METRO Group

The Spirit of Commerce

2004 ANNUAL REPORT

Annual financial statements of METRO AG

Management report

Annual financial statements

The annual financial statements of METRO AG, the holding company of the METRO Group, list total assets of € 12.4 billion compared to € 11.7 billion the previous year.

Financial assets and receivables from group companies is the largest category of assets.

Financial assets increased due to the transfer of short-term loan extensions that had been granted to Asset Immobilienbeteiligungen GmbH (METRO Group Asset Management group, previously AIB) during the year before from current assets as well as the contribution to capital reserves of Praktiker Bau- und Heimwerkermärkte AG.

This change is reflected in the decline in receivables from group companies in the receivables and other assets item.

Other assets increased because of higher tax claims and the purchase of stock options to hedge the newly launched stock bonus plan.

Liabilities are affected by lower provisions and higher liabilities to group companies.

The positive impact of the valuation of fund assets held by an employee benevolent fund at the closing date resulted in a decline in pension provisions.

Tax provisions include appropriate amounts to cover tax audit risks and declined as a result of tax payments.

Risks from rental contracts shown under other provisions also contained risks from former real estate during the year before. These were drawn down during the current fiscal year.

The increase in liabilities to affiliated companies is due to higher short-term monetary investments of METRO Group companies.

The income statement is marked by a decline in investment income and lower operating expenses.

On balance, the change in investment income contrasts with a € 336,761,000 reduction in other operating expenses, mainly due to a waiver of receivables from the Divaco group included in the previous year's income statement.

METRO AG's net income was € 544,296,000.

After the allocation of € 200,000,000 to other reserves, METRO AG's balance sheet profit amounted to € 355,961,000.

The equity ratio dropped to 37.2 percent from 37.9 percent. Net debt declined by € 662,160,000, leaving a positive balance of € 286,423,000.

Profit appropriation

The Supervisory Board and the Management Board of METRO AG will propose to the annual general meeting on May 18, 2005 to use the reported balance sheet profit of € 355,961,000 to pay a dividend of € 333,596,000 and to carry forward the remaining € 22,365,000 to new account.
The balance sheet profit of € 355,961,000 includes profits carried forward of € 11,665,000.

	Number of shares	Cash dividend in €
Distribution of a dividend of € 1.020 per share of common stock	324,109,563	330,591,754
Distribution of a dividend of € 1.122 per share of preferred stock	2,677,966	3,004,678
	326,787,529	333,596,432

Pursuant to the company's articles of association, holders of preferred stock are entitled to receive an extra dividend payment of 10 percent if the common stock dividend equals or exceeds € 1.02.

Divisional sales and earnings development

METRO AG is the management holding company of the METRO Group.

In fiscal year 2004, the METRO Group increased sales by 5.3 percent to € 56.4 billion from € 53.6 billion. The METRO Group sales divisions recorded sales growth of 5.3 percent to € 56.1 billion. Currency-adjusted sales growth at the group level was 5.5 percent. Fiscal year 2004 thus provided fresh evidence of the METRO Group's operative strength. Despite the challenging market situation in western Europe, group sales were satisfactory.
Domestic sales of the METRO Group rose by 1.7 percent to € 28.8 billion from € 28.3 billion thanks to the positive development of the nonfood sales divisions. Foreign business accounted for a greater share of overall sales of the METRO Group. Last year, foreign sales rose to € 27.6 billion from € 25.3 billion, or 49.0 percent compared with 47.2 percent the year before. The group achieved especially strong growth momentum in eastern Europe. In this region, sales rose by 16.1 percent to € 9.4 billion from € 8.1 billion. Asian sales expanded by 14.1 percent to € 0.9 billion. Western European sales rose by € 0.9 billion, reaching € 17.2 billion, up from € 16.3 billion.

DEVELOPMENT OF GROUP SALES AND DIVISIONAL SALES AS WELL AS REGIONAL SALES (NET)

	2004	2003	Changes	
	€ million	€ million	€ million	%
Metro Cash & Carry	26,442	25,093	1,349	5.4
Real	8,182	8,205	-23	-0.3
Extra	2,545	2,773	-228	-8.2
Media Markt and Saturn	12,210	10,563	1,647	15.6
Praktiker	2,953	2,811	142	5.0
Kaufhof	3,768	3,819	-51	-1.3
Metro sales divisions	56,100	53,264	2,836	5.3
Other companies	309	331	-22	-6.2
METRO Group	56,409	53,595	2,814	5.3
of which in Germany	28,790	28,300	490	1.7
of which abroad	27,619	25,295	2,324	9.2
Western Europe	17,188	16,264	924	5.7
Eastern Europe	9,352	8,053	1,299	16.1
Asia, Africa	1,079	978	101	10.3

Development of EBITA at the METRO Group and its sales divisions

Due to revised accounting standards, regular goodwill amortization no longer applies as of the first quarter of 2004. To improve comparability with year-earlier figures, operating result is therefore stated on an EBITA basis.

