KARSTADT QUELLE AG

INTERIM REPORT

TO SEPTEMBER 30, 2004

Facts

- **Concept put forward for the reorganization and realignment of the KarstadtQuelle Group**

- **Solidarity pact being implemented**

  – Cost-cutting program totaling about 760 mill. € agreed with employees' representatives for 2005 to 2007

  – Capital increase with an issue volume of 500 mill. € provided

  – Existing credit lines guaranteed by banks until December 31, 2004

  – Follow-up financing via syndicated credit lines of about 1.75 bill. € is being negotiated

- **Background conditions in the German retail trade remain difficult in the third quarter**

- **Group sales in the third quarter down 5.9 %**

- **Quarterly operating earnings (EBTA) minus 31.1 mill. € (previous year: 31.4 mill. €)**

  – Cost-cutting and optimization measures dampen earnings charges resulting from decreasing sales

- **Special charges resulting from the reorganization and realignment already made good in the third quarter with an EBTA effect amounting to 1.1 bill. €**

- **Net financial liabilities remain reduced, working capital markedly reduced**

- **Sales of the core brands at the beginning of the fourth quarter impaired**

- **Sales and earnings forecast for the 2004 financial year adjusted**

  – Sales forecast: minus 7 %

  – Earnings forecast (operating EBTA): minus 280 mill. € to minus 295 mill. €

At a glance

			30.09.2004	30.09.2003	Change in %
Sales	Over-the-counter retail	mill. €	4,459.8	4,801.0	-7.1
	Mail order	mill. €	5,431.5	5,747.9	-5.5
	Services	mill. €	935.5	1,023.9	-8.6
	Real estate	mill. €	433.0	422.5	2.5
	Reconciliation account	mill. €	-1,174.8	-1,269.5	-
	Group sales	mill. €	**10,085.0**	**10,725.8**	-6.0
Earnings	Earnings from ordinary activities	mill. €	-570.4	505.3	-
	EBITA	mill. €	-1,251.8	44.4	-
	EBTA	mill. €	-1,569.0	-128.0	-
	EBTA (adjusted/ not including special factors)	mill. €	-419.6	-320.7	-30.8
Other information	Employees on 30.09.	number	94,779	100,922	-6.1
	Full-time employees on average (01.01.-30.09.)	number	76,019	79,726	-4.6
	Sales space in Over-the-counter retail	th. sq. m.	2,621.9	2,620.4	0.1
	Branches				
	Department stores	number	179 [1]	181*	-
	Sports stores	number	36	31*	-
	Karstadt Warenhaus AG	number	**215**	**212**	-
	Specialty stores	number	301	304	-
	Total number of branches		**516**	**516**	-
	Investments	mill. €	291.1	312.3	-6.8
KARSTADT QUELLE AG	Market price on 30.09.	€	12.55	21.92	-42.7
Share	Highest price (01.01.-30.09.)	€	21.62	25.90	-
	Lowest price (01.01.-30.09.)	€	12.25	10.17	-

* The sports stores have been independent branches since 31.12.2003. The 2003 quarters are adjusted.
[1] Not including eight Schaulandt branches.

Report of the Management Board

Dear Shareholders,

The third quarter of the 2004 financial year was of particular importance for the KarstadtQuelle Group. Mainly because of the continuing difficult economic position in the German retail trade our company group with nearly 100,000 staff came under pressure. To ensure the future of KarstadtQuelle, the Management Board drew up a far-reaching package of measures for the reorganization and realignment of the group and on September 28, 2004, presented it to the public. The aim is a sustained improvement in the earnings situation and the strengthening of the equity capital base and improvement of the group's financing structure.

The program of measures provides for the toughest and most radical changes that the KarstadtQuelle Group has ever had to face. The measures, although rather painful in the short term, are aimed at once more creating good future prospects for the group in the medium to long term. The core of the realignment is the refocusing of the group on its strengths and core competences. Our core business is being reorganized and strategically repositioned. At the same time we want to dispose of not inconsiderable parts of our portfolio of holdings.

OVER-THE-COUNTER RETAIL: REPOSITIONING OF DEPARTMENT STORES

Over-the-counter retail will be clearly focused. Therefore we want to dispose of the specialty store chains SinnLeffers, Wehmeyer, Golf House and Runners Point. Because of their size these formats do not enjoy the market position that we strategically expect for the operation of a format, or they enjoy a good positioning in their market segments which can be better developed by specialized purchasers than by us.

We want to rectify the competitive disadvantage of the department stores and their great heterogeneity and complexity. We therefore plan to split our department store portfolio into two groups with differentiated strategies. In the next few years we want to use our core portfolio to achieve solid growth, whilst disposing of our non-core portfolio.

We plan to direct our management capacity and the allocation of financial means consistently toward the further development of our core portfolio. The **core portfolio** is achieving a sales volume of 4.5 bill. € and contributing 80 % of total sales at the department stores. The portfolio comprises 89 department stores with more than 8,000 sq. m. of retail space and 1.5 mill. sq. m. of space overall. The department stores are located in towns and cities with catchment areas of more than 100,000 inhabitants and a purchasing power higher than the German average. With this core portfolio we are pursuing a strategy for improving sales and earnings. The central elements will be the utilization of all advantages arising from the focus on a homogeneous department store group, the increase in sales by competent presentation and concentration on city-center segments and price ranges. The alignment towards the system business is aimed at also enabling structures and processes to be markedly slimmed down and result in a sustained cost reduction. In addition, a package of measures for realignment of the department stores on the basis of a new segment ranking with greater emphasis on the Fashion, Sports, and Personality consumption segments (the latter comprises fragrances, jewelery, leather goods and books).

The **non-core portfolio** earmarked for disposal is achieving sales at present totaling 0.7 bill. €. It comprises 92 mainly small stores. We have grouped 77 small stores (under 8,000 sq. m of retail space) in a “medium-sized town portfolio” under the name “Karstadt Kompakt.” Although a number of these department stores is profitable at a branch level, their heterogeneous and complex structure means that they generate few synergies in the Karstadt combine. In our estimation these 77 branches, with their own independent management and on the basis of their own independent strategy, their own independent market presentation and their own independent market positioning, have good chances of success. For this reason we plan to concentrate these branches in a single unit, hive them off and initially continue to manage them along specialized lines. The disposal is to be completed in the years 2005 to 2008. The first priority is complete disposal to an investor in their entirety. Alternatively, the stores will be sold off gradually or closed and their space relet.

REALIGNMENT MAIL ORDER

Our Mail-order segment covers virtually the entire spectrum of universal and specialty mail order, is market leader in Germany and is having a leading position in many countries of Europe. Our strategy aims to take account of the recent differentiated performance of the individual mail-order segments.

The expansion strategy of our Specialty mail order and Foreign growth segments is to continue to be progressed and, above all, its implementation further accelerated by organic growth. The share contributed by our foreign business to mail-order sales is to be even further increased. At the same time we want to further expand our strong position in the strategic E-commerce growth segment. Because of the sluggish sales performance we want to realign universal mail order in Germany.

The **realignment of universal mail order** in Germany is based on even clearer profiling and differentiation of the two brands Quelle and Neckermann. The core is intended to be a clear target group differentiation. Quelle is to focus its entire service range on the “Established family” and “Generation 50+” target groups. At Neckermann we plan to focus on the target group of “young oriented people”, who, whatever their age e.g. in the textile range, prefer a sporty casual look. The – as the customer perceives it – rather indistinct profile of universal mail order is to be made much more distinctive. Quelle and Neckermann are to become multi-specialists. They are to concentrate on distinct profiling product ranges and present themselves with the same competence as a specialty market. Quelle is to concentrate on the “Modern to classical fashion”, “Modern to classical living” and “Technology” profiling product ranges. Neckermann is to be profiled towards younger oriented customers mainly through “Young fashion”, “Young living” and “Large sizes”.

We also plan to make the advertising campaign chain, i.e. addressing customers with catalogs, much more contemporary. To increase the frequency with which product ranges are changed to the same level as our competitors in Over-the-counter retail, we want to discontinue the classical position of our main catalog in half-yearly cycles and change to shorter seasonal cycles and streamline the catalogs.

In **specialty mail order** we want to continue to maintain our growth course. The higher margins in this segment by comparison with universal mail order contribute substantially to increased added value. To promote growth, we want to consistently shift the emphasis of our investments in favour of operations abroad. As a result, we plan for higher growth abroad than in Germany.

Foreign growth will take priority in mail order. The share contributed by foreign business to sales in past years already rose to 24 % – by 2006 it is to rise further. In 2005 and 2006, under the brand names Quelle or Neckermann, we plan entry into markets in 14 countries. The emphasis of our expansion lies in Central-Eastern Europe. Today we are No. 1 in mail order in nearly all the countries in which we are represented and want to consistently utilize the great growth potential of these fast developing national economies.

