

KARSTADT QUELLE^{AG}

ANNUAL REPORT 1999

KARSTADT QUELLE AKTIENGESELLSCHAFT AND ITS M

Over-the-counter retail business

Department stores

KARSTADT QUELLE Aktiengesellschaft Essen	100 %
Karstadt Warenhaus Aktiengesellschaft* Essen	100 %
Karstadt SB Warenhausgesellschaft mbH Essen	100 %
Karstadt Versicherungs-Vermittlung GmbH Essen	100 %
KATRANS Speditionsgesellschaft mbH Essen	97 %
Kepa Kaufhaus GmbH Essen	100 %
Warenhaus WERTHEIM GmbH Berlin	100 %

Specialist stores

Runners Point Warenhandelsgesellschaft mbH Essen	100 %
Schaulandt GmbH Hamburg	100 %
»Schürmann Elektrohandelsgesellschaft« mbH Hamburg	100 %
WEHMEYER GmbH & Co. KG Aachen	100 %
WOM World of Music Produktions- und Verlags-Gesellschaft mbH, Kiel	95 %

Mail-order

Universal mail-order

Foto-Quelle Schickedanz GmbH & Co. KG Nuremberg	100 %
Mode & Preis Versandhandels GmbH Steinen	100 %
Neckermann B.V. Hulst, Netherlands	100 %
Neckermann Nederland B.V. Terneuzen, Netherlands	100 %
Neckermann Postorders N.V. Temse, Belgium	100 %
Neckermann S.A. Strasbourg, France	100 %
Neckermann Versand Aktiengesellschaft Frankfurt/Main	100 %
Neckermann Versand Österreich AG Graz, Austria	100 %
Quelle Aktiengesellschaft Fürth	100 %
Quelle AG Linz, Austria	100 %
Quelle Call Center GmbH & Co. KG Chemnitz	100 %
Quelle S.A. Saran, France	100 %
Quelle spol. s.r.o. Bratislava, Slovakia	100 %
Quelle s.r.o. Hradec Králové Czech Republic	100 %
Quelle Versand AG St. Gallen Switzerland	100 %
servicelogiQ GmbH logistische Dienstleistungen, Nuremberg	100 %

* w.e.f. January 1, 2000

MOST IMPORTANT INVESTMENTS

Mail-order

Specialist mail-order

Atelier Goldner Schnitt GmbH & Co. KG Münchberg	51 %
Bon´A Parte Postshop A/S Ikast, Denmark	100 %
Elégance Rolf Offergelt GmbH Aachen	100 %
Peter Hahn GmbH Winterbach	51 %
Krähe Versand GmbH & Co. KG Schlierbach	100 %
Madeleine Mode GmbH Fürth	51 %
Mercatura Holding GmbH & Co. KG Nuremberg	100 %
Saalfrank Qualitätswerbeartikel GmbH Sennfeld/Schweinfurt	100 %
TRI Kottmann GmbH Bad Waldsee	100 %
Versandhaus Walz GmbH, Baby-Walz, Die moderne Hausfrau, Bad Waldsee	100 %

Travel services

C & N Touristic Aktiengesellschaft Schwalbach am Taunus	at equity 50 %
NUR TOURISTIC GmbH Oberursel/Taunus	at equity 10 %

Services / other

Euro-Papier N.V. Temse, Belgium	100 %
KARSTADT Heideloh GmbH Heideloh	100 %
Le Buffet Catering und Management GmbH Dreieich	100 %
Le Buffet System-Gastronomie und Dienstleistungs-GmbH, Dreieich	100 %
Schickedanz International Services AG St. Gallen, Switzerland	100 %
UTS - Universal Technik-Service GmbH Nuremberg	100 %

AT A GLANCE

Key figures

		GROUP		KARSTADT QUELLE AG	
		1999	1998	1999	1998*
Turnover (incl. VAT)	in billions of DM	33.56	32.34 ¹⁾	15.52	15.45
Turnover (not incl. VAT)	in billions of DM	29.03	18.38	13.50	13.47
Department stores and specialist shops in over-the-counter retail business	number	383	389	208	212
Sales space at December 31 in over-the-counter retail business	in thousands of m ²	2,388.3	2,395.9	2,261.8	2,273.8
Employees at 31.12.	number	113,490	89,399	70,046	74,093
Staff costs	in millions of DM	6,199.0	4,498.5	3,625.3	3,700.1
Investments in fixed assets	in millions of DM	736.5	498.8	435.8	394.3
Profit/Loss for the year after tax	in millions of DM	427.5	199.2	- 719.3	284.8
Dividends	in millions of DM	-	-	142.5	92.4
Tax credit	in millions of DM	-	-	61.1	39.6
Dividends	in millions of EUR	-	-	72.9	-
Tax credit	in millions of EUR	-	-	31.2	-
Dividends per individual share certificate	EUR	-	-	0.62	-
Tax credit	EUR	-	-	0.27	-
Dividends per DM 50 share	DM	-	-	-	11.00
Tax credit	DM	-	-	-	4.71
Issued share capital	in millions of DM	588.6	420.0	588.6	420.0
	in millions of EUR	300.9	-	300.9	-
Capital reserves and revenue reserves	in millions of DM	2,501.4	2,209.8	1,650.3	876.3
Cash-Earnings (before dividends)	in millions of DM	1,546	911	928	761
Individual share certificate: highest price	EUR	-	-	48.70	-
Individual share certificate: lowest price	EUR	-	-	30.55	-
DM 50 share: highest price	DM	-	-	-	995
DM 50 share: lowest price	DM	-	-	-	562
Market capitalization at end of the year	in millions of DM	-	-	-	7,308
	in millions of EUR	-	-	3,343.2 ²⁾	-

*) As regards the merger HERTIE Waren- und Kaufhaus GmbH, the year 1998 was made comparable

¹⁾ The companies consolidated 1998 were made comparable.
Quelle Group 1998: short financial year from 01.02.1998 to 31.12.1998

²⁾ Calculated on 84,000,000 individual share certificates

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ANNUAL GENERAL MEETING

KARSTADT QUELLE

Aktiengesellschaft, Essen

Security Code Numbers

627500 and 627502

We have pleasure

in inviting our shareholders

to the Annual General Meeting

to be held on Thursday,

July 20, 2000 at 10 a.m.

in the Congress Center Düsseldorf,

Stadthalle, Stockumer Kirchstrasse 61,

40474 Düsseldorf.

Agenda

for the Annual General Meeting, to be held on Thursday, July 20, 2000 at 10 a.m. in the Congress Center Düsseldorf, Stadthalle, Stockumer Kirchstrasse 61, 40474 Düsseldorf.

1. Presentation of the approved annual statements, the consolidated financial statements, the situation report and the situation report for the group for the year ended December 31, 1999 together with the report of the Supervisory Board
2. Resolution on the appropriation of the retained profits
3. Resolution on the approval of the acts of the Board of Directors for the year ended December 31, 1999
4. Resolution on the approval of the acts of the Supervisory Board for the year ended December 31, 1999
5. Election of the auditors for the year ended December 31, 2000
6. Election of replacement to the Supervisory Board
7. Resolution on the raising of approved capital I of up to 40 million Euro for capital increases by cash contribution and amendment of the articles of association
8. Resolution on the raising of approved capital II of up to 40 million Euro for capital increases by cash contribution and/or non-cash contribution and amendment of the articles of association
9. Resolution on the authorisation for the issue of up to 600 million Euro of convertible loan and/or convertible debenture stock and raising of up to 50 million Euro of authorised unissued capital and amendment of the articles of association

The detailed version of the agenda as published in the Federal Official Gazette No. 108 of June 9, 2000, will be sent to the shareholders with the invitation via the deposit banks.

Supervisory Board

Dr. Hans Meinhardt

Chairman

Wolfgang Pokriefke*

Deputy Chairman

Wilfried Behrens***Dr. Diethart Breipohl****Jürgen Damm*****Bodo Dehn*****Hubert Gartz*****Dr. jur. Friedhelm Gieske****Leo Herl****Ulrich Hocker****Dr. h. c. Martin Kohlhaussen****Heinz Rätz****Dr. Ingo Riedel****Horst-Herbert Schmidt***

- † 22. 1. 1999 -

Christa Schubert***Günter Strohmeier*****Dr. Bernd W. Voss****Dipl.-Ing. Dr.-Ing. h. c.****Jürgen Weber****Dr. Franziska Wiethold*****Rüdiger Wolff*****Ulrike Wuhrer***

*) representing the employees

Board of Directors

Dr. Walter Deuss

Chairman

Manfred Ciesielski

- until 31. 1. 2000 -

Willi Harrer

- from 1. 11. 1999
to 31. 3. 2000 -

Reinhard Koep**Jürgen Krüger**

- until 30. 7. 1999 -
Deputy Chairman

Prof. Dr. Helmut Merkel

- w.e.f. 1. 4. 2000 -

Norbert Nelles

- w.e.f. 1. 11. 1999 -

Werner Piotrowski

- w.e.f. 1. 11. 1999 -

Heinz Plagge

- until 31. 1. 2000 -

Karl-Heinz Schmidt

- until 31. 1. 2000 -

Wolfgang Urban

- w.e.f. 5. 6. 1999 -

Complete details regarding the members of the Supervisory Board and the Board of Directors in accordance with Art. 285 No. 10 HGB are given on pages 130 – 133.

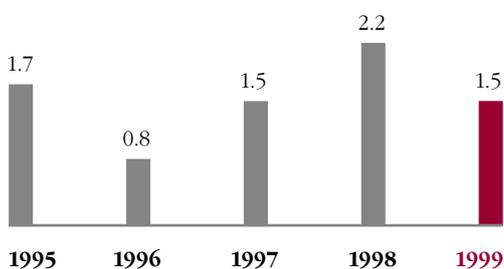
SITUATION REPORT

The Economy and Consumption in 1999

Slowdown in economic growth

Economic growth in all the European countries in which the KARSTADT-QUELLE Group operates directly or indirectly through C & N Touristic AG slowed down in the year under review. This general trend affected the economies of the individual countries partly to very different extents. Whereas the first half of the year was further overshadowed by international upheavals, particularly those in the Far East, in the second an upward movement set in and gathered pace. Viewed as a whole, the real gross domestic product in the European Union rose by 2.3% during the year under review. The growth rate, however, failed to match that of the previous year by 0.4 percentage points. With a rise of only 1.5% real growth in Germany's gross domestic product (+ 2.2% in the previous year) lagged noticeably behind the European average.

Gross domestic product (Germany)
(real change as against the previous year in %)



Source: Federal Statistics Office

The recovery in the second half of the year was, as far as the Federal Republic was concerned, due mainly to rising exports. Over the year under review exports of goods and services rose by 4.2%. Since imports rose even more strongly by 7.1%, the net export contribution fell by about DM 27 billion against that of the previous year and accordingly lost economic thrust.

Domestic demand after adjustment for price rises rose by 2.2%, which was rather less than the 2.5% of the previous year. This last was particularly true of investment in plant and equipment, real growth in which fell short of the previous year's rise of 4.1 percentage points. Due to the increasing use of EDP, which was given a pronounced lift by preparations for the millennium changeover, however, investments in "Other Plant & Equipment" rose more than average by 9.4%.

In the construction sector trends in the old and new Federal States noticeably diverged. In Western Germany investments in this sector rose by 0.6% in real terms for the first time in many years. In Eastern Germany, on the other hand, they fell by 1.4%.

Overall consumption expenditure, both public and private, rose by 1.6% in real terms. The growth rate was thus slightly lower than the previous year's 1.8%.

Differing jobs market situations in Western and Eastern Germany

The economic upturn and the increase in the number of new pensioners – this last reflects the shift in the age structure of the population – relieved the pressure on the jobs market somewhat, particularly in Western Germany. Here the number of unemployed fell on average by about 150,000 over the year under review; the unemployment rate fell from 10.5% to 9.9% accordingly. In the new Länder the number of unemployed went down by 31,000. The unemployment rate in Eastern Germany therefore decreased only from 19.5% to 19.0% and thus remained high.

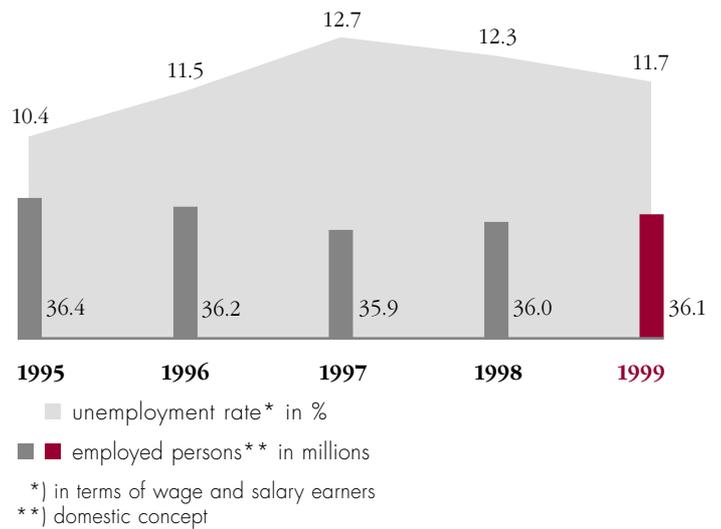
In Germany as a whole about 4.1 million persons on average, that is, 180,000 fewer than in the previous year, were registered unemployed in the year under review. Accordingly the unemployment rate fell from 12.3% to 11.7%. Overall about 36.1 million persons were in work, representing a rise of 107,000.

Slight rise in incomes in a mild price climate

At the beginning of the year pressure on consumers was relieved by a number of fiscal measures. These included a lowering of the basic rate of tax and contributions to pensions insurance. Added to this there was an increase in the support payments for dependent children. Social transfer pay-

Jobs market (Germany)

(unemployment rate / number of employed)

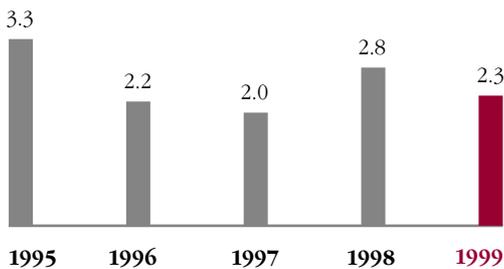


Source: Federal Employment Office, Federal Statistics Office

ments, however, rose by 2.7% and thus at twice the rate of the previous year. Against the background of an average 3% rise in agreed pay settlements, gross pay and salaries rose by 2.1% (+ 1.6% in the previous year). Increases in remuneration for entrepreneurial activity and assets, including the incomes of the self-employed, were markedly down in the year under review. They rose by a mere 3.7% as against 6.5% in the previous year.

Disposable income of private households (Germany)

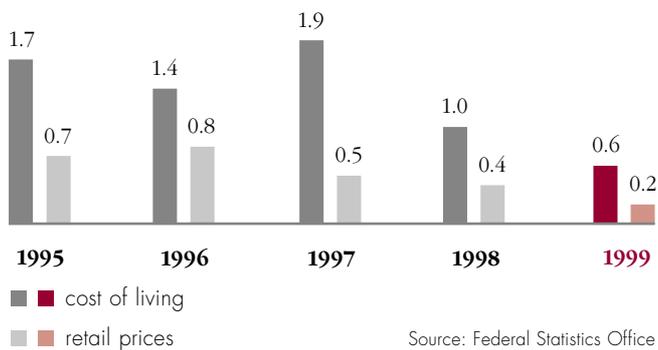
(change as against the previous year in %)



Source: Federal Statistics Office

Price trends (Germany)

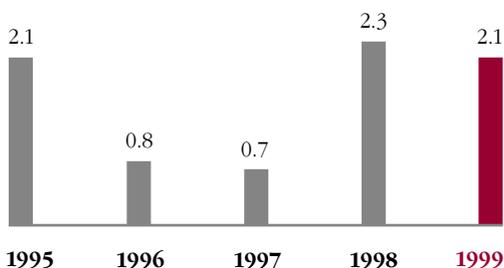
(change as against the previous year in %)



Source: Federal Statistics Office

Private consumption* (Germany)

(real change as against the previous year in %)



*) incl. private organisations without intention of earnings

Source: Federal Statistics Office

Disposable funds remaining to private households from incomes of all kinds was up on the level of the previous year by 2.3%. The rise was, however, somewhat short of the previous year's 2.8%.

Despite energy price rises due to the eco-tax and producer price rises, the cost of living for private households went up by only 0.6%. Favourable import conditions and the restraint exerted by competition upon the retail trade - which increased its prices by only 0.2% -, as well as the cheapening of services in the health and telecommunications sectors, were responsible for this moderate development. Thanks to the low inflation rate, the lowest since the re-unification of East and West-Germany, the buying power left over to private households from their incomes continued undiminished. After adjustment for price rises, this went up by 1.7% compared with 1.8% in the previous year.

Despite reduced savings activity - the savings rate dropped from 10.0% to 9.3% during the year under review - after adjustment for price rises private consumption expenditure rose by only 2.1% (+ 2.3% in the previous year). However, this slight revival in private consumption was only of relatively limited benefit to the retail trade.

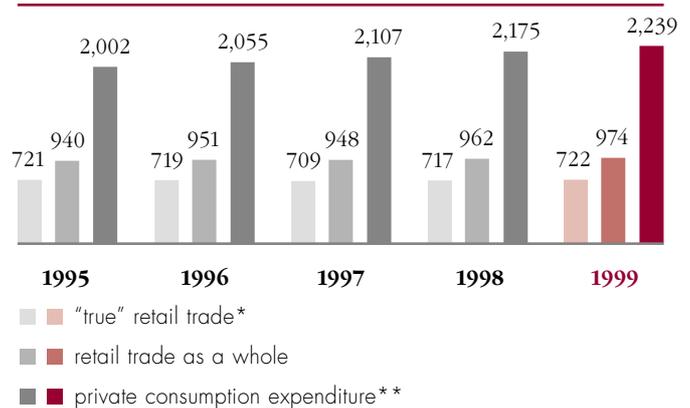
Stabilisation in the retail sector

During the year under review the German retail trade turned over about DM 974.3 billion, including VAT. This represents a value increase of 1.3 % as against 1.5 % in the previous year. After adjustment for price rises there remains a real growth of only 0.9 %.

Sales of store-related ranges, that is, not including the sale of motor vehicles, fuels and combustibles, and not including the sale of pharmaceuticals, came to about DM 722 billion, including VAT. At 0.7 % the rise achieved by the true retail trade was appreciably lower than the previous year's 1.1 %. After adjustment for price rises there resulted an expansion of business corresponding to the nominal increase of likewise 0.7 %. In store-related ranges sales thus rose inflationfree. The fierce competition did not permit even a slight rise in the level of prices.

Once again the retail trade suffered from the fact that private households are increasingly putting their money to uses other than the purchase of retail goods. As a result of this structural shift only 32.3 % of private consumption expenditure went to the "true" retail trade during the year under review. The market share loss of 0.7 percentage points represents a loss in potential purchasing power of about DM 16 billion.

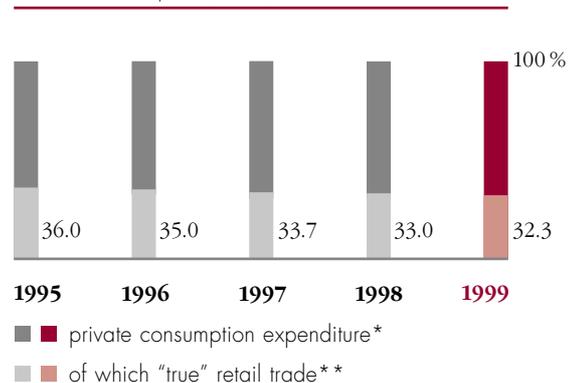
Retail trade sales / Private consumption expenditure (Germany)
(in then current prices, in billions of DM)



*) not including sales of motor vehicles, fuels and combustibles and not including sale of pharmaceuticals
**) incl. private organisations without gainful intent

Source: BAG, Federal Statistics Office

Share of private consumption contributed by the "true" retail trade (Germany)
(in then current prices, in %)

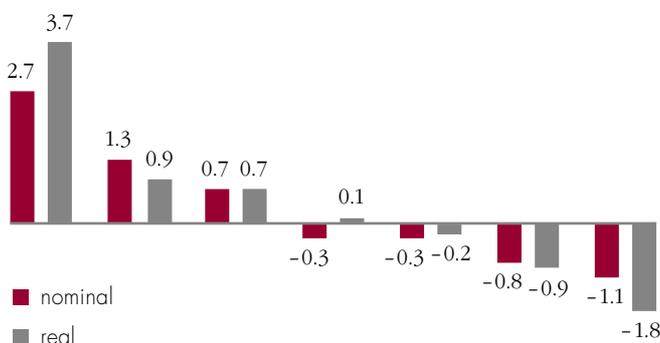


*) incl. private organisations without gainful intent
**) not including sales of motor vehicles, fuels and combustibles and not including sale of pharmaceuticals

Source: BAG, Federal Statistics Office

Trend in sales achieved by the various forms of "true" retail outlet in 1999 (Germany)
(change as against the previous year in %)

Supermarkets/ LM-Dis- counters	Overall retail trade	"True" retail trade*	Self- service stores/ Consumer markets	Depart- ment and large stores	Specialist retail trade**	Mail- order
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*) not including sales of motor vehicles, fuels and combustibles and not including sale of pharmaceuticals
 **) not including food, drink and tobacco, medical and personal hygiene products

Source: BAG, Federal Statistics Office

In the hard fought market price war the various types of business recorded partly very differing sales trends. Supermarkets and discount food chains performed best with a rise of 2.7%. However, they had to accept the fact that, after the previous year's rise of 3.5%, this was less than they had anticipated. Self-service stores and consumer markets lost sales amounting to 0.3%. The results for the department stores grouping likewise show a drop to this figure. Sales in the so-called specialist retail trade fell short of the previous year's level by 0.8%. Corresponding losses for the mail-order trade amount to 1.1%.

A summary of the most important data relating to the retail trade in selected European countries is given in the table opposite.

Real values 1999
(change as against the previous year in %)

Country	Gross domestic product	Private consumption expenditure	Retail trade sales*	Consumer prices**
Belgium	2.3	2.0	2.3	1.1
Denmark	1.6	0.7	1.2	2.1
France	2.7	2.3	2.3	0.6
Netherlands	3.5	4.2	3.2	2.0
Austria	2.1	2.4	4.4	0.5

*) not including sales of motor vehicles and petrol stations
 **) harmonised consumer price index

Source: Spring report of the economy research institutes, information of national and international institutes, FERI

KARSTADT QUELLE AG and Group

In the year under review the economic importance of the KARSTADT QUELLE Group was considerably increased and in this context its structure extensively changed. Mainly responsible for this were the following circumstances:

- the merger of Schickedanz Handelswerte GmbH & Co. KG and Karstadt AG with retroactive effect from January 1, 1999. This expanded the Karstadt Group by the Quelle Group. At the same time Karstadt AG was renamed KARSTADT QUELLE AG.
- the merger of HERTIE Waren- und Kaufhaus GmbH and KARSTADT QUELLE AG likewise with retroactive effect from January 1, 1999.
- resolution to transfer the department store business to the Karstadt Warenhaus AG set up from an existing limited company. The transfer took place with effect from January 1, 2000. It does not include property ownership, which remained with KARSTADT QUELLE AG.

All the resolutions required to carry out the restructuring of the group were passed at the Annual General Meeting of Karstadt AG on July 30, 1999 with only few opposing votes. With the entry in the Register of Companies on October 15, 1999 the merger of Schickedanz Handelswerte GmbH & Co. KG and Karstadt AG became legally effective, too.

With regard to the capital provision resolved by the Annual General Meeting on July 30, 1999 (conversion of the issued capital to Euro and individual share certificates, capital increase from company funds to level up the value per share in Euro, capital increase as part of the merger of Schickedanz Handelswerte GmbH & Co. KG and Karstadt AG) we refer to the detailed listing in Text Note 15 on Page 107 of the Notes to the Financial Statements.

After the transfer of the department store business to Karstadt Warenhaus AG with effect from January 1, 2000, KARSTADT QUELLE AG assumed the function of a strategic management holding company in the group. From this time on the operations in its business segments will be conducted mainly by its 100%-held subsidiary companies Karstadt Warenhaus AG, Quelle AG, Neckermann Versand AG and through its 50%-held participation C & N Touristic AG. As the department store business had not yet been transferred in the year under review - it remained with the already renamed KARSTADT QUELLE AG up until December 31, 1999 - the terminology of the present annual report still reflects this fact.

Situation Report

Strategic orientation of the Group

The KARSTADT QUELLE GROUP will in future continue to operate primarily in its three traditional business segments – over-the-counter retail trade with emphasis on the department store business and the mail-order and tourist trades. Whereas the department store business has to rely mainly on qualitative internal growth, the mail-order trade has considerably wider opportunities for growth in specialisation and expansion into foreign markets. Tourism will continue to prove an expanding area of business; the KARSTADT QUELLE Group will be satisfactorily sharing in this growth through its C & N Touristic AG participation. With the accession of Quelle AG the presence of the group in the mail-order trade was considerably expanded; at the same time the opportunities for exploiting to a special degree the national and international growth potentials of this business segment multiplied. The Group will be undertaking expansionary investments preferably in the areas of mail-order and tourism.

Relatively rapid growth is anticipated, moreover, from the commercial exploitation of the internet. Because of its established logistics, its substantial mailing list, its ability to draw upon its comprehensive range of services and its expertise in the mail-order business the Group, which in the year under review was already able to generate sales worth DM 214 million over the internet, is, like almost no other undertaking in the Federal Republic, best qualified to engage

successfully in all forms of e-commerce.

A special role is assigned to the expansion of existing operations for the further development of the Group.

Sales trends in the KARSTADT QUELLE Group

During the year under review the business operations of the KARSTADT QUELLE Group contributed to the development of consumer demand to different extents.

The over-the-counter retail business operated by the company (department stores and specialist discount-type chains, but not including the over-the-counter business of mail-order suppliers) achieved sales, including VAT, totalling DM 16,967 million, representing a nominal rise of 0.7% over that of the previous year. After adjustment for price rises, which was done on the basis of development in the prices of the department store ranges, there remained a real growth of 0.2%.

For the first time in years the department store business succeeded in reversing the downward trend in sales. It was able to increase its sales – which amounted to DM 15,516 million, including VAT –, if only slightly, by 0.4%. In terms of comparable sales space the result, however, is a clear increase of 1.5% for the retail trade sales without commissions. The contribution made by the over-the-counter retail trade to total Group sales was 48.68%.

The Group's own mail-order operation (Quelle and Neckermann) together with its over-the-counter business turned over DM 17,227 million worth of business, including VAT. Because of the accession of the Quelle Group in the year under review a growth rate resulted which does not enable any meaningful conclusions to be drawn about the actual trend of business. In comparable terms (previous year's sales including a short financial year from 01.02.98 to 31.12.98 of the Quelle group), a rise in turnover of mail-order business of 6.9% results for the Group. An adjustment for price rises is not possible for lack of the relevant indices. The mail-order operation contributed a share of 49.42% to the Group sales performance.

The demand for tourist services was once again more than normally brisk. Accordingly, the C & N Touristic AG succeeded in increasing its sales to DM 9,150 million. Compared with the corresponding 12-month period of the previous year, increased sales worth DM 759 million and a growth rate of 9% were achieved.