The METRO Group recorded EBITA of € 1,809.2 million in fiscal 2004, an increase of 13.8 percent compared to year-earlier EBITA of € 1,590.4 million. This achievement was possible thanks to the strong earnings developments of the sales divisions, in particular in eastern Europe. In addition, the consolidation of real estate company AIB, which is stated under "Others," had a positive impact on earnings.

Group EBITDA rose by 13.9 percent to € 2,978.0 million from € 2,614.6 million a year earlier.

DEVELOPMENT OF GROUP EBITA AND EBITA OF THE SALES DIVISIONS

	2004	2003	Changes	
	€ million	€ million	€ million	%
Metro Cash & Carry	962.2	904.0	58.2	6.4
Real	219.3	241.7	-22.4	-9.3
Extra	(80.8)	(63.2)	-17.6	-27.8
Media Markt and Saturn	451.2	360.1	91.1	25.3
Praktiker	59.3	23.0	36.3	157.8
Kaufhof	56.1	99.5	-43.4	-43.6
EBITA Metro sales divisions	1,667.3	1,565.1	102.2	6.5
Others	141.9	25.3	116.6	–
EBITA METRO Group	1,809.2	1,590.4	218.8	13.8
Goodwill amortization	–	(272.3)	272.3	100.0
Financial result	(465.2)	(500.6)	35.4	7.1
Earnings before taxes	1,344.0	817.5	526.5	–
Income taxes	(410.6)	(246.1)	-164.5	–
Group net income	933.4	571.4	362.0	–
Earnings per share before goodwill amortization	€ 2.53	€ 2.35	€ 0.18	7.7
Earnings per share after goodwill amortization	–	€ 1.52	–	–

Earnings development of the sales divisions

Despite expansion-related start-up losses, the Metro Cash & Carry sales division raised EBITA in 2004 by 6.4 percent to € 962.2 million from € 904.0 million. This increase testifies once again to the strong earnings potential of the wholesale stores. It also reflects the sales division's positive operative business development. EBITA rose particularly strongly in eastern Europe, thanks mostly to the successful expansion in Russia. Developments in western Europe and Asia were also positive.

The Real hypermarkets generated EBITA of € 219.3 million in fiscal 2004 compared to € 241.7 million a year earlier. The integration of 16 stores of the Extra sales division left the strongest imprint on earnings developments. While operations in Poland broke even, the imminent market entry of Real hypermarkets in Russia caused start-up costs.

The Extra supermarkets posted EBITA of € -80.8 million in fiscal 2004 after € -63.2 million a year earlier. The key reason for this was a rigorous pruning of the portfolio of locations in line with a distinct reduction of selling space. In addition, earnings were negatively impacted by extraordinary expenditure of € 30 million for the spin-off of locations in the current fiscal year.

The Media-Saturn group raised EBITA by € 91.1 million to € 451.2 million from € 360.1 million in the past fiscal year. With 25.3 percent higher EBITA, the Media-Saturn group once again proved its earnings strength in a difficult market environment despite a continued fast rate of expansion in Germany and abroad and a strong increase in advertising and marketing outlays.

The Praktiker home improvement and DIY centers lifted EBITA by € 36.3 million to € 59.3 million in 2004 from € 23.0 million in 2003. This positive development was the result of a substantial sales increase which was driven above all by a consistent price policy combined with high-profile marketing measures. It also mirrors the continued successful optimization of the outlet chain during the year under review. Praktiker also recorded positive EBITA developments in eastern Europe.

The Kaufhof department stores generated EBITA of € 56.1 million in fiscal 2004, a decline of € 43.4 million compared to the previous year. The Kaufhof department stores were hit particularly hard by the general consumption reticence and strong price sensitivity on the German market. In addition, extraordinary expenditures for restructuring headquarters and the portfolio of locations had a negative impact on earnings development.

Risk report

Risk management is the targeted protection of existing and future performance potential. The METRO Group sees risk management as an integral part of value-oriented business management. The METRO Group's risk management is based on a systematic process of risk identification, assessment and control for the whole group. Dealing with risks in a controlled manner protects the group's assets, financial and earnings situation and allows management to recognize unfavorable developments early on, e.g. before damages occur. As a result, corrective action can be taken promptly when necessary.