In **e-commerce** too we plan continued growth. We are already one of the leading companies in Germany and the European market. Over the period 2001 to 2003 we posted average yearly growth of about 40 %. Online demand today contributes a share of 19 per cent to mail-order sales. We plan further increases yearly on the basis of the high level reached in the meanwhile. The share contributed to overall mail-order sales by online demand is to rise even further.

FOCUS OF THE SERVICES SEGMENT

In the Services segment the large number of operations is to be drastically reduced by means of divestments and outsourcing. We shall be focusing on retail-related, high-return services.

Within the framework of our portfolio streamlining program we want to dispose of subsidiary processes of the retail business and the non-core retail business. Either the companies are to be sold or we shall out-source the operational business. We want to achieve earnings growth through retail-related services. This is to include also the holding in Thomas Cook. Thomas Cook after its reorganization achieved a positive result in its third quarter, although the cumulative result after nine months (01.11.2003 to 31.07.2004) is still negative. We also want to press ahead with the expansion of our successful new information, financial and customer relations services and TV commerce. This at present relatively small segment is out of the start-up phase and is growing dynamically.

FOCUS ON DEVELOPMENT OF 89 LARGE DEPARTMENT STORES

We have at our disposal retail real estate at top locations in city centers, complemented by a location and retail environment with a high customer footfall.

We plan to reorganize our real estate portfolio and dispose of real estate with no strategic importance. At the same time we shall press ahead with the liquidation of real estate which does not belong to our core portfolio in the department store segment. We shall also further develop the 89 large department stores in the department store core portfolio. The aim of the measures is to strengthen the market position of the main lessee, Karstadt.

We are also testing various models for separating real estate and retail business.

IMPLICATIONS

The strategic realignment will have a number of implications. Tough consolidation measures are already being taken in the current financial year. By the successful conclusion of our portfolio streamlining program we plan to do away with outside group sales amounting to some 1.3 bill. €. From this we hope to achieve a considerable inflow of liquidity, spread over 2004 and 2005.

Valuation and restructuring measures necessary in connection with the strategic realignment result in extraordinary and non-recurring expenditure amounting to 1.3 bill. € in the profit and loss account to September 30, 2004, (EBTA charge: 1.15 bill. €). These measures are at the same time aimed at radically reducing our balance sheet risks. Expenditure on **valuation measures** take place in particular in connection with the portfolio streamlining program and will amount to 826 mill. € (EBTA charge: 672 mill. €). The **restructuring measures** amount to 477 mill. € in total. It will be directed mainly towards staff adjustment measures.

IMPORTANT PRECONDITIONS CREATED FOR THE IMPLEMENTATION OF THE SOLIDARITY PACT

The implementation of the reorganization and realignment in the KarstadtQuelle Group is based on a solidarity pact between management, workforce, shareholders and banks. On October 14, 2004, important preconditions were created for the implementation of this solidarity pact. Thus our planning is aimed at laying one of the bases for the future viability of the KarstadtQuelle Group.

The workforce will do its share to implement the realignment and the tough consolidation measures. In negotiations with employees' and trade union representatives a cost-cutting program to save about 760 mill. € was resolved for the 2005 to 2007 financial years. The management and executives will make their contribution to the reorganization by reductions in their salary components.

Shareholders' contribution to the solidarity pact will take the form of a waiver of dividend payment for the 2004 and 2005 financial years. Furthermore, a capital increase with a subscription right and a total issue volume of 500 mill. € is planned. The Management Board and the Supervisory Board at their meeting on October 14, 2004, resolved to call an extraordinary meeting of shareholders on November 22, 2004. The purpose of this meeting is to resolve the capital increase. The members of the Madeleine Schickedanz voting pool and the Dresdner Bank AG have stated that under the capital increase they are principally prepared to subscribe to new shares with a total value of about 280 mill. €. This capital measure is expected to be implemented this year. KarstadtQuelle is being supported in this process by Dresdner Bank AG and ABN AMRO, which have undertaken in a provisional agreement under usual bank conditions to accompany the capital increase to ensure the highest possible certainty of the transaction. The aim of the capital measure is the strengthening of the equity capital base. Furthermore, the group is to gain in solidity for implementing the strategic realignment.

Discussions regarding our concept for reorganizing the KarstadtQuelle Group were held with the lending banks. The banks are prepared to constructively accompany the process of reorganization and realignment. The banks have agreed to an extension of short-term credit lines until December 31, 2004. Negotiations for syndicated financing with a volume of about 1.75 bill. € for the next three years were begun.

HOME DEMAND REMAINS SLUGGISH

The economic situation in Germany deteriorated in the third quarter of 2004. It is to be expected that the now foreshadowed slowdown in the rate of growth in the United States of America will have negative effects on German exports. This would mean that the most important motive force behind Germany's economy at present would lose some of its push. There is still no substantial impetus coming from private consumption. The still weak situation in the jobs market, the debate about reform of the jobs market and substantial oil price rises during the current year continue to inhibit private spending and hinder an appreciable improvement in the climate of consumption. As a result, sales in the "true" retail trade decreased by 1.1 % during the first nine months of 2004.

GROUP SALES IN THE THIRD QUARTER DOWN 5.9 %

The KarstadtQuelle Group posted a decrease in sales by 5.9 % to 3.21 bill. € over **the period from July 1 to September 30** (the same quarter the previous year: 3.41 bill. €). Compared with the second quarter (minus 7.6 %), the sales decrease lost some of its momentum in the third quarter of 2004. The performance remains unsatisfactory, but was within the bounds of our moderate expectations. In Over-the-counter retail, which shows a quarterly decrease by 7.7 %, the department stores, and, now to an increased extent, the specialty stores too post falling sales. In Mail order, where sales decreased by 5 %, the picture was varied. While the Specialty mail order, Foreign and E-commerce growth segments continued to grow, sales in Universal mail order in Germany markedly decreased.

The group achieved sales of 10.08 bill. € (previous year: 10.73 bill. €) in the **first nine months** of the 2004 financial year. This represents a decrease by 6 %.

EARNINGS HAMPERED BY REORGANIZATION AND REALIGNMENT – COST REDUCTION LESSENS BURDEN ON EARNINGS FROM DECREASING SALES

Group income before tax and amortization (EBTA) in the **third quarter,** after adjustment for special factors, came to minus 31.1 mill. € (previous year: minus 31.4 mill. €). Weak business in the two retail segments held down earnings. The Services segment markedly improved its earnings, mainly because of reduced losses at Thomas Cook. In connection with the reorganization and realignment of the KarstadtQuelle Group quarterly EBTA during the current year takes into account special factors (valuation and reorganizational measures). This resulted in an extraordinary burden of 1.1 bill. € on earnings. Taking into account these special factors, EBTA stood at minus 1.13 bill. € (previous year: minus 30.7 mill. €).

In the **first nine months** of the 2004 financial year group EBTA, after adjustment for special factors, stood at minus 419.6 mill. € (the same period the previous year: minus 320.7 mill. €). The decrease in earnings thus comes to 98.9 mill. €. Because of the sales decrease of 640.8 mill. € and the loss in gross income bound up with it earnings decreased at a disproportionately much lower rate. The decisive factors are the cost-cutting programs the implementation of which has considerably progressed.

Taking into account these special factors, EBTA stood at minus 1.57 bill. € (previous year: minus 128 mill. €). While the current year is extraordinarily burdened by the reorganization and realignment measures, the reorganization of the old-age pension provision in the previous year had a positive effect on earnings.

Earnings per share at September 30, 2004 stood at minus 14.35 € (previous year: minus 0.85 €). After adjustment for special factors earnings per share stood at minus 2.09 € (previous year: minus 2.65 €).

NET FINANCIAL LIABILITIES SLIGHTLY REDUCED

The reduction of net financial liabilities (not taking into account pension provisions including the liabilities from the companies held for sale) was successfully continued.

Net financial liabilities reach their highest level at the end of September of every financial year because of the increased volume of orders for the Christmas period. Despite the still difficult retail business they were reduced by 85 mill. € to 4.08 bill. € (previous year: 4.16 bill. €) for the period to the key date.

WORKING CAPITAL MARKEDLY REDUCED

A positive contribution to the easing of the indebtedness position was made by markedly decreasing working capital by 1.13 bill. € to 1.93 bill. €. The decrease by 36.8 % was achieved mainly by the selective reduction of the inventory. Trade receivables were also reduced as a result of, amongst other things, the expansion of the ABS program in the fourth quarter of 2003. Furthermore, trade payables were optimized. They rose by 16.3 % over the period to the review date, taking into account changes to balance sheet postings. The decisive factor here was the successful implementation of a program for extending payment targets in the retail segments.

NEW FINANCE MANAGER AT KARSTADT QUELLE AG

KARSTADT QUELLE AG is to have a new finance manager. Harald Pinger, 44, until recently finance director at Messer Griesheim GmbH, based in Frankfurt/Main, has taken over this responsibility with effect from October 1, 2004.