Including the subsidiary companies established abroad, but not including sales of the C & N participation consolidated at equity, the KARSTADT QUELLE Group achieved

sales, including VAT, of about DM 33.6 billion during the year under review. If one imagines that the Group had existed in its present size the previous year, that is, by a comparative reckoning, the result would be an increase of 3.8%.

Information about Group sales performance in the business segments mentioned and the contributions made by individual Group companies is shown in the following table. Also included in the sales performance are sales by C & N Touristic AG attributed to our 50% participation and sales by Group-owned travel agencies through non-Group agencies.

Due to the expansion of activities abroad sales by KARSTADT QUELLE AG are becoming increasingly subject to different VAT rates. For the sake of easier comparison, total Group performance excepted, we now report on the progress of its subsidiary companies on the basis of sales not including VAT. The figures for the previous year have, where required, been adjusted to show net amounts.

Situation Report**Turnover of the KARSTADT QUELLE Group as of 31 December 1999***

Business units	1999 million DM	Share of sales in %	1998 * million DM	Change as % of previous year
Department stores				
KARSTADT QUELLE AG	15,516	44.52	15,448	+ 0.44
Other stores	220	0.63	220	0.00
	15,736	45.15	15,668	+ 0.44
Specialist stores	1,231	3.53	1,183	+ 4.01
Over-the-counter retail trade	16,967	48.68	16,851	+ 0.69
Universal mail-order				
Neckermann Versand AG	3,221	9.24	3,222	- 0.02
Quelle AG	8,170	23.44	7,695 ¹⁾	+ 6.17
Other mail-order	3,843	11.02	3,637 ¹⁾	+ 5.67
	15,234	43.70	14,554	+ 4.67
Specialist mail-order	1,993	5.72	1,556 ¹⁾	+ 28.10
Mail-order	17,227	49.42	16,110	+ 6.93
Services/other	664	1.90	397 ¹⁾	+ 66.93
Turnover of fully consolidated companies	34,858	100.00	33,358	+ 4.49
Tourist services				
C & N Touristic group (included 50 % at equity)	4,575		3,797	+ 20.49
Total turnover	39,433		37,155	+ 6.13
less: turnover at equity	4,575		3,797	-
less: internal turnover	1,300		1,022	-
Group third party turnover	33,558		32,336	+ 3.78

*) Consolidated group 1998 made comparable

1) Quelle group 1998: short financial year from 01.02.1998 to 31.12.1998

Sustained positive trend of department store business

As already mentioned, during the year under review HERTIE Waren- und Kaufhaus GmbH was with effect from January 1, 1999 merged with KARSTADT QUELLE AG.

Since taking over the company in 1994 we have consistently aimed at integrating the operational business of this company with the Karstadt organisation while at the same time retaining as far as possible regular customers to the HERTIE branches. Accordingly, all the administrative functions were taken over by Karstadt immediately after the takeover. The same applies to the procurement and logistic handling of goods and the standardisation of the information systems. Once the company had made good its losses and achieved a positive operating result in 1998 with the justified prospect of a lasting improvement, we followed up the organisational integration with the legal in the year under review. It thus became possible to utilise the Corporation Income Tax loss carry-forward of DM 452 million at HERTIE Waren- und Kaufhaus GmbH within the group.

During the year under review the implementation of marketing strategies developed in previous years and already being successfully put into effect in 23 department stores was continued. A further 30 stores were converted for the innovative concept. These, too, met with a gratifying response from their markets. Once again it was noticeable that the conversion was linked with a loss

of financially weak customers which was not simultaneously made up for by a gain in financially stronger ones. This changeover will take almost a year.

During the year under review KARSTADT QUELLE AG achieved earnings from sales, not including VAT, amounting to DM 13,500.9 million; by comparison with the previous year the increase amounts to DM 26.8 million or 0.2 %. A further increase of the trade margin and cost reductions yielded a rise in the result from ordinary business activity by DM 62.3 million to DM 455.0 million. The operating result, i.e. not including neutral expenses and earnings and not including the results from participations, rose by 30.6 % to DM 132 million by comparison with the previous year. The extraordinary result closes with a negative balance of DM 1,204.4 million. This is mainly due to the loss arising from the merger of HERTIE Waren- und Kaufhaus GmbH with Karstadt AG (DM 1,166.2 million). To balance this out DM 861.9 million was transferred from the revenue reserves, resulting in a balance-sheet profit of DM 142.5 million. It enables the payment of a dividend of Euro 0.62 per share. For the domestic shareholder subject to unlimited tax liability this means a yield, including tax credit, of Euro 0.89 (DM 1.73) per share.

In the year under review KARSTADT QUELLE AG invested about DM 502 million mainly in the modernisation of its department stores.

Situation Report

Quelle Group boosts Group mail-order business

The mail-order sector is covered in the KARSTADT QUELLE Group by the 100 %-held group companies Quelle AG and Neckermann Versand AG and their numerous subsidiary companies.

As well as the broad range of universal mail-order offerings, Quelle Group operations include a large number of specialist mail-order companies with catalogues to match. Of Group sales 15 % was accounted for by subsidiary companies in 13 European countries.

In 1998 Quelle AG and its subsidiaries changed its financial year, which ran from February 1 to January 31, to coincide with the calendar year. Accordingly, the short 1998 financial year has only 11 months. In the 12-month year under review the Quelle group achieved total sales of DM 10,510 million, not including VAT. In relative comparison with the previous year (the short financial year plus the month January) the result is an increase of 1.6 %.

The result from ordinary business activity amounts to DM 214.3 million, which represents a rise of DM 99 million more than in the short financial year.

Investments in the year under review totalled DM 249 million. They were thus DM 48 million higher than in the preceding financial year. Of these DM 184 million went to tangible and DM 65 million to financial assets. These increases served primarily the further expansion of the specialist mail-order strategic business segment.

The Neckermann Group - which, besides the Federal Republic, is represented by subsidiary companies in 13 European countries - achieved consolidated sales of DM 3,878.6 million, not including VAT, in the year under review. An increase of 4.3 % was achieved by comparison with the previous year. The foreign subsidiary companies contributed a share of 20.5 % to the total group sales.

During the year under review the Neckermann Group achieved from ordinary business activity a result amounting to DM 73.7 million, that is, DM 25 million more than in the previous year. Of investments totalling DM 164 million DM 148 million went on tangible assets; in addition to investments in land and building surfaces required for operation, funds were used for the modernisation of the mail-order operation.

High growth in the C & N Group

The C & N Touristic AG, in which KARSTADT QUELLE AG and Deutsche Lufthansa AG each have a 50% holding, combines NUR TOURISTIC GMBH and Condor Flugdienst GmbH and their subsidiaries in an integrated travel group. The vertical structure of the group includes travel organisation, transport by the group-owned airline, the hotel and club business, agencies in the destination areas and the sales operation. By integrating and optimising the process chains the undertaking accesses important additional added-value potential.

During its financial year from November 1, 1998 to October 31, 1999 C & N Touristic AG had at its disposal 42 Condor-operated aircraft with a seating capacity of 9,342. In the destination areas it controlled 37,300 beds in 52 hotels on the basis of participations, management contracts or other legal relations. The essential basis of success is a brand strategy which by value segmentation and by taking into consideration regional peculiarities enables a differentiated appeal to target groups. The latter ensures that the potential of the growing market for organised travel can be expansively exploited.

To conform with practices in tourism the company changed its financial year to run from November 1 to October 31. This meant that the year from January 1, 1998 to October 31, 1998 was a short one. The sales attributable to this period were exceeded in the 12-month-long 1998/1999 financial year by an increase in sales by about DM 1.5 billion to about DM 9 billion.

The C & N Group invested DM 712 million in the year under review. Of this amount about DM 511 million went on the expansion and modernisation of the fleet, advantage being taken at the same time of the opportunities for declining-balance depreciation in the tax-effective amount of DM 78 million. The result from ordinary business activity remaining after this amounts to DM 209.5 million.

Situation Report

Annual Group Profit and DVFA/SG Result

The KARSTADT QUELLE Group reports an annual profit for the year under review of DM 427.5 million (DM 199.2 million in the previous year). The operational contributions made by the various group operations before interest and tax (EBIT) are shown on page 82.

By the method of the German Association for Financial Analysis and Investment -

Schmalenbach Gesellschaft (DVFA/SG) we have calculated for the KARSTADT QUELLE Group a result per KARSTADT QUELLE share of DM 3.10.

The following table shows - starting with the consolidated profit for the year - the calculation of the DVFA/SG result for the 1999 financial year:

Calculation of the DVFA/SG result for the 1999 financial year

		Gross	Net
Profit for the year	million DM		427.5
Excluded amounts:			
Correction for goodwill set off	million DM	56.2	- 56.2
Profits/losses from disposal of fixed assets	million DM	30.9	- 22.4
Extraordinary depreciations fixed assets	million DM	72.5	- 34.8
Profits from amortisation of special items	million DM	11.9	- 5.7
Excluded expenditure:			
Correction for deferred taxes on losses	million DM	11.1	4.0
Setting up untaxed special reserves	million DM	7.2	3.5
Provision for outstanding adjustment of company pensions	million DM	31.2	31.2
Other	million DM	56.9	33.6
Result DVFA/SG	million DM		380.7
Profit shares third parties	million DM		- 16.2
Result DVFA/SG without profit shares third parties	million DM		364.5
Total of individual share certificates entitled to dividend	number		117,550,400
Result DVFA/SG per individual share certificate in DM	DM		3.10

When calculating the result, no deferred taxes were assessed on the utilised corporation-tax-effective loss carry-forward arising from the merger of HERTIE Waren- und

Kaufhaus GmbH and KARSTADT QUELLE AG, because the losses sustained by HERTIE in previous years affected the previous year's results without effect for tax.

The capital with dividend rights was increased at the time of the merger of Schickedanz Handelswerte GmbH & Co. KG with KARSTADT QUELLE AG with effect from 01.01.1999. The results for the shareholding companies for the financial year went towards the consolidated result. It was for this reason that the increased capital was used as a basis for the calculation of the result per share.

The adjustments in accordance with the DVFA/SG system were made at a tax rate of 52 %.

Although the crucial group companies achieved a higher operative result than in the previous year, the relevant forecasts made for the 1999 financial year in the merger report were not fulfilled. This was due principally to the following developments:

- The disappointing performance in September - due mainly to the climate - resulted in a failure to achieve the sales targets by more than DM 200 million. Working on an average gross margin of 45 %, lost earnings from sales not achieved are estimated at DM 90 million.
- The forecast increase in the gross margin was not fully achieved due to the continuing fierce competition. Instead of the 46.3 % envisaged the Group achieved a gross margin of 45.9%.
- Finally the operating expenditure incurred by the Group during the year under review exceeded the budgeted amount.

Report in accordance with Art. 312 German Stock Corporation Law

Because of the shareholding structure as set out in Text Note 15 the Board of Directors has presented to the Supervisory Board the dependent company report on all relations between the company and Schickedanz-Holding AG & Co. KG and the companies incorporated with it. The report concludes with the following statement:

Our company has, under the circumstances known to the Board of Directors at the time at which legal business was transacted with Schickedanz-Holding AG & Co. KG as controlling company and its associated companies or whenever measures were taken or not taken, received an adequate return from each legal transaction and not suffered loss or detriment from any measures taken or not taken.

Situation Report

Synergy effects for 1999 nearly achieved in full

Of the synergy effects connected with the group expansion – after careful calculation its total potential achievable in 2002 amounts to DM 400 million – DM 115 million were accounted for in the year under review.

Of this target amount DM 103 million were registered in the first joint financial year.

The largest share by far of the synergy potentials realised in the year under review is due to the improvement of the purchasing conditions. The reduction in the number of suppliers contributed as much to this as the increased use of the own brands resulting in improved costing. By concentrating order volumes it was possible to markedly reduce forwarding and postage rates.

The application of an agreed wage structure designed for logistics companies to staff working in the corresponding areas of the undertaking as well as programmes for increasing efficiency appreciably reduced staff costs. Further savings were made from the

joint purchase of printed materials, paper and media. The coordinated evaluation of the comprehensive address lists set up in the Group resulted in the reduction of bad debts and a more precisely targeted spread of advertising media.

Further synergetic advantages resulted from the merger of the purchasing offices of Quelle and Karstadt/Neckermann in Italy and the Far East and from the standardisation of their business systems. The technical customer services of the group companies were combined to form an effective and efficient single organisation. Also in the area of the foreign subsidiary companies of Neckermann and Quelle and with regard to the sale of financial and insurance services the coordination has brought improved results. As things stand, it can be assumed that more than 90 % of the potential synergy effects can be achieved in 2000, too.

Outlook

In the first few months of the current year there were growing indications that the economic recovery already under way would gain in strength. On this basis the economic institutes in their spring report for 2000 as a whole have forecast a cyclical growth rate of 2.8%. This rate would thus be virtually double that of the previous year. Due not least to the beneficial effects of the tax reform a more pronounced revival of private consumption is anticipated. Although the recent trend of consumer confidence indices continues at the level it reached at the beginning of the year, it does not contradict this estimate.

From a Group point of view, that is, taking into account the sales attributable to our 50% participation in C & N Touristic AG, we anticipate that the KARSTADT QUELLE Group will achieve an increase of a good 3% in its sales performance, especially since the course of business up until now and the growth in sales to the end of April – the significance of which is no longer diminished by the late Easter – emphasises the workability of the relevant plans. This also applies to the very gratifying response to the

special sale which Neckermann Versand AG launched in the last days of April to celebrate its fiftieth company anniversary. The intensification of our activity in the area of e-commerce will also positively affect the course of sales, irrespective of the generally anticipated recovery.

Current indications are that the KARSTADT QUELLE Group will further improve its operating profit in the current year. We anticipate a growth rate of more than 10% beyond the increase in sales. We see potential risks to the fulfilment of this forecast in the interest rates rise and the weak value of the Euro abroad, which is making our extensive imports more expensive, and possibly in further unseasonable climatic fluctuations.

The preceding Situation Report combines the Group Situation Report and the Situation Report for KARSTADT QUELLE AG.

OTHER INFORMATION

Key figures per KARSTADT QUELLE share*

		1999	1998
Dividend	EUR	0.62	
	DM		11.00
Tax credit	EUR	0.27	
	DM		4.71
Profit for the year	DM	3.64	23.66
DVFA/SG result	DM	3.10	16.42
Cash earnings acc. to DVFA/SG	DM	13.08	106.69
Capital and reserves	DM	26.47	302.30
Stock market price (31.12.)	EUR	39.80	
	DM		870
Highest stock market price	EUR	48.70	
	DM		995
Lowest stock market price	EUR	30.55	
	DM		562
Individual share certificates	number in millions	117.6	
DM 50-shares	number in millions		8.4
Stock market value (31.12.) with 84 million indiv. share certificates	millions of EUR	3,343	
with 8.4 million DM 50-shares	millions of DM		7,308

*) 1999 per individual share certificate (Euro 2.56)
1998 per DM 50-share

Comparable key figures (1998 pro forma)

		1999	1998
Dividend	EUR	0.62	0.56
Profit for the year	DM	3.64	2.37
DVFA/SG result	DM	3.10	1.64
Cash-Earnings acc. to DVFA/SG	DM	13.08	10.67
Capital and reserves	DM	26.47	30.23

The Share

In 1999, too, continuing unsatisfactory domestic demand and the poor climate of consumption kept the retail trade at the trailing edge of economic development for the seventh year in succession.

This development basically determined the trend of the C-DAX-Consumer, which includes the major stock exchange-listed retailing companies. At the end of the year the index stood at 13.8% below its starting value, while on a year-on-year comparison the composite share index (CDAX) rose by 31.7%.

The KARSTADT QUELLE AG share followed the trade trend down, but at some distance. It fell in value during the period under review by 10.5% from EUR 44.48 (01.01.99) to EUR 39.80 (31.12.99). It therefore performed slightly better than the retail trade share index.

In the first half of the year under review the price of the share - which stood at 41.7% at the end of 1998 - continued its gratifying rise until it reached EUR 48.70 (16.06.99), while the stock exchange rated the results potential of the Karstadt-Quelle merger and the internal results of the restructure positively.

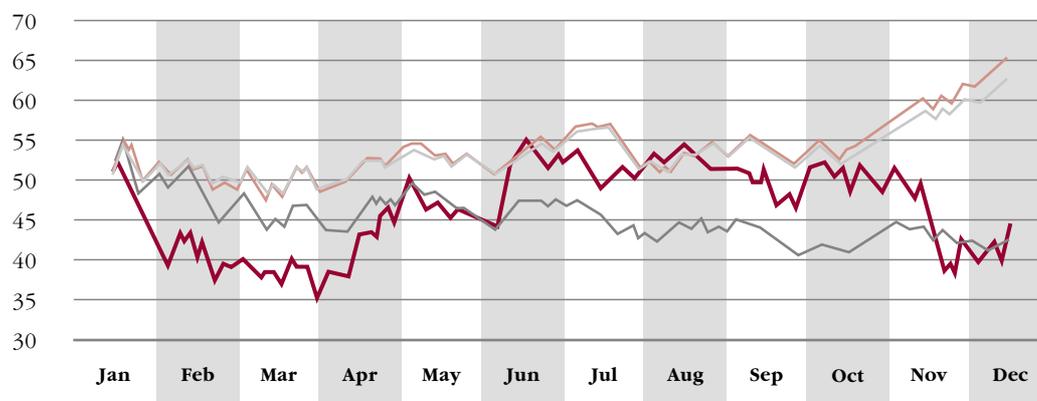
At the end of the year, however, nearly all German retail trade shares underwent clear mark-downs because many investors' hope

of a lasting revival of demand for retail goods had not come to fruition. The price of the KARSTADT QUELLE share also suffered from this development.

On July 30, 1999, the ordinary meeting of shareholders in our company resolved to translate the existing par-value shares with a simultaneous split in the ratio 1:10 to individual share certificates and the issued capital of DM 420 million to Euro. The latter then, including a small level-up, stood at Euro 255,040,000.-.

For the purpose of the merger of Schickedanz Handelswerte KG with Karstadt AG the general meeting of shareholders further resolved the issue of 33,550,400 individual bearer share certificates to increase the issued capital translated to Euro by EUR 85,889,025 to EUR 300,929,024. The new shares are secured for the moment by a global certificate deposited with Deutsche Börse Clearing AG, Frankfurt am Main. The capital increase was entered in the Register of Companies on October 12, 1999.

Share index



— Karstadt
 — CDAX Composite
 — CDAX Consumer*
 — DAX 30

*) [Artnet NMBC, AVA, Beate Uhse, BHS Tabletop, Bijou Brigitte, CEWE Color Hdg., Condomi, Curtis 1000 Europe, Douglas Holding, Einhell Hans Pref., Escom, Eurobike, Fielmann Pref., Gardena Holding Pref., Hach Pref., Herlitz, Herlitz Pref., HIT Intl. Trading, Hornbach Holding Pref., Hornbach-Baumarkt, Hornschuch Konrad, Karstadt-Quelle, Kaufhalle, Kaufring, Leifheit, Ludwig Beck, Markant-Sudwest Hndl. Pref., Metro, Metro Pref., Oppermann Versand, Pascale Jean, Praktiker Bau und Heim, Producta NM (XET), Reichelt Otto, Rosenthal, RTV Family Entm. NM, SG-Holding Pref., Sinn Leffers, Spar, Spar Pref., Takkt, WMF, WMF Pref.]

Source: BNP Equity Research / Datastream

Other information

Therewith the merger and the change of company name to KARSTADT QUELLE AG likewise acquired legal effect. The change of stock exchange quotation to Euro already took place on October 1, 1999.

The KARSTADT QUELLE AG shares are officially quoted and dealt in on the stock exchanges in Frankfurt am Main, Düsseldorf, Berlin, Bremen, Hamburg, Hanover, Munich and Stuttgart. They are also carried in the XETRA electronic dealing system and quoted in option trading on the German Forward Exchange. It is also intended to qualify the new shares for official listing on the above mentioned stock exchanges.

In view of KARSTADT QUELLE AG's considerable assets and growth and earnings potential we consider its shares to be under-priced at present. This is so not least because of its e-commerce business, which will treble the previous year's turnover in the current financial year. The Group, like no other stock exchange-listed company, has at its command all the substantial – particularly logistic – qualifications for their further expansion.

Other information**Busy Project successfully completed**

The BUSY Project concentrating on 11 core processes was further successfully pressed on with during the year under review. After deduction of the non-recurring expenditure necessary for the changeover, cost-cutting net effects amounting to about DM 120 million were achieved in the year under review. These are due not least on the reductions in staff employed in administrative work.

Millennium changeover

Thanks to thorough and early preparation – which was attended by external experts – the changeover to the new millennium went off without noteworthy problems either in the area of information technology or with the so called “embedded systems”.

KARSTADT QUELLE Group
10 years working for environmental protection

In the year under review, too, we continued to expand our varied programmes for protection of the environment. Thus considerable success was achieved in limiting the consumption of resources like electricity and water. We pressed ahead with the minimisation of transport and product packaging and the conversion to reusable variants. By taking the appropriate measures expenditure on waste disposal was reduced. At the same time the separation of reusable materials from unusable waste materials was facilitated. By developing special training material we further increased the competence of our staff in environmental matters.

One focus of efforts to protect the environment is on the expansion of our environmentally friendly product lines. The number of such product lines developed for the foodstuffs sector in 1996 has now been increased to 500 articles. In this respect, too, KARSTADT QUELLE AG is a leader in its field of trade. By special sales activities in the year under review we promoted the sales of Trans Fair foodstuffs and supported the developing countries in their effort to improve their social and economic position.

In the interest of sustainable development the number of environmentally compatible articles in our lines is being constantly increased. This applies to energy-saving electrical equipment as well as products with a high recyclable content.

The principles of environmental protection are also consistently observed by the mail-order companies of the KARSTADT QUELLE Group. Accordingly, Neckermann Versand AG, for example, markedly reduced water consumption and carbon dioxide emissions at its Frankfurt headquarters. Likewise power consumption and waste generation.

Eco-passes containing environment-related information on material contents, manufacturing methods and reusability were issued for about 40,000 articles. In collaboration with the German Association for the Protection of Nature and the Environment (BUND) an ecological guide for products with an electronics content was produced. Its purpose is to induce manufacturers to make their products more environmentally friendly. The guide further serves as a yardstick in quality control and supplier assessment. An especially important role is played by pollutant material inspections, particularly in the area of the textile product lines.

Other information

High ecological demands are made of all advertising materials and catalogues by the Group mail-order companies. Almost exclusively recyclable low-weight intaglio paper and ecologically safe inks are used for these.

As early as ten years ago an environmental management to ensure ecologically beneficial conduct in all areas of activity was set up in the Quelle Group. As a result a considerable and constantly expanded share of its textile ranges now complies with the Eco-Tex Standard 100. Attention is drawn to the products concerned by the information "Kind to the skin, because tested for contaminants".

In collaboration with manufacturers large household electrical appliances in particular were consumption-optimised. This collaboration resulted amongst other things in the world's most water-efficient washing machine. It uses only 34 litres of water in a washing cycle. Furthermore, about 85 % of the cooling and freezing appliances sold are in the especially economical energy efficiency classes A or B. There are also numerous products from the field of solar technology.

Group companies are also making substantial contributions to the safe disposal of electronic scrap. Thus, for example, the Quelle Group takes back about 200,000 household appliances from its customers every year in order to arrange their proper disposal. To prevent waste, as far as possible either packaging materials are dispensed with or reusable containers used. 3,000 tons of packaging material is saved on company-internal deliveries alone in the Quelle Group every year. Likewise air and lorry deliveries were transferred to ship or rail in order to optimise transport in the interest of environmental protection.

The KARSTADT QUELLE Group is always conscious of its responsibility for environmental protection. In the future, too, it will be using environmental considerations as a yardstick for its activities and impress upon its staff the need for environmental care.

Strategic e-commerce business sector

The KARSTADT QUELLE Group was one of the first German retailing groups to use the internet as a means of promoting growth. The mail-order companies of the group in particular, with their up-to-date logistics systems, were made for internet commerce. Both Quelle AG and Neckermann AG have been represented on the internet by comprehensive ranges of products since 1995.

The www.quelle.de internet site presents some 8,000 products from all the product areas which are of interest to internet users. Also displayed and available to order are all the 160,000 items from the German Quelle catalogues. Further, over 1 million books, videos and CD-ROM's are offered under the heading "World of Books".

Neckermann Versand AG presents both its complete main catalogue and most of its specialist catalogues on the internet. The entire range of products can be ordered, an immediate delivery promise issued and delivery of and payment for the items by any of the approved methods arranged online.

In autumn 1996 KARSTADT QUELLE AG presented under the name "my-world" the first virtual department store with selected ranges. In August 1999 the shopping portal was fundamentally further developed and renamed "Karstadt my-world". Thanks to its close association with Karstadt the number of accessible internet users was considerably increased in all the thematic segments like Multimedia, Sport, Travel or Fashion. In the year under review already the KARSTADT QUELLE Group generated sales worth DM 214 million over the internet. In 2000 we expect to treble this figure.

OVER-THE-COUNTER RETAIL TRADE

Strategic conversion continued

With the accession of the Quelle Group the over-the-counter retail trade – which achieved sales of DM 14,626 million in the year under review – lost its dominant role in the Group. The mail-order segment is now to a great extent of equal importance.

The most important share by far of group activities in the over-the-counter retail trade is accounted for by the 208 establishments of the department store operation. Of these we converted a further 30 for implementation of the proven marketing strategies. Altogether at the end of the year under review we were operating 53 department stores, the range structures and product presentations of which are especially well suited to meet the discriminating demand.

In the context of the theme areas Fashion, Personality, Multimedia, Living, Sports and Food and Drink we are appealing to the most important areas of consumer interest by a holistic approach demonstrating competence. At the same time product sourcing and procurement, internal and external distribution, theme-clarifying design and layout, service, advice and advertising combine to form continuous value-added

chains. The clearly positive way in which the converted stores have developed in comparison with the other outlets demonstrates that our innovative marketing strategies are the right ones and thus opening up additional growth and result potential.

Of the 208 department stores belonging to the KARSTADT QUELLE Group 178 are managed as Karstadt stores. 26 branches are operated under the name HERTIE and a further three under the name Wertheim and Alsterhaus. Because of its special position and size the KaDeWe in Berlin plays a prominent role. This highly traditional store has long enjoyed a reputation as an institution without equal in the German retail trade which reaches far beyond its geographical location.

The KARSTADT QUELLE Group further engages in over-the-counter retailing through its legally and organisationally independent Runners Point, Schaulandt/Schürmann, Wehmeyer and WOM (World of Music Group) discount store chains with between them a total of 175 sales outlets.

The over-the-counter specialist retail trade of the KARSTADT QUELLE Group is provided for by 23 sports stores, 4 furniture stores and 12 carpet centres. The table opposite provides details.

The KARSTADT QUELLE Group with Kepa Kaufhaus GmbH, Essen, Karstadt SB Warenhausgesellschaft mbH, Essen, Gatermann GmbH & Co., Duisburg, and Warenhaus WERTHEIM GmbH, Berlin, has at its disposal a number of real estate management companies, the properties of which are used almost exclusively for the department store operation.

Also assigned to the department store operation because of its supporting function concentrated on the operation's logistic requirements is the KATRANS Speditionsgesellschaft mbH, Essen, in which KARSTADT QUELLE AG has a 97 % participation. The remaining 3 % of the DM 0.2 million share capital is held by DB CARGO AG. In the 1999 financial year sales rose slightly to DM 134 million, not including VAT. The profit of DM 9.8 million was transferred to KARSTADT QUELLE AG under the existing profit-and-loss transfer agreement.

