Interim Report

to June 30, 2006

KARSTADT QUELLE AG

Facts

Payment from the first tranche of the real estate transaction (2.7 bill. €) received on July 3, 2006

Net financial liabilities (pro forma) already reduced to 0.6 bill. € by mid-year

Equity ratio (pro forma) substantially risen to 16.7 %

Adjusted consolidated sales stand at 6.47 bill. € – minus 4.2 % – at the end of the half year (not including discontinuance of catalog pages in Mail order: minus 1.2 %)

Net profit after minority interests reaches 558.1 mill. €

- High positive extraordinary earnings from real estate disposal

Adjusted EBITDA (not including special factors) amount to minus 41.7 mill. €

- Karstadt and Thomas Cook perform better than previous year and to plan
- Universal mail order Germany perform well below plan and previous year

Working capital considerably reduced, staff costs decreased, adjusted gross income margin increased

Further reconstruction measures initiated in Universal mail order Germany

Modified forecast for 2006:
adjusted EBITDA (not including the Real estate segment) will rise around 10 % on the previous year (previously forecast: 20 % rise in adjusted EBITDA, not including real estate transaction)

Working capital and equity ratio expected to be better than planned and previous year. Annual earnings in the current and next few years will be positively affected by real estate disposal

At a glance *

			30.06.2006	30.06.2005	Change in %
Sales [1]	Karstadt	mill. €	2,180.4	2,112.7	3.2
	Mail order	mill. €	3,004.8	3,377.8	-11.0 [2]
	Thomas Cook	mill. €	1,216.8	1,203.5	1.1
	Services	mill. €	151.5	142.4	6.4
	Real estate	mill. €	217.7	223.2	-2.4
	Reconciliation account	mill. €	-296.6	-304.4	–
	Total	mill. €	**6,474.6**	**6,755.2**	-4.2 [3]
Earnings	**Net profit/loss after minority interests**	mill. €	**558.1**	**-271.9**	–
	Karstadt	mill. €	-36.1	-59.2	39.1
	Mail order	mill. €	-52.6	-14.7	–
	Thomas Cook	mill. €	-65.5	-73.2	10.6
	Services	mill. €	14.1	19.5	-27.9
	Real estate	mill. €	117.1	160.6	-27.1 [4]
	Reconciliation account/Holding company	mill. €	-18.7	-13.6	–
	EBITDA (adjusted) [1]	mill. €	**-41.7**	**19.4**	–
	EBITDA margin (adjusted)	in %	*-0.6*	*0.3*	–
Financial situation	Free cash flow	mill. €	-87.0	-66.7	-30.5
	Free cash flow – pro forma	mill. €	2,603.2 [5]	-66.7	–
	Cash and cash equivalents	mill. €	770.6	657.5	17.2
	Investments	mill. €	81.1	84.7	-4.2
	Depreciation and amortization (not including amortization of goodwill)	mill. €	-145.8	-229.4	36.4
	Net financial liabilities	mill. €	3,296.0	4,631.4	-28.8
	Net financial liabilities – pro forma	mill. €	605.8 [5]	4,631.4	-86.9
	Working capital	mill. €	1,359.2	2,503.4	-45.7
Full-time employees at the balance-sheet date	Karstadt	number	25,192	26,086	-3.4
	Mail order	number	23,409	25,630	-8.7
	Thomas Cook	number	9,961	10,170	-2.1
	Services	number	2,137	2,248	-4.9
	Real estate	number	69	81	-14.8
	Holding company	number	174	169	3.0
	Total	number	**60,942**	**64,384**	-5.3
KARSTADT QUELLE AG share	Earnings per share	€	2.79	-1.36	–
	Market price at balance sheet date	€	20.75	11.00	88.6
	Highest price (01.01. - 30.06.)	€	25.37	11.00	–
	Lowest price (01.01. - 30.06.)	€	12.93	7.08	–

* The figures were adjusted. The adjustments relate to special factors, divestments and joint ventures.
1) Comparison with previous year only limitedly possible because of radical restructuring.
2) After adjustment for discontinued catalog pages: minus 5.3 %.
3) After adjustment for discontinued catalog pages: minus 1.2 %.
4) Real estate earnings not comparable with those of the previous year due to extensive divestments.
5) Including payments received from the real estate transaction.

Performance in the first and second quarter of 2006

Sales *) 1)

Amounts shown in mill. €	Quarter I (01.01. – 31.03.)			Quarter II (01.04. – 30.06.)		
	2006	2005	Change in %	2006	2005	Change in %
Karstadt	1,111.5	1,105.5	0.5	1,068.9	1,007.2	6.1
Mail order	1,566.6	1,701.9	–7.9 2)	1,438.2	1,676.0	–14.2 3)
Thomas Cook	553.1	563.7	–1.9	663.7	639.8	3.7
Services	78.1	68.9	13.3	73.4	73.5	–0.1
Real estate	109.4	115.6	–5.3	108.3	107.6	0.7
Reconciliation account	–151.3	–156.3	–	–145.4	–148.2	–
Total	**3,267.4**	**3,399.3**	**–3.9 4)**	**3,207.1**	**3,355.9**	**–4.4 5)**

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

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

2) After adjustment for discontinued catalog pages: minus 4.8 %.

3) After adjustment for discontinued catalog pages: minus 5.9 %.

4) After adjustment for discontinued catalog pages: minus 2.2 %.

5) After adjustment for discontinued catalog pages: +/– 0.0 %.

Earnings before financial income, income taxes and depreciation and amortization (EBITDA)

Amounts shown in mill. €	Quarter I (01.01. – 31.03.)			Quarter II (01.04. – 30.06.)		
	2006	2005	Change in %	2006	2005	Change in %
Karstadt	–32.5	–34.3	5.4	–36.0	–38.8	7.3
Mail order	–36.2	14.2	–	–107.5	1.2	–
Thomas Cook	–41.8	–51.9	19.6	–19.2	–19.5	1.1
Services	6.9	9.8	–29.6	7.7	24.0	–68.1
Real estate 1)	66.5	84.0	–20.8	917.4	74.7	–
Reconciliation account/Holding company	–9.8	–16.2	–	–38.8	–24.4	–
Total	**–46.9**	**5.6**	**–**	**723.6**	**17.2**	**–**

Adjusted earnings before financial income, income taxes and depreciation and amortization (adjusted EBITDA) *)

Amounts shown in mill. €	Quarter I (01.01. – 31.03.)			Quarter II (01.04. – 30.06.)		
	2006	2005	Change in %	2006	2005	Change in %
Karstadt	–27.2	–29.6	8.1	–8.9	–29.6	70.0
Mail order	–12.5	0.4	–	–40.1	–15.1	–165.3
Thomas Cook	–38.8	–51.4	24.6	–26.7	–21.8	–22.5
Services	7.2	10.5	–31.0	6.8	9.0	–24.2
Real estate 1)	55.2	84.8	–34.9	61.9	75.7	–18.3
Reconciliation account/Holding company	–7.9	–9.2	–	–10.7	–4.3	–
Total	**–24.0**	**5.5**	**–**	**–17.7**	**13.9**	**–227.7**

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

1) Year-on-year comparison of real estate result not possible due to extensive divestments.

Contents

Report of the Management Board

Dear Shareholders,

Some retailing segments were able to profit from the Football World Championship in the second quarter of 2006. In the KarstadtQuelle Group these included particularly the department stores, which – because of their successful repositioning – held their recovery course and achieved the turnaround. Thomas Cook likewise returns a positive performance again. Universal mail order Germany fell short of expectations, however.

The KarstadtQuelle Group is now in the third phase of its restructuring. Following successful financial reconstruction, we are gradually improving our operating performance and consistently utilizing our growth potential. In the second quarter we achieved further successes.

A truly historic event was the disposal of the department store real estate. Through the completion of the first tranche of this successful transaction, the purchase price of which was considerably above expectations, the Group returns a positive half-yearly result and substantially raised the (pro forma) equity ratio to 16.7 % (previous year: 2.8 %). Additional positive effects will result in the next quarters from the progressive realization of the returns from the disposal of the real estate portfolio and the further marketing of real estate. A considerable part of the real estate purchase price, 2.7 bill. €, has meanwhile been received. The sale of the real estate has enabled the Group not only to completely reduce its financial liabilities but also to regain its strategic capacity. We shall, amongst other things, utilize this capacity to re-intensify and accelerate restructuring in Universal mail order and in particular cost-cutting in the service group. We expect to spend around 200 mill. € to achieve this. We are convinced that in Universal mail order we have paved the way for a successful turnaround at the end of 2007. However, the restructuring is also being pushed forward briskly in other sectors. The consistent reduction in working capital plays an important role here. The half-yearly figures already indicate a considerable operating improvement. This positive performance should in future be considerably boosted by the envisaged cooperation with Li & Fung in import. The dimension of this collaboration is likewise of historic importance for our Group. Besides a substantial reduction in working capital, we are profiting from a massive increase in our competitive strength.