OUTLOOK:
SALES PERFORMANCE BY THE CORE BRANDS CURRENTLY IMPAIRED – WHOLE-YEAR FORECAST ADJUSTED

With, as our experience shows, a contribution of 30 % to yearly sales, the fourth quarter of the financial year is of great importance for the KarstadtQuelle Group. In this period we plan to boost sales by selective marketing campaigns both in Mail order and Over-the-counter retail. The Karstadt department stores will also mount a customer service offensive and an image campaign. We expect no support from the market and assume that the retail business will continue difficult and competition in the home market will remain intense.

The KarstadtQuelle Group has in the past few weeks begun a comprehensive reorganization program. The implementation of the program is also linked with drastic measures on the personnel side. For a number of weeks this attracted widespread attention from the general public. We noted as a negative side effect a reluctance to buy due to customer unease. Particularly affected by this was, as already mentioned, the domestic business performance by universal mail order at Germany's leading mail-order company, Quelle.

The sales forecast is therefore being adjusted to minus 7 % and the forecast for adjusted EBTA to minus 280 mill. € to minus 295 mill. €. In the management's estimation the sales decrease at the beginning of the fourth quarter was an understandable, but temporary reaction by customers. The Management assumes that the scope of the currently planned program of reorganization will not need to be adjusted to take account of this temporary effect.

Essen, November 2004

The Management Board

Performance in quarter I, II, and III 2004

Amounts shown in mill. €	QUARTER I (01.01. - 31.03.) 2004	2003	Change in %	QUARTER II (01.04. - 30.06.) 2004	2003	Change in %	QUARTER III (01.07. - 30.09.) 2004	2003	Change in %
SALES									
Over-the-counter retail	1,540.3	1,602.9	-3.9	1,446.5	1,602.6	-9.7	1,473.0	1,595.5	-7.7
Mail order	1,918.7	2,021.3	-5.1	1,846.1	1,971.4	-6.4	1,666.7	1,755.2	-5.0
Services	309.7	324.2	-4.5	315.0	337.6	-6.7	310.8	362.1	-14.2
Real Estate	143.5	140.1	2.4	146.3	140.4	4.2	143.2	142.1	0.8
Reconciliation account	-392.9	-405.4	-	-399.2	-423.0	-	-382.8	-441.3	-
	3,519.3	**3,683.1**	**-4.4**	**3,354.7**	**3,629.0**	**-7.6**	**3,210.9**	**3,413.6**	-5.9
EARNINGS BEFORE INTEREST, TAX AND AMORTIZATION OF GOODWILL (EBITA)									
Over-the-counter retail	-50.5	-90.4	44.1	-105.9	-66.2	-60.1	-723.4	-75.9	-
Mail order	-21.7	22.2	-198.0	-52.9	-12.9	-	-236.7	-19.0	-
Services	-91.8	-105.1	12.6	-69.6	-68.0	-2.3	66.9	59.1	13.1
Real Estate	76.0	62.5	21.5	51.4	62.2	-17.4	10.7	68.7	-84.5
Holdings	-17.6	134.9	-113.0	-30.3	80.0	-137.9	-25.1	-10.0	-149.8
Reconciliation account	-16.5	0.7	-	-16.6	0.7	-	1.8	0.8	-
	-122.1	**24.8**	**-**	**-223.9**	**-4.2**	**-**	**-905.8**	**23.7**	-
EARNINGS BEFORE TAX AND AMORTIZATION OF GOODWILL (EBTA)									
Over-the-counter retail	-60.0	-104.2	42.4	-119.0	-76.7	-55.3	-735.9	-88.6	-
Mail order	-36.2	5.1	-	-58.1	-29.6	-96.5	-248.1	-35.4	-
Services	-93.2	-107.3	13.2	-71.0	-70.1	-1.3	64.8	58.0	11.7
Real Estate	65.5	54.5	20.3	42.2	54.7	-22.9	-36.3	61.4	-159.1
Holdings	-30.6	115.7	-126.4	-46.1	58.8	-178.3	-175.9	-27.0	-
Reconciliation account	-16.4	0.9	-	-16.7	0.9	-	1.9	0.9	-
	-170.9	**-35.3**	**-**	**-268.7**	**-62.0**	**-**	**-1,129.5**	**-30.7**	-
ADJUSTED EARNINGS BEFORE TAX AND AMORTIZATION OF GOODWILL (EBTA adjusted/not including special factors)									
Over-the-counter retail	-60.0	-89.2	32.7	-104.0	-68.6	-51.7	-96.0	-77.3	-24.2
Mail order	-36.2	5.1	-	-49.1	-19.5	-152.2	-63.6	-27.7	-129.8
Services	-93.2	-107.3	13.2	-71.0	-69.1	-2.8	108.3	43.3	150.0
Real Estate	65.5	71.5	-8.3	60.2	50.7	18.7	58.5	57.8	1.1
Holdings	-30.6	-29.3	-4.4	-37.1	-35.1	-5.7	-22.0	-26.7	17.5
Reconciliation account	-16.4	0.9	-	-16.7	0.5	-	-16.3	-0.8	-
	-170.9	**-148.3**	**-15.2**	**-217.7**	**-141.1**	**-54.4**	**-31.1**	**-31.4**	1.1

Over-the-counter retail

		01.01. - 30.09.			QUARTER III (01.07. - 30.09.)		
		2004	2003	Change in %	**2004**	2003	Change in %
Sales	mill. €	4,459.8	4,801.0	-7.1	1,473.0	1,595.5	-7.7
EBITA	mill. €	-879.8	-232.4	-	-723.4	-75.9	-
EBTA	mill. €	-914.9	-269.4	-	-735.9	-88.6	-
EBTA (adjusted/not including special factors)	mill. €	-260.1	-235.0	-10.7	-96.0	-77.3	-24.2
Employees (30.09.)	number	54,718	58,359	-6.2	54,718	58,359	-6.2
Segment assets	mill. €	2,309.5	2,574.2*	-10.3	2,309.5	2,574.2*	-10.3
Segment liabilities	mill. €	2,642.3	2,468.5*	7.0	2,642.3	2,468.5*	7.0

* Figures for previous year, as of 31.12.2003

SALES DECREASED BY 7.1 % – OPTIMISATION OF THE BUSINESS MODEL IN DEPARTMENT STORE SEGMENT BEING IMPLEMENTED

The sales performance in Over-the-counter retail in the **third quarter** of the current financial year continued to be affected by the weak economic background conditions. Our department stores and specialist stores achieved sales worth 1.47 bill. € (previous year: 1.60 bill. €). This represents a decrease by 7.7 % (minus 6.1 % after adjustment for space).

Cumulatively sales fell by 7.1 % to 4.46 bill. € (previous year: 4.80 bill. €) **during the first nine months** of the current year. Sales at the Karstadt Warenhaus AG decreased by 6 % to 3.90 bill. € (previous year: 4.15 bill. €). After adjustment for retail space the sales decrease came to minus 5.1 %. The 301 specialty stores with the SinnLeffers and Wehmeyer (fashion), Runners Point and Golf House (sports) as well as LeBuffet (system catering) and WOM World of Music (multimedia) brands achieved sales of 603 mill. € (previous year 728.9 mill. €). After adjustment for space this represents a decrease in sales by 11.9 %.

In the third quarter earning (EBTA before special factors) stood at minus 96.0 mill. € (the same period the previous year: minus 77.3 mill. €). Taking into account the special factors resulting from the reorganization and realignment, EBTA stood at minus 735.9 mill. € (previous year: minus 88.6 mill. €). The decisive factors behind the non-recurring charge of 639.9 mill. € on earnings during the current year were mainly the devaluation of assets at the specialty stores advertised for sale, the devaluation of the goods inventory and lump-sum settlements.

To optimize the business model in the department store segment, in the third quarter we successfully implemented various strategic measures.

The preparations for the planned transfer of the food departments to Karstadt Feinkost GmbH & Co. KG are progressing rapidly. The joint venture with the Cologne retailing group REWE will begin operating on January 1, 2005. At present the food sector is being readjusted to the REWE Group’s merchandise management and payment system.

In redesigning our large department stores in Berlin (KaDeWe – Kaufhaus des Westens) and Hamburg (Alsterhaus) we aim to sharpen our profile in our large department stores. By opening our branch in Wiesbaden (19,000 sq. m.) in September we aim to raise the value of our Fashion segment. We also plan to raise the value of our ranges in the Living segment through the “Yorn Casa” concept. At the same time we continued to streamline the department store portfolio by selling the business and real estate of the furniture store at Munich-Theresienhöhe. We have thus parted company with our last pure furniture store.

The reduction of business system costs in the department store segment was continued in the third quarter of 2004 also. The focus was on the further reduction of administrative costs in the branches and main administration.

In the negotiations successfully concluded with employees’ representatives and trade unions after the report key date further cost reductions by an expected 500 mill. € were agreed for the department store segment for the 2005 to 2007 financial years.