Efficient organization of risk management

The Management Board of METRO AG has set up a central risk management office to ensure that the Management Board is continuously and promptly informed of important developments in risk management by a risk management officer. Based on an annual group-wide risk audit, the risk management officer writes a risk report which comprises all essential aspects of potential risks at the METRO Group. An essential function of central risk management at the METRO Group is to ensure the group-wide exchange of information on risk-relevant issues and to develop risk management in all sales divisions and group units. This involves coordinating the group-wide recording and systematic assessment of all essential risks according to uniform standards. The risk management officer compiles the results in a risk portfolio, which provides the basis for determining the METRO Group's total risk exposure.

EVA as a benchmark

When deciding whether to accept specific risks, the METRO Group's guiding principle is the sustainable increase in enterprise value. The crucial benchmark for corporate success is the principle of Economic Value Added (EVA) that is used across the group. In particular, it is an important criterion for investment decisions. Entrepreneurial risks are only taken if the concomitant risks are manageable and where the opportunities involved promise reasonable value added.

Principles of risk policy

Risks incurred in conjunction with the core processes of wholesale and retail trading are borne by the METRO Group. Core processes in this context are the development and implementation of the relevant business models, the procurement of merchandise and services, decisions on outlet locations, liquidity protection and human resources development relating to specialists and managers. As a matter of principle, the group does not assume risks that are not related to core or support processes.

Decentralized responsibilities

As a trading and retailing company, the METRO Group is divided into a management holding company with independently operating sales divisions and cross-divisional service companies that support operating processes. The management principle of decentralization inherent in this structure is also reflected in how risks are dealt with. They are analyzed, evaluated and controlled efficiently at the source where they occur. Risk management responsibility is carried by the individual business units under the supervision of METRO AG.

Clear allocation of responsibilities for risk identification, analysis and assessment

To facilitate the coordinated deployment of measures, the METRO Group has defined clear responsibilities and guidelines for action. Responsibility for risk management has been laid down in several sets of rules, for example in the articles of association and by-laws of the group companies and in internal group procedures. The risk management manual of METRO AG provides information on how the risk management system works. It offers a comprehensive overview of potential risk areas, assigns responsibility for risk monitoring and provides instructions on how to act. A bottom-up process of risk identification covering all management levels across the group ensures that relevant business risks do not go unnoticed. The early warning system assesses business risks in terms of scope for the three-year planning period. Here the net principle is applied. It describes residual risk, the risk that remains after the implementation of planned risk containment measures.

Central role of group reporting in internal risk communication

Group reporting is the essential vehicle for the internal communication of opportunities and risks. Annual risk audits, financial statements and monthly projections as well as regular contacts between the operating units and their controlling companies ensure the continuous and timely exchange of information. The ongoing monitoring of risk areas is achieved with the help of specific indicators. As soon as certain threshold values are exceeded, risk reporting alerts the respective management to relevant developments. Sudden material risks are communicated immediately to the responsible decision-making bodies by means of an emergency notification system created specifically for such situations.

Consistent risk monitoring

Each manager is responsible for overseeing the implementation and effectiveness of risk management. In addition, risk management officers ensure that the risk management system is operational. A self-audit checklist serves to help the business units update and complete their risk management systems on an ongoing basis. METRO AG's group audit department checks central and decentral risk management to make sure it is functional, timely, complete, reliable and effective. The group audit department reports directly to the Chief Executive Officer. In addition, audits are performed at group companies by the responsible internal audit departments. In compliance with the provisions of KonTraG (Control and Transparency Law), external accounts auditors submit the risk management system to periodic assessment. The Management Board and the Supervisory Board are informed about the result of this assessment.

For the METRO Group, this results in the following substantial risks (internal and external risks):

Business risks

The industry is characterized by keen competition in wholesaling and retailing as well as by competing merchandizing concepts, service offerings and service qualities. Another risk is the typical dependence of the retailing industry on the readiness of consumers to spend money. Although the increasing internationalization of the METRO Group's business reduces its dependence on economic and legal parameters in Germany, the group is simultaneously confronted with additional economic, legal and political risks in other countries. Examples of material legal risks are the implementation of the EU directive on waste electrical and electronic equipment, the EU's chemicals policy and the ban on chlorofluorocarbons.