Sales and earnings performance

Group result risen to 558 mill. €
Operating result in the department store segment and at Thomas Cook considerably above that of the previous year and on target – negative deviation from target in Universal mail order Germany

The KarstadtQuelle Group achieved a Group result (after minorities) of plus 558.1 mill. € (previous year: minus 271.9 mill. €) in the first half year. The decisive factor behind this substantial rise was the positive extraorinary earnings from the partly completed realization of the successful disposal of real estate. In the previous year a negative extraordinary result was still being returned.

In the first half adjusted EBITDA (not including special factors) stood at minus 41.7 mill. € (previous year: minus 19.4 mill. €).

Adjusted consolidated sales came to 3.21 bill. € (previous year: 3.36 bill. €) in the first quarter of the current year. Cumulatively the KarstadtQuelle Group achieved sales amounting to 6.47 bill. € (previous year: 6.76 bill. €) in the first half year. This represents a decrease by 4.2 %. Without the deliberate restraint on Mail order sales the sales decrease would have been only 1.2 %. Quarterly sales were at the same level as the previous year.

Adjusted EBITDA at Karstadt and Thomas Cook is well above that of the previous year and thus at target level after six months. Mail order, however, falls well short of the target. The decisive factor here was the too high cost structure of the service unit in Universal mail order Germany, in which the so-called back office functions are concentrated. Furthermore, the declining sales performance had a burdening effect, which was partly deliberately contrived by shifting marketing expenditure to the second half of the year. Moreover, earnings performance is being substantially affected in the current year by the disposal of real estate. Correspondingly, adjusted EBITDA in the real estate segment fell markedly, with the result that year-on-year comparison is no longer possible. Running counter to this earnings decrease over time is a substantial improvement in net interest income due to the reduction in financial liabilities.

Karstadt confirmed the reversal of trend in the second quarter. For the first time for years Karstadt was again able to make considerable advances in both sales and earnings in the first half of the year. Adjusted sales rose by 3.2 % to 2.18 bill. € (previous year: 2.11 bill. €). Karstadt in its core business thus outperformed the market. The repositioning is showing good results. The Premium stores with their higher-quality positioning particularly contributed to this. Earnings at the department stores (adjusted EBITDA) rose by 39.1 % to minus 36.1 mill. € (previous year: minus 59.2 mill. €).

Also **Thomas Cook** continues to perform well. The tourism group achieved in the first tourism half-year (November 1, 2005, to April 30, 2006) a sales increase by 1.1 % to a proportionate 1.22 bill. € (previous year: 1.20 bill. €). The negative result (adjusted EBITDA), which reflects the usual run of business, improved by 10.6 % to minus 65.5 mill. € (previous year: minus 73.2 mill. €). Thomas Cook is likewise outperforming the market and can impressively underpin this successful run of business with a gratifying level of bookings for the summer season. In the German operator market Europe's second-largest tourism group records a rise by 5.6 % in bookings by mid-July 2006, compared with the previous year. Because of a market growth of nearly 2 % the Group anticipates further gains in market shares in Germany.

In **Mail order** the difference in performance continued in the second quarter, too. While E-commerce, with a two-digit percentage growth, continued to perform well and Special mail order put in a steady performance, Universal mail order in Germany fell well below the previous year and target. The sales decrease was, however, in part deliberately contrived. Thanks to the selective reduction of catalog pages in favour of the gross income margin unprofitable product groups were discontinued. Furthermore, under the strategic realignment high-volume advertizing activities were put off until the second half of the year. The sales decrease is to be partly made good again by the intensified repositioning of the Quelle brand and by a comprehensive marketing campaign in the second half of the year. However, because of the long preparation and issue times for catalogs a reversal of the trend cannot be achieved before the end of 2007. In the first half-year Universal mail-order sales decreased to 3.00 bill. € (previous year: 3.38 bill. €). This represents a decrease by 11 %. Without selective control measures (reduction of catalog pages, deferral of marketing campaigns) the sales decrease would, with 5.3 %, have been considerably smaller. Adjusted EBITDA stood at minus 52.6 mill. € (previous year: minus 14.7 mill. €).

Karstadt has new strategic scope
An equity ratio of 20 % is anticipated by the end of 2006 – net financial liabilities should be completely reduced

Because of the receipt of proceeds from the disposal on July 3, 2006, that is, soon after the balance sheet date June 30, 2006, the strictly period-focused balance sheet inadequately reflects the disposal of real estate. For the sake of greater transparency we present to you in pro-forma form the balance sheet and net financial liabilities after receipt of this payment and the partial redemption of the financial liabilities meanwhile undertaken.

Consolidated financial statements – pro forma

Amounts shown in mill. €	30.06.2006 *
ASSETS	
Non-current assets	**3,178.0**
Inventories, trade receivables, tax receivables, other receivables and other assets, cash and cash equivalents and securities	4,252.9
Purchase price receivable from real estate transaction	–
Current assets	**4,252.9**
Assets classified as held for sale	481.5
Balance sheet total	**7,912.4**
EQUITY AND LIABILITIES	
Equity	**1,317.4**
Non-current liabilities	**2,767.1**
Current financial liabilities	371.8
Trade payables, current tax liabilities, other current liabilities, current provisions	3,424.7
Current liabilities	**3,796.5**
Liabilities from assets classified as held for sale	31.4
Balance sheet total	**7,912.4**

* Including payments received from the real estate transaction.

Net financial liabilities – pro forma

Amounts shown in mill. €	30.06.2006 *
Non-current financial liabilities	1,007.1
Current financial liabilities [1]	375.0
Gross financial liabilities	**1,382.1**
Cash and cash equivalents and securities	-770.6
Other current financial liabilities	-5.7
Pro forma net financial liabilities	**605.8**

* Including payments received from the real estate transaction.

[1] Including discontinued business segments.

The pro forma consolidated balance sheet already shows mid-year an equity ratio of 16.7 %. At the end of the year, when the remainder of the payment for the first real estate tranche of 0.8 bill. € and further payments from other transactions have been received, the equity ratio will be around 20 %. Already by mid-year net financial liabilities have shrunk to 0.6 bill. €. The syndicated bank loan, the second lien and large parts of the mortgage loans have meanwhile been repaid. As announced, the Group will not be returning any net financial liabilities at the end of the year. KarstadtQuelle is thus now in a comfortable position and has the necessary scope to consistently progress the strategic realignment.

Trade margin improved, staff costs drastically cut, working capital considerably reduced

The success of the restructuring and progress in operating performance are also shown by the improvement in key figures, which are of decisive importance for the retail trade. Thus, thanks to an improved mix of product lines and the discontinuance of unprofitable product groups the (adjusted) trade margin in the retail segments was increased by 1.3 percentage points to 49.5 %. In the Department store segment the trade margin improved 0.7 % percentage points, while in Mail order it went up 1.6 percentage points. The staff cost ratio, that is, the ratio of staff costs to sales, decreased 1.1 percentage points to 18.2 % at Group level. The continued reduction in working capital is likewise progressing well. Working capital during the period decreased to 1.36 bill. € (previous year: 2.50 bill. €). This represents a decrease by 45.7 % (operating: 4.8 %).

Important events during the second quarter

Karstadt: Successful marketing of the Football World Championship

Karstadt prepared for this sporting event early and intensively. The collaboration with FIFA and the marketing of the merchandising products fulfilled the high expectations: substantial sales increases in the Sports segment are the result. Furthermore, KarstadtSport positioned and profiled itself well with the customers. Karstadt showed impressively at this Football World Championship that contemporary themes can be invested with a positive effect and the enthusiasm of domestic and international customers aroused for the products of the department and sports stores by emotive marketing. At the same time the marketing of the Football World Championship is evidence of the new culture in our department stores: ideas, service, high-quality, diverse products and a shopping experience.