Mail order

		01.01. - 30.09.			QUARTER III (01.07. - 30.09.)		
		2004	2003	Change in %	**2004**	2003	Change in %
Sales	mill. €	5,431.5	5,747.9	-5.5	1,666.7	1,755.2	-5.0
EBITA	mill. €	-311.4	-9.8	-	-236.7	-19.0	-
EBTA	mill. €	-342.4	-59.8	-	-248.1	-35.4	-
EBTA (adjusted/not including special factors)	mill. €	-148.9	-42.0	-	-63.6	-27.7	-129.8
Employees (30.09.)	number	34,064	36,260	-6.1	34,064	36,260	-6.1
Segment assets	mill. €	3,881.7	4,019.9*	-3.4	3,881.7	4,019.9*	-3.4
Segment liabilities	mill. €	3,726.5	3,719.1*	0.2	3,726.5	3,719.1*	0.2

* Figures for previous year, as of 31.12.2003

SPECIALTY MAIL ORDER, FOREIGN AND E-COMMERCE SUSTAIN GROWTH, UNIVERSAL MAIL ORDER SHARPLY DECLINING

The mail-order market in Germany has so far recorded a sluggish performance in 2004. The Federal Statistical Office has announced for the period to the end of September a volume of sales down by 6.7 % on the previous year. The market-leading mail-order houses Quelle und Neckermann could not avoid the general trend. While the strategic growth segments Foreign and Specialty mail order returned a positive trend of business, Universal mail order in Germany over the period July to September 2004 was once again characterized by marked sales decreases.

In the third quarter KarstadtQuelle mail-order suppliers achieved sales to the value of 1.67 bill. €. This represents a decrease by 5 % on the previous year's level of 1.76 bill. €. Cumulatively to the end of September 2004 sales by KarstadtQuelle mail-order suppliers came to 5.43 bill. € (as against 5.75 bill. € in the previous year). This represents a decrease in sales by 5.5 % in all. While Specialty mail order increased its sales by 2.6 %, Universal mail order returned a decrease by 7.1 %.

In the third quarter of 2004 EBTA – not including special effects – stood at minus 63.6 mill. € (previous year: minus 27.7 mill. €). Special factors amounting to 184.5 mill. € held back earnings in the third quarter. These factors are mainly part-time employment programs for senior staff, lump-sum settlements and the devaluation of the goods inventory. In the first nine months EBTA stood at minus 342.4 mill. € (the same period the previous year: minus 59.8 mill. €). Not including these non-recurring effects burdening earnings (current year: 193.5 mill. €; previous year: 17.8 mill. €), EBTA came to minus 148.9 mill. € (previous year: minus 42 mill. €) in the first nine months.

In Universal mail-order Quelle's and Neckermann's autumn/winter catalogs appeared in a total impression of about 19 mill. copies. Advertising in Germany – with Günther Jauch for Quelle and Thomas Gottschalk for Neckermann – was intensified for the catalog launch.

Specialty mail order further maintained its growth course and entered the autumn/winter season 2004/2005 with a total of 23 main catalogs. The strategy of expansion via differentiation concepts was consistently implemented. A special catalog for writing implements by the mail-order complimentary gifts supplier Saalfrank and a discount catalog for work clothing by work clothing specialist Krähe were put out. The 50:50 joint venture with the fashion supplier Bogner was launched in summer under the brand name “Bogner Home Shopping”. Likewise, measures for internationalization were pressed ahead with on schedule and further countries brought into the sales network. The foreign share contributed by the special mail-order suppliers rose meanwhile to over 40 %.

Foreign sales of the mail-order suppliers rose by 5.4 % during the third quarter. The ranges offered in the European markets were expanded to include new lines, such as furniture, and new special catalogs, such as children's and sports catalogs. Quelle achieved entry into the Latvian market on July 1. One focus of our internationalization strategy is on the countries of Central and Eastern Europe. KarstadtQuelle is already market leader in nearly all the countries in this region. Quelle Switzerland acquired from the fashion mail-order supplier Spengler AG brand rights in the mail-order sector. The first Spengler catalog made by Quelle will appear in February 2005. In September preparations for the further expansion of mail-order operations in Italy were completed.

We further expanded at home and abroad our E-commerce segment, which is attracting sustained dynamic demand. Online demand increased to 1.22 bill. € (previous year: 1.13 bill. €) during the first nine months. This represents a growth by 8.7 %.

In the negotiations successfully concluded with employees' representatives and trade unions after the report key date further cost reductions by an expected 260 mill. € were agreed for the mail-order segment for the 2005 to 2007 financial years.

Services

		01.01. - 30.09.			QUARTER III (01.07. - 30.09.)		
		2004	2003	Change in %	**2004**	2003	Change in %
Sales[1]	mill. €	935.5	1,023.9	-8.6	310.8	362.1	-14.2
EBITA	mill. €	-94.5	-114.0	17.1	66.9	59.1	13.1
EBTA	mill. €	-99.3	-119.3	16.8	64.8	58.0	7.4
thereof Thomas Cook	mill. €	-86.1	-144.3	40.3	85.5	52.1	64.2
EBTA (adjusted/not including special factors)	mill. €	-55.9	-133.0	58.0	108.3	43.3	150.0
Employees (30.09.)	number	5,692	6,021	-5.5	5,692	6,021	-5.5
Segment assets	mill. €	1,766.4	1,278.2*	38.2	1,766.4	1,278.2*	38.2
Segment liabilities	mill. €	944.9	895.8*	5.5	944.9	895.8*	5.5

* Figures for previous year, as of 31.12.2003

[1] not including Thomas Cook Group

THOMAS COOK AND NEW SERVICES SHOW IMPROVEMENT IN EARNINGS

Sales in the Services segment (not including Thomas Cook, Financial services, Loyalty card programs and DSF, which are consolidated at equity, and not including tourism sales) decreased in the first nine months by 8.6 % to 935.5 mill. €. The decisive factor is the decreased volume of orders for internal service-providers because of the sales performance in the retail segments.

In the third quarter, after adjustment for special factors, EBTA stood at minus 108.3 mill. € (the same period the previous year: 43.3 mill. €). In the first nine months of the current year adjusted EBTA stood at minus 55.9 mill. € (the same period the previous year: minus 133 mill. €). Taking special factors into account, EBTA came to minus 99.3 mill. € (previous year: minus 119.3 €).

At Thomas Cook the strategic realignment has already had positive effects during the current financial year. The tourism group achieved an increase in sales by 3.4 % to 2.45 bill. € in the third quarter (May 1 to July 31, 2004). Earnings (EBTA) due to the KarstadtQuelle Group went up by 33.4 mill. € to 85.5 mill. €. Cumulatively after nine months (November 1, 2003 to July 31, 2004) Thomas Cook achieved a sales increase by 2.5 % to 4.8 bill. €. Earnings (EBTA) due to the KarstadtQuelle Group increased by 58.1 mill. € to minus 86.1 mill. €.

The sales performance in KarstadtQuelle's tourism sales was positive at the end of the third quarter under review also, with an increase by just under 4 % to 555.8 mill. €. The travel operator Paneuropa doubled its booking sales in the last three months and already expects positive results in its first full financial year.

The other service companies more than doubled their adjusted EBTA to 27.3 mill. (previous year: 11.2 mill. €) to September 30. The decisive factor here was mainly the dynamic growth in earnings by the new services. They show a positive trend all through:

The "HappyDigits" loyalty card program grew in the third quarter by over 600,000 to 21.7 million card holders altogether, with a supported awareness level increased to 59 %.

KarstadtQuelle Information Services (KQIS), due to its extensive range of solutions and its data base, significantly increased the number of new outside customers in the third quarter. The proportion of customers from outside the group thus comes to over 75 %. Adjusted EBTA, at 2.2 mill. €, is slightly higher than that for the previous year.

KarstadtQuelle Financial Services (KQFS) achieved a mediated portfolio contribution of about 130 mill. € (increase by over 35 % on the previous year). Earnings (EBTA) improved by 7.3 mill. € on the previous year. Already 30 corporate mandates have been acquired through the KarstadtQuelle insurance broker operating in the market since April 2004. Furthermore, with the heavily publicized opening of the first Official FIFA WORLD CUP 2006™ shops in Berlin the launch of the KarstadtQuelle Bank's FIFA WORLD CUP 2006™ MasterCard was successfully achieved.

In the Media segment the performance by Deutsches Sportfernsehen (DSF) and Sport1 continued positive. On an EBTA basis both are above forecast for the period to the key date.