Merchandizing concepts must be adapted continually to account for changing consumer behavior. The METRO Group supports this process by regularly evaluating internal information and select external sources to be able to identify changes to consumer needs and behavior early on. The group's own market research uses traditional quantitative methods such as time series analyses (e.g. observation of products on the market over a certain period of time) or trend extrapolations (market trend forecasts) based on the analysis of internal sales figures or market research results. Consistent benchmarking vis-à-vis competitors provides ideas for the qualitative improvement of merchandizing concepts. The practicability and acceptance of concepts are first verified in test markets and then implemented area-wide as quickly as possible using clear project organization. Continuous fund allocation allows the sales divisions to keep their location portfolios competitive.

Location risks

Ongoing foreign expansion, especially in emerging markets, entails location risks. Comprehensive feasibility studies are one example of how the METRO Group identifies these risks and reduces them. In these studies, the basic framework and opportunities for business activity are analyzed in detail.

Supplier risks

As a trading and retailing company, the METRO Group depends on external providers for the supply of goods and services. Carefully monitoring market conditions, working with a broad base of suppliers and using the company's own controls and purchasing policy are effective means of preparing for the contingencies related to goods and services. The Food Safety Initiative, which ensures a high food safety standard for all production, processing and distribution levels, is an example of such measures.

IT/logistics risks

Bricks-and-mortar retailing is characterized by a diverse selection of goods and a high merchandise turnover rate. This brings organizational, IT and logistics risks. The METRO Group's international focus, which calls for adapting merchandise assortments to national and local customs, adds to these risks. Any disturbances in the value chain, for example involving the supply of goods, harbor the risk of business interruption. To hedge against such risks, the METRO Group uses internal back-up systems, works with several parallel service providers and has special emergency plans. The efficient division of labor and mutual risk control also help reduce operational risks.

Personnel risks

To implement its strategic goals, the METRO Group depends on highly qualified experts and executives. It is an ongoing challenge to recruit and retain such valuable human resources for the group in the face of intense competition. The demand for qualified personnel is particularly high in markets where the METRO Group is expanding. This calls for appropriate measures for in-house employee qualification. Continuing education and staff training activities promoted at all group levels are designed to guarantee the indispensable professional competence of group employees. Human resource management along with training and staff development schemes help employees on all group levels develop the requisite entrepreneurial skills. The incorporation of variable pay components linked to business performance on at least three management levels serves this purpose as well. Direct participation in business success (EVA) increases employees' identification with the METRO Group and enhances their awareness of opportunities and risks in all entrepreneurial decisions.

For details on employees of METRO AG, see notes no. 25 Employees.

Contingent liabilities and other financial liabilities are detailed in the notes under no. 14 and 15.

Financial risks

METRO AG's finance department controls the financial risks of the METRO Group. These include, in particular:

- liquidity risks,
- price risks,
- creditworthiness risks and
- cash flow risks.

Liquidity risks. METRO AG acts as financial coordinator for the METRO Group companies to ensure that they are provided with the necessary financing to fund their operating and investment activities at all times and in the most cost-efficient manner possible.

Funding requirements are covered by money market and capital market instruments (time deposits, call money, commercial paper and bonds offered in the context of continuous issue programs) as well as bilateral and syndicated bank loans. The METRO Group has access to sufficient liquidity reserves at all times so that there is no danger of liquidity risk even if an unexpected event has a negative financial impact on the company's liquidity situation.

The liquidity reserve of METRO AG as of Dec. 31, 2004 is shown in the following table:

STATIC LIQUIDITY STATEMENT OF METRO AG AS OF 31 DECEMBER 2004

	€ 1,000	€ 1,000
Balance of intra-group receivables and liabilities with a maturity in 2005		(1,399,015)
Assets with a maturity in 2005		1,085,739
Liabilities with a maturity in 2005		(995,259)
Balance of liquid funds and maturities		(1,308,535)
Unused credit lines and other commitments		
Syndicated credit lines	3,475,000	
Bilateral credit lines	1,005,000	
		4,480,000
Liquidity reserve		3,171,465
In addition, the following unused capital market instruments are available:		
Debt issuance programme	1,943,218	
Commercial paper programme	5,000,000	
	6,943,218	

Intra-group cash pooling reduces the debt volume and optimizes the METRO Group's investments on the money and capital markets, which has a positive effect on net interest income. Cash pooling allows the surplus liquidity of individual group companies to be used to fund other group companies internally.

METRO AG draws on all the financial expertise pooled in its finance department to advise the group companies in all relevant financial matters and provide support. This ranges from the elaboration of investment financing concepts to supporting the responsible financial officers of the individual group companies in their negotiations with local banks and financial service providers. This ensures, on the one hand, that the financial resources of the METRO Group are optimally employed in Germany and abroad and, on the other hand, that all group companies benefit from the strength and credit standing of the METRO Group in negotiating their financing terms.

