease. Particularly in Universal mail order product line adjustments, deliberately reduced catalog impressions and pages as well as a reduced advertizing budget in anticipation of the repositioning influenced the sales performance. Online business performed very dynamically.

Thomas Cook: Market share gains in nearly all the European countries

In contrast to the generally stagnant European tourism industry the tourism group's proportionately consolidated sales rose during the year under review by 1.5 % to 3.89 bill. € (previous year: 3.83 bill. €). Thomas Cook could thus post market share gains in nearly all the European markets. In the year under review the number of customers carried rose by 2.8 % to 13.6 million. Big increases in the number of customers were achieved for destination areas in Africa and the distant Asia/Pacific destinations.

Other segments: services and real estate

Adjusted sales in the Services segment stood at 216.8 mill. € (previous year: 236.0 mill. €). As in 2005, also in 2006 the sales performance was decisively influenced by the focus on the core business. Accordingly, a sourcing agreement was signed with Li & Fung, the world's largest sourcing company. As agent, Li & Fung undertakes the international sourcing for the Group. This cooperation will enable the Group's purchase prices and working capital to be considerably reduced in the long term.

EBITDA adjusted *

Amounts shown in mill. €	2006	2005	Change in %
Karstadt	145.9	65.2	123.6
Mail order	-31.9	4.0	-
Thomas Cook	199.2	191.3	4.1
Operating sectors	**313.2**	**260.5**	20.2
Other segments	166.1	330.0	-
Holding/ Reconciliation account	-70.4	-37.9	-
	408.9	**552.6**	-26.0

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

In the Real estate segment sales totaling 314.5 mill. € (previous year: 489.7 mill. €) were achieved in 2006. Decisive for the sales decrease were extensive sales under the divestment program. A real estate package to the value of 3.7 bill. € was sold to a joint venture between The Whitehall Street Real Estate Funds (Whitehall) (51 %) and KarstadtQuelle (49 %).

Special factors: Divestments

Sales during the year under review included special effects from the implementation of measures for the restructuring and realignment of the Group amounting to minus 99.6 mill. € (previous year: minus 525.4 mill. €). In particular adjustments were made for the Mail-order segment (Fritz Berger, thirty and more versand and 4 Wände Wohnversand) amounting to 31 mill. € and in the Services segment for Karstadt Quelle International Services AG amounting to 47 mill. € during the 2006 financial year. Adjustments in the 2005 financial year apply mainly to Karstadt Kompakt (384 mill. €).

Earnings

Operating segments achieve rises in earnings

In the operating segments (Karstadt, Mail order and Thomas Cook) during the year under review the Group succeeded in increasing the adjusted EBITDA from 260.5 to 313.2 mill. €. This represents an increase by 20.2 %. Karstadt more than doubled earnings, Thomas Cook (unadjusted) likewise returns a rising trend. Mail order fell below the previous year because of the poor performance in Universal mail order Germany.

Karstadt: Adjusted EBITDA in 2006 improved by 124 %

Adjusted EBITDA at the Karstadt department stores stood at 145.9 mill. € (previous year: 65.2 mill. €). This represents an improvement by 80.7 mill. €. In particular the successful realignment of the department stores and the 12.5 % lower staff costs had a gratifying effect on earnings. Also the adjusted gross income margin was substantially increased from 37.5 % in 2005 to 41.1 % in 2006. As well as the positive effects from the realignment the marketing campaign for the 125th anniversary contributed to this result. Accordingly, also in the case of the attractive high-quality anniversary product ranges the trade margin was maintained at a high level by the selective involvement of suppliers.

Quelle intensifies repositioning – earnings stabilized by end of year

The Mail-order segment returns an adjusted EBITDA amounting to minus 31.9 mill. € (previous year: plus 4.0 mill. €). Adjusted EBITDA within Special mail order reached 59.9 mill. € (previous year: 56.8 mill. €). Earnings in Universal mail order at Quelle were unsatisfactory. While earnings in international business and in the online sector improved, they were seriously offset by poor business in German Universal mail order. Quelle countered this negative trend by repositioning the mail order operation. Thus, in autumn a major brand and image campaign was mounted to reposition Quelle among the target group of price-conscious, family-focused women. Alongside this, first steps were taken in the direction of the announced realignment of the service group by the setting up of a service center in Berlin.

Thomas Cook achieves record result

Following its successful strategic realignment and reconstruction, the tourism group contributed a proportionate EBITDA amounting to 199.2 mill. € (previous year: 191.3 mill. €). Earnings were thus increased by 4.1 % in the year under review. The earnings improvement is mainly due to an improved product mix and a greater share of higher-margin early-bird bookings. Moreover, new products, consistent cost management and divestments contributed to an increase in earnings. Without the strong increase in kerosene prices the earnings increase would have been even higher.

Consolidated income statement – abridged –

Amounts shown in mill. €	2006	2005	Change in %
Sales	13,150.2	13,696.9	-4.0
Cost of sales and expenses for tourism services	-7,868.0	-7,923.7	0.7
Gross income *Gross income margin in %*	5,282.1 *40.17*	5,773.2 *42.15*	-8.5 –
Operating income	2,100.7	1,059.7	98.2
Operating expenses	-4,186.5	-4,118.8	-1.6
Staff costs *Share of sales in %*	-2,196.6 *16.70*	-2,352.1 *17.17*	6.6 –
Net interest income	-226.0	-259.3	12.8
Tax on income	130.4	108.4	20.3
Earnings from continuing operations	580.3	-105.0	–
Earnings from discontinued operations	-232.8	-209.3	-11.2
Net profit/loss after minority interests	345.6	-316.5	–

Further portfolio streamlining in the Services segment

The Services segment achieved an adjusted EBITDA of 23.1 mill. € (previous year: 34.9 mill. €) in the 2006 financial year. In September 2006 the KarstadtQuelle Group sold the existing sourcing organization, which was concentrated in KarstadtQuelle International Services AG (St. Gallen), to Li & Fung. This means for the Services segment a further streamlining of the portfolio and concentration on the core operations retail-related and financial services. Furthermore, in December 2006 the Information services operation was transferred to the Mail-order segment.

Real estate portfolio sold to Whitehall

The Real estate business segment achieved an adjusted EBITDA of 143.0 mill. € (previous year: 295.2 mill. €) in the year under review. Decisive for the decrease in earnings were the extensive real-estate sales. These resulted in income of 928.9 mill. € shown in the income statement but not included in the adjusted EBITDA.

Special factors: Restructuring costs and gains on the disposal of assets

Significant special expenses and income were generated in the 2006 financial year, too, by further implementation of the measures for restructuring and realigning the Group. Accordingly, the adjusted EBITDA of the continuing operations was offset by non-recurring restructuring costs. These apply mainly to staff measures (redundancy payments and pre-retirement part-time work arrangements) as well as closures and valuation measures under the divestment program. During the year under review around 429.3 mill. € of restructuring costs for reorganization process were posted as a charge on earnings. The profits achieved from the sale of real estate and other fixed assets amounting to 1.04 bill. €, on the other hand, had a positive effect on the EBITDA. In total EBITDA was adjusted owing to special factors amounting to minus 623.3 mill. € (previous year: 164.1 mill. €) in the year under review. Of the adjustments undertaken the previous year 220.6 mill. € relate to restructuring measures, 88.7 mill. € to deconsolidation costs, 143.2 mill. € to proceeds from the disposal of fixed assets and 2.0 mill. € to other income.

Notes to the consolidated income statement

Gross income at the continuing operations decreased by 491.0 mill. € to 5.28 bill. € during the 2006 financial year (previous year: 5.77 bill. €). The reasons for this decrease were mainly risen kerosene prices in the Tourism segment and structural changes at Karstadt (mainly wholesale sales). After adjustment for these special effects the gross income margin, at 39.7 %, reached more or less the same level as the previous year.

The rise in operating income to 2.10 bill. € results mainly from the sale of the real estate portfolio. The KarstadtQuelle Group earned from this transaction a profit amounting to 928.9 mill. € (51 % of the entire proceeds of the sale) for the 2006 financial year. Besides income from the disposal of assets classified as held for sale, deconsolidation proceeds amounting to 67.2 mill. € in the Services and Tourism segments had a positive effect on operating income.

Operating expenses came to 4.19 bill. € in the 2006 financial year (previous year: 4.12 bill. €). These represented 31.8 % of sales (previous year 30.1 %). The slight rise results from restructuring costs, which rose by 173.7 mill. € to 361.6 mill. €, compared with the previous year, mainly in connection with the realignment of Universal mail order in Germany as well as increased rents, energy and maintenance costs.

Staff costs in the period under review amounted to 2.20 bill. € (previous year: 2.35 bill. €). They include expenses for pre-retirement part-time work arrangements and redundancy payments amounting to 44.6 mill. € (previous year: 55.4 mill. €). The ratio of staff costs to sales fell from 17.2 % in 2005 to 16.7 % in the 2006 financial year. The decrease in staff costs is due mainly to the successfully implemented reconstruction and restructuring measures.

In the period under review adjusted net interest income stood at minus 226.0 mill. € (previous year: minus 259.3 mill. €). Interest costs (not including interest costs relating to pension provisions) fell by 74.2 mill. € in the 2006 financial year. The improvement in net interest income resulted from the reduction of financial liabilities. Non-recurring payments for prepayment penalties under the second lien facility were made in connection with the reduction of liabilities.

Tax income in the year under review increased by 20.3 % to 130.4 mill. € (previous year: 108.4 mill. €). The rise is mainly due to the capitalization of deferred taxes on loss carry-forwards. The realization of these losses is guarantied to a fair degree of certainty due to the sale of real estate. In connection with the sale of real estate reserves amounting to 1.62 bill. € were set up under the provision of section 6b of the German Income Tax Code for tax purposes, which under IFRS were not recognized.

The earnings of the neckermann.de, Quelle Region West operations and the special mail-order suppliers no longer belonging to the core business are recognized under earnings from discontinued operations in the year under review. Earnings from discontinued operations in the 2006 financial year totaled minus 232.8 mill. €. These include impairment of current assets amounting to 114.7 mill. €. Earnings from discontinued operations in the 2005 financial year came to minus 209.3 mill. € and include 209.0 mill. € from the aforementioned mail-order operations.

Earnings from continuing operations in the period under review came to plus 580.3 mill. € (previous year: minus 105.0 mill. €). The decisive factor was the proceeds from the sale of real estate. The KarstadtQuelle Group returns a net profit of 345.6 mill. € after minority interests in the 2006 financial year (previous year: net loss of 316.5 mill. € after minority interests).

Investments and financing

Investments amounting to 234 mill. €

The volume of investment (not including financial assets) in the KarstadtQuelle Group for the year under review amounted to 233.7 mill. € (previous year: 258.8 mill. €).

Karstadt put the major part of the investments amounting to 119.8 mill. € into product line presentation and modernization of the department stores. Thus, in 2006 the conversion of the Alsterhaus store in Hamburg and the Oberpollinger store in Munich was completed. The new Karstadt department store in Leipzig was also opened. In addition, in September 2006 at the Group headquarters in Essen the foundation stone was laid for the new Limbecker Platz shopping center.

Investments in Mail order stood at 68.7 mill. €. They related mainly to further development of the e-commerce portals. Investments were also made in the infrastructure of the mail-order-related service companies.

Investments

Amounts shown in mill. €	2006	2005	Change in %
Karstadt	119.8	135.3	-11.4
Mail order	68.7	67.5	1.8
Thomas Cook	30.7	41.9	-26.7
Operating sectors	**219.2**	**244.7**	-10.4
Other segments	9.9	13.2	-25.3
Holding	4.6	0.9	-
	233.7	**258.8**	-9.7

Depreciation and amortization (not including amortization of goodwill)

Amounts shown in mill. €	2006	2005	Change in %
Karstadt	95.1	99.3	-4.2
Mail order	129.2	75.2	71.8
Thomas Cook	83.1	90.8	-8.5
Operating sectors	**307.4**	**265.3**	15.9
Other segments	37.2	90.3	-58.8
Holding/ Reconciliation account	1.4	1.2	-
	346.0	**356.8**	-3.0

At Thomas Cook investments amounted proportionately to 30.7 mill. €. They were focused on the adjustment of the IT systems to the changed tourism environment. Additionally, to a lesser extent investment was made in aircraft and technology. Here investments related mainly to capitalized C-4 checks (general inspections) and aircraft fittings. Investments in the tourist destination areas were reduced for strategic reasons. The volume of investments was financed entirely with proceeds from divestments.

Group achieves net financial surplus

The KarstadtQuelle Group's net financial assets amounted to 148.9 mill. € at the balance-sheet date (previous year: net financial liabilities of 2,689.5 mill. €). The aim of operating the Group free of financial liabilities at the balance-sheet date was thus exceeded. The decisive factor behind the reduction of net financial liabilities was the inflow of new funds from the sale of real estate amounting to 2.95 bill. €. With these cash inflows the overwhelming part of the third-party financing could thus be repaid.

To secure a further liquidity margin, particularly with regard to seasonal working capital peaks, on June 29, 2006, a new, multi-year syndicated loan facility for 400 mill. € was signed. This credit facility is tied to various conditions. It has been available to the Group since July 3, 2006, and was utilized at the balance-sheet date partly for guaranties and letters of credit.

Net financial assets/liabilities

Amounts shown in mill. €	2006	2005	Change in %
Non-current financial liabilities	1,148.0	3,050.7	-62.4
thereof from discontinued operations	147.1	30.8	-
Current financial liabilities	192.6	726.6	-73.5
thereof from discontinued operations	0.5	-	-
Gross financial liabilities	**1,340.6**	**3,777.3**	-64.5
Cash & cash equivalents and securities	1,203.7	707.2	70.2
thereof from discontinued operations	51.6	-	-
Other financial instruments	285.8	380.6	-24.9
thereof from discontinued operations	0.9	-	-
Net financial assets	**148.9**	**-**	-
Net financial liabilities	**-**	**2,689.5**	-

The KarstadtQuelle Group defines net financial liabilities or assets as the balance from interest-bearing liabilities, other financial instruments, securities and cash and cash equivalents. Not included are silent partnerships which exist under the contractual trust arrangements (CTA), as the interest from these depends upon profits and they are available to the Group's entitled employees.

Notes to the consolidated cash flow statement

Cash flow from operating activities in the 2006 financial year came to 101.5 mill. € (previous year: 1,229.4 mill. €). A positive effect on cash flow from operating activities is due to the reduction of working capital amounting to 373.7 mill. € (previous year: 1,006.8 mill. €). Outflows of funds resulted mainly from payments in connection with the restructuring measures.

Cash flow from investing activities in 2006 amounted to 2,917.4 mill. € (previous year: 731.0 mill. €). This is being decisively affected by the sale of the real estate and the divestment program. Thus, the Group received an inflow of funds amounting to 2.95 bill. € from the sale of real estate. At the same time inflows of funds resulted from divestments amounting to 108.7 mill. € (previous year: 250.4 mill. €). The inflow of funds was set against investments amounting to 412.3 mill. €.

The reduction of loans from funds of the divestment program and the sale of real estate are reflected in the cash flow from financing activities. Also the KarstadtQuelle Group paid interest amounting to 271.8 mill. € (previous year: 377.2 mill. €) in the year under review.

Cash flow statement – abridged –

Amounts shown in mill. €	2006	2005	Change in %
Cash flow from operating activities	101.5	1,229.4	-91.7
Cash flow from investing activities	2,917.4	731.0	–
Cash flow from financing activities	-2,524.7	-1,900.6	-32.8
Changes in cash and cash equivalents affecting cash flow	**494.2**	**59.8**	–
Decrease in cash and cash equivalents due to effects of exchange rate changes	2.4	-14.8	-116.3
Cash and cash equivalents at the beginning of the period	707.1	662.2	6.8
Cash and cash equivalents at the end of the period	**1,203.7**	**707.2**	70.2

Asset and capital structure

Reduction of the balance sheet total by 12.5 %

The balance sheet total of the KarstadtQuelle Group decreased by 12.5 % to 7.99 bill. € (previous year: 9.14 bill. €).

Assets

Non-current assets amounted to 2.89 bill. € at the balance sheet date (previous year: 4.51 bill. €). This represents a decrease by 36.0 %. The decisive factor here was the sale of real estate to Whitehall. At the same time the reclassification of assets classified as held for sale and the changeover of the financing from ABS to real factoring had a decreasing effect on non-current assets.

Structure of the balance sheet

Amounts shown in mill. €	2006	2005	Change in %	2006 in %	2005 in %
Balance sheet total	**7,992.4**	**9,138.6**	**-12.5**	**100.00**	**100.00**
Assets					
Intangible and tangible assets	1,997.8	3,557.7	-43.8	25.00	38.93
Other non-current assets	890.6	956.0	-6.8	11.14	10.46
Inventories	1,280.7	1,621.1	-21.0	16.02	17.74
Trade receivables	387.8	844.4	-54.1	4.85	9.24
Other current assets	2,121.3	1,896.7	11.8	26.55	20.76
Assets classified as held for sale	1,314.2	262.7	-	16.44	2.87
Equity and liabilities					
Equity	1,151.2	290.1	296.9	14.40	3.17
Pension provisions	821.1	906.7	-9.4	10.27	9.92
Non-current financial liabilities	1,000.9	3,012.8	-66.8	12.52	32.97
Other non-current liabilities	1,071.4	962.0	11.4	13.41	10.53
Current financial liabilities	192.1	724.8	-73.5	2.40	7.93
Trade payables	1,404.1	1,600.9	-12.3	17.57	17.52
Other current liabilities	1,452.7	1,580.3	-8.1	18.18	17.29
Liabilities from assets classified as held for sale	898.9	61.0	-	11.25	0.67

Set against investments amounting to 233.7 mill. € (previous year: 258.8 mill. €) were impairments amounting to 346.0 mill. € (previous year: 356.8 mill. €). They include impairment of current assets of 71.0 mill. € (previous year: 45.5 mill. €).

Current assets decreased by 572.4 mill. € to 3.79 bill. € (previous year: 4.36 bill. €). Inventories were reduced by 340.4 mill. € to 1.28 bill. € due to working capital management and reclassifications in assets classified as held for sale. The additional inclusion of international trade receivables in the factoring program and reclassification in connection with the planned divestment program reduced the level of receivables by 456.6 mill. € to 387.8 mill. €. For details of the assets and liabilities held for sale, please see the Notes on pages 118 and 119).

Liabilities

Equity at the balance sheet date stood at 1,151.2 mill. € (previous year: 290.1 mill. €). It includes additions amounting to 14.4 mill. € from conversion of convertible bonds and the stock option program. The equity ratio thus rose from 3.2 % the previous year to 14.4 %. Equity was also positively affected by proceeds from the sale of the real estate. The positive impacts were offset by restructuring measures particularly in mail order.

Notices under section 315, Paragraph 4, German Commercial Code (HGB)

Composition of subscribed capital

The breakdown of the subscribed capital is shown on page 90.

Outstanding share capital is divided into 201,012,790 no-par value bearer shares with a proportionate share in the share capital of 2.56 € per share. If the shares held by the company (11,167,633) are also taken into account, the result is the authorized share capital of 514,592 th. € reported on the balance sheet.

The increase in share capital is due to the exercize of the conversion right pertaining to the convertible bond (1,381,273 shares, Approved Capital I) and the exercize of share option rights under the Incentive Stock Option Plan (257,250 shares, Approved Capital II).

Restrictions relating to voting rights or to the transfer of shares

There are no restrictions to voting rights or to the transfer of shares.

Direct or indirect shares in capital

Mr. Leo Herl, Chairman of the Management Board of Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG, Fürth, Forsthausstraße 3 – 5, 90768 Fürth-Dammbach, in his capacity as a member of the Supervisory Board of KARSTADT QUELLE AG, holds 103,052,336 of the shares issued by the company. This is equivalent to 48.57 % of the share capital.

Holders of special rights shares

KARSTADT QUELLE AG has not issued any special rights shares.

Type of voting right control for employee shares

The company is not aware of whether individual employees hold shares in the company and exercize their right of control themselves.

Legal provisions and stipulations in the articles of incorporation governing the appointment and removal of members of the Management Board and on amending the articles of incorporation

§ 84 und § 85 of the German Stock Corporation Law (AktG) apply for appointment and removal. § 133 und § 179, AktG apply for amending the articles of incorporation.

Management Board authority concerning the issuance and repurchase of shares

Approved Capital III

On July 11, 2002 the annual general meeting authorized an Approved Capital III.

The Management Board is authorized, subject to the approval of the Supervisory Board and under exclusion of shareholders' subscription rights and by the issuance of up to 1,562,500 new registered no-par value shares to employees of the company or subordinate affiliated companies, to increase the share capital in one or more parts to a total not exceeding 4 mill. € by June 30, 2007.

Conditional Capital I
(Convertible bonds and/or warrant bonds)

The Management Board was authorized to issue in one or more parts by June 30, 2005, convertible bearer bonds and/or warrant bearer bonds 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 warrant bonds option rights on new company shares with a proportionate share of the share capital of up to 50 mill. € at terms defined more specifically in the conditions relating to convertible bonds and warrant bonds.

The share capital was accordingly conditionally raised by up to 50 mill. €. The conditional capital increase serves to grant rights to the bearers or the creditors of convertible bonds and/or warrant bonds issued by June 30, 2005, subject to the aforesaid authorization.

In December 2004 KARSTADT QUELLE AG, through its Netherlands subsidiary Karstadt Finance B.V., Hulst/Netherlands, issued a convertible bond guaranteed by KARSTADT QUELLE AG with a nominal value of 170,000 th. € on the Luxembourg Stock Exchange (DE000A0DH5H7).

Conditional Capital II
(Incentive Stock Option Plan)

On July 12, 2001 the annual general meeting authorized a Conditional Capital II.

The Management Board is authorized, subject to the approval of the Supervisory Board and under exclusion of the subscription right of shareholders, to increase the share capital by the issuance of up to 6,380,000 new bearer no-par value shares to executives of the company.

The conditional capital will be increased only to the extent that subscription rights are utilized.

Authorization to acquire treasury stock

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 within the scope of company mergers or the acquisition of companies or participating interests in these companies.

The Management Board is also authorized to acquire company shares in order to offer these to executives of the company under the aforesaid Incentive Stock Option Plan in fulfillment of the resulting subscription rights.

Furthermore the Management Board was also authorized by a resolution passed at the annual general meeting on May 4, 2004, to appropriate treasury stock in order to service conversion and/or subscription rights (see Conditional Capital I).

Authorization is limited to the purchase of shares whose value amounts to up to 10 % of the share capital in the company amounting to 301,459,904 € on July 11, 2002. This represented 11,775,777 no-par value shares. The right of shareholders to subscribe for treasury stock is precluded insofar as these shares are used in accordance with the aforesaid authorizations.

Treasury stock was reduced by 257,250 shares to 11,167,633 shares by the exercize of subscription rights under the Incentive Stock Option Plan.

In the 2002 and 2003 financial years treasury stock to the value of 200,301 th. € was acquired, of which in the 2006 financial year shares to the value of 4,290 th. € were utilized under the Incentive Stock Option Plan.

Material agreements subject to the condition of a change of control resulting from a take-over offer

All important agreements include a change of control clause. Agreements on the working capital facility and the convertible bond in particular thus contain a clause for the event of the takeover of KARSTADT QUELLE AG.

Indemnity agreements

Three incumbent members of the Management Board are entitled to terminate their employment contract in the event of a change of control. If the right to termination is exercised, the member of the Board of Management is entitled to a severance pay in the amount of the target annual income for the remaining term of the contract.

Current and non-current liabilities

The decrease by 40.7 % to 2.89 bill. € (previous year: 4.88 bill. €) in non-current liabilities is mainly due to the reduction of loans. The decrease in pension commitments had a further reducing effect of 85.6 mill. €.

Current liabilities decreased by 857.1 mill. € to 3.05 bill. € (previous year: 3.91 bill. €). Besides the reclassification of debts to liabilities in connection with assets classified as held for sale, the reduction of current financial liabilities is a decisive factor behind this reduction.

Working capital reduced

Working capital at the balance sheet came to 387.2 mill. € (previous year: 1.23 bill. €). Besides successful working capital management, the decisive factors behind the marked decrease were the inclusion of foreign companies in the factoring program in mail order and the reclassification of assets and liabilities under IFRS 5. Working capital was reduced by 199 mill. € purely operatively.

Working capital

Amounts shown in mill. €	2006	2005	Change in %
Inventories	1,280.7	1,621.1	-21.0
Trade receivables	538.8	1,205.7	-55.3
Trade payables	-1,432.3	-1,601.0	-10.5
	387.2	**1,225.8**	-68.4

Key figures on financial situation

		2006	2005
Equity	mill. €	1,151.2	290.1
Equity ratio	in %	14.4	3.2
Equity-to-fixed-assets ratio	in %	51.5	7.9
First-degree liquidity	in %	36.0	17.4
Second-degree liquidity	in %	50.5	39.7
Third-degree liquidity	in %	92.5	81.2
Working capital	mill. €	387.2	1,225.8

Remuneration of the Management and Supervisory Boards

The remuneration report, which can be found on pages 28 to 34 in the section on "Corporate Governance", contains the individual remuneration and pension guaranties for members of the Management and Supervisory Boards.

This remuneration report, which has been audited by the external auditor, is part of the management report.

If there is a change of control, three serving Management Board members have the right to terminate the employment contract. If the right to terminate is exercized, the Management Board member has a claim to severance pay equal to a year's target income for the remainder of the term of the contract. For further details, please see the remuneration report, which, as stated above, can be found in the section on "Corporate Governance".

Product ranges, purchasing, marketing and sales

Fast collection cycles, high design standards and strong own-brands

In October 2006 KARSTADT QUELLE AG signed an agreement with Li & Fung Ltd., Hong Kong, the world's biggest sourcing company. Under this Li & Fung will undertake the organization and negotiation activity for international sourcing for the retailing operations. KarstadtQuelle will concentrate on design, product line design and product presentation. Thanks to the newly acquired flexibility we can, as Germany's largest textile retailer, offer more collections during a year in our department stores and through our mail-order companies and thus strongly improve our competitiveness. For the purpose of competitive differentiation business with own-brands will be increased and the standard of design and development lastingly raised. We are establishing our own design and development centers both in Germany and Asia. Consistently with the importance of purchasing and sourcing for the Group's retail operations a new area within the Management Board has been set up.

As part of the strategic focus we have divided our department store portfolio into new formats: Premium, Karstadt and KarstadtSports. Nearly all the stores are at top locations. The stores of the Premium Group – along the lines of KaDeWe in Berlin – offer an international shopping experience with cosmopolitan style, luxury and designer brands and a high standard of service. The Karstadt department stores present in a modern ambience brands in the middle to upper bracket and a high proportion of own-designer brands. With the successful marketing of the football world championship and the Karstadt anniversary in 2006 we were able to demonstrate the new culture in our department stores: ideas, service, high-quality products and a shopping experience. Following the liberalization of the Store Opening Hours Law in Germany, depending on their location, our stores can now profit from considerably longer opening hours.

The offering in mail order is available nationally and internationally a round the clock via catalogs, portals or mobile terminal units. The product lines, which were subjected to considerable streamlining, particularly in universal mail order, are designed to appeal to defined target groups: Quelle mainly appeals to family-oriented, price-conscious women and for this purpose at the end of September launched a brand and media campaign with an emphasis on fashion and a consistently uniform presentation on all communication and sales channels. The special mail-order suppliers are focusing on the three target groups: 60+, Premium and Communities.

Thomas Cook has at its disposal a large portfolio of important brands, such as Thomas Cook, Neckermann Reisen, Bucher Last Minute, Pegase, Style Holidays. The tourism company offers package holidays, individual components and services through a large number of own and closely connected sales channels, e-commerce and through co-operations with others.

For the entire KarstadtQuelle Group growth in the e-commerce sales channel is expected to continue. Currently we offer ordering options and information at over 60 shopping portals.

Employees

Due to concentration on the core business and the further divestments linked to this, particularly in the Mail order and Services segments, the number of people employed in the KarstadtQuelle Group at the end of 2006 decreased by 7,712 to 76,917. This represents a decrease by 9.1 %. The overwhelming majority were transferred to other employment. After adjustment for divestments 71,162 people

Key figures Employees *

	Employees at the balance sheet date			
number	2006	2005	Change in number	Change in %
Karstadt	36,206	37,056	-850	-2.3
Mail order	28,366	31,492	-3,126	-9.9
thereof international	6,820	7,611	-791	-10.4
Thomas Cook	10,724	13,534	-2,810	-20.8
thereof international	8,413	10,865	-2,452	-22.6
Services	1,395	2,297	-902	-39.3
thereof international	73	1,021	-948	-92.9
Real estate	29	78	-49	-62.8
Holding company	197	172	25	14.5
Total	**76,917**	**84,629**	**-7,712**	-9.1
thereof international	**15,306**	**19,497**	**-4,191**	-21.5

* The figures were adjusted.

were employed at the balance sheet date (previous year: 77,067 employees). This represents a decrease by 7.7%. In full-time terms the number of staff at the balance sheet date decreased by 9.8% to 55,572 (previous year: 61,621 employees).

The number of people employed abroad decreased by 21.5% to 15,306 at the reporting date. The decisive factor here was the sale of KarstadtQuelle International Services AG to Li & Fung.

The data on the proportionately consolidated joint ventures are shown proportionately in the segments.

Karstadt: personnel placement following the changes in store and special opening hours

The number of people employed in the Karstadt department and sports stores decreased by 2.3% at the balance sheet date. At December 31, 2006, 36,206 people were employed (previous year: 37,056 employees). This corresponds to 25,360 full-time employees.

2006 was dominated by the football world championship and the 125th anniversary of Karstadt. The opportunities for gaining sales and earnings resulting from this were used very successfully. Considerably contributing to this were jointly agreed rulings on working hours in view of extended store opening hours and Sunday opening. Also the creation of service teams as well as the uniform clothing of employees increased the positive awareness of the Karstadt brand.

Key figures Employees *

	Employees at the balance sheet date		Employees on annual average 1)		Full-time employees on annual average		Full-time employees at the balance sheet date	
number	2006	2005	2006	2005	2006	2005	2006	2005
Karstadt	36,206	37,056	33,514	36,291	25,360	27,793	26,608	28,701
Mail order	22,611	24,907	22,673	25,730	18,192	20,869	17,966	19,803
thereof international	3,541	3,718	3,578	3,820	3,160	3,387	3,171	3,340
Thomas Cook	10,724	13,534	10,508	13,368	9,782	11,669	9,548	11,649
thereof international	8,413	10,865	8,250	10,737	7,740	9,551	7,480	9,552
Services	1,395	1,320	1,349	1,385	1,206	1,303	1,249	1,237
thereof international	73	44	66	43	50	38	67	41
Real estate	29	78	64	82	58	77	23	73
Holding company	197	172	192	174	175	161	178	158
Total	**71,162**	**77,067**	**68,300**	**77,030**	**54,773**	**61,872**	**55,572**	**61,621**
thereof international	**12,027**	**14,627**	**11,894**	**14,600**	**10,950**	**12,976**	**10,718**	**12,933**

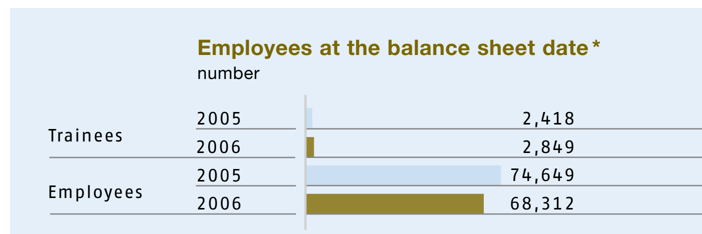
* The figures were adjusted. The adjustments apply to divestments and transfers.
1) Not including trainees.