Real estate

		01.01. - 30.09.			QUARTER III (01.07. - 30.09.)		
		2004	2003	Change in %	**2004**	2003	Change in %
Sales	mill. €	433.0	422.5	2.5	143.2	142.1	0.8
EBITA	mill. €	138.0	193.5	-28.7	10.7	68.7	-84.5
EBTA	mill. €	71.4	170.6	-58.1	-36.3	61.4	-159.1
EBTA (adjusted/not including special factors)	mill. €	184.2	180.0	2.3	58.5	57.8	1.1
Employees (30.09.)	number	110	100	10.0	110	100	10.0
Segment assets	mill. €	5,652.6	5,285.8*	6.9	5,652.6	5,285.8*	6.9
Segment liabilities	mill. €	3,362.6	2,782.2*	20.9	3,362.6	2,782.2*	20.9

* Figures for previous year, as of 31.12.2003

SALES AND EARNINGS SLIGHTLY INCREASED

The Real-estate segment achieved earnings from sales (income from rent) to the value of 433 mill. € (previous year: 422.5 mill. €) in the first nine months of the current year. This represents a sales growth by 2.5 %. The decisive factor here is the direct leasing, taken over the previous year, of real estate not in group ownership.

After adjustment for special factors, earnings (EBTA) stood at minus 184.2 mill. € (the same period the previous year: 180 mill. €).

Holdings

		01.01. - 30.09.			QUARTER III (01.07. - 30.09.)		
		2004	2003	Change in %	**2004**	2003	Change in %
EBITA	mill. €	-72.9	204.8	-135.6	-25.1	-10.0	-149.8
EBTA	mill. €	-252.5	147.6	-	-175.9	-27.0	-
EBTA (adjusted/not including special factors)	mill. €	-89.7	-91.0	1.5	-22.0	-26.7	17.5
Employees (30.09.)	number	195	182	7.1	195	182	7.1
Segment assets	mill. €	3,660.1	3,478.0*	5.2	3,660.1	3,478.0*	5.2
Segment liabilities	mill. €	5,639.3	4,017.5*	40.4	5,639.3	4,017.5*	40.4

* Figures for previous year, as of 31.12.2003

EARNINGS PERFORMANCE AFFECTED BY SPECIAL INCOME IN THE PREVIOUS YEAR

The Holdings segment is dominated by KARSTADTQUELLE AG as strategic management and investment holding company. The main earnings factors are expenditure on financing and pensions, and other participating interests.

In the first nine months of the current year earnings (EBTA) stood at minus 252.5 mill. € (the same period the previous year: plus 147.6 mill. €). The year under review includes burdensome special factors amounting to 162.8 mill. €. They are attributable mainly to valuation adjustments within the framework of the CTA program. The previous year included special income from the CTA program amounting to 239 mill. €. After adjustment for these special factors earnings (EBTA) stood at minus 89.7 mill. € (the same period the previous year: minus 91 mill. €).

Group profit and loss account

for the period from January 1 to September 30, 2004

Amounts shown in th. €	01.01. - 30.09. 2004	2003	Change in %	QUARTER III (01.07. - 30.09.) 2004	2003	Change in %
Sales	10,084,973	10,725,778	-6.0	3,210,911	3,413,625	-5.9
Cost of sales	-5,317,206	-5,738,041	7.3	-1,695,525	-1,835,553	7.6
Gross earnings	**4,767,767**	**4,987,737**	-4.4	**1,515,386**	**1,578,072**	-4.0
Other capitalized own work	38,623	66,987	-42.3	13,732	33,470	-59.0
Operating income	381,762	638,348	-40.2	104,821	125,818	-16.7
Staff costs	-2,132,246	-2,202,098	3.2	-685,601	-723,500	5.2
Operating costs	-3,602,962	-2,960,828	-21.7	-1,547,838	-932,723	-65.9
Other taxes	-23,373	-24,818	5.8	-4,725	-8,497	44.4
Earnings from ordinary activities	**-570,429**	**505,328**	-	**-604,225**	**72,640**	-
Income from investments	-75,827	-142,347	46.7	93,141	48,509	92.0
thereof from associated companies	-78,293	-154,675	49.4	87,535	45,069	94.2
Earnings before interest, tax and depreciation and amortization (EBITDA)	**-646,256**	**362,981**	-	**-511,084**	**121,149**	-
Depreciation and amortization (not including goodwill)	-605,593	-318,612	-90.1	-394,743	-97,427	-
thereof non-scheduled	-322,957	-15,491	-	-305,038	-153	-
Earnings before interest, tax and amortization of goodwill (EBITA)	**-1,251,849**	**44,369**	-	**-905,827**	**23,722**	-
Amortization of goodwill	-154,376	-47,726	-	-152,441	-15,465	-
Earnings before interest and tax (EBIT)	**-1,406,225**	**-3,357**	-	**-1,058,268**	**8,257**	-
Net interest income	-141,122	-169,677	16.8	-49,451	-52,057	5.0
Other financial income	-176,011	-2,713	-	-174,197	-2,364	-
Earnings before taxes (EBT)	**-1,723,358**	**-175,747**	-	**-1,281,916**	**-46,164**	-
Taxes on income	199,965	85,855	132.9	53,895	8,791	-
Net income before minority shareholdings	**-1,523,393**	**-89,892**	-	**-1,228,021**	**-37,373**	-
Profits/losses due to other shareholders	-2,574	-352	-	445	238	87.0
Net income after minority shareholdings	**-1,525,967**	**-90,244**	-	**-1,227,576**	**-37,135**	-
Earnings per share in €	**-14.35**	**-0.85**	-	**-11.54**	**-0.35**	-

Group balance sheet

as at September 30, 2004

ASSETS

Amounts shown in th. €	30.09.2004	30.09.2003	Change in %	31.12.2003
Intangible assets	469,509	532,853	- 11.9	549,668
Tangible assets	2,359,594	3,527,432	- 33.1	3,500,609
Financial assets	566,262	647,632	- 12.6	661,596
Fixed assets	**3,395,365**	**4,707,917**	- 27.9	**4,711,873**
Inventories	2,118,124	2,677,563	- 20.9	2,417,169
Receivables and other assets	1,718,815	2,283,068	- 24.7	1,724,420
Securities	317,557	24,653	-	130,934
Liquid funds	68,429	138,309	- 50.5	156,692
Current assets	**4,222,925**	**5,123,593**	- 17.6	**4,429,215**
Deferred taxes	**38,575**	**14,293**	169.9	**15,347**
Prepayments and accrued income	**36,107**	**48,769**	- 26.0	**36,264**
Assets classified as held for sale	**1,053,583**	**-**	-	**-**
Balance sheet total	**8,746,555**	**9,894,572**	- 11.6	**9,192,699**

EQUITY AND LIABILITIES

Amounts shown in th. €	30.09.2004	30.09.2003	Change in %	31.12.2003
Equity	**82,720**	**1,467,476**	- 94.4	**1,639,394**
Minority shareholdings	**68,418**	**68,369**	0.1	**69,299**
Long-term financial liabilities	2,326,755	2,169,751	7.2	2,125,877
Other long-term liabilities	406,196	49,440	-	368,397
Pension provisions	793,104	1,498,610	- 47.1	838,335
Other long-term provisions for liabilities and charges	203,053	236,332	- 14.1	239,686
Long-term liabilities	**3,729,108**	**3,954,133**	- 5.7	**3,572,295**
Short-term financial liabilities	2,126,004	2,161,441	- 1.6	1,471,132
Trade payables	1,022,770	829,564	23.3	1,011,334
Other short-term liabilities	682,249	977,313	- 30.2	1,000,742
Short-term provisions for liabilities and charges	493,877	285,139	73.2	258,506
Short-term liabilities	**4,324,900**	**4,253,457**	1.7	**3,741,714**
Deferred taxes	**10,432**	**144,692**	- 92.8	**165,709**
Accruals and deferred income	**68,859**	**6,445**	-	**4,288**
Liabilities directly associated with assets classified as held for sale	**462,118**	**-**	-	**-**
Balance sheet total	**8,746,555**	**9,894,572**	- 11.6	**9,192,699**

Changes in group equity and minority shareholdings

01.01. - 30.09.2004

Amounts shown in th. €	Issued capital	Capital reserve	Revenue reserves	Revaluation reserve	Adjustments foreign currency translation	**Total group equity**	Minority share-holdings	**Total**
Opening balance at 01.01.2004	**272,212**	**317,471**	**1,127,622**	**-64,130**	**-13,781**	**1,639,394**	**69,299**	**1,708,693**
Dividends	-	-	-75,496	-	-	-75,496	-1,231	-76,727
Generated capital/ group earnings	-	-	-1,525,967	-	-	-1,525,967	2,574	-1,523,393
Differences from foreign currency translation	-	-	-	-	1,555	1,555	-	1,555
Change due to valuation of original and derivative financial instruments	-	-	-	51,545	-	51,545	-	51,545
Other changes	-	-	-8,311	-	-	-8,311	-2,224	-10,535
Closing balance at 30.09.2004	**272,212**	**317,471**	**-482,152**	**-12,585**	**-12,226**	**82,720**	**68,418**	**151,138**