Price risks. For METRO AG, price risks arise when the fair value of a financial instrument is impacted by changes to market interest rates or exchange rates.

METRO AG's financial liabilities are used chiefly to finance the stockholdings in affiliated companies and loans to group companies. Non-interest and fixed-interest assets are thus balanced by equity, non-interest and long-term fixed-interest debt.

This structure yields a surplus of variable-interest liabilities items of € 2,816,655,000. Higher interest rates therefore entail higher interest expenses (combined with an accordingly higher cash outflow). The notes to the consolidated financial statements of METRO AG determine that a noteworthy risk of a change in interest rates currently does not exist.

Currency risks derive from market-related exchange rate fluctuations. A reasonable assessment of possible currency risks can be derived from the consolidated accounts.

In addition, hedging is carried out only with standard financial derivatives whose correct actuarial and accounting mapping and valuation in the treasury system is guaranteed.

To quantify the potential losses from financial transactions, METRO AG uses value-at-risk calculations (VaR). A variance-covariance approach is used to determine potential changes in the value of financial positions triggered by changes in interest rates and exchange rates within probable fluctuation bands. In accordance with the treasury guidelines, the observation period used to calculate the potential loss is 10 days and is subject to the supposition that because of the extent of the positions not all positions can be liquidated within a shorter period of time. The historical market data of the past 100 days as well as a 99 percent confidence level are further calculation parameters.

Creditworthiness risks. Creditworthiness risks arise from the total or partial loss of a counterparty, for example in cases of bankruptcy, in connection with monetary investments or in the case of financial derivatives with positive market values.

Within the scope of creditworthiness management, all of the METRO Group's counterparties must comply with certain minimum creditworthiness requirements. In addition, individual maximum exposure limits have been defined.

The basis for creditworthiness management is a system of limits laid down in the treasury guidelines of METRO AG, which are based mainly on the ratings of international rating agencies and internal credit assessments. An individual limit is allocated to every partner; compliance is constantly monitored by the treasury systems.

The following table classifies the counterparties by rating grades:

	Rating classes		Volume in %		
Grade	Moody's	Standard & Poor's	Monetary investment	Derivatives with positive market values	Total
Investment grade	Aaa	AAA	0.1	0.0	
	Aa1 to Aa3	AA+ to AA-	55.1	4.0	
	A1 to A3	A+ to A-	37.8	3.0	
	Baa1 to Baa3	BBB+ to BBB-	0.0	0.0	100.0
Non-investment grade	Ba1 to C	BB+ to C	0.0	0.0	0.0
No rating			0.0	0.0	0.0
Total			93.0	7.0	100.0

The table shows that, as of the balance-sheet date, 100 percent of the monetary investment volume, including the positive market value of derivatives, had been placed with investment-grade counterparties which thus have a good or very good credit standing.

METRO AG's level of exposure to creditworthiness risk is thus very low.

Cash flow risks. A future change in the interest rate level may cause cash flow from variable-interest asset and debt items to fluctuate. Part of the variable-interest debt has been hedged with interest-rate swaps. The treasury committee, which includes the CFO of METRO AG, determines the extent of these hedging measures on a regular basis. In addition, stress tests are used to determine what impact interest-rate changes may have on cash flow.

In addition, the finance department accounts for these risks by defining a benchmark for the relationship between variable and fixed-interest debt. The target structure for the debt portfolio foresees 55 percent variable and 45 percent fixed interest. The use of appropriate financial derivatives makes it possible for the interest profile to adjust to the underlying original financial transactions in order to reach the aforementioned benchmark.

Summary of the risk situation at METRO AG

On the whole, the assessment of the current risk situation has shown that there are no risks for the company as a going concern and that presently no risks are identifiable which could endanger its existence in the future.

Financial management

The finance department of METRO AG is responsible for controlling the METRO Group's financial management activities. The central financial management unit ensures that the METRO Group presents one face to the financial markets, optimally utilizes synergies derived from pooling the group companies' financial volume and maintains a risk management system that takes all factors into account.

Organization

METRO AG's finance department is organized according to a principle typically used by banks called the "Minimum Requirements for the Conduct of Trade Transactions" (MaH). In accordance with those requirements, mandatory goals, principles, responsibilities and competencies for the finance department of METRO AG are set forth in internal group treasury guidelines. Special attention is paid to the principle of a functional division between financial management and financial controlling. Thus, METRO AG's finance department adheres to the requirements of Germany's Law on Control and Transparency (KonTraG) in every respect.