Over-the-counter retail trade

	Number of branches	Sales space in m ²
Department stores	208	2,261,760
including:		
Sports stores	23	72,170
Furniture stores	4	89,997
Carpet centres	12	17,723
Runners Point	106	11,518
Schaulandt	16	34,251
Schürmann	4	4,946
WEHMEYER	28	60,114
WOM	21	15,663
Specialist stores	175	126,492
Over-the-counter retail trade	383	2,388,252

Karstadt department stores increase sales

According to information by the Federal Statistical Office the department stores forming a reporting group once again suffered a nominal fall in sales – albeit a clearly slight one – of 0.3 % compared with the previous year. The department store business of KARSTADT QUELLE AG performed a little better, achieving a nominal increase of 0.3 %. On comparable sales space, however, it recorded a nominal sales increase of 1.5 % and thus after years of decline a change of trend. We owe this development not least

Over-the-counter retail trade

to the success of the converted department stores. Overall, KARSTADT QUELLE AG turned over DM 15,291 million including VAT in retail trade in the year under review.

The KARSTADT QUELLE Group with its "true" over-the-counter sales contributed 2.3 % to the business volume of the "true" retail trade. Its share in the sales of the statistical group Department Stores came to 48.5 % (47.6 % in the previous year).

The development of the main product groups

Amongst the department store ranges the textiles ranges and, in this regard, fashion in particular play an especially important role. Because of their above-average sales increase of 1.3 % the main product group Textiles were able to expand their share in the overall sales of the department store operation to 37.6 % (37.17 % in the previous year). In terms of comparable floor space it achieved a sales rise of 2.2 %.

The Men's Clothing consumer sector developed better than the corresponding general demand with an increase of 2.9 %. Above all the Business Clothing segment, particularly suits and trousers, attracted considerable interest. Likewise the Men's Underwear and Leatherware recorded gratifying sales levels.

Business in women's clothing was quieter and, although the millennium changeover favoured the sale of festival clothing, led to only a slight increase of 0.2 %. Outsizes, which we carry under the own brand-name »My line«, met with a satisfactory response. The sale of casual knitted and trouser ranges profited from the general trend to the Casualwear segment, which includes leisure-style wear. Our own brand »InScene« designed for young fashion proved popular, achieving a sales rise of 7.6 %. The House and Home Textiles segment (home textiles, tablecloths, blankets and bedding) continued its successful development also in the year under review with a rise of 6 %.

In the "Personality" consumer sector - which includes the product groups Jewellery, Timepieces, Leather Goods, Perfumery, Books, Stationery and Optical Goods - Leather Goods ranges, led by fashionable handbags, and the Jewellery sector achieved above-average increases of 10 % and 9 % respectively thanks to the expanded ranges of silver fashionwear. Our market leadership in the

Stationery segment was reinforced with an increase of 10%. The newly designed large-area perfumery departments also proved successful, their proximity to the personal outfitting ranges favourably assisting the trend of sales in both segments.

The "Living" consumer sector to which we have assigned home textiles, carpets, household products, lighting and electrical appliances, is suffering from the continuing expansion of furniture stores and DIY supermarkets, which are increasingly expanding their ranges into these product sectors. The same applies to cut-price suppliers and large-batch distributors. We have therefore reduced the sales space in the Living consumer segment in favour of the growth ranges. We have nevertheless managed to markedly raise the sale of large electrical appliances, knives, forks and cutlery and household goods, to which the own brands developed by us made a gratifying contribution. Viewed as a whole, sales per m² of sales space in the "Living" consumer segment increased by 2.5%.

In the "Multimedia" consumer sector the negative market developments, that is, the continuing process of concentration both on the manufacturer and the sales side and

the further advance of the specialist discount markets, were at least partly compensated for by the clearly reviving demand. Consumers showed increasing interest above all in the product groups Telecommunications, Computers, Software of all kinds, Digital Picture Processing, DVD feature films and DVD Players. In keeping with this trend the sales of computers and telecommunications articles rose considerably in our stores too. Sales of mobile telephones, DVD feature films and computer applications boomed. Recorded sound media, by contrast, showed a clearly lower demand. Here the negative influence of the internet was evident.

The Sport consumer sector was able to increase its sales slightly despite the somewhat declining general demand in the year under review. In the winter season sales of snowboards and carving-skis were comparatively lively. Slightly above-average sales were recorded in the Fitness segment for sport and sports-related fashion articles for women. We have further expanded our leading market position as a marketer of golfing

Over-the-counter retail trade

products with sales increases clearly above those of the market. Interest in team sports and training wear, on the other hand, declined. A particular high point in the year under review was the opening of the new sports store in Hamburg. We offer on its nearly 10,000 m² of sales space a comprehensive, universal range of goods for sports and games.

As never before the Food and Drink consumer sector had to contend with a competition and price war from which all participants in the market are suffering. This development has also negatively affected business in our stores. Their relatively low losses of sales in the "Gourmet" market-

ing segment confirm, however, that the orientation to exclusive quality is increasing our ability to resist the policy of the cut-price marketers. Accordingly, we have continued to strengthen our competence in the core profiling areas of Wine, Cheese, Fish, Fine Foods and Gourmet Foods. To ensure favourable supply prices and with a view to logistic advantages we have for some time been collaborating with a nationally operating food chain. In the year under review we transferred this collaboration to EDEKA Zentrale AG.

The following table shows the development of the sales shares for the main product groups:

Sales shares for the main product groups: (sales not including VAT)

Main product groups	Change of sales as % on comparable sales space	Share of sales as % 1999	Share of sales as % 1998
Textile goods	+ 2.2	37.60	37.17
Furniture/household goods (incl. radio/television)	- 1.6	16.52	17.14
Various requirements	+ 3.2	33.45	32.76
Food, drink and tobacco	- 2.1	10.02	10.50
Restaurants and catering	- 2.4	2.25	2.26
Service departments	- 4.0	0.16	0.17

Sales space productivity risen

At the end of 1999 the over-the-counter sales operation, including the HERTIE branches, operated in 208 department stores with a total sales space of 2,287,073 m². This is 10,750 m² less than the previous year. 104,511 m² were let to outside specialist suppliers, particularly in the food departments, and to subsidiary companies (25,313 m²). This is 4,001 m² more than at the end of 1998.

Four stores with a total sales space of about 18,800 m² were closed in the year under review. These were the branches at Berlin Mehringdamm (7,900 m²), Berlin Fox-Markt (2,900 m²), Düsseldorf-Oberbilk (1,600 m²) and Mainz (6,400 m²). The premises in Mainz will for the most part be utilised also in future by Group companies (a Wehmeyer branche, Karstadt travel bureaux). Altogether about 8,050 m² of additional sales space were gained by conversion and extension of various properties. Among them is the Hamburg sports store, which re-opened in

November 1999 after extension by about 3,000 m² to give a total sales space of about 10,000 m². With its six sales levels and a roof terrace with restaurant and sports arena it is one of Europe's leading sports stores.

At the end of 1999 sales space totalling 220,414 m² was being managed by Karstadt department stores in properties not belonging to the Group. That is 36,082 m² less than at the end of the previous year. Relative to the total sales space in Karstadt department stores the share of rented space went down from 11.2 % to 9.6 %.

Averaged out over the year, the sales space in our department stores decreased by 28,504 m² or 1.2 % on 2,276,986 m², of which 2,177,315 m² are in own use. That is 26,244 m² or 1.2 % less than in the previous year. Sales per m² of own used sales space rose by 1.6 % to DM 7,023, including value-added tax. After deduction for price rises for our ranges space productivity rose by 1.1 % in real terms.

Group department stores turned over their sales stock 3.4 times, as against 3.3 times in the previous year.

Over-the-counter retail trade**Development of price indices**

For the first time we have included in the price index, drawn up for the ranges in the Karstadt branches for many years now, the price development in the HERTIE stores. The index does not take into account the movement of rents and the trade in motor vehicles, fuels and combustibles, and mineral oil products. Prices in our ranges rose by 0.5 % against the previous year on yearly average.

Development for specialist discount stores only partly satisfactory

In 1999 Runners Point Warenhandels-gesellschaft mbH, Essen, - which sells footwear and clothing mainly for sport and leisure - sold at DM 128.6 million, not including VAT, 1.2 % less than in the previous year. Besides the disposal of 7 sales points there were 3 new openings, so that the holdings as at the end of the year had fallen to 106 shops with a total sales space of 11,518 m². In terms of comparable space the company sustained a sales loss of 0.5 %. The modernisation of the shop premises, staff training and the improvement of work processes and procedures continued with great em-

phasis. As due to restrained demand the sales target was not fully reached and the restructuring of the sales network entailed additional charges, a negative annual result of TDM 2,398 resulted.

The company's share capital, which remains unchanged at DM 13 million, is 100 % held by KARSTADT QUELLE AG, with which a profit-and-loss agreement exists. As of 31.12.1999 the company employed 924 staff (1,007 in the previous year).

The DM 15 million share capital of WEHMEYER GmbH & Co. KG, Aachen, is 100 % held by KARSTADT QUELLE AG. The company sells women's, men's and children's clothing in 28 clothing stores. In the year under review its sales increased by 7.5 % to DM 368.7 million, not including VAT. The result was a rise of 2.9 % after adjustment for a change in sales space. The company increased its yearly profit by DM 1.3 million to DM 13.5 million. As at the balance-sheet date, 31.12.1999, the company employed 1,956 staff (1,734 in the previous year).

The share capital of Schaulandt GmbH, Hamburg, is DM 10 million; it is 100 % held by KARSTADT QUELLE AG. Through its retail shops the company sells entertainment electronic and electronic communications equipment, EDP soft- and hardware and sound media. At the end of 1999 the sales operation comprised 16 shops with a total sales space of 34,850 m². The number of employees fell by 25 to 529 compared with the previous year. The sales achieved in the year under review come to DM 341.1 million, not including VAT; it increased by 8.2 % with sales space nearly unchanged. By the consistent and sustained application of a more aggressive sales strategy the previous year's loss was reduced by DM 3.7 million to minus DM 2.1 million.

The »Schürmann Elektrohandels-gesellschaft« mbH, Hamburg, is likewise a 100 % KARSTADT QUELLE holding. Its share capital is DM 12 million. The focus of business is the sale of domestic appliances and entertainment electronics products. At the end of the year Schürmann had 4 branches. The closure of 3 outlets resulted in a fall

in company sales by 7.5 % to DM 75.1 million, not including VAT. Measures to rehabilitate the company continued in the year under review. The special burdens which they impose together with the considerable fall in sales resulted in a deficit of DM 1.7 million (- 2.3 million in the previous year). The loss incurred was absorbed by KARSTADT QUELLE AG under the existing profit-and-loss transfer agreement. As at December 31, 1999, the company employed 139 staff (173 in the previous year).

WOM World of Music Group, Kiel, 95 % of the DM 6 million share capital of whose holding company is held by KARSTADT QUELLE AG, achieved in its 21 specialist sound-media branches a turnover, not including VAT, of DM 149.7 million, representing a rise of 3.3 %, in the year under review. In a comparable sales space turnover fell likewise by 3.3 %. The lack of new musical initiative and not least price cuts arising out of the still intense competition are mainly responsible for this development. By dint of cost saving, however, the previous year's result was increased by DM 2.9 million to DM 0.1 million. As at 31.12.99 the company employed 518 staff (569 in the previous year).

MAIL-ORDER TRADE

Slight increase in sales in mail-order trade

The mail-order segment in the KARSTADT QUELLE Group is covered by the 100 %-held Group companies Quelle AG and Necker-mann Versand AG and its numerous subsidiary companies.

According to figures published by its German trade association the German mail-order trade recorded a slight increase in sales of 0.8 % in the year under review. It contributed 5.5 % to retail sales as a whole, that is, 0.3 % less than in the previous year.

Mail order with a comprehensive variety of ranges did a little better. Following a drop of 0.3 % in 1998, it achieved an increase in sales of 1.1 % in the year under review. By contrast, growth in the specialist mail-order trade clearly fell off. Sales in the year under review rose by a mere 0.9 %, whereas in the year before they rose strongly by 5.8 %. Along with the retail trade as a whole the mail order trade, too, suffered from the restrained demand for textiles. Sales of technical products and products for various requirements were brisker.

Development of the Quelle Group

The Quelle Group has formed part of the KARSTADT QUELLE Group since the year under review. A summary of its business operations is shown in the following table. It should be noted here that at the beginning of the year under review due to its accession to the KARSTADT QUELLE Group the Quelle AG and its numerous subsidiaries changed its financial year, which ran from February 1 to January 31, to coincide with the calendar year. To enable an informative 12 month-on-12 month comparison to be made, the short 1998 financial year was extended by the accounting month January.

Despite the restrained development of the retail-related demand the Quelle Group again succeeded in expanding its volume of business to sales, not including VAT, of DM 10,510 million in the year under review. This represents a rise of 1.6 %. However, it should be taken into consideration that in the course of the previous year the Quelle Group company Schöpflin GmbH ceased trading. After adjustment for this circumstance a comparable sales increase of 3.4 % results.

Development of sales of the Quelle Group

	Net external sales 1999 TDM	Net external sales 1998 TDM	Net external sales 1998 (12 months) TDM	Change in %	Share of total sales in %
Universal mail-order Quelle AG	6,966,179	6,576,432	7,088,683	- 1.73	66.3
Specialist mail-order	1,174,032	886,467	960,431	+ 22.24	11.2
Other domestic subsidiaries	782,799	702,013	745,221	+ 5.04	7.4
Total	8,923,010	8,164,912	8,794,335	+ 1.46	84.9
Subsidiaries abroad	1,586,750	1,481,065	1,547,912	+ 2.51	15.1
Total sales	10,509,760	9,645,977	10,342,247	+ 1.62	100.0

The consolidated group result was clearly improved. It rose by DM 101 million to DM 188 million. This development was, however, favoured by the fact that the closure of the Schöpflin operation had a perceptible negative effect on the previous year's result. The retained profit for the year amounted to DM 98 million. Of this DM 73 million were paid out to KARSTADT QUELLE AG.

Investments by the Quelle group rose in the year under review by DM 48 million to DM 249 million. Of this DM 184 million went on tangible assets and DM 65 million on financial assets to enable in particular the further expansion of the strategically important specialist mail-order business.

As an individual enterprise, Quelle AG is the highest selling mail-order company in Europe. The basis of its operation is the universal catalogue, about 12 million copies of which are distributed twice yearly. Its ranges are supplemented by 30 target-group-oriented specialist catalogues. Moreover, a comprehensive sales network of about 9,000 over-the-counter field offices is maintained to support the mail-order operation.

In the year under review Quelle AG - the business emphasis of which is on universal mail-order in the Federal Republic - achieved sales, not including VAT, of DM 6,966 million. In comparable terms (adjustment for change of financial year as well as company transfers) the result is at the level of the previous year.

Mail-Order trade

A particularly gratifying development with a rise of 8 % was recorded by the mail-order business in technical products. In particular, sales of computers, electronic communication products and fitted kitchens were increased. Orders for leather goods, linen and house and home textiles were comparatively lively. In conformity with the general trend, the Clothing segment suffered total losses in sales of 4 %. By contrast, hardware ranges increased their sales by 1 %. After adjustment for change of sales space the Quelle Technik centers failed to match their previous year's level of sales by 2 %.

The structure of sales achieved during the year under review is shown in the table below:

In the year under review the technical customer service was separated out and amalgamated with that of the Karstadt Group under the name UTS - Universal Technik-Service GmbH. From now on the company will serve the entire KARSTADT QUELLE Group and also third parties. The sales for its first financial year came to DM 140 million. By this merger the most important technical customer service in the German retail trade has been created.

Foto-Quelle Schickedanz GmbH & Co. KG, Nuremberg, developed very successfully. It increased its sales by 16 % to DM 138 million. An even clearer rise was recorded by the servicelogiQ GmbH Logistic Services, likewise in Nuremberg. Their sales increased by 20 % to DM 64 million. Altogether in the year under review the subsidiary companies of Quelle AG not directly operating in the mail-order field recorded sales worth

The individual main product groups with their rates of change and their share of total sales

	Net external sales 1999 TDM	Share of total sales in %	Change compared with the previous year in %
Textiles	2,459,958	35.4	- 4.2
Technical goods and hardware	4,377,552	62.8	+ 2.6
Other sales	128,669	1.8	+ 1.0
Total	6,966,179	100.0	+ 0.1

DM 403 million. The resulting growth is not informative in view of the structural changes in the technical customer service sector.

High growth rates have been distinguishing the trend of business at Mode & Preis Versandhandels GmbH, Steinen. In the year under review the discount mail-order supplier increased its sales in the Federal Republic by 15 % to DM 189 million. Despite a continuously successful strategy of concentration on aggressively priced textile ranges a slight fall in results was recorded due to markedly increased expenditure on the acquisition of new customers necessitated by expansion.

Subsidiaries of Quelle AG abroad

The foreign subsidiaries of Quelle AG achieved sales worth DM 1,587 million in the year under review, that is, 3 % or DM 39 million more than in the previous year. If the foreign business of the specialist mail-order suppliers is included, foreign sales worth a total of DM 1,973 million result for the Quelle Group.

In the French market Quelle AG is represented by the subsidiary Quelle La Source S.A., Saran. Including subsidiary companies in Portugal, Belgium, Denmark, Germany, and Spain, the company turned over DM 869 million in the year under review, representing a growth of 5 %. This development is due not least to the gratifying performance of the subsidiaries in Portugal and Spain, whose sales increased by 47 % to DM 36 million and by 5 % to DM 53 million respectively. Sales achieved by France were increased by 1.0 % to DM 698 million. Since sales for the entire French retail trade were falling, Quelle La Source was able to gain market shares in that country. Despite higher advertising expenditure necessitated in view of the competition situation and increased mail-order related costs it was possible to improve earnings. Quelle La Source managed to increase its result by DM 0.6 million to DM 3.6 million in the year under review.

Mail-Order trade

As in France, in Belgium and Austria stagnating market conditions unfavourable to the retail trade prevailed. Against this background the Belgian Quelle subsidiary Quelle N.V., Lier, Belgium, had to be content with only a slight increase in its sales level of DM 58 million of the previous year. Quelle AG, Linz, Austria, recorded a slight fall in sales from DM 539 million to DM 533 million. It was, however, able to hold on to its market share of 25 % as successfully as it could maintain its leading position in the Austrian mail-order trade. Thanks to better margins and reduced costs its results rose by DM 3.4 million to DM 8.4 million.

Yet again Quelle Versand AG, St. Gallen, Switzerland, did better with its sales than the trade average there. Its sales rose by 6 % or DM 5 million to DM 87 million in a moderately growing market. Because of the increased utilisation of capacity and further improvement of the cost structure the result was increased by DM 6.6 million to DM 9.2 million.

In the Central-Eastern European region the Quelle companies in the Czech Republic and Slovenia suffered a fall in sales by 9 % and 10 % to DM 50 million and DM 13 million respectively. Business in the Slovakian Republic and at Quelle BT, Törökbalint, Hungary, stagnated with sales of DM 17 million and DM 16 million respectively. Through stringent cost management results in the Czech Republic and Hungary were improved, whereas in the Slovakian Republic and Slovenia the previous year's result was not reached.

Development of the Quelle specialist mail-order suppliers

The sales achieved by the specialist mail-order companies of the Quelle Group rose by 22 % to DM 1,174 million in the year under review.

In February 1999 the two specialist mail-order suppliers Madeleine Mode GmbH, Fürth, and Peter Hahn GmbH, Winterbach, with the fashion mail-order supplier Atelier Goldner Schnitt GmbH & Co. KG, Münchberg, were brought into the Quelle

Textil Beteiligungs GmbH & Co. KG, Fürth, in which Quelle has a 51 % holding. The three operational companies concentrate on the target groups fashion-aware but discriminating female consumers and consumers of 40 years old and upward. They operate in seven European countries, namely, Germany, Austria, France, Belgium, Finland, The Netherlands and Switzerland. Peter Hahn GmbH and Madeleine Mode GmbH also operate in over-the-counter specialist retail outlets.

In the year under review group sales amounting to DM 783 million were achieved. As a result of an earnings-oriented streamlining of ranges sales at Peter Hahn GmbH fell by 7 % to DM 300 million and at Madeleine Mode GmbH likewise by 7 % to DM 195 million. Results for the two companies developed differently, however. Peter Hahn GmbH exceeded the ambitious expectations with an increase by DM 4.4 million to DM 6.9 million, whereas Madeleine Mode GmbH suffered a decrease in results by DM 19.7 million to DM 11 million. Atelier Goldner Schnitt GmbH & Co. KG achieved sales worth DM 288 million and a result of DM 21.9 million.

After ten years of above-average growth, business at Elégance Rolf Offergelt GmbH, Aachen, fell slightly during the year under review. The international supplier of exclusive women's fashions and haute couture textiles failed with sales worth DM 151 million to achieve the previous year's level by 3 %. Restructuring measures, the development of sales just mentioned and start-up losses in Japan pulled earnings down. Nevertheless, a satisfactory result of DM 9 million (DM 10.7 million in the previous year) was shown.

By dint of increased internationalisation and a successful corporate policy in the main markets, Germany and France, the Mercatura Group strengthened its leading position as Europe's largest specialist mail-order supplier of professional clothing.

Mail-Order trade

It increased its sales in the year under review by 5 % to DM 175 million. The profit of DM 10.6 million gained (DM 12.7 million in the previous year) underlines the above-average earning power of the undertaking.

With retroactive effect from January 1, 1999 Quelle AG took over through the Mercatura holding the remaining shares in Dieter Staperfeld GmbH & Co. KG, Osnabrück (DK Group). This company, too, is a specialist mail-order supplier of professional clothing. Product line simplifications resulted in a drop in sales of 15 % to DM 67 million. This notwithstanding and in spite of considerable expenditure on restructuring measures the DK Group gained a positive result of DM 6 million.

The development of the Neckermann Group

At the Neckermann Versand AG and its 13 subsidiary companies operating in European countries the trend of business in 1999 was in part quite various. Whereas the parent company just failed to achieve the previous year's level of sales, the subsidiaries operating as specialist mail-order suppliers mainly on the domestic market achieved clear growth rates. The majority of the companies of the Neckermann Group settled abroad also recorded positive sales developments.

Sales distribution and development of the Neckermann Group¹⁾ breakdown by country

	millions of DM	Change ²⁾ in %	Share in %	Market share in %
Germany	3,052	+ 0.9	76.8	8.7
The Netherlands	264	+ 7.8	6.6	10.9
Belgium	265	+ 31.8	6.7	17.9
Austria	204	+ 8.8	5.1	11.0
France	93	0.0	2.3	0.7
Scandinavia	49	+ 7.9	1.2	-
Rest of Europe	50	+ 102.5	1.3	-
Total	3,977	+ 4.0	100.0	

¹⁾ Sales, not including VAT, including the non-consolidated companies

²⁾ The change refers to adjusted figures for the previous year

Trend of business at Neckermann Versand AG

In the year under review the parent company, Neckermann Versand AG, achieved sales, not including VAT, of DM 2,813 million, 0.2% less than in the previous year. Mail-order sales – which account for a share of 86.7% in the company's volume of business – remained at DM 2,438 million. The over-the-counter mail-order operation »KatalogWelt + Reisebüro« put in a sales performance worth DM 1,512 million, representing a rise of 7%.

A summary of the operations of the consolidated companies is shown in the table below:

Of total retail trade sales – mail-order and over-the-counter sales points – the following shares were accounted for by the main product groups:

Share of sales by main product group in %

	1999	1998
Textiles	48.4	48.5
Hardware	51.6	51.5

Because of more rapidly changing consumer requirements the marketing action to stimulate sales was supplemented and re-organised. After sending out the main catalogue for the spring/summer and autumn/winter

Development of sales of the Neckermann group

	Net external sales 1999 TDM	Net external sales 1998 * TDM	Change in %	Share of total sales in %
Universal mail-order Neckermann Versand AG	2,591,834	2,586,263	+ 0.22	66.8
Specialist mail-order	451,711	399,420	+ 13.09	11.6
Other domestic subsidiaries	40,933	44,890	- 8.81	1.1
Total	3,084,478	3,030,573	+ 1.78	79.5
Foreign subsidiaries	794,104	687,975	+ 15.43	20.5
Total sales	3,878,582	3,718,548	+ 4.30	100.0

*) not including earnings from commissions and changes in the companies consolidated

Mail-Order trade

season a marketwise 500-plus page catalogue was also sent out mid-season. With its clearly expanded and optimised ranges it replaced two occasional specialist catalogues from the textile and hardware lines.

A negative influence on the development of results was exerted by the fall in gross earnings due to sales and increased expenditure in the staff costs sector. The latter resulted from the barely 3% agreed pay and salary rise and from the setting up of provisions necessitated by older staff part-time work requirements. Despite increased advertising costs, by dint of strict cost management other operational expenditure was successfully reduced. This result is due to considerably improved checking and forecasting instruments, by the use of which losses arising from uncollected customer debts were markedly reduced. In addition, clearly increased investment returns and improved net interest have resulted in an increase in the result from ordinary business activities. The profit for the year, which rose in the year under review to DM 47 million (DM 37 million in the previous year) was paid out to KARSTADT QUELLE AG. Including the profit carry-forward the balance sheet profit amounts to DM 129.7 million.

Neckermann Versand AG has been incorporated in Karstadt AG, now KARSTADT QUELLE AG, since August 22, 1984.

The development of subsidiaries operating as specialist mail-order suppliers

The mail-order company Walz GmbH, Bad Waldsee, - the principal company of the group of the same name - is engaged in the mail-order sale of baby products under the name »Baby Walz« in Germany, Austria, Switzerland, Belgium and The Netherlands and in the mail-order sale of practical household articles, among them preferably new types of products. In addition, Baby Walz lines are also sold over the counter from a chain now numbering 20 specialist shops.

The Walz Group once again also recorded a very gratifying level of business in the year under review, particularly as clear increases in sales were achieved in all areas of business. Altogether group sales rose by 14% to DM 346.8 million, not including VAT.

This gratifying development is due to both the expansion of the range and the expansion of foreign operations and the over-the-counter branch network.

Because of the once again improved result the Walz Group was under the existing profit-and-loss transfer agreement able to transfer to Neckermann Versand AG a profit for the year of DM 25 million, which is up by DM 6 million.

The issued capital of the Walz Group remains unchanged at DM 11 million and is 100 % held by Neckermann Versand AG. As of 31. 12. 1999 the Walz Group employed 994 staff (956 in the previous year).

The Saalfrank Qualitätswerbeartikel GmbH based in Sennefeld near Schweinfurt is engaged in the specialist sale of promotional gifts by mail-order. The company's core business is the sale of promotional articles with advertising features. Sales, not including VAT, rose against those of the previous year by 9.7 % to DM 19.3 million. Despite the once again positive result Neckermann Versand AG, which holds a 100 % share, had to make good under the existing profit-and-loss transfer agreement the deficit of DM 0.2 million sustained. The loss derives, incidentally, from expenses incurred in connection with the acquisition of the company.

Krähe Versand GmbH & Co. KG based in Schlierbach, Württemberg, was acquired with effect from September 1, 1997, by Neckermann Versand AG. The company is a leading specialist supplier of high-quality professional clothing by mail-order. Its range also includes small tools, craft materials and leisurewear.