01.01. - 30.09.2003

Amounts shown in th. €	Issued capital	Capital reserve	Revenue reserves	Revaluation reserve	Adjustments foreign currency translation	**Total group equity**	Minority share-holdings	**Total**
Opening balance at 01.01.2003	**277,855**	**343,289**	**1,103,715**	**-49,253**	**801**	**1,676,407**	**69,820**	**1,746,227**
From the purchase of shares	-5,643	-25,818	-	-	-	-31,461	-	-31,461
Dividends	-	-	-75,496	-	-	-75,496	-1,036	-76,532
Generated capital/ group earnings	-	-	-90,244	-	-	-90,244	352	-89,892
Differences from foreign currency translation	-	-	-	-	-2,185	-2,185	-774	-2,959
Change due to valuation of original and derivative financial instruments	-	-	-	-9,126	-	-9,126	55	-9,071
Due to changes in consolidated companies	-	-	-419	-	-	-419	-48	-467
Closing balance at 30.09.2003	**272,212**	**317,471**	**937,556**	**-58,379**	**-1,384**	**1,467,476**	**68,369**	**1,535,845**

Group cash flow statement

as at September 30, 2004

Amounts shown in th. €	**30.09.2004**	30.09.2003
Net income for the period (including minority interests in earnings) before tax on income and before extraordinary items	-1,723,358	-175,747
Depreciation or appreciation of fixed assets	772,902	358,886
Profits/losses from the disposal of fixed assets	11,609	-5,216
Profits/losses from currencies	497	-126
Participating interest/expenses from transfer of losses	78,227	142,125
Interest income/expenses	103,033	95,235
Increase/decrease of long-term provisions (not including tax provisions)	26,303	-26,483
Addition to provision for restructuring effects	435,443	-
Other expenses and income not affecting cash flow	313,366	-92,575
Gross Cash Flow	**18,022**	**296,099**
Increase/decrease of inventories, trade receivables and other assets, not attributable to the investment or financing activity	-211,153	-402,921
Increase/decrease of trade payables and other liabilities not attributable to the investment or financing activity	-124,330	-246,973*
Cash flow from current business	**-317,461**	**-353,795**
Dividends received	11,935	12,550
Interest received	84,949	49,986
Interest paid	-172,761	-162,596
Payments/refunds of tax on income and earnings	-20,799	-17,738
Cash flow from current activity	**-414,137**	**-471,593**
Cash flow from acquisition/divestments of subsidiaries	-19,951	-
Outpayments for the acquisition of tangible fixed assets and intangible and long-term assets	-220,535	-255,871
Outpayments for investments in financial assets	-50,641	-12,811
Inpayments from the sale of tangible fixed assets and intangible and long-term assets	13,800	36,434
Inpayments from the disposal of financial assets	13,283	16,332
Cash flow from investment activities	**-264,044**	**-215,916**
Outpayments/inpayments for dividends, capital increases and share repurchase program	-76,727	-106,957
Inpayments/outpayments from mortgage bond program and the take-up of (financing) loans	682,503	876,367*
Payments of liabilities due under finance lease	-3,371	-40,627
Cash flow from financing activities	**602,405**	**728,783**
Changes in cash and cash equivalents affecting cash flow	**-75,776**	**41,274**
Changes in the flow of cash due to changes in exchange rates or other changes in cash and cash equivalents caused by the consolidated companies	1,090	-48,111
Cash and cash equivalents at the beginning of the period	166,118	168,813
Cash and cash equivalents at the end of the period	**91,432**	**161,976**

* values adjusted for CTA effects.

Segment information

KarstadtQuelle Group

QUARTER III (01.07. - 30.09.)	KarstadtQuelle Group		Reconciliation account		Holdings	
Amounts shown in th. €	**2004**	2003	**2004**	2003	**2004**	2003
Sales	3,770,333	4,035,595	-	-	-	-
Interest from credit operations	47,642	49,477	-	-	-	-
Internal sales	-607,064	-671,447	-382,738	-441,253	-	-
Group sales	**3,210,911**	**3,413,625**	**-382,738**	**-441,253**	**-**	**-**
Cost of sales	-1,695,525	-1,835,553	145,417	183,697	-	-
Gross earnings	**1,515,386**	**1,578,072**	**-237,321**	**-257,556**	**-**	**-**
Other capitalized own work	13,732	33,470	8,159	26,546	-	-
Operating income and expenditure	-1,443,017	-806,905	229,548	231,327	-18,830	-4,599
Staff costs	-685,601	-723,500	-359	-324	-5,606	-5,224
Other taxes	-4,725	-8,497	-1	-	-8	-9
Earnings from operations	**-604,225**	**72,640**	**26**	**-7**	**-24,444**	**-9,832**
Income from investments	93,141	48,509	-17,163	-	-	-
EBITDA	**-511,084**	**121,149**	**-17,137**	**-7**	**-24,444**	**-9,832**
Depreciation and amortization (not including goodwill)	-394,743	-97,427	18,946	829	-606	-197
thereof non-scheduled	-305,038	-153	18,443	-	-	-
EBITA	**-905,827**	**23,722**	**1,809**	**822**	**-25,050**	**-10,029**
Amortization of goodwill	-152,441	-15,465	-1	-	-	-
EBIT	**-1,058,268**	**8,257**	**1,808**	**822**	**-25,050**	**-10,029**
Net interest income	-49,451	-52,057	2	73	-15,774	-16,032
Other financial income	-174,197	-2,364	-	-43	-135,047	-938
EBT	**-1,281,916**	**-46,164**	**1,810**	**852**	**-175,871**	**-26,999**
EBIT margin in %	-33.0	0.2	-	-	-	-
EBT margin in %	-39.9	-1.4	-	-	-	-
EBTA	**-1,129,475**	**-30,699**	**1,811**	**852**	**-175,871**	**-26,999**
EBTA margin in %	-35.2	-0.9	-	-	-	-
EBTA (adjusted)	**-31,062**	**-31,399**	**-16,189**	**-848**	**-22,040**	**-26,699**
EBTA margin (adjusted) in %	-1.0	-0.9	-	-	-	-
Investments	133,963	134,765	-	-	732	326

Segment information

KarstadtQuelle Group

QUARTER III (01.07. - 30.09.)	Over-the-counter retail		Mail order	
Amounts shown in th. €	**2004**	2003	**2004**	2003
Sales	1,488,783	1,627,859	1,812,186	1,891,423
Interest from credit operations	-	-	47,642	49,477
Internal sales	-15,829	-32,367	-193,128	-185,708
Group sales	**1,472,954**	**1,595,492**	**1,666,700**	**1,755,192**
Cost of sales	-832,765	-898,983	-823,934	-890,002
Gross earnings	**640,189**	**696,509**	**842,766**	**865,190**
Other caoitalized own work	2,790	3,973	373	83
Operating income and expenditure	-720,396	-350,982	-813,538	-589,221
Staff costs	-360,834	-388,747	-251,931	-262,788
Other taxes	-78	-101	-2,029	-3,342
Earnings from operations	**-438,329**	**-39,348**	**-224,359**	**9,922**
Income from investments	4,605	45	11,049	-2,315
EBITDA	**-433,724**	**-39,303**	**-213,310**	**7,607**
Depreciation and amortization (not including goodwill)	-289,693	-36,578	-23,368	-26,649
thereof non-scheduled	-255,129	-136	-392	-17
EBITA	**-723,417**	**-75,881**	**-236,678**	**-19,042**
Amortization of goodwill	-78,312	-1,087	-18,525	-3,587
EBIT	**-801,729**	**-76,968**	**-255,203**	**-22,629**
Net interest income	-12,376	-12,598	-10,369	-16,469
Other financial income	-71	-125	-1,056	109
EBT	**-814,176**	**-89,691**	**-266,628**	**-38,989**
EBIT margin in %	-54.4	-4.8	-15.3	-1.3
EBT margin in %	-55.3	-5.6	-16.0	-2.2
EBTA	**-735,864**	**-88,604**	**-248,103**	**-35,402**
EBTA margin in %	-50.0	-5.6	-14.9	-2.0
EBTA (adjusted)	**-95,978**	**-77,304**	**-63,648**	**-27,702**
EBTA margin (adjusted) in %	-6.5	-4.8	-3.8	-1.6
Investments	45,614	55,765	31,969	38,192