Peter Wolf in charge of department store business

On August 1, Peter M. Wolf, 47, took over as Group Management Board member responsibility for department store business. He is a former member of the Management of Tchibo GmbH, Hamburg, where he was responsible for the Food, Central and Eastern Europe and Brand Management departments. He also succeeds Prof. Dr. Helmut Merkel in his capacity as Chairman of the Management of Karstadt Warenhaus GmbH. Prof. Dr. Merkel will concentrate on the Procurement, Logistics and IT departments, which he also took over in March 2006.

Real estate portfolio to the value of 4.5 bill. € sold – 2.9 bill. € already received

The Group disposed of real estate worth 4.5 bill. € in the second quarter. KarstadtQuelle already received sale proceeds from this 2.7 bill. € on July 3, 2006. 0.2 bill. € went to the pension trust. A further 0.8 bill. € (incl. pension trust) is expected during the second half of 2006. Thus, the first tranche of the sale to the value of 3.7 bill. € (of which 0.6 bill. € will go to the KarstadtQuelle pension trust) was concluded during the current year. A further 0.8 bill. € will be achieved by the Group from third-party sales arising from the joint entity with the Whitehall Fund in the next few years.

Independently of this, the Group is disposing of further real estate (main offices, office buildings, etc.) to the value of 0.6 bill. €. The first pieces of real estate to the value of around 0.12 bill. € were already sold in the second quarter.

Accordingly, the total value of the real estate disposed of is to be 5.1 bill. €, which will continuously positively affect the KarstadtQuelle Group's annual earnings in the next few years.

Cooperation with Li & Fung – working capital to be decreased by around 500 mill. €

We have signed a letter of intent for future cooperation with HongKong-based Li & Fung, one of the world's largest retail companies. Li & Fung is, as service provider, to take over the importation of our Karstadt, Quelle, neckermann.de brands and special mail order suppliers. The aim is to increase the sourcing volume to 2 bill. € a year. This will also be done by shifting volumes which have up until now been handled by other importing companies in Germany direct to the factories of our manufacturers.

The cooperation with Li & Fung will be a further important element in the reorganization of our Group. We are thus entering the third phase of restructuring, which is aimed at bringing about a marked improvement in our operating capacity.

We expect from the cooperation with Li & Fung significant savings effects as well as greater flexibility in the purchasing processes. Through the agreed considerable extension of the payment periods to 120 days we also anticipate a reduction in working capital by around 500 mill. € with a sourcing volume of 2 bill. €.

We want to be handling around 80 % of our volume of imports in Asia by 2008 at the latest. The cooperation with Li & Fung will enable us in future to offer customers up to twelve collections a year. In this way we can respond to rapidly changing customer behaviour more flexibly. To achieve this, we, as Germany's largest textile retailer, shall develop design centers in Europe and Asia in the coming months. These will set the standards for collections for all textile sectors.

A further part of the arrangement is the sale of KarstadtQuelle International Services AG, St. Gallen, with its 1,100 employees, to Li & Fung Ltd.

Restructuring program for Universal mail order Germany: Mail order to be developed into leading multi-channel home shopping provider

We are convinced that mail order and teleshopping offer an attractive growth prospect – for several reasons. The Internet is increasingly opening up new target groups in e-commerce through high growth. Teleshopping is likewise showing high growth rates. Moreover, social trends (age pyramid) indicate an increasing demand for home shopping.

Lastly, Mail order in the KarstadtQuelle Group returned an unsatisfactory sales performance in Universal mail order Germany. We have therefore taken further reconstruction measures. The initiated measures focus on a reversal of trend in sales performance as well as an improvement in efficiency and radical cost-cutting in the service group (back-office).

Strategically we shall adopt a three-phase approach: In the first phase, **reconstruction** (until end of 2007), the infrastructure will be optimized and the service group redimensioned. The aim is the substantial reduction of costs. The measures which have already been initiated or defined in the past weeks include the renegotiation of service agreements (e.g. print, logistics, paper) and necessary staff adjustments, as well as a reduction of complexity in organizational structures. Purchasing conditions are also to be further improved and the catalog and long-term investment portfolio consistently purged of loss-makers.

In phase 2, **transformation**, the business models are to be realigned (by 2008). Amongst other things, the core brands will be consistently repositioned. Quelle will be positioned as a multi-specialist, while neckermann.de will be aligned as an e-company. The aim is to change the shares of sales to achieve a 50:50 spread between Universal mail order and Special mail order, between conventional catalog business and e-commerce and between the domestic and international shares.

In the third phase, that of **growth** (from 2008 on), we shall concentrate on a massive expansion of business in Central Eastern Europe, particularly in Russia, and the further rapid expansion of e-commerce. In the profitable Special mail order segment we want to grow organically and by means of M&A transactions. In the transformation and growth phases, we want to selectively progress and strengthen the realignment by strategic alliances at a national and international level.

Outlook

- **Sales: Improvement anticipated in the second half of the year**
- **Annual earnings, equity ratio and working capital substantially improved**
- **Modified earnings forecast for 2006:
adjusted EBITDA (not including the Real estate segment) is to rise around 10 %
on the previous year (previously forecast: 20 % rise in adjusted EBITDA,
not including real estate transaction)**

The management expects an improvement in Group sales performance in the second half of the year. The department store business will profit, particularly from Karstadt's 125th anniversary, and Thomas Cook, because of the good summer bookings, can look forward with optimism to the second half of the year. The sales performance in Mail order should improve through strategic repositioning and the marketing campaign. Although the segment should be able to reduce the negative difference between sales in the first half of the year and those of the previous year, it will not be able to make it up. However, the Department store and Tourism segments should continue to perform to plan and considerably better than the previous year. The possibility that these two segments in the second half of the year will make up for the difference from the previous year by performing better than planned and so enable the adjusted consolidated EBITDA increase by a total of 20 % (not including the real estate transaction) forecast at the beginning of the year the Management Board considers unrealistic at the present time. As things stand now, we therefore assume that adjusted EBITDA (not including the Real estate segment) will exceed the previous year's value of 199 mill. € (after adjustment for the ABS effect of 50 mill. € in Mail order) by around 10 %. The resulting reduction of free cash flow relative to plan will in part be offset by a reduction in working capital which is expected to be much higher than planned.

Annual earnings in the current and next few years will be positively affected by the progressive realization of the proceeds from the disposal of the real estate portfolio and the further marketing of real estate.

Essen, August 2006

For the Management Board
Your
Dr. Thomas Middelhoff
Chairman of the Management Board

Other information

Investments

Investments in tangible and intangible assets in the first half of 2006 came to 81.1 mill. € (previous year: 84.7 mill. €). Of this 42.9 mill. € were allocated to Karstadt and 25.5 mill. € to Mail order. As well as IT projects, investments at Karstadt were directed at the realignment of the department stores. This concerned mainly the Premium stores München-Oberpollinger as well as KaDeWe, Berlin, and the Boulevard-Plus store, Hamburg-Mönckeberg-strasse. In Mail order investments were focused primarily on IT projects, including E-commerce.

Including financial assets, investments in the first half come to 221.4 mill. € (previous year: 153.7 mill. €). The rise on the same period the previous year results mainly from financial assets. This mainly relates to the investments in associated companies in connection with the real estate transaction (Highstreet Holding GbR) to the value of 132.7 mill. €.

Employees

The number of persons employed full-time at the balance sheet date decreased by a further 495 to 60,942 in the second quarter of 2006. This decrease reflects mainly ongoing restructuring measures in Mail order.

Year on year the result is a decrease by 3,442 full-time employees. Here, too, further adjustments in Mail order and to a lesser extent in the Karstadt segment are making themselves felt.

Full-time employees

Number at 30.06.	2006	2005	Change	Change in %
Karstadt	25,192	26,086	–894	–3.4
Mail order	23,409	25,630	–2,221	–8.7
Thomas Cook	9,961	10,170	–209	–2.1
Services	2,137	2,248	–111	–4.9
Real estate	69	81	–12	–14.8
Holding company	174	169	5	3.0
Total	**60,942**	**64,384**	**–3,442**	**–5.3**

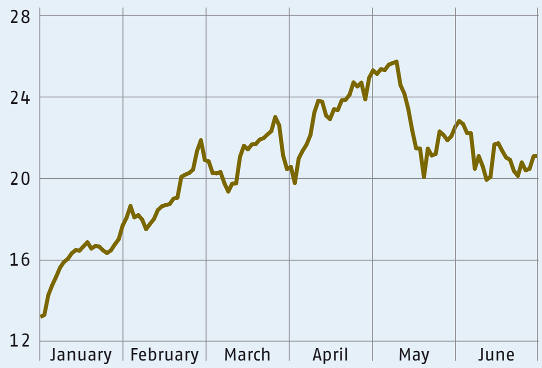
The KarstadtQuelle Share

KarstadtQuelle share rises 62 % in the first half of 2006

With a further price rise by 62 % in the first half of 2006 the KarstadtQuelle share remains a top performer in the German share market. During this period the German Share Index (DAX) rose 5 %, MDAX 8 %.