Krähe Versand achieved sales, not including VAT, of DM 41.4 million (up on the previous year by 4.5 %) in the year under review. The company has thus performed well in a difficult market lastingly dominated by the construction industry.

Although the operating result increased by DM 0.3 million, the retained profit for the year remained at the same level as in the previous year, i.e. DM 2.1 million, due to various special charges, notably those incurred by the millennium changeover.

Mail-Order trade**The development of the foreign mail-order subsidiaries of the Neckermann group**

Neckermann B.V., Hulst, The Netherlands, functions as the coordinator of mail-order operations in The Netherlands and Belgium. It is also responsible for external purchasing for the distributing companies in those countries.

Neckermann Nederland B.V., Terneuzen, the issued capital of NLG 11 million of which is held in full by Neckermann B.V., undertakes mail-order sales to Dutch customers.

The two above named companies turned over NLG 282.3 million, not including VAT and intercompany sales (NLG 268.3 million in the previous year). The negative result of NLG 3.9 million for Neckermann B.V., Hulst, was placed to the account for the current financial year.

Sales, not including VAT, at Neckermann Postorders N.V., Temse, Belgium, rose by 10.8% to BEF 2.8 billion. This gratifying increase in sales did not yield a positive result, however.

Consequently the 1999 financial year ended with a loss amounting to BEF 156 million. This was carried forward to new account.

Neckermann S.à r.l., Strasbourg, was converted to an S.A., i.e. a public limited company under French law. In this connection the company was detached from the Hulst Netherlands subsidiary group and attached directly to Neckermann Versand AG in Frankfurt.

Sales at Neckermann S.A., Strasbourg, rose in the year under review by 0.1% to FRF 313.3 million, not including VAT. The positive effects of the investments in qualitative and quantitative improvement of the customer files resulted in an increase of 7% in sales in the second half of the year, compared with those of the first half. Cost savings and improvements to the operating processes and procedures enabled a reduction of the loss by FRF 24.0 million to FRF 6.0 million.

In Austria Neckermann Versand AG is represented by its 100%-held subsidiary Neckermann Versand Österreich AG, Graz. Despite tough competition an increase in sales of 15.7% to ATS 1.6 billion was achieved in the year under review. The reason for

this gratifying development is the expansion of the ranges and the successful expansion into new markets through subsidiary companies in Slovenia and Croatia (from September 1999). Furthermore, a specialist catalogue for traditional costume is being promoted in Germany.

The result of ATS 42.4 million was transferred to the parent company.

Neckermann Handels AG, formerly Trend Produktvermarktungs AG, Vienna, – the equity capital of ATS 50 million of which 100 % is held by Neckermann Versand AG – operates developing mail-order companies in Poland, The Czech Republic and Slovakia. Its product lines include, as well as textiles, household articles, new products and sundry hardware. Sales, not including VAT, were increased in the year under review by over 71.5 % to ATS 164.3 million. This result is mainly due to the increased, target-group-oriented drive for new customers, the expansion of the textile lines and increased readiness to deliver. Nevertheless, due

not least to considerable expenditure on acquiring new customers and the volatility of the Eastern European national currencies a negative result was achieved.

Neckermann Danmark ApS, Ikast, Denmark, the capital of which is 100 % held by Neckermann Versand AG, holds all the shares in the Danish mail-order company Bon´A Parte Postshop A/S, Ikast, including its subsidiary companies in Sweden and The Netherlands. The group also owns the mail-order supplier of children’s clothing Funny Kidz. In Germany the company operates under the name Paloma Versand. Despite increased pressure of competition on the home market the Bon´A Parte Group achieved a strong growth due mainly to the gaining of new customers in The Netherlands and Germany. Its sales increased by 31.2 % to DKK 276 million. Although the expansion necessitated increased expenditure the profit for the year rose to DKK 6.7 million.

Key figures for the C & N Touristic Group

	1.11.98 to 31.10.99	1.11.97 to 31.10.98 ²⁾	1.1.98 to 31.10.98 ¹⁾
in millions of DM			
Number of passengers (in thousands)	10,375	9,785	-
Sales	9,074	8,310	7,514
of which:			
Operator	7,713	6,828	6,173
Flight	1,175	1,216	1,077
Number of staff (yearly average)	9,139	8,653	8,545
Sales per staff member (TDM) (average for the year)	993	960	879
Operating result ³⁾	284	250	299
Result from ordinary activities	210	245	267
Profit for the year	122	122	153
DVFA/SG result per share (DM)	23.63	18.35	37.27
Cash earnings acc. to DVFA/SG	487	348	356
Investments	712	373	365
Balance-sheet total	3,890	3,448	3,448
Equity capital share (%)	17.4	19.3	19.3
Group-owned sales points	1,606	1,440	1,440

¹⁾ Short financial year

²⁾ Pro forma 12-month account

³⁾ Before additional depreciation allowances for tax purposes
and untaxed special reserves

Internationally successful brand strategy

Activities in the travel services segment are with just a few exceptions at the sales level confined to the C & N Touristic Group, which is accessing the home and foreign markets by a discriminating brand strategy. The focus of its travel operator activity is on low-price products in the Value For Money segment. This profitable segment is served in Germany mainly by the brand-name "Neckermann". Its operation in other parts of Europe is, however, likewise successful. Thus in these markets 1.2 million passengers were gained for this brand name in the year under review. The Value segment also includes the regionally operating brands Sunsnacks, All Seasons (both Belgium), Vrij Uit (Netherlands), Aquatour (France) and Paneuropa (Germany). The market for "Last-Minute Travel" is successfully served by the "Bucher-Reisen" brand-name. The higher value premium sector is served by the C & N brands "Terramar", "Aldiana" and in Belgium "Pegase". Further, seats not linked with organised holidays are offered by "Condor-Flug individuell".

High growth rates in all areas of operation

In the C & N Group's first full financial year all the areas of operation show gratifying rates of growth (see table opposite).

Altogether the number of passengers was increased by 6 % to 10,374,539. Of these 9.2 million passengers, representing an increase by 9.6 %, were accounted for by the group's own operators. 4.7 million passengers, 74 % of whom made their bookings in Germany, opted for the dominant Neckermann brand. This brand contributed 51 % of total bookings. Condor carried 1,881,227 passengers for non-group operators or as individual passengers, 6.3 % fewer than in the previous year.

For C & N operators Germany is still the most important market. Just on 65 % of the passengers come from there. Despite intensified competition the group was able to hold its 21.5 % share of the market.

Growth rates

Business segment	Number of bookings	Change compared with previous year in %
Air short-haul	3,838,345	+ 5.6
Air long-haul / sea	183,206	+ 30.3
Premium	205,461	+ 23.8
Western Europe	1,270,492	+ 17.4
Southern / Eastern Europe	363,543	+ 16.1
Car / rail / holiday home Europe	2,632,265	+ 7.8
Condor Flug Individuell	677,842	+ 15.4
Carrier	1,203,385	- 15.2
Total	10,374,539	+ 6.0

Of especial importance is the position of C & N in Belgium. There it holds a 40.7 % market share. In the fast growing south-eastern European markets its operators have already succeeded in securing for themselves a share of 17.8 % - in Austria it is 22.1 %. On an average of all the countries in which C & N with its travel operators operates it enjoys a market share of 23.3 %.

Characteristic of the 1998/1999 year under review was the further increased competition, due not least to the entry into the market of mainly English travel operators. Overcapacities in the air charter market led in part to a drastic fall in prices. The travel

Travel Services

segments most affected by this development were the long-distance journeys. Further, the trend towards short-time travel continued. In the C & N Group therefore the average travel time fell from 11.1 days in the previous year to 10.9 days in the year under review.

Successful brand-name positioning in the German market

In Germany thanks to its discriminating brand strategy C & N Touristic AG was able to increase its number of bookings by 7.9%. About 60% of the passengers opted for Neckermann services which are on principle in the medium price bracket. There was a preference for holiday bookings to Mediterranean destinations.

The favourite by far of preferred holiday destinations with C & N tourists is and has traditionally been Spain. The already large number of bookings for this destination logged the previous year was yet again exceeded, this time by 5.6%. Turkey, by contrast, suffered considerably lower bookings; it was extensively avoided because of its political situation and natural catastrophes. In particular holiday areas in Greece and Tunisia profited from this development. Egypt, too, recorded above-average growth rates.

Long-distance travel achieved a rise of 31% by concentration on attractive exotic destinations with a good tourist infrastructure and because of the much improved product quality. The last-minute operator trading under the name "Bucher-Reisen" successfully continued its gratifying development which has lasted for years with an increase of 21.6%.

After discontinuation of the high-risk sea travel operation based on full- and part-charter this service is now operated by C & N purely as an agency service for third party operators. This last enabled a clear expansion of the cruise ships and routes offered. The expanded programme was received by the market with a 48.9% increase in the number of passengers.

In the Car, Rail and Bus Travel and Holiday Home Agency brackets the number of customers was increased by 6.1%. While the core business developed gratifyingly with an increase of 10.1%, numbers of bookings for leisure and adventure parks dropped.

The C & N Group is represented in the more discriminating premium segment by the “Aldiana” and “Terramar” brands, the first of which offers high quality holidays. The associated holiday establishments were best situated and built in the style usual in the country in question. Both as regards their furnishings and fittings and their gastronomic performance and as regards the quality of the sports and fitness provision ambitious yardsticks are applied. 10 of these establishments with a total capacity of about 5,400 beds are operated in 8 countries. In the year under review the “Aldiana” brand registered a rise of 9.9% in the number of guests and further strengthened its strong position.

The premium operator “Terramar” has made its programme easier accessible by the introduction of new destination country-related catalogues and supplemented it with more four- and five-star hotels. As a result of this consistent quality policy bookings with Terramar rose by 36.1%.

Market share gains in Western Europe

In Western Europe the C & N Group operates through differently positioned subsidiary companies in The Netherlands, Belgium, Luxembourg and France.

In Belgium the subsidiary there has long enjoyed a dominant market position. In the year under review this was further expanded with an increase in bookings of 6.1%, to which the rise of 9.2% in the short-haul flight segment made a decisive contribution. Favourite holiday destination with Belgian clients proved to be Spain again. Of the total package holidays booked in Belgium for the holiday destinations there 42% were made through the C & N subsidiary. France is ranked a distant second on the popularity scale.

In the Netherlands C & N Touristic is represented by two travel operators. Whereas Neckermann Vliegzeizen Nederland (NVN) offers mainly air travel, Vrij Uit covers the market for car and bus travel. With just on 1.6 million passengers both companies yet again grew faster than the market. In the short-haul flight segment NVN increased its

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number of passengers by just on 48 %, while the number of bookings with Vrij Uit rose by 11.1 %. In The Netherlands, too, Spain belongs to the most favoured travel destinations.

Expansion of the market position in South-Eastern Europe

In Austria C & N Touristic AG holds a share of 49 % in the travel operator N-U-R Necker-mann Reisen AG, Vienna. 51 % is held by Reisebüro Kuoni AG, Zürich. Against the trend in Austria the company managed to

increase the number of its passengers by 11.7 %. With a market share of 22.1 % the company still occupies second place in the Austrian package holiday market. The operator business in Hungary, Slovakia and Slovenia controlled from Austria continue to develop favourably. In the year under review the number of passengers from these countries was increased by 21 % to 32,300. The operations of Necker-mann Polska also went successfully. It resulted in close on 25,000 bookings, representing a doubling of the previous year's volume.

Breakdown of beds controlled by C & N Touristic AG

	Number of hotels	Number of beds
Iberostar	35	27,310
Aldiana	10	5,411
Other	1	600
31. 10. 99	46	33,321
Under construction:		
Iberostar	2	1,090
Aldiana	2	1,300
Other	2	1,570
	6	3,960
Total	52	37,281
of which:		
Participation portfolio	23	15,054
Lease and management	29	22,227
Total	52	37,281

Expansion of hotel and club capacities

The control of the required hotel capacities is gaining a growing importance as an essential part of the integrated value-added chain. The C & N Group has therefore consistently expanded its hotel commitments. By dint of acquisition and participation in the financial year just ended bed availability was increased. The C & N participation portfolio thus comprises 23 hotels with a total of 15,000 beds. There are also leasing and management agreements for 29 properties with 22,300 beds.

Participation in destination area agencies

In important destination areas C & N Touristic AG ensures customer care through participation in local agencies. These perform the required service on arrival and departure. They are also responsible for transfer between airport and hotel and the organisation and management of excursions and round-trips. They also provide local support to C & N Touristic in many respects.

The agencies in which C & N Touristic AG holds participations looked after 5 million customers in the year under review and achieved sales worth about DM 700 million.

C & N Touristic AG will participate in further agencies. A commitment in Egypt is close to being concluded, and appropriate negotiations are also being conducted in other destination areas. The motivation for this participation policy lies in the improvement of the customer care service and the high profitability of the agencies.

Condor the most important German charter airline

As at the balance sheet date, October 31, 1999, Condor Flugdienst GmbH with its subsidiary Condor Berlin GmbH operated 42 aircraft with a seating capacity of 9,342. It was increased by 6.9% compared with the corresponding date in the previous year.

Aircraft type	Number	Number of seats	Total capacity
Boeing 767-300	9	269	2,421
Boeing 757-300	7	252	1,764
Boeing 757-200	18	207/210	3,765
Airbus 320-200	8	174	1,392
	42		9,342

The average age of all the aircraft is just on 5 years. To further improve the qualifications for economical and environmentally compatible air transport investments in new aircraft are planned for the year 2000 as well. For the development of new aircraft the expertise of Condor engineers and the experience of the pilots are duly taken into account. Their cooperation is aimed in particular at raising the standard of service and quality.

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The close connection with the Lufthansa Group enables recourse to its versatile air fleet. This option is utilised particularly with regard to the aircraft which due to reduced flight operations Lufthansa does not use at weekends. The cost-effective utilisation of these free capacities increases the flexibility of the C & N routing. Further advantages arise for C & N customers in the area of the check-in service and their participation in the Miles & More scheme.

In the year under review Condor aircraft made about 500 flights to 90 destinations worldwide every week. For the first time over 8 million passengers were carried. Over short- and medium-haul routes an increase of 16.9 % was recorded, and over

the long-haul routes the number of passengers rose by 11.3 %. Because of the improved utilisation of fleet capacity the seat loading factor – which is especially profit-related – was increased by 0.9 % points. This result is due to the vertical integration of the value-added chains and the synergy effects bound up with it.

Operating result improved to DM 284 million

In 1998/99, its first full financial year, the C & N Group succeeded in achieving the set growth and earnings goals according to plan. Its consolidated sales amounted to about DM 9.1 billion. This represents, relative to the short financial year January 1, 1998, to October 31, 1998, an increase of about DM 1.5 billion. In comparable terms, that means, relative to a 1997/98 financial year extrapolated to 12 months, the result is a rise in sales of DM 764 million or 9.2 %.

In terms of destinations, 44 % of sales returns were contributed by travels to Spain, and 10 % to Greece. Destinations outside Europe generated 20 % of the sales returns.

Turnover in order of value-added level

	1. 11. 1998 to 31. 10. 1999 TDM	1. 11. 1997 to 31. 10. 1998 TDM
Operators	7,712,633	6,252,475
Flight	1,174,455	1,076,810
Sales	131,385	96,675
Accommodation	35,300	29,270
Other	95,765	138,734
Gross turnover	9,149,538	7,593,964
./. profits tax	75,646	79,564
Net turnover	9,073,892	7,514,400

Despite the increasing competition the C & N Group was able to further improve its earnings capacity. This is shown by the increase of the operating result by DM 34 million to DM 284 million. In the year under review the company has very extensively and tax-effectively applied the declining balance method of depreciation to purchased aircraft. This has resulted in a charge on the result amounting to DM 78 million. This circumstance accounts almost fully for the difference between the operating result and the result of DM 205.2 million from ordinary business activity.

Investments amounting to DM 712 million

The C & N Group invested about DM 712 million in the 1998/99 financial year. Of this the greater part went on the purchase of seven aircraft of the type Boeing 757-300 and two Airbus A 320's. Included in the investment is also the purchase of two aircraft of the type Boeing B 757, which had thus far been leased. Altogether DM 511 million were spent on expanding and modernising the fleet.

An important requirement of group strategy is the guaranteeing of the required bed capacities in the preferred destination areas. The C & N Group took this into consideration in the year under review with appropriate investments amounting to about DM 100 million.

The investments were funded by utilising the DM 487 million cash flow and by external borrowing.

Rise in the number of staff

As of the balance sheet date the C & N Group employed 9,913 staff. Compared with October 31, 1998, the number of employees rose by 1,001. On an annual average 9,139 persons (+ 594 full-time staff) were employed by the domestic and foreign companies of the group.

The reason for the increase in staff was the expansion of the fleet and the growth-related requirement by the Dutch subsidiary companies. The same also applies to tour management in the destination areas.

The relevant market research organisations forecast an increase of max. 3 % in organised travel for the 1999/2000 financial year based on the restrained business up to now. The C & N Group has undertaken to better that figure. On this basis and taking into account the earnings potential arising from the integration the company anticipates a further improvement in results.

SERVICES AND OTHER

Range of services offered extended

To utilise synergy effects the Group's technical customer service was amalgamated with the 100 %-held subsidiary UTS - Universal Technik-Service GmbH, Nuremberg. Accordingly, the service company of the former Karstadt Group, Rat und Tat Technischer Kundendienst GmbH, was sold with effect from February 1, 1999, to UTS and merged with it in September 1999. The company's share capital is DM 5 million. By a resolution of the shareholders on January 25, 2000, the company was renamed Profectis GmbH Technischer Kundendienst.

The company achieved from Group companies as well as customers not belonging to the Group earnings from sales amounting to DM 210.3 million. The negative result due to start-up costs was transferred to Quelle AG under the existing profit-and-loss transfer agreement.

The range of services offered by the KARSTADT QUELLE Group also include financial services of various kinds. For the provision of insurance services the Quelle Group used its 100 %-held EURAS Assekuranzbüro GmbH, Nuremberg, the former Karstadt Group its 100 %-held subsidiary company Karstadt Versicherungs-Vermittlung GmbH, Essen. The latter achieved in the year under review sales amounting to DM 43.5 million and a net profit for the year of DM 6 million, which was transferred to KARSTADT QUELLE AG under the existing profit-and-loss transfer agreement.

EURAS earned commissions amounting to DM 3.7 million; the net profit for the year of TDM 726 was paid out to KARSTADT QUELLE AG. During 2000, EURAS Assekuranzbüro GmbH will merge with Karstadt Versicherungs-Vermittlung GmbH.

OPTIMUS Bank für Finanzservice GmbH's share capital amounts to DM 36 million. KARSTADT QUELLE AG holds 80 % and Neckermann Versand AG 20 % of this. The purpose of the company is the provision of banking services as defined in Art. 1 (1), Nos. 1, 2 and 9 of the German Banking Law (KWG). The main thrust of its activities is the support of the trading and service business of the group companies. The bank is a member of the Federal Association of German Banks and the Deposit Guarantee Fund of the German Banking Industry. The OPTIMUS bank increased its balance-sheet total from DM 336 million to DM 354 million in the year under review. On December 31, 1999 the OPTIMUS Bank had 10 branches, of which 8 were in KARSTADT QUELLE department stores. The net profit for the year was TDM 922; this was carried forward to new account.

Le Buffet System-Gastronomie und Dienstleistungs-GmbH, Dreieich, which is 100 % held by KARSTADT QUELLE AG, operates restaurants for its own account, nearly exclusively in HERTIE department stores. The company's share capital amounts to DM 3 million. At the end of 1999 Le Buffet had 30 such restaurants. Its net turnover fell by 5.7 % to DM 81.1 million in the year under review, mainly because of the closure of 2 units. The profit of DM 5.9 million was transferred to KARSTADT QUELLE AG under the existing profit-and-loss transfer agreement.

Services and Other

Le Buffet Catering and Management GmbH, Dreieich, with a share capital of DM 3 million, which also is 100% held by KARSTADT QUELLE AG, disposed of one restaurant by conversion into a franchise company, and opened one new restaurant in the year under review. At the end of 1999 Le Buffet Catering and Management GmbH had 13 restaurants. Its turnover amounted to DM 20.9 million, not including value-added tax, in the 1999 financial year. The net loss for the year under review of DM 1.4 million was carried forward to new account.

KARSTADT QUELLE AG further reduced its share of the share capital of IQENA Gesellschaft für Electronic Commerce Enabling mbH, Friedrichshafen (formerly Neurotec Hochtechnologie GmbH), from 36.7% to 33% in the 1999 financial year. This was effected by the acquisition of three new shareholders. They contributed to IQENA, Friedrichshafen, their shares in Chips at work GmbH, Bonn, by way of an increase

of fixed capital. As a result the share capital was increased from DM 6 million to DM 6.67 million. In the year under review IQENA, Friedrichshafen, netted sales worth DM 9.6 million (DM 10.3 million in the previous year). The restructuring measures carried out since 1997 resulted in a deficit amounting to DM 3.5 million in the year under review.

Through the contribution the shares in IQENA Gesellschaft für digitale Vermarktung mbH, Bonn, (formerly Chips at work GmbH) the now expanded IQENA Group was able to establish and realign itself on the market. Group sales in the year under review amounted to DM 17.5 million (DM 15.8 million in the previous year).

The IQENA Group offers holistic marketing and communications solutions on digital platforms for customers in the trade, industry and services sectors.

KARSTADT QUELLE AG has a 25 % participation in maul & co. - Chr. Belser GmbH, Nuremberg. The purpose of the company is the operation of a printing business and the publication and marketing of print products. Maul-Belser is one of the most important subsuppliers of printed marketing materials to the Quelle Group. During its financial year, which ran from 1. 7. 1998 to 30. 6. 1999 the company achieved sales, not including VAT, of DM 592.2 million. The net profit for the year came to DM 25.4 million. The share of this due to KARSTADT QUELLE AG was DM 6.8 million.

KARSTADT QUELLE AG holds 100 % of the shares in MC Immobilien Verwaltungs-GmbH & Co. Essen Miesesheide KG, Essen. The company operates an administration building in Essen completed in 1998 with a useful space of approx. 46,000 m².

KARSTADT Heideloh GmbH, Heideloh (Sachsen-Anhalt) - 100 % of whose shares are also held by KARSTADT QUELLE AG - has long-term rented its logistics centre to Neckermann Versand AG.

STAFF

89,920 full-time staff in the group

During 1999 on average the KARSTADT QUELLE Group employed in full-time terms 89,920 staff. The proportion of employees working abroad was 6.3 %.

Staff at the KARSTADT QUELLE group 1999

(on average for the year and expressed in full-time terms)

	1999	of which in Germany	of which abroad
Department stores			
KARSTADT QUELLE AG	54,474	54,474	0
Specialist stores	2,916	2,903	13
Over-the-counter retail	57,390	57,377	13
Universal mail-order			
Neckermann Versand AG	5,578	5,578	0
Quelle AG	12,943	12,943	0
Other	7,693	2,455	5,238
	26,214	20,976	5,238
Specialist mail-order	3,799	3,361	438
Mail-order	30,013	24,337	5,676
Services/Other	2,517	2,509	8
Group	89,920	84,223	5,697

Fewer staff in department store sector

The drop in the number of employees in the department store sector is due not only to the closure of 5 branches but also to rationalisation measures. Specifically, these are in particular restructuring in the warehouse sector and the setting up of service centres to which almost all of the administrative operations of the stores were transferred. The phasing out of the local store inspection services and the transfer of their duties to the regionalised branches of the facility management have also contributed to the reduction in jobs. So far as required by law, settlements of conflicting interests and compensation schemes were agreed for the aforementioned measures with the staff representatives responsible.

Company agreement on the regulation of part-time working hours for older staff

In order to be able to offer workplaces to younger persons a company agreement on the regulation of part-time working hours for older staff was concluded with the plenary works council for the department store sector. Already in the first few months since the agreement took effect 150 staff have taken advantage of this arrangement under the terms of the social welfare scheme of easing the transition to early retirement.

Structure of the workforce only slightly changed

The structure of the workforce in the department store sector has changed only slightly from that of the previous year. The proportion of female staff increased by 0.44 % points to 71.68 % of all 70,046 persons employed at the end of the financial year. Of these last 4,690 were employed as relief staff.

Relative to the total annual-average number of employees the share of part-time staff increased slightly from 38.85 % to 39.08 %. The deployment of available staff in response to variations in the workload in the course of the day and week was improved by employing variable working-time systems and with the aid of electronic time recording. Further, the rate of staff turnover sank slightly by 0.2 % to 10.6 %

In the year under review 84 % of the employees in the department store sector were engaged in commercial and 16 % in industrial work. At the end of the year 5,349 persons of other nationalities were working

in the department store sector. Their proportion of the workforce rose to 7.6 %. The average age sank by 0.1 to 39.8 years. The average length of service with the company likewise went down slightly: as at the end of 1999 it was 12.2 years.

Productivity risen by 3.7 % in real terms

Not including trainees, each full-time employee turned over DM 299.404, including VAT. This represents an increase of 4.2 % compared with the previous year. After deduction of the internal inflation rate for the department store product lines the result is a rise in productivity of 3.7 % in real terms.

Staff costs fallen by 1.6 %

Staff costs incurred in the department store sector as the total of wages and salaries, including employer's shares of social security contributions, but not including expenditure for old-age provision and support went down by 1.6 % to DM 3,365.5 million. Expenditure for the employer's social insurance contributions fell by 0.6 %. For every full-time employee, again not including old-age pension provision and support, DM 63,831 had to be paid out, 1.5 % more than in the previous year.

Training and further training stepped up

DM 113.4 million (DM 112.8 million in the previous year) was paid out for company-related training and further training in the department store sector in 1999. The largest share of expenditure, 56 %, went on training fees.

In the year under review 1,589 trainees were taken on, representing a rise of 5 % on the previous year. 3,823 young persons were undergoing basic vocational training at the end of the year. The ratio of the number of training places to the total number of full-time employees at the end of the year works out at 7.2 %. This quota of trainees represents a rise of 0.8 %-points compared with the previous year.

In the department store sector training is provided in 21 occupations, 80 % of the trainees opting for the occupation of retail trade assistant. The proportion of trainees with technical college and higher education qualifications was 16 % in 1999. Increasingly greater importance is attached, when filling our training vacancies, to young persons of other nationalities, the proportion of whom is now 14.2 % of all trainees.

1,132 young employees successfully completed their training in the year under review. Of these 806 remained with the company, 750 were offered permanent employment and 56, after taking the salesmanship examination, took advantage of the opportunity to train for a further year to become retail assistants.

Recruitment of managerial staff

273 newly recruited persons were in further training as deputy departmental and departmental managers in the year under review. Additionally, 89 employees underwent training for later managerial duties on a dual training course set up in collaboration with vocational colleges in the Länder Baden-Württemberg, Berlin and Saxony. Of the body of managerial staff and prospective managerial staff 364 deputy managers and 396 departmental managers moved into their first or a further promotional position in the department store sector.

32 managerial staff were prepared for higher managerial positions. Of these 17, after successfully completing their introductory period, took up their new duties as senior manager, merchandiser or central buyer. Moreover, in the year under review 49 senior managers were promoted to larger branches.

Customer survey demonstrates the success of the qualification programme

The “inSpiriert” qualification programme launched the previous year was extended to include all branches and other company establishments in the year under review. It is aimed at increasing the capacity of the company to respond adequately to consumers’ needs.