Segment information

KarstadtQuelle Group

QUARTER III (01.07. - 30.09.)	Services		Real estate	
Amounts shown in th. €	**2004**	2003	**2004**	2003
Sales	326,124	374,229	143,240	142,084
Interest from credit operations	-	-	-	-
Internal sales	-15,369	-12,119	-	-
Group sales	**310,755**	**362,110**	**143,240**	**142,084**
Cost of sales	-184,243	-230,265	-	-
Gross earnings	**126,512**	**131,845**	**143,240**	**142,084**
Other capitalized own work	2,410	2,868	-	-
Operating income and expenditure	-71,256	-50,236	-48,545	-43,194
Staff costs	-64,899	-64,686	-1,972	-1,731
Other taxes	-315	-2	-2,294	-5,043
Earnings from operations	**-7,548**	**19,789**	**90,429**	**92,116**
Income from investments	94,799	50,779	-149	-
EBITDA	**87,251**	**70,568**	**90,280**	**92,116**
Depreciation and amortization (not including goodwill)	-20,396	-11,464	-79,626	-23,368
thereof non-scheduled	-9,758	-	-58,202	-
EBITA	**66,855**	**59,104**	**10,654**	**68,748**
Amortization of goodwill	-55,603	-10,791	-	-
EBIT	**11,252**	**48,313**	**10,654**	**68,748**
Net interest income	-2,020	-1,079	-8,914	-5,952
Other financial income	-	-	-38,023	-1,367
EBT	**9,232**	**47,234**	**-36,283**	**61,429**
EBIT margin in %	3.6	13.3	7.4	48.4
EBT margin in %	3.0	13.0	-25.3	43.2
EBTA	**64,835**	**58,025**	**-36,283**	**61,429**
EBTA margin in %	20.9	16.0	-25.3	43.2
EBTA (adjusted)	**108,302**	**43,325**	**58,491**	**57,829**
EBTA margin (adjusted) in %	34.9	12.0	40.8	40.7
Investments	6,783	7,329	48,865	33,153

Segment information

KarstadtQuelle Group

01.01. - 30.09.	KarstadtQuelle Group		Reconciliation account		Holdings	
Amounts shown in th. €	**2004**	2003	**2004**	2003	**2004**	2003
Sales	11,827,593	12,574,087	-	-	-	-
Interest from credit operations	148,451	152,385	-	-	-	-
Internal sales	-1,891,071	-2,000,694	-1,174,801	-1,269,562	-	-
Group sales	**10,084,973**	**10,725,778**	**-1,174,801**	**-1,269,562**	**-**	**-**
Cost of sales	-5,317,206	-5,738,041	485,008	538,298	-	-
Gross earnings	**4,767,767**	**4,987,737**	**-689,793**	**-731,264**	**-**	**-**
Other capitalized own work	38,623	66,987	23,645	50,340	-	-
Operating income and expenditure	-3,221,200	-2,322,480	665,963	679,885	-41,298	221,155
Staff costs	-2,132,246	-2,202,098	517	1,024	-21,911	-17,230
Other taxes	-23,373	-24,818	-	-	-52	-26
Earnings from operations	**-570,429**	**505,328**	**332**	**-15**	**-63,261**	**203,899**
Income from investments	-75,827	-142,347	-51,488	-	-7,565	1,391
EBITDA	**-646,256**	**362,981**	**-51,156**	**-15**	**-70,826**	**205,290**
Depreciation and amortization (not including goodwill)	-605,593	-318,612	19,876	2,361	-2,052	-499
thereof non-scheduled	-322,957	-15,491	18,443	-	-379	-
EBITA	**-1,251,849**	**44,369**	**-31,280**	**2,346**	**-72,878**	**204,791**
Amortization of goodwill	-154,376	-47,726	-1	-	-	-
EBIT	**-1,406,225**	**-3,357**	**-31,281**	**2,346**	**-72,878**	**204,791**
Net interest income	-141,122	-169,677	43	255	-42,833	-57,333
Other financial income	-176,011	-2,713	-42	-196	-136,788	107
EBT	**-1,723,358**	**-175,747**	**-31,280**	**2,405**	**-252,499**	**147,565**
EBIT margin in %	-13.9	0.0	-	-	-	-
EBT margin in %	-17.1	-1.6	-	-	-	-
EBTA	**-1,568,982**	**-128,021**	**-31,279**	**2,405**	**-252,499**	**147,565**
EBTA margin in %	-15.6	-1.2	-	-	-	-
EBTA (adjusted)	**-419,569**	**-320,721**	**-49,279**	**405**	**-89,668**	**-91,035**
EBTA margin (adjusted) in %	-4.2	-3.0	-	-	-	-
Segment assets	8,707,980	9,177,352*	-8,562,367	-7,458,771*	3,660,143	3,478,021*
Segment liabilities	8,653,403	7,387,596*	-7,662,237	-6,495,605*	5,639,268	4,017,516*
Investments	291,127	312,312	-	-	2,366	4,627
Full-time employees (average 01.01.-30.09.) number	76,019	79,726	-	-	183	168

* Figures for previous year, as of 31.12.2003

Segment information

KarstadtQuelle Group

01.01. - 30.09.	Over-the-counter retail		Mail order	
Amounts shown in th. €	**2004**	2003	**2004**	2003
Sales	4,508,259	4,904,739	5,910,591	6,188,320
Interest from credit operations	-	-	148,451	152,385
Internal sales	-48,471	-103,701	-627,524	-592,805
Group sales	**4,459,788**	**4,801,038**	**5,431,518**	**5,747,900**
Cost of sales	-2,541,279	-2,749,255	-2,702,593	-2,907,889
Gross earnings	**1,918,509**	**2,051,783**	**2,728,925**	**2,840,011**
Other capitalized own work	9,076	8,003	641	809
Operating income and expenditure	-1,327,814	-978,564	-2,216,151	-1,959,819
Staff costs	-1,130,925	-1,193,462	-774,841	-800,857
Other taxes	-496	-429	-10,950	-8,506
Earnings from operations	**-531,650**	**-112,669**	**-272,376**	**71,638**
Income from investments	14,724	617	35,623	-3,181
EBITDA	**-516,926**	**-112,052**	**-236,753**	**68,457**
Depreciation and amortization (not including goodwill)	-362,897	-120,397	-74,602	-78,227
thereof non-scheduled	-255,129	-6,740	-446	-17
EBITA	**-879,823**	**-232,449**	**-311,355**	**-9,770**
Amortization of goodwill	-78,312	-3,266	-18,525	-10,771
EBIT	**-958,135**	**-235,715**	**-329,880**	**-20,541**
Net interest income	-34,863	-36,611	-30,114	-50,568
Other financial income	-258	-377	-894	509
EBT	**-993,256**	**-272,703**	**-360,888**	**-70,600**
EBIT margin in %	-21.5	-4.9	-6.1	-0.4
EBT margin in %	-22.3	-5.7	-6.6	-1.2
EBTA	**-914,944**	**-269,437**	**-342,363**	**-59,829**
EBTA margin in %	-20.5	-5.6	-6.3	-1.0
EBTA (adjusted)	**-260,058**	**-235,037**	**-148,908**	**-42,029**
EBTA margin (adjusted) in %	-5.8	-4.9	-2.7	-0.7
Segment assets	2,309,458	2,574,189*	3,881,698	4,019,929*
Segment liabilities	2,642,325	2,468,482*	3,726,503	3,719,110*
Investments	112,151	120,009	94,963	96,749
Full-time employees (average 01.01.-30.09.) number	42,543	45,580	27,796	28,300

* Figures for previous year, as of 31.12.2003

Segment information

KarstadtQuelle Group

01.01. - 30.09.	Services		Real estate	
Amounts shown in th. €	**2004**	2003	**2004**	2003
Sales	975,752	1,058,516	432,991	422,512
Interest from credit operations	-	-	-	-
Internal sales	40,275	-34,626	-	-
Group sales	**935,477**	**1,023,890**	**432,991**	**422,512**
Cost of sales	-558,342	-619,195	-	-
Gross earnings	**377,135**	**404,695**	**432,991**	**422,512**
Other capitalized own work	5,261	7,835	-	-
Operating income and expenditure	-164,044	-164,705	-137,856	-120,432
Staff costs	-199,541	-187,001	-5,545	-4,572
Other taxes	-753	-13	-11,122	-15,844
Earnings from operations	**18,058**	**60,811**	**278,468**	**281,664**
Income from investments	-66,512	-141,174	-609	-
EBITDA	**-48,454**	**-80,363**	**277,859**	**281,664**
Depreciation and amortization (not including goodwill)	-46,094	-33,668	-139,824	-88,182
thereof non-scheduled	-10,740	-	-74,706	-8,734
EBITA	**-94,548**	**-114,031**	**138,035**	**193,482**
Amortization of goodwill	-57,538	-33,477	-	-212
EBIT	**-152,086**	**-147,508**	**138,035**	**193,270**
Net interest income	-4,758	-5,303	-28,597	-20,117
Other financial income	-22	-	-38,007	-2,756
EBT	**-156,866**	**-152,811**	**71,431**	**170,397**
EBIT margin in %	-16.3	-14.4	31.9	45.7
EBT margin in %	-16.8	-14.9	16.5	40.3
EBTA	**-99,328**	**-119,334**	**71,431**	**170,609**
EBTA margin in %	-10.6	-11.7	16.5	40.4
EBTA (adjusted)	**-55,861**	**-133,034**	**184,205**	**180,009**
EBTA margin (adjusted) in %	-6.0	-13.0	42.5	42.6
Segment assets	1,766,427	1,278,182*	5,652,621	5,285,802*
Segment liabilities	944,932	895,845*	3,362,612	2,782,248*
Investments	31,412	45,504	50,235	45,423
Full-time employees (average 01.01.-30.09.) number	5,393	5,596	104	82