The KarstadtQuelle share recorded its yearly low on January 2, 2006, with a price of 12.93 € and achieved a yearly high at 25.37 € on May 11, 2006. At the balance sheet date the price of the KarstadtQuelle share stood at 20.75 €. Market capitalization thus stood at 4.4 bill. €. The KarstadtQuelle share went on to achieve quotations at between 18 and 20 €.

Stock Exchange price performance
January to June 2006 in €



Karstadt

Sales rise by 3.2 % – Karstadt achieves turnaround

Adjusted sales at the Karstadt department and sports stores rose 6.1 % to 1.07 bill. € in the second quarter of the current year (previous year: 1.01 bill. €). Sales in Mail order in the first half of 2006 totalled 2.18 bill. € (previous year: 2.11 bill. €). This represents a growth by 3.2 % on the previous year. This confirms that Karstadt has succeeded in reversing the trend.

The Premium stores once again performed impressively, returning a positive sales performance. The high-quality alignment of the top locations with their exclusive, international product ranges confirms the high growth and earnings potential of the premium concept. Furthermore, the KarstadtSport segment returned an above-average sales performance and so strengthened its position as Germany's leading sports retailer. As „Outfitter of the Fans", KarstadtSport was able to successfully utilize the enthusiasm of the international public and exceed anticipated sales from the FIFA World Cup 2006^{TM}.

Key figures *

		Half year I (01.01. - 30.06.)			Quarter II (01.04. - 30.06.)		
		2006	2005	Change in %	2006	2005	Change in %
Sales	mill. €	2,180.4	2,112.7	3.2	1,068.9	1,007.2	6.1
Earnings							
EBITDA (adjusted)	mill. €	-36.1	-59.2	39.1	-8.9	-29.6	70.0
EBITDA margin (adjusted)	in %	*-1.7*	*-2.8*	–	*-0.8*	*-2.9*	–
Full-time employees at the balance sheet date	number	25,192	26,086	-3.4	25,192	26,086	-3.4

Branches

		Half year I (01.01. - 30.06.)		
		2006	2005	Change in %
Department stores	number	92	89	–
Sports stores	number	29	32	–
Project branches	number	14	25	–
Total	number	**135**	**146**	**–**
Sales space [1]	th. sq. m	1,660.9	1,675.9	-0.9

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

[1] Figures relate to own-used space and do not include space leased to third parties.

Further positive earnings performance

In the second quarter of 2006 adjusted EBITDA improved to minus 8.9 mill. € (previous year: minus 29.6 mill. €). In the first half of 2006, due to seasonal effects accumulated adjusted EBITDA stood at minus 36.1 mill. € (previous year: minus 59.2 mill. €). This represents a considerable improvement. The earnings performance continues to be gratifying and shows clearly that the realignment of the department stores is going well. The management is convinced that the result for 2006 as a whole will considerably improve.

Department and sports stores sharpen their profile

The alignment of the department and sports stores towards Premium, Boulevard Plus, Boulevard and KarstadtSport formats is sharpening the profile of Karstadt stores. In this way different buyer and customer groups are being selectively appealed to. The new "profit center organization" is contributing to this. Each department store is being selectively focused on the respective market environment and respective customer groups. The modernization of the department stores is being pushed forward briskly and selectively. At present there are 14 branches undergoing conversion or refreshment. The flagship stores Hamburg-Mönckebergstraße and München-Oberpollinger will already be re-opened in September of this year. The new construction of the department store in Leipzig will be completed in autumn 2006. The third conversion stage at KaDeWe will be completed in time for Christmas business.

High customer satisfaction thanks to improved service quality

A further important indication that the repositioning of the Karstadt brand is being successfully implemented is the development of customer satisfaction, which has risen continuously since measurement began in early 2005. The department and sports stores achieved an average customer satisfaction index of 85 %. The Premium group achieved an even better result with an average index of 89 %. The improved customer satisfaction at top level is a visible sign that the qualification measures for sales staff in the areas of advice, service and customer focus are bearing fruit.

KarstadtSport is a winner in the Football World Championship

The Football World Championship thrilled millions of people all over the world, particularly the international public in Germany. KarstadtSport used this unique opportunity to successfully present itself by offering attractive ranges of football-related products in the official FIFA World Cup 2006™ shops. KarstadtSport was represented exclusively, by around 300 FIFA World Cup 2006™ shops as well as around 140 shops in the World Cup stadiums and numerous fan fests in city centres.

Preparations for Karstadt's 125th anniversary well under way

After the football world championship, Karstadt's 125th anniversary will be the next important event. For this occasion each segment will offer especially attractive and exclusive brands. High-quality anniversary articles will put the realignment of the department stores clearly to the fore. Furthermore, special events and campaigns will complete Karstadt's 125th anniversary celebrations.

Mail order

Universal mail order Germany, as expected, still difficult – Special mail order steady

In the Mail order segment adjusted sales decreased from 3.38 bill. € the previous year to 3.00 bill. €. The decisive factor behind this was Universal mail order Germany. It should be borne in mind here, however, that the overwhelming part of the sales decrease was anticipated by selectively curbing advertizing activity and discontinuance of unprofitable catalog pages. The share of the advertizing budget not used will be put to use in the second half of the year to selectively boost the planned major marketing campaign. Accordingly, sales in Universal mail order in the second half of the year are set to exceed those of the previous year. Special mail order suppliers are performing at the same level as the previous year. In international business at Quelle demand in Central-Eastern Europe and Russia continues to develop positively. Moreover, E-commerce, with further growth by around 11 %, is proving itself to be a sales driver for the entire company segment. The number of visits has risen by 57 % on the previous year.

Result due largely to sales performance

The decrease in adjusted EBITDA to minus 52.6 mill. € (previous year: minus 14.7 mill. €) is due to the sales performance in Universal mail order Germany. The effects of the decrease in gross income due to sales was partly compensated for by initial successes in cost reduction. In the service group, which combines mail order suppliers' infrastructure – including logistics, customer service and adress management –, however, the cost volume is still too high. Accordingly, the pressure of costs in this segment is being still further eased by radical conversion. Special mail order suppliers increased adjusted EBITDA by 4 %, compared with the previous year.

Key figures*

		Half year I (01.01. - 30.06.)			Quarter II (01.04. - 30.06.)		
		2006	2005	Change in %	2006	2005	Change in %
Sales	mill. €	3,004.8	3,377.8	-11.0 [1]	1,438.2	1,676.0	-14.2 [2]
International sales share	in %	30.4	28.9	–	30.6	28.7	–
Earnings							
EBITDA (adjusted)	mill. €	-52.6	-14.7	–	-40.1	-15.1	–
EBITDA margin (adjusted)	in %	*-1.8*	*-0.4*	–	*-2.8*	*-0.9*	–
Full-time employees at the balance sheet date	number	23,409	25,630	-8.7	23,409	25,630	-8.7

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

[1] After adjustment for discontinued catalog pages: minus 5.3 %.

[2] After adjustment for discontinued catalog pages: minus 5.9 %.

Universal mail order suppliers to undergo comprehensive realignment

The Universal mail order suppliers Quelle and neckermann.de are currently undergoing radical repositioning. Quelle is being developed step by step into a multispecialist and is focusing on the Fashion, Living, Kitchen and Technology core ranges. In late summer a large-scale marketing campaign will be launched in preparation for the important Christmas business. The neckermann.de brand is being focused consistently on Internet business. Online demand continues to grow and in 2006 will contribute a share of 36 % to sales.

Special mail order and foreign business offer further growth potential

Special mail order returns a steady performance in the first half of 2006. The most successful suppliers were the Walz Group and the Hess Natur and Bon' A Parte formats. Abroad Quelle continued to grow. Quelle's Romanian subsidiary has been very successful since its launch in August 2005. In Russia demand far exceeds expectations. The restructuring in Austria and France is going to plan. neckermann.de's international business offers scope for growth, as, particularly in Central Eastern Europe, the Internet is not so heavily used as in Western Europe. neckermann.de therefore plans an e-commerce campaign to consistently increase this potential.