To find out how successful the aforementioned measures have been a comprehensive customer survey was carried out at the end of the year under review. The central part of this survey consisted in a number of questions about staff conduct in the department stores.

The results of the survey clearly indicate in comparison with the previous year an improvement as regards friendliness, the quality of advice and service and general readiness to meet customers’ expectations. It may be concluded from this that the intensive efforts made to ensure customer satisfaction are being rewarded with success.

Staffing trends in the mail-order companies

At the end of the year under review the Quelle Group employed 28,322 employees. By comparison with the previous year the number of employees rose by 1.3 %. 4,966 (4,861 in the previous year) were working in the foreign companies. As at 31.12.1999 Quelle AG, not including its subsidiary companies, had 15,257 employees on its payroll. The decrease by 840 employees from the previous year’s level resulted mainly from the legal transfer of Quelle Call Center GmbH & Co. KG, Chemnitz. The staff turnover rate stood at 10.7 %. At the end of the year under review the average age of all employees at Quelle AG was 41.9 years. 61 % of employees were female and 39 % male.

As at December 31, 1999, 9,923 staff were employed in the Neckermann Group at home and abroad, 2.4 % more than at the same time the previous year. The foreign subsidiaries at the end of the year under review had 1,751 employees (1,611 in the previous year).

In 1999 the average age of all persons employed in the group was 38.9 years, and the staff turnover rate stood at 11.1 %.

The number of staff at Neckermann Versand AG was 6,839 at the end of the year under review, as against 6,779 on December 31, 1998. 154 daily commuters from Thuringia were employed at the mail-order centre in Frankfurt am Main. Expressed in terms of full-time employment, on annual average 5,578 employees were employed at Neckermann Versand AG in the year under review. In the previous year this number stood at 5,586. Per full-time employee DM 592,645, including VAT, was turned over.

Our thanks are once again due to all employees, but especially to the works councils, economic committees, spokespersons committees and youth and trainee representatives for their cooperation and commitment. They have very much helped to ensure that even difficult decisions were successfully implemented in the interest of the company and its staff.

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Balance Sheets as at December 31, 1999 – KARSTADT QUELLE Group

	Text Note	1999 TDM	1998 TDM
ASSETS			
A. Fixed assets	(7)		
Intangible assets	(8)	240,611	174,260
Tangible assets	(9)	5,398,500	4,237,602
Financial assets	(10)	777,663	750,085
		6,416,774	5,161,947
B. Current assets			
Stocks	(11)	4,810,646	3,186,997
Debtors and other assets	(12)	3,784,388	1,799,354
Securities		5,257	-
Liquid funds	(13)	425,095	542,218
		9,025,386	5,528,569
C. Prepayments and deferred expenses	(14)	57,743	15,743
Balance sheet total		15,499,903	10,706,259
LIABILITIES			
A. Capital and reserves	(15 - 17)	3,322,270	2,627,268
B. Untaxed special reserves	(19)	29,376	9,032
C. Provisions for liabilities and charges	(20)	5,495,964	3,215,454
D. Creditors	(21)	6,571,225	4,850,952
E. Deferred income	(23)	81,068	3,553
Balance sheet total		15,499,903	10,706,259

Areas of Operation

Cross-segment consolidated entries	Over-the-counter retail		Mail-order		Travel services	Services/Other
	Department stores	Specialist retail	Universal-mail-order	Specialist mail-order		
	1999	1999	1999	1999	1999	1999
TDM	TDM	TDM	TDM	TDM	TDM	TDM
- 1,900	72,285	2,471	130,720	35,526	-	1,509
- 66,350	3,533,015	94,715	1,496,448	156,299	-	184,373
- 63,363	355,249	3,493	48,511	6,397	331,397	95,979
- 131,613	3,960,549	100,679	1,675,679	198,222	331,397	281,861
-	2,368,721	186,837	1,960,857	273,724	-	20,507
- 1,583,853	1,903,963	41,382	3,096,136	39,784	-	286,976
-	-	-	3,707	1,550	-	-
-	262,694	7,797	86,906	55,091	-	12,607
- 1,583,853	4,535,378	236,016	5,147,606	370,149	-	320,090
13,949	2,557	527	36,460	3,383	-	867
- 1,701,517	8,498,484	337,222	6,859,745	571,754	331,397	602,818
- 820	1,982,109	61,090	755,035	60,221	331,397	133,238
-	-	-	29,242	134	-	-
- 9,368	3,185,783	54,323	2,046,967	96,217	-	122,042
- 1,691,329	3,327,316	221,778	3,952,332	414,607	-	346,521
-	3,276	31	76,169	575	-	1,017
- 1,701,517	8,498,484	337,222	6,859,745	571,754	331,397	602,818

Legally independent companies have been assigned to the individual segments. Cross-segment consolidated entries are

shown separately for the purposes of transfer to the balance sheet and profit-and-loss accounts.

Profit and Loss accounts for the year ended December 31, 1999 – KARSTADT QUELLE Group

	Text Note	1999 TDM	1998 TDM
1. Turnover	(26)	29,030,319	18,387,687
2. Other operating income	(27)	1,019,375	805,371
3. Cost of sales	(28)	- 15,691,311	- 10,166,381
4. Staff costs	(29)	- 6,198,996	- 4,498,452
5. Depreciation and amortization	(30)	- 719,452	- 588,885
6. Other operating charges	(31)	- 7,193,842	- 3,670,000
7. Income from investments	(32)	119,469	131,619
8. Investments	(33)	- 608	- 26,266
9. Net interest	(34)	137,644	- 65,435
10. Profit on ordinary activities		502,598	309,258
11. Taxes on income	(36)	- 13,249	- 74,476
12. Other taxes	(37)	- 61,805	- 35,549
13. Profit for the year		427,544	199,233
14. Group loss from previous year		- 2,735	- 42,087
15. Dividends paid out by KARSTADT QUELLE AG		- 92,400	- 84,000
Withdrawal from revenue reserves		-	201
16. Transfer to revenue reserves		- 173,612	- 75,631
17. Profit due to other shareholders		- 17,436	- 589
18. Loss due to other shareholders		1,182	138
19. Group profit/loss for the year		142,543	- 2,735

Areas of Operation

Cross-segment consolidated entries	Over-the-counter retail		Mail-order		Travel services	Services/Other
	Department stores	Specialist retail	Universal mail-order	Specialist mail-order		
	1999	1999	1999	1999	1999	1999
TDM	TDM	TDM	TDM	TDM	TDM	TDM
- 416,123	13,572,036	1,053,789	12,561,481	1,665,067	-	594,069
- 253,515	635,569	36,519	538,497	39,696	-	22,609
265,205	- 7,583,792	- 703,814	- 6,602,054	- 744,965	-	- 321,891
1,475	- 3,634,465	- 179,311	- 1,973,527	- 233,928	-	- 179,240
33,618	- 467,438	- 24,539	- 218,488	- 29,886	-	- 12,719
350,876	- 2,327,680	- 170,388	- 4,330,355	- 618,117	-	- 98,178
-	9,393	148	13,525	- 681	76,526	20,558
-	-	-	- 607	- 1	-	-
-	- 105,802	- 3,318	254,449	- 4,449	-	- 3,236
- 18,464	97,821	9,086	242,921	72,736	76,526	21,972

Segment Information KARSTADT QUELLE Group

Areas of operation	EBIT	
	1999 TDM	1998 TDM
Department stores	172,888*	268,450*
Specialist stores	12,157	6,573
Over-the-counter retail	185,045	275,023
Universal mail-order	- 40,753**	- 44,893**
Specialist mail-order	75,870	31,199
Mail order	35,117	- 13,694
Travel services	76,526	94,103
Services/Other	24,925	- 4,141
Cross-segment consolidated entries	- 18,464	- 12,147
KARSTADT QUELLE Group	303,149	339,144

Only a limited comparison with the previous year is possible.

* The Department Stores segment in 1999 shows a result from disposals of tangible assets lower by DM 110 million than for 1998. Furthermore, extraordinary expenses of DM 38 million were incurred in 1999. We refer to Text Note 35. After adjustment for net income from the disposal of tangible assets and for extraordinary expenses the result is an EBIT of TDM 158,291 (TDM 105,859 in the previous year).

The previous year's figures for the mail-order segment do not include those for the Quelle Group.

** The earnings from interest for the mail-order sector typically include income from interest on instalment credit transactions in connection with credit sales. The result before tax, but including interest earnings, for the Universal mail-order segment is TDM 213,696 (TDM 19,670 in the previous year).

The Services/Other segment in 1999 includes, amongst other things, for the first time the result for Schickedanz International Services AG and the pro-rata result for maul & co. - Chr. Belser GmbH.

Investments		Depreciation and amortization		Number of employees on annual average	
1999 TDM	1998 TDM	1999 TDM	1998 TDM	1999	1998
603,756	693,698	467,438	472,969	54,474	54,371
28,805	17,567	24,539	25,068	2,916	2,924
632,561	711,265	491,977	498,037	57,390	57,295
307,666	109,705	218,488	73,636	26,214	6,808
53,582	12,266	29,886	12,881	3,799	908
361,248	121,971	248,374	86,517	30,013	7,716
-	-	-	-	-	-
13,194	2,834	12,719	5,713	2,517	1,224
- 64,863	- 21,385	- 33,618	- 1,382		
942,140	814,685	719,452	588,885	89,920	66,235

EBIT signifies earnings before interest and tax.

Investments relates to Intangible, Tangible and Financial Assets.

Depreciation and amortization include Amortization of Intangible, Tangible and Financial Assets.

The number of employees (including trainees) on annual average is shown in terms of full-time working hours.

Notes to the Financial Statements**(1) Basic principles**

The consolidated financial statements and financial statements of KARSTADT QUELLE AG at December 31, 1999 have been drawn up in accordance with the German Commercial Code (the "HGB") and the German Companies Act (the "AktG"). In the context of the merger of HERTIE Waren- und Kaufhaus GmbH, the previous year's figures have thereby been adapted in such a manner in the individual statements that they are comparable.

In order to improve the clarity of the presentation, certain items in the balance sheet and profit and loss account have been combined, and are disclosed separately in the notes.

The consolidated financial statements and the financial statements are commented on together; unless stated otherwise, the comments apply to both sets of financial statements.

(2) Companies consolidated

The consolidated financial statements include, in addition to KARSTADT QUELLE AG, those domestic and foreign subsidiaries in which we hold a majority of the voting rights as shareholders.

We have not included Karstadt Unterstützungsfonds GmbH, Essen, which is owned by KARSTADT QUELLE AG, in the consolidation, pursuant to Art. 296 (1) No. 1 HGB, because its funds are earmarked for a specific purpose.

OPTIMUS Bank für Finanz-Service GmbH, Neu-Isenburg, which is 100 %-owned by the KARSTADT QUELLE group, was not included in the consolidation on account of its divergent structure.

As permitted by Art. 296 (2) HGB, the inclusion of 91 companies in the consolidated financial statements has been waived for reasons of immateriality.

The effect on the net worth, financial position and results of the group is however insignificant.

The companies consolidated comprise 84 domestic and 93 foreign companies.

Compared with the previous year the constitution of the consolidated companies has changed as follows:

From the area of **KARSTADT QUELLE AG** the companies **GGs Finanzbeteiligungs GmbH, Fürth**; **MC Immobilien Verwaltungs-GmbH, Essen**; **MC Immobilien Verwaltungs-GmbH & Co. Essen Miesesheide KG, Essen**; **EURAS Assekuranzbüro GmbH, Nuremberg**; **Schickedanz International Services AG, St. Gallen (Switzerland)**; **Schickedanz Reinsurance Limited, Dublin (Ireland)** and **Wehmeyer Verwaltungs-GmbH, Aachen** were consolidated for the first time.

The company **maul & co. - Chr. Belser GmbH, Nuremberg**, is for the first time included in the group financial statement by the equity method.

From the area of **Neckermann Versand AG** **Neckermann Handels AG, Vienna (Austria)**, was consolidated for the first time.

The newly consolidated **Quelle AG area** includes 121 companies.

The essential investments of **Quelle AG, Fürth**, include the companies **Foto-Quelle Schickedanz GmbH & Co. OHG, Nuremberg**; **UTS-Universal Technik-Service GmbH, Nuremberg**; **servicelogiQ GmbH logistische Dienstleistungen, Nuremberg**; **Quelle AG, Linz (Austria)**; **Quelle S.A., Saran (France)**; **Quelle Versand AG, St. Gallen (Switzerland)**; **Quelle s.r.o., Hradec Králové (Czech Republic)**; **Quelle Textil Beteiligungs GmbH & Co. KG, Fürth**; **Großversandhaus Schöpflin GmbH, Lörrach**; **Elégance Rolf Offergelt GmbH, Aachen** and **Mercurata Holding GmbH & Co. KG, Nuremberg**, with their subsidiaries. The companies **Elégance Fashion and Design Japan N.K., Tokyo (Japan)** and **Shanghai Quelle Mail Order Co. Ltd., Shanghai (China)** are for the first time included in the group financial statement by the equity method. The complete list of investments will be filed at the Commercial Register.

The merger of **Schickedanz Handelswerte GmbH & Co. KG** and **KARSTADT QUELLE AG** has had important consequences for the financial position and the results of the Group. We have set out these consequences for the 1998 consolidated statement in the following (Art. 294 (2) HGB).

Notes to the Financial Statements

**Pro-forma balance sheets for the short financial year 1998 of the former Schickedanz
Handelswerte GmbH & Co. KG Pro-forma group as at December 31, 1998**

	Changes in TDM	Changes in %
ASSETS		
A. Fixed assets		
Intangible assets	132,423	+ 75.99
Tangible assets	1,175,762	+ 27.75
Financial assets	79,043	+ 10.54
	1,387,228	+ 26.87
B. Current assets		
Stocks	1,572,883	+ 49.35
Debtors and other assets	1,662,040	+ 92.37
Securities	2,346	-
Liquid funds	64,044	+ 11.81
	3,301,313	+ 59.71
C. Prepayments and deferred expenses	25,687	+ 163.16
Balance sheet total	4,714,228	+ 44.03

	Changes in TDM	Changes in %
LIABILITIES		
A. Capital and reserves		
Fixed capital	125,400	+ 29.86
Capital reserve	497,352	+ 22.51
Compensations for shares of other shareholders	9,920	-
	632,672	+ 24.08
B. Dormant equity holding	36	-
C. Untaxed special reserves	17,703	+ 196.00
D. Provisions for liabilities and charges	2,110,879	+ 65.65
E. Creditors	1,884,344	+ 38.84
F. Deferred income	68,594	-
Balance sheet total	4,714,228	+ 44.03

**Pro-forma group profit and loss account for the short financial year 1998
of the former Schickedanz Handelswerte GmbH & Co. KG Pro-forma group
from February 1, 1998 to December 31, 1998**

	Changes relating to result in TDM	Changes relating to result in %
1. Turnover		
Turnover net	9,652,605	+ 52.91
2. Other operating income	396,696	+ 42.78
3. Cost of sales	- 5,087,656	+ 50.16
4. Staff costs	- 1,602,664	+ 35.63
5. Depreciation and amortization	- 187,954	+ 31.92
6. Other operating charges	- 3,177,934	+ 86.59
7. Income from investments	25,473	+ 19.35
8. Write-down of financial assets	- 82	+ 0.31
9. Net interest	153,725	-
10. Profit on ordinary activities	172,209	+ 55.68
11. Extraordinary profit or loss	- 37,807	-
12. Taxes on income	- 6,609	+ 8.87
13. Other taxes	- 20,443	+ 57.51
14. Income from investments of dormant partners	- 24,689	-
15. Profit/loss for the year	82,661	+ 41.49
16. Profit due to other shareholders	- 4,236	-
17. Loss due to other shareholders	34	-
18. Group profit for the year	78,459	-

The consolidation is based on certified annual financial statements. The C & N Touristic Group was included with the financial year from 1.11.1998 to 31.10.1999 as well as maul & co. - Chr. Belser GmbH with the financial year from 1. 7. 1998 to 30. 6. 1999 by the equity method.

Notes to the Financial Statements

(3) Principles of consolidation

The financial statements of the individual subsidiaries have been incorporated in the consolidation in accordance with the statutory regulations, applying accounting and valuation policies which are consistent with those of KARSTADT QUELLE AG.

The capital consolidation of the subsidiaries is carried out applying the book value method, by offsetting the purchase price of the investments against the value of the parent company's interest in the equity capital and reserves of the consolidated subsidiaries at the time of their acquisition or initial consolidation. Where they represent goodwill, debit differences remaining on consolidation are set off against the revenue reserves. Credit differences, which possess the character of equity, have been allocated to the differences arising on capital consolidation, which are included in the revenue reserves.

Shares in the equity of companies included in the consolidation, which are not attributable to KARSTADT QUELLE AG, are shown as minority interests; their share of the results is disclosed separately in the consolidated profit and loss account.

Debtors and creditors, intercompany profits, especially in the area of tangible fixed assets, sales, expenses and revenues between the companies included in the consolidation are eliminated. No intercompany losses have been incurred. It was necessary to provide deferred tax as a result of any consolidation entries affecting income.

Five associated companies have been recorded applying the equity method; the valuation is in accordance with the principles for a full consolidation.

(4) Principles of accounting and valuation, and translation of foreign currencies

The similar rights included under **intangible assets** are mainly purchased software. They are shown at purchase cost less scheduled amortization.

Goodwill resulting from the balance sheets of companies included in the consolidation is being amortized in accordance with the tax regulations.

Tangible assets are shown at purchase or production cost, less scheduled depreciation. Depreciation on buildings is charged in accordance with Art. 7 of the Income Tax Act and, in the case of movable assets, for the most part using initially the declining balance and later the straight-line methods. Minor value assets are fully expensed in the year of acquisition; in the fixed assets movements schedule, however, the related cost and accumulated depreciation are maintained for a period of five years, before being eliminated in the sixth year. Amortization takes immediate effect in the year under review. Where accelerated depreciation has been applied to certain assets, we have calculated the scheduled depreciation rates in subsequent years based on the residual values and estimated remaining useful lives.

Movable assets acquired in the first half of the year are generally charged with a full year's depreciation, half a year's depreciation being applied to those assets acquired in the second half of the year.

As in previous years, additional depreciation has been taken, and untaxed special reserves set up or released, in accordance with the tax regulations, during the financial year. We refer in respect of 1999 to Notes 19, 27, and 31.

The KARSTADT QUELLE Group's 1999 profit has been improved by some 12 %, and that of KARSTADT QUELLE AG has been decreased by 4 %, as a result of these measures; this will result in higher tax charges in future years, which will however be spread over up to 45 years, and will therefore not have a material effect on any individual future year (disclosure in accordance with Art. 314 (1) No. 5 and 285 No. 5 HGB).

Shares in subsidiaries and investments included under **financial assets** are shown at cost; shares in associated companies are shown by applying the equity method. Accelerated amortizations in previous years, allowable for tax purposes, were applied in those cases where the attributable value was lower than book value.

Interest-free loans and loans at low rates of interest are shown at present value or at lower amounts as permissible for tax purposes.

Stocks are shown at cost, less cash discounts and carefully assessed provisions for price risks. In the case of KARSTADT QUELLE AG, cost is largely arrived at by deducting the trade mark-ups from the stocks, which are

Notes to the Financial Statements

counted at their selling prices. In the case of Quelle AG and Neckermann Versand AG, stocks are valued at the lower of cost and net realizable value, cost being the rolled-forward cost of the individual items.

Discounts on doubtful debts and provisions for depreciation have been made for recognizable individual risks on **debtors and other assets**.

The **pension provisions** have been actuarially calculated, applying an interest rate of 6%.

The difference resulting from the adjustment to the reference tables published in 1998 by Professor Dr. Klaus Heubeck for the assessment of pension obligations was valued at 62% for KARSTADT QUELLE AG. In the case of the other companies consolidated the provision comprises between 50% and 100% of the difference. The difference is tax-effective at 33 1/3%.

Tax provisions and other provisions for liabilities and charges take into account all recognizable risks and uncertain obligations.

Creditors are shown at the amounts payable; obligations for annuities are carried at present value.

The amounts disclosed in respect of **contingent liabilities arising from guaranties and warranty agreements** represent the underlying claims as at the balance sheet date.

Foreign currency debtors, which are not protected by forward exchange contracts, are valued at the lower of the rate at the transaction date and the bid rate at the balance sheet date; foreign currency creditors are similarly valued at the higher of the rate at the transaction date and the asked rate at the balance sheet date. In the financial statements of foreign subsidiaries included in the consolidation the balance sheets have been translated to DM at the mid-market rates at the balance sheet date, the profit and loss accounts at the annual average rate. Translation differences resulting in differences on consolidation are set off against the other revenue reserves.

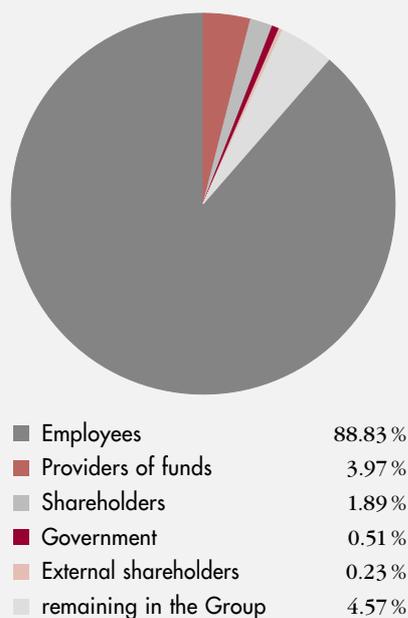
KARSTADT QUELLE Group: Value added

Total group output includes turnover and other income.

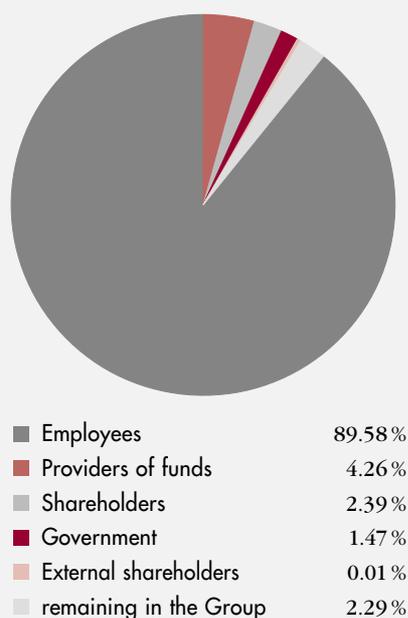
Intermediate input mainly includes sales input, non-staff expenditure, and depreciation of tangible fixed assets. The VAT relating to the intermediate input has been added. The portion of the added value distributed to the employees includes wages and salaries, social security levies and the cost of pension plans and related benefits. The corporation tax credit on the dividends is included in the part shown as distributed to the shareholders.

	1999 Millions of DM	1998 Millions of DM
Source:		
Total group output	30,571	19,448
Less: intermediate input	23,593	14,426
Added value	6,978	5,022
Distribution: Employees	6,199	4,498
Providers of funds	277	214
Shareholders	132	120
Government	35	74
External shareholders	16	1
Remaining in the Group	319	115

1999



1998



Notes to the Financial Statements

(5) Cash flow statement KARSTADT QUELLE Group

	1999 Millions of DM	1998 Millions of DM
Profit for the year	427.5	199.2
Depreciation and amortization/write-ups fixed assets	720.1	615.2
Addition/disposal to long-term provisions	44.7	- 8.5
Addition to pension provisions	126.0	108.9
Change in untaxed special reserves	- 4.7	4.4
Contribution in associated companies	- 14.6	- 127.0
Other items not affecting cash flow	246.9	119.2
Cash-Earnings	1,545.9	911.4
Book profits on disposals of assets (balanced with losses)	- 30.9	- 35.2
Change in stocks	- 37.7	133.0
Change in other current assets	- 452.8	- 167.7
Addition of pension reserves	-	- 0.2
Change in short-term provisions and creditors	700.2	92.5
Cash flow resulting from current business activities	1,724.7	933.8
Capital investments	- 922.7	- 653.8
Disposals of fixed assets	277.1	101.1
Cash flow from investment activities	- 645.6	- 552.7
Change in long- and medium-term loan capital	- 1,098.5	- 532.2
Dividends for previous year	- 92.4	- 84.0
Income from investments of other shareholders	-	-
Cash flow from financing activities	- 1,190.9	- 616.2
Change in liquid funds resulting from changes in companies included in consolidated financial statements	67.1	- 111.9
Other change in liquid funds	- 178.9	- 123.2
Change in liquid funds	- 111.8	- 235.1
Cash-Earnings for the year	1,545.9	911.4
Adjustment for unusual items affecting cash flow with material effect		
Profits/losses from disposal of assets	- 7.8	- 15.2
Cash-Earnings per DVFA/SG	1,538.1	896.2

(6) Cash flow statement KARSTADT QUELLE AG

	1999 Millions of DM	1998 Millions of DM
Profit for the year before extraordinary items	485.1	284.8
Depreciation and amortization/write-ups fixed assets	318.3	513.0
Addition/disposal to long-term provisions	- 3.2	- 6.1
Addition to pension provisions	68.1	101.0
Change in untaxed special reserves	95.2	4.4
Contribution in associated companies	- 46.8	- 127.0
Other items not affecting cash flow	11.4	- 8.7
Cash-Earnings	928.1	761.4
Book profits on disposals of assets (balanced with losses)	- 35.2	- 35.6
Change in stocks	48.1	200.3
Change in other current assets	- 360.5	- 138.3
Addition of pension reserves	0.9	-
Change in short-term provisions and creditors	658.4	76.6
Cash flow resulting from current business activities	1,239.8	864.4
Capital investments	- 482.6	- 480.7
Disposals of fixed assets	176.7	150.8
Cash flow from investment activities	- 305.9	- 329.9
Change in long- and medium-term loan capital	- 1,077.1	- 572.3
Dividends for previous year	- 92.4	- 84.0
Cash flow from financing activities	- 1,169.5	- 656.3
Change in liquid funds	- 235.6	- 121.8
Cash-Earnings for the year	928.1	761.4
Adjustment for unusual items affecting cash flow with material effect		
Profits/losses from disposal of assets	- 16.9	- 15.3
Cash-Earnings per DVFA/SG	911.2	746.1

Cash-Earnings show the annual financial surplus resulting from current operations affecting the operating result, but without taking into account the change in net current assets.

NOTES TO THE BALANCE SHEETS

(7) Fixed assets

The breakdown of and movements on the items grouped together in the balance sheets under fixed assets are shown in the fixed assets movements schedules on pages 96 to 99. The additions with KARSTADT

QUELLE AG resulting from the merger of HERTIE Waren- und Kaufhaus GmbH and Schickedanz Handelswerte GmbH & Co. KG are shown separately.

(8) Intangible assets

The additions of TDM 75,683 mainly relate to the purchase of software; thereof TDM 19,109 relate to purchases by KARSTADT

QUELLE AG and TDM 56,574 to purchases by the subsidiaries.

(9) Tangible assets

Additions to Group **tangible assets** amount to TDM 736,499, of which TDM 435,815 are due to KARSTADT QUELLE AG.

KARSTADT QUELLE AG acquired the building in Hanover hitherto leased to Necker-mann Versand AG. The property acquisition tax due on the merger of HERTIE Waren- und Kaufhaus GmbH was entered to assets.

Additions under buildings and **equipment, furniture and fixtures** relate to partly new construction work at the department store in Itzehoe and the Sport- and Hobbyhaus in Hanover and modernisation at Munich, Am Bahnhof. The equipment, furniture and

fixtures at the sites in Berlin-Spandau, Gießen, Göttingen, Berlin-Wedding and Hamburg-Wandsbek were modernised.