* Figures for previous year, as of 31.12.2003

Group Account

REORGANIZATION AND REALIGNMENT OF THE KARSTADTQUELLE GROUP

The reorganization plan resolved and published at the end of September and the realignment of the KarstadtQuelle Group connected with it, like the general business performance, resulted in important value adjustments and thus in non-scheduled depreciation on both durable assets and inventories during the period under review. In addition to this, provisions were taken into account for lump-sum settlements and closures likely to result from the reorganization and expected losses in scheduled assets. Altogether the following facts negatively affected group earnings:

Charges imposed on earnings in the profit and loss account by the strategic realignment

Amounts shown in th. €	30.09.2004
Non-scheduled amortization of goodwill	154,375
Non-scheduled depreciation/amortization on fixed assets	385,938
Formation of provisions/creation of liabilities within the framework of the realignment	285,879
Value adjustments on inventories and formation of provisions for purchase commitments in Over-the-counter retail and Mail order	171,379
Formation of provisions for lump-sum settlements/ older employees' part-time employment	261,212
Formation of provisions for closure costs	45,005
Total	**1,303,788**

Value adjustments to goodwill or material assets, like the other value adjustments, were undertaken mainly on the basis of impairment tests in accordance with IAS 36. Value adjustments of 82 mill. € were undertaken owing to lower fair value, less disposal costs, in accordance with IFRS 5.

The KarstadtQuelle Group has in connection with the development of five city-centre shopping centres entered into leasing obligations under which a provision in the lower three-digit million range at most is expected. The leasing classification in accordance with IAS 17 and the determination of the provision will be undertaken in the fourth quarter on the basis of external expert reports.

ACCOUNTING AND VALUATION METHODS

The accounting and valuation principles are identical to those applied in the last annual account.

IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"

In the present group account for the period to September 30, 2004, IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" published in March 2004 is applied for the first time. In connection with the realignment of the KarstadtQuelle Group the disposal of individual durable assets and shares of various companies is provided for. These assets and liabilities are posted in accordance with IFRS 5. The assets on the one hand belong to subsegments of individual group companies and on the other represent disposal groups of the companies Sinn Leffers AG / M + T Mode- und Textilhaus-Beteiligungs Gesellschaft m.b.H., WEHMEYER GmbH & Co. KG, Runners Point Warenhandels-gesellschaft m.b.H, GOLF HOUSE Direktversand GmbH and Karstadt Coffee GmbH scheduled for sale.

The individual durable assets and the asset values and debts of the disposal groups have after non-scheduled depreciation been reposted to the new group balance sheet items "Assets classified as held for sale" and "Liabilities directly associated with assets classified as held for sale".

These two items in the group balance sheet are made up of the following amounts:

Assets classified as held for sale

Amounts shown in th. €	30.09.2004
Intangible assets	30,285
Tangible assets	717,762
Financial assets	10,488
Total fixed assets	**758,535**
Inventories	153,224
Other short-term liabilities	35,735
Total current assets	**188,959**
Deferred taxes	106,089
Assets classified as held for sale	**1,053,583**

Liabilities directly associated with assets classified as held for sale

Amounts shown in th. €	30.09.2004
Pension provisions	112,337
Financial liabilities	52,711
Other liabilities	179,182
Deferred taxes	117,888
Liabilities directly associated with assets classified as held for sale	**462,118**

In the group profit and loss account the devaluations resulting from the valuation requirements of IFRS 5 are included in the item Depreciation and amortization (not including goodwill) and apply mainly to value adjustments in durable assets of Over-the-counter retail. Also included are equity capital reductions totaling 83 th. € which result from market valuations of derivative financing instruments held by disposal groups and are without effect for the operating result.

IFRS 3 "Business Combinations"
The KarstadtQuelle Group has since January 1, 2004 applied the new IFRS 3 at the same time as the revised IAS 36 and IAS 38 standards. During the quarter ended non-scheduled depreciation to the value of 154,375 th. € was undertaken. Of this 56,814 th. € apply pro rata to the Thomas Cook Group.

Income tax
The KarstadtQuelle Group takes income tax into account within the financial year by applying the expected tax rate at the end of the year to earnings before tax. Here extraordinary expenses have not been taken into account as part of the assessment of deferred taxes carried as assets.

Pension provisions
The reorganization and realignment of the KarstadtQuelle Group have also made necessary value adjustments on the real estate assets of KarstadtQuelle Pension Trust e.V., resulting in non-scheduled amounts totaling 134 mill. € and are shown under Other financial results. Actuarial profits and losses in the case of fluctuations caused by normal movements of the market continue to be taken into account in accordance with the corridor method of IAS 19 by spreading an amount exceeding the corridor over the average residual service period of the beneficiaries.

Trade payables
Payables from outstanding invoices are shown uniformly for the group under Trade payables in the present account. The previous year (79,846 th. €) they were shown under Other short-term liabilities. Comparable figures for the previous year were not adjusted.

Examination
An examination of the quarterly account has been carried out.

CONSOLIDATED COMPANIES
The number of consolidated companies went down because of the amalgamation of Data Select Gesellschaft für Marketing Service mbH, Frankfurt am Main with KARSTADT QUELLE Information Service GmbH, Essen.

CONTINGENT LIABILITIES, OTHER FINANCIAL COMMITMENTS
Contingent liabilities and other financial commitments have not substantially changed since the annual account.

IMPORTANT EVENTS AFTER THE REPORTING DATE
For implementing the reorganization and realignment of the KarstadtQuelle Group important preconditions were created under a solidarity pact concluded on October 14, 2004, between management, workforce, shareholders and banks.

Negotiations between the company and employees' representatives resulted in agreements on cost reductions of about 760 mill. € for 2005, 2006 und 2007. At the same time notice of dismissal for operational reasons was widely dispensed with. Accordingly, since this time the preconditions necessary for the formation of provisions, particularly for lump-sum cash settlements, have existed only to a limited extent. It is therefore to be expected that by the end of the year parts of these obligations will have been written back.

On November 22, 2004, in an extraordinary meeting of shareholders, an increase in authorized capital by 238,185,920 € from 301,459,904 € to 539,645,824 € through the issue against cash contribution of 93,041,375 new no-par value shares with full dividend entitlement from the 2004 financial year (inclusive) on is to be resolved.

In addition, the refinancing of various mainly short-term loan facilities within the framework of a new syndicated loan agreement for a planned about 1.75 bill. € and with a term of three years is to be undertaken. The Management Board is currently involved in negotiations with a bank consortium with regard to this.

Forward-looking statements

This quarterly report contains certain forward-looking statements relating to the business, financial performance and results of KARSTADT QUELLE AG and/or its subsidiaries and/or the industry in which KARSTADT QUELLE AG and its subsidiaries operate. Forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words “believes”, “expects”, “predicts”, “intends”, “projects”, “plans”, “estimates”, “aims”, “foresees”, “anticipates”, “targets”, and similar expressions. Such statements reflect KARSTADT QUELLE AG’s current views with respect to future events and are subject to risks and uncertainties.

These forward-looking statements are based on KARSTADT QUELLE AG’s current plans, estimates, projections and expectations. These statements are based on certain assumptions that, although reasonable at this time, may prove to be erroneous. If certain risks and uncertainties materialize, or if certain underlying assumptions prove incorrect, events described in this document might not occur or actual results may vary materially from those described in this document as anticipated, believed, estimated or expected, and KARSTADT QUELLE AG or KarstadtQuelle Group may not be able to achieve its financial targets and strategic objectives. In particular, actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) implementation of the planned refinancing, (ii) adjustment of costs to continuously declining sales, (iii) difficulties in implementation of the restructuring and divestment program, (iv) ability to meet financial covenants in loan agreements, (v) general economic conditions in the Federal Republic of Germany, (vi) political risks such as terrorist attacks, (vii) changes in consumer behaviour and preferences, (viii) increasing competitive pressures at the expense of generalist retailers, (ix) unexpected defaults of customers, in particular in the mail-order business, (x) necessity of further impairments of inventory, intangible goods and investment portfolio or creating reserves for real estate developments, (xi) decline in the prices of real estate in the Federal Republic of Germany, (xii) currency fluctuations, particularly with respect to a strengthening of the US Dollar, (xiii) volatility of interest rates, (xiv) weather conditions and (xv) infectious diseases, such as SARS. KARSTADT QUELLE AG does not intend, and does not assume any obligation, to update industry information or forward-looking statements set forth in this report.

Calendar

2004

Extraordinary General Meeting	November 22, 2004

2005

Balance sheet press conference/ Analysts' meeting	April 12, 2005
Annual General Meeting	May 24, 2005

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