Karstadt took on 1,000 trainees (previous year: 650), setting a positive signal for the future and showing social responsibility. A total of 1,977 trainees were employed, representing an increase by 24 %.

In 2006 yet again a large number of employees took the opportunity of making a smooth transition from working life to retirement under pre-retirement part-time work arrangements.

Mail order: Workforce alignment in connection with changed business processes

Mail order continues to be subject to major processes of change in nearly all business sectors. The orientation of Quelle towards multi-channel retail calls for the strengthening and interlinking of the catalog, regional sales force and e-commerce sales channels. Therefore the willingness of employees to change and adapt is of great importance for an appropriate response to individual customer needs and individual buying behaviour. Processes which cut across sales channels, growing pressure of competition and a considerably stronger focus on the customer in e-commerce call for professional communication and flexibility.



* The figures were adjusted. The adjustments apply to divestments and transfers.

The internationalization of mail order, particularly in the growth markets of Eastern Europe, was progressed by the implementation of effective human resource instruments. The current changes are already resulting in an upswing in these growth segments, from which employees are also profiting. The staff reduction in the brand companies was largely completed during the year under review.

At the end of the year the number of people employed in Mail order stood at 28,366 (previous year: 31,492 employees). This represents a decrease by 9.9 %. To guaranty a lasting success of the realignment, investment in human resource development instruments for all employees substantially increased.

Thomas Cook: Investments in employees

The proportionate number of persons employed in the Thomas Cook Group had fallen by 2,810 to 10,724 by the balance-sheet date (October 31, 2006) (previous year: 13,534). The greater part of this reduction by far is due to divestments, above all, the sale of Thomas Cook India and Aldiana. After adjustments for disposals due to divestments the number of persons in full-time terms at the balance-sheet date decreased by 590 to 19,097. After two years of reconstruction Thomas Cook AG is now increasing its investment in human resources to ensure a future generation of employees, training and further education.

Services/Real estate: Takeover of the international purchasing offices by Li & Fung

The decrease in the number of employees in the Services segment by 902 to 1,395 in the period ending December 31, 2006, is mainly due to the sale of Karstadt Quelle International Services AG, Switzerland, including the international purchasing offices, to Li & Fung.

In the Real Estate segment the successful divestments led to a decrease in the level of employees by 49 to 29 at the balance sheet date (previous year: 78 employees).

Qualification program strengthened by setting up of the KarstadtQuelle Academy

With the setting up of the KarstadtQuelle Academy in 2006 a Groupwide learning structure to enable the integration of value-enhancing activity and continuous skills development was created. The central elements of the KarstadtQuelle Academy are the Management Learning Programs, which have already been launched for different hierarchy levels. A special feature is the Business Talents Program, which is aimed particularly at persons of high potential and management talent in the Group.

The number of trainees in the KarstadtQuelle Group rose by 17.8 % to 2,849. This development and the investment in multifarious human resources development and further development programs stress that KarstadtQuelle is facing the challenge of the future fairly and squarely.

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. Our thanks are also due to all works councils, members of plenary works councils, spokespersons' committees and youth and trainee representatives for their trustful and constructive cooperation. This contributed substantially to the success of the measures undertaken by the KarstadtQuelle Group to secure its future. Also in the future the active cooperation of these groups will be necessary for a successful adaptation to rapidly changing, flexible background conditions.

Risk report

Preliminary remarks
The 2006 risk report analyses and explains the currently identifiable “principal” and “foreseeable risks” in the KarstadtQuelle Group. It was prepared on the basis of the legal Group structure at the review date.

Risk management system
The KarstadtQuelle Group is exposed to various risks in its business segments. It is the task of the Groupwide risk management system to recognize risks in good time and to systematize 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 identification systems coordinated throughout the Group guarantee integrated risk analysis and management.

The KarstadtQuelle Group’s corporate management system operates Groupwide in accordance with a uniform, closely defined management and reporting concept. Short-term monitoring of economic and strategic targets is ensured by a standardized reporting of key earnings, expenditure and strategic figures. The Group undertakes medium-term strategic and financial planning. This planning is based on an annual recuring process with three-year planning, which for the first year contains a precise specification on a monthly or quarterly basis. Investment plans and projects are decided within the framework of a uniform Groupwide assessment.

The risk management system forms a decisive component of the management systems. The operational business units independently manage the risks arising in their own areas of responsibility. Business segment risks which possibly accumulate in the Group as a whole are assessed and managed centrally. Where possible and economically practicable, risks are transferred to third parties.

Examination by the auditor
The early risk identification system as part of the risk management system was audited by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf.

Business risks

Risks from the general economic conditions/business sector risk
The KarstadtQuelle Group’s business activities are focused mainly on the German retail sector. Accordingly, business performance is decisively affected by domestic demand and the 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. Moreover, the effects of the value-added tax increase on the first two quarters of 2007 and the loss of purchasing power through the additional burdens on private households are difficult to assess. Because of these imponderables sales, earnings and operating cash flow targets incorporated in our planning are naturally attended with risks.

To stimulate consumer demand, the launched projects, such as the anniversary activities and product line adjustments, will be continued with. Furthermore, other factors may negatively affect the quality of the forecasts. Thus, products may not be available at all times. This might be caused, for example, by dependence on third parties through late deliveries or misjudgement of required quantities of goods or of market, fashion or seasonal trends. Measures are being taken to prevent such undesirable developments by continuous observation of business performance, consistent product line analysis and planning and selection of suppliers. In particular the change in consumer behaviour to other shopping objectives or other forms of product offering makes both over-the-counter retail and mail order subject to increasing competition. The KarstadtQuelle Group is facing this intensified competitive pressure by diversification into new business types, flexible use of discount campaigns and the realignment of the business segments.

Risks from the realignment of the business segments and restructuring

The realignment of the existing business segments relates particularly to the retail segments of the KarstadtQuelle Group: Karstadt and mail order. In over-the-counter retail the emphasis is on the realignment of the sales model of the department stores, the implementation of fundamental changes in sector policy and changes to the structural and process organization. In Mail order the fundamental realignment and restructuring of the universal mail-order suppliers at home and abroad, the initial public offering or sale of neckermann.de, consistent brand alignment, progressing of the e-commerce operation and the intensified continuation of profit-oriented growth in specialty mail order remain at the forefront in the 2007 financial year.

The repositioning of Mail order carries the risk that the measures for realignment cannot be implemented within the time and to the extent planned or may not be accepted by the customers. The resulting volume reduction may further have an effect on purchasing conditions and customer demand. To safeguard the results of planning, comprehensive catalogs of measures (especially the Quelle relaunch, staff adjustments, the analysis of advertising media coverage and advertising media conception) were drawn up.

In the Tourism segment serious threats to the Thomas Cook AG may arise from situations like acts of terror, war, environmental disasters, etc. Any value adjustments resulting from these would have serious consequences for the KarstadtQuelle Group. Furthermore, in the 2007 financial year KARSTADT QUELLE AG will be acquiring Lufthansa AG's 50 % holding in Thomas Cook, and so the importance of and therefore the risk from this segment will increase.

Risks from financing

Regarding the financing risks, as well as the interest and currency risk, the liquidity risk is of major importance in the KarstadtQuelle Group. Thomas Cook in particular is subject to various price changes resulting from, on the one hand, the currency and interest markets and, on the other, from the development of fuel costs. The financial effects of these risks are mitigated by the use of financial instruments. Thus, the hedging policy provides particularly for the 95 % hedging of the fuel requirement for the current flight schedule and the hedging of the currency risk through forward currency transactions.

Under a loan agreement concluded in June 2006 for a revolving credit line of 400 mill. € lenders may prematurely terminate the agreement in the event that certain contractually agreed financial commitments (covenants) are not adhered to for the Group. Furthermore, considerable reporting requirements have to be fulfilled by the accounting function and controling in connection with obligations to give regular information to the lenders. A breach of these information obligations may result in a termination of the credit line. 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.

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 loan agreement – from December to January. KARSTADT QUELLE AG's business model may give rise to seasonally varying liquidity requirements (e.g. in anticipation of Christmas business) in the course of the year. To be able to effectively forecast the extent and time of these and take the appropriate optimum financial measures, the Group is drawing up monthly a rolling daily liquidity prognosis and once a year a 12-month liquidity prognosis on the basis of bottom-up approach. Additional divestments to generate cash inflows are also planned, and negotiations are being conducted with lenders for the provision of further finances.

The function of the Groupwide risk management system is to identify risks in good time and to systematize and communicate them.

Furthermore, the KarstadtQuelle Group anticipates positive liquidity effects from the cooperation with Li & Fung Ltd. By concentrating purchasing volumes for specific channels on Li & Fung a cumulative improvement of working capital by around 500 mill. € will be achieved in the medium term. A delay in or incomplete transfer of the purchasing volume to Li & Fung may lead to an increased liquidity risk. The working capital effect from the cooperation is being monitored by means of continuous results analysis.

Most suppliers have safeguarded their accounts receivable from KarstadtQuelle companies by taking out trade credit insurance. Any reduction or termination of the trade credit insurers' commitment through e.g. negative press reports, etc. may result in goods delivery against cash in advance and to loss of sales through non-delivery of goods. To safeguard the trade credit insurance commitment, insurers are to be kept fully informed about the progress of business and the agreed payment targets for suppliers are to be consistently adhered to.

Moreover, in the case of an unplanned business performance considerable risks may arise from the balance-sheet measurement of long-term 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 lawsuits or possible lawsuits filed 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's parent company and the transfers of the Lenné-Dreieck real estate asset in Berlin to Warenhaus Wertheim GmbH. The "Lenné-Dreieck" was transferred by the State of Berlin to Warenhaus Wertheim GmbH without charge in 1991. The background was a possible illegal expropriation of the Wertheim family's 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 third party claims, particularly from former shareholders 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 lawsuit filed by Wertheim heirs in the USA in 2001 was also dismissed as inadmissible by a court of second instance. This decision has meanwhile become legally final.

In June 2006 the same claimants and further Wertheim family members filed a lawsuit against KARSTADT QUELLE AG and two further Group companies with the State of New York. The lawsuit is essentially based on the same arguments as that in the court proceedings already concluded with a legally final decision. The lawsuit has not yet been formally served in Germany. The ancestors of the Wertheim heirs, who have brought a lawsuit against KARSTADT QUELLE AG during the year under review, held a total of 8.2 % of shares in the Wertheim Group's parent 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 JCC could in Germany, as things stand, result indirectly in financial obligations amounting to a maximum of 145 mill. € for the Lenné-Dreieck.

KARSTADT QUELLE AG was unsuccessful with its own claims for the transfer of a number of pieces of land in the last years (judgment by the Federal German Administration Court delivered in October 2005). These claim had no impact on the net assets, financial and earnings position, although there is a possibility that the judgement might affect the assessment of the legal position in the proceedings relating to the so-called Postblock real estate. This risk has already been provided for with the current maximum amount of 26.2 mill. €.

Other risks

Political risks (terrorist attacks, for example) and possible losses through force majeure remain very serious. Insurance has been taken out against damage by the elements. To avoid gaps in the insurance cover, the KarstadtQuelle group has put appropriate monitoring mechanisms in place.

Regarding human resources the situation improved in the year under review. Staff fluctuations and work overloads were successfully reduced. The package of measures involving employee surveys and discussions, management development and flexibilization of working hours is being continued.

To prevent data loss and failure of the IT systems both in the Over-the-counter segment and at the computer centers, back-up and security systems have been put in place. As a tourism operator, Thomas Cook is particularly dependent on travel booking and offer platforms. Thomas Cook, under the Groupwide “GLOBE” IT project, has addressed the latest developments in this sector. This project, which was initiated in 2005, involves a volume of around 90 mill. € and a total project time of three years. Because this project is of great importance for Thomas Cook‘s future competitiveness, it is directed by a special project management and closely controled and monitored by a specific risk monitoring system.

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 % was last announced for this voting rights pool.

The following partners are belonging to the voting rights pool:

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

Accordingly, the Management Board has prepared a dependent companies report for the 2006 financial year – which was accorded an unqualified audit 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

We shall consistently press ahead with the realignment of the Group and want to grow organically. We anticipate in the 2007 stub period a growth in adjusted Group sales, compared with the same period the previous year. For the operating segments we anticipate a substantial growth in adjusted EBITDA at Group level. The decisive factor here is the 100 % inclusion of Thomas Cook.

A further area of emphasis will be the active consolidation of the markets (M & A) in our core business segments. Other areas of emphasis in the 2007 financial year will be the rapid realization of the targets in the Li & Fung collaboration and the stock exchange listing or the utilization of further options for neckermann.de.

We want to increase Group sales to around 23 bill. € in the 2008/2009 financial year. Alongside positive growth, acquisitions and mergers in particular will have a positive effect. EBITDA will rise to over 1.3 bill. €. We will continue to run the Group as far as possible free of net financial liabilities and create further strategic room to manoeuvre. The equity ratio will rise to around 25 %.

Supplementary report

KarstadtQuelle acquires 100 % of the shareholding in Thomas Cook

On February 9, 2007, KarstadtQuelle acquired Deutsche Lufthansa AG's shareholding in Thomas Cook AG. The contractual agreement followed the declaration of intent of December 22, 2006. In this both parties had announced that KarstadtQuelle would be acquiring Lufthansa's 50 % share, including the Condor airline, for a purchase price of 800 mill. €. After two years KarstadtQuelle will for the first time have the opportunity of acquiring Deutsche Lufthansa AG's remaining holdings in Condor (24.9 %). The agreement is subject to the approval of the antitrust authorities and the Supervisory Board of Deutsche Lufthansa AG. To finance the purchase of the shares in Thomas Cook AG so far held by Deutsche Lufthansa AG, a term loan agreement for 600 mill. € with a term of 6 months was concluded in February 2007.

KarstadtQuelle is creating an internationally leading tourism company

On February 12, 2007, an agreement was concluded for the merger of the KarstadtQuelle tourism subsidiary Thomas Cook with the leading British tourism provider, MyTravel. The newly founded company will bear the name "Thomas Cook Group plc"; the shares will be traded on the London stock exchange. KarstadtQuelle holds 52 % of the shares in the new company, MyTravel shareholders 48 %. KarstadtQuelle will fully consolidate Thomas Cook plc. After the merger the new company will have sales of around 12 bill. €, will be market leader in Great Britain and Scandinavia and have leading market positions in Continental Europe and Canada. The merger is subject to the approval of the antitrust authorities and has still to be approved by MyTravel shareholders.

KarstadtQuelle mail order to become Primondo on March 1, 2007

The Mail order operation in the KarstadtQuelle Group has a new name. From March 1, 2007 on the mail-order group will be known as "Primondo". Primondo will be the umbrella for all KARSTADT QUELLE AG businesses and activities grouped under Mail order. Primondo is a holding company and will not be used as a brand name with end consumers. For customers the strong, independent mail-order supplier brands will be retained and further developed. Primondo as a holding company will be based in Essen and managed with a lean structure. At Primondo's head office only the functions necessary for the direct strategic management of the Group will be concentrated. Brand-related, central operating functions will continued to be exercized locally, at the respective companies' places of business.

KarstadtQuelle and Axel Springer set up joint e-commerce company

KARSTADT QUELLE AG and Axel Springer AG plan to set up a joint undertaking, in which KarstadtQuelle will have a participating interest of 74.9 % and Axel Springer 25.1 %. A formal agreement on this was signed on February 21, 2007. Both groups are thus further expanding their core competences in digital sales.

Expansion of the strong market position in the core operations

Operating sectors
Karstadt 66
Mail order 72
Thomas Cook 78

Other segments
Services 84
Real estate 86

Key figures *

		2006	2005	Change in %
Sales	mill. €	**4,898.8**	**4,734.1**	3.5
Earnings				
EBITDA (adjusted)	mill. €	**145.9**	**65.2**	123.6
EBITDA margin (adjusted)	*in %*	*3.0*	*1.4*	–
Full-time employees at the balance sheet date	number	**26,608**	**28,701**	-7.3
Branches				
Department stores	number	92	90	–
Sports stores	number	28	32	–
Project branches	number	11	21	–
Total	number	**131**	**143**	–
Sales space				
Group-operated space without third-party leasing	th. sq. m.	**1,664.3**	**1,657.8**	0.4

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

Karstadt

Positioning

Karstadt – on track to becoming a customer-focused modern market place

Karstadt has once more become the top spot in the city center. Thanks to clear positioning and focus on the modern market place Karstadt department stores, on their excellent A1 city-center locations, have once more become the center of attraction in town.

Accordingly, as the central point in town, Karstadt offers interesting ranges, attractive product lines, cross-sector theme presentations as well as friendly service and better advice. Karstadt is focusing consistently on the needs of its customers. Karstadt Warenhaus GmbH operates three department store formats in the market: stores of the Premium Group (KaDeWe Berlin, Alsterhaus Hamburg, Oberpollinger Munich), Karstadt department stores and KarstadtSports sports stores. KarstadtSports is developing its product lines into a lifestyle-focused range. As an overall format, karstadt.de will additionally be expanded as an online department store under Karstadt's multichannel strategy. The success of the new positioning is already being confirmed by the excellent performance of the high-performance stores of all formats in the third and fourth quarter of 2006.

Segment performance

Karstadt continuing to gain market shares; core business grows by 4.4 % in the fourth quarter of 2006

Adjusted sales at the Karstadt department and sports stores increased by a total of 3.5 % to 4.90 bill. € (previous year: 4.73 bill. €) during the year as a whole. The upward trend at the department stores continued. Thanks to a very positive company performance, Karstadt was increasingly able to distance itself from the market in the second half of 2006 and gain additional market shares. The Premium stores once again returned an above-average performance and improved on the previous year's performance by 6.6 %. The Fashion, Living and Sports consumer segments, as profiling segments, performed exceptionally positively.

Gratifying earnings performance – Karstadt back on firm growth course

Earnings (adjusted EBITDA) at the Karstadt department and sports stores rose by 80.7 mill. € to 145.9 mill. €. This represents an increase by 123.6 %. The gratifying earnings performance demonstrates the continuing upwards trend in all formats. As well as considerably better cost structures, it is particularly the substantial earnings improvement that increasingly confirms the business model. This shows that thanks to a further location-related alignment of the stores into three formats, Premium, Karstadt und KarstadtSports, improved EBITDA margins will enable Karstadt once again to operate as a high-profile retail company.

Productivity further improved

The upmarket positioning in the product line (trading up) and consistent realignment of the department stores enabled scheduled improvement of productivity. Staff productivity was again increased by 7.7 % and came to 179,668 € (previous year: 166,803 €). Sales density increased to an average of 2,646 € annual sales per square meter of sales space. The inventory turnover rate went up to 3.4 times (previous year: 3.3 times).

High-margin consumption sectors in focus

Karstadt gained marked success with its customers during 2006 thanks to the increasingly theme-related range design in its sectors and the multifarious sales-promoting measures for the 125th anniversary. A further success factor was the more intensive concentration on the Fashion, Personality and Living consumer areas. The clear brand presentation supports the further stabilization of the adjusted trade margin at the high level of 41.1 % (previous year: 37.5 %) despite the price-performance-focused ranges during the anniversary.

In the **Fashion** segment the department stores expanded their leading market position in an environment made difficult by competition and the weather. Fashion, as Karstadt's market-leading consumer segment, performed very positively while strengthening the relevant fashion brands. Through improved coordination with Karstadt's own exclusive brands sales of 1.5 bill. €, that is, an increase by 1.4 %, were realised. This is a marked success in a generally declining textile market overall.

The **Personality** consumer segment, with a sales volume of 834 mill. €, includes important high-quality personal requisite product lines. These include beauty products, watches/jewelry, leather goods and books. The individual sectors were realigned by reorganization of product ranges and better positioned by the expansion of bestseller and trend ranges. Sales of prestige cosmetics, watches, jewelry as well as sales of confectionery rose disproportionately thanks to the revised positioning.

The **Living** consumer segment comprises the Homes and Food, Kitchen and Bath sectors. The range is further supplemented by own brands such as YornCasa. The YornCasa lifestyle brand is now established at 42 locations. Sales have risen by 0.6 % to 550 mill. € overall. This was achieved in Living thanks chiefly to excellent Christmas business.

KarstadtSports continues on its growth course

Thanks to a sales increase by 5.3 % to 464 mill. € **KarstadtSports** further expanded its position as market leader in German sports goods retail. During the period under review 32 sports stores and 70 sports departments were operated in Karstadt department stores. As a FIFA licensee, KarstadtSports was able to make the football world championship its own success. KarstadtSports was not only exclusively represented in all the Karstadt department and sports stores by Official FIFA WM 2006™ Shops but at the same time was also exclusively represented. The KarstadtSports brand supplied millions of football fans all over the world with licensed fan products. This unique selling feature enabled KarstadtSports to sharpen its profile as the leading provider in German sport.

Important events during the financial year

125 years of Karstadt – anniversary a great success

On August 26, 2006, with a drum roll Karstadt media-effectively launched the activities to celebrate the 125th anniversary in the whole of Germany. At the Brandenburg Gate the granddaughter of the company founder, Rudolph Karstadt, and the Chairman of KARSTADT QUELLE AG, Dr. Thomas Middelhoff, unveiled the first golden anniversary bag. Similar attention was aroused by the event in Hamburg harbour, where a helicopter lifted a giant golden Karstadt bag from the deck of the luxury liner Queen Mary II. Highly visible, large golden Karstadt bags placed at prominent points at the 90 Karstadt city center locations marked the company's 125th birthday. Attractive anniversary product ranges and numerous events at all the stores under the anniversary motto "125 years of Karstadt – celebrate with us" met with an unusually powerful response from the public. A first step towards the new Karstadt department store presentation was visibly linked to the "125 years of Karstadt" anniversary activities.

Premium is particularly successful

The stores in the Premium group, such as KaDeWe in Berlin or Alsterhaus in Hamburg, were particularly successful. As "Top of Europe" (KaDeWe) and "Top of the Region" (Alsterhaus), they are the first port of call for a particularly high-quality shopping experience. In the 4th quarter of 2006 they achieved a sales increase by 8.5 %.

New presentation promotes the trading up of Karstadt stores

Overall the trading up of Karstadt department stores linked with the new presentation and their orientation towards the city's leading provider had a positive effect on sales performance. Their increased attractiveness is also evident from considerably higher average receipts with an increased length of visit, higher-value purchases and exclusive customer support. Thanks to a discriminating brand offering Karstadt is developing more and more strongly into a top shopping brand.

Longer opening hours used to advantage in Christmas business

At the beginning of Christmas business in 2006 the law on shop opening hours was liberalized in some German states. At a number of locations Karstadt used longer opening hours to meet customer wants, particularly over the Christmas period. Particularly in the big cities, and as the weekend approached, customers took advantage of the new offering.

Increasing customer satisfaction thanks to improved service quality

The customer satisfaction initiative was continued with success during the period under review. Over two million customers have taken part in the public opinion survey so far. The index value of customer satisfaction rose by a further six percentage points to 88 % now.

Cooperation partners confirm Best-in-Class

Through a clear focus on its core competencies Karstadt is in other areas using to its advantage cooperation with partners who are considered the best in their class. An example is the Karstadt Feinkost GmbH – REWE joint venture, where under the name "Perfetto" a total of 67 fine food departments are successfully managed by Karstadt in the department stores while after the completion of a test phase the leading drugstore chain dm will undertake supply to the entire drugstore market segment.

Changes in management

Effective August 1, 2006, Peter Wolf, as a member of the Management Board of KARSTADT QUELLE AG, took over the management of the department store operation as CEO of Karstadt Warenhaus GmbH. He took over these responsibilities from Professor Helmut Merkel, who from now on will manage the purchasing, logistics and IT operations on the KarstadtQuelle Management Board. Peter Wolf was formerly a member of the management board of Tchibo GmbH and headed the food, Central and Eastern European operations as well as Tchibo brand management. On taking up the post Peter Wolf immediately successfully set in train the realignment of the department store business and the implementation of the activities for the Karstadt company anniversary. Likewise effective August 2006 Heinz Hackl, formerly CEO of Joop! GmbH, joined the senior management of Karstadt Warenhaus GmbH. As director designate responsible for purchasing, in March 2007 he will take over the entire purchasing operation from Helmut Klier, who will be retiring after four years as a Karstadt manager and a total of 22 years in responsible positions in companies of the KarstadtQuelle Group. With the CFO of Karstadt Warenhaus GmbH, Jan-Christoph Maiwaldt, who has strengthened the senior management since October 2004, the management team under Peter Wolf is now complete.

New openings confirm Karstadt's further development

During the 2006 financial year 70 mill. € were invested in the further realignment of the department stores. The emphasis is on the sharper profiling of the Karstadt brand as well as the precise focusing of the department stores on the respective market environment and the respective customer groups. A total of 14 department stores were converted or modernized during the year under review.

The following important individual measures were implemented and pushed forward:

- **Munich (Oberpollinger):** Following extensive conversion work, extension by 17,000 sq. m. and strong product line profiling in the high-quality segment, since September 2006 the Oberpollinger store has offered an exclusive shopping experience new to Munich. Thanks to its new, generous, bright architecture a high-quality ambience was created for an attractive, lifestyle-oriented product presentation on over 53,000 sq. m. of sale space. The traditional store in Munich is the third newly invested Premium store after KaDeWe in Berlin, which presents its completed Premium alignment in a spectacular anniversary celebration on the store's 100th birthday, and Alsterhaus in Hamburg.

- **Leipzig (Karstadt):** In September 2006 Karstadt opened the new department store in Leipzig. Karstadt is operating 24,000 sq. m. out of a total of 33,000 sq. m. of sales space itself. The light well with its 30 meter high fountain offers a unique shopping experience. In conjunction with competent co-tenants a supraregional shopping mecca was created in the heart of Leipzig. Here Karstadt will make its mark, especially in the fashion segment.

■ **Hamburg (Karstadt Mönckebergstraße):** The first construction phase of three part-conversions of the Karstadt department store in Mönckebergstraße was completed in September 2006. The conversion work took in the ground and first floors. The full conversion of the store will be completed in 2008.

■ **Essen (Karstadt Limbecker Platz):** At the Group headquarters, in Essen, the foundation stone was laid in September 2006 for the new Limbecker Platz shopping center. The major project in the heart of the city with 70,000 sq. m. of usable space will be completed by Karstadt in conjunction with ECE (Hamburg) and Union Investment Real Estate AG. Karstadt, as anchor tenant, will be operating a modern department store with 20,000 sq. m of sales space and also a sports store with 4,000 sq. m. of sales space.

Furthermore, further projects will be pushed forward in 2007. In 2008 Karstadt, as main tenant, will be opening a department store with an area of around 14,000 sq. m. in the Duisburg “Forum” inner-city center. The traditional store Hertie am Bahnhof in Munich is being realigned and renamed. It will reopen in autumn 2007 as a new Karstadt store. In Berlin the transitional modernization of the Wertheim an der Schloßstraße store will be completed by March 2007. At the same time the Karstadt Schloßstraße department store in the immediate vicinity will have been completely renovated and the sales space extended by 50 % to 30,000 sq. m. by spring 2009. One of Berlin’s largest shopping centers will then arise on the site of the Wertheim store.

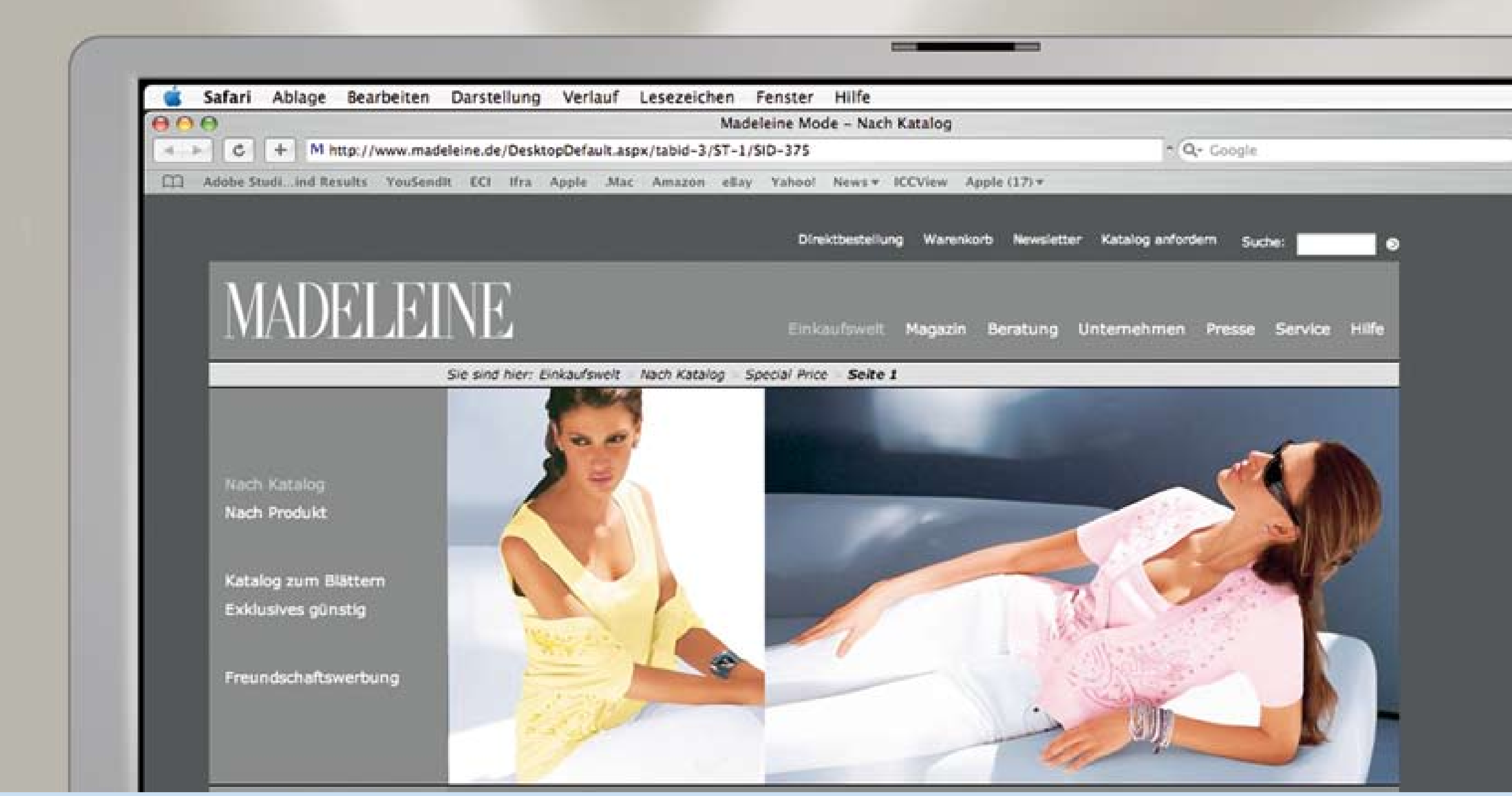
Outlook

Karstadt to become a leading department store brand

The successful realignment and profiling of the department store formats will be supported with new marketing concepts in 2007 too. From March on, when the anniversary activities have finished, a large-scale marketing campaign will be launched. With the new claim “Karstadt – Better shopping in the city” Karstadt will receive a new, clear brand presentation. With this Karstadt will launch a dominant, additionally monthly varying theme presentation. These themes will be offered by Karstadt uniformly in all its product line areas. The themes will be communicated in the traditional media and also on the facades of the department stores, will be continued in matching shop window displays and picked up again thematically on promotional platforms in the stores.