Program of consolidation and growth launched

The Mail-order segment launched a central program of consolidation and growth for the around 80 business units under the name „C³“. The program is focused on the medium term. The aim is to increase mail order sales volume to 10 bill. € in three phases, starting with reconstruction and going on to transformation and realignment of the businesses and then to new growth. Savings totaling around 350 mill. € are to be achieved by efficient cost-cutting measures by the end of 2007.

Outlook

Linked to the clear market positioning and major marketing campaign in the second half of 2006 are immediate stimuli to growth in German and international Universal mail order. The frequency at which the advertizing media are deployed to suit the target groups is being further increased and the profiling of the product ranges enhanced by supplementary special and sector catalogs. Additional attention is also being given to the strengthening of own brands. neckermann.de will increasingly further develop its Internet presence into a market place which is also open to customers and suppliers. Furthermore, as part of a new marketing concept, in the Fashion segment neckermann.de is offering all sizes at a standard price. The special mail order suppliers will continue to focus on growth, amongst other things, by selective acquisition. In Russia the preparations for a consistent growth strategy will already show results in the second half of the year.

Thomas Cook

Thomas Cook returns positive sales performance in the first half of the year

In the first six months of the tourism financial year (November 1, 2005 to April 30, 2006) the Thomas Cook Group increased its (proportionate) sales by 1.1 % to 1.22 bill. €. In April its performance was above average, Easter business being very good. In Germany both Neckermann Reisen and the Thomas Cook premium brand succeeded in gaining shares of the market. Customer numbers were accordingly higher than in the market as a whole. At the same time cost leadership in Germany was expanded, enabling tourism products to be offered at an optimum price/performance ratio.

Marked improvement in results year on year

Year on year, results (proportionate EBITDA, adjusted) improved due to seasonal effects to minus 65.5 mill. € (previous year: minus 73.2 mill. €) during the first tourism half-year. This represents a sales increase by 10.6 %. The decisive factors behind the positive performance were mainly the rise in sales and the further reduction in costs.

Key figures * 1)

		Half year I (01.11. - 30.04.)			Quarter II (01.02. - 30.04.)		
		2005/2006	2004/2005	Change in %	2006	2005	Change in %
Sales	mill. €	1,216.8	1,203.5	1.1	663.7	639.8	3.7
thereof international contribution	in %	49.1	52.5	–	54.9	54.2	–
thereof tour operators	mill. €	979.8	969.7	1.0	538.6	520.0	3.6
thereof flights	mill. €	164.8	146.0	12.9	87.3	71.7	21.8
Earnings							
EBITDA (adjusted)	mill. €	–65.5	–73.2	10.6	–26.7	–21.8	–22.5
EBITDA margin (adjusted)	in %	*–5.4*	*–6.1*	–	*–4.0*	*–3.4*	–
Full-time employees at the balance sheet date	number	9,961	10,170	–2.1	9,961	10,170	–2.1

Other information 1)

		Half year I (01.11. - 30.04.)		
		2005/2006	2004/2005	Change in %
Operators' customers carried	number in th.	3,234.0	3,276.8	–1.3
Operators' return per customer	€	585.20	572.10	2.3
Average holiday duration	days	8.1	8.2	–1.2

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

1) Key figures shown proportionately; information given in full.

Indebtedness reduced virtually to zero

Year-on-year (proportionate) net financial liabilities were successfully reduced by 82.1 % to 45.5 mill. € at April 30, 2006. The large decrease by 209.6 mill. € was achieved mainly by the improved cash flow and a change in the policy of advance payments to hotel partners. Indebtedness has thus been reduced virtually to zero. This positive trend continued. At June 30, 2006, (balance sheet date for inclusion in the consolidated financial statements) for seasonal reasons there was actually a surplus of liquid funds amounting to 95.5 mill. €. This value as of June 30, 2006, is included in the present interim report.

Disproportionate growth in bookings for the 2006 summer season

Thomas Cook recorded a rise by 5.6 % on the previous year in bookings in Germany by mid-July for the 2006 summer season. The leading brand Neckermann is making the biggest contribution to this success. Thomas Cook thus outperformed the market, which grew by just under 2 %. Because of this performance the Thomas Cook Group anticipates further gains in market shares in Germany.

Outlook – sales increases and improvements in income

Thomas Cook wants to achieve an average annual sales growth of 4 % in the German market in the next few years. The return on sales is to be further increased. Thomas Cook aims to achieve this by a three-pillar strategy:

1. Clear market positioning
2. Opening up of new growth segments
3. Operating excellence

The Neckermann, Thomas Cook Reisen and Bucher Last Minute brands will expand their good market position and become Germany's best-selling operators.

Overall it is anticipated that in the Thomas Cook Group earnings will improve and financial targets be reached. Following successful restructuring, Thomas Cook is once more in a position to invest in the future of the company.

Services

The KarstadtQuelle Group's retail-related service operations are concentrated in this segment. The focus here is on profitable business models. The core competences include – after extensive divestments – financial and information services as well as customer relations management and purchasing.

Adjusted sales in the first half of 2006, including proportionately consolidated companies, amounted to 151.5 mill. € (previous year: 142.4 mill. €). Adjusted EBITDA stood at 14.1 mill. € (previous year: 19.5 mill. €).

Key figures *

		Half year I (01.01. – 30.06.)			Quarter II (01.04. – 30.06.)		
		2006	2005	Change in %	2006	2005	Change in %
Sales	mill. €	151.5	142.4	6.4	73.4	73.5	-0.1
Earnings							
EBITDA (adjusted)	mill. €	14.1	19.5	-27.9	6.8	9.0	-24.2
EBITDA margin (adjusted)	in %	*9.3*	*13.7*	–	*9.3*	*12.3*	–
Full-time employees at the balance sheet date	number	2,137	2,248	-4.9	2,137	2,248	-4.9

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

Real estate

The Real-estate group sector returns adjusted sales amounting to 217.7 mill. € (previous year: 223.2 mill. €) during the first half. Adjusted EBITDA stood at 117.1 mill. € (previous year: 160.6 mill. €). A year-on-year comparison of results is no longer possible due to extensive divestments of real estate (Karstadt Kompakt department stores, SinnLeffers, logistics real estate).

In March 2006 KARSTADT QUELLE AG sold a real estate portfolio of 174 units. On July 3, 2006, payments totaling 2.87 bill. € out of the first tranche of 3.7 bill. € were received. Of this 2.69 bill. € is due to the Group; the remainder is due to the KarstadtQuelle pension trust.

Key figures *

		Half year I (01.01. - 30.06.)			Quarter II (01.04. - 30.06.)		
		2006	2005	Change in %	2006	2005	Change in %
Sales	mill. €	217.7	223.2	-2.4	108.3	107.6	0.7
Earnings							
EBITDA (adjusted)	mill. €	117.1	160.6	-27.1 [1]	61.9	75.7	-18.3 [1]
EBITDA margin (adjusted)	in %	*53.8*	*71.9*	–	*57.1*	*70.3*	–
Full-time employees at the balance sheet date	number	69	81	-14.8	69	81	-14.8

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

1) Year-on-year comparison of real estate result not possible due to extensive divestments.