Financial market communication and ratings

Candid communication with market participants and rating agencies is a crucial success factor for tapping the capital market in order to meet the group's financial requirements. The purpose of ratings, for example, is to communicate the METRO Group's creditworthiness to potential debt investors. Currently, the METRO Group is rated as follows by the two rating agencies:

- Moody's (long-term Baa1/short-term P-2/negative outlook)
- Standard & Poor's (long-term BBB/short-term A-2/stable outlook)

Group financing

By centralizing the financial management function, METRO AG undertakes to ensure that the METRO Group companies are provided with the necessary financing to fund their operating and investment activities at all times and in the most cost-efficient manner possible. The necessary information is provided by a rolling financial budget for the group covering all relevant companies. It is updated quarterly and subject to a monthly variance analysis. This long-term financial planning, which covers a 12-month planning period, is complemented by short-term, weekly rolling 14-day liquidity planning. The finance department of METRO AG also controls loan placement and guarantees as well as the granting of financing support in the form of guarantees and letters of comfort for group companies.

Important post-year-end developments

In November 2004, the METRO Group sold 119 Extra supermarkets with effect from January 1, 2005, as part of the effort to consolidate the location portfolio of the Extra supermarkets.

Other events of material importance for the evaluation of the asset, financial and earnings situation of METRO AG and the METRO Group did not occur before February 25, 2005 (release of the annual report for publication).

Outlook

The METRO Group will continue to pursue its strategy of return-oriented growth and international expansion in fiscal year 2005. The concentration on these group-wide strategic goals and the high performance of the sales concepts create a strong foundation for successful business development in the future.

Metro Cash & Carry as well as Media Markt and Saturn, two sales divisions with especially strong sales and earnings, will press ahead with the targeted expansion of their market presence in Germany and above all abroad. Eastern European and Asian growth markets are at the heart of Metro Cash & Carry's expansion. At the beginning of 2005, the sales division entered the Serbian market. The METRO Group has since been present in a total of 30 countries. The Media Markt and Saturn group of companies will open its first consumer electronics centers in Greece this year and continue to expand on its existing outlet networks in western Europe. The Real sales division will gain a foothold in Russia this year with the opening of its first hypermarkets.

Sharpening the profile of the sales divisions as unique retail brands is again one of the core goals in the current fiscal year. The central task is to gear the sales strategy even more strongly toward customer needs. The goals include gearing assortment management to customer groups, continuing to improve service and customer advisory through additional staff training as well as further developing successful customer retention programs. The sales divisions will also underscore their price and assortment competence even further in 2005. In addition, the METRO Group will continue to optimize its business processes across the group.

In order to improve customer shopping comfort, increase efficiency along the entire process chain and simultaneously lower costs, the METRO Group will continue to press ahead with technical innovation within the company and shape the modernization process worldwide in retailing. The deployment of radio frequency identification technology (RFID) in the company is an especially important part of this process. This technology has been tested in several sales divisions since 2004.

In addition, the METRO Group seeks to generate additional purchasing synergies with the cross-border pooling of its European procurement activities.

The METRO Group in 2005 seeks to increase earnings per share and economic value added once again in step with its continued profitable growth. In the current fiscal year, investment volume of around € 1.9 billion is planned.

Report pursuant to § 312 AktG (German Stock Corporation Act)

METRO AG is controlled through Metro Vermögensverwaltung GmbH & Co. KG and further companies held by major stockholders Beisheim, Haniel and Schmidt-Ruthenbeck. Accordingly, the Management Board of METRO AG has prepared a dependency report on group affiliations pursuant to § 312 AktG (German Stock Corporation Act).

This report for the year 2004 received an unqualified auditor's opinion from Fasselt & Partner Wirtschaftsprüfungsgesellschaft, Duisburg, and has been submitted to the Supervisory Board. At the end of the report, the Management Board made the following statement:

"The Management Board of METRO AG declares that in every legal transaction the company received an equitable quid pro quo under the circumstances known to the Management Board at the time when these businesses were transacted. Any other actions requiring reporting were neither taken nor omitted."