Karstadt department stores to become a modern market place in the city

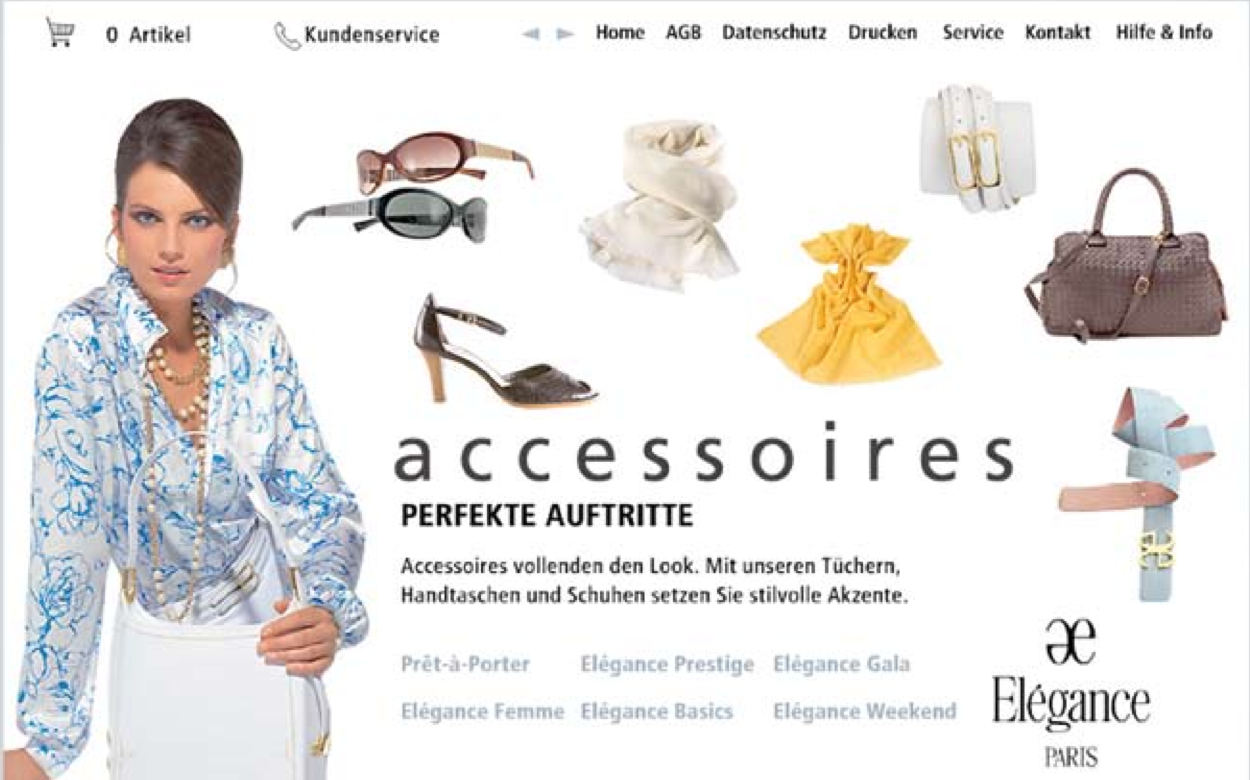
This theme presentation reflects customers’ urban lifestyle and will cause a sensation in German city centers. Karstadt wants to become the talk-of-the-town once more and thus a central point with the most interesting product offerings in town and a place where people can meet and feel good. A strategy which is being developed in the Personality (jewelry/watches/beauty) and Living promotional segments is being simultaneously expanded through the fashion component in the product range from around 38 % to a total of 50 % and by the acquisition of new customers in the brand and own-brand environment.



Key figures *

		2006	2005	Change in %
Sales	mill. €	**4,205.4**	**4,500.3**	-6.6
International sales share	in %	19.7	17.6	–
Earnings				
EBITDA (adjusted)	mill. €	**-31.9**	**4.0**	–
EBITDA margin (adjusted)	*in %*	*-0.8*	*0.1*	–
Full-time employees at the balance sheet date	number	**17,966**	**19,803**	-9.3

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



Mail order

Positioning

Strong market position in Germany and Europe

The KarstadtQuelle Group occupies a leading position in European universal mail order, special mail order and e-commerce. Quelle is number one universal mail-order supplier, neckermann.de the third-largest company in the sector. Both are leading e-commerce providers and also occupy top positions in international markets. Particularly in Central Eastern Europe, the national companies have developed into dynamic, profitable undertakings with leading market positions and excellent future prospects.. In the Slovak Republic, the Czech Republic, Poland and Hungary Quelle has a clear lead; in Bosnia-Herzegovina, Croatia and Slovenia neckermann.de is number one in the local mail-order market. The best future opportunities are offered by Russia. There, by setting up an efficient infrastructure, Quelle has created all the preconditions for participation in rapid growth.

Mail order also has attractive growth prospects in Germany. More and more consumers are buying fashion, electrical appliances, multimedia products or household goods via catalogs, the Internet or teleshopping. According to the GfK Universal Panel the mail order share of average expenditure per household on non-food products rose to 12.8 % in the first six months of 2006 and was thus once more higher than in the comparable period the previous year. Consumers particularly value the convenience of shopping from home whenever they want and the certainty which the major brand providers offer them with regard to product quality, delivery times, service and product returns. As an important growth driver, e-commerce has opened up new customer groups to mail order.

Segment performance

Sales in universal mail order stabilized over the year

The Mail order segment of KarstadtQuelle achieved adjusted sales to the value of 4.21 bill. € in the 2006 financial year and thus once more fell short of the previous year's comparable value of 4.50 bill. € by 6.6 %. While special mail order and international business increased sales and returned a satisfactory performance, universal mail order sales, particularly in the first six months of the year, were considerably below those of the previous year. Product line adjustments, intentionally reduced catalog impressions and pages as well as a considerably reduced advertizing budget in anticipation of the repositioning lastingly affected sales performance. As the year progressed, universal mail order recorded a clearly improved performance. Thanks to a decrease by only 3.2 % the declining trend was considerably slowed in the fourth quarter.

Growth in Central Eastern Europe and Russia

In international business the Mail order group achieved sales amounting to 835.6 mill. € (previous year: 796.5 mill. €). The ambitious targets set for the Quelle core markets in Central Eastern Europe and the newly established Russian business with a growth rate of over 50 % overall were considerably exceeded. Quelle achieved high two-digit growth rates in Estonia, Poland, Croatia and the Czech Republic. Sales in Russia and Romania exceeded the levels reached the previous year manyfold.

Special mail order continues on growth course

Special mail order underlined its importance as a stable sales driver. Despite the difficult background conditions for retail, particularly in the German textile market, sales again exceeded the previous year's level. In total the Special mail-order suppliers achieved sales amounting to 965.9 mill. € (previous year: 910.2 mill. €). Increases were recorded by Hess Natur, the Walz Group, Madeleine, Peter Hahn and Bon' A Parte in particular.

Leading position in e-commerce expanded

Online business again developed very dynamically in 2006: With demand amounting to 2.93 bill. € (previous year: 2.54 bill. €) KarstadtQuelle mail-order suppliers (including discontinued operations) achieved a new record in e-commerce. Online demand grew by 15.1 % on the previous year.

Earnings stabilized

The Mail-order business segment returns an adjusted EBITDA amounting to minus 31.9 mill. € (previous year: plus 4.0 mill. €). Within Special mail order adjusted EBITDA reached 59.9 mill. € (previous year: 56.8 mill. €). Earnings in Quelle universal mail order were unsatisfactory. While earnings improved in international business and the online sector, they were strongly offset by poor business in German universal mail order.

Important events during the financial year

Quelle launches repositioning

A large-scale brand and image campaign was launched in autumn of 2006 to reposition Quelle among the price-conscious, family-oriented women target group. The new presentation puts the life world of women and families at the center of the entire service range. After conclusion of the first phase market research results confirm the success of the campaign. On the strength of this TV commercial spots and advertisements in the 2007 financial year will be considerably more sales-oriented. The image of all the advertizing media will be fundamentally modernized. The catalogs will be governed mainly by the principles of uniformity, regularity and clarity of layout. The customer's perception is that, on the one hand, Quelle adheres to the main catalog appearing with traditional frequency and, on the other hand, it meets the desire for greater up-to-dateness through monthly catalogs, a novelty in its marketing. The around 1,400-page-long main catalog, the market leader Quelle's visiting card and main product advertizing medium, offers a competent comprehensive view of the fashion, technology, living and kitchen promotional product ranges. The monthly catalogs, which will be sent out to households from January 2007 on the last Friday of each month and offer up-to-the-minute products in cross-category themeworlds, cater for seasonal requirements and wants. The success of the repositioning and the new presentation could already be measured as the year progressed. Thus, the number of active customers in the second half of 2006 rose by 22 % on the first half of the year; the number of new customers rose by no less than 25 %. Delivery capacity improved by 4 percentage points during the same period.

E-commerce continues to grow

The high attractiveness of the portals is reflected by a still strongly increasing use of the pages: in the top month of December quelle.de alone recorded around 40 million visits. A new recommendation machine and a shopping basket with additional functions contributed substantially to the gratifying performance. Quelle also expanded its portal into a competent platform with attractive shops through new cooperations with reputable brands and sales partners like Mexx and Weltbild. In the 2006 financial year quelle.de received four important awards: the silver medal in user voting for the "Best Shopping Website of 2006", first place in the Mailingtage Award 2006, as well as second place in the Online Star in the "Fashion & Lifestyle" category and in the Mobile Award for the best commercial Website. Today Quelle is the German universal mail-order supplier with the highest sales and biggest coverage on the Internet. On annual average the mail order company already generated 38 % of all orders over the Internet. This represents a volume of around 1.4 bill. €. In the high-sales fourth quarter the share rose to over 40 % for the first time. In terms of penetration quelle.de has grown faster than any other retailer on the German net.

Further strong growth in e-commerce.

Strategic moves made

KarstadtQuelle's mail-order retail group has, with a new management, embarked on a consistent reconstruction and transformation course. In the year under review key positions in the organization were taken up, the realignment vigorously pressed ahead with and strategic decisions taken.

The new management has developed an independent perspective for each segment and defined the points of emphasis:

- Focus on Quelle as the number one universal mail-order supplier in Europe
- Stock-exchange listing or sale of neckermann.de GmbH
- Concentration on three strategic growth segments in special mail order
- Strategic partnership or sale of the service group

The strategic alignment is aimed at sustained, profitable growth. In the alignment of the mail order operations the group sets three priorities:

- Accelerated implementation of the multi-channel concept
- Expansion of the special formats
- Expansion in the Central Eastern European markets and in Russia

Concentration on the market leader Quelle

In future the Universal mail-order segment will concentrate on the market leader Quelle, which will expand its sales channels by selective investment and cooperations. In numerous product groups – amongst others, kitchens, washing machines or freezers – Quelle is number one in Germany. With main, special and for the first time also monthly catalogs, nationwide over-the-counter sales with around 4,000 Quelle stores and the successful Internet site, Quelle is one of the leading multi-channel providers in the German retail sector. The 2007 financial year is dominated by a strengthening of the market position: through e-commerce, catalogs, a regional sales network and a product-focused advertizing campaign Quelle will expand its top position as a multi-channel provider. Independently positioned Quelle brands, innovative product ideas, a strong quality management and the widespread brand campaign will once again lend substantial power to Quelle's drive. Quelle is also planning an entry into teleshopping and is aiming for a top position in this dynamically growing market. Teleshopping will become an important component of the sales strategy, will considerably revive the demand for Quelle products and so make an important contribution to future growth.

neckermann.de: stock exchange listing planned

neckermann.de has transformed itself successfully from a traditional catalog mail-order supplier into an e-commerce business. After the restructuring and realignment was carried out faster than originally planned, we decided to have neckermann.de listed on the stock exchange in 2007. Alternatively, a sale is also possible. Over the Christmas 2006 period neckermann.de achieved more sales through the Website than via catalog and telephone. In the fourth quarter of 2006 already around 70 % of all new customers made initial contact via the Internet. Through provocative market actions on the Internet neckermann.de is appealing to a young, keen young Internet surfers. The new market presentation is correspondingly campaign-driven with rapidly growing product lines and surprising products.

Abroad: Concentration on profitable international growth markets

In keeping with future market developments, Quelle's international business is consistently aimed at the growth markets in Central Eastern Europe and in Russia. By concentrated expansion Quelle wants to expand its leading position in the region and at the same time vigorously push forward the internationalization of the entire mail-order group. In the medium term the mail-order group is aiming for an internationalization level of 50 %, including international sales in special mail order. At the same time Quelle is withdrawing from the Western European markets.

Special mail order aims at defined growth segments

Special mail order is a strategic growth area for KarstadtQuelle. It will in future concentrate on three growth segments: customers in the over-60's age group with high purchasing power ("Golden Agers"), Premium segments (e.g. exclusive fashion) and Communities (e.g. the ecology conscious, mothers-to-be or families with small children). On the basis of this portfolio KarstadtQuelle will in the middle term separate from the companies which are outside these segments. The Group will open up the growth potential in special mail order by organic growth, new business ideas and selective acquisitions in the defined segments.

Competitive perspective for the service group

The service group is, with its companies, a service provider for the mail-order sector and supports the customer care and logistics sectors in particular. A perspective is being worked out for this mail-order function. Promising future options for the service group are joint development with a strategic partner, sale or part-disposal. Consistent cost reduction to the level of the sector and optimization of the present location structure are fundamental preconditions for competitiveness and a successful growth strategy.

Outlook

Mail order will consistently maintain its reconstruction and transformation course in the 2007 financial year. The strategic realignment of the mail-order group with a concentration and focus on growth segments, which was prepared for in the 2006 financial year and was scheduled to continue for a number of years, will have positive effects in 2007. The changes in market presentation and the "80 years of Quelle" brand birthday will increasingly revive demand during the year.

The electronic sales channels will continue to gain in importance in the multi-channel sales operation, particularly at Quelle. The internationalization of the Quelle brand in Central Eastern Europe and in Russia will make further growth possible.

Primondo

The mail-order group of KARSTADT QUELLE AG has laid down a firm basis for new growth and is confirming the strategic realignment with a new name: Primondo is the umbrella for the traditional international mail-order companies and with its lean holding structure is creating the preconditions for a successful turnaround of the entire group. Primondo will shape mail order in Europe from a leading position.

Key figures *

		01.11.2005 – 31.10.2006	01.11.2004 – 31.10.2005	Change in %
Sales (proportionate)	mill. €	**3,886.7**	**3,828.7**	1.5
thereof tour operators	mill. €	3,283.1	3,241.0	1.3
thereof flights	mill. €	423.6	376.2	12.6
Earnings (proportionate)				
EBITDA (adjusted)	mill. €	**199.2**	**191.3**	4.1
EBITDA margin (adjusted)	*in %*	*5.1*	*5.0*	–
Other information [1)]				
Passengers carried	number in th.	13,608.1	13,242.8	2.8
Sales per pax	€	571.70	578.50	-1.2
Average holiday duration	days	8.9	8.9	–
Full-time employees at the balance sheet date (proportionate)	number	**9,548**	**11,649**	-18.0

* The figures were adjusted. [1)] 100 % disclosure.

Thomas Cook

Positioning

Thomas Cook has new, highly flexible business model

KarstadtQuelle is continuing to expand its Tourism segment. The agreement reached in December 2006 on the acquisition of Deutsche Lufthansa AG's 50 percent share in Thomas Cook enables Thomas Cook to develop a viable growth strategy and actively participate in the consolidation of the tourism market in Europe.

The core business of the repositioned tourism group is to offer customers a broad range of package holidays, holiday components and services tailored to their personal needs. These products are being sold through a large number of channels, both the group's own and those operated in cooperation with others. Thomas Cook is increasingly operating a highly flexible business model with lowest possible capital tie-up (asset light). At the same time there is a stronger focus on the travel provider and travel agent.

The Thomas Cook Group comprises 33 travel operators, 2,000 travel agencies in the international Group sales operation and a fleet of 67 aircraft. Thomas Cook is represented in the following sales markets: Germany, Great Britain, Ireland, France, Belgium, Luxemburg, Netherlands, Austria, Hungary, Poland, Slovakia and Slovenia.

Market share gains in nearly all European markets.

Segment performance

Sales increase above average for the industry – market share gains in nearly all European markets

Thomas Cook's proportionately consolidated sales rose in the 2005/2006 financial year by 58.0 mill. € to 3.89 bill. €. This represents an increase by 1,5 %.

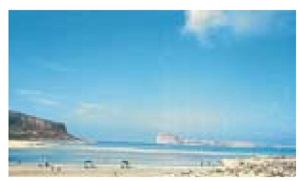
After adjustments for divestments sales rose by 3.5 %. This positive performance was achieved despite general stagnation in the European tourism industry. Thomas Cook was thus able to return market share gains in nearly all the European markets. In the year under review the number of passengers carried rose by 2.8 % to 13.6 million. High growth rates were returned by destination areas in Africa, where the number of customers rose by around 12.7 %, and the long-distance destinations in the Asia/Pacific region, where there was a rise of 16.0 %.

Thomas Cook achieves record earnings – clear earnings contributions in nearly all segments

After successful reconstruction and strategic realignment the Thomas Cook Group achieved record earnings during the 2005/2006 financial year. Proportionate adjusted EBITDA rose by 7.9 mill. € to 199.2 mill. €. Earnings thus improved by 4.1 %. The earnings improvement is due mainly to the increased share of catalog products. Thus, the low-margin, last-minute share was further reduced and the product mix improved. Moreover, new products and consistent cost management contributed to the earnings improvement. Overall the earnings contributions were considerably increased in nearly all the segments during the year under review. But for the unforeseeable, temporary sharp rise in kerosene prices the earnings increase would have been even more marked. The rise in fuel costs during the year under review was limited partly by hedging measures and fuel surcharges.

As a result of the enormously increased fuel costs in comparison with the previous year proportionate gross income decreased by 5.8 % to 1.12 bill. €. The gross income margin stood at 28.7 % (previous year: 30.9 %).

Investment activity focused on the realignment of the Thomas Cook Group and the changed tourism environment. During the year under review Thomas Cook invested 76.6 mill. € (previous year: 69.2 mill. €). The volume of investment could be financed entirely from the proceeds of divestment.



Nearly all segments contribute to the record result for the 2005/2006 financial year.

Important events during the financial year

As a result of the changed market environment for the tourism industry, the Thomas Cook Group is continuing to realign itself. The tourism group is now concentrating on its core business as an operator and seller of tourism products and services. The goal is a business model with lowest possible capital tie-up and high flexibility. Accordingly, further measures were taken in the financial year ended.

Divestments successful pressed ahead with

In the year under review Thomas Cook consistently disposed of shareholdings which were not part of the core business or were loss-makers, in order to reduce capital tie-up and generate funds for investment. Important divestments in the year under review were the sale of the majority of shareholdings in Aldiana GmbH (residue: 24.9 %) and the sale of the Indian-stock-exchange-listed Thomas Cook India Ltd, Thomas Cook Canada, the subsidiary in Egypt, the Spanish hotel company Inversora de Hoteles Vacacionales and the Creativ Hotel Buenaventura, S.A. The proceeds were invested mainly in product, sale and production campaigns and debt payments.

Sales and growth increases thanks to sales campaign

In the second quarter of the financial year Thomas Cook launched its new sales strategy on the German market with the aim of strengthening and expanding the various sales channels. Besides Group-owned sales channels, particular reliance is being placed on a strong tied travel agency sales system. In three years Thomas Cook will virtually double the share contributed by the tied sales system to overall sales in the largest market, Germany, alone to 40 %. The number of tied sales outlets will be increased by 800 to 1,900.

Business model with low capital tie-up and high flexibility.

High growth potential in e-commerce

Sale over the Internet offers Thomas Cook high growth potential. Currently the entire online market is growing by around 20 % per year. Thomas Cook achieves around one third of online sales through its own Websites. It plans to double this within the next three years. The Thomas Cook Group today is already market leader in the online sale of package holidays in Germany. To further improve the market position, Thomas Cook adopted a new e-commerce strategy. The operator brands' Internet presentations are being optimized, user-friendliness, features and technology given prominence. As part of the brand strategy, Neckermann Reisen's presentation is also being repositioned.

The www.thomascook.de tourism portal has, as a fully-fledged online travel agent, considerably expanded the third-party operator range in order to offer the customer a wide choice of operators and products. Additionally, a European travel agency to attract customers from across the markets and internationally is being set up under the www.thomascook.com portal. In Great Britain Thomas Cook today is already amongst the top four online providers. The share contributed to overall sales in the UK by the online operation was, at 20%, nearly twice as high as in Germany. Likewise in the British market Thomas Cook must maintain and expand the strong position in this segment.

Reconstruction of the Financial services segment in Great Britain.

Intensification of marketing measures

By means of a product campaign in Germany Thomas Cook is focusing consistently on the growth segments of specific target-group product ranges and modular business. At the same time the core business of the traditional package holiday is being consolidated by achieving cost leadership. The product campaign is being backed by increased investment in marketing. With the issue of the 2007 summer catalog a new campaign was launched for Neckermann. While in past years marketing was done mainly on the basis of price, the new campaign gives emphasis to product variety and the range of services.

Development of highly profitable financial services

Alongside traditional operator and module business, in Great Britain during the financial year ended Thomas Cook began reconstructing the Financial services segment. The group has enormous experience and high brand credibility in this segment. For example, in 1868 the company's founder, Thomas Cook, brought out the first traveler's check. In a first stage customers will be offered financial services related to the holiday. These will be followed by general financial services. In September 2006 Thomas Cook UK launched a joint venture with Barclays Bank to issue a joint credit card.

Outlook

Consistently maintaining the success course – further growth anticipated

Thomas Cook is starting the 2006/2007 financial year with optimism. The aim is to assert the cost leadership and gain further shares of all the European sales markets. Accordingly, the management is taking additional measures to improve internal company processes, access further potential by selective investment and press ahead with product improvements.

During the coming year Thomas Cook will devote itself to the profiling and differentiation of the brands throughout Europe. In a market which offers the customer very little guidance strong brands provide that guidance.

The divestment program, which has recorded great progress in the last two years, is being continued. Capital tie-up will thus be further reduced and existing means used to concentrate better on the defined core business. It is anticipated that investment for the 2006/2007 financial year can continue to be financed from divestments.

As present plans stand, Thomas Cook is assuming that both sales and earnings will continue to rise further in the coming years.

Thanks to the complete acquisition of Thomas Cook by KarstadtQuelle Thomas Cook's position in the European tourism market is being further expanded. Overall the difficult economic environment of the tourism industry will further accelerate consolidation in the industry. Thomas Cook will play an active role here.

Sales and earnings increases anticipated in the coming years.

Key figures *

		2006	2005	Change in %
Sales				
Services	mill. €	216.8	236.0	–
Earnings				
EBITDA				
Services (EBITDA adjusted)	mill. €	23.1	34.9	–
Real estate (EBITDA adjusted)	mill. €	143.0	295.2	–
Real estate	mill. €	1,159.8	337.8	243.3
Full-time employees at the balance sheet date				
Services	number	1,249	1,237	1.0
Real estate	number	23	73	-68.5

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

Other segments

Services

Positioning

The KarstadtQuelle Group's retail-related service operations are concentrated in the Services segment. They include financial and information services and customer relations management.

Segment performance

Sales

Adjusted sales (not including the transferred KarstadtQuelle International Services AG) came to 216.8 mill. € in the 2006 financial year (previous year comparable: 236.0 mill. €).

Earnings

The Services business segment achieved an adjusted EBITDA of 23.1 mill. € (previous year comparable: 34.9 mill. €).

Most important business segments

Financial services considerably strengthened by online sales

KarstadtQuelle Finanz Service GmbH (KQFS) offers a wide range of financial and insurance services. In the year under review KQFS returned a satisfactory business performance with a mediated volume of annual contributions (not including large-volume direct sales) of around 43 mill. € (2005 comparable: 41 mill. €).

Alongside the 45 finance centers, online sales has developed into a further strong sales channel. The realigned insurance and finance shops with their extended product lines reached a sales increase by 50 % and met great public interest.

With nearly one million MasterCards the KarstadtQuelle Bank is Germany's biggest issuer of MasterCards. The bank achieved in credit card business a sales rise by 7.5 % and is thus outstripping market growth. Measured against the new business performance, the bank achieved record earnings with partly clearly two-digit growth rates in both the cash credit and sales financing segments.

"HappyDigits" impresses with further growth

Also in 2006 the CAP Customer Advantage Program GmbH, a joint venture with Deutsche Telekom, further expanded "HappyDigits" as one of the leading multipartner programs in Germany and closed the financial year with a very gratifying result. The network of reputable partners was increased by three new major partners (Sat. 1, Yello, Parmapharm). In January 2006 the program issued the 25-millionth "HappyDigits" card. At the end of 2006 it was already over 28 million "HappyDigits" cards, of which around one million cards had an annual-fee-free MasterCard function.

KarstadtQuelle Information Services extends third-party customer portfolio

KarstadtQuelle Information Services GmbH (KQIS) operates in direct marketing, credit risk and receivables management. Two billion customer contacts annually in the KarstadtQuelle Group form the data basis which opens up both to KQIS's corporate customers and to KQIS itself outstanding business perspectives at home and abroad. Thanks to the increased operating excellence KQIS was able to further establish itself as the central information services provider of the KarstadtQuelle Group and expand the third-party customer portfolio to include important customers from TV and e-commerce.

Financial services strengthened by online sales.

Real Estate

Important events during the financial years

Sale of the department store real estate portfolio

In March 2006 we sold a real estate package to the value of 4.5 bill. € to a joint venture between the Goldman Sachs fund Whitehall (51 %) and KarstadtQuelle (49 %). Substantial proceeds accrued directly to the Group (including CTA program) from this. We furthermore agreed contractually with Whitehall that in the event of later marketing-on we would have a participating interest in the value increase of the real estate. This process enabled, on the one hand, the complete discharge of Group liabilities in 2006 and, on the other hand, also allows us to have a share in the later value increase of the real estate. Thus, an optimum result was achieved for KarstadtQuelle shareholders. The sold portfolio comprises 85 department stores, 29 high-rise car parks, 12 sports stores, 15 office buildings and 33 further pieces of property. Karstadt Warenhaus GmbH will continue to operate the department and sports stores, as tenant, with long-term contracts. In December 2006 we received an offer of 800 mill. € for our 49 % share in the real estate company.

Successful project developments

After successful completion of the project development the renovated Karstadt-Oberpollinger store in Munich and the new department store in Leipzig opened in September 2006. Likewise in September the foundation stone was laid in Essen city center for the center at Limbecker Platz. This shopping mecca with supraregional importance is being realized and operated by KarstadtQuelle jointly with ECE and Union Investment Real Estate AG.

The development of a new, international corporate group

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Consolidated income statement

for the year ended December 31, 2006

Amounts shown in th. €	Item Notes	2006	2005*	Change in %
Sales	10	13,150,154	13,696,886	-4.0
Cost of sales and expenses for tourism services	11	-7,868,006	-7,923,703	0.7
Gross income		**5,282,148**	**5,773,183**	-8.5
Other capitalized own costs	12	61,412	50,409	21.8
Operating income	13	2,100,720	1,059,702	98.2
Staff costs	14	-2,196,583	-2,352,133	6.6
Operating expenses	15	-4,186,461	-4,118,814	-1.6
Other taxes	16	-29,030	-23,810	-21.9
Earnings before interest, tax and depreciation and amortization (EBITDA)		**1,032,206**	**388,537**	165.7
Depreciation and amortization (not including amortization of goodwill)	17	-346,000	-356,761	3.0
thereof impairment loss		-71,043	-45,525	-56.1
Earnings before interest, tax and amortization of goodwill (EBITA)		**686,206**	**31,776**	-
Amortization of goodwill	18	-21,817	-8,398	-159.8
Earnings before interest and tax (EBIT)		**664,389**	**23,378**	-
Income from investments	19	-15,660	-356	-
Income from investments in associates	20	5,672	7,132	-20.5
Net interest income	21	-226,026	-259,314	12.8
Other financial results	22	21,513	15,736	36.7
Earnings before tax (EBT)		**449,888**	**-213,424**	-
Taxes on income	23	130,406	108,404	20.3
Earnings from continuing operations		**580,294**	**-105,020**	-
Result from discontinued operations	24	-232,752	-209,263	-11.2
Net income/loss before minority interests		**347,542**	**-314,283**	210.6
Profit/loss due to minority interests	25	-1,933	-2,199	12.1
Net income/loss after minority interests		**345,609**	**-316,482**	209.2
Earnings per share (undiluted) in €	26	**1.72**	-1.59	-
thereof from continuing operations		2.89	-0.53	-
thereof from discontinued operations		-1.16	-1.05	-10.5
Earnings per share (diluted) in €	26	**1.62**	-	-
thereof from continuing operations		2.69	-	-
thereof from discontinued operations		-1.06	-	-

* The 2005 data were adjusted according to IFRS 5.

Consolidated balance sheet

for the year ended December 31, 2006

Assets

Amounts shown in th. €	Item Notes	2006	2005	Change in %
Intangible assets	27	973,233	1,104,831	-11.9
Tangible assets	28	1,024,549	2,452,839	-58.2
Shares in associates	30	96,852	98,398	-1.6
Other financial assets	31	388,649	535,220	-27.4
thereof securities		11,648	11,684	-0.3
Non-current income tax receivables		21,763	26,021	-16.4
Other non-current assets	32	110,777	68,146	62.6
Deferred taxes	33	272,537	228,249	19.4
Non-current assets		**2,888,360**	**4,513,704**	-36.0
Inventories	34	1,280,658	1,621,095	-21.0
Trade receivables	35	387,776	844,385	-54.1
Current income tax receivables		26,545	25,583	3.8
Other receivables and other assets	36	942,773	1,163,975	-19.0
Cash and cash equivalents and securities	37	1,152,091	707,163	62.9
Current assets		**3,789,843**	**4,362,201**	-13.1
Assets classified as held for sale	38	1,314,157	262,658	-
Balance sheet total		**7,992,360**	**9,138,563**	-12.5

Equity and liabilities

Amounts shown in th. €	Item Notes	2006	2005	Change in %
Subscribed share capital		514,592	510,398	0.8
Reserves		625,504	-237,068	-
Minority interests		11,073	16,745	-33.9
Equity	39	**1,151,169**	**290,075**	296.9
Non-current financial liabilities	40	1,000,927	3,012,793	-66.8
Other non-current liabilities	41	712,078	566,606	25.7
Pension provisions	42	821,145	906,756	-9.4
Other non-current provisions	43	353,205	383,784	-8.0
Deferred taxes	33	6,043	11,673	-48.2
Non-current liabilities		**2,893,398**	**4,881,612**	-40.7
Current financial liabilities	40	192,148	724,776	-73.5
Trade payables	44	1,404,136	1,600,870	-12.3
Current tax liabilities	41	28,749	42,819	-32.9
Other current liabilities	41	975,832	927,782	5.2
Current provisions	45	447,982	609,677	-26.5
Current liabilities		**3,048,847**	**3,905,924**	-21.9
Liabilities related to assets classified as held for sale	38	898,946	60,952	-
Balance sheet total		**7,992,360**	**9,138,563**	-12.5

Statement of changes in equity

for the year ended December 31, 2006

Amounts shown in th. €	Subscribed share capital	Additional paid-in capital	Revenue reserves: Other revenue reserves	Revenue reserves: Reserve for intercompany profit and loss elimination	Revenue reserves: Revaluation reserve	Revenue reserves: Cumulative foreign currency differences	Minority interests	Group equity Total
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/ Opening balance 01.01.2006	**510,398**	**629,424**	**-883,103**	**–**	**26,479**	**9,868**	**16,745**	**290,075**
Differences from foreign currency translation	–	–	–	–	–	750	526	1,276
Changes resulting from disposals and the measurement of primary and derivative financial instruments	–	–	–	–	-43,306	–	–	-43,306
Changes in consolidated companies	–	–	–	–	1,352	-713	-7,099	-6,460
Equity capital changes without effect for income	**–**	**–**	**–**	**–**	**-41,954**	**37**	**-6,573**	**-48,490**
Consolidated earnings	–	–	345,609	–	–	–	1,933	347,542
Intercompany profit and loss elimination	–	–	–	548,674	–	–	–	548,674
	–	**–**	**345,609**	**548,674**	**-41,954**	**37**	**-4,640**	**847,726**
Exercize of convertible bond/ stock options	4,194	10,206	–	–	–	–	–	14,400
Dividends	–	–	–	–	–	–	-1,032	-1,032
Closing balance 31.12.2006	**514,592**	**639,630**	**-537,494**	**548,674**	**-15,475**	**-9,831**	**11,073**	**1,151,169**

Consolidated cash flow statement

for the year ended December 31, 2006

Amounts shown in th. €	Item Notes	2006	2005*
EBITDA		**1,032,206**	**388,537**
Profit/loss from the disposal of fixed assets		-1,041,644	-143,216
Profit/loss from foreign currency		-10,347	-2,270
Decrease of non-current provisions (not including pension and tax provisions)		-42,928	-95,099
Utilization of/addition to the provision for restructuring effects		-194,739	255,853
Other expenses/income not affecting cash flow		-280,919	171,751
Gross cash flow		**-538,371**	**575,556**
Changes in working capital		373,665	1,006,822
Changes in other current assets and liabilities		328,982	-357,979
Dividends received		2,981	13,278
Payments/refunds of taxes on income		-65,784	-8,253
Cash flow from operating activities	48	**101,473**	**1,229,424**
Payments for acquisition of subsidiaries less acquired cash & cash equivalents		-479	-
Payments received for divestment of subsidiaries less cash & cash equivalents sold		108,714	250,388
Purchase of tangible and intangible assets		-233,730	-258,785
Purchase of investments in non-current financial assets		-178,604	-7,953
Cash receipts from sale of tangible and intangible assets		3,202,967	703,648
Cash receipts from sale of non-current financial assets		18,516	43,723
Cash flow from investing activities	49	**2,917,384**	**731,021**
Free cash flow	50	**3,018,857**	**1,960,445**
Interest received		107,734	134,202
Interest paid		-271,767	-377,162
Pension payments		-72,960	-62,272
Take-up/reduction of (financial) loans		-2,267,704	-1,546,621
Payments of liabilities due under finance lease		-24,308	-47,264
Cash payments/cash receipts for dividends and capital increase		4,291	-1,520
Cash flow from financing activities	51	**-2,524,714**	**-1,900,637**
Changes in cash and cash equivalents affecting cash flow		**494,143**	**59,808**
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		2,415	-14,856
Cash and cash equivalents at the beginning of the period		707,163	662,211
Cash and cash equivalents at the end of the period	52	**1,203,721**	**707,163**

* The data were adjusted according to IFRS 5.