Consolidated income statement

for the period from January 1 to June 30, 2006

Amounts shown in th. €	Half year I (01.01. – 30.06.)			Quarter II (01.04. – 30.06.)		
	2006	2005	Change in %	2006	2005	Change in %
Sales	6,474,551	7,166,102	-9.7	3,207,120	3,549,540	-9.6
Cost of sales and expenses for tourism services	-3,614,132	-3,911,755	7.6	-1,792,371	-1,913,777	6.3
Gross income	**2,860,419**	**3,254,347**	-12.1	**1,414,749**	**1,635,763**	-13.5
Other capitalized own costs	13,987	22,242	-37.1	5,492	11,485	-52.2
Operating income	1,315,470	388,286	238.8	1,110,256	211,703	–
Staff costs	-1,180,843	-1,382,563	14.6	-586,560	-681,079	13.9
Operating expenses	-2,321,642	-2,245,903	-3.4	-1,214,998	-1,153,930	-5.3
Other taxes	-10,702	-13,644	21.6	-5,305	-6,770	21.6
Earnings before interest, tax and depreciation and amortization (EBITDA)	**676,689**	**22,765**	–	**723,634**	**17,172**	–
Depreciation and amortization (not including amortization of goodwill)	-145,804	-229,378	36.4	-66,767	-139,122	52.0
of which impairment loss	-507	-57,550	99.1	-507	-57,550	99.1
Earnings before interest, tax and amortization of goodwill (EBITA)	**530,885**	**-206,613**	–	**656,867**	**-121,950**	–
Amortization of goodwill	–	205	–	–	205	–
Earnings before interest and tax (EBIT)	**530,885**	**-206,408**	–	**656,867**	**-121,745**	–
Income from investments	2,740	2,259	21.3	2,308	1,918	20.3
Income from investments in associates	4,259	8,535	-50.1	2,301	3,952	-41.8
Net interest income	-192,055	-153,537	-25.1	-129,228	-76,334	-69.3
Other financial results	19,634	-12,911	–	6,828	-14,807	146.1
Earnings before tax (EBT)	**365,463**	**-362,062**	200.9	**539,076**	**-207,016**	–
Taxes on income	194,500	117,053	66.2	128,994	58,861	119.2
Earnings from continuing operations	**559,963**	**-245,009**	–	**668,070**	**-148,155**	–
Result from discontinued operations	–	-25,352	–	–	-12,170	–
Net profit/loss before minority interests	**559,963**	**-270,361**	–	**668,070**	**-160,325**	–
Profit/loss due to minority interests	-1,847	-1,515	-21.9	-2,159	-411	–
Net profit/loss after minority interests	**558,116**	**-271,876**	–	**665,911**	**-160,736**	–
Earnings per share in €	**2,79**	**-1,36**	–	**3,30**	**-0,80**	–
thereof from continuing operations	2,80	-1,23	–	3,31	-0,74	–
thereof from discontinued operations	0,00	-0,13	–	0,00	-0,06	–

Consolidated balance sheet

for the period ended June 30, 2006

Assets

Amounts shown in th. €	30.06.2006	30.06.2005	Change in %	31.12.2005
Intangible assets	1,087,878	1,117,732	-2.7	1,104,831
Tangible assets	1,061,660	2,659,840	-60.1	2,452,839
Shares in associates	86,343	110,226	-21.7	98,398
Other financial assets	624,494	1,032,739	-39.5	535,220
thereof securities	12,899	12,572	2.6	11,684
Other non-current assets	96,764	129,746	-25.4	94,167
Deferred taxes	220,891	283,529	-22.1	228,249
Non-current assets	**3,178,030**	**5,333,812**	-40.4	**4,513,704**
Inventories	1,547,838	1,700,643	-9.0	1,621,095
Trade receivables	795,267	1,400,712	-43.2	844,385
Tax receivables	127,316	89,381	42.4	50,430
Other receivables and other assets	1,011,858	1,046,039	-3.3	1,139,128
Purchase price receivable from real estate transaction	2,690,203	–	–	–
Cash and cash equivalents and securities	770,550	657,504	17.2	707,163
Current assets	**6,943,032**	**4,894,279**	41.9	**4,362,201**
Assets classified as held for sale	481,506	1,942,263	-75.2	262,658
Balance sheet total	**10,602,568**	**12,170,354**	-12.9	**9,138,563**

Equity and liabilities

Amounts shown in th. €	30.06.2006	30.06.2005	Change in %	31.12.2005
Subscribed share capital	514,544	510,398	0.8	510,398
Reserves	790,711	-196,053	–	-237,068
Minority interests	12,192	31,595	-61.4	16,745
Equity	**1,317,447**	**345,940**	280.8	**290,075**
Long-term capital of minority interests	–	53,203	–	–
Non-current financial liabilities	1,007,146	3,361,517	-70.0	3,012,793
Other non-current liabilities	485,925	596,024	-18.5	566,606
Pension provisions	886,923	859,101	3.2	906,756
Other non-current provisions	368,220	350,802	5.0	383,784
Deferred taxes	18,880	8,483	122.6	11,673
Non-current liabilities	**2,767,094**	**5,229,130**	-47.1	**4,881,612**
Current financial liabilities	3,062,043	2,164,105	41.5	724,776
Trade payables	1,331,760	1,424,662	-6.5	1,600,870
Current tax liabilities	180,695	151,775	19.1	201,746
Other current liabilities	1,405,913	1,286,692	9.3	768,855
Current provisions	506,277	564,313	-10.3	609,677
Current liabilities	**6,486,688**	**5,591,547**	16.0	**3,905,924**
Liabilities from assets classified as held for sale	31,339	1,003,737	-96.9	60,952
Balance sheet total	**10,602,568**	**12,170,354**	-12.9	**9,138,563**

Statement of changes in equity

for the period from January 1, 2005/2006 to June 30, 2005/2006

Amounts shown in th. €	Subscribed share capital	Additional paid-in capital	Revenue reserves: Other revenue reserves	Revenue reserves: Reserve for intercompany profit and loss elimination	Revenue reserves: Revaluation reserve	Revenue reserves: Cumulative foreign currency differences	Minority interests	Group equity Total
Opening balance 01.01.2005	**510,398**	**629,424**	**-561,095**	**–**	**3,911**	**-13,577**	**26,783**	**595,844**
Differences from foreign currency translation	–	–	–	–	–	2,202	-63	2,139
Changes resulting from disposals and the measurement of primary and derivative financial instruments	–	–	–	–	23,353	–	–	23,353
Changes in consolidated companies	–	–	-8,483		-79	167	3,931	-4,464
Equity capital changes without effect for income	**–**	**–**	**-8,483**	**–**	**23,274**	**2,369**	**3,868**	**21,028**
Consolidated earnings	–	–	-271,876	–	–	–	1,515	-270,361
	–	**–**	**-280,359**	**–**	**23,274**	**2,369**	**5,383**	**-249,333**
Dividends	–	–	–	–	–	–	-571	-571
Closing balance 30.06.2005	**510,398**	**629,424**	**-841,454**	**–**	**27,185**	**-11,208**	**31,595**	**345,940**
Opening balance 01.01.2006	**510,398**	**629,424**	**-883,103**	**–**	**26,479**	**-9,868**	**16,745**	**290,075**
Differences from foreign currency translation	–	–	–	–	–	-5,755	-3	-5,758
Changes resulting from disposals and the measurement of primary and derivative financial instruments	–	–	–	–	-7,820	–	–	-7,820
Changes in consolidated companies	–	–	-4,730	–	-3,579	-1,095	-6,397	-15,801
Equity capital changes without effect for income	**–**	**–**	**-4,730**	**–**	**-11,399**	**-6,850**	**-6,400**	**-29,379**
Consolidated earnings	–	–	558,116	–	–	–	1,847	559,963
Eliminated interim results	–	–	–	482,762	–	–	–	482,762
	–	**–**	**553,386**	**482,762**	**-11,399**	**-6,850**	**-4,553**	**1,013,346**
Exercise of convertible bond/ stock options*	**4,146**	**9,880**	**–**	**–**	**–**	**–**	**–**	**14,026**
Closing balance 30.06.2006	**514,544**	**639,304**	**-329,717**	**482,762**	**15,080**	**-16,718**	**12,192**	**1,317,447**

* 238,500 own shares were issued to employees under the Incentive Stock Option Plan in the second quarter of 2006. The amount of stock held by the company thus fell to 11,186,383 shares.

Consolidated cash flow statement

for the period from January 1 to June 30, 2006

Amounts shown in th. €	2006	2005
EBITDA	**676,689**	**22,765**
Profit/loss from the disposal of fixed assets	-906,419	-24,278
Profit/loss from foreign currency	-4,457	3,038
Decrease of non-current provisions (not including pension and tax provisions)	-2,178	-18,760
Utilization of restructuring provision	-130,367	-84,830
Other expenses/income not affecting cash flow	146,904	98,454
Gross cash flow	**-219,828**	**-3,611**
Changes in working capital	-68,114	-173,859
Changes in other current assets and liabilities	317,002	114,760
Dividends received	1,165	2,803
Payments/refunds of taxes on income	-46,068	-37,395
Cash flow from operating activities	**-15,843**	**-97,302**
Cash flow from divestments of subsidiaries less cash and cash equivalents disposed of	79,572	10,080
Purchase of tangible and intangible assets	-81,127	-84,686
Purchase of investments in non-current financial assets	-140,295	-69,020
Cash receipts from sale of tangible and intangible assets	62,133	133,560
Cash receipts from sale of non-current financial assets	8,522	40,665
Cash flow from investing activities	**-71,195**	**30,599**
Free cash flow	**-87,038**	**-66,703**
Interest received	72,957	62,773
Interest paid	-185,698	-190,584
Pension payments	-54,135	-90,365
Cash receipts/payments of (financial) loans	334,309	297,971
Payments of liabilities due under finance lease	-9,729	-16,208
Cash payments/cash receipts for dividends and capital increase	3,979	-571
Cash flow from financing activities	**161,683**	**63,016**
Changes in cash and cash equivalents affecting cash flow	**74,645**	**-3,687**
Changes in cash and cash equivalents due to changes in exchange rates or other changes caused by the consolidated companies	-11,258	-1,020
Cash and cash equivalents at the beginning of the period*	707,163	662,211
Cash and cash equivalents at the end of the period [1)]	**770,550**	**657,504**

* Method of calculation changed.