Balance sheet
as per 31 December 2004

ASSETS

€ 1,000	Note no.	As at 31 Dec 2004	As at 31 Dec 2003
Fixed assets	2		
Intangible assets	3	11,681	7,552
Tangible assets	4	6,699	7,692
Financial assets	5	8,030,726	7,027,243
		8,049,106	7,042,487
Current assets			
Receivables and other assets	6	3,305,846	4,147,779
Checks, cash on hand and in bank	7	1,081,131	474,021
		4,386,977	4,621,800
Prepaid expenses and deferred charges	8	6,152	6,868
		12,442,235	11,671,155

LIABILITIES

€ 1,000	Note no.	As at 31 Dec 2004	As at 31 Dec 2003
Equity			
Capital stock	9	835,419	835,419
Additional paid-in capital	10	2,557,964	2,557,964
Reserves retained from earnings	23	883,977	683,977
Balance sheet profit	24	355,961	345,261
		4,633,321	4,422,621
Provisions	11	446,906	635,780
Liabilities	12	7,354,123	6,600,925
Deferred income	13	7,885	11,829
		12,442,235	11,671,155

Income Statement
for the fiscal year from 1 January to 31 December 2004

€ 1,000	Note no.	2004	2003
Income from investments	17	824,448	982,329
Net financial result	18	(120,219)	(109,859)
Other operating income	19	107,019	142,246
Personnel expenses	20	(43,699)	(40,366)
Amortization on intangible assets and depreciation of tangible assets		(5,097)	(3,126)
Other operating expenses	21	(187,976)	(524,737)
Result from ordinary operations		574,476	446,487
Income taxes	22	(31,603)	(8,553)
Other taxes		1,423	(948)
Net income		544,296	436,986
Profit carried forward from previous year	24	11,665	8,275
Transfer to other reserves	23	(200,000)	(100,000)
Balance sheet profit	24	355,961	345,261

Notes to the financial statements

1. Disclosure, accounting and valuation principles

In the balance sheet and income statement, certain items have been combined with a view to enhancing transparency of presentation. To underline METRO AG's holding company function, the order of summarized income statement items laid down in § 275 HGB [German Commercial Code] has been partly modified. These items are detailed in these notes.

Intangible assets are stated at acquisition cost, tangible assets at purchase or production cost, both less accumulated scheduled amortization or depreciation and unscheduled write-downs. Scheduled depreciation is made on a straight-line basis. Unscheduled write-downs are used whenever any impairment in the value of the asset is deemed to be of a long-term nature. So-called low-value assets are fully written down in the year of their addition.

Investments and stockholdings in affiliated companies are capitalized at cost or the lower current value, lower values being maintained and carried forward unless the mandatory reinstatement of original values (applicable by law as from 1999) requires a higher carrying amount to be stated (up to historical cost).

Loans are capitalized at par value, no or low-interest loans being shown at their discounted present values.

Receivables and other assets are principally stated at par value. Specific allowances provide for the risks inherent in receivables, non-interest bearing receivables are discounted. To the extent permissible, income from investments is received as earned and capitalized in the year for which the dividend is distributed.

Receivables and liabilities in foreign currency are valued at the purchase price under adherence to the recognition-of-loss principle at the closing date. Insofar as foreign currency positions are hedged, they are valued at the respective hedging price.

Short-term securities are valued at the lower of cost, market or current value.

Provisions provide for foreseeable or apprehensible risks, uncertain commitments and impending losses, as deemed appropriate in accordance with sound business practice and judgment. The actuarial present value is used to provide for pension provisions, on the basis of a yearly interest rate of 6 percent, all pursuant to § 6a EStG [German Income Tax Act]. METRO AG provides for any accrued deficient cover of employee benevolent funds. Long-term provisions, such as for deficient rental cover or employment anniversary allowance commitments, are disclosed at par, i.e. they are not discounted.

Liabilities are stated at the amount repayable as a matter of principle.

In accordance with the standards of § 264 para. 2, 1 HGB and in line with international practice, financial transactions that constitute economic units with derivative and original financial instruments and whose hedging purposes are adequately documented to be objectively interrelated are valued on an offset basis. Within one position valued as a unit, losses from unsettled contracts are offset against, and up to the amount of, unrealized gains. Losses in excess are accrued, gains in excess remaining unrecognized. The formation of separate valuation units is premised on factors such as individual risk compensation of offsetting deals, matching interest payment dates and currencies, matching creditworthiness, and relatively matching maturities.

As a matter of principle, specific provisions provide for contingent losses from derivative financial instruments. Unrealized gains remain unreported in balance sheet terms.