Segment report

KarstadtQuelle Group

Amounts shown in th. €		KarstadtQuelle Group		Reconciliation account *		Karstadt	
		2006	2005	2006	2005	2006	2005
Sales		15,132,937	15,565,917	–	–	4,945,953	5,388,300
Interest from lending business		131,584	134,443	–	–	–	–
Internal sales		-2,114,367	-2,003,474	-470,117	-680,201	-47,109	-270,511
Group sales		**13,150,154**	**13,696,886**	**-470,117**	**-680,201**	**4,898,844**	**5,117,789**
Group sales (adjusted) [1]		***13,050,543***	***13,171,479***	***-157,191***	***-127,560***	***4,898,844***	***4,734,052***
Cost of sales and expenses for tourism services		-7,868,006	-7,923,703	39,280	110,559	-2,883,637	-2,958,565
Gross income		**5,282,148**	**5,773,183**	**-430,837**	**-569,642**	**2,015,207**	**2,159,224**
Other capitalized own costs		61,412	50,409	57,349	45,463	2,369	3,183
Operating income and costs		-2,085,741	-3,059,112	251,317	427,931	-987,774	-1,106,742
Staff costs		-2,196,583	-2,352,133	-24,511	-21,434	-947,098	-1,082,907
Other taxes		-29,030	-23,810	-4,072	-72	-88	-159
EBITDA		**1,032,206**	**388,537**	**-150,754**	**-117,754**	**82,616**	**-27,401**
EBITDA (adjusted) [1]		***408,855***	***552,603***	***-70,284***	***-37,849***	***145,850***	***65,215***
EBITDA margin in % (adjusted)		*3.1*	*4.2*	*–*	*–*	*3.0*	*1.4*
Depreciation and amortization (not including goodwill)		-346,000	-356,761	-1,406	-1,131	-95,092	-99,297
Amortization of goodwill		-21,817	-8,398	–	–	–	–
EBIT		**664,389**	**23,378**	**-152,160**	**-118,885**	**-12,476**	**-126,698**
Earnings from discontinued operations		**-232,752**	**-209,263**	**–**	**-6,638**	**–**	**6,376**
Segment assets		4,947,735	7,618,427	86,506	184,419	1,345,585	1,334,299
Segment liabilities		3,869,216	3,850,848	162,288	144,442	882,105	893,830
Gross cash flow		-538,371	575,556	-174,903	-99,950	-30,935	17,543
Investments		233,730	258,785	4,547	866	119,842	135,252
Employees (on annual average)	number	87,436	107,130	192	174	34,275	44,360
Employees (on annual average) adjustiert [1]	number	68,300	77,030	192	174	33,514	36,291

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

Segment report by region

Amounts shown in th. €	KarstadtQuelle Group		Reconciliation account		Domestic	
	2006	2005	2006	2005	2006	2005
Sales	15,132,937	15,565,917	–	–	11,990,563	12,472,335
Interest from lending business	131,584	134,443	–	–	119,489	68,460
Internal sales	-2,114,367	-2,003,474	-333,682	-225,669	-1,779,856	-1,666,581
Group sales	**13,150,154**	**13,696,886**	**-333,682**	**-225,669**	**10,330,196**	**10,874,214**
Cost of sales and expenses for tourism services	-7,868,006	-7,923,703	298,346	302,553	-6,111,861	-6,330,802
Gross income	**5,282,148**	**5,773,183**	**-35,336**	**76,884**	**4,218,335**	**4,543,412**
EBITDA	1,032,206	388,537	-5,520	1,992	919,700	236,033
EBIT	664,389	23,378	-5,504	1,993	593,114	-77,491
Earnings from discontinued operations	-232,752	-209,263	3,546	-689	-173,151	-168,759
Segment assets	4,947,735	7,618,427	-70,701	26,046	3,405,799	5,391,242
Segment liabilities	3,869,216	3,850,848	25,370	3,208	-4,479,044	3,108,669
Investments	233,730	258,785	-12,874	–	209,443	237,134

Mail order		Thomas Cook		Services		Real estate	
2006	2005	2006	2005	2006	2005	2006	2005
5,616,799	5,341,161	3,956,187	3,915,911	299,529	430,833	314,469	489,712
114,715	119,283	–	–	16,869	15,160	–	–
-1,493,848	-924,095	-69,460	-87,220	-33,833	-41,447	–	–
4,237,666	**4,536,349**	**3,886,727**	**3,828,691**	**282,565**	**404,546**	**314,469**	**489,712**
4,205,380	***4,500,257***	***3,886,727***	***3,828,691***	***216,783***	***236,039***	***–***	***–***
-2,132,648	-2,281,155	-2,771,349	-2,644,397	-119,652	-150,145	–	–
2,105,018	**2,255,194**	**1,115,378**	**1,184,294**	**162,913**	**254,401**	**314,469**	**489,712**
1,478	358	–	–	216	1,405	–	–
-1,715,311	-1,623,547	-477,897	-549,925	-11,542	-77,061	855,466	-129,768
-682,685	-671,663	-431,044	-438,728	-107,046	-129,695	-4,199	-7,706
-15,075	-3,410	-3,417	-5,231	-442	-496	-5,936	-14,442
-306,575	**-43,068**	**203,020**	**190,410**	**44,099**	**48,554**	**1,159,800**	**337,796**
-31,942 *-0.8*	***3,963*** *0.1*	***199,162*** *5.1*	***191,270*** *5.0*	***23,051*** *10.6*	***34,854*** *14.8*	***143,018*** *–*	***295,150*** *–*
-129,191	-75,179	-83,124	-90,827	-19,073	-22,802	-18,114	-67,525
-2,034	-1,160	–	-7,226	-19,783	-12	–	–
-437,800	**-119,407**	**119,896**	**92,357**	**5,243**	**25,740**	**1,141,686**	**270,271**
-232,752	**-209,001**	**–**	**–**	**–**	**–**	**–**	**–**
1,679,864	2,963,771	1,412,176	1,511,792	192,884	274,706	230,720	1,349,440
1,548,405	1,435,599	942,826	924,179	72,442	76,600	261,150	376,198
-636,974	150,868	195,376	194,120	7,232	34,664	101,832	278,311
68,701	67,467	30,717	41,911	9,531	9,354	392	3,935
29,519	33,242	21,015	26,732	2,371	2,515	64	107
22,673	25,730	10,508	13,368	1,349	1,385	64	82

Western Europe		Eastern Europe		Other countries	
2006	2005	2006	2005	2006	2005
2,871,351	2,909,007	236,380	163,427	34,643	21,148
11,808	65,612	287	371	–	–
-1,342	-106,244	-188	-2,196	701	-2,784
2,881,817	**2,868,375**	**236,479**	**161,602**	**35,344**	**18,364**
-1,917,436	-1,802,891	-136,813	-91,606	-242	-957
964,381	**1,065,484**	**99,666**	**69,996**	**35,102**	**17,407**
103,194	134,099	7,778	10,650	7,054	5,763
68,266	85,223	5,976	9,120	2,538	4,533
-59,042	-36,832	-4,105	2,983	–	–
1,556,451	2,118,258	46,093	58,985	10,094	23,896
597,633	708,880	-14,060	23,235	886	6,856
33,904	17,619	2,491	2,220	767	1,812

Notes to the consolidated financial statements

Accounting

1 General information

KarstadtQuelle is one of the largest department-store and mail-order groups in Europe. Besides the Karstadt (retail stores) and mail order (universal mail order and special mail order) business segments, the core business of the Group also includes Thomas Cook (tourism).

KARSTADT QUELLE AG, as the controling company of the Group, was entered under the name KARSTADT QUELLE AG in the register of companies at the Hamburg District Court (HRB 3604) on December 25, 2001 and is now registered at the Essen District Court (HRB 1783). The company is domiciled in Essen under the address of KARSTADT QUELLE AG, Theodor-Althoff-Straße 2, 45133 Essen, Germany.

The Management Board prepared the consolidated financial statements and the consolidated management report for the period to December 31, 2006, on February 27, 2007, and approved them for presentation to the Supervisory Board.

2 Accounting principles

The consolidated financial statements of KARSTADT QUELLE AG and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) in force at the balance sheet date and to be applied in the European Union as well as the supplementary commercial regulations to be observed under § 315 of the German Commercial Code (HGB) and § 315a, Paragraph 1, HGB.

The IFRS comprise IFRS issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). Apart from one regulation on portfolio hedge accounting under IAS 39, all of the obligatory standards and interpretations at the balance sheet date have been adopted in EU law by the European Commission. The respective regulation is not relevant for KARSTADT QUELLE AG in the reporting period. The consolidated financial statements of KARSTADT QUELLE AG hence comply with IFRS.

The consolidated financial statements comprise the balance sheet, the income statement, the statement on changes in equity, the cash flow statement and the notes.

The consolidated financial statements were prepared in euros. All amounts are expressed in thousands of euros (th. €) unless otherwise specifically indicated. Assets and liabilities are classified as long-term and short-term assets or liabilities in accordance with their maturity. The income statement is structured in accordance with the total expenditure method.

For KARSTADT QUELLE AG and the subsidiaries included in the Group, a financial year is generally the calendar year. Thomas Cook AG, Oberursel, and its subsidiaries, in deviation from the Group's balance sheet date, were included on the basis of the sub-group consolidated financial statements for the 12 months period to October 31, 2006. No interim financial statements were prepared due to organizational restrictions. Material transactions in the period between October 31 and December 31 were included in the consolidated financial statements.

In general the accounting policies applied for the consolidated financial statements of KARSTADT QUELLE AG as at December 31, 2005 were not changed. However, changes may result from the obligatory first-time application of new or revised standards and interpretations. Further information is available in the section on "revised or new IFRS and resulting changes to reporting, recognition or valuation" insofar as these changes were relevant to the Group or have resulted in changes to the previous year's figures. Information on the individual accounting policies is available on pages 98 ff.

3 Revised or new IFRS and resulting changes to reporting, recognition or valuation

The following revised or new binding standards and interpretations had to be applied for the first time and were not included in the consolidated financial statements as at December 31, 2005.

- IFRS 6 "Mineral Resources"
  IFRS 6 was published on December 9, 2004 and endorsed in EU law on November 8, 2005; it is to be applied for the first time in financial years starting on or after January 1, 2006. IFRS 6 provides, for the first time, regulations for the presentation of expenditures for the exploration and valuation of mineral raw materials. IFRS 6 regulations are not relevant for the KarstadtQuelle Group.

- Amendment to IAS 19 "Employee Benefits": Actuarial Gains and Losses, Group Plans and Disclosures
The amendments to IAS 19 were published on December 16, 2004, endorsed in EU law on November 8, 2005 and are to be applied for the first time in the financial year starting on or after January 1, 2006. The amendments to Group plans settle the question of allocating the costs of a defined benefit plan to individual companies when these jointly bear the actuarial risks. The amendments to accounting for actuarial gains or losses establish the right to choose whether these gains or losses are comprehensively, immediately and permanently recognized in equity. The amendments to the Group plans are not relevant for the KarstadtQuelle Group at present. With regard to accounting for actuarial gains or losses, the KarstadtQuelle Group has decided to continue to allocate actuarial gains or losses outside a corridor over the remaining service period of the respective employees. In this respect the option was not exercized.

- IFRIC 4 "Determining whether an Arrangement contains a Lease"
The interpretation was published on December 2, 2004 and endorsed in EU law on November 8, 2005; it is to be applied for the first time in financial years starting on or after January 1, 2006. IFRIC 4 is an interpretation of IAS 17 and refers to contracts which relate to the output of an asset, but not to the use of this asset itself. IFRIC 4 clarifies whether a lease exists within the scope of IAS 17 or whether the transaction is a service transaction. The interpretation is relevant for the KarstadtQuelle Group, although IAS 17 has already been interpreted respectively. First-time application therefore has no effect on the financial statements.

- IFRIC 5 "Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
IFRIC 5 was published on December 16, 2004 and endorsed in EU law on November 8, 2005; it is to be applied for the first time in financial years starting on or after January 1, 2006. IFRIC 5 defines the accounting of shares in funds in which companies responsible for the decommissioning, environmental rehabilitation or restoration, either alone or with other companies, accumulate assets in order to finance future expenditure by the funded assets. IFRIC 5 regulations are not relevant for the KarstadtQuelle Group at present.

- Amendments to IAS 39: "The Fair Value Option"
The amendments to IAS 39 were published on June 16, 2005, endorsed in EU law on November 15, 2005 and are to be applied for the first time in the financial years starting on or after January 1, 2006. Prior to the amendments coming into effect, financial instruments could be irrevocably defined as "Financial Asset or Financial Liability at Fair Value through Profit or Loss" on initial recognition. In this case they are measured at fair value with fair value changes recognized in profit or loss. Amendments to IAS 39 limit the application of this "Fair Value Option" to three possibilities. KARSTADT QUELLE AG has not yet applied the "Fair Value Option". Amendments to the Standard are therefore not relevant for the KarstadtQuelle Group at present.

- Amendments to IAS 39: "Cash Flow Hedge Accounting"
The amendments to IAS 39 were published on April 14, 2005, endorsed in EU law on December 21, 2005 and are to be applied for the first time in the financial years starting on or after January 1, 2006. The amendments to IAS 39 will make it possible to apply hedge accounting to the hedging relationships between companies in the Group. Accordingly the currency risk of a highly probable forecast transaction within the Group may, under certain conditions, be defined as an underlying transaction in the consolidated financial statements. The amendments to "Cash Flow Hedge Accounting" are not relevant for the KarstadtQuelle Group at present.

- Amendments to IAS 39 and IFRS 4: "Financial Guarantee Contracts"
The amendments to IAS 39 and IFRS 4 were published on August 18, 2005, endorsed in EU law on January 11, 2006 and are to be applied for the first time in financial years starting on or after January 1, 2006. The new regulations define financial guarantee contracts and provide for their accounting at fair value under IAS 39. Financial guarantee contracts are hence no longer included in the scope of IFRS 4. The KarstadtQuelle Group did not, in the current reporting period or in previous reporting periods, issue any financial guarantee contracts that were still in force on the balance sheet date. The changes therefore have no effect.

- Amendments to IFRS 1 and IFRS 6
The amendments to IFRS 1 and IFRS 6 were published on June 30, 2005, endorsed in EU law on January 11, 2006 and are to be applied for the first time in financial years starting on or after January 1, 2006. The amendments determine that first-time IFRS users, as defined in IFRS 1, who apply IFRS 6 before January 1, 2006, are exempt from disclosing comparative information and recognition and measurement. Since IFRS 6 is not relevant for the KarstadtQuelle Group, the amendments are not applicable.

- IFRIC 6 "Waste Electrical and Electronic Equipment"
  IFRIC 6 was published on September 1, 2005 and endorsed in EU law on January 11, 2006; it is to be applied for the first time in financial years starting on or after December 1, 2005. IFRIC 6 relates to the EG regulations 2002/96/EG concerning old electric and electronic equipment and 2002/95/EU concerning limits to the use of certain dangerous materials in electric and electronic equipment (EE appliances), which have been transposed into German law through the Electric and Electronic Equipment Act (ElektroG). The interpretation requires manufacturers and importers to take back and dispose of old electric and electronic equipment. IFRIC 6 was applied for the first time by the KarstadtQuelle Group for the financial year beginning on January 1, 2006. The effects resulting from first-time application are not material.

- Amendments to IAS 21: "The Effect of Changes in Foreign Exchange Rates"
  Amendments to IAS 21 were published on December 15, 2005, endorsed in EU law on May 8, 2006 and are to be applied for the first time in financial years starting on or after January 1, 2006. In the event that the parent company holds a net investment in a foreign subsidiary and, in connection with this net investment, advances a credit to the subsidiary which is neither in the functional currency of the parent company nor of the subsidiary, then the conversion differences relating to such net investments, irrespective of the functional currency of the parent company and the subsidiary, will always be recognized in equity. The amendments are not relevant for the KarstadtQuelle Group at present.

4 Outlook on IFRS – Changes in 2007

The following IFRS were published by the IASB or the IFRIC by the balance sheet date. They are, however, only obligatory for later reporting periods or have not yet been endorsed in EU law. The KarstadtQuelle Group has decided not to early adopt the standards when the requirement for adoption applies only for later reporting periods.

- IFRS 7 "Financial Instruments: Disclosures"
  IFRS 7 was published on August 18, 2005 and endorsed in EU law on January 11, 2006; it is to be applied for the first time in the financial years starting on or after January 1, 2007. IFRS 7 replaces IAS 30 "Disclosures in the Financial Statements of Banks and Similar Institutions" and incorporates and modifies IAS 32 regulations on "Financial Instruments: Disclosure and Presentation". IAS 32 is thus reduced to rules on recognition. With IFRS 7, redundant and inconsistent requirements in IAS 30 and IAS 32 are eliminated and disclosures for risks relating to financial instruments are set out. The KarstadtQuelle Group will apply IFRS 7 for the first time in the reporting period starting on January 1, 2007.

- IFRS 8 "Operating Segments"
  IFRS 8 was published on November 30, 2006 and is to be first applied in financial years starting on or after January 1, 2009. IFRS 8 replaces IAS 14 "Segment Reporting" and is almost identical to SFAS 131. The previous primary and secondary reporting format, which distinguishes between business and geographic segments, will no longer be used and has been changed to a single report format which presents segments on the basis of information used by the management in controling the company. Details are also to be provided on geographic segments, products and important customers. IFRS 8 has not yet been endorsed in EU law and therefore cannot be applied at the balance sheet date.

- Amendments to IAS 1: "Capital Disclosures"
  The amendments to IAS 1 were published on August 18, 2005, endorsed in EU law on January 11, 2006 and are to be applied for the first time in the financial years starting on or after January 1, 2007. The amendments are related to IFRS 7 "Financial Instruments: Disclosures" and require companies to provide qualitative information on objectives, methods and processes in terms of equity management. Since the KarstadtQuelle Group has not exercized the option to early adopt IFRS 7, the corresponding amendments to IAS 1 are not relevant for the reporting period.

- IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflation Economies"
  IFRIC 7 was published on November 24, 2005 and endorsed in EU law on May 8, 2006; it is to be applied for the first time in the financial years starting on or after March 1, 2006. IFRIC 7 regulates how comparative figures have to be adjusted for IFRS financial statements if the country whose currency represents the functional currency of the reporting company becomes a hyperinflation country (for the first time). IFRIC 7 regulations are not relevant for the KarstadtQuelle Group at present.

- IFRIC 8 "Scope of IFRS 2"
  IFRIC 8 was published on January 12, 2006 and endorsed in EU law on September 8, 2006; it is to be applied for the first time in the financial years starting on or after May 1, 2006. IFRS 2 "Share-Based Payments" regulates the granting of shares or share options on the balance sheet for goods or

services received and determines, that benefits to non-employees should be valued at fair value of the goods or services received. IFRIC 8 clarifies that IFRS 2 may also be applied in such cases in which no directly identifiable, adequate return is evident. IFRIC 8 is not relevant for the KarstadtQuelle Group at present.

- IFRIC 9 "Reassessment of Embedded Derivatives"
  IFRIC 9 was published on March 1, 2006 and endorsed in EU law on September 8, 2006; it is to be applied for the first time in the financial years starting on or after June 1, 2006. IAS 39.11 specifies that, under certain conditions, embedded derivatives are to be separated from the host contract. Until now it has been questionable whether such an assessment should be carried out at every balance sheet date over the entire term of the agreement. IFRIC 9 now concludes that re-assessment is prohibited over the term of an agreement unless the contract terms and the resulting payments have changed significantly. IFRIC 9 regulations are relevant for the KarstadtQuelle Group and will be applied for the first time in the financial year beginning on January 1, 2007.

- IFRIC 10 "Interim Financial Reporting and Impairment"
  IFRIC 10 was published on July 20, 2006 and is to be first applied in the financial years starting on or after November 1, 2006. IFRIC 10 specifies that any impairment of goodwill during the period in accordance with IAS 36, which is to be included in interim financial statements prepared in accordance with IAS 34, may not be reversed in the following annual financial statements or interim financial statements, even if the reason for an impairment loss no longer exists. This regulation also applies for an impairment loss recognized for an investment in an equity instrument or a financial asset valued at fair value in accordance with IAS 39. IFRIC 10 has not yet been endorsed in EU law. IFRIC 10 regulations are relevant for the KarstadtQuelle Group and are to be applied for the first time in the financial year beginning on January 1, 2007.

- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"
  IFRIC 11 was published on November 2, 2006 and is to be first applied in the financial years starting on or after March 1, 2006. IFRIC 11 requires that a share-based payment agreement under which the company receives goods or services (this includes staff services) in consideration for its own equity instruments should be classified as "equity-settled". This applies irrespective of how the equity instruments are obtained by the company. Furthermore, IFRIC 11 regulates whether share-based payment agreements of a consolidated company are to be classified as "equity-settled" or as "cash-settled" if equity instruments of the parent company are granted. In this case it must be distinguished whether share options are granted by the parent company or by a consolidated company. IFRIC 11 has not yet been endorsed in EU law. IFRIC 11 regulations are not relevant for the KarstadtQuelle Group at present.

- IFRIC 12 "Service Concession Arrangements"
  IFRIC 12 was published on November 30, 2006 and is to be first applied in the financial years starting on or after December 31, 2007. The subject of the interpretation is the recognition of service agreements under which companies are commissioned by government bodies to offer public services such as the construction of roads, airports or energy supply infrastructures. While control over the assets remains with the government, the company is contractually obliged in terms of construction, operation and maintenance. IFRIC 12 deals with the question of how the rights and obligations resulting from such contractual agreements are to be presented in the financial statements. IFRIC 12 has not yet been endorsed in EU law. IFRIC 12 regulations are not relevant for the KarstadtQuelle Group at present.

The KarstadtQuelle Group does not anticipate that the application of standards which were published but not effective on the balance sheet date have any material effect on the consolidated financial statements for future periods.

5 Significant transactions

In the course of reorganising the Group, major real estate assets of the KarstadtQuelle Group were sold to a joint venture between Whitehall Fund (subsidiary of Goldman Sachs) and KARSTADT QUELLE AG for 3.73 bill. €, of which 571 mill. € were assigned to the pension trust. Whitehall is responsible for the operative management of the joint venture, while KARSTADT QUELLE AG holds 49 % solely for the purpose of utilising any increase in value. In the financial year, 3.29 bill. € were received in cash from this transaction, of which 345 mill. € were assigned to the pension trust. KarstadtQuelle leases the real estate assets back from the joint venture. 51 % of the profit resulting from the disposal was included in profit or loss. Interim results from 49 % of the disposal proceeds were deducted by the amount of 158 mill. € from the at-equity High Street shareholding. 745 mill. € revenues and 196 mill. € deferred taxes were recognized in equity without effect for earnings.

During the financial year a cooperation agreement was concluded between the KarstadtQuelle Group and Hong Kong-based Li & Fung, one of the largest trading companies in the world. The agreement involves Li & Fung providing worldwide import services for the Group, with the goal of increasing the sourcing volume up to 2 bill. € a year and thereby handling around 80 % of the import volume in Asia by 2008. In another part of the transaction Karstadt Quelle International Services AG, St. Gallen, Switzerland was sold to Li & Fung Ltd.

Within the scope of strategic reorganization of the mail order business, a reorganization plan was adopted which, in addition to a medium-term transformation concept to standardize the strategies and portfolios of individual operations, mainly provides for structural changes in mail-order business. In this respect universal supplier neckermann.de is to go public or be sold. Furthermore, various special mail order suppliers, service companies and the Quelle "Region West" are to be sold; individual parts of this disposal plan had already been implemented by the balance-sheet date. According to the disposal plan, the other measures will be fully implemented by the end of 2007.

neckermann.de, the Quelle "Region West" operation and the "Business" operation of the special mail order suppliers were identified as discontinued operations; other service companies were classified as a disposal group. All of the discontinued operations and disposal groups have been reported at the lower of the carrying amount and fair value less costs to sell on the balance sheet date. Assets and liabilities pertaining to discontinued operations and disposal groups are reported separately in the balance sheet for the fiscal year as "assets held for sale" or "liabilities in connection with assets held for sale". The profits or losses from discontinued operations for the fiscal year and for the previous year are disclosed separately in the income statement.

6 General accounting policies

Recognition of income and expenses

Revenue is valued at the fair value of a consideration received and represents amounts for goods supplied and services performed during the normal course of business excluding discounts, value-added tax and other taxes relating to sales. Revenue and other operating income are not recognized until the services have been provided or the goods or products delivered so that material risks and rewards have been passed to the customer.

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

Interest income is recognized based on the outstanding amounts borrowed and the applicable effective interest rate. The effective interest rate is the rate of interest by means of which the present value of estimated future deposits equals the carrying amount of the asset. Dividends are recorded when the legal right to payment arises.

Under IAS 18 earnings from service agreements (this includes package holidays organized by Thomas Cook) are recognized according to the percentage of completion provided that IAS 18.20 criteria are met. Revenue from holidays starting before the balance sheet date and completed after the balance sheet date are recognized by the percentage of completion method. In this context it is assumed that, on average, these services are half completed at the balance sheet date.

Long-term development projects

For real estate development projects proportionate results are recognized according to the percentage of completion of the project, unless a loss is anticipated. Anticipated losses are recognized immediately for the full amount anticipated through impairments or provisions. Realization of profits is based on a calculation of the costs incurred as a percentage of the total estimated costs.

Goodwill

Goodwill, as intangible assets with an indefinite useful life, is not amortized. In an impairment test, any goodwill acquired within a business combination is allocated to those cash-generating units that are likely to benefit from the synergies. Goodwill is tested once a year for impairment and also if there is any indication of an impairment loss. If the carrying amount of a cash-generating unit exceeds the realisable value of the unit, goodwill allocated to this cash-generating unit is impaired; impairment losses are not reversed in this case.

If an impairment loss of a cash-generating unit exceeds the carrying amount of the associated goodwill, the excess impairment loss is to be allocated proportionately to the respective assets of the cash-generating unit. The recoverable amount of a cash-generating unit is determined on the basis of fair value less costs to sell. Fair value less costs to sell is calculated by application of DCF models. In this case calculations are based on ten-year forecasts approved by the management and used for internal purposes.

When a subsidiary, associate or jointly controled entity is sold, the attributable value of goodwill is included in profit or loss from the sale.

Intangible assets not including goodwill

Intangible assets with a limited useful life are valued at amortized cost. Depreciation is 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 addition to depreciation, an impairment test is carried out when there are indications that impairment losses exceed normal depreciation. If in this case the carrying amount of an asset exceeds its realisable value, the asset is impaired. This may also apply to cash-generating units.

Intangible assets with an indefinite useful life are not amortized. An impairment test is carried out if there is any indication of an impairment loss; this may also apply to cash-generating units. An impairment is recognized if the carrying amount of an intangible asset or an associated cash-generating unit exceeds the respective realisable value.

Impairment losses are reversed if the reason for impairment losses previously recorded no longer exists.

As far as the requirements of IAS 38.51 ff. are met, development costs which are based mostly on intragroup services are recognized as internally generated assets at cost. Costs also include reasonable portions of overheads. Borrowing costs are not included when determining manufacturing costs.

Tangible fixed assets

Useful life of tangible fixed 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
Store fixtures and fittings	7 years

Tangible fixed assets are measured at amortized cost. Borrowing costs are not included when determining manufacturing cost.

In addition to depreciation, an impairment test is carried out on tangible fixed assets for which there is indication that impairment losses exceed normal depreciation. If the carrying amount of an asset exceeds its realisable value, the asset is impaired. This may also apply to cash-generating units. Impairment losses are reversed if the reason for impairment losses previously recorded no longer exists.

Recognized obligations for dismantling or removal are capitalized and are depreciated on the basis of the useful life of the respective asset.

Major inspections of aircraft are capitalized as separate components and depreciated over the period until the next scheduled inspection.

Land and buildings held as financial investments include property held to generate rental income or for long-term capital appreciation. They are measured at cost under IAS 40 in conjunction with IAS 16 and depreciated straight-line over the expected useful life. Property held as financial investments is reported under financial assets.

Maintenance expenses are generally recognized in profit or loss. They are capitalized if they substantially improve the respective asset.

Leases

Leases are classified as finance leases under IAS 17 if all of the material risks and rewards relating to ownership of the lease asset are transferred to the lessee. All other leases are to be classified as operating leases. KARSTADT QUELLE AG is both acting as lessor and as lessee.

Payments due from lessees resulting from finance leasing are reported as receivables to the amount of the net cash investment resulting from the lease. Income from finance leasing is allocated over the lease term to reflect consistent periodical returns on outstanding net cash investment resulting from leases. Rental income from operating leases is recognized straight-line in profit or loss over the term of the corresponding lease.