[1)] Before receipt of funds amounting to 2.7 bill. € from the real estate transaction.

Segment report

Quarter II (April 1 to June 30, 2006)

Amounts shown in th. €	KarstadtQuelle Group 2006	KarstadtQuelle Group 2005	Reconciliation account * 2006	Reconciliation account * 2005	Karstadt 2006	Karstadt 2005
Sales	3,686,598	4,023,616	–	–	1,076,884	1,235,661
Interest from lending business	52,134	51,026	–	–	–	–
Internal sales	-531,612	-525,102	-145,418	-166,901	-7,942	-89,018
Consolidated sales	**3,207,120**	**3,549,540**	**-145,418**	**-166,901**	**1,068,942**	**1,146,643**
Consolidated sales (adjusted) 1)	***3,207,120***	***3,355,924***	***-145,418***	***-148,146***	***1,068,942***	***1,007,187***
Cost of sales and expenses for tourism services	-1,792,371	-1,913,777	24,167	24,446	-626,116	-646,332
Gross income	**1,414,749**	**1,635,763**	**-121,251**	**-142,455**	**442,826**	**500,311**
Other capitalized own costs	5,492	11,485	4,266	10,005	646	825
Operating income and costs	-104,742	-942,227	83,296	114,347	-248,064	-257,806
Staff costs	-586,560	-681,079	-5,039	-6,262	-231,368	-282,151
Other taxes	-5,305	-6,770	-28	-25	-17	-10
EBITDA	**723,634**	**17,172**	**-38,756**	**-24,390**	**-35,977**	**-38,831**
EBITDA (adjusted) 1) *EBITDA margin in % (adjusted)*	**-17,707** *-0,6*	**13,867** *0,4*	**-10,771** *–*	**-4,357** *–*	**-8,878** *-0,8*	**-29,605** *-2,9*
Depreciation and amortization (not including goodwill)	-66,767	-139,122	-331	-339	-22,406	-23,722
Amortization of goodwill	-	205	–	–	–	–
EBIT	**656,867**	**-121,745**	**-39,087**	**-24,729**	**-58,383**	**-62,553**
Earnings from discontinued operations	**-**	**-12,170**	**–**	**-2,175**	**–**	**-9,995**
Investments	43,970	45,218	1,260	869	21,206	24,645

* The reconciliation account also includes the holding company.

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

Mail order		Thomas Cook		Services		Real estate	
2006	2005	2006	2005	2006	2005	2006	2005
1,748,091	1,934,371	671,478	651,573	81,796	75,637	108,349	126,374
52,134	51,026	–	–	–	–	–	–
-362,018	-255,262	-7,812	-11,795	-8,422	-2,126	–	–
1,438,207	**1,730,135**	**663,666**	**639,778**	**73,374**	**73,511**	**108,349**	**126,374**
1,438,207	***1,675,973***	***663,666***	***639,778***	***73,374***	***73,483***	***108,349***	***107,649***
-687,075	-819,030	-470,958	-441,230	-32,389	-31,631	–	–
751,132	**911,105**	**192,708**	**198,548**	**40,985**	**41,880**	**108,349**	**126,374**
431	137	–	–	149	518	–	–
-638,063	-649,222	-107,897	-111,490	-6,678	8,487	812,664	-46,543
-218,752	-258,378	-103,440	-105,431	-26,666	-26,913	-1,295	-1,944
-2,223	-2,422	-607	-1,084	-140	-5	-2,290	-3,224
-107,475	**1,220**	**-19,236**	**-19,457**	**7,650**	**23,967**	**917,428**	**74,663**
-40,063 *-2,8*	**-15,103** *-0,9*	**-26,723** *-4,0*	**-21,819** *-3,4*	**6,836** *9,3*	**9,023** *12,3*	**61,892** *57,1*	**75,728** *70,3*
-19,423	-24,159	-19,264	-19,788	-3,746	-5,225	-1,597	-65,889
–	–	–	205	–	–	–	–
-126,898	**-22,939**	**-38,500**	**-39,040**	**3,904**	**18,742**	**915,831**	**8,774**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
14,569	9,981	5,651	4,288	1,284	4,938	–	497

Segment report

Half year I (January 1 to June 30, 2006)

Amounts shown in th. €	KarstadtQuelle Group		Reconciliation account *		Karstadt	
	2006	2005	2006	2005	2006	2005
Sales	7,468,998	8,219,902	–	–	2,200,518	2,599,576
Interest from lending business	110,047	107,993	–	–	–	–
Internal sales	-1,104,494	-1,161,793	-296,702	-409,441	-20,114	-199,705
Consolidated sales	**6,474,551**	**7,166,102**	**-296,702**	**-409,441**	**2,180,404**	**2,399,871**
Consolidated sales (adjusted) 1)	***6,474,551***	***6,755,216***	***-296,702***	***-304,386***	***2,180,404***	***2,112,665***
Cost of sales and expenses for tourism services	-3,614,132	-3,911,755	41,422	91,264	-1,280,930	-1,372,276
Gross income	**2,860,419**	**3,254,347**	**-255,280**	**-318,177**	**899,474**	**1,027,595**
Other capitalized own costs	13,987	22,242	12,075	18,775	1,105	1,946
Operating income and costs	-1,006,172	-1,857,617	204,423	269,572	-499,449	-511,009
Staff costs	-1,180,843	-1,382,563	-9,883	-10,702	-469,505	-591,606
Other taxes	-10,702	-13,644	-40	-45	-74	-87
EBITDA	**676,689**	**22,765**	**-48,705**	**-40,577**	**-68,449**	**-73,161**
EBITDA (adjusted) 1) *EBITDA margin in % (adjusted)*	**-41,668** *-0,6*	**19,397** *0,3*	**-18,716** *–*	**-13,628** *–*	**-36,058** *-1,7*	**-59,185** *-2,8*
Depreciation and amortization (not including goodwill)	-145,804	-229,378	-534	-615	-44,552	-51,723
Amortization of goodwill	–	205	–	–	–	–
EBIT	**530,885**	**-206,408**	**-49,239**	**-41,192**	**-113,001**	**-124,884**
Earnings from discontinued operations	**–**	**-25,352**	**–**	**-4,349**	**–**	**-21,003**
Segment assets	8,776,648	8,917,875	115,065	220,394	1,282,364	1,193,098
Segment liabilities	3,999,079	4,071,948	120,396	108,575	712,494	762,228
Investments	81,127	84,685	1,168	906	42,900	44,238
Employees (on average) number	88,420	112,059	186	186	34,189	48,938
Employees (on average) adjusted 1) number	76,102	83,362	186	186	33,407	36,984

* The reconciliation account also includes the holding company.

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

Mail order		Thomas Cook		Services		Real estate	
2006	2005	2006	2005	2006	2005	2006	2005
3,648,169	3,886,584	1,234,412	1,225,055	168,151	248,253	217,748	260,434
110,047	107,993	–	–	–	–	–	–
-753,401	-525,569	-17,638	-21,592	-16,639	-5,486	–	–
3,004,815	**3,469,008**	**1,216,774**	**1,203,463**	**151,512**	**242,767**	**217,748**	**260,434**
3,004,815	***3,377,846***	***1,216,774***	***1,203,463***	***151,512***	***142,419***	***217,748***	***223,209***
-1,439,058	-1,673,010	-865,943	-835,393	-69,623	-122,340	–	–
1,565,757	**1,795,998**	**350,831**	**368,070**	**81,889**	**120,427**	**217,748**	**260,434**
603	424	–	–	204	1,097	–	–
-1,268,049	-1,283,062	-201,709	-229,323	-14,725	-12,402	773,337	-91,393
-437,466	-493,100	-208,876	-207,922	-52,558	-75,364	-2,555	-3,869
-4,512	-4,796	-1,234	-2,193	-276	-12	-4,566	-6,511
-143,667	**15,464**	**-60,988**	**-71,368**	**14,534**	**33,746**	**983,964**	**158,661**
-52,606 *-1,8*	**-14,662** *-0,4*	**-65,477** *-5,4*	**-73,203** *-6,1*	**14,065** *9,3*	**19,505** *13,7*	**117,124** *53,8*	**160,570** *71,9*
-39,962	-46,474	-39,509	-40,398	-8,349	-10,381	-12,898	-79,787
–	–	–	205	–	–	–	–
-183,629	**-31,010**	**-100,497**	**-111,561**	**6,185**	**23,365**	**971,066**	**78,874**
-	-	-	-	-	-	-	-
2,771,456	4,001,801	1,586,122	1,745,246	241,109	293,662	2,780,532	1,463,674
1,272,623	1,339,955	1,470,719	1,428,845	74,271	84,853	348,576	347,492
25,466	23,703	8,765	8,494	2,449	6,648	379	696
30,438	34,334	21,121	25,876	2,407	2,616	79	109
29,610	32,192	10,561	11,531	2,259	2,384	79	85

Notes to the consolidated financial statements

Accounting policies

The accounting policies are identical to those applied in the last annual and quarterly accounts with the following exceptions.