Reclassifications from the item **Advance payments and construction in progress** relate primarily to the aforementioned projects.

The real estate in Emden and Gütersloh was transferred to real estate management companies, and the real estate in Lörrach, Konstanz and Böblingen were sold to real estate management companies. KARSTADT QUELLE AG holds an interest in all the real estate management companies. The property in Emden was rented to a third party,

the remaining sites were leased back for the long term. The warehouse site and building in Frankfurt belonging to us were transferred to Neckermann Versand AG. We disposed of the high-rise purchasing office property in Hong Kong and the former department store in Hertzen.

Further disposals resulted from the sale and scrapping of equipment, furniture and fixtures which were surplus to requirements. They also include minor value assets (see Text Note 4).

The item **Advance payments and construction in progress** includes progress payments of TDM 77,717 in respect of partial production costs, construction in progress to the value of TDM 16,964 and advance payments of TDM 13,250 on the purchase of property in land; this relates to a larger amount of department store projects, principally the new construction work being carried out at Berlin, Hermannplatz.

Kepa Kaufhaus GmbH undertook modernisation work at the stores rented from KARSTADT QUELLE AG in Berlin-Tegel, Göttingen and at the Sporthaus in Hamburg, Mönckebergstrasse.

The addition under the other group companies relates mainly to investments for conversion and modernisation at Quelle AG and its subsidiary companies, particularly in respect of plant and machinery and equipment, furniture and fixtures.

At Neckermann Versand AG investments were made in the reconstruction of the service centre in the mail-order headquarters and in the new goods dispatch and in buildings and organisational equipment at the mail-order headquarters. The addition in respect of further companies also includes the purchase of equipment, furniture and fixtures.

(10)

Financial assets

The following changes were made at KARSTADT QUELLE AG during the year under review:

The additions in respect of shares in consolidated companies relate to the acquisition of 100 % of the shares in FALKON Beteiligungs GmbH, the acquisition of RWA Regina

Werbeagentur GmbH from Neckermann Versand AG, adjustments for property acquisition tax in respect of a subsidiary company, the flotation of ITELLIUM Systems & Services GmbH and a capital increase in respect of Karstadt Warenhaus AG (formerly Pico Bello Warenhandels-gesellschaft mbH).

Notes to the Financial Statements

Fixed assets movements schedule of KARSTADT QUELLE Group

	Accumulated purchase or production cost at 1.1.1999	Change in consolidated group	Additions
	TDM	TDM	TDM
A. Fixed assets			
Intangible assets			
Similar rights	279,003	170,322	47,155
Goodwill	99,877	4,159	-
Advance payments	33,570	13,846	28,528
	412,450	188,327	75,683
Tangible assets			
Land, leasehold rights and buildings, including buildings on land owned by others	10,297,924	1,253,652	231,621
Technical plant and machinery	-	208,874	11,344
Other equipment, furniture and fixtures	3,553,692	900,378	379,709
Advance payments and construction in progress	101,487	5,741	113,825
	13,953,103	2,368,645	736,499
Financial assets			
Shares in subsidiaries	127,090	15,011	4,410
Loans to subsidiaries	487	13,605	4,111
Shares in associated companies	327,615	24,156	67,202
Participating interests held as long-term investments	262,896	29,105	46,640
Loans to companies in which investments are held	39,991	-	500
Securities of fixed assets	2,044	13,734	2,389
Other loans	28,873	6,696	4,707
	788,996	102,307	129,959
	15,154,549	2,659,279	942,141

Exchange differences	Reclassifications	Disposals	Accumulated depreciation/amortization	Net book value at 31.12.1999	Net book value at 31.12.1998	Depreciation/amortization for the year
TDM	TDM	TDM	TDM	TDM	TDM	TDM
-	+ 35,613	32,666	326,050	173,377	107,095	66,305
-	-	569	74,830	28,637	33,595	6,531
-	- 36,800	547	-	38,597	33,570	-
-	- 1,187	33,782	400,880	240,611	174,260	72,836
-	+ 64,888	265,647	7,060,458	4,521,980	3,607,119	258,625
-	+ 138	3,794	172,432	44,130	-	11,766
+ 13	+ 7,656	290,873	3,855,867	694,708	528,996	376,225
-	- 71,495	11,876	-	137,682	101,487	-
+ 13	+ 1,187	572,190	11,088,757	5,398,500	4,237,602	646,616
- 67	-	6,876	38,688	100,880	96,936	65
-	-	15,311	-	2,892	487	-
-	-	71,899	-	347,074	327,615	-
-	-	77,646	16,203	244,792	262,896	-
-	-	2,650	6,487	31,354	32,894	-
-	-	1,406	1,157	15,604	1,999	543
-	-	2,002	3,207	35,067	27,258	-
- 67	-	177,790	65,742	777,663	750,085	608
- 54	-	783,762	11,555,379	6,416,774	5,161,947	720,060

Notes to the Financial Statements

Fixed assets movements schedule of KARSTADT QUELLE AG

	Accumulated purchase or production cost at 1.1.1999	Additions from mergers ¹⁾	Additions
	TDM	TDM	TDM
A. Fixed assets			
Intangible assets			
Similar rights	121,714	20,699	12,345
Advance payments	27,114	6	6,764
	148,828	20,705	19,109
Tangible assets			
Land, leasehold rights and buildings including buildings on land owned by others	6,169,318	1,999,496	128,675
Other equipment, furniture and fixtures	2,499,807	486,515	220,602
Advance payments and construction in progress	58,788	10,276	86,538
	8,727,913	2,496,287	435,815
Financial assets			
Shares in subsidiaries	576,365	272,511 611,645 *	4,334
Loans to subsidiaries	20,250	-	-
Participating interests	208,541	164,377 14,878 *	37,830
Loans to companies in which investments are held	19,680	19,416	500
Other loans	6,921	19,695	4,497
	831,757	475,999 626,523 *	47,161
	9,708,498	3,619,514	502,085

¹⁾ without * HERTIE Waren- und Kaufhaus GmbH

¹⁾ with * Schickedanz Handelswerte GmbH & Co. KG

** Addition to the valuation of the holding of Neckermann Versand AG

Reclassifications	Disposals	Accumulated depreciation/ amortization	Net book value at 31.12.1999	Net book value at 31.12.1998	Depreciation**/ amortization for the year
TDM	TDM	TDM	TDM	TDM	TDM
+ 23,146	19,692	98,558	59,654	43,688	18,091
- 23,146	546	0	10,192	27,120	-
-	20,238	98,558	69,846	70,808	18,091
+ 33,663	200,954	6,181,334	1,948,864	2,052,883	224,424
+ 2,591	138,993	2,680,159	390,363	389,597	218,295
- 36,254	11,417	-	107,931	69,064	-
-	351,364	8,861,493	2,447,158	2,511,544	442,719
-	3,018	76,933	1,384,904	629,446	30,900 173,397 **
-	4,050	-	16,200	20,250	-
-	83,905	-	341,721	372,918	-
-	2,621	6,487	30,488	31,998	-
-	1,124	1,368	28,621	25,096	-
-	94,718	84,788	1,801,934	1,079,708	173,397 ** 30,900
-	466,320	9,044,839	4,318,938	3,662,060	173,397 ** 491,710

Notes to the Financial Statements

Investments of KARSTADT QUELLE AG (at December 31, 1999 in thousands of DM)*

Subsidiaries

Company's name and registered office	Holding of capital in %	Capital and reserves	Result	Turnover (net)	Number of employees ¹⁾
EURAS Assekuranzbüro GmbH, Fürth	(C) 100	3,081	726	3,710	16
Gatermann GmbH & Co., Duisburg - holding via Jung GmbH, Essen, further	(C) 60 (C) 40	2,972	2,222	3,066	-
GGF Finanz-Beteiligungs GmbH, Fürth	(C) 100	7,865	- 181	-	-
ITELLIUM Systems & Services GmbH, Essen	100	93	- 4	-	-
Jung GmbH, Essen	(C) 100	1,482	657	-	-
Karstadt Heideloh GmbH, Heideloh	(C) 100	121,146	7,142	4,060	-
Karstadt Unterstützungsfonds GmbH, Essen	100	8,540	- 97	-	-
Karstadt Versicherungs- Vermittlung GmbH, Essen	(C) 100	50	5,969**	43,268	-
Karstadt Warenhaus AG, Essen	100	98	- 1	-	-
KATRANS Speditions- gesellschaft mbH, Essen	(C) 97	200	9,767**	133,976	-
Kepa Kaufhaus GmbH, Essen	(C) 100	180,322	14,822	29,507	-
Le Buffet System-Gastronomie und Dienstleistungs-GmbH, Dreieich	(C) 100	3,000	5,896**	81,113	579
Le Buffet Catering und Management GmbH, Dreieich	(C) 100	507	- 1,431	20,881	211

Company's name and registered office	Holding of capital in %	Capital and reserves	Result	Turnover (net)	Number of employees ¹⁾
MC Immobilien Verwaltungs-GmbH & Co. Essen Mieselsheide KG, Essen	(C) 100	13,299	- 12,034	20,862	-
Neckermann Versand AG, Frankfurt/Main	(C) 100	433,142	47,000	2,812,721	6,594
OPTIMUS Bank für Finanz-Service GmbH, Neu-Isenburg - holding via Neckermann Versand AG further	80 20	37,645	922	-	166
Quelle Aktiengesellschaft, Fürth	(C) 100	581,500	113,000	7,071,722	15,565
Runners Point Warenhandels-gesellschaft mbH, Essen	(C) 100	13,000	- 2,398**	128,568	895
Schaulandt GmbH, Hamburg	(C) 100	1,186	- 2,075	341,058	532
»Schürmann Elektrohandels-gesellschaft« mbH, Hamburg	(C) 100	12,505	- 1,747**	75,147	145
Warenhaus WERTHEIM GmbH, Berlin	(C) 100	30,000	11,499**	5,083	-
WEHMEYER GmbH & Co. KG, Aachen	(C) 100	16,960	13,520	368,679	1,202
WOM World of Music Produktions- und Verlags-GmbH, Kiel	(C) 95	3,755	120	25,997	103

*) to the extent material

(C) consolidated

***) before transferring the result to KARSTADT QUELLE AG

¹⁾ average for the year excluding trainees

Notes to the Financial Statements

Investments of KARSTADT QUELLE AG (at December 31, 1999, in thousands of DM)*

Participations

Company's name and registered office	Holding of capital in %	Capital and reserves	Result	Turnover (net)	Number of employees ¹⁾
C & N Touristic AG, ²⁾ Schwalbach am Taunus (E)	50	436,700	100,000	-	40
»HOLM« Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Brieselang KG, ⁴⁾ Pöcking	99	- 37,301	- 2,792	11,035	-
IQENA Gesellschaft für Electronic Commerce Enabling GmbH, Friedrichshafen	33	7,165	- 3,532	9,553	50
KATEC Leasing GmbH & Co. Vermietungs KG, ³⁾ Pöcking	100	- 47,831	- 12,029	59,350	-
maul & co. - Chr. Belser GmbH, ³⁾ Nuremberg	(E) 25	88,041	25,411	592,188	1,101
NUR TOURISTIC GMBH, ²⁾ Oberursel/Taunus	(E) 10	226,800	12,500**	4,531,621	1,143
OPTIMUS Leasing GmbH & Co. Vermietungs KG, ⁴⁾ Pöcking	100	16,600	3,477	19,202	7
OSTIA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Oberpollinger KG, ⁴⁾ Grünwald	100	- 34,400	- 8,095	37,444	-
RISAL Beteiligungs GmbH & Co. Objekt Mainz KG, Pöcking	99	29,537	1,788	3,019	-
TARUS Beteiligungs GmbH & Co. Objekt Leipzig KG, Pöcking	99	39,737	2,392	3,267	-
TRADO Grundstücks-Verwaltungsgesellschaft mbH & Co. Objekt Dresden KG, Pöcking	98	- 142,026	- 183	36,759	-

*) to the extent material

(E) consolidated at equity

**) before transferring the result to C & N Touristic AG

¹⁾ average for the year excluding trainees²⁾ Financial year from 1.11.1998 to 31.10.1999³⁾ Financial year from 1.07.1998 to 30.06.1999⁴⁾ Figures of previous year

The disposal results from the sale of Rat und Tat Technischer Kundendienst GmbH to a subsidiary of Quelle AG.

A write-up of TDM 173,397 was entered on the value of the holding in Neckermann Versand AG in accordance with the value reinstatement requirement. We refer to Text Notes 19, 27 and 31.

Write-downs to lower going-concern value of TDM 9,000 were entered on the holding in Schaulandt GmbH and of TDM 21,900 on that in WOM World of Music Produktions- und Verlags-GmbH.

The disposals of **loans to subsidiaries** are due to scheduled redemptions.

As of the end of the year loans are shown to Versandhaus Walz GmbH (TDM 8,000) and TRI Kottmann GmbH (TDM 8,200).

The addition to participating interests comprises the contribution of land property to two and limited partner contributions to five real estate management companies. Reference is made to Text Notes 9 and 27.

Additions resulted from the change in the capital accounts for further real estate management companies. Loan payments were entered from IQENA Gesellschaft für Electronic Commerce Enabling mbH and a shareholder contribution to the equity capital.

The disposals include the liquidation of three real estate management companies and that of Karstadt/Stadtwerke Unna Planungs- und Entwicklungsgesellschaft mbH for environmentally-friendly energy generation and utilisation. KARSTADT-SPAR-Warenhandelsgesellschaft mbH, MANOS Möbelhandel GmbH and MANOS Möbelhandel GmbH & Co. Vertriebs KG were sold off.

The addition and disposal under **Loans to companies in which investments are held** relate to MANOS Möbelhandel GmbH & Co. Vertriebs KG; the loan was offset on sale of the company. A further disposal resulted from the liquidation of a real estate management company.

The **other loans** result from property transactions. Advance rental and leasing payments result from long-term leases of department stores and leases of land, mainly in the form of hereditary building rights. Additions include a loan to a real estate management company, the disposal relates to scheduled redemptions.

Notes to the Financial Statements

The following further changes took place in the consolidated financial statements:

The shares in the results of the interests in associated companies accounted for by the equity method were added to the book value of the investments. The disposal relates to the distributions of dividend relating to previous year results.

Under **participating interests**, an addition resulted with Quelle AG in the context of the conversion of H.O.T. Home Order Television GmbH & Co. KG, Ismaning, into a public limited company.

The investments of KARSTADT QUELLE AG, as far as they are material, are shown on pages 100 to 102 of the annual report.

The list of investments held by the group will be filed with the Commercial Register at the Essen Local Court under the number HR B 1783. Thereby in 4 cases the Exemption Regulation to Art. 313 (3) HGB has been applied.

(11) Stocks

	GROUP		KARSTADT QUELLE AG	
	1999 TDM	1998 TDM	1999 TDM	1998 TDM
Materials and supplies	120,785	46,743	9,460	9,460
Merchandise	4,689,637	3,140,254	2,359,261	2,408,494
Advance payments	224	-	-	-
	4,810,646	3,186,997	2,368,721	2,417,954

(12) Debtors and other assets

	GROUP		KARSTADT QUELLE AG	
	1999 TDM	1998 TDM	1999 TDM	1998 TDM
Trade debtors (of which with a remaining term exceeding 1 year)	2,702,203 (534,655)	1,208,147	123,093 (-)	90,532
Amounts owed by subsidiaries	194,294	149,348	1,270,851	1,076,367
Amounts owed by companies in which investments are held	41,045	46,768	99,819	120,148
Amounts owed by associated companies	22,081	4,336	-	-
Other assets (of which with a remaining term exceeding 1 year)	824,765 (71,511)	390,755	475,661 (48,833)	266,368
	3,784,388	1,799,354	1,969,424	1,553,415

The greater part of **Trade debtors** relates to amounts due to the mail-order companies Quelle AG and Neckermann Versand AG as well as their domestic and foreign subsidiaries in connection with sale on invoice and instalment payments from customers.

Amounts owed by subsidiaries shown under group mainly comprise amounts owed to KARSTADT QUELLE AG by OPTIMUS Bank für Finanz-Service GmbH, from the sale of debtors from sales with customer cards, and amounts owed to Neckermann Versand AG and Kepa Kaufhaus GmbH from transactions with their subsidiaries.

At KARSTADT QUELLE AG, the main items are the current accounts with Quelle AG, Neckermann Versand AG, OPTIMUS Bank für Finanz-Service GmbH, Schaulandt GmbH and WEHMEYER GmbH & Co. KG.

Amounts owed by companies in which investments are held mainly comprise amounts due to KARSTADT QUELLE AG from current setting-off and the claim on pro rata share in annual net profits on C & N Touristic AG.

Notes to the Financial Statements

Amounts owed by associated companies comprise current setting-off against C & N Touristic AG and NUR TOURISTIC GMBH.

Other assets comprise wage advances to employees, debit balances on suppliers' accounts, tax refund claims and a wide variety of other items.

(13) Liquid funds

	GROUP		KARSTADT QUELLE AG	
	1999 TDM	1998 TDM	1999 TDM	1998 TDM
Cheques	16,529	16,983	1,479	4,924
Cash in hand, deposits with Federal Bank	177,077	133,217	144,881	118,767
Cash at banks	231,489	392,018	116,334	374,622
	425,095	542,218	262,694	498,313

(14) Prepayment and deferred expenses

	GROUP		KARSTADT QUELLE AG	
	1999 TDM	1998 TDM	1999 TDM	1998 TDM
Deferred taxes	20,742	1,076	-	-
Discount and other deferrals	37,001	14,667	8,088	18,436
	57,743	15,743	8,088	18,436

Deferred taxes include a debit item of TDM 2,824 resulting from individual balance sheets.

Debited deferred taxes amounting to TDM 23,566 were assigned to subsequent periods under the elimination of inter-company profits.

(15) Issued capital

The authorised capital of KARSTADT QUELLE AG now amounts to EUR 300,929,024. It is divided up into 117,550,400 individual share certificates valued at EUR 2.56 each, resulting in a value in DM of DM 588,566,013.01.

By a vote of the shareholders on agenda items 6, 7, 8 and 11 at the Annual General Meeting on July 30, 1999, the authorised capital of KARSTADT QUELLE AG changed as follows:

1. Change before merger with Schickedanz Handelswerte GmbH & Co. KG

	Capital old	Capital increase	Capital new
Value in DM	420,000,000.00	581,683.20	420,581,683.20
Value in EUR	214,742,590.10	297,409.90	215,040,000.00
Number of shares	84,000,000	-	84,000,000
Value per share in EUR	2.556459	-	2.56

This capital increase was aimed at levelling up the value per share in EUR and was undertaken from company funds.

2. Change resulting from the merger of Schickedanz Handelswerte GmbH & Co. KG with KARSTADT QUELLE AG

	Capital before take-up	Capital increase	Capital after take-up
Number of shares	84,000,000	33,550,400	117,550,400
Issued capital in EUR	215,040,000.00	85,889,024.00	300,929,024.00
Issued capital in DM	420,581,683.20	167,984,329.81	588,566,013.01

Schickedanz-Holding AG & Co. KG, Fürth, in accordance with Sects. 21, 22 and 24 WpHG announced that as of October 15, 1999, it held 28.541 % of the votes in KARSTADT QUELLE AG. At the same time Schickedanz-Holding AG & Co. KG, Fürth, announced

that as of October 15, 1999, its dependent Schickedanz Handelswerte GbR, Fürth, held 19.119 % of the votes; these are to be allocated to Schickedanz-Holding AG & Co. KG in accordance with Art. 22 (1) No. 2 WpHG.

Notes to the Financial Statements

Schickedanz-Holding AG & Co. KG has further announced that the allocation of the votes resulting from the shares held by FGL Frankfurter Gesellschaft für Luftfahrtwerte mbH and AZ-KAR Beteiligungsgesellschaft mbH & Co. KG has ceased with effect from the merger of Schickedanz Handelswerte GmbH & Co. KG and KARSTADT QUELLE AG as of October 15, 1999.

Allianz Aktiengesellschaft, Munich, announced on October 20, 1999, that as of October 15, 1999 it held 9.38 % of the votes in KARSTADT QUELLE AG. Of this 9.38 % of the votes are to be allocated

to Allianz Aktiengesellschaft in accordance with Art. 22 (1) No. 2 WpHG. At the same time Allianz Aktiengesellschaft announced that its subsidiary AZ-KAR Beteiligungsgesellschaft mbH & Co. KG, Munich, held 8.75 % of the votes.

Dresdner Bank AG, Frankfurt am Main, announced on October 20, 1999, that as of October 15, 1999, it held 7.15 % of the votes in KARSTADT QUELLE AG. These votes are to be allocated to Dresdner Bank AG in accordance with Art. 22 (1) No. 2 WpHG through FGL Frankfurter Gesellschaft für Luftfahrtwerte mbH, Frankfurt am Main.

(16) Capital reserve

The capital reserve at KARSTADT QUELLE AG includes the premium from authorised capital increases of TDM 484,157 effected in pre-

vious years and the addition of TDM 458,614 from the merger with Schickedanz Handelswerte GmbH & Co. KG, Fürth.

(17) Revenue reserves

	GROUP		KARSTADT QUELLE AG	
	1999 TDM	1998 TDM	1999 TDM	1998*) TDM
Legal reserves	116,000	116,000	116,000	116,000
Other revenue reserves				
Balance at January 1	1,454,000	1,379,000	1,454,000	1,379,000
Withdrawn from company funds for purposes of capital increase	- 582	-	- 582	-
Withdrawal from revenue reserves	- 861,858	-	- 861,858	-
Withdrawal from profit for the year	-	75,000	-	75,000
Balance at December 31	591,560	1,454,000	591,560	1,454,000
Revenue reserves/balance sheet profits of consolidated companies and profits arising on consolidation measures	1,439,417	410,878	-	-
Differences arising on capital consolidation	- 589,347	- 255,363	-	-
Provisions from currency translations	1,012	126	-	-
	1,558,642	1,725,641	707,560	1,570,000

*) Before adjustment of previous year's figures

TDM 582 were withdrawn from the other revenue reserves of KARSTADT QUELLE AG for the purposes of the capital increase from company funds to level up the issued

capital in Euro and a further DM 861,858 to balance the loss from the merger of HERTIE Waren- und Kaufhaus GmbH.

The differences arising on capital consolidation for the group are made up as follows:

	TDM
Balance at January 1	- 255,363
Change in companies consolidated	- 53,490
Set-off of goodwills resulting from first inclusion and from purchase of further shares	- 279,390
Other changes	- 1,104
Balance at December 31	- 589,347

Notes to the Financial Statements**(18) Minority interests**

This item comprises the shares of the equity of subsidiaries included in the consolidated

financial statements, which are attributable to the minority shareholders.

(19) Untaxed special reserves

The untaxed special reserve of TDM 104,038 at KARSTADT QUELLE AG was set up in accordance with Art. 52 (16) of the German Income Tax Law. It represents a partial amount of the write-up on the Neckermann Versand AG holding in accordance with the value reinstatement requirement.

Special reserves amounting to TDM 29,376 exist in the Group. Of these special reserves amounting to TDM 14,554 have been set aside at Quelle AG and one subsidiary for capital investment bonuses in accordance with the Investment Subsidy Law. Further special reserves exist at companies abroad.

(20) Provisions for liabilities and charges

	GROUP		KARSTADT QUELLE AG	
	1999 TDM	1998 TDM	1999 TDM	1998 TDM
Provisions for pensions and similar obligations	3,925,713	2,651,635	2,563,273	2,493,132
Tax provisions	274,693	142,044	134,485	133,883
Provision for deferred taxation	-	-	11,200	-
Other provisions	1,295,558	421,775	401,578	286,481
	5,495,964	3,215,454	3,110,536	2,913,496

Please refer with respect to **pension provisions** to our comments under Text Note 4. The **tax provisions** mainly comprise amounts booked as a precaution in order to cover possible claims following a tax audit. The **other provisions** primarily consist of staff holiday and overtime claims relating to 1999, claims resulting from part-time working schedules for elder employees, social plan costs and other expenses resulting from restructuring measures, the pro rata temporis expenditure to be incurred in the future relating to adjustments to current company pensions, staff long-service bonuses payable in the future, amounts set aside to cover

risks arising from obligations to take up merchandise and services and under warranties, risks resulting from goods returned, risks from lease and litigation, contributions to the employees' accident insurance association, future contributions to the pension insurance association, internal charges relating to the preparation of the year-end financial statements, profit-sharing bonuses, other bonuses relating to the 1999 year, bonus claims due to customers and commission claims resulting from collective orders, as well as interest on taxes for prior years. The provisions include non-payment risks from sold receivables as at the balance sheet date.

Structure of the balance sheet KARSTADT QUELLE Group in millions of DM

5,639.1	Intangible (240.6) assets and tangible assets	Issued capital and reserves	3,163.4
		Untaxed special reserves	29.4
777.7	Financial assets	Pension provisions	3,925.7
6,416.8		Long-term provisions	270.1
		Other medium- and long-term creditors	1,305.9
4,810.6	Stocks		8,694.5
5.3	Securities	Dividends of KARSTADT QUELLE AG and shares of the equity of other shareholders	158.8
425.1	Liquid funds	Other provisions for liabilities and charges and other creditors	6,565.5
3,784.4	Other current assets	Accruals and deferred income	81.1
57.7	Prepayments and accrued income		6,805.4
9,083.1			15,499.9
15,499.9			15,499.9

Structure of the balance sheet KARSTADT QUELLE AG in millions of DM

2,517.0	Intangible (69.8) assets and tangible assets	Issued capital and reserves	2,239.0
		Untaxed special reserves	104.0
1,801.9	Financial assets	Pension provisions	2,563.3
4,318.9		Long-term provisions	132.1
		Other medium- and long-term creditors	447.5
2,368.7	Stocks		5,485.9
		Retained profit	142.5
262.7	Liquid funds	Other provisions for liabilities and charges and other creditors	3,296.3
1,969.5	Other current assets	Accruals and deferred income	3.2
8.1	Prepayments and accrued income		3,442.0
4,609.0			8,927.9
8,927.9			8,927.9

Notes to the Financial Statements

(21) Creditors KARSTADT QUELLE Group

	1999 TDM	thereof remaining term			1998 TDM
		less than 1 year TDM	1 – 5 years TDM	more than 5 years TDM	
Bank loans and overdrafts (thereof secured by mortgages)	3,168,667 (297,209)	2,058,010	615,320	495,337	2,422,983
Advance payments on orders	77,991	77,982	9	-	63,461
Trade creditors	1,739,429	1,739,429	-	-	1,069,690
Bills of exchange payable	72,621	72,621	-	-	-
Amounts owed to group companies	60,262	59,646	212	404	23,189
Amounts owed to companies in which investments are held	8,617	8,617	-	-	5,376
Amounts owed to associated companies	13,500	13,500	-	-	-
Other creditors (thereof taxes) (thereof social security) (thereof secured by mortgages)	1,430,138 (491,664) (153,154) (152,929)	1,235,524	83,375	111,239	1,266,253
	6,571,225 (450,138)	5,265,329	698,916	606,980	4,850,952
(thereof secured by mortgages)					

In addition to amounts owing by KARSTADT QUELLE AG, the **bank loans and overdrafts** mainly comprise loans of Quelle AG, Neckermann Versand AG, Neckermann Coördinatiecentrum N.V., Belgium, and MC Immobilien-Verwaltungs-GmbH & Co. KG.