Assets held as finance leases are capitalized at fair value at the inception of a lease or at the lower present value of respective minimum lease payments and are then depreciated on a straight-line basis. The corresponding liability to the lessor is shown as a finance lease obligation. Lease payments are proportionately allocated to financial expenditure and to the reduction of a lease obligation to result in a consistent return on the remaining balance of obligations for each reporting period. Rental payments for operational leases are recognized straight-line in profit or loss over the term of the corresponding lease.

Financial instruments

A financial instrument is an agreement which results in a financial asset for one company while at the same time resulting in a financial liability or an equity instrument for another company. Financial instruments are recognized when the Group enters into a corresponding agreement. However, for customary market purchases or sales, the date of settlement is relevant for initial recognition or disposal.

Financial assets mainly include cash and cash equivalents, trade receivables, loans granted and other receivables, financial investments held to maturity , as well as normal and derivative financial assets held for trading. Financial liabilities normally include securities and other secured liabilities, trade payables, liabilities to banks, finance lease liabilities, loans against a promissory note and derivative financial instruments. Financial assets and financial liabilities are only to be offset for reporting purposes if there is a right of offset and the intention to settle on a net basis. The liability and equity components of compound financial instruments are to be separated and shown separately under the respective issuer.

Financial instruments are valued at fair value on initial recognition. In this case transaction costs directly attributable to acquisition are included for all financial assets and liabilities which are subsequently not recognized in profit or loss. Fair values shown on the balance sheet are generally equivalent to the market value of financial assets and liabilities. Recognized valuation methods and the application of current market parameters are used to calculate fair values which are not directly available.

Subsequent measurement depends on whether financial instruments are held for trading or until maturity or whether they are available for sale. Financial instruments held for trading are reported at fair value with changes recognized in profit or loss. Financial instruments intended to be held to maturity are valued at amortized cost under the effective interest rate method. The remaining financial assets and liabilities of the Group are classified as available for sale and valued at fair value. Increases and decreases resulting from valuation at fair value are recognized in equity. This does not apply in the case of permanent or significant impairment losses or for currency-related changes in the value of borrowed capital. Profits or losses accumulated in equity are recognized in the income statement subsequent to the disposal of financial instruments.

During the reporting period and during previous periods, the KarstadtQuelle Group did not designate any financial instruments as valued at fair value through profit and loss.

Other financial assets

Financial instruments shown under other financial assets as defined in IAS 39 are shares in affiliated companies not included in the consolidation, associates not accounted for in accordance with the equity method, other investments, loans, securities and non-current financial receivables.

These are recognized and valued in accordance with the general rules for financial instruments.

Inventories

Inventories are recognized at the lower of cost or net realisable value. Manufacturing cost comprises all of the directly attributable costs for materials and production costs as well as overheads incurred in bringing inventory to its present location and condition. Borrowing costs are not included. Net realisable value comprises estimated proceeds less estimated costs for production and costs incurred up to sale or disposal. In the Karstadt business division the net realisable value is determined on the basis of adequate deductions off sales prices. In the mail order business division valuation is generally carried out at adjusted mixed prices.

Non-current assets held for sale and discontinued operations

A discontinued operation is a significant business division or Group component which has been classified as held for sale. Individual assets or groups of related assets and liabilities which do not concurrently constitute a significant business division, for example, due to their size or significance, are non-current assets held for sale or disposal groups. They are disclosed separately on the balance sheet. Specific accounting rules also apply for the income statement and the cash flow statement in the case of discontinued operations.

Non-current assets and groups of assets are classified as held for sale if they are immediately available for disposal, if the sale is planned at customary terms and if proof can be provided that disposal is highly probable. If the sale is also part of a single plan and if it also concerns one or several significant lines of business or geographic areas which can be separated in operative terms and for accounting purposes, the items for sale are to be classified as a discontinued operation.

Non-current assets held for sale, disposal groups and discontinued operations are measured at the lower of the carrying amount and fair value less costs to sell. Depreciation is ceased and any impairment losses are to be recognized in profit and loss.

Receivables and other assets

Trade receivables are non-interest bearing and are recognized at nominal value. Allowances are provided for individual bad or doubtful debts.

Catalog costs assignable to the period after the balance sheet date are also reported under other assets.

Sale of receivables

A financial asset is derecognized when IAS 39.17 f. requirements are fulfilled. Insofar as the Group transfers its contractual rights to cash flows arising from an asset and essentially neither transfers nor retains all the risks and rewards incident to ownership of this asset and also retains the power to dispose of the transferred asset, the Group will continue to recognize the asset to the extent of its continuing involvement.

Since December 2005 individual Group companies have been selling trade receivables to KARSTADT Hypothekenbank AG, which was transferred to the II. KarstadtQuelle Pension Trust e. V. under the CTA program. At the end of the 2005 financial year KARSTADT Hypothekenbank AG took over from the finance companies receivables being sold by these companies under ABS programs. In line with this, the sale of receivables was classified as disposal under IAS 39. In the 2006 financial year, the foreign Asset Backed Securitization program was also revised. The program now also meets IAS 39 derecognition criteria and is therefore no longer reported on the balance sheet.

Deferred taxes

Deferred taxes are anticipated income tax payables or reimbursements resulting from differences between the carrying amounts of assets and liabilities in the annual financial statements and the respective tax bases applied in calculating taxable earnings.

Deferred taxes are recognized for all taxable temporary differences using the balance sheet-related liability method. Deferred taxes are not recognized on temporary differences resulting from goodwill or from first-time recognition of other assets and liabilities in a transaction (which is not a business combination) that affects neither taxable earnings nor IFRS earnings. Deferred taxes are measured at the tax rates which are expected to apply in the periods in which an asset is realized or a liability is settled. Deferred taxes are reported as tax income or tax expenditure in the income statement unless they are related to items reported directly in equity, in which case the deferred taxes are also reported in equity.

Deferred tax liabilities are recognized for taxable temporary differences. This also includes differences resulting from shares in subsidiaries or associated companies and shares in joint ventures, unless the parent company can influence the reversal of a temporary difference and the temporary difference is unlikely to be reversed in the near future.

Deferred tax assets are reported to the extent that it is probable that taxable income against which the deductible temporary difference can be utilized will be available. Deferred tax assets are also recognized for tax losses carried forward which can be used in later years provided that their realization is guaranteed with sufficient certainty. The carrying amount of deferred tax assets will be reviewed on each balance sheet date and reduced to the extent to which it is no longer probable that sufficient taxable income for the year will be available against which the asset may be utilized.

Liabilities

Long-term financial liabilities are measured at market value. Directly attributable transaction costs are deducted on recognition of the liabilities and are amortized over the contractual terms.

Liabilities are recognized at amortized cost under IAS 39.

Deferred income

Payments from outsourcing transactions made for future service and purchase obligations are accrued at the time of the cash inflow and released over the term of the agreement through profit and loss.

Government grants for tangible assets are recognized as deferred income and are released over the expected useful life of the respective asset.

Provisions

Provisions comprise all legal and constructive obligations with uncertain timing or amount and which the Group cannot avoid fulfilling. In this case only obligations to third parties which will probably result in an outflow of economic resources are included. Provisions are measured at the best estimate. In the event of different scenarios to which different probabilities can be allocated an expected value of the settlement amount is carried as liability; non-current provisions are discounted. Netting the amount of obligations with any claims for reimbursement is not permissible. Netting is always permissible for the income statement, irrespective of balance sheet treatment. The value of provisions is to be verified on each balance sheet date.

Pension provisions under defined benefit plans are calculated using actuarial assumptions under the projected unit credit method. An actuarial valuation is carried out on each balance sheet date. Plan assets are transferred to two external non-profit associations which are being used to secure future pension payments.

Pension obligations are recognized at the present value of defined pension obligations adjusted by past service costs and actuarial gains or losses . The fair value of the plan assets is deducted. Actuarial gains and losses are only included and allocated over the average future service period to the extent that they exceed a corridor corresponding to the higher of 10 % of the respective obligation or 10 % of the plan assets.

Other provisions are recognized for uncertain liabilities and onerous contracts.

Derivative financial instruments

Derivative financial instruments comprise hedging transactions used to control risks arising from interest rate and foreign currency fluctuations and to hedge the fuel price risk at Thomas Cook. Interest-rate swaps, forward-exchange contracts, foreign-currency options and crude oil spread options and hedging combinations are used primarily in the KarstadtQuelle Group. Derivative financial instruments are neither held nor issued for speculative purposes.

All derivative financial instruments are recognized at their market value. First-time recognition is on the trading date. Available information on markets and suitable valuation methods are applied for measuring the market value of derivative financial instruments employed. The fair value of options is determined with help of recognized option pricing models and the fair value of interest-rate derivatives is determined allowing for remaining maturities on the basis of current market interest-rates and the interest rate structure.

When recognising hedging transactions a distinction must be made between fair value hedges and cash flow hedges. In the case of cash flow hedges contracted as a hedge against the risk of fluctuating cash inflows and outflows, changes in market value are, if risk limitation and documentation is adequately sufficient, recognized directly in equity under "Changes resulting from the measurement of derivative financial instruments". In the case of fair value hedges contracted as a hedge against the risk of market value fluctuations in recognized assets or liabilities, the changes in market value of the derivatives are recognized in profit and loss under other financial results; the adjustment not affecting net income is the result of recognized changes in the value of the hedged underlying transaction, which is also recognized in the income statement. The market value fluctuations of individual commercially essential hedging transactions, some of which do not fulfil the special effectiveness definitions specified in IAS 39, are recognized in profit and loss.

Positive market values of derivative financial instruments are reported under other assets and negative market values are reported under other liabilities.

Assumptions and estimates

Assumptions and estimates were applied in preparing the consolidated financial statements. They had an effect on the recognition and measurement of assets, liabilities, earnings, expenses and contingent liabilities. Assumptions and estimates relate mainly to the groupwide determination of useful economic lives, assumptions with regard to the value of land, buildings, goodwill, receivables, participating interest, the valuation of provisions and the realisability of future tax relief. Actual values may in individual cases differ from the assumptions and estimates made. When more reliable information is available, changes are taken into account and recognized in profit and loss.

Contingent liabilities

Contingent liabilities are possible obligations which arise from past events and whose existence depends on future events not under the company's control as well as existing obligations which cannot be recognized since either an outflow of resources is not probable or the amount of the obligation cannot be estimated with sufficient reliability. Contingent liabilities are disclosed to the extent of the possible obligation at the balance sheet date. Financial guaantee contracts issued are carried as liabilities under IAS 39 and are measured at fair value.

Consolidation

7 Consolidated companies

The financial statements of the parent company and of all major subsidiaries under direct or indirect control are included in the consolidated financial statements of KARSTADT QUELLE AG as at December 31, 2006. Control is presumed to exist when the parent company either legally or factually has the opportunity to govern the financial and operating policies of a company so as to derive an economic benefit.

Joint ventures are included on a pro rata basis in the consolidated financial statements and associated companies are included at equity. Joint ventures are companies under joint control. Associated companies are companies on which significant influence can be exercized and which are neither subsidiaries nor joint ventures.

First-time inclusion in the consolidated financial statements is carried out from the point in time when control can be exercized. Companies not included in consolidation are immaterial on an individual and joint basis, in terms of quantative and qualitative aspects.

On 31.12.2006 the Group of consolidated companies was made up as follows:

Consolidated companies

	Total 2006	thereof domestic 2006	thereof international 2006	Total 2005
Number of fully consolidated companies (subsidiaries)				
As at 01.01.	390	286	104	457
Addition	9	5	4	25
Disposal	-13	-6	-7	-69
Merger	-4	-2	-2	0
Change in type of consolidation	1	0	1	-23
As at 31.12.	**383**	**283**	**100**	**390**
Number of proportionately included joint ventures				
As at 01.01.	168	31	137	137
Addition	3	0	3	11
Disposal	-22	-1	-21	-3
Change in type of consolidation	1	1	0	23
As at 31.12.	**150**	**31**	**119**	**168**
Number of companies recognized at equity (associates)				
As at 01.01.	31	8	23	29
Addition	6	1	5	7
Disposal	-10	0	-10	-5
Change in type of consolidation	-2	-1	-1	0
As at 31.12.	**25**	**8**	**17**	**31**

Information on significant subsidiaries included in the consolidated financial statements are enclosed with the Notes as “Significant subsidiaries, joint ventures and associates” (pages 146 and 147). The complete list of investments of KARSTADT QUELLE AG will be filed at the operator of the electronic Federal Gazette and, following this filing, be published in the Federal Gazette.

The additions relate mainly to newly set-up marketing companies in the mail-order segment. Purchasing companies in the Services segment were mainly disposed of under the changed sourcing strategy.

The remaining changes in the joint ventures and in associates primarily relate to the Thomas Cook company subgroup.

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

Acquisitions during the financial year relate to Mega Verbund AG, St. Gallen (acquisition of the remaining 75 % of the shares at September 30, 2006) and to Euro Papier N.V., Temse (acquisition of 100 % of the shares at December 31, 2006). There were no fair value adjustments recognized during the initial consolidation. In the 2006 financial year the companies achieved sales to the value of 136.1 mill. € and earnings of 13.4 mill. € before the respective dates of initial consolidation.

Acquisitions/Divestments

	Acquisitions		Divestments	
Amounts shown in th. €	2006	2005	2006	2005
Gross income	–	134,330	26,262	377,256
Earnings before interest, tax and depreciation and amortization (EBITDA)	–	11,848	-19,602	17,831
Earnings before interest, tax and amortization of goodwill (EBITA)	–	6,300	25,200	-8,233
Earnings before tax and amortization of goodwill (EBTA)	–	3,148	25,057	19,463
Non-current assets	4,156	25,144	42,512	1,821,606
Current assets	19,455	69,933	46,518	499,759
Assets classified as held for sale	–	–	–	582,111
Assets	**23,611**	**95,077**	**89,030**	**2,903,476**
Non-current liabilities	311	3,449	5,634	2,393,615
Current liabilities	14,971	28,372	27,366	686,990
Liabilities relating to assets classified as held for sale	–	–	–	83,697
Liabilities	**15,282**	**31,821**	**33,000**	**3,164,302**

8 Consolidation principles

Business combinations are accounted for in accordance with the purchase method. The purchase price of the subsidiary acquired is allocated to the assets, liabilities and contingent liabilities acquired. In this case the values at the point in time in which control was established are relevant. Irrespective of the share in the investment any assets that qualify for recognition and liabilities assumed are recognized at fair value. A remaining difference between purchase price and equity is recognized as goodwill. Any badwill is recognized directly in profit or loss. In the periods following the business combination any fair value adjustments are accounted for in accordance with the corresponding assets and liabilities.

For all financial statements included in the consolidated financial statements of KARSTADT QUELLE AG uniform accounting policies are applied. All expenses and earnings, receivables and liabilities and results between companies are eliminated.

Joint ventures are included proportionately, i.e. assets liabilities expenses and earnings are included in accordance with the participating interest.

Interests in associates accounted for using the equity method are recognized at the amount of their proportionately revalued assets (including any goodwill), liabilities and contingent liabilities. Goodwill resulting from application of the equity method is not amortized; instead it is tested for impairment at least once a year. Unrealized profits and losses from transactions with these companies are eliminated proportionately.

The following table shows the proportionate non-current and current assets and liabilities, as well as the revenue, income and earnings for the joint ventures consolidated proportionately. These amounts are included in the individual line-items of the consolidated balance sheet and income statement:

Proportionate items of joint ventures consolidated proportionately

Amounts shown in th. €	2006	2005
Non-current assets	1,479,193	1,547,129
Current assets	846,359	1,061,993
Non-current liabilities	653,363	682,761
Current liabilities	1,040,114	1,319,416
Sales	4,417,188	4,601,555
Gross income	1,330,347	1,465,758
EBITDA	206,398	198,563
EBIT	116,032	93,424
Net income	93,379	58,314

Other investments and subsidiaries, joint ventures and at-equity investments, which are immaterial and are therefore not consolidated, are recognized under IAS 39 at fair market value unless they are financial investments held to maturity or financial assets that have no quoted market price in an active market and whose fair value cannot be reliably estimated.

9 Foreign currency translation

Transactions in foreign currencies are translated into the functional currency at the exchange rate on the transaction date. On the balance sheet date monetary items are translated at the closing rate and non-monetary items are translated at the rate applying on the transaction date. Resulting translation differences to the amount of plus 10,537 th. € (previous year: plus 2,270 th. €) were recognized in profit or loss.

The financial statements of consolidated companies outside the European Monetary Union whose functional currency is not the euro are translated under the modified closing rate method.

In the consolidated financial statements, assets and liabilities of consolidated companies are translated into euros at the average closing-date rates. Income statements of foreign consolidated companies whose functional currency is not the euro are translated at the average rates for the reporting period, as well as the corresponding net incomes for the year. Translation differences are recognized in equity.

The most important rates have developed relative to the euro as follows:

Most important exchange rates relative to €

Amounts in €	As at	Average rate 2006	Average rate 2005	Rate applying at the balance sheet date 2006	Rate applying at the balance sheet date 2005
100 Danish kroner	31.12.	13.406	13.420	13.412	13.404
1 English pound	31.10.	1.465	1.456	1.494	1.478
1 English pound	31.12.	1.467	1.462	1.489	1.459
100 Hongkong Dollar	31.12.	10.251	10.325	9.765	10.932
100 Japanese Yen	31.10.	0.685	0.733	0.637	0.716
100 Polish zlotys	31.12.	25.618	24.801	26.033	25.849
100 Swedish kroner	31.12.	10.806	10.776	11.058	10.646
100 Swiss francs	31.12.	63.566	64.585	62.232	64.305
100 Slowakian korunas	31.12.	2.687	2.591	2.908	2.641
100 Thai Baht	31.10.	2.091	1.971	2.142	2.041
100 Czech korunas	31.12.	3.532	3.359	3.645	3.449
1 Turkish Lira	31.10.	0.568	0.608	0.540	0.617
1 Tunisian dinar	31.10.	0.604	0.620	0.592	0.620
1 US Dollar	31.10.	0.809	0.789	0.787	0.833
1 US Dollar	31.12.	0.796	0.803	0.759	0.848

Notes to the consolidated income statement

10 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 to the amount of 114,715 th. € (previous year: 119,283 th. €).

Interest and commissions from credit business at KarstadtQuelle Bank AG amounting to 17,973 th. € (previous year: 15,160 th. €) are also presented under this item.

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

11 Cost of sales and expenses for tourism services

Amounts shown in th. €	2006	2005
Cost of purchased goods	4,995,448	5,207,472
Cost of tourism services	2,766,012	2,644,397
Cost of purchased services	106,546	71,834
	7,868,006	7,923,703

Expenses for tourism services at Thomas Cook AG result mainly from the third-party purchase of advance materials and services. These include stopover services, flight and engineering costs, commissions, fees, aircraft fuel and supplies, transfer and other transportation costs, in-flight services, on-board sales materials, etc.

Operators' expenses are allocated to other periods under expenses for tourism services in alignment with allocation of operators' proceeds to other periods under IAS 18.

12 Other capitalized own costs

Other capitalized own costs include own costs from internally generated non-current assets, provided these developments were undertaken mainly by employees of consolidated companies.

13 Operating income

Amounts shown in th. €	2006	2005
Income from the disposal of assets classified as held for sale	1,068,676	154,544
Income from advertising cost subsidies	162,011	130,828
Rental income and commissions	117,965	124,905
Income from the reversal of other provisions	104,358	25,314
Income from recharged goods and services	65,217	52,910
Income from deconsolidation	67,189	22,488
Income from the release of other liabilities	59,213	31,218
Income from exchange-rate differences	27,735	27,008
Income from the disposal of non-current assets	21,358	51,772
Income from other services	16,883	17,354
Income from the release of allowances	16,521	7,267
Other income	373,594	414,094
	2,100,720	**1,059,702**

Income from the disposal of assets classified as held for sale mainly refers to profits from the disposals of real estate to Highstreet A Portfolio GbR and to Highstreet B Portfolio GbR, both of which are included at equity in the consolidated financial statements. The disposal of carrying amounts of 1.08 bill. € generated proceeds totaling 2.93 bill. €. Besides intercompany profits amounting to 903 mill. € were eliminated.

Income from the release of other provisions mainly includes reversals of provisions for rental deficits. Income from deconsolidation mainly relates to the disposal of the Karstadt Quelle International Service Group and of investments in Egypt, Canada and India as well as various participating interests in hotels and agencies of the Thomas Cook Group.

Other income mainly includes income from credit card business, income from indemnities and from recharged costs. Exchange rate gains contrasts with exchange losses which are recognized under operating expenses. Other income also includes operating income from the release of deferred income. In addition to released deferrals from up-front fees for outsourcing agreements, this also includes book profits from sale-and-lease-back transactions for aircraft which are accrued straight-line over the term of the agreements. Income from energy sales is also recognized on a gross basis in the year under report.

14 Staff costs

Amounts shown in th. €	2006	2005
Wages and salaries	1,809,918	1,933,841
Social-security contributions and cost of pensions and welfare benefits	368,261	402,015
thereof for pensions	34,138	39,888
Other staff costs	18,404	16,277
	2,196,583	**2,352,133**

Wages and salaries included redundancy payments and costs of partial retirement arrangements amounting to 44,596 th. € (previous year: 55,441 th. €). Expenses for retirement benefits comprise service costs not including the corresponding interest component, which is recognized as other interest and similar expenses. The decrease in wages and salaries is the result of outsourcing logistics services, the implementation of the collective agreement for financial recovery purposes and for ensuring employment (solidarity pact), and wage and salary costs no longer incurred for Karstadt Kompakt in the year under report.

Other staff costs mainly include training and instruction costs.

The average number of employees in the financial year was 87,436 (previous year: 107.130). Of these, 26,092 employees (previous year: 31,878 employees) are attributable to joint venture companies consolidated proportionately and 5,990 employees (previous year: 6,442 employees) to discontinued operations.

15 Operating expenses

Amounts shown in th. €	2006	2005
Logistics costs	1,016,911	1,167,302
Operating and office/workshop costs	785,173	635,700
Catalog costs	555,397	606,626
Advertizing	442,179	430,491
Administrative costs	438,199	483,509
Restructuring costs	361,615	187,909
Allowances on and derecognition of trade receivables	155,801	154,958
Losses from the disposal of assets classified as held for sale	36,888	59,063
Outside staff	23,346	28,480
Losses from the disposal of fixed assets	19,294	4,038
Expenses due to currency differences and losses	17,198	24,739
Other expenses	334,460	335,999
	4,186,461	**4,118,814**

In addition to costs for logistics services resulting from outsourcing agreements with Deutsche Post AG, the logistics costs also include commissions and other distribution and mail-order costs.

Operating and office/workshop costs mainly include leases, maintenance and service costs, and energy costs.

The decrease in catalog costs results from the restructuring of the advertising media.

Restructuring costs rose by 174 mill. € to 362 mill. € in the financial year. The rise is mainly attributable to measures from the restructuring plan for the mail-order business.

Other expenses include charges due from intercompany transactions and deconsolidation losses. Furthermore costs for the purchase of energy are reported on a gross basis.

16 Other taxes

Other taxes mainly include real-estate tax.

17 Depreciation and amortization (not including amortization of goodwill)

Amounts shown in th. €	2006	2005
Depreciation/amortization on tangible and intangible assets	274,957	311,236
Impairment of tangible assets	30,083	34,347
Impairment of intangible assets	39,833	4,719
Impairment of current assets	1,127	6,459
	346,000	**356,761**

The decrease in depreciation/amortization is mainly due to the disposal of real-estate assets in the second half of the financial year.

Impairments mainly relate to the devaluation of assets held for sale by service companies classified as a disposal group.

18 Amortization of goodwill

The impairment of goodwill mainly relates to the goodwill of HSM Direkt AG, Karlsruhe (13,083 th. €) and of Multibus AG (6,700 th. €). Impairment was calculated on the basis of a DCF model extended to include sensitivity analyses. Impairment for the previous year mainly related to the goodwill of the Dutch companies of Thomas Cook AG within the West European sales market (7,500 th. €).

19 Income from investments

Amounts shown in th. €	2006	2005
Income from other investments	2,001	4,245
thereof affiliated companies	90	300
Income from shares in related companies	3,888	1,473
Income from profit and loss transfer agreements	443	271
Expenses from the assumption of losses	-10,567	-146
Impairment of financial assets	-11,425	-6,199
	-15,660	**-356**

Impairment of financial assets in the amount of 10,400 th. € are attributable to the investment in InFoScore Consumer Data GmbH in Baden-Baden.

20 Income from investments in associates

This item includes the pro-rata annual result from investments in associates measured under the equity method as well as impairment of carrying amounts and expenses from the assumption of losses. This includes 207 th. € for the pro-rata share of CAP GmbH, Bonn, 1,255 th. € for the proportionate earnings of Viajes Ibero-service S.A., the pro-rata recognition of profit or loss of Sun Express at 2,907 th. € and the pro-rata share of investments held by the KarstadtQuelle Finanz Service subgroup amounting to 3,092 th. € and recognized at equity.

The result from financial investments measured at equity was negatively affected by an allowance in the amount of 3,770 th. € on the carrying amount of two Spanish hotel investments.

Earnings of plus 5,672 th. € (previous year: plus 7,132 th. €) from investments in associated companies are attributable as follows: Mail order minus 647 th. € (previous year: minus 2,282 th. €), Thomas Cook plus 2,421 th. € (previous year: minus 3,827 th. €), Services plus 3,298 th. € (previous year: plus 13,241 th. €) and Real estate plus 600 th. € (previous year: 0 th. €).

21 Net interest income

Amounts shown in th. €	2006	2005
Interest expense on additions to pension provisions	-123,519	-130,173
Other interest and similar income	197,763	245,320
thereof associates	1,004	1,071
Other interest and similar expenses	-300,270	-374,461
thereof associates	-964	-4,105
	-226,026	**-259,314**

Other interest and similar income includes 98,297 th. € (previous year: 100,260 th. €) in expected return on plan assets and 41,912 th. € (previous year: 59,550 th. €) in income from interest-rate swaps.

22 Other financial results

Amounts shown in th. €	2006	2005
Other financial expenses	-63,076	-28,806
Other financial income	84,589	44,542
	21,513	**15,736**

Other financial expenses and other financial income refer mainly to valuation gains or losses from the valuation of interest-rate swaps.

23 Taxes on income

Taxes on income comprise current income taxes paid or owed and deferred taxes. Taxes on income include corporation tax, solidarity surcharge, trade tax and comparable income taxes in foreign countries. As in the previous year, corporations located in Germany are subject to a corporation tax rate of 25 % and a 5.5 % solidarity surcharge, as well as a trade tax whose amount is determined based on the individual municipal trade-tax rates. The income tax for foreign companies, as in the previous year, ranged between 10 % and 34.5 %.

Taxes on income are broken down as follows according to their origin:

Amounts shown in th. €	2006	2005
Current taxes on income and earnings		
Germany	86,558	44,412
Other countries	12,806	17,831
	99,364	**62,243**
Deferred taxes		
from changes in temporary differences	85,345	-172,481
from losses carried forward	-315,115	1,834
	-229,770	**-170,647**
Tax expense in consolidated income statement	**-130,406**	**-108,404**
Tax expenses shown under income from discontinued operations	-1,545	10,317
	-131,951	**-98,087**

Current taxes include tax expenditures for other periods amounting to 33,203 th. € (previous year: tax income from other periods of 1,071 th. €).

Expected taxes on income, which would have resulted from applying the average domestic tax rate of 39 % to IFRS consolidated earnings before taxes, can be reconciled to taxes on income in the consolidated income statement as follows:

Reconciliation from expected to actual tax expense in the income statement

Amounts shown in th. €	2006	2005
Net profit/loss for the year before taxes on income (incl. discontinued operations)	**215,591**	**-412,370**
Expected tax expense (39 %)	84,081	-160,825
Trade tax additions/reductions	-153,814	-66,210
Tax on income for previous years	80,357	16,872
Effects of differing tax rates	-12,733	-14,483
Effects of tax-free income	-61,062	-18,747
Permanent differences	43,190	2,602
Operating expenses which are not tax deductible	74,470	16,400
Non-capitalized losses carried forward	-188,396	120,457
Other differences	1,956	5,847
Tax expenses in consolidated income statement	**-131,951**	**-98,087**

24 Result from discontinued operations

Amounts shown in th. €	2006	2005
Sales and operating income	2,202,587	3,575,240
Operating and other expenditure	-2,322,184	-3,774,186
Earnings before taxes	**-119,597**	**-198,946**
Attributable tax income/expense	1,545	-10,317
Earnings after taxes	**-118,052**	**-209,263**
Loss from the revaluation of assets classified as held for sale	-114,700	-
Result from discontinued operations	**-232,752**	**-209,263**
thereof from deconsolidation	-	18,030
Cash flow		
from operating activities	39,056	-72,538
from investing activities	24,253	4,184
from financing activities	-31,459	72,280

25 Profit/loss due to minority interests

Amounts shown in th. €	2006	2005
Shares of profit	2,372	2,359
Shares of loss	-439	-160
	1,933	**2,199**

26 Earnings per share

		2006	2005
Profit/loss for the year after minority interests	th. €	**345,609**	**-316,482**
Earnings per share (undiluted)			
Shares on annual average	number	200,610,311	199,374,267
Earnings per share	€	**1.72**	**-1.59**
thereof from continuing operations	€	2.89	-0.53
thereof from discontinued operations	€	-1.16	-1.05
Earnings per share (diluted)			
Shares on annual average	number	218,930,717	-
Earnings per share	€	**1.62**	**-**
thereof from continuing operations	€	2.69	-
thereof from discontinued operations	€	-1.06	-

Earnings per share are calculated in accordance with IAS 33 by division of the net profit/loss attributable to the KarstadtQuelle Group and the weighted average number of outstanding shares during the financial year. A pro rata temporis increase in the number of shares was taken into account for exercising options and bond conversions. The increase in the number of outstanding shares from the capital increase of December 2004 was taken into account on a pro rata temporis basis in the previous year.

Dilution of earnings per share may result from so-called potential shares. A dilution effect must be expected due to the issuing of the convertible bond by Karstadt Finance B.V., Hulst/Netherlands. Subscription rights to the convertible bond which had not yet been exercized were taken into account on calculating diluted earnings per share on the balance sheet date. The inclusion of diluted potential shares on the balance sheet date of the previous year due to the issue of the convertible bond on December 22, 2004 was not required to arrive at diluted earnings per share, since none of the conditions specified for conversion had been fulfilled at the balance sheet date. Please see item 39 “Equity” for information on the structure of the convertible bond.

Notes to the consolidated balance sheet

27 Intangible assets

Performance 2006

Amounts shown in th. €	Acquired intangible assets	Internally generated intangible assets	Goodwill		Manufacturing costs	Total
			from individual fin. statements	from consolidation		
Historic purchase and manufacturing costs As at 01.01	436,081	185,481	119,552	737,918	128,322	1,607,354
Addition to/derecognition from consolidated companies	3,524	–	–	-22,021	3	-18,494
Translation differences	178	-101	1,179	-2	5	1,259
Addition	48,910	10,514	161	480	36,624	96,689
Reclassifications	90,665	10,987	–	–	-98,796	2,856
Reclassification of assets classified as held for sale	-108,881	-51,774	-2,178	-63,458	-7,168	-233,459
Disposal	-13,097	-1,364	-382	-284	-3,273	-18,400
As at 31.12.	**457,380**	**153,743**	**118,332**	**652,633**	**55,717**	**1,437,805**
Accumulated depreciation As at 01.01.	308,903	109,603	1,100	82,917	–	502,523
Addition to/derecognition from consolidated companies	1,108	–	–	-7,656	–	-6,548
Translation differences	150	-97	-42	-2	–	9
Addition	55,745	24,575	2,035	19,783	–	102,138
Reclassifications	16,601	-16,053	–	–	–	548
Reclassification of assets classified as held for sale	-92,389	-21,432	-29	-11,000	–	-124,850
Disposal	-7,816	-711	-721	–	–	-9,248
As at 31.12.	**282,302**	**95,885**	**2,343**	**84,042**	**–**	**464,572**
Book value as at 31.12.	**175,078**	**57,858**	**115,989**	**568,591**	**55,717**	**973,233**

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
Disposal	-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
Disposal	-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**

Of amortization for the current year, 4,687 th. € (previous year: 11,019 th. €) is recognized as a loss from discontinued operations.