The previous year's figures have been adjusted to take account of the proportionate consolidation of the joint ventures until now recognized at equity. Thomas Cook AG, Oberursel, in deviation from the Group's balance sheet date, was included on the basis of the sub-group consolidated financial statements for the period to April 30, 2006. The most important changes to June 30, 2006 are taken into account.

The TriStyle subgroup fully consolidated the previous year was changed to proportionate consolidation at December 31, 2005, due to loss of control over the group.

In consequence of the revised IAS 32 (rev. 2004 "Financial instruments: Disclosure and presentation") minority interests in limited partnerships in the TriStyle Group are recognized as "Long-term capital of minority interests". As reliable fair values cannot be determined, measurement is made at the carrying amount. As at June 30, 2005, this commitment stood at 53.2 mill. €. Income from these interests is accordingly recognized under net interest income.

The treatment of the sale of trade receivables is the same as that for quarters of the previous year. In the current year, because of the reorganization of the domestic sale of receivables program at the end of 2005, trade receivables are again shown off balance by qualifying as an actual derecognition. The charges linked with them are shown as an operating expense, while the previous year they are recognized according to the treatment on the balance sheet as financing under interest expenses. As at June 30, 2005, trade receivables to the value of 1.07 bill. € which were sold under the ABS program are recognized. Short-term financial liabilities related to these amount to 0.89 bill. € at the balance sheet date the previous year.

The structure of the profit and loss account contains the most important items also disclosed in the annual account.

A review of the quarterly report was conducted for the fully consolidated companies and the proportionately consolidated Karstadt Feinkost GmbH & Co. KG.

Treatment of the real estate transaction

With regard to the real estate transaction already disclosed in the first quarter of 2006 the greater part of the portfolio was disposed of with effect from June 30, 2006. As the purchase price was paid only with effect from July 3, 2006, the purchase price of 2.7 bill. € payable was recognized on the balance sheet in a separate item „Purchase price receivable from real estate transaction".

The sale was to Highstreet Holding GbR, in which Whitehall, a company of the Goldmann-Sachs Group, has a 51 % and the Group a 49 % share. The investment is accounted for using the equity method. The book profits gained from the transaction (1.7 bill. €) are eliminated in proportion to the own investment of 49 %. The at-equity value (132.7 mill. €) is reduced to zero and the additional profit elimination is recorded directly in equity. The deferred taxes incurred by the transaction are likewise eliminated and recorded directly in equity. In total, an amount of 482.8 mill. €, recorded directly in equity, is shown as reserve for intercompany profit and loss elimination.

The real estate transaction gave rise during the period to June 30, 2006, to finance lease agreements amounting to 4.7 mill. €, which have been capitalized accordingly in the half-yearly financial statement.

Deferred taxes

Because of the real estate transaction the assessment changes with regard to the recoverability of deferred tax assets on tax loss carry-forwards. As a result allowances for deferred tax assets amounting to 290 mill. € were released.

Companies consolidated/Segment report

No material changes resulted to the group of consolidated companies from investment or divestment during the period under review.

In the Thomas Cook subgroup, Thomas Cook Travel Ltd., Canada, was deconsolidated in the second quarter of 2006. This disposal represents a material change after the Thomas Cook subgroup's balance sheet date in that the sale only became effective after April 30, 2006.

In the second quarter the group of consolidated companies was increased by one company. The changes relate to the Real estate segment with one company fully consolidated for the first time and two companies accounted for using the equity method. In the Karstadt and Mail order segments one company was disposed of. The group of consolidated companies thus grew by eight companies during the first half year.

Net deconsolidation effects amounting to minus 8.5 mill. € result from total divestments in the first half of 2006.

Assets and liabilities classified as held for sale and disposal groups

The Group's assets are substantially affected as follows by the disposal of the real estate: The decrease in assets classified as held for sale reflects the disposal of the assets concerned.

The decrease in assets to the value of 1,002.8 mill. € and the increase in liabilities to the value of 6.0 mill. € relative to the interim report to March 31, 2006, were spread between the disposal groups as follows:

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

Amounts shown in th. €	As at 01.04.2006	Additions	Disposals		As at 30.06.2006
			Real estate	Other	
Assets classified as held for sale					
Intangible assets	1,220	741	–	-450	1,511
Tangible assets	1,462,441	53,464	-1,053,915	-17,872	444,118
Other financial assets	–	1,609	–	–	1,609
Deferred taxes	10,556	70,484	-67,104	-12,020	1,916
Current assets	10,081	56,781	–	-34,510	32,352
	1,484,298	**183,079**	**-1,121,019**	**-64,852**	**481,506**
Liabilities from assets classified as held for sale					
Pension provisions	5,520	103	–	-933	4,690
Deferred taxes	5,252	–	–	-5,252	–
Current financial liabilities	–	3,175	–	–	3,175
Other liabilities	14,594	13,235	–	-4,355	23,474
	25,366	**16,513**	**–**	**-10,540**	**31,339**

Contingent liabilities, other financial commitments

Important changes to contingent liabilities and other financial commitments also result from the real estate transaction.

With regard to the lease agreement between Karstadt Warenhaus GmbH and the lessor the lease payments were secured by KARSTADT QUELLE AG in the form of a lease guarantee. This guarantee will lapse as soon as the real estate is placed on the market by Highstreet Holding GbR for individual disposal or KarstadtQuelle sells its share in Highstreet Holding GbR.

The lease payments additionally falling due yearly amount to 216.7 mill. € with a lease term of 15 years.

Current development of litigation

The company is aware that in June 2006 in New York another action was brought by members of the Wertheim family with regard to the transfer proceedings in the 50's. Such action has so far not been formally served on the company. So far no actions were allowed in the USA. For this and other reasons KarstadtQuelle rates the chances which the actions have of success in the USA as „slight." No provisions have so far been set up for this contingency.

Major events after the balance sheet date

With effect from July, 3, 2006, large parts of the third-party financing utilized until now were repaid and the relevant facilities terminated. Accordingly, these loans were shown as of June 30, 2006, as current financial liabilities. The repayment concerns the syndicated loan facility for up to 1.65 bill. € and the secondary loan facility for nominally 303 mill. €. Furthermore, the mortgage loans secured with the land and buildings disposed of were redeemed.

Due to termination before the balance sheet date the prepayment indemnities, fees, etc., connected with the redeemed loans were – in so far as they were known – recognized as expenses in the present financial statements.

To secure the in-year working capital build-up and to provide a letter-of-credit facility, a new multi-year seasonal and revolving credit facility for up to 400 mill. € was signed on June 29, 2006. This facility will be available to the Group from the date of the purchase price payment on July 3 and the corresponding termination of the loan facilities used hitherto.

As at June 30, 2006, three typical silent partnerships were agreed between KarstadtQuelle Pension Trust e. V., II. KarstadtQuelle Pension Trust e. V. and Kepa Kaufhaus GmbH on the one part and QuelleNeckermann Spezialversand GmbH on the other for a total value of 400 Mio. €. The payments relating to these were made as due on July 3, 2006.

Effective August 1, 2006, the operation of the Karstadt high-rise car parks was leased to the French high-rise car park operator Vinci Park. Additional lease income of around 29 mill. € a year for 15 years will result from this.

Calendar 2006/2007

Interim report	
3rd Quarter	November 8, 2006
Trading Statement	Early January, 2007
Balance sheet press conference/ Analysts' Meeting	March 29, 2007
Annual General Meeting	
Düsseldorf	May 10, 2007

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