Trade creditors mainly comprise obligations in respect of merchandise received during the last days of the year and building construction work which has not yet been paid for.

(22) Creditors KARSTADT QUELLE AG

	1999 TDM	thereof remaining term			1998 TDM
		less than 1 year TDM	1 – 5 years TDM	more than 5 years TDM	
Bank loans and overdrafts (thereof secured by mortgages)	1,287,543 (285,395)	1,024,493	93,172	169,878	1,562,304
Advance payments on orders	53,059	53,059	-	-	57,152
Trade creditors	851,172	851,172	-	-	795,226
Amounts owed to group companies	377,055	336,317	40,738	-	360,589
Amounts owed to companies in which investments are held	8,453	8,453	-	-	16,638
Other creditors (thereof taxes) (thereof social security) (thereof secured by mortgages)	751,353 (345,393) (93,570) (152,929)	607,655	35,380	108,318	1,044,190
(thereof secured by mortgages)	3,328,635 (438,324)	2,881,149	169,290	278,196	3,836,099

The changes to bank loans and overdrafts resulted from scheduled redemptions.

Amounts owed to group companies relate in particular to loans to KARSTADT Heideloh GmbH and debit balances on the current accounts with Kepa Kaufhaus GmbH, Warenhaus WERTHEIM GmbH, Le Buffet System-Gastronomie und Dienstleistungs-GmbH, »Schürmann Elektrohandelsgesellschaft« mbH and KEPA Immobilien Erfurt GmbH.

Amounts owed to companies in which investments are held mainly relate to the debit balances on the current accounts with MEGA Verbund AG and OPTIMUS GmbH Logistik & Co. Warendienstleistungs KG.

Notes to the Financial Statements

The main items included under **other creditors** are the loan raised in 1994 under the Medium Term Note Programme, taxes still to be paid (VAT, prior turnover tax, wages and church taxes), annuity obligations, loans

due to investment companies, and amounts owed to staff. This item otherwise mainly includes social security contributions, which were payable shortly after the end of the year.

(23) Accruals and deferred income

The accruals and deferred income in the group mainly relate in the year under review to deferred loan interests from receivables sold as at the balance sheet date.

(24) Contingent liabilities, other financial commitments

	GROUP		KARSTADT QUELLE AG	
	1999 TDM	1998 TDM	1999 TDM	1998 TDM
Contingent liabilities	113,491	4,687	76,446	66,729
Liabilities under warranty agreements	1,252,885	-	-	-
Collateral for third party liabilities	439,035	441,578	439,035	439,378
Joint liability for the liabilities of subsidiaries	-	1,631	845,971	686,357

The guarantees shown under Group were granted in order to secure bank loans or result from joint liability under leasing agreements. At KARSTADT QUELLE AG there are guaranties owed to the Federal office for specific functions relating to the unification with regard to the exemption requirement for a subsidiary company and to OPTIMUS Bank für Finanz-Service GmbH in connection with company customer cards.

Liabilities under warranty agreements result mainly from the sale of receivables and from investment allowances received at Quelle AG.

The group's annual rental obligations total about DM 656 million. The average remaining term is about 9 years.

KARSTADT QUELLE AG's payments for rented premises during the year under review amounted to approximately DM 354 million; it is expected that they will be payable for about 16 further years. Amounts relating to computer equipment (approximately DM 73 million) and other movable goods (approximately DM 22 million) are payable under the contract for about two years or up to 16 years, respectively. Further obligations resulted from services: during the financial year payments of about DM 25 million were paid, mainly for personnel services.

Of the rental expenditure referred to, about DM 38 million relates to payments to group companies, in particular Kepa Kaufhaus GmbH and Neckermann Versand AG.

In addition, the group's rental obligations include obligations of Quelle AG, Neckermann Versand AG, and other subsidiaries.

Furthermore, about DM 5 million is payable yearly over two years for computer equipment leased by subsidiaries.

Capital commitments total DM 200 million for the group, of which DM 128 million relates to KARSTADT QUELLE AG.

The collateral for third party liabilities mainly relates to secure liabilities of a company not included in the consolidation by means of land charges to the amount of DM 438 million at KARSTADT QUELLE AG. In another case, it relates to secure liabilities of a company not included in the consolidation.

Notes to the Financial Statements

KARSTADT QUELLE AG has a joint liability for the liabilities of the incorporated Necker-mann Versand AG in the amount of about DM 846 million.

Further obligations relating to risk capital contributions under limited partner participations exist in the amount of DM 396 mil-

lion in connection with the expansion of our business operations, in particular in Dresden and Brieselang. These obligations were entered into in order to secure allocations of losses for German tax purposes, which mainly result from claiming special depreciation in accordance with the Development Areas Act.

(25) Derivative financing instruments

We have concluded interest swap transactions in the Group in the nominal amount of DM 1,190 million in several currencies in order to secure our future interest charges under credits with variable interest rates. Further interest limiting agreements with a maximum term of 10 years were concluded in the form of caps in the sum of DM 1,849 million to cover existing redemption obligations and as part of interest security measures. Furthermore and in addition to the purchase of currency call options to the value of DM 120 million, we have concluded forward exchange contracts to secure our price calculations on purchase orders in the products sector.

From the balance-sheet point of view the interest security and exchange transactions essentially form an economic unit with existing underlying transactions for the purpose of their valuation at the balance-sheet date. The aforementioned transactions required a small provision as of the balance-sheet date only in respect of the forward exchange purchases.

NOTES TO THE PROFIT AND LOSS ACCOUNTS

(26)

Turnover

Breakdown of the consolidated turnover KARSTADT QUELLE Group

Areas of operation	1999 in millions of DM	1998 in millions of DM
Department stores turnover		
KARSTADT QUELLE AG	13,501	13,474
Other	217	216
	13,718	13,690
less: intercompany sales	146	113
	13,572	13,577
Specialist discount stores	1,063	1,024
less: intercompany sales	9	8
	1,054	1,016
Over-the-counter retail trade	14,626	14,593
Universal mail-order		
Neckermann Versand AG	2,813	2,818
Quelle AG	7,072	-
Other	3,315	904
	13,200	3,722
less: intercompany sales	639	431
	12,561	3,291
Specialist mail-order	1,722	451
less: intercompany sales	57	49
	1,665	402
Mail-order	14,226	3,693
Services/other	594	344
	29,446	18,630
less: inter-segment sales	416	242
Group sales revenues	29,030	18,388

Notes to the Financial Statements

Turnover of KARSTADT QUELLE Group breakdown by region (reg. offices of companies)

	1999	1998
	in millions of DM	in millions of DM
Germany	26,424	17,665
EU countries	2,338	723
Other countries	268	-
	29,030	18,388

Breakdown of turnover of KARSTADT QUELLE AG

	1999	1998
	in millions of DM	in millions of DM
Retail business turnover	13,291	13,277
Wholesale turnover	85	81
Commissions from travel and insurance agency activities	125	116
	13,501	13,474

Retail turnover of KARSTADT QUELLE AG by product group

	TURNOVER		SHARE	
	1999	1998	1999	1998
	in millions of DM	in millions of DM	%	%
Textiles	4,997	4,935	37.60	37.17
Furnishings and household goods (including radio and television)	2,195	2,276	16.52	17.14
Various requirements	4,447	4,350	33.45	32.76
Food, drink and tobaccos	1,332	1,394	10.02	10.50
Restaurants and catering	299	300	2.25	2.26
Service departments	21	22	0.16	0.17
	13,291	13,277	100.00	100.00

Breakdown of retail trade of KARSTADT QUELLE AG by Federal Länder

	TURNOVER		SHARE	
	1999 in millions of DM	1998 in millions of DM	1999 %	1998 %
Baden-Württemberg	999	972	7.52	7.32
Bayern	1,954	1,944	14.70	14.64
Berlin	1,902	1,965	14.31	14.80
Bremen	316	310	2.37	2.33
Hamburg	1,171	1,167	8.81	8.79
Hessen	1,173	1,128	8.83	8.50
Mecklenburg-Vorpommern	13	14	0.10	0.11
Niedersachsen	1,041	1,056	7.83	7.95
Nordrhein-Westfalen	2,890	2,824	21.74	21.27
Rheinland-Pfalz	250	266	1.88	2.00
Saarland	166	167	1.25	1.26
Sachsen	471	469	3.54	3.53
Sachsen-Anhalt	268	282	2.02	2.13
Schleswig-Holstein	659	685	4.96	5.16
Thüringen	18	28	0.14	0.21
	13,291	13,277	100.00	100.00

Notes to the Financial Statements

(27) Other operating income

	GROUP		KARSTADT QUELLE AG	
	1999 TDM	1998 TDM	1999 TDM	1998 TDM
Proceeds from the release of untaxed special reserves mainly pursuant to Art. 6b German Income Tax Act	11,888	2,693	8,800	2,618
Income from additions to financial assets	-	-	173,397	-
Rents and commissions	159,712	127,669	141,335	144,430
Charges resulting from services to subsidiaries	70,169	27,433	58,084	60,650
Profits on the disposal of fixed assets	45,582	190,152	92,719	189,123
Proceeds from participations in advertising expenses	208,545	133,455	125,506	110,986
Revenues from multi-storey car parks	65,540	66,675	65,530	66,665
Proceeds from the release of provisions for liabilities and charges	69,576	11,822	10,239	5,972
Sundry income from other ancillary performances	388,363	245,472	168,186	167,010
	1,019,375	805,371	843,796	747,454

The income from the write-up on financial assets at KARSTADT QUELLE AG resulted from the valuation of the Neckermann Versand AG participation in accordance with the value reinstatement requirement. We refer to Text Note 10.

The income from the disposal of fixed assets at KARSTADT QUELLE AG relate mainly to the sale to real estate management companies of the stores at Böblingen, Konstanz and Lörrach, which were then leased back for the long term.

The leased property in Emden and the store in Gütersloh were transferred to real estate management companies. We refer to Text Note 9. Under KARSTADT QUELLE AG are included book profits on the disposal of land and the realisation of equipment, furniture and fixtures which were surplus to requirements. Under KARSTADT QUELLE AG book profits in the amount of TDM 26,100 were transferred to new acquisitions of the year under review in accordance with Art. 6b of the German Income Tax Law.

(28) Cost of sales

	GROUP		KARSTADT QUELLE AG	
	1999 TDM	1998 TDM	1999 TDM	1998 TDM
Purchased merchandise and supplies	15,520,924	10,026,336	7,557,637	7,591,854
Purchased services	170,387	140,045	26,207	22,969
	15,691,311	10,166,381	7,583,844	7,614,823

The purchased services mainly apply to KATRANS Speditionsgesellschaft mbH as well as the own organisations in the travel business of KARSTADT QUELLE AG.

As additional information, we show below the "Gross profit" for KARSTADT QUELLE AG.

	1999 TDM	1998 TDM
Gross profit of KARSTADT QUELLE AG		
Net wholesale turnover	85,189	80,612
Net retail turnover	13,290,878	13,276,938
Net travel commissions	124,795	116,543
Net revenues	13,500,862	13,474,093
less: Purchased merchandise and supplies	- 7,557,637	- 7,591,854
less: Purchased services	- 26,207	- 22,969
	5,917,018	5,859,270

Notes to the Financial Statements

(29) Staff costs

	GROUP		KARSTADT QUELLE AG	
	1999 TDM	1998 TDM	1999 TDM	1998 TDM
Wages and salaries	4,840,080	3,507,369	2,805,165	2,856,115
Social security and pensions and other benefits (thereof for pensions)	1,358,916 (372,517)	991,083	820,096 (243,766)	843,994
	6,198,996	4,498,452	3,625,261	3,700,109

(30) Depreciation and amortization

	GROUP		KARSTADT QUELLE AG	
	1999 TDM	1998 TDM	1999 TDM	1998 TDM
Amortization of intangible assets	72,836	43,440	18,091	17,733
Depreciation of tangible assets	646,616	545,445	442,719	450,934
	719,452	588,885	460,810	468,667

Please refer to Text Note 4 for comments on scheduled depreciation and amortization.

Accelerated depreciation at KARSTADT QUELLE AG amounted to TDM 34,902. Of this amount, TDM 34,900 is in respect of Art. 6b of the German Income Tax Act, TDM 2 is additional depreciation pursuant to Art. 4 of the Development Areas Act.

In addition, in the Group the subsidiaries recorded additional depreciation of TDM 1,482, mainly under Art. 4 of the Development Areas Act.

(31) Other operating charges

	GROUP		KARSTADT QUELLE AG	
	1999 TDM	1998 TDM	1999 TDM	1998 TDM
Transfers to untaxed special reserves under foreign law and pursuant to Art. 52 (16) EStG (1998: Art. 6 b EStG = German Income Tax)	7,154	6,976	104,038	6,976
Costs of sale	4,275,751	1,601,179	757,976	670,519
Operating costs	1,159,916	688,637	600,915	592,380
Building occupancy expenses	495,299	534,175	409,884	411,158
Administration costs	638,326	423,083	282,425	269,952
Allocations of intercompany pricing	10,411	4,593	33,638	33,845
Other staff expenses	79,867	41,756	39,913	34,918
Losses on disposal of tangible assets	14,658	28,028	10,750	29,822
Losses from impairment of value of current assets	257,758	132,436	15,096	13,892
Miscellaneous	254,702	209,137	138,221	115,169
	7,193,842	3,670,000	2,392,856	2,178,631

Please refer to Text Notes 19 and 27 for comments on the transfers to untaxed special reserves.

The costs of sale include chiefly the cost of goods despatch, vehicle fleet, advertising, catalogue expenditure, travel, expenditure for third-party labour and commission charges for credit and customer cards as well as for collective orders.

Operating costs include charges for rent, real property leasing, repairs to buildings and equipment, maintenance, outside detectives, staff facilities, material for daily use and minor items of equipment used in the day-to-day running of the business.

Notes to the Financial Statements

Building occupancy expenses include building repair charges, cleaning charges, energy, insurance and surveillance by third parties.

Essential administrative charges include rental of EDP equipment, printed and consumable materials used in the daily running of the business, telecommunication charges, third-party labour, third-party service suppliers and commercial insurance and contributions to representatives of professional groups.

Miscellaneous staff expenses include training expenses, expenses for personnel, company staff, for the Works Council, youth representatives and company doctors.

Losses resulting from impairment of the value of current assets for the group are mainly in respect of write-offs and value adjustments on trade creditors of Quelle AG, Neckermann Versand AG and their subsidiaries.

Other operating costs include demolition charges, expenditure in connection with the merger, expenditure resulting from the valuation of the reserves for costs of closures and compensatory payments as well as all sundry expenses.

(32) Income from investments

	GROUP		KARSTADT QUELLE AG	
	1999 TDM	1998 TDM	1999 TDM	1998 TDM
Profits received under profit-and-loss transfer agreements	6,520	33,233	33,664	53,351
Income from investments (thereof from subsidiaries)	32,532 (21,047)	16,419	298,360 (220,964)	304,238
Results from investments in associated companies	88,044	94,103	-	-
Losses absorbed under profit-and-loss transfer agreements	- 7,627	- 12,136	- 8,702	- 48,363
	119,469	131,619	323,322	309,226

The profits received under profit-and-loss transfer agreements of KARSTADT QUELLE AG mainly relate to Karstadt Versicherungs-Vermittlung GmbH, KATRANS Speditionsgesellschaft mbH, Le Buffet System-Gastronomie und Dienstleistungs-GmbH and Warenhaus WERTHEIM GmbH.

KARSTADT QUELLE AG's income from investments mainly includes the dividends (including claim for appropriation of taxation of corporations) of C & N Touristic AG (TDM 59,171), Neckermann Versand AG (TDM 57,586), Quelle AG (104,286), and Kepa Kaufhaus GmbH (TDM 21,008).

With regard to Karstadt AG's other income from investments please refer to the list of investments on pages 100 to 102.

The result from shares in associated companies mainly comprises shares in the profit from C & N Touristic AG and maul & co. - Chr. Belser GmbH.

Notes to the Financial Statements**(33) Write-down of financial assets**

Please refer to Text Note 10 with regard to write-down of financial assets of KARSTADT QUELLE AG.

(34) Net interest

	GROUP		KARSTADT QUELLE AG	
	1999 TDM	1998 TDM	1999 TDM	1998 TDM
Interest from long-term financial investments (thereof from subsidiaries)	4,343 (-)	2,190	3,250 (1,124)	3,442
Other interest received and similar income (thereof from subsidiaries)	410,055 (5,238)	146,430	40,827 (28,185)	51,342
Interest and related expenses (thereof to subsidiaries)	- 276,754 (2,500)	- 214,055	- 163,352 (26,965)	- 186,329
	137,644	- 65,435	- 119,275	- 131,545

(35) Extraordinary profit or loss

A loss amounting to TDM 1,166,230 resulted from the merger of HERTIE Waren- und Kaufhaus GmbH with KARSTADT QUELLE AG. Furthermore, under pension reserves provision was made for the outstanding adjustment of company pensions.

Further expenditure resulted from adjustment to Professor Dr. Klaus Heubeck's new reference tables (published 1998) in order to assess pension commitments arising from the files acquired from HERTIE Waren- und Kaufhaus GmbH.

(36) Taxes on income

	GROUP		KARSTADT QUELLE AG	
	1999 TDM	1998 TDM	1999 TDM	1998 TDM
Corporation tax and trade tax on income	34,228	77,268	-	88,755
charged to tax subsidiaries	- 1,150	- 297	-	- 8,854
deferred taxes	- 19,829	- 2,495	-	-
	13,249	74,476	-	79,901

Refunded taxes on income

	GROUP		KARSTADT QUELLE AG	
	1999 TDM	1998 TDM	1999 TDM	1998 TDM
Corporation tax and trade tax on income	-	-	28,551	-
charged to tax subsidiaries	-	-	41,447	-
deferred taxes	-	-	- 11,200	-
	-	-	58,798	-

No tax is due for the extraordinary profit.

(37) Other taxes

	GROUP		KARSTADT QUELLE AG	
	1999 TDM	1998 TDM	1999 TDM	1998 TDM
Land tax, as well as excise and transaction taxes	61,805	35,549	28,730	28,003
	61,805	35,549	28,730	28,003

OTHER INFORMATION

(38) Total remuneration of the members of the Board of Directors and the Supervisory Board

Provided the Annual General Meeting approves the proposed dividend, the total remuneration of the members of the Board of Directors of KARSTADT QUELLE AG for 1999 will amount to TDM 12,758, and the fees of the Supervisory Board to TDM 1,640.

Payments to former members of the Board of Directors or their surviving dependants amounted to TDM 6,170. The pension provi-

sions for these persons totalled TDM 63,265. The figures also include the remuneration and pension commitments for the former officers of the taken over HERTIE Waren- und Kaufhaus GmbH or their surviving dependants.

The members of the Supervisory Board and the Board of Directors of KARSTADT QUELLE AG are listed on pages 4 and 5, and on pages 130 to 133.

(39) **Breakdown of the average number of employees during the year
by company (excluding trainees)**

Areas of operation	1999	1998
Department stores		
- Germany -		
KARSTADT QUELLE AG	64,764	67,293
Specialist discount stores		
- Germany -	3,728	3,766
- abroad -	15	14
	3,743	3,780
Over-the-counter retail trade	68,507	71,073
Universal mail-order		
- Germany -		
Neckermann Versand AG	6,594	6,609
Quelle AG	15,565	-
other	3,287	125
	25,446	6,734
- abroad -	5,941	1,432
	31,387	8,166
Specialist mail-order		
- Germany -	4,036	1,080
- abroad -	611	167
	4,647	1,247
Mail-order	36,034	9,413
Services/other		
- Germany -	2,873	1,640
- abroad -	8	3
Services/other	2,881	1,643
Group	107,422	82,129

Notes to the Financial Statements

Supervisory Board

Dr. Hans Meinhardt

Wiesbaden

Chairman

Chairman of the Supervisory Board of Linde AG

- a) Beiersdorf AG (Chairman)
 - Karstadt Warenhaus Aktiengesellschaft
 - Linde AG (Chairman)
 - MAN AG
 - VARTA AG (Chairman)
- b) nv W.A. Hoek's Machine- en Zuurstoffabriek

Wolfgang Pokriefke*

Bremen

Deputy Chairman

Chairman of the Works Council of Karstadt Warenhaus Aktiengesellschaft, Bremen branch

Commercial assistant

- a) Karstadt Warenhaus Aktiengesellschaft

Wilfried Behrens*

Giessen

Managing Director of Karstadt Warenhaus Aktiengesellschaft, Giessen branch

- a) Karstadt Warenhaus Aktiengesellschaft

Dr. Diethart Breipohl

Icking

Member of the Supervisory Board of Allianz AG

- a) Bayerische Hypo- und Vereinsbank AG
 - Beiersdorf AG
 - Continental AG
 - Metallgesellschaft AG
 - KM Europa Metal AG
- b) Credit Lyonnais
 - Les Assurances Générales de France (AGF)

Jürgen Damm*

Grevenbroich

Chairman of the Works Council of Karstadt Warenhaus Aktiengesellschaft, Düsseldorf, Schadowstrasse branch
Electrician

- a) Karstadt Warenhaus Aktiengesellschaft

Bodo Dehn*

Mönchengladbach-Rheydt

Chairman of the Overall Works Council of Karstadt Warenhaus Aktiengesellschaft

Commercial assistant of Karstadt Warenhaus Aktiengesellschaft, Mönchengladbach-Rheydt branch

- a) Karstadt Warenhaus Aktiengesellschaft

Hubert Gartz*

Hamburg

Member of the Board of the German Salaried-Employees Union

- a) Karstadt Warenhaus Aktiengesellschaft

Dr. jur. Friedhelm Giese

Essen

former Chairman of the Board of Directors of RWE AG

- a) MAN AG
 - National-Bank AG
 - RWE AG

Leo Herl

Fürth

Member of the Board of Directors of Schickedanz-Holding AG & Co. KG

- a) Entrium Direct Bankers AG (Chairman)
 - ICN Immobilien Consult Nürnberg AG**
 - Karstadt Warenhaus Aktiengesellschaft
 - Neckermann Versand Aktiengesellschaft
 - Quelle Aktiengesellschaft
 - Quelle Bauspar AG (Chairman)
 - Quelle Krankenversicherung AG (Chairman)**
 - Quelle Lebensversicherung AG (Chairman)**
 - Quelle Versicherung AG (Chairman)**
 - Schickedanz Vermögensverwaltung AG (Chairman)**

Ulrich Hocker

Düsseldorf

Main Director of Deutsche Schutzvereinigung für Wertpapierbesitz e.V.

- a) Brau und Brunnen AG
 - Concordia Bau und Boden AG (Chairman)
 - DSL Holding AG
 - Gerresheimer Glas AG
 - VEBA AG
- b) Gartmore Capital Strategy Fonds Limited
 - Phoenix Mecano AG

Dr. h.c. Martin Kohlhausen

Frankfurt/Main

Spokesman of the Board of Directors of
Commerzbank AG

- a) Bayer AG
 - Bertelsmann AG
 - Hochtief AG vorm. Gebr. Helfmann
 - Infineon Technologies AG
 - Linde AG
 - RHEINHYP Rheinische
Hypothekenbank AG (Chairman)**
 - Schering AG
- b) Assicurazioni Generali S.p.A.
 - Commerzbank International S.A. (CISAL)
(Chairman Administrative Council)**
 - Commerzbank (Schweiz) AG
(President Administrative Council)**
 - Commerzbank (South East Asia) Ltd.
(Chairman of the Board of Directors)**
 - DaimlerChrysler AG
 - Jupiter International Group PLC
(Chairman of the Board of Directors)**
 - Kreditanstalt für Wiederaufbau
 - Liquiditäts-Konsortialbank GmbH

Heinz Rätz

Basel/Switzerland

former Member of the Management of Hansa AG

Dr. Ingo Riedel

Fürth

Member of the Board of Directors of
Schickedanz-Holding AG & Co. KG

- a) C & N Touristic AG
 - ICN Immobilien Consult Nürnberg AG
(Chairman)**
 - Entrium Direct Bankers AG
 - Karstadt Warenhaus Aktiengesellschaft
 - Quelle Aktiengesellschaft (Chairman)
 - Quelle Bauspar AG
 - Quelle Krankenversicherung AG**
 - Quelle Lebensversicherung AG**
 - Quelle Versicherung AG**
 - Schickedanz Vermögensverwaltung AG**
 - SinnLeffers Aktiengesellschaft**

Horst-Herbert Schmidt*

Kiel

- † 22.01.1999 -

Chairman of the Works Council of
Karstadt Warenhaus Aktiengesellschaft
HERTIE Kiel branch**Christa Schubert***

Recklinghausen

Deputy Chairman of the Works Council of
Karstadt Warenhaus Aktiengesellschaft
Recklinghausen branch

Commercial assistant

- a) Karstadt Warenhaus Aktiengesellschaft

Günter Strohmeier*

Munich

Chairman of the Works Council of
Karstadt Warenhaus Aktiengesellschaft
Munich, Schleissheimer Strasse branch

- a) Karstadt Warenhaus Aktiengesellschaft

Dr. Bernd W. Voss

Kronberg im Taunus

Member of the Board of Directors of
Dresdner Bank AG

- a) Continental AG
 - Deutsche Hyp Deutsche Hypothekenbank
Frankfurt-Hamburg AG**
 - Deutsche Schiffsbank AG
 - Dresdner Bauspar AG**
 - Oldenburgische Landesbank AG (Chairman)**
 - Preussag AG
 - Quelle Aktiengesellschaft
 - Stinnes AG
 - VARTA AG
 - VEBA AG
 - Volkswagen AG
 - Wacker Chemie GmbH
- b) Reuschel & Co.
(Chairman Administrative Council)

*) representing the employees

Pursuant to the resolution of the County Court Essen of March 20, 2000, the members of the Supervisory Board of KARSTADT QUELLE AG representing the employees have also been appointed members of the Supervisory Board of Karstadt Warenhaus Aktiengesellschaft, until new elections which are scheduled for September 2000 have taken place.