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. €	2006	2005
Thomas Cook	572,327	585,305
Mail order	112,253	160,839
Services	–	27,309
	684,580	773,453

Goodwill was allocated to the cash-generating units (CGUs) in accordance with the Group's management structure. The following are therefore treated as CGUs: Karstadt, Universal Mail Order, the CGUs Golden Ager, Community and Premium within Special Mail Order, the CGUs Germany, Great Britain, France and the Netherlands within Tourism, as well as Services and Real Estate.

Material goodwill within Thomas Cook is included in CGU Great Britain and that within Special mail order in CGU Golden Ager.

On examining goodwill for any impairment loss under IAS 36, the recoverable amount of cash-generating units is determined at fair value less costs to sell or value in use within the scope of an impairment test.

Fair value is calculated on the basis of a discounted cash flow model. Calculation of fair value and value in use are based on cash flow plans approved by the Management Board which are in turn based on detailed medium-term planning for a period of four years.

These plans result from past experience and from anticipated future market trends. Growth rates which reflect the assumed average growth on the market or in the sector of the businesses concerned are applied for the period after the detailed planning horizon. Cash flows for periods beyond the planning period are always extrapolated on the basis of a growth rate of 1 %. Discount rates after tax are determined on the basis of market data and lie between 5.4 % and 11.8 % for the cash-generating units.

In the financial year impairments in the amount of 2,035 th. € were calculated for the Universal Mail Order cash-generating unit and 19,783 th. € for the Services cash-generating unit.

28 Tangible assets

Of amortization for the current year, 9,884 th. € (previous year: 23,716 th. €) is recognized as a loss from discontinued operations.

The item on aircraft and replacement engines comprises 67 aircraft at Thomas Cook (previous year: 65). Of the 36 aircraft (previous year: 36) recognised under fixed assets in the Thomas Cook Group at the balance sheet date 18 (previous year: 18) are in legal ownership, of which 11 (previous year: 11) aircraft are debt financed. The 18 remaining aircraft recognised (previous year: 18) are in economic ownership, with legal ownership being held by lessors outside the Group. 31 aircraft (previous year: 29) are leased under operating lease agreements and are neither in legal nor in economic ownership of the Group.

Operating leasing agreements for three aircraft which expired in the 2005/2006 financial year were extended at significantly better terms. An Airbus A 320 in the ownership of the Group, which had hitherto been operated in Great Britain, has been flying for Condor Berlin GmbH, Schönefeld, since the middle of March 2006. Condor Berlin GmbH, Schönefeld, hence now operates 14 aircraft. In May 2006 the aircraft in Great Britain was replaced with a Boeing 757-200 under operating lease. Thomas Cook Airlines Belgium N.V., Zwinaarde/Belgium, increased its fleet to six aircraft with an Airbus A320 acquired under an operating lease agreement in June 2006.

Major inspections of aircraft are capitalized in accordance with IAS 16.14 and are amortized over the period until the next scheduled inspection. In the current financial year three major technical events and six major inspections were conducted and capitalized (3,660 th. €).

Financial investments in land and buildings (investment properties) are recognized and measured at amortized cost. In comparison, market values, which are mainly based on internally adjusted assessments by outside third parties (independent appraisal reports), amount to 1,972 th. € (previous year: 24,818 th. €). The decrease in comparison to the value for the previous year results from the sale of the majority of these properties.

Tangible assets

Performance 2006

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.	4,028,478	779,843	184,474	2,189,457	25,483	7,207,735
Addition to/derecognition from consolidated companies	-32,018	-	-4,926	-29,609	-1,368	-67,921
Translation differences	-1,718	266	60	286	3	-1,103
Addition	143,928	2,683	2,195	83,566	12,518	244,890
Reclassifications	12,375	-29	136	226	-15,564	-2,856
Reclassification of assets classified as held for sale	-3,034,722	-	-135,399	-342,505	-11,227	-3,523,853
Disposal	-30,660	-11,718	-2,015	-72,814	-3,253	-120,460
As at 31.12.	**1,085,663**	**771,045**	**44,525**	**1,828,607**	**6,592**	**3,736,432**
Accumulated depreciation As at 01.01.	2,262,867	416,264	141,073	1,933,351	1,341	4,754,896
Addition to/derecognition from consolidated companies	-20,727	-	-3,827	-20,052	-1,337	-45,943
Translation differences	-295	265	49	256	3	278
Addition	70,019	47,366	10,941	84,542	-	212,868
Reclassifications	20	-	-30	-538	-	-548
Reclassification of assets classified as held for sale	-1,673,377	-	-119,174	-299,051	-	-2,091,602
Disposal	-26,193	-10,000	-2,718	-79,148	-7	-118,066
As at 31.12.	**612,314**	**453,895**	**26,314**	**1,619,360**	**0**	**-2,711,883**
Book value as at 31.12.	**473,349**	**317,150**	**18,211**	**209,247**	**6,592**	**1,024,549**

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
Disposal	-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
Disposal	-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**

The income statement includes recognition of lease income from financial investments in land and buildings in the amount of 295 th. € (previous year: 267 th. €) and the associated operating expenditure of 115 th. € (previous year: 344 th. €) of which 24 th. € (previous year: 95 th. €) is from depreciation. From the disposal of financial investments income totaling 682 th. € was realized.

Material additions in the financial year in the amount of 98 mill. € are attributed to Karstadt Warenhaus GmbH, Essen, and 83 mill. € are attributed to Karstadt Vermietungsgesellschaft mbH, Essen.

In addition to other assets of mail-order companies available for sale, reclassification of assets available for sale includes real estate, most of which had already been sold at the balance sheet date.

Material other disposals are apportioned to Karstadt Warenhaus GmbH, Essen, KATEC Leasing GmbH & Co. Vermietungs-KG and Thomas Cook AG, Oberursel.

29 Leases

The economic ownership of leased property 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 or the lower present value of lease payments when the property is first used. At the same time a corresponding amount is shown as a liability.

Finance lease agreements all have a contractually agreed basic leasing period of between 15 and 25 years, or in the case of Thomas Cook of between 7.5 and 12.5 years as well as an option to purchase for the lessee after expiry of the basic leasing period.

Commitments under finance and operating lease agreements

	Total		up to 1 year		1 to 5 years		over 5 years	
Amounts shown in th. €	2006	2005	2006	2005	2006	2005	2006	2005
Finance lease agreements								
Lease payments due in future	747,606	497,294	55,004	38,328	353,754	320,653	338,848	138,313
Discount	-296,058	-68,140	-32,532	-759	-102,938	-35,783	-160,588	-31,598
Present value	**451,548**	**429,154**	**22,472**	**37,569**	**250,816**	**284,870**	**178,260**	**106,715**
thereof IFRS 5	*4,368*	–	*4,368*	–	–	–	–	–
Lease payments under subleases	33,771	11,516	2,842	1,152	13,746	4,606	17,183	5,758
Operating lease agreements								
Lease payments due in future	5,543,982	2,484,269	457,710	343,359	1,690,706	919,291	3,395,566	1,221,619
Discount	-1,629,224	-735,577	-11,900	-11,072	-283,884	-124,498	-1,333,440	-600,007
Present value	**3,914,758**	**1,748,692**	**445,810**	**332,287**	**1,406,822**	**794,793**	**2,062,126**	**621,612**
thereof IFRS 5	*157,927*	–	*157,927*	–	–	–	–	–
Lease payments under sublease	5,077	162,528	1,646	23,847	3,018	63,318	413	75,363

Assets under finance lease agreements have a carrying amount of 302,660 th. € (previous year: 237,783 th. €) at the balance sheet date. These assets mainly relate to buildings, aircraft and reserve engines for which the present value of the future minimum lease payments covers the material purchase costs. For aircraft financing a purchase option for the residual value plus an amount equivalent to 25 % of the amount by which the market value exceeds the residual value normally exists after expiry of the lease period. If the purchase option is not exercized the aircraft is sold by the lessor. If the proceeds from the sale are lower than the residual value, the lessee is to 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.

Operating lease agreements mainly comprise building leases without purchase options or aircraft leases where the assessment of IAS 17 criteria resulted in classification as an operating lease. See also Item 40 “Financial liabilities” for securities provided for consolidated liabilities and restrictions on availability.

The marked increase in future lease payments from operating lease agreements mainly results from the sale of real estate at Karstadt Warenhaus GmbH, Essen.

30 Shares in associates

Shares in associates refer to companies on which a significant influence is exerted. These companies are recognized at equity in the consolidated financial statements.

Impairment tests carried out for companies recognized at equity resulted in a reduction of the carrying amount for investments of 4,318 th. €, relating mainly to impairment on Spanish hotel investments (3,770 th. €).

Financial information relating to associates

Amounts shown in th. €	2006	2005
Assets	2,145,706	1,436,216
Liabilities	1,856,739	1,223,871
Sales revenue/income	406,001	458,477
Profit/loss	9,504	26,451

31 Other financial assets

The item on other financial assets includes receivables from instalment credit business, non-consolidated shares in affiliated companies and participating interests and loans.

32 Other non-current assets

Other non-current assets include security deposits as well as hotel prepayments, receivables from other taxes and prepaid expenses.

33 Deferred taxes

Deferred taxes are calculated on the basis of tax rates applicable in the individual countries in accordance with current law or when they are expected to be realized. In Germany a tax rate of approximately 39 % (previous year: approximately 39 %) was applied, comprising corporation tax of 25 % (previous year: 25 %), a solidarity surcharge of 5.5 % and an average trade tax rate of 17.76 %. Companies organized in the legal form of an unincorporated company or partnership are always liable to pay trade tax. Unincorporated companies engaged in real-estate management are not liable to pay trade tax. Trade tax reduces their own basis for assessment; for corporations the basis for corporate tax assessment is reduced. In Germany, tax losses carried forward are only exploitable to a limited extent within the scope of minimum taxation according to which a positive basis of tax assessment of up to one mill. € is without limitation and amounts exceeding this basis are to be reduced by an existing loss carried forward up to a maximum 60 %. Tax rates in foreign countries remained stable at the previous year’s level of between 10 % and 34.5 %.

Deferred tax assets and liabilities result from temporary differences and tax-related losses carried forward as follows:

Amounts shown in th. €	Assets		Liabilities	
	2006	2005	2006	2005
Non-current assets	92,827	121,285	97,122	237,923
Current assets	21,378	35,161	144,839	173,521
Non-current liabilities	343,860	260,233	539,495	24,700
Current liabilities	86,873	47,028	25,284	8,230
Losses carried forward	528,296	214,433	–	–
Other	–	1,700	–	18,890
Setoff	-800,697	-451,591	-800,697	-451,581
Consolidated balance sheet	**272,537**	**228,249**	**6,043**	**11,683**
Relating to assets classified as held for sale	41,862	2,309	45,089	6,297

Deferred tax assets on temporary differences and tax-related losses carried forward are recognized insofar as their realization is guaranteed with sufficient certainty for the near future. Deferred tax assets were not recognized for tax-related losses carried forward for corporate tax purposes in the amount of 306,712 th. € (previous year: 1,373,300 th. €) and for trade tax purposes in the amount of 3,537,954 th. € (previous year: 2,613,157 th. €). There are no restrictions under current law in Germany for carrying forward tax-related losses. Tax-related losses carried forward in foreign countries are eligible for carry-forward purposes in the amount of 34,156 th. € (previous year: 39,759 th. €) within the next five years.

Deferred tax assets accounted for in equity without recognition in profit or loss in the amount of 187,135 th. € (previous year: 12,004 th. €) result mainly from the elimination of interim earnings relating to the sale of real estate to Highstreet Holding GbR (see Item 39).

Deferred tax assets and liabilities are offset against one another in the total amount of 800,697 th. € (previous year: 451,591 th. €).

34 Inventories

Amounts shown in th. €	2006	2005
Raw materials and supplies	17,684	31,207
Merchandize	1,260,994	1,586,590
Advance payments	1,980	3,298
	1,280,658	**1,621,095**

Breakdown of inventories by business segment

Amounts shown in th. €	2006	2005
Karstadt	763,800	783,234
Mail order	490,250	817,842
Thomas Cook	5,257	4,146
Other	21,351	15,873
	1,280,658	**1,621,095**

Due to valuation of the inventories in accordance with the current retrograde method, it is not possible to indicate the carrying amount of inventories which are reported at their net realisable value.

The carrying amount of inventories pledged as collateral is 306 mill. €.

Accumulated depreciation was applied to inventories to a total value of 311.9 mill. € during the year under review (previous year: 342.0 mill. €).

35 Trade receivables

Breakdown of trade receivables by business segment

Amounts shown in th. €	2006	2005
Karstadt	60,569	82,441
Mail order	207,911	602,074
Thomas Cook	70,791	82,113
Services	41,350	76,626
Other	7,155	1,131
	387,776	**844,385**

Trade receivables are recognized at market value.

The decrease in trade receivables in the mail-order segment mainly results from reclassification pertaining to IFRS 5. In addition, the amount of receivables was reduced by the inclusion of subsidiaries in the factoring program and the transfer of dubious accounts receivable to the recovery proceedings of Südwest Inkasso.

The decrease in receivables in the Karstadt segment is the result of a decline in business with Karstadt Kompakt (wholesale transactions).

The decrease in trade receivables in the Services segment is the result of deconsolidation of the procurement organization hitherto grouped in Karstadt Quelle International Services AG, St. Gallen and the transfer of the Information Services division to mail order.

In order to secure claims resulting from the global agreement on the sale of domestic receivables, collateral relating to current and future trade receivables was granted to KARSTADT Hypothekenbank AG.

36 Other receivables and other assets

Amounts shown in th. €	2006	2005
Receivables from affiliated companies	15,565	15,239
Receivables from associates	39,337	16,371
Receivables from proportionately consolidated joint ventures	7,886	10,560
Receivables from related companies	6,789	7,564
Allocated catalog costs	92,216	141,719
Market values of derivative financial instruments	20,665	141,268
Receivables from security deposits	17,981	22,790
Other tax receivables	24,568	24,847
Other financing receivables	85,484	212,610
Other assets	632,282	571,007
	942,773	**1,163,975**

Allocated catalog costs are written down over the period of validity of the respective catalog. Other receivables from financing include receivables from companies which are held by the KarstadtQuelle Pension Trusts and as such are treated as related companies amount to 27,964 th. € (previous year: 161,744 th. €). The reduction in receivables results from reclassification in the long-term section.

Positive market values for derivatives were reduced by 41 mill. € in the Thomas Cook segment. The decline is mainly due to currency derivatives in US dollars concluded at past low price levels which showed high market values as a result of the development in the exchange rate last year and which successively became payable during the current financial year. In addition interest-rate swaps relating to the redemption of credit facilities were dissolved in the amount of 75 mill. €.

Other assets include the amount of 281,023 th. € (previous year: 206,544 th. €) withheld from factoring transactions. Furthermore claims for tax refunds, suppliers' debit balances and fixed deposits for securing settlement arrears resulting from partial retirement agreements are recognized under this item. These fixed deposits are subject to a restriction on title by the Group within the scope of collateralization under a contractual trust agreement.

37 Cash and cash equivalents and securities

Amounts shown in th. €	2006	2005
Checks	5,634	2,063
Cash and Bundesbank deposits	91,508	72,865
Deposits at banks	1,000,664	604,695
Securities	54,285	27,540
	1,152,091	**707,163**

Current-asset securities are recognized at fair value. These are financial assets classified as "held for sale". The market value of the securities at the balance sheet date corresponds in the amount recognized in the balance sheet. Foreign currency deposits are recognized at the closing rate.

Deposits at banks include balances under the agency collection at Thomas Cook UK travel agencies as well as balance-sheet-date related investments at banks.

The increase in cash and cash equivalents results mainly from the sale of real estate and cash inflows relating to divestment activities.

38 Assets classified as held for sale and liabilities

Amounts shown in th. €	2006	2005
Assets classified as held for sale		
Intangible assets	19,198	7,327
Tangible assets	332,141	205,731
Other financial assets	5,106	15,891
Deferred taxes	41,862	2,309
Non-current assets	**398,307**	**231,258**
Inventories	245,696	641
Other current assets	670,154	30,759
Current assets	**915,850**	**31,400**
	1,314,157	**262,658**
Liabilities from assets classified as held for sale		
Provisions for pensions	64,628	2,761
Deferred taxes	45,089	6,297
Non-current liabilities	**109,717**	**9,058**
Current financial liabilities	147,066	30,790
Other liabilities	642,163	21,104
Current liabilities	**789,229**	**51,894**
	898,946	**60,952**

The assets and liabilities classified as held for sale relate mainly to the Mail order and Real estate segments. They relate to real estate not yet sold as well as to assets and liabilities relating to the planned sale of the neckermann.de, Quelle Region West operations as well as to some marginal mail-order operations. Additionally, a disposal group was formed from some mail-order service companies and reclassified. If the preconditions for non-scheduled amortization were satisfied, it was applied. Non-scheduled amortization amounting to 114.7 mill. € was applied to discontinued operations.

The related assets and liabilities are recognized in accordance with IFRS 5.

39 Equity

The breakdown of equity is shown on page 90.

The capital contributed by outside shareholders is divided into 201,012,790 no-par value bearer shares with an individual value of 2.56 €. If not taking the shares held by the company (11,167,633) into account, the share capital recognized on the balance sheet thus amounts to 514,592 th. €.

The increase in share capital is due to the exercizing of the conversion right pertaining to the convertible bond (1,381,273 shares, Approved Capital I) and the exercizing of share option rights under the Incentive Stock Option Plan (257,250 shares, Approved Capital II).

Approved Capital III

On July 11, 2002 the annual general meeting authorized an Approved Capital III.

The Management Board is authorized, subject to the approval of the Supervisory Board and under exclusion of shareholders' subscription rights and by means of issuing up to 1,562,500 new registered no-par value shares to employees of the company or subordinate affiliated companies, to increase the share capital in one or more parts to a total not to exceed 4 mill. € by June 30, 2007.

Conditional Capital I

(Convertible bonds and/or warrant bonds)

The Management Board was authorized to issue in one or more parts by June 30, 2005, convertible bearer bonds and/or warrant bearer bonds 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 warrant bonds option rights on new company shares with a pro-rata share of the share capital of up to 50 mill. € at terms defined more specifically in the conditions relating to convertible bonds and warrant bonds.

The share capital was accordingly conditionally raised by up to 50 mill. €. The conditional capital increase serves to grant rights to the bearers or the creditors of convertible bonds and/or warrant bonds issued by June 30, 2005, subject to the aforesaid authorization.

In December 2004 KARSTADT QUELLE AG, through its Netherlands subsidiary Karstadt Finance B.V., Hulst/Netherlands, issued a convertible bond guaranteed by KARSTADT QUELLE AG with a nominal value of 170,000 th. € on the Luxembourg Stock Exchange (DE000A0DH5H7).

The convertible bond yields nominal interest of 4.5 % and has a term of five years. During the exercize period indicated below, creditors of the convertible bonds are entitled to convert their respective partial bond, totaling 3,400 bonds at a par value of 50 th. € per bond with a proportionate shareholding in the share capital of KARSTADT QUELLE AG of 49,680 th. €, to shares in KARSTADT QUELLE AG. The number of shares per bond is 5,707.7626 (a total of 19,406,392 shares).

The conversion price in accordance with the loan terms is 8.76 €. The conversion price may, however, be adjusted under certain circumstances (protection against dilution for increases in capital financed with corporate funds and protection in the case of changes in controling methods). In the period up to December 31, 2006 a total of 1,381,273 shares were converted. This represents an increase in share capital of 3,536 th. €.

In the financial year of 2004, an amount of 33,354 th. € was allocated to capital reserves for the purpose of granting conversion rights in accordance with requirements pertaining to Conditional Capital I. The convertible bond was sub-divided into bond and share option components in accordance with a market price model. This resulted in an 80.38 % proportion for bond components, while option components accounted for 19.62 % of the proceeds from the issue. Transaction costs amounted to 3,650 th. €, of which 716 th. € was accounted for in the capital reserve. Any transaction costs relating to borrowed capital are reported as expenses over the term. The proportion of borrowed capital in the bond issued in the amount of 135,727 th. € (139,614 th. € in the previous year) is recognized as a financial liability. The effective interest method is applied to calculate the proportion of borrowed capital. The effective interest rate is 9.97 %; effective interest expenses amount to 13 mill. €, of which 7.3 mill. € relate to ordinary interest.

The bond debtor assigned claims against KARSTADT QUELLE AG for payment of the amount equivalent to all of the associated claims relating to the loan to the central conversion office for securing claims for payment of capital from the bonds acting for the account of the bond creditors.

On December 22, 2009 the bond debtor will redeem the bond through payment of the nominal amount plus accrued interest or through delivery of shares in KARSTADT QUELLE AG unless the respective bond is redeemed, converted or repurchased beforehand and cancelled. The option to pay off shares may be exercized under the subsequent condition that the current share value is not less than 63.15 % of the current conversion price on the third stock-exchange trading day immediately preceding the date of final maturity.

Effective December 22, 2007 the bond debtor is entitled at any time to redeem the bond in full by delivering shares in KARSTADT QUELLE AG. Early repayment may, however, only be made if the XETRA share price defined in the agreement multiplied by the current conversion ratio on 15 of the 30 consecutive trading days on the Frankfurt Stock Exchange prior to the date of publication of early repayment exceeds 130 % of the nominal value on the date of each of these 15 stock-exchange trading days.

The right to conversion may be exercized by a bond creditor during a period which commences on the 60th calendar day after the date of issue and ends on the 16th stock-exchange trading day prior to the date of final maturity. In the event of early repayment the exercize period ends at midnight on the fourth business day preceding the date stipulated for repayment. Exercizing the right to conversion is excluded

- for a period of five business days prior to the final date stipulated for depositing shares or for notification and the business day after the annual general meeting of KARSTADT QUELLE AG,

- during a period of 14 calendar days which commences at the end of a KARSTADT QUELLE AG financial year

- during the period beginning on the day on which an offer from KARSTADT QUELLE AG to the shareholders of the company concerning subscription for shares, subscription rights or similar offers is published in an official announcement journal of the German stock exchanges up to the final day of the period stipulated for exercizing the subscription right.

Conditional Capital II
(Incentive Stock Option Plan)

On July 12, 2001 the annual general meeting authorized a Conditional Capital II.

The Management Board is authorized, subject to the approval of the Supervisory Board and under exclusion of the subscription right of shareholders, 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 executives of the company.

The conditional capital will be increased only to the extent that subscription rights are utilized.

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 within the scope of company mergers or the acquisition of companies or participating interests in these companies.

The Management Board is also authorized to acquire company shares in order to offer these to executives of the company under the aforesaid Incentive Stock Option Plan in fulfillment of the resulting subscription rights.

Furthermore the Management Board was also authorized by a resolution passed at the annual general meeting on May 4, 2004, to appropriate own company shares in order to service conversion and/or subscription rights (see Conditional Capital I).

Authorization is limited to the purchase of shares whose value amounts to up to 10 % of the share capital in the company amounting to 301,459,904 € on July 11, 2002. This represented 11,775,777 no-par value shares. The right of shareholders to subscribe for own company shares is precluded insofar as these shares are used in accordance with the aforesaid authorizations.

A total of 257,250 shares were repurchased. Treasury stock has been reduced to 11,167,633 with the exercizing of subscription rights under the Incentive Stock Option Plan. This represents 5.3 % of the current share capital.

In the 2002 and 2003 financial years treasury stock to the value of 200,301 th. € was acquired, of which in the 2006 financial year shares to the value of 4,290 th. € were utilized under the Incentive Stock Option Plan.

Share-related remuneration

In 2001 the Group 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 subscription rights and observance of the legal two-year period of non-negotiability, a further two-year period has been provided for, during which those eligible to participate may exercize their subscription rights subject to standard insider rules, provided that

a) the average stock-exchange closing price for KARSTADT QUELLE AG shares is at least 30 % higher than the respective subscription price of 16.68 € on at least ten consecutive days, and
b) from the date at which the option was granted the aforesaid stock exchange closing price, in relation to the subscription price and on at least ten consecutive days, is at least 10 percentage points higher than the value of the DAX-30 index price over the same period.

The subscription price was re-calculated in 2004 taking the capital increase into account.

Subscription rights lapse upon termination of an employment relationship or if the company of employment separates from 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 exercizing options having been fulfilled.

The second tranche was launched in September 2002, with 726 employees generally receiving 1,000 share options. At December 31, 2006 no options from the second tranche were exercizable.

Notices pursuant to §§ 21 ff. of the German Securities Trading Law (WpHG)

The following notice was issued under Sections 21 ff. WpHG (German Securities Trading Act) during the 2005 financial year: 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 %.

In the period under report there were no disclosures made pursuant to §§ 21 ff. WpHG.

In a letter dater January 26, 2007, **Allianz SE, Munich**, notified the Management Board as follows:

"In accordance with § 21, Paragraph 1, WpHG we hereby notify you that our proportion of voting rights in your company fell below the thresholds of 5 % and 3 % on January 24, 2007, and now amounts to 2.64 %. These voting rights are to be assigned to us in accordance with § 22, Paragraph 1, Sentence 1, No. 1 of the WpHG.

We also notify you in accordance with § 21, Paragraph 1, WpHG in conjunction with § 24, WpHG that:
The proportion of voting rights of **Dresdner Bank Aktiengesellschaft**, Jürgen-Ponto-Platz 1, 60301 Frankfurt/Main, in your company fell below the thresholds of 5 % and 3 % on January 24, 2007 and now amounts to 2.64 %.

The proportion of voting rights of **Allianz Finanzbeteiligungs GmbH**, Königinstr. 28, 80802 Munich, held in your company fell below the thresholds of 5 % and 3 % on January 24, 2007 and now amounts to 2.64 %. These voting rights are to be apportioned to **Allianz Finanzbeteiligungs GmbH** in accordance with § 22, Paragraph 1, Sentence 1, No. 1 of the WpHG."

At the balance sheet date the proportion of voting rights of Mrs. **Madeleine Schickedanz, Fürth**, of **Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG, Fürth**, of Mr. **Leo Herl, Fürth,** of **Grisfonta AG, Landquart/Switzerland**, of **Martin Dedi Vermögensverwaltungs GmbH & Co. KG, Fürth**, and of Mr. **Martin Dedi, Freudenstadt, 57.85 %**.

Capital reserve

The capital reserve increased by 10,206 th. € as a result of the exercizing of option rights on the convertible bonds and the exercizing of share options.

Treatment of profits/losses from derivative financial instruments as not affecting income

Performance of derivative financial instruments in equity

Amounts shown in th. €	Before tax	Tax effect	Net
Unrealized profits/ losses from derivative financial instruments			
as at 01.01.2006	39,682	-14,268	25,414
Reversal	-72,233	26,979	-45,254
Appropriation	3,606	-2,966	640
as at 31.12.2006	**-28,945**	**9,745**	**-19,200**

Under IAS 39 all derivative financial instruments are allocated to the category of “financial assets and liabilities held for trading”. Changes in value must be reported in recognition of profit or loss unless the changes result for derivatives which are part of a hedging transaction.

A distinction must be made between fair value hedges and cash flow hedges in terms of recognition and measurement. Changes in the value of cash flow hedging transactions are to be recognized in equity if they are related to the effective part of a hedge accounting transaction. Non-effective parts of hedge accounting are allocated in recognition of profit or loss.

Primary financial instruments contribute 4,110 th. € and 3,725 th. € to changes in the value of equity, taking into account deferred taxes.

Dividend proposal

No dividend payments will be made for the 2006 financial year due to the restructuring of the Group.

Minority interests

Minority interests relate mainly to the Thomas Cook Group.

40 Financial liabilities

		thereof with a remaining term of		
Amounts shown in th. €	2006	up to 1 year	1 to 5 years	more than 5 years
Liabilities to bank	134,007	37,525	79,810	16,672
Previous year	*1,356,148*	*231,438*	*797,776*	*326,934*
Liabilities under leasing agreements	447,180	22,035	348,293	76,852
Previous year	*331,532*	*18,800*	*244,719*	*68,013*
Other financial liabilities	611,888	132,588	184,934	294,366
Previous year	*2,049,889*	*474,538*	*200,511*	*1,374,840*
as at 31.12.2006	**1,193,075**	**192,148**	**613,037**	**387,890**
previous year	***3,737,569***	***724,776***	***1,243,006***	***1,769,787***

The reduction in financial liabilities is mainly due to the fact that the KarstadtQuelle Group repaid liabilities pertaining to a syndicated and a subordinated loan as well as mortgaged loans with the proceeds from the sale of much of its real estate.

A syndicated credit facility with a term of several years in the amount of up to 400 mill. € was concluded to secure the establishment of working capital during the period and for the purpose of making available an aval and a documentary credit line.

The credit line is divided into two facilities (Facility A: 150 mill. € and Facility B: 250 mill. €). Facility A, depending on utilization, carries a Euribor interest margin of plus 1.25 % to 3.75 % and fees; Facility B carries a Euribor interest margin of plus 1.5 % and fees.

Shares in Thomas Cook AG, Oberursel (50 %), Karstadt Warenhaus GmbH, Essen, neckermann.de GmbH, Frankfurt, and Quelle GmbH, Fürth, as well as selected KARSTADT QUELLE AG bank accounts were provided as collateral. Of the 400 mill. € working capital facility only a portion of the 150 mill. € tranche for avals and documentary credits had been utilized at the balance sheet date. The 250 mill. € cash tranche was not utilized as at the balance sheet date or for the entire period from July to December.

Regular commissions, fees for funds not utilized, insurance fees and commissions amounting to 1,447 th. € were paid for making the credit available during the financial year. The amounts to be paid are each calculated as a percentage (0.125 % to 2.25 %) as well as in relation to facilities which were not utilized. In addition, one-time transaction costs in the amount of 5,786 th. € were paid and were spread over the term of the facilities.

Granting a credit is subject to various conditions. In addition to general requirements, financial conditions specify that consolidated net EBITDA for each quarterly reporting date may not fall below a stipulated level.

The remaining loans secured by mortgages carry annual interest rates of between 3.06 % and 5.39 %. Interest-bearing bank loans and overdrafts are recognized at the amount paid less directly attributable issuing costs. Borrowing costs including premium costs which become payable on repayment or redemption are reported in recognition of profit or loss appropriate to the period.

Liabilities from finance leases are recognized at the point in time of initial use corresponding with the capitalized lease property at fair value or the lower present value of the lease payments. Lease payments are proportionately allocated to financial expenditure and to the reduction of a lease obligation to result in a consistent interest rate over the periods on the remaining balance of obligations for each reporting period.

Financial obligations also include liabilities to customers of KarstadtQuelle Bank resulting from savings deposits, call deposits, credit on card accounts, promissory notes and savings certificates in the amount of 87,130 th. € (previous year: 77,542 th. €) and the convertible bond in the amount of 135,727 th. € (previous year: 140,971 th. €).

Financial liabilities in the amount of 6,266 th. € are secured by primary mortgage collateral. In addition primary mortgage collateral from the mortgage bond program with KARSTADT Hypothekenbank AG, Essen, amounts to 242,293 th. €. Liabilities pertaining to real-estate loans taken out by Thomas Cook to the proportionate amount of 47,268 th. € are likewise secured by mortgages on real estate or by similar collateral. Liabilities arising from aircraft financing are secured in the amount of 322,959 th. € by aircraft mortgages or are subject to restrictions on disposal resulting from the financing structure.

Lease obligations carried as a liability are effectively secured by the rights of the lessor to the buildings or aircraft specified in the financial lease.

KARSTADT QUELLE AG has undertaken a guarantee to KARSTADT Hypothekenbank AG, Essen, for loans of Karstadt Finance B.V., Hulst/Netherlands, amounting to 300 mill. €, which is valued at 242 mill. € as at the balance sheet date.

Fair, book and nominal values

	Market values/ carrying amounts		Nominal values	
Amounts shown in th. €	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Current and non-current financial liabilities	1,193,075	3,737,569	1,443,677	3,600,642

41 Other liabilities

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

Amounts shown in th. €	2006	thereof with a remaining term of up to 1 year	1 to 5 years	more than 5 years
Payable to affiliated companies	5,846	5,846	–	–
Previous year	*4,655*	*4,655*	–	–
Payable to proportionately consolidated companies	4,032	4,032	–	–
Previous year	*2,170*	*2,170*	–	–
Payable to associates	4,110	4,110	–	–
Previous year	*21,192*	*21,170*	*22*	–
Payable to companies in which investments are held	636	636	–	–
Previous year	*563*	*563*	–	–
Payable to related companies	–	–	–	–
Previous year	*58*	*58*	–	–
Non-current trade payables	–	–	–	–
Previous year	*165*	–	*165*	–
Advance payments received	250,923	250,458	263	202
Previous year	*167,724*	*167,420*	*103*	*201*
Liabilities on bills accepted	–	–	–	–
Previous year	*1,854*	*1,854*	–	–
Derivative financial instruments	39,439	31,453	7,986	–
Previous year	*83,851*	*20,136*	*63,715*	–
Liabilities under social security	19,606	19,606	–	–
Previous year	*77,415*	*75,834*	*1,581*	–
Other liabilities related to staff	130,203	129,378	797	28
Previous year	*148,958*	*147,391*	*1,539*	*28*
Deferred income	173,730	65,652	97,484	10,594
Previous year	*248,965*	*63,316*	*146,623*	*39,026*
Liabilities from withholdings	173,604	173,604	–	–
Previous year	*62,441*	*62,441*	–	–
Other liabilities	885,781	291,057	548,540	46,184
Previous year	*674,377*	*360,774*	*32,273*	*281,330*
	1,687,910	**975,832**	**655,070**	**57,008**
Previous year	***1,494,388***	***927,782***	***246,021***	***320,585***
Taxes on earnings	28,749	28,749	–	–
Previous year	*42,819*	*42,819*	–	–
As at 31.12.2006	**1,716,659**	**1,004,581**	**655,070**	**57,008**
Previous year	***1,537,207***	***970,601***	***246,021***	***320,585***

The carrying amounts of recognized financial liabilities correspond to their market values.

Liabilities arising from long-term real-estate development projects recognized by the percentage-of-completion method are also reported under other liabilities. The amount of 4,764 th. € (previous year: 6,625 th. €) recognized is the balance resulting from job order costs amounting to 26,641 th. € (previous year: 24,984 th. €), realized profits in the amount of 8,400 th. € (previous year: 8,012 th. €) and instalment payments received in the amount of 39,806 th. € (previous year: 39,621 th. €); earnings from job orders amounted to 2,045 th. € (previous year: 4,831 th. €).

The increase in advance payments received from customers mainly results from the new Phönix contract in the Karstadt segment. All of the payments relating to the digit volume which have not yet been utilized and have not expired and are to be allocated to this item are reimbursed, namely by the issuing of merchandize vouchers.

The decrease in liabilities pertaining to social security is due to an adjustment in payments to the social security systems. Whereas in 2005 payments were due in the following month, contributions in 2006 were payable in the current month.

The increase in other liabilities is the result of the agreement concerning typical silent partnerships between the Karstadt-Quelle Pension Trust e.V., the II. KarstadtQuelle Pension Trust e.V. and Kepa Kaufhaus GmbH on the one hand and Quelle-Neckermann Spezialversand GmbH on the other hand for a total amount of 500 mill. €. The silent partnership provides for interest of at least 3.5 % up to a maximum 7.5 % for the capital invested.

In order to secure the hidden long-term investments, the shares in QuelleNeckermann Spezialversand GmbH were offered as a security to the Pension Trust and to Kepa Kaufhaus GmbH.

Deferred income

During the financial year ended, as in the previous year, the Group entered into outsourcing agreements from which up-front payments resulted. These were allocated to deferred income and are being accounted straight-line in recognition of profit or loss over the term of the agreements. The carrying amount of these accrued items is 106.9 mill. €.

Deferred income comprises accrued unrealized profits amounting to 36,331 th. € from the sale of aircraft under the sale-and-lease back transaction at Condor Berlin GmbH, Schönefeld, and Condor Flugdienst GmbH, Kelsterbach. The unrealized profits generated as a result are spread over the term of the lease agreements in accordance with IAS 17.

42 Pension provisions

Provisions are established for obligations arising from future pension rights and ongoing payments to active and former employees and surviving dependents.

Pension provisions are accounted for in accordance with IAS 19. Future obligations are measured by applying actuarial methods and conservative estimations of the relevant influencing factors. The 10 % corridor regulation is always applied for measuring pension provisions. Actuarial profits and losses are not reported in recognition of profit or loss unless they 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 and recognized in profit or loss.

Corporate pension schemes in the Group are mainly defined benefit plans and are generally based on employees' duration of employment and remuneration. Other benefit schemes are as follows:

- A performance-related pension system for senior staff members in the form of deferred compensation.
- A defined contribution system through a pension fund.
- Corporate retirement obligations for the employees of Thomas Cook UK and the Dutch companies are managed through external pension funds. The companies pay contributions to these pension funds.
- The global pension obligation of the Versorgungsanstalt des Bundes und der Länder (VBL, German Federal and State Government Employees Retirement Fund) is being maintained as a company pension obligation for employees who joined companies belonging to the Condor Group before 1995. Flight staff members also receive transitional benefits for the period between termination of flight crew contracts and the commencement of statutory/company retirement pension payments. In either case defined benefits depend on the final salary received prior to retirement (final salary schemes).

Individual defined benefit plans on an individual contractual basis were agreed for active members of the Management Board. Your attention is directed to information in the remuneration report on page 30. See Item 56 for information on former members of the Management Board and their surviving dependents.

Prof. Klaus Heubeck's 2005 G mortality tables are applied as a biometric calculation basis. The probability of fluctuation was estimated on an age and gender-related basis.

In addition to assumptions of life expectancy, the following accounting parameters are always applied for domestic companies in the Group:

Accounting parameters

Amounts shown in %	31.12.2006	31.12.2005
Interest rate for calculation purposes	4.60	4.25
Salary increase trend	2.0	0.0 – 2.8
Pension increase trend	1.8	1.0 – 2.8
Anticipated return on plan assets	3.3	4.7 – 7.8
Average fluctuation	5.0	5.0

The pension obligations of foreign subsidiaries are determined on the basis of respective national parameters:

Accounting parameters (foreign companies)

Amounts shown in %	31.12.2006	31.12.2005
Interest rate for calculation purposes	4.00 - 4.95	4.25 - 5.10
Salary increase trend	1.5 - 6.0	0.0 – 4.2
Pension increase trend	1.5 - 2.8	1.0 – 2.8
Anticipated return on plan assets	2.4 - 6.3	4.7 – 7.8
Average fluctuation	5.0	5.0

Anticipated income from plan assets is essentially determined on the basis of current multi-year calculations for the participating interests. If assets are invested in securities, the anticipated income is calculated on the basis of current long-term investment income from loan issues. In this case adequate risk surcharges are taken into account on the basis of historical capital market yields and current capital market prospects taking into account the structure of the plan assets.

The respective figures for Thomas Cook AG benefit schemes were included on a proportionate basis in the information of the 2006 and 2005 financial years due to the first-time pro rata consolidation of Thomas Cook AG in 2005. Figures for the previous year were adjusted accordingly.

The following table gives an overview on how the benefit schemes performed:

Development of benefit schemes

Amounts shown in th. €	31.12.2006	31.12.2005
Present value of performance-related defined benefit obligations (DBO)	3,068,917	2,990,061
Fair value of plan assets	1,904,283	1,757,917
Surplus/deficit of the plan	1,164,634	1,232,144

Experience adjustments of plan liabilities reached 4,758 th. € (0.2 %) in the financial year. The experience adjustments to plan assets totaled 25,073 th. € (1.3 %) at the balance sheet date.

Pension obligations in the Group developed as follows in the financial year:

Development of defined benefit obligation (DBO)

Amounts shown in th. €	Commitments financed from funds	Commitments financed from provisions	2006	2005
As at 01.01.	1,970,120	1,019,941	2,990,061	2,930,325
Cost of pension claims acquired in the financial year	17,069	10,142	27,211	23,306
Borrowing costs	82,688	44,011	126,699	126,835
Pension payments	-102,693	-49,220	-151,913	-151,399
Actuarial gains/losses	64,403	8,905	73,308	132,982
Beneficiary contributions from the benefit schemes	2,822	–	2,822	2,765
Currency alignment	5,208	-13	5,195	1,136
Past service cost	382	64	446	–
Addition from consolidated company and other changes	10,209	-15,121	-4,912	-75,889
As at 31.12.	**2,050,208**	**1,018,709**	**3,068,917**	**2,990,061**

The amount recognized for pension obligations on the balance sheet date is determined as follows:

Balance-sheet obligations

Amounts shown in th. €	Obligations financed from funds	Obligations financed from provisions	2006	2005
Present value of defined pension obligations (DBO)	2,050,208	1,087,709	3,068,917	2,990,061
Unrecognized actuarial gains/losses	-199,462	-137,476	-336,938	-307,410
Unrecognized costs for amendments to claims from previous years	–	-428	-428	-455
Market value of plan assets	-1,904,283	–	-1,904,283	-1,757,917
	-53,537	**880,806**	**827,269**	**924,280**
Assets/liabilities financed from funds	58,504	–	58,504	-14,763
Pension provisions relating to disposal groups	2,099	-66,727	-64,628	-2,761
	7,066	**814,079**	**821,145**	**906,756**

In the current financial year Thomas Cook UK made an extra payment into the British pension fund in order to compensate for actuarial losses.

As a result an asset of 58,504 th. € was carried for obligations financed from funds.

Pension costs for the Group in the financial year comprise the following components:

Pension costs

Amounts shown in th. €	Obligations financed from funds	Obligations financed from provisions	2006	2005
Cost of pension claims acquired in the financial year	17,069	10,142	27,211	23,306
Borrowing costs	82,688	44,011	126,699	126,835
Anticipated returns on plan assets	-99,867	–	-99,867	-101,282
Actuarial gains/losses reported in recognition of profit or loss	-8,968	2,785	-6,183	4,384
Past service cost	382	163	545	3,641
Income from changes in plans/expenses from deconsolidation	–	–	–	8,188
	-8,696	**57,101**	**48,405**	**65,072**

Expenses amounting to 7,188 th. € (previous year: 7,772 th. €) are incurred for defined contribution plans.

Pension costs amounting to 2,733 th. € relate to discontinued operations.

While the cost of pension claims acquired during the financial year is shown under staff costs, the interest and the expected returns on plan assets and the actuarial losses relating to plan assets reported in recognition of profit or loss are shown under financial earnings.

Assets transferred to the pension fund performed as follows:

Amounts shown in th. €	2006	2005
Fair value of assets		
As at 01.01.	1,757,917	1,733,877
Anticipated return on assets	99,867	101,282
Actuarial gains/losses	41,026	11,995
Currency adjustments	5,079	632
Contributions paid by the employer	89,994	13,962
Beneficiary contributions from the benefit schemes	2,822	2,764
Pensions paid	-92,421	-103,432
Changes in consolidated companies and business combinations	-	-3,162
As at 31.12.	**1,904,283**	**1,757,917**

Actual income from plan assets is derived as follows:

Amounts shown in th. €	2006	2005
Anticipated return on assets	99,867	101,282
Actuarial gains/losses	41,026	11,995
Actual income from plan assets	**140,893**	**113,276**

Contributions to the plans are expected to amount to 7.5 mill. € for the abridged 2007 financial year.

The following is an overview of the composition of plan assets as at the balance sheet date:

Amounts shown in th. €	2006	2005
Real estate incl. shares in real-estate companies		
Shares in corporations	162,325	178,271
Shares in unincorporated companies	370,189	827,795
Participating interests	464,500	512,200
Silent partnerships	430,000	-
Banking investments	325,132	128,644
Fund investments	89,849	2,200
Other	62,288	108,807
Plan assets	**1,904,283**	**1,757,917**

The Group utilizes most of the real estate itself. Rent is paid on the basis of prevailing market rates.

In the financial year real estate was sold for 369,853 th. € which generated sales proceeds of 399,580 th. €. The High Street transaction included in the real-estate sales accounted for carrying amounts of 232,284 th. € and sales proceeds of 277,123 th. €.

Prior to their sale these properties generated rental income of 25,429 th. € from Group companies and 1,193 th. € from third parties. The real estate still included in the plan assets accounted for rental income in the amount of 6,834 th. € in the financial year.

Participating interests mainly comprise shares in KARSTADT Hypothekenbank AG. The company purchased accounts receivable of the Group totaling 1,588 mill. € in the financial year.

As at June 30, August 30 and December 27, 2006 three typical silent partnerships were agreed to between KarstadtQuelle Pension Trust e.V., II. KarstadtQuelle Pension Trust e.V. and Kepa Kaufhaus GmbH respectively on the one hand and QuelleNeckermann Spezialversand GmbH on the other hand having a total value of 500 mill. €, of which 70 mill. € is included for participating interests in corporations.

In accordance with their charter, pension trusts may lend up to 10 % of their assets to the Group in the form of cash and cash equivalents. This resulted in an amount of 12,308 th. € (previous year: 72,982 th. €) at the balance sheet date.

Other assets mainly include receivables from Group companies resulting from profit entitlements and investment earnings.

43 Other non-current provisions

Other non-current provisions

Amounts shown in th. €	2006	2005
Tax provisions	31,213	26,820
Other tax provisions	55,762	28,816
Other non-current provisions	266,230	328,148
	353,205	**383,784**

Movements in 2006 of other non-current provisions

Amounts shown in th. €	Staff	Guarantees/ warranties	Contingent losses from pending transactions	Restructuring effects	Other	Total
As at 01.01.	18,427	937	326	265,450	43,008	328,148
Changes in consolidated companies	-	-	-	-237	-300	-537
Currency differences	4	-	-	-5	-16	-17
Recourse	-562	-80	-34	-25,098	-6,852	-32,626
Reversal	-362	-51	-169	-52,273	-10,954	-63,809
Appropriation	711	327	10	69,135	12,752	82,935
Reclassification	-8,522	-11	-133	-38,842	-356	-47,864
As at 31.12.	**9,696**	**1,122**	**-**	**218,130**	**37,282**	**266,230**

Staff provisions include provisions for severance payments and jubilee and death benefit income. In addition to provisions for pre-retirement part-time work arrangements, the restructuring effects also include provisions for negative net rental income risks in the real-estate subgroup in the amount of 150,428 th. €. Other provisions relate mainly to litigation risks and restoration liabilities.

44 Trade payables

The breakdown is made according to business segments:

Amounts shown in th. €	2006	2005
Karstadt	478,324	434,682
Mail order	358,540	598,914
Thomas Cook	496,290	510,932
Services	33,895	26,936
Other	37,087	29,406
	1,404,136	**1,600,870**

The carrying amounts of financial liabilities are identical with their market values. The decrease in trade payables is mainly due to the reclassification of several mail-order companies to liabilities relating to assets classified as held for sale. In the 2006 financial year first-ranked securities to the favour of Group supplier credit sale insurers were provided on inventories.

45 Current provisions

Amounts shown in th. €	2006	2005
Tax provisions	30,879	87,387
Other tax provisions	29,454	6,725
Other current provisions	387,649	515,565
	447,982	**609,677**

Movements in 2006 of other current provisions

Amounts shown in th. €	Staff	Guarantees/ warranties	Contingent losses resulting from pending transactions	Restructuring effects	Other	Total
As at 01.01.	7,484	54,499	34,512	335,883	83,187	515,565
Changes in consolidated companies	1	82	314	-1,597	-2,282	-3,482
Currency differences	-8	-121	50	-182	-61	-322
Recourse	-358	-37,667	-16,854	-169,641	-36,212	-260,732
Reversal	-4,573	-976	-9,695	-39,544	-14,858	-69,646
Appropriation	781	48,627	11,768	159,704	41,896	262,776
Reclassification	-29	-5,819	-6,656	-38,360	-5,646	-56,510
As at 31.12.	**3,298**	**58,625**	**13,439**	**246,263**	**66,024**	**387,649**

Restructuring effects include provisions for redundancy payments (128,669 th. €), pre-retirement part-time work arrangements (7,215 th. €) and other obligations in the amount of 110,379 th. €. Other provisions mainly relate to litigation risks and restoration liabilities.

46 Contingent liabilities and other financial liabilities

Amounts shown in th. €	2006	2005
Contingent liabilities		
Liabilities resulting from guarantees	408,628	6,101
Liabilities under warranty agreements	57	67
Liability resulting from the provision of collateral for third-party liabilities	10,987	24,400
	419,672	**30,568**

Guarantees for various lease contracts amount to 259 mill. €.

Purchase commitments for goods purchased amount to 687,574 th. €. Purchases of goods which have been contracted are covered by letters of credit amounting to 28 mill. €.

There is an obligation to contract exclusive logistics services to DHL stemming from service contracts concluded between DHL Solutions Großgut GmbH and the companies Karstadt Warenhaus GmbH, Quelle GmbH and neckermann.de.

The minimum revenue obligation for a remaining term of eight years amounts to 2,827,214 th. €. In addition a framework agreement has been concluded between the Karstadt-Quelle Group and ATOS Origin GmbH which provides for a minimum volume of orders to be placed with Group companies in the period up to 2010 in the amount of 582 mill. €. This volume is reduced when companies leave the Group. Thus no specific financial liability can be attributed to KARSTADT QUELLE AG at the balance sheet date.

Other liabilities for Thomas Cook within the scope of providing IT services amount to 93,644 th. €. Liabilities arising from tourism guarantee agreements amount to 70,489 th. €; they relate mainly to guarantee obligations of Thomas Cook UK to hotels in the amount of 58,656 th. €. In addition to firm obligations, there exist liabilities relating to current real-estate development projects totaling 223.5 mill. €.

In addition to that there are other financial liabilities and contingent liabilities totaling 13,516 th. €.

47 Derivative financial instruments relating to risk management

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 currency, interest-rate and liquidity risks affecting the Group to be identified and appropriate measures and strategies to be adopted to counteract these risks. The risks are controled centrally in accordance with guidelines laid down by the Management Board. Derivative financial instruments may never be used for speculative purposes; they serve exclusively to hedge current underlying transactions or scheduled transactions.

Various derivative financial instruments are used within the scope of risk management to limit current risks.

Currency risks

The international alignment of the Karstadt-Quelle Group subjects it to currency risks in the course of its ordinary business operations. These risks result mainly from fluctuations in the US dollar and the Japanese yen in the case of receivables and payables or anticipated cash flows and pending transactions. In order to limit these risks derivatives, primarily forward exchange contracts, are used.

Interest rate risks

Interest rate risks result from the sensitivity of financial liabilities in regard to changes in the level of market interest rates. The company limits these risks primarily by employing interest-rate derivatives such as interest-rate swaps and interest-rate futures.

Fuel-price risks

Thomas Cook engaged in price hedging transactions to limit the risk of unfavourable developments in the price of fuel. The hedging policy of the Thomas Cook Group provides for hedging 95 % 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 consecutive flight schedule periods. As at October 31, 2006, hedging transactions for a fuel quantity of up to 1,346,218 tons (100 %) for periods up to October 2008 had been concluded for the Thomas Cook Group. Crude-oil price range options and hedge combinations were mainly used as hedging instruments; to a lesser extent gasoil and kerosene derivatives and derivatives for hedging price differences between the various product groups (cracks) were used.

Derivative financial instruments

Positive and negative market values in the case of financial instruments are matched by reverse developments in the value of underlying transactions. Derivative financial instruments are recognized in full as assets or liabilities with the corresponding market values. The following derivative financial instruments were held at the balance sheet date:

Derivative financial instruments

	Market values		Nominal	
Amounts shown in th. €	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Currency-related transactions				
Forward-exchange contracts	**-4,977**	**19,035**	**460,206**	**1,129,381**
Interest-rate related contracts				
Forward rate agreements	–	49	–	1,498
Interest-rate swaps	3,289	20,658	210,891	1,586,649
CAPs	–	25	–	15,000
	3,289	**20,732**	**210,891**	**1,603,147**
Fuel hedging transactions *	9,026	24,482	0	0
	7,338	**64,249**	**671,097**	**2,732,528**

* Fuel hedging transactions relate to the hedging of 673.1 th. tonnes of kerosene (previous year: 572.2 th. tonnes).

The nominal volume results as the sum total of all of the buying and selling amounts on which the transactions are based.

Market values are equivalent to the changes in value obtained by a fictitious revaluation of the forward transactions on consideration of the market parameters which apply at the balance sheet date. Market values are determined with the help of standardized valuation methods (discounted cash flow and option price models). Market values are mainly influenced by forward exchange rates (forward exchange 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

Hedge transactions resulted in total valuation losses amounting to 28,945 th. €. These were recognized as not affecting net income in accordance with IAS 39 and will be entered in the income statement in the next 24 months.

Contract partners

The contract partners of the company in the case of derivative financial instruments are banks with a first-class credit rating. Derivatives are hence not expected to actually default.

Terms

The forward exchange contracts and currency options have a term of up to one year.

Notes to the consolidated cash flow statement

The consolidated cash flow statement on page 91 shows movements in cash and cash equivalents in the KarstadtQuelle Group during the year under report. In accordance with IAS 7 cash flow is broken down into cash flow from business activities (gross cash flow) and 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 of 1,017.6 mill. € and a reduction in financial resources of 840.1 mill. €. In addition, other current assets/liabilities decreased by 177.5 mill. €.

48 Cash flow from operating activities

Beginning with earnings from operational activities (earnings before interest and tax, depreciation and amortization, EBITDA), expenditure and income not affecting liquidity are eliminated to show gross cash flow. In particular, for the purpose of greater comparability, the effects resulting from appropriations to restructuring provisions are shown on a separate line.

Below gross cash flow are presented the effects on the liquidity situation resulting from the change in working capital and from changes in other short-term assets and liabilities.

49 Cash flow from investing activities

Cash amounting to 233,730 th. € (previous year: 258,785 th. €) was used for investments in intangible and tangible assets. Payments received from the sale of tangible assets and intangible and non-current assets under the comprehensive divestment program amount to 3,221,483 th. € (previous year: 747,371 th. €).

The cash and cash equivalents in the amount of 1,106 th. € acquired through acquisitions were set off against investments. The cash and cash equivalents totaling 27,407 th. € that were sold with it were netted against the inflows from divestments.

50 Free cash flow

The free cash flow resulting from cash flows from operating activities and cash flows from investing activities amounts to 3,018,857 th. € (previous year: 1,960,445 th. €).

Including interest received and paid and the change in pension provisions and plan assets, net free cash flow amounts to 2,781,864 th. € (previous year: 1,655,213 th. €).

51 Cash flow from financing activities

Cash flow from financing activities is mainly impacted by redemption of financial liabilities amounting to 2,267.7 mill. €.

52 Cash and cash equivalents

Cash and cash equivalents comprise:

Amounts shown in th. €	2006	2005
Cash and cash equivalents	1,149,436	679,686
thereof discontinued operations	51,630	-
Current securities	54,285	27,477
	1,203,721	**707,163**

Segment reporting

Information on the segments is shown on pages 92 and 93. The segment report was prepared in accordance with the regulations of IAS 14 and breaks down the primary report format into business segments and the secondary report format into regions.

53 Notes to the segment report

The Holding segment does not represent any material value added in comparison to the operative segments on the basis of the "risk and reward" principle. For this reason information on the Holding segment has been included in the reconciliation account.

Intercompany sales relate to sales relationships between the Group companies. Internal prices are always equivalent to those charged by outside third parties.

Segment assets and segment liabilities are as follows:

Amounts shown in th. €	2006	2005
Segment assets		
Balance sheet total	7,992,360	9,138,563
Investments and shares in subsidiaries and associates	-154,797	-192,048
Deferred taxes	-272,537	-228,249
Intragroup receivables/loans	-82,848	-56,513
Cash and cash equivalents, non-current and current securities and other loans	-1,220,286	-780,668
Assets classified as held for sale	-1,314,157	-262,658
	4,947,735	**7,618,427**
Segment liabilities		
Balance sheet total	7,992,360	9,138,563
Equity	-1,151,169	-290,075
Financial liabilities	-1,193,075	-3,737,569
Pension provisions	-821,145	-906,756
Other interest-bearing liabilities	-38,142	-252,110
Intragroup liabilities	-14,624	-28,580
Deferred taxes	-6,043	-11,673
Liabilities from assets classified as held for sale	-898,946	-60,952
	3,869,216	**3,850,848**

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

Gross cash flow comprises earnings for the year before taxes on income and earnings, depreciation, amortization of goodwill and financial income after adjustment for earnings or losses from the disposal of assets, changes in non-current provisions and other expenses and earnings not recognized in profit or loss.

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

54 Claims and litigation

Current or potential lawsuits brought by some of the Wertheim heirs and the Jewish Claims Conference (JCC) in the United States and in Germany constitute material litigation risks. They concern the acquisition of shares in the Wertheim parent company and transfers of the “Lenné Dreieck” real-estate asset in Berlin to Warenhaus Wertheim GmbH. The “Lenné Dreieck” was transferred at no charge from the city of Berlin to Warenhaus Wertheim GmbH in 1991. The transfer was undertaken due to the fact that the land had possibly been illegally expropriated from the Wertheim family during the Soviet occupation or during the period of National Socialism. In the agreement on which the transfer was based, Warenhaus Wertheim GmbH exempts the city of Berlin from any third-party claims, in particular claims from former partners in Warenhaus Wertheim GmbH. Warenhaus Wertheim GmbH was assigned as a subsidiary of KARSTADT QUELLE AG to an internal company pension fund as cover for pension obligations. Claims against Warenhaus Wertheim GmbH hence also have a corresponding effect on the KarstadtQuelle Group.

The legal action instituted by the Wertheim heirs in the United States in 2001 was also dismissed in the second instance. This decision is now final.

In June 2006 the same claimants and other members of the Wertheim family brought an action against KARSTADT QUELLE AG and two other Group companies at the State Court in New York. Most of the action is based on the same reasoning as the legal proceedings which had already been finally ruled on. The action has not yet been formally filed in Germany. The ancestors of the Wertheim heirs who brought a lawsuit against KARSTADT QUELLE AG in the year under report held a total of 8.2 % in the Wertheim parent company. The company therefore believes that any claims on the part of the Wertheim heirs are limited to this amount.

Possible claims initiated by the JCC on the matter of the “Lenné Dreieck” may result indirectly in obligations to make payments amounting to an estimated maximum 145 mill. € on the basis of contractual agreements concluded with the State of Berlin for the event of what from today’s perspective appears to be an unlikely substantiated demand by the State of Berlin.

KARSTADT QUELLE AG was unsuccessful in asserting its own claims concerning the transfer of various pieces of land over the past few years (German Federal Constitution Court ruling of October 2005). The financial and earnings position is not likely to worsen as a result; however, effects of this court ruling on judgement of the legal position in the case of the so-called Postblock real estate cannot be ruled out. This risk has already been provided for by provisions in the current maximum amount of 26.2 mill. €.

55 Events after the balance sheet date

KarstadtQuelle acquires 100 % of shares in Thomas Cook

On February 9, 2007 KarstadtQuelle acquired the shares in Thomas Cook AG held by Deutsche Lufthansa AG. The contractual agreement was preceded by a letter of intent dated December 22, 2006 in which both parties announced that KarstadtQuelle would take over the 50 % shareholding of Lufthansa, including the Condor airline, for 800 mill. €. After two years KarstadtQuelle will, for the first time, have the opportunity of taking over the remaining shares in Condor held by Deutsche Lufthansa AG (24.9 %). The agreement is subject to approval by the anti-trust authorities and by the Supervisory Board of Deutsche Lufthansa AG. A term loan agreement for 600 mill. € with a term of six months was concluded in February 2007 as interim financing for the acquisition of shares in Thomas Cook AG hitherto held by Deutsche Lufthansa AG.

KarstadtQuelle creates internationally leading tourism company

On February 12, 2007 an agreement was concluded on the merger of KarstadtQuelle tourism subsidiary Thomas Cook and the leading British tour operator MyTravel. In the future the company to be newly founded will operate under the name Thomas Cook Group plc. Shares in the company are to be traded on the London Stock Exchange. KarstadtQuelle controls 52 % of the new company and MyTravel shareholders hold 48 % of the shares. Following the merger the new company will have sales of approximately 12 bill. €, be the market leader in Great Britain and Scandinavia and hold leading market positions in Continental Europe and Canada. The merger is subject to approval by the anti-trust authorities and must still be authorized by the MyTravel shareholders.

KarstadtQuelle mail-order segment to be renamed Primondo on March 1, 2007

The mail-order segment at KarstadtQuelle has a new name. As of March 1, 2007 the mail-order group will be operating under the name Primondo. Primondo sees itself as the parent to all of KARSTADT QUELLE AG's businesses and activities comprising the mail-order segment. Primondo is a holding company that does not appear as a brand on the retail market. Customers will see the strong, independent mail-order brand names being maintained and further developed. As a holding company Primondo will have its headquarters in Essen and will be managed using a lean structure. Only those functions required for the direct strategic control of the Group will be pooled at the headquarters of Primondo. Brand-related, centralized operating functions will still be performed locally at the headquarters of the respective companies.

KarstadtQuelle and Axel Springer establish a joint e-commerce company

KARSTADT QUELLE AG and Axel Springer AG plan to set up a joint company in which KarstadtQuelle will hold 74.9 % and Axel Springer 25.1 % of the equity. A contractual agreement to this effect was signed on February 21, 2007. This move will allow the two companies to expand their core competence in the field of digital sales and distribution.

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

Amounts shown in th. €	2006	2005
Management Board		
Fixed remuneration	3,868	2,262
Variable components	4,215	2,165
	8,083	**4,427**
Additions to pension obligations	**667**	**552**
Supervisory Board		
Fixed remuneration	152	152
For other positions held in the KarstadtQuelle Group	21	21
	173	**173**
Former members of the Management Board and their surviving dependents		
Payments	5,865	12,086
Pension obligations (DBO)	65,812	64,406

A description of the remuneration system and the individualized remuneration of the members of the Management Board and the Supervisory Board are shown on the audited remuneration report (beginning on page 28) which is part of the Group management report.

57 Auditor's fees

The following table shows the fees paid to BDO Deutsche Warentreuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as the auditors for KARSTADT QUELLE AG:

Auditors' fees

Amounts shown in th. €	2006	2005
Annual audit	1,220	1,333
Certification and/or valuation services	838	452
Tax consultancy	4	5
Other services	104	454
	2,166	**2,244**

58 Related party transactions

The KarstadtQuelle Group maintained the following business relationships with related companies in 2006 and 2005:

Amounts shown in th. €	2006	2005
Goods and services supplied	11,391	1,700
Goods and services received	110,502	114,040
Receivables	78,073	161,963
Payables	821,648	1,439,660

Mail-order companies sold, without recourse, trade receivables to KARSTADT Hypothekenbank AG which had been transferred to the Group pension fund. As at December 31, 2006 assigned receivables amounted to 1,588 mill. € gross (previous year: 1,227 mill. €). Under the sale KARSTADT Hypothekenbank AG 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. The reserve account showed a balance of 178 mill. € (previous year: 207 mill. €) on the balance sheet date.