- a) Member of other Supervisory Boards required by law
 - b) Member of comparable German and foreign controlling bodies in commercial undertakings
- ***) group subsidiaries

Notes to the Financial Statements**Dipl.-Ing. Dr.-Ing. h. c. Jürgen Weber**

Hamburg

Chairman of the Board of Directors of
Deutsche Lufthansa AG

- a) Allianz Lebensversicherungs AG
 - Bilfinger + Berger Bauaktiengesellschaft
 - C & N Touristic Aktiengesellschaft
 - LSG Lufthansa Service Holding AG (Chairman)**
 - Lufthansa Cargo AG (Chairman)**
 - Lufthansa Systems GmbH (Chairman)**
 - Lufthansa Technik AG (Chairman)**
 - Stinnes AG
- b) Lufthansa Commercial Holding GmbH
(Chairman)**

Rüdiger Wolff*

Düsseldorf

Secretary to the Main Board of the Union of Retail,
Bank and Insurance Employees

- a) Karstadt Warenhaus Aktiengesellschaft

Ulrike Wuhrer*

Konstanz

Chairman of the Works Council of
Karstadt Warenhaus Aktiengesellschaft
HERTIE Konstanz branch

Commercial assistant

- a) Karstadt Warenhaus Aktiengesellschaft

Dr. Franziska Wiethold*

Düsseldorf

Member of the Managing Main Board
of Directors of the Union of Retail, Bank
and Insurance Employees

- a) Karstadt Warenhaus Aktiengesellschaft
 - Quelle Aktiengesellschaft
 - REWE KGaA

Board of Directors**Dr. Walter Deuss**

Mülheim

Chairman of the Board of Directors

- a) Gerling Konzern Allgemeine Versicherungs-AG
 - RHEINHYP Rheinische Hypothekenbank AG
 - C & N Touristic Aktiengesellschaft (Chairman)
 - Neckermann Versand Aktiengesellschaft
(Chairman)**
 - Quelle Aktiengesellschaft**
 - Karstadt Warenhaus Aktiengesellschaft**
 - Kaufhaus Ahrens AG

Manfred Ciesielski

Glashütten

- until 31.01.2000 -
Member of the Board of Directors
- w.e.f. 10.12.1999 -
Member of the Board of Directors of
Karstadt Warenhaus Aktiengesellschaft
- a) Neckermann Versand Aktiengesellschaft**

Willi Harrer

Batzhausen Gem. Seubersdorf i. d. Oberpfalz

- from 01.11.1999 until 31.03.2000 -
Member of the Board of Directors

Member of the Board of Directors of
Quelle Aktiengesellschaft until 31.03.2000**Reinhard Koep**

Mülheim

Member of the Board of Directors

- w.e.f. 10.12.1999 until 22.02.2000 -
Member of the Board of Directors of
Karstadt Warenhaus Aktiengesellschaft
- w.e.f. 23.02.2000 - Member of the Board of
Directors of Quelle Aktiengesellschaft
- w.e.f. 01.04.2000 - Chairman of the Board of
Directors of Quelle Aktiengesellschaft
- a) Neckermann Versand Aktiengesellschaft**

Jürgen Krüger

Düsseldorf

- until 30.07.1999 -
Deputy Chairman of the Board of Directors

- a) Karstadt Warenhaus Aktiengesellschaft
Neckermann Versand Aktiengesellschaft

Prof. Dr. Helmut Merkel

Flomborn

- w.e.f. 01.04.2000 -
Member of the Board of Directors

- a) Karstadt Warenhaus Aktiengesellschaft**
Novasoft AG (Chairman)

Norbert Nelles

Rösrath

- w.e.f. 01.11.1999 -
Member of the Board of Directors

- a) Karstadt Warenhaus Aktiengesellschaft**
Quelle Aktiengesellschaft**

Werner Piotrowski

Witzenhausen

- w.e.f. 01.11.1999 -
Member of the Board of Directors

Chairman of the Board of Directors of
Neckermann Versand Aktiengesellschaft

- a) Neckermann Lebensversicherungs AG
Neckermann Versicherungs AG
b) Neckermann B.V. (Chairman)**
Neckermann Versand Österreich AG (Chairman)**

Heinz Plagge

Lüneburg

- until 31.01.2000 -
Member of the Board of Directors

- w.e.f. 10.12.1999 -
Member of the Board of Directors of
Karstadt Warenhaus Aktiengesellschaft

- a) Le Buffet System-Gastronomie und
Dienstleistungs-GmbH (Chairman)**

Karl-Heinz Schmidt

Dortmund

- until 31.01.2000 -
Member of the Board of Directors

- w.e.f. 10.12.1999 -
Member of the Board of Directors of
Karstadt Warenhaus Aktiengesellschaft

- a) Berlin Tourismus Marketing GmbH
CCG, Centrale für Coorganisation GmbH
C & N Touristik Aktiengesellschaft**

Wolfgang Urban

Bornheim

- w.e.f. 05.06.1999 -
Member of the Board of Directors

- w.e.f. 10.12.1999 -
Chairman of the Board of Directors of
Karstadt Warenhaus Aktiengesellschaft

- a) Quelle Aktiengesellschaft**
SinnLeffers AG (Chairman)

*) representing the employees

Pursuant to the resolution of the County Court Essen of March 20, 2000, the members of the Supervisory Board of KARSTADT QUELLE AG representing the employees have also been appointed members of the Supervisory Board of Karstadt Warenhaus Aktiengesellschaft, until new elections which are scheduled for September 2000 have taken place.

- a) Member of other Supervisory Boards required by law
b) Member of comparable German and foreign controlling bodies in commercial undertakings

**) group subsidiaries

PROPOSED APPROPRIATION OF PROFITS

We are proposing to the Annual General Meeting that the profit for the year retained to the amount of TDM 142,543 be distributed to the shareholders. This represents a dividend of EUR 0.62 per individual share certificate with a calculated share in the capital stock of EUR 2.56.

Shareholders within Germany with unlimited tax liability will thus receive about EUR 0.89 per individual share certificate, including the tax credit; this corresponds to an amount of approx. DM 1.73.

Essen, April 27, 2000

KARSTADT QUELLE Aktiengesellschaft

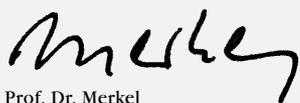
Board of Directors



Dr. Deuss



Koep



Prof. Dr. Merkel



Nelles



Piotrowski



Urban

STATEMENT OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for preparing the group financial statements. The group financial statements were prepared in compliance with the accounting principles generally accepted in Germany and in accordance with the requirements of the Code of Commercial Law and the German Stock Corporation Law. The group situation report is consistent with the group financial statements. The information given in the annual report accords with the group financial statements.

The internal checking and control systems at the companies included in the group financial statements ensure that the report procedure complies with the legal requirements. The adherence to the guidelines and the functionality of the checking systems are continuously inspected by internal audit. Our risk management complies with the requirements of the Law on Corporate Control and Transparency (KonTraG). It is aimed at recognising potential risks in due time to enable any measures required to be initiated.

BDO Deutsche Warentreuhand Aktiengesellschaft, auditors, have examined the group financial statements and group situation report and given them an unqualified auditor's certificate.

The annual financial statements, the situation report and the auditor's report were discussed in detail at the meeting of the Supervisory Board, which was also attended by the auditor. The result of its examination is noted in the Supervisory Board Report (see Pages 136 and 137 of the Annual Report).

The Board of Directors

REPORT OF THE AUDITORS

The report of the auditors covers:

- the Situation Report of the KARSTADT QUELLE Group and KARSTADT QUELLE AG (pages 8 to 76)
- the Notes to the Financial Statements (pages 77 to 134)
- and the Balance Sheets and Profit and Loss Accounts (pages 142 to 149)

“We have examined the annual financial statements together with the record of accounts of KARSTADT QUELLE AG, the group financial statements prepared by the company and its report on the situation of the company and its group for the financial year from January 1, 1999, to December 31, 1999. The preparation of these documents in accordance with the requirements of German commercial law and the supplementary regulations in the company statutes is the responsibility of the Board of Directors of the company. We are required to make an assessment of the annual statements together with the record of accounts, the group financial statements prepared by the company and its report on the situation of the company and the group.

We have carried out our examination of the annual and group financial statements in accordance with Art. 317 CCL and the principles of accounting laid down by the German Institute of Accountants (IDW). According to these the audit must be prepared and conducted so as to enable incorrect facts and irregularities which substantially affect a presentation of the fair view of the net worth, financial position and results afforded by the annual and group financial statements prepared in accordance with the principles of accounting and by the report on the situation of the company and the group to be recognised with a fair degree of certainty. When establishing the audit procedure, knowledge of the business activities and the economic and legal circumstances of the company and the group and expectations of possible errors

are taken into consideration. In the course of the audit the effectiveness of the internal control system and the facts supporting the information given in the accounts, the annual and group financial statements and the report on the situation of the company and the group are assessed mainly on the basis of random samples. The audit comprises the appraisal of the applied principles regulating the preparation of balance sheets and consolidation and the principal estimates of the board of directors and a consideration of the overall presentation of the annual and group financial statements and the report on the situation of the company and the group. We are of the opinion that our audit affords a sufficiently sound basis for our assessment.

Our audit has found no cause for objection.

Düsseldorf, May 2, 2000
BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
[Auditors]



Dyckerhoff
Wirtschaftsprüfer
[Public auditor]

In our opinion the annual and group financial statements present a true and fair view of the net worth, financial position, earnings and payment transactions of the company and the group in accordance with the principles of sound accounting practice. Overall, the report on the situation of the company and the group presents an accurate picture of the position of the company and the group and sets out accurately the risks attending future developments.”



Horn
Wirtschaftsprüfer
[Public auditor]

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board was kept regularly and fully informed about all important company business, in particular in four Supervisory Board meetings and by regular written reports by the Board of Directors. Furthermore, the chairman of the Supervisory Board remained in close contact with the chairman of the Board of Directors. He was kept continuously informed of corporate affairs, planning and decisions. It was ensured that the Supervisory Board was provided with all the knowledge necessary for it to carry out its duties satisfactorily. It continuously monitored and assisted the senior management in an advisory capacity and performed its duties as required by the law and the company statutes.

The Supervisory Board was fully and duly informed of measures requiring its approval. In each case the necessary approval was granted after thorough examination and discussion of the applications made by the Board of Directors. The Supervisory Board concerned itself in detail with the development and situation of the group and the most important group companies both at home and abroad. This also applied to important individual business operations.

The Supervisory Board and the working committee of the Supervisory Board at its meetings dealt with, amongst other things,

- the development of business in the Karstadt Group and its member companies
- the budget for the 1999 financial year
- the merger of Schickedanz Handelswerte GmbH & Co. KG and HERTIE Waren- und Kaufhaus GmbH with Karstadt AG
- the transfer of the department store operation to Karstadt Warenhaus AG as of January 1, 2000
- the strategic orientation of KARSTADT QUELLE AG and its cooperation with the large operational companies of the group
- the investment programme.

The working committee met twice. No occasion was found for the arbitration committee to meet under Art. 27 (3) of the Law on Co-Determination.

BDO Deutsche Warentreuhand Aktiengesellschaft, accountants, Düsseldorf, has examined the annual statements of KARSTADT QUELLE AG to December 31, 1999, the group financial statements, the group situation report combined with the situation report of KARSTADT QUELLE AG, the dependent company report and the record of accounts and given them an un-

qualified auditor's certificate. In accordance with the requirements of the Law on Corporate Control and Transparency (KonTraG) the risk management was also included in the annual statutory audit. The audit reports were submitted to all members of the Supervisory Board in due time.

The financial statements, the situation reports, the dependent company report and the auditor's report were discussed in detail at the meeting of the Supervisory Board on May 11, 2000. The auditor also attended the meeting and reported on and answered questions about the most important results of his audit. The Supervisory Board noted and approved the result of the audit. It examined the annual financial statements of KARSTADT QUELLE AG and the group financial statements, including the situation reports, and the proposal of the Board of Directors for the appropriation of the net profit for the year. No objections were raised. The Supervisory Board approved the annual statement prepared by the Board of Directors, which is therefore given final approval. The Supervisory Board approves the proposal for the appropriation of the net profit for the year.

Mr. Wolfgang Urban was appointed to the Board of Directors of KARSTADT QUELLE AG with effect from June 5, 1999. Mr. Willi Harrer, Mr. Norbert Nelles and Mr. Werner Piotrowski were appointed to the Board of Directors of KARSTADT QUELLE AG

with effect from November 1, 1999, and Professor Dr. Helmut Merkel with effect from April 1, 2000. Mr. Jürgen Krüger, deputy chairman of the Board of Directors of KARSTADT QUELLE AG, retired as of July 30, 1999. Mr. Manfred Ciesielski, Mr. Heinz Plagge and Mr. Karl-Heinz Schmidt retired from the Board of Directors of KARSTADT QUELLE AG as of January 31, 2000, and Mr. Willi Harrer as of March 31, 2000. Mr. Manfred Ciesielski, Mr. Heinz Plagge and Mr. Karl-Heinz Schmidt were appointed to the Board of Directors of Karstadt Warenhaus AG with effect from December 10, 1999. The Supervisory Board thanks the retiring members of the Board of Directors for their work and commitment.

The Supervisory Board thanks the Board of Directors and all Members of Staff for their commitment and performance during the past financial year.

Essen, May 2000

The Supervisory Board
Chairman



Dr. Hans Meinhardt

BALANCE SHEETS, PROFIT AND LOSS ACCOUNTS

- 142** **Balance Sheets KARSTADT QUELLE Group and KARSTADT QUELLE AG at December 31, 1999 in thousands of DM**

- 144** **Balance Sheets KARSTADT QUELLE Group and KARSTADT QUELLE AG at December 31, 1999 in thousands of Euro**

- 146** **Profit and Loss accounts
KARSTADT QUELLE Group and KARSTADT QUELLE AG for the year ended December 31, 1999, in thousands of DM**

- 148** **Profit and Loss accounts
KARSTADT QUELLE Group and KARSTADT QUELLE AG for the year ended December 31, 1999, in thousands of Euro**

- 150** **5-year summary KARSTADT QUELLE Group**

Balance Sheets at December 31, 1999 – in thousands of DM –**KARSTADT QUELLE Group**

	Text Note	1999 TDM	1998 TDM
ASSETS			
A. Fixed assets	(7)		
Intangible assets	(8)	240,611	174,260
Tangible assets	(9)	5,398,500	4,237,602
Financial assets	(10)	777,663	750,085
		6,416,774	5,161,947
B. Current assets			
Stocks	(11)	4,810,646	3,186,997
Debtors and other assets	(12)	3,784,388	1,799,354
Securities		5,257	-
Liquid funds	(13)	425,095	542,218
		9,025,386	5,528,569
C. Prepayments and deferred expenses	(14)	57,743	15,743
Balance sheet total		15,499,903	10,706,259

KARSTADT QUELLE Aktiengesellschaft

	Text Note	1999 TDM	1998 TDM
ASSETS			
A. Fixed assets	(7)		
Intangible assets	(8)	69,846	70,808
Tangible assets	(9)	2,447,158	2,511,544
Financial assets	(10)	1,801,934	1,079,708
		4,318,938	3,662,060
B. Current assets			
Stocks	(11)	2,368,721	2,417,954
Debtors and other assets	(12)	1,969,424	1,553,415
Liquid funds	(13)	262,694	498,313
		4,600,839	4,469,682
C. Prepayments and deferred expenses	(14)	8,088	18,436
Balance sheet total		8,927,865	8,150,178

KARSTADT QUELLE Group

	Text Note	1999 TDM	1998 TDM
LIABILITIES			
A. Capital and reserves			
Issued capital of KARSTADT QUELLE AG	(15)	588,566	420,000
Capital reserve of KARSTADT QUELLE AG	(16)	942,771	484,157
Revenue reserves	(17)	1,558,642	1,725,641
Consolidated retained profit/loss		142,543	- 2,735
Minority interests	(18)	89,748	205
		3,322,270	2,627,268
B. Untaxed special reserves	(19)	29,376	9,032
C. Provisions for liabilities and charges	(20)	5,495,964	3,215,454
D. Creditors	(21)	6,571,225	4,850,952
E. Deferred income	(23)	81,068	3,553
Balance sheet total		15,499,903	10,706,259

KARSTADT QUELLE Aktiengesellschaft

	Text Note	1999 TDM	1998 TDM
LIABILITIES			
A. Capital and reserves			
Issued capital	(15)	588,566	420,000
Capital reserve	(16)	942,771	484,157
Revenue reserves	(17)	707,560	392,137
Retained profit for the year		142,543	92,400
		2,381,440	1,388,694
B. Untaxed special reserves	(19)	104,038	8,800
C. Provisions for liabilities and charges	(20)	3,110,536	2,913,496
D. Creditors	(22)	3,328,635	3,836,099
E. Deferred income	(23)	3,216	3,089
Balance sheet total		8,927,865	8,150,178

Balance Sheets at December 31, 1999 – in thousands of Euro –**KARSTADT QUELLE Group**

	1999 TEUR	1998 TEUR
ASSETS		
A. Fixed assets		
Intangible assets	123,022	89,098
Tangible assets	2,760,209	2,166,651
Financial assets	397,613	383,512
	3,280,844	2,639,261
B. Current assets		
Stocks	2,459,644	1,629,486
Debtors and other assets	1,934,927	919,995
Securities	2,688	-
Liquid funds	217,348	277,232
	4,614,607	2,826,713
C. Prepayments and deferred expenses	29,524	8,049
Balance sheet total	7,924,975	5,474,023

KARSTADT QUELLE Aktiengesellschaft

	1999 TEUR	1998 TEUR
ASSETS		
A. Fixed assets		
Intangible assets	35,712	36,204
Tangible assets	1,251,212	1,284,132
Financial assets	921,314	552,046
	2,208,238	1,872,382
B. Current assets		
Stocks	1,211,108	1,236,280
Debtors and other assets	1,006,951	794,249
Liquid funds	134,313	254,783
	2,352,372	2,285,312
C. Prepayments and deferred expenses	4,135	9,426
Balance sheet total	4,564,745	4,167,120

KARSTADT QUELLE Group

	1999	1998
	TEUR	TEUR
LIABILITIES		
A. Capital and reserves		
Issued capital of KARSTADT QUELLE AG	300,929	214,743
Capital reserve of KARSTADT QUELLE AG	482,031	247,546
Revenue reserves	796,921	882,306
Consolidated retained profit/loss	72,881	- 1,398
Minority interests	45,888	104
	1,698,650	1,343,301
B. Untaxed special reserves	15,020	4,618
C. Provisions for liabilities and charges	2,810,042	1,644,035
D. Creditors	3,359,814	2,480,252
E. Deferred income	41,449	1,817
Balance sheet total	7,924,975	5,474,023

KARSTADT QUELLE Aktiengesellschaft

	1999	1998
	TEUR	TEUR
LIABILITIES		
A. Capital and reserves		
Issued capital	300,929	214,743
Capital reserve	482,031	247,546
Revenue reserves	361,770	200,496
Retained profit for the year	72,881	47,243
	1,217,611	710,028
B. Untaxed special reserves	53,194	4,499
C. Provisions for liabilities and charges	1,590,392	1,489,647
D. Creditors	1,701,904	1,961,366
E. Deferred income	1,644	1,580
Balance sheet total	4,564,745	4,167,120

Profit and Loss accounts for the year ended December 31, 1999
- in thousands of DM -

KARSTADT QUELLE Group

	Text Note	1999 TDM	1998 TDM
1. Turnover	(26)		
Net turnover		29,030,319	18,387,687
2. Other operating income	(27)	1,019,375	805,371
3. Cost of sales	(28)	- 15,691,311	- 10,166,381
4. Staff costs	(29)	- 6,198,996	- 4,498,452
5. Depreciation and amortization	(30)	- 719,452	- 588,885
6. Other operating charges	(31)	- 7,193,842	- 3,670,000
7. Income from investments	(32)	119,469	131,619
8. Write-down of financial assets	(33)	- 608	- 26,266
9. Net interest	(34)	137,644	- 65,435
10. Profit on ordinary activities		502,598	309,258
11. Taxes on income	(36)	- 13,249	- 74,476
12. Other taxes	(37)	- 61,805	- 35,549
13. Profit for the year		427,544	199,233
14. Consolidated retained loss brought forward		- 2,735	- 42,087
15. Dividends paid by KARSTADT QUELLE AG		- 92,400	- 84,000
Withdrawal from revenue reserves		-	201
16. Transfer to revenue reserves		- 173,612	- 75,631
17. Profit attributable to other shareholders		- 17,436	- 589
18. Loss attributable to other shareholders		1,182	138
19. Consolidated retained profit/loss		142,543	- 2,735

KARSTADT QUELLE Aktiengesellschaft

	Text note	1999 TDM	1998 TDM
1. Turnover	(26)		
Net turnover		13,500,862	13,474,093
2. Other operating income	(27)	843,796	747,454
3. Cost of sales	(28)	- 7,583,844	- 7,614,823
4. Staff costs	(29)	- 3,625,261	- 3,700,109
5. Depreciation and amortization	(30)	- 460,810	- 468,667
6. Other operating charges	(31)	- 2,392,856	- 2,178,631
7. Income from investments	(32)	323,322	309,226
8. Write-down of financial assets	(33)	- 30,900	- 44,266
9. Net interest	(34)	- 119,275	- 131,545
10. Profit on ordinary activities		455,034	392,732
11. Extraordinary profit/loss	(35)	- 1,204,417	-
12. Taxes refunded/taxes on income	(36)	58,798	- 79,901
13. Other taxes	(37)	- 28,730	- 28,003
14. Loss/profit for the year		- 719,315	284,828
Transfer to revenue reserves		-	- 75,000
Set-off profit for the year of HERTIE Waren- und Kaufhaus GmbH against revenue reserves		-	- 117,428
15. Withdrawal from revenue reserves		861,858	-
Retained profit for the year		142,543	92,400

Profit and Loss accounts for the year ended December 31, 1999
- in thousands of Euro -

KARSTADT QUELLE Group

	1999 TEUR	1998 TEUR
1. Turnover		
Net turnover	14,842,966	9,401,475
2. Other operating income	521,198	411,779
3. Cost of sales	- 8,022,840	- 5,197,988
4. Staff costs	- 3,169,496	- 2,300,022
5. Depreciation and amortization	- 367,850	- 301,092
6. Other operating charges	- 3,678,153	- 1,876,441
7. Income from investments	61,084	67,296
8. Write-down of financial assets	- 311	- 13,429
9. Net interest	70,376	- 33,457
10. Profit on ordinary activities	256,974	158,121
11. Taxes on income	- 6,774	- 38,079
12. Other taxes	- 31,600	- 18,176
13. Profit for the year	218,600	101,866
14. Consolidated retained loss brought forward	- 1,398	- 21,519
15. Dividends paid by KARSTADT QUELLE AG	- 47,243	- 42,948
Withdrawal from revenue reserves	-	103
16. Transfer to revenue reserves	- 88,767	- 38,670
17. Profit attributable to other shareholders	- 8,915	- 301
18. Loss attributable to other shareholders	604	71
19. Consolidated retained profit/loss	72,881	- 1,398

KARSTADT QUELLE Aktiengesellschaft

	1999	1998
	TEUR	TEUR
1. Turnover		
Net turnover	6,902,881	6,889,194
2. Other operating income	431,426	382,167
3. Cost of sales	- 3,877,558	- 3,893,397
4. Staff costs	- 1,853,567	- 1,891,836
5. Depreciation and amortization	- 235,608	- 239,625
6. Other operating charges	- 1,223,448	- 1,113,916
7. Income from investments	165,312	158,105
8. Write-down of financial assets	- 15,799	- 22,633
9. Net interest	- 60,984	- 67,258
10. Profit on ordinary activities	232,655	200,801
11. Extraordinary profit/loss	- 615,809	-
12. Taxes refunded/taxes on income	30,063	- 40,853
13. Other taxes	- 14,689	- 14,318
14. Loss/profit for the year	- 367,780	145,630
Transfer to revenue reserves	-	- 38,347
Set-off profit for the year of HERTIE Waren- und Kaufhaus GmbH against revenue reserves	-	- 60,040
15. Withdrawal from revenue reserves	440,661	-
Retained profit for the year	72,881	47,243

5 Year Summary

	1995	1996	1997	1998	1999
KARSTADT QUELLE AG¹⁾					
Turnover in billions of DM incl. VAT	12.80	13.71	13.49	13.21	13.50 ²⁾
thereof department stores	12.08	12.32	12.12	11.88	13.42 ³⁾
Number of stores	167	186	188	180	208
Sales space (Dec. 31) in thousands of m ²	1,602.8	1,737.8	1,770.8	1,766.2	2,261.8
Turnover per m ² (average for the year)	7,865	7,501	7,082	6,977	7,023
Number of employees (31.12.)	57,957	62,713	60,895	59,792	70,046
Staff costs in millions of DM	2,940.9	3,025.0	3,053.0	3,015.5	3,625
Turnover per full-time employee (in thousands of DM)	276.7	275.8	272.2	277.6	299.4
Capital investments in millions of DM	452.1	434.8	280.3	291.0	435.8
Profit for the year in millions of DM	189.2	114.0	149.0	167.4	- 719.3
Dividends	109.2	84.0	84.0	92.4	142.5
Tax credit in millions of DM	46.8	36.0	36.0	39.6	61.1
Share capital in millions of DM	420	420	420	420	588.6
HERTIE Waren- und Kaufhaus GmbH*					
Turnover in billions of DM incl. VAT	4.99	4.21	3.65	3.37	-
thereof department stores	4.96	4.20	3.63	3.36	-
Number of stores	74	48	35	32	-
Sales space (Dec. 31) in thousands of m ²	848.4	652.0	530.8	507.6	-
Turnover per m ² (average for the year)	6,173	6,248	6,475	6,705	-
Number of employees (Dec. 31)	28,049	18,204	14,811	14,301	-
Staff costs in millions of DM	1,223.1	1,098.5	776.7	684.6	-
Turnover per full time employee (in thousands of DM)	255.2	281.3	310.6	328.1	-
Capital investments in millions of DM	242.4	389.2	127.4	103.3	-
Profit for the year in millions of DM			2.7	117.4	-
Loss for the year in millions of DM	118.9	102.2	-	-	-

*) with effect from 1995 incl. »NUG OPTIMUS« Lebensmittel-Einzelhandels-gesellschaft mbH

¹⁾) with effect from 1999 HERTIE Waren- und Kaufhaus GmbH merged with KARSTADT QUELLE AG

²⁾) turnover w.e.f. 1999 not including VAT (comparative figure DM 15.51 billion incl. VAT)

³⁾) turnover w.e.f. 1999 not including VAT (comparative figure DM 15.29 billion incl. VAT)

	1995	1996	1997	1998	1999
Neckermann Versand AG					
Turnover in billions of DM incl. VAT	3.26	3.38	3.20	3.19	2.81 ⁴⁾
Number of employees (Dec. 31)	7,354	7,165	6,930	6,779	6,839
Staff costs in millions of DM	403.1	418.1	418.8	410.5	438.0
Capital investments in millions of DM	33.7	49.7	156.3	97.0	108.8
Profit for the year in millions of DM	46.0	47.0	37.0	37.0	47.0
Quelle AG*					
Turnover in billions of DM incl. VAT	-	-	-	-	8.2
Number of employees (Dec. 31)	-	-	-	-	15,257
Staff costs in millions of DM	-	-	-	-	1,090
Capital investments in millions of DM	-	-	-	-	89.8
Profit for the year in millions of DM	-	-	-	-	113.0
KARSTADT QUELLE Group					
Third-party turnover in billions of DM incl. VAT	26.98	26.90	26.53	20.97	29.03 ⁵⁾
Number of employees (Dec. 31)	105,129	99,991	94,463	89,399	113,490
Staff costs in millions of DM	5,111.7	5,127.0	4,857.3	4,498.5	6,199.0
Capital investments in millions of DM	804.5	1,013.1	638.8	498.8	736.5
Profit for the year in millions of DM	109.0	58.6	164.0	199.2	427.5
Share capital in millions of DM	420	420	420	420	588.6

*) Quelle AG with effect from 1. 1. 1999 in KARSTADT QUELLE Group

⁴⁾ turnover w.e.f. 1999 not including VAT (comparative figure DM 3.22 billion incl. VAT)

⁵⁾ turnover w.e.f. 1999 not including VAT (comparative figure DM 33.89 billion incl. VAT)

KARSTADT QUELLE Calendar 2000

Balance Sheet Press Conference

June 20, 2000

Analysts Meeting

June 21, 2000

Annual General Meeting

July 20, 2000

Dividend payout

July 21, 2000

Interim Report as per 30. 06. 2000

Mid-August 2000

Interim Report as per 30. 09. 2000

Mid-November 2000