Service relationships exist with companies of the KarstadtQuelle Pension Trust e. V. and II. KarstadtQuelle Pension Trust e. V. for the leasing of real estate. The related lease costs for the Group total 32,263 th. € (previous year: 72,828 th. €).

As at June 30, August 30 and December 27, 2006 three typical silent partnerships were agreed to between KarstadtQuelle Pension Trust e. V., II. KarstadtQuelle Pension Trust e.V. and Kepa Kaufhaus GmbH respectively on the one hand and Quelle-Neckermann Spezialversand GmbH on the other hand having a total value of 500 mill. €.

Liabilities include mortgage bonds passed on from KARSTADT Hypothekenbank AG in the amount of 242 mill. € (previous year: 1,249 mill. €).

In addition to services and goods supplied, the Group and non-consolidated companies maintain relationships resulting from the reciprocal use of services. In these cases services are invoiced at cost. Relationships with related companies are maintained on the same basis as those between outside third parties.

In the 2005 financial year individual Group companies sold assets to Deutsche Post World Net AG or its affiliated companies and entered into long-term service agreements with companies of this group, of which the chairman of the Management Board 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 to the KarstadtQuelle Group. No influence is expected to be exercized due to the minor nature of the shareholding. In addition Mr. Holger Lampatz, member of the Supervisory Board, also holds shares in three projects of the closed real estate fund. The shares in the funds had already been subscribed to among KARSTADT QUELLE AG executive bodies prior to commencement of the activity.

59 Declarations of Compliance with the German Corporate Governance Code in accordance with § 161 of the German Stock Corporation Law (AktG)

The Management Board and the Supervisory Board last issued a Declaration of Compliance in accordance with § 161 of the German Stock Corporation Law and made this declaration permanently accessible to shareholders at www.karstadtquelle.com. The Declaration of Compliance for the 2006 financial year is shown in the section on Corporate Governance on page 27 of the Annual Report.

60 Exemption under § 264, Paragraph 3 and § 264b of the German Commercial Code (HGB)

The following German subsidiaries having the legal form of a corporation or commercial partnership in terms of § 264a, HGB have satisfied the requirements of § 264, Paragraph 3 and § 264b, HGB for exemption from publishing financial statements under commercial law.

4 Wände Wohnversand GmbH, Frankfurt am Main
CJD clinic+job-dress GmbH, Bramsche
DIV Deutsche Immobilienfonds Verwaltungsgesellschaft mbH & Co. Essen KG, Frankfurt
DK Profashion GmbH, Osnabrück
ECM EuroCenter Management GmbH, Essen
Elegance Rolf Offergelt GmbH, Aachen
Foto Quelle GmbH & Co. OHG, Nuremberg
Fox.Markt Handelsgesellschaft mbH & Co. KG, Fürth
Happy Size-Company Versandhandels GmbH, Frankfurt/Main
Hess Natur-Textilien GmbH, Butzbach
Holm Beteiligungs GmbH & Co. KG, Pöcking, Starnberg County
HOLM Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Brieselang KG, Pöcking, Starnberg County
Holm Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Limburg KG, Pöcking, Starnberg County
Holm Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Norderstedt KG, Pöcking, Starnberg County
HOLSTENFLOR-Beteiligungs GmbH, Fürth
Holstenflor Beteiligungs GmbH & Co. Holding KG, Fürth
HSM Direkt GmbH, Karlsruhe
Karstadt GmbH, Essen
KARSTADT Immobilien AG & Co. KG, Essen
KARSTADT Immobilien Beteiligungs GmbH, Essen
KARSTADT Immobilien GmbH & Co. Objekt Bad Homburg KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Bamberg, Grüner Markt KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Bamberg, Maximiliansplatz KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Berlin, Antonstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Berlin, Hermannplatz KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Berlin, Köpenick KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Berlin, Kurfürstendamm KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Berlin, Müllerstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Berlin, Schloßstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Berlin, Tauentzienstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Berlin, Tempelhofer Damm KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Berlin, Turmstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Bielefeld, Bahnhofstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Bochum, Im Steinhof KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Bottrop, Hansa-Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Braunschweig, Schuhstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Bremen, Obernstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Bremen, Sögestraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Bremerhaven KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Celle, Bergstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Celle, Mauernstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Cuxhaven KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Deggendorf, Heiglstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Deggendorf, Oberer Stadtplatz KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Delmenhorst KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Dessau, Ratsgasse KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Detmold KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Dortmund, Aplerbecker Marktplatz KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Dortmund, Ostenhellweg KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Dortmund, Strickerstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Dortmund, Westenhellweg KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Dresden, Birkigter Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Dresden, Pragerstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Duisburg Mitte KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Duisburg, Am Buchenbaum KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Duisburg, Kirchstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Duisburg, Münzstraße I. KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Duisburg, Tonhallenstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Dillenburger Weg KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Emil-Barth-Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Liesegangstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Schadowstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Tonhallenstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Düsseldorf, Waagenstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Elmshorn KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Erkrath KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Eschwege KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Essen, Altenessener Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Essen, Friedrich-Ebert-Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Essen, Gerichtsstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Essen, Haedenkampstr. KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Essen, Hafenstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Essen, Limbecker Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Essen, Rüttenscheider Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Essen, Theodor-Althoff-Str.II KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Essen, Theodor-Althoff-Straße III KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Essen, Westendstraße 2 KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Essen, Wüstenhofer Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Essen, Zweigertstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Esslingen KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Flensburg, Holm KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Frankfurt, Brönnerstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Fulda KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Garbsen KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Geldern KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Gelsenkirchen KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Gießen, Rodheimer Straße KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Gießen, Seltersweg KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Gießen, Westanlage KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Gladbeck KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Görlitz, An der Frauenkirche KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Goslar, Rosentorstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Goslar, Woldenbergstr. KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Göttingen KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Gronau KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Gummersbach KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Halle, Große Märkerstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Halle, Mansfelder Str. KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Eppendorfer Landstr. KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Hamburger Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Krohnstieg KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Kümmelstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Marktpassage KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Möllner Landstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Mönckebergstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Osterstraße I KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Pinkertweg KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Schloßmühlendamm KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Wandsbeker Marktstr. I KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Wandsbeker Königstr.I KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Wandsbeker Königstr.II KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hamburg, Wandsbeker Marktstr.II KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hanau KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hannover, Georgstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hannover, Georgstraße 24 KG i.L., Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hannover, Große Packhofstr. KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hannover, Kl. Packhofstr. KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hannover, Schillerstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hattingen KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Herdecke KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Holzwickede KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hoyerswerda KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Hückelhoven KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Husum KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Idar-Oberstein KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Iserlohn KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Itzehoe, Breite Straße I KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Itzehoe, Breite Straße II KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Kaiserslautern KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Kamen KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Karlsruhe, An der Roßweid KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Karlsruhe, Zähringer Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Kiel, Eggerstedterstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Kiel, Holstenstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Köln, Breite Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Köln, Florenzer Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Köln, Friedrich-Ebert-Platz KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Köln, Rudolf-Diesel- Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Laatzen, Mannheimer Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Laatzen, Robert-Koch-Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Landshut, Landgasse KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Leonberg KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Limburg KG, Grünwald, Munich County

KARSTADT Immobilien GmbH & Co. Objekt Lübeck, Holstenstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Lübeck, Königstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Lübeck, Wehdehof KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Ludwigsburg KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Lüneburg, Am Berge KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Lüneburg, Auf den Wüstenort KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Lüneburg, Finkstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Lüneburg, Große Bäckerstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Lünen KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Magdeburg, Breiter Weg KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Mannheim, K1 KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Marl KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Mettmann KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Mölln, Hauptstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Mölln, Seestraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Mönchengladbach KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Muggensturm KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Mülheim KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt München, Bahnhofplatz KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt München, Fürstenrieder Str. KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt München, Neuhauser Str. KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt München, Riesstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt München, Synagogenplatz KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt München, Theresienhöhe KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Münster, Salzstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Neumünster, Großflecken II KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Neustadt, Bachgängel KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Niebüll KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Norderstedt KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Nürnberg, Oppelner Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Nürnberg, Vordere Insel Schütt KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Peine KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Potsdam KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Recklinghausen, Markt II KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Recklinghausen, Schaumburgstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Remscheid KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Rendsburg, Altstädter Markt KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Rheine KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Rosenheim KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Schleswig KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Siegen KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Singen KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Stade, Steile Straße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Stade, Wallstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Stuttgart, Königstraße I KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Stuttgart, Königstraße II KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Trier, Fahrstraße 1 KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Unna, Gießerstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Unna, Hammerstraße KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Velbert KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Viernheim KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Wesseling KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Wiesbaden, Kirchgasse KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Wilhelmshaven KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Wismar KG, Grünwald, Munich County
KARSTADT Immobilien GmbH & Co. Objekt Wolfenbüttel KG, Grünwald, Munich County

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 QUELLE Versand GmbH, Essen
KarstadtQuelle Joint Venture Beteiligungsgesellschaft mbH, Essen
KarstadtQuelle Joint Venture GmbH & Co. KG, Essen
KARSTADT Vermietungsgesellschaft mbH, Essen
Karstadt Warenhaus GmbH, Essen
KATEC Leasing GmbH & Co. Vermietungs KG, Pöcking, Starnberg County
Krähe Versand GmbH, Schlierbach
Mercatura Holding GmbH, Nuremberg
MITRO Grundstücks-Verwaltungsgesellschaft mbH, Pöcking, Starnberg County
Mode & Preis Versandhandels GmbH, Lörrach
MOSTIA Grundstücksgesellschaft mbH & Co. KG, Grünwald, Munich County
neckermann.de GmbH, Frankfurt a. Main
Optimus Beteiligungs GmbH Logistik, Brieselang
OPTIMUS Beteiligungs GmbH & Co. Objekt Karl-Marx-Straße KG, Pöcking, Starnberg County
OPTIMUS Beteiligungs GmbH & Co. Vermietungs-KG, Pöcking, Starnberg County
OPTIMUS GmbH Logistik & Co. Warendienstleistungs KG, Brieselang
Optimus Grundstücksgesellschaft mbH & Co. KG Objekt Kiel KG, Pöcking, Starnberg County
Optimus Grundstücksgesellschaft mbH, Pöcking, Starnberg County
Optimus Logistics GmbH, Nuremberg
OPTIMUS Vermögensverwaltungs GmbH, Pöcking, Landkeis Starnberg
Optimus Verwaltung GmbH & Co. Objekt Berlin-Neukölln KG, Pöcking, Starnberg County
OPTIMUS Verwaltung GmbH & Co. Objekt Berlin-Spandau KG, Pöcking, Starnberg County
OPTIMUS Verwaltung GmbH & Co. Objekt Berlin-Wilmerdorfer-Straße KG, Pöcking, Starnberg County
OPTIMUS Verwaltung GmbH & Co. Objekt Leipzig KG, Pöcking, Starnberg County
OPTIMUS Verwaltung GmbH & Co. Objekt München-Schwabing KG, Pöcking, Starnberg County
OPTIMUS Verwaltung GmbH & Co. Objekt Ratingen KG, Pöcking, Starnberg County
OPTIMUS Verwaltung GmbH & Co. Objekt Wiesbaden KG, Pöcking, Starnberg County
Producta Daten-Service GmbH, Frankfurt/Main
Profectis GmbH Technischer Kundendienst, Nuremberg
Quelle GmbH, Fürth
Quelle HausProfis GmbH, Fürth
Quelle Spezialversand Beteiligungs GmbH, Fürth
QUELLE.Contact Center GmbH, Nuremberg
Quelle.Contact Customer Service GmbH, Fürth
Quelle.Contact GmbH, Chemnitz
Quelle.Contact Heideloh GmbH, Fürth
Quelle.Contact Holding GmbH, Fürth
Quelle.Contact Vertrieb GmbH, Fürth
QuelleNeckermann Logistik GmbH, Fürth
QuelleNeckermann Management Service GmbH, Fürth
QuelleNeckermann Spezialversand GmbH, Fürth
QuelleNeckermann Versandservice GmbH, Fürth
RISAL Beteiligungs GmbH & Co. Objekt Berlin-Industriestraße KG, Pöcking, Starnberg County
RISAL Beteiligungs GmbH & Co. Objekt Berlin-Ansbacher und Passauer Sraße KG, Pöcking, Starnberg County
RISAL Beteiligungs GmbH & Co. Objekt Berlin-Hauptstraße KG, Pöcking, Starnberg County
RISAL Beteiligungs GmbH & Co. Objekt Böblingen KG, Pöcking, Starnberg County
RISAL Beteiligungs GmbH & Co. Objekt Dinslaken KG, Pöcking, Starnberg County
RISAL Beteiligungs GmbH & Co. Objekt Emden KG, Pöcking, Starnberg County
RISAL Beteiligungs GmbH & Co. Objekt Flensburg KG, Pöcking, Starnberg County
RISAL Beteiligungs GmbH & Co. Objekt Gütersloh KG, Pöcking, Starnberg County
RISAL Beteiligungs GmbH & Co. Objekt Karlsruhe KG i.L., Pöcking, Starnberg County
RISAL Beteiligungs GmbH & Co. Objekt Konstanz KG, Pöcking, Starnberg County
RISAL Beteiligungs GmbH & Co. Objekt Lörrach KG, Pöcking, Starnberg County
RISAL Beteiligungs GmbH & Co. Objekt Mainz KG, Pöcking, Starnberg County
RISAL Beteiligungs GmbH & Co. Objekt Wuppertal KG, Pöcking, Starnberg County
RWA Regina Werbeagentur GmbH, Essen
Saalfrank Qualitätswerbeartikel GmbH, Sennfeld
SB-Gross Handels-GmbH C+C Großhandel Objektausstattung, Fürth
servicelogiQ GmbH logistische Dienstleistungen, Nuremberg
TARUS Beteiligungs GmbH & Co. Objekt Leipzig KG i.L., Pöcking, Starnberg County
thirty and more versand GmbH, Winterbach
TRADO Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Dresden KG, Pöcking, Starnberg County
TRI Kottmann GmbH, Bad Waldsee
Universum Inkasso GmbH, Frankfurt/Main
Versandhaus Walz GmbH, Baby-Walz, Die moderne Hausfrau, Bad Waldsee

Corporate officers and their supervisory functions in accordance with the German Corporate Control and Transparency Act (KonTraG)

Supervisory Board

Hero Brahms
Chairman
Management Consultant

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

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

Wolfgang Pokriefke *
Deputy Chairman
Chairman of the Central Works Council of Karstadt Warenhaus GmbH

Jochen Appell until June 30, 2006
Attorney at Law, formerly Chief Legal Advisor to Commerzbank AG

Wilfried Behrens *
Managing Director of Karstadt Warenhaus GmbH, Gießen branch

Udo Behrenwaldt since July 1, 2006
Self-employed management consultant in the field of financial strategies, formerly spokesman for the management of DWS Investment GmbH

- Deutsche Asset Management Investmentgesellschaft mbH (Deputy Chairman)
- Deutsche Bank Privat- und Geschäftskunden AG
- Deutsche Börse AG
- Deutsche Vermögensbildungsgesellschaft mbH (Chairman)
- Feri Finance AG

- ❙ DWS Investment S.A., Luxemburg (Member of the Board of Directors)
- ❙ DWS Polska TFI S.A., Poland (Member of the Board of Directors)

Dr. Diethart Breipohl
Member of various supervisory boards

- Continental AG
- KM Europa Metal AG (Chairman)

- ❙ Atos Origin, France
- ❙ Crédit Lyonnais, France
- ❙ EULER & Hermes, France
- ❙ Les Assurances Générales de France (AGF), France

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

- Karstadt Warenhaus GmbH

Leo Herl
Chairman of the Management Board of Madeleine Schickedanz Vermögensverwaltungs GmbH & Co. KG

- Quelle Bauspar AG (Chairman)

Ulrich Hocker
Managing Director of the Deutsche Schutzvereinigung für Wertpapierbesitz e.V.

- Deutsche Telekom AG
- E.ON AG
- Feri Finance AG (Deputy Chairman)
- ThyssenKrupp Stainless AG

- ❙ Gartmore SICAV, Luxemburg
- ❙ Phoenix Mecano AG, Switzerland (President of the Administrative Board)

Peter Kalow *
Formerly Chairman of the General Staff Council of Quelle GmbH; Systems Developer

* Representing the employees
** Group companies
• Member of other supervisory boards required by law
❙ Member of comparable control bodies

Franz Lajosbanyai *
Chairman of the Central Works Council of neckermann.de GmbH

- neckermann.de GmbH (Deputy Chairman)

Holger Robert Lampatz since July 1, 2006
Formerly Chairman of the Management Board of MAXDATA AG

Margret Mönig-Raane *
Vice President of the Vereinte Dienstleistungsgewerkschaft (ver.di) service-sector union and Director of its National Commerce Sector

- Rewe Deutscher Supermarkt KGaA

Dr. Hans Reischl
Formerly Chairman of the Management Board of REWE-ZENTRAL AG

- Alte Leipziger Holding AG
- Alte Leipziger Versicherungsverein aG
- Eurohyp AG
- MAXDATA AG

Rita Rodenbücher *
Chairwoman of the Works Council of Karstadt Warenhaus GmbH, Duisberg branch, Commercial Assistant

- ip69 internet solutions AG

Juergen Schreiber since March 28, 2006
President & Chief Executive Officer, Shoppers Drug Mart

- GfK AG

Christa Schubert *
Deputy Chairwoman of the Works Council of Karstadt Warenhaus GmbH, Recklinghausen branch, Commercial Assistant

Michael Stammler
Chairman of the Management Board of Feri Finance AG

- eCapital New Technologies Fonds AG
- Quelle Bauspar AG

Dr. Jürgen Than until June 30, 2006
Attorney at Law, formerly Chief Legal Advisor to Dresdner Bank AG

- CSC Deutschland Solutions GmbH (Chairman)

Gertrud Tippel-Kluth *
Secretary to the Federal Executive Committee of the German trade union ver.di, Commerce Department

- Karstadt Warenhaus GmbH
- SinnLeffers GmbH

Werner Wild *
Deputy Regional Director, 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)

I Morgan Stanley, USA

* Representing the employees
** Group companies
• Member of other supervisory boards required by law
I Member of comparable control bodies

Corporate officers and their supervisory functions in accordance with the German Corporate Control and Transparency Act (KonTraG) Management Board

Chairman

Dr. Thomas Middelhoff
Chairman

- Apcoa Parking AG (Chairman)
- Karstadt Warenhaus GmbH (Chairman) *
- neckermann.de GmbH (Chairman) *
- New York Times Company, USA
- Quelle GmbH (Chairman) *
- Senator Entertainment AG (Chairman)
- Thomas Cook Aktiengesellschaft (Chairman)

❙ Fitch, France
❙ RWE AG

Dr. Matthias Bellmann
Member of the Management Board

- neckermann.de GmbH *
- Quelle GmbH *
- Thomas Cook Aktiengesellschaft

Dr. Peter Diesch
Member of the Management Board since January 15, 2007

- Delton AG
- KarstadtQuelle Bank AG (Chairman) *, w.e.f. April 18, 2007
- KarstadtQuelle Krankenversicherung AG, w.e.f. March 1, 2007
- KarstadtQuelle Lebensversicherung AG, , w.e.f. March 1, 2007
- KarstadtQuelle Versicherung AG, w.e.f. March 1, 2007
- Karstadt Warenhaus GmbH *, since January 24, 2007
- neckermann.de GmbH *, since January 24, 2007
- Quelle GmbH *, since January 24, 2007

❙ KarstadtQuelle Finanz Service GmbH (Chairman) *, since January 25, 2007

Prof. Dr. Helmut Merkel
Member of the Management Board

- ITELLIUM Systems & Services GmbH (Chairman) *
- Karstadt GmbH *, since August 22, 2006
- KARSTADT Immobilien Beteiligungs AG (Chairman) *
- Quelle GmbH *, since August 22, 2006

❙ Bundesarbeitsgemeinschaft der Mittel- und Großbetriebe des Einzelhandels e.V. (President)
❙ Hauptverband des Deutschen Einzelhandels e.V. (Vice President)

Harald Pinger
Member of the Management Board until January 14, 2007

- ERGO Versicherungsgruppe AG
- KARSTADT Hypothekenbank AG (Chairman) *, until December 14, 2006
- KarstadtQuelle Bank AG (Chairman) *, until April 18, 2007
- KarstadtQuelle Krankenversicherung AG (Deputy Chairman), until January 23, 2007
- KarstadtQuelle Lebensversicherung AG (Deputy Chairman), until January 23, 2007
- KarstadtQuelle Versicherung AG (Deputy Chairman), until January 23, 2007
- Karstadt Warenhaus GmbH *, until January 23, 2007
- neckermann.de GmbH *, from March 23, 2006 until January 23, 2007
- Quelle GmbH *, from March 23, 2006 until January 23, 2007

❙ KarstadtQuelle Finanz Service GmbH (Chairman) *, until January 23, 2007

* Group companies
• Member of other supervisory boards required by law
❙ Membership in comparable control bodies

Marc Sommer

Member of the Management Board since January 1, 2006

- Karstadt Warenhaus GmbH *, since March 20, 2006
- neckermann.de GmbH *, since March 20, 2006
- Quelle AG, Österreich (Chairman) *, since January 24, 2006
- QuelleNeckermann Management Service GmbH (Chairman) *, since October 6, 2006
- QuelleNeckermann Logistik GmbH (Chairman) *, since August 8, 2006
- Quelle OÜ, Estland (Chairman) *, since April 1, 2006

Peter Michael Wolf

Member of the Management Board since August 1,2006

* Group companies
• Member of other supervisory boards required by law
I Membership in comparable control bodies

KARSTADT QUELLE Aktiengesellschaft
Essen, February 27, 2007

The Management Board

Dr. Thomas Middelhoff	Dr. Matthias Bellmann	Dr. Peter Diesch
Prof. Dr. Helmut Merkel	Marc Sommer	Peter Michael Wolf

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, 2006 to December 31, 2006. 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, February 28, 2007

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

Intensive communication of the new Group strategy

Tables and overviews

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Significant subsidiaries, joint ventures and associates

(as at 31.12.2006)

Corporation name and registered office	Capital holding in %	Equity in th. €	Sales in th. €	Employees number 1)
Karstadt				
Karstadt GmbH, Essen 3)	100	453,839	–	–
Karstadt Warenhaus GmbH, Essen	100	535,428	4,615,531	30,836
Karstadt Feinkost GmbH & Co. KG, Cologne	74.90	69,916	406,480	3,032
Le Buffet System- Gastronomie und Dienstleistungs-GmbH, Essen	100	6,122	25,622	407
Mail order				
KARSTADT QUELLE Versand GmbH, Essen 3)	100	1,294,000	–	–
QuelleNeckermann Spezialversand GmbH, Fürth 3)	100	664,128	–	23
Quelle GmbH, Fürth	100	200,000	2,639,115	4,257
neckermann.de GmbH, Frankfurt/Main	100	42,304	1,040,979	1,625
TriStyle Mode GmbH & Co. KG, Fürth 2)	51	20,846	570,990	1,618
QUELLE S.A.S., Saran, France 2)	100 *	13,627	325,456	137
Neckermann B.V., Hulst, Netherlands	100	65,807	127,369	467
Quelle Aktiengesellschaft, Linz, Austria 2)	100 *	27,762	209,854	1,260
Versandhaus Walz GmbH, Baby-Walz, Die moderne Hausfrau, Bad Waldsee	100	5,113	250,063	1,376
Neckermann Versand Österreich AG, Graz, Austria 2)	100	27,421	255,642	896
AFIBEL S.A., Villeneuve d`Ascq, France	99.49 *	3,080	161,956	512
Mode & Preis Versandhandels GmbH, Lörrach 2)	100	10,053	133,999	123
Mercatura Holding GmbH, Nuremberg 2)	100	9,458	130,538	1,121
Bon‘ A Parte Postshop A/S, Ikast, Denmark	100	9,288	100,218	328
Profectis GmbH Technischer Kundendienst, Nuremberg	100	2,556	94,149	1,285
Elegance Rolf Offergelt GmbH, Aachen 2)	100	11,323	91,999	379
Nebus Loyalty B.V., Hulst, Netherlands 2)	100	4,884	91,448	219
Fox Markt Handelsgesellschaft mbH & Co. KG, Fürth	100	584	84,987	1,028
Happy Size-Company Versandhandels GmbH, Frankfurt/Main	100	1,480	84,713	62
Hess Natur-Textilien GmbH & Co. KG, Butzbach	100	3,711	58,977	270
servicelogiQ GmbH logistische Dienstleistungen, Nuremberg	100	521	47,047	807
Quelle Versand AG, St. Gallen, Switzerland	100	11,958	41,883	189
KARSTADT QUELLE Information Services GmbH, Essen	100	123,480	17,324	95

1) Annual average, not including trainees
2) Including subsidiaries
3) Intermediate holding
4) Financial year from 01.11.2005 to 31.10.2006
* 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) [4]	50	588,353	78,275	1,125
TC Touristik GmbH, Oberursel (Taunus) [4]	55 *	116,961	2,610,691	577
Services				
KARSTADT QUELLE Service GmbH, Essen [3]	100	1,378,300	–	–
KARSTADT QUELLE Kunden-Service GmbH, Essen [3]	100	1,358,300	–	–
KARSTADT QUELLE Business Services GmbH, Essen [3]	100 *	147,215	–	–
ITELLIUM Systems & Services GmbH, Essen	100	5,000	138,927	702
KarstadtQuelle Finanz Service GmbH, Düsseldorf	50	110,560	13,498	105
Real estate				
KARSTADT Immobilien AG & Co. KG, Essen [3]	100	-870,002	38,365	59
MOSTIA Grundstücksgesellschaft mbH & Co. KG, Grünwald, Munich County	100	104	113,151	–
KarstadtQuelle Joint Venture GmbH & Co. KG, Essen	100	157,691	–	–

1) Annual average, not including trainees
2) Including subsidiaries
3) Intermediate holding
4) Financial year from 01.11.2005 to 31.10.2006
* Group participating interest calculated

Glossary

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

Corporate Governance
Comprises the entire management and control of a company, including its 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.

E-commerce
Electronic trading between companies and consumers

EBITDA
Earnings Before Interest, Taxes, Depreciation, Amortization. Earnings before financial results, income taxes and depreciation and amortization.

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 current business activity and the cash flow from investing activity. 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.

"KarstadtQuelle Neu"
Program for comprehensive restructuring of the KarstadtQuelle Group and its companies Karstadt, Quelle and neckermann.de. The addition "New" clearly stands for a new departure and change in the Group.

KonTraG
German Law on Corporate Control and Transparency.

Living
The Karstadt Living consumer segment comprises the Living and Food and Drink, Kitchen and Bath segments and the YornCasa Lifestyle Concept.

M&A
Short for English "mergers & acquisitions", that is, corporate transactions through which companies merge or change owner.

Market capitalization
The valuation of a company on the stock exchange, obtained by multiplying the stock exchange price by the number of shares of a company.

Modular tourism
The combining of individual holiday modules, such as hotel and air flight, to suit individual requirements

Multi-channel
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.

Own brands
Own brands, or retail brands, are brands which are marketed by retailers themselves. Examples of Karstadt's own brands include Yorn, YornCasa, Inscene. Well-known Quelle brands are, for example, electrical household appliances of the Privileg brand and consumer electronics of the Universum brand.

Personality
The Karstadt Personality consumer segment includes personal requisite ranges such as fragrances, watches and jewellery, leather goods, toys and games, books and confectionery.

Premium Group
Karstadt top locations offering an exclusive, international product range. As "Top of Europe" (KaDeWe) and "Top of the Region" (Alsterhaus), these cosmopolitan stores are the first port of call for a particularly high-quality shopping experience.

Profiling product lines
Segments in which a product range standard comparable with that of specialists is offered. They are being extended to include compulsory and supplementary ranges.

Risk management
In the KarstadtQuelle Group we analyze and the corporate segments autonomously manage their respective business risks on the basis of a Groupwide risk management system.

Shopping portal
Internet site at which customers can shop and inform themselves right round the clock. KarstadQuelle's Online World offers over 60 portals. An overview of all Group portals is available on the Internet at www.karstadtquelle.com/Shopping/E-Shopping.

Teleshopping
Teleshopping is a form of selling where products are presented to the end consumer through television and can be ordered by telephone.

Trading-up
Higher-quality alignment of product ranges, advice, services and store fittings.

Working capital
Sum of inventories and customer payables less supplier liabilities.

WpHG
Securities Trading Law.

YornCasa
Karstadt Warenhaus GmbH Lifestyle Concept. The ideas- and inspiration-led YornCasa Concept offers trend products in the Bath, Bed, Living and Table segments.

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5-year summary

			2002	2003	2004 *	2005 *	2006 *
Group sales	Sales [1]	mill. €	15,814.6	14,428.0	17,199.0	13,696.9	13,150.2
Earnings	EBIT [1] [2]	mill. €	484.4	504.0	-954.3	23.4	664.4
	EBT [1]	mill. €	200.4	193.5	-1,432.8	-213.4	449.9
	EBT margin	in %	1.3	1.3	-	-	3.4
	Profit/loss for the year after minority interests	mill. €	162.2	-107.6	-1,625.3	-316.5	345.6
Financial situation and dividends	Gross cash flow	mill. €	701.0	695.0	398.6	575.6	-538.4
	Cash and cash equivalents [3]	mill. €	144.4	156.7	661.2	707.2	1,152.1
	Depreciation and amortization [1]	mill. €	474.8	387.5	526.8	356.8	346.0
	Dividends	mill. €	77.1	75.5	-	-	-
Structure of the balance sheet	Balance sheet total	mill. €	10,215.7	9,192.7	11,643.2	9,138.6	7,992.4
	Equity	mill. €	1,676.4	1,639.4	595.8	290.1	1,151.2
	Equity ratio	in %	16.4	17.8	5.1	3.2	14.4
	Fixed assets	mill. €	5,261.4	4,711.9	-	-	-
	Current assets	mill. €	4,908.4	4,429.2	-	-	-
	Non-current assets [3]	mill. €	-	-	5,680.0	4,513.7	2,888.4
	Current assets [3]	mill. €	-	-	4,753.6	4,362.2	3,789.8
	Net financial liabilities	mill. €	3,377.8	3,342.8	4,524.9	2,689.5	-148.9
Other information	Employees on annual average	number	101,593	97,416	120,891	107,130	87,436
	Staff costs	mill. €	3,014.1	2,796.6	3,109.4	2,352.1	2,196.6
	Investments [4]	mill. €	738.3	384.7	349.0	258.8	233.7
KARSTADT QUELLE AG share	Dividend per no-par value share [5]	€	0.71	0.71	0.00	0.00	0.00
	Earnings per share [6]	€	1.40	1.01	-14.65	-1.59	1.72
	Price applying at the balance sheet date (31.12.)	€	16.50	15.88 [7]	7.59	12.83	21.96
	Highest price (01.01. - 31.12.)	€	45.45	20.98 [7]	17.51	12.83	25.37
	Lowest price (01.01. - 31.12.)	€	13.80	8.24	6.52	7.08	12.93

* 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) 2002: 108,537,135 share certificates
2003: 106,322,892 share certificates
2004: 106,322,892 share certificates
2005: 199,374,267 share certificates
2006: 201,012,790 share certificates

6) 2002: 115,611,968 share certificates
2003: 106,774,866 share certificates
2004: 110,921,234 share certificates
2005: 199,374,267 share certificates
2006: 200,610,311 share certificates

7) Information adjusted due to capital measure

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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, prices of fuel 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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GIORGIO ARMANI