Notes to the balance sheet of METRO AG

2. Fixed assets

€ 1,000	Cost of acquisition As of 1 Jan 2004	Additions	Reclassi-fication/ transfers	Disposals	A/D/W (accumu-lated)	As of 31 Dec 2004	A/D/W fiscal year
Intangible assets							
Rights and licences	2,832	586	4,139	1,109	2,444	4,004	2,660
Advance payments made	5,613	7,667	(5,603)	–	–	7,677	–
	8,445	8,253	(1,464)	1,109	2,444	11,681	2,660
Tangible assets							
Leasehold improvements	3,860	62	–	–	1,856	2,066	503
Other plant, business and office equipment	8,042	1,676	–	1,240	3,845	4,633	1,934
	11,902	1,738	–	1,240	5,701	6,699	2,437
Financial assets							
Shares in affiliated companies	7,153,581	361,064	140,605	39,851	381,475	7,233,924	3,785
Loans to affiliated companies	206,586	670,513	(72,360)	68,245	–	736,494	–
Investments	26,624	–	–	6,980	3,610	16,034	388
Other long-term loans	57,890	74,532	(67,747)	20,401	–	44,274	–
	7,444,681	1,106,109	498	135,477	385,085	8,030,726	4,173
Total	7,465,028	1,116,100	(966)	137,826	393,230	8,049,106	9,270

3. Intangible assets

A material part of the advance payments made is for software systems still in the development phase.

4. Tangible assets

The additions to tangible assets relate to equipment, PC systems and motor vehicles. Disposals mainly refer to the expiration of the service life of the items concerned.

5. Financial assets

In the year under review, additions to shares in group companies amounting to € 361,064,000 are posted. These include a contribution to capital reserves of € 350,000,000 at Praktiker Bau- und Heimwerkermärkte AG.

Of the additions from loans to affiliated companies amounting to € 670,513,000, € 600,000,000 relate to the transfer of short-term loan extensions to Asset Immobilienbeteiligungen GmbH (METRO Group Asset Management group, previously AIB) given in the year before from receivables from affiliated companies.

The transfer of shares in affiliated companies amounting to € 140,605,000 is largely the result of a capital increase at Metro Einzelhandel Holding GmbH by contribution of claims from loan agreements.

Disposals of shares in affiliated companies amounting to € 34,052 million refer to the transfer of one investment to real estate holdings.

Disposals of € 68,245,000 from loans to affiliated companies result from a loan transfer within the METRO Group to METRO Group Asset Management Services GmbH.

Investments of € 4,173,000 were written down at the lower of cost or market.
Disposals of other loans represent scheduled redemptions of existing loans.

6. Receivables and other assets

€ 1,000	31 Dec 2004	31 Dec 2003
Receivables from affiliated companies	3,104,856	4,016,705
Receivables from companies with a participating interest	2,397	4,416
Other assets	198,593	126,658
of which with a remaining term of more than one year	[17,672]	[5,238]
	3,305,846	4,147,779

The reduction in receivables due from affiliated companies is essentially attributable to the contribution to capital reserves of Praktiker Bau- und Heimwerkermärkte AG and the restructuring of loans to Asset Immobilienbeteiligungen GmbH.

Other assets increased because of higher tax claims and the purchase of stock options to hedge the newly launched stock bonus plan.

7. Checks, cash on hand and bank deposits

€ 1,000	31 Dec 2004	31 Dec 2003
Cash on hand/cash en route/checks	1,976	3
Bank deposits	1,079,155	474,018
	1,081,131	474,021

Bank deposits result from cash-pool income toward the end of the year.

8. Prepaid expenses and deferred charges

In the current prepaid expenses and deferred charges, discount is reported as the difference between the repayment amount and the loan amount of the euro bonds issued under the debt issuance programme amounting to € 4,703,000.

9. Subscribed capital

In terms of amount and composition, e.g. the ratio of common to preferred stock, subscribed capital has not changed versus December 31, 2003 and totals € 835,419,052. The subscribed capital is divided up as follows:

Class: no-par bearer shares, accounting par value € 2.56 each		31 Dec 2004	31 Dec 2003
Common stock	shares	324,109,563	324,109,563
	€	828,572,941	828,572,941
Preferred stock	shares	2,677,966	2,677,966
	€	6,846,111	6,846,111
Total capital stock	shares	326,787,529	326,787,529
	€	835,419,052	835,419,052

Preferred shares do not carry any voting rights and are equipped with a preferential right to profits in line with the articles of association of METRO AG.

Contingent capital I and II

On June 4, 2004, a contingent increase in capital stock of € 127,825,000 was resolved (contingent capital I). This contingent capital increase is related to the authorization given to the Management Board to issue by June 3, 2009 and with the consent of the Supervisory Board bonds with warrants and/or convertible bonds for a total par value of € 1,000,000,000 and to grant the bond holders option or conversion rights for up to 50,000,000 new shares of common stock in the company, to establish the corresponding option or conversion duties or provide for the right of the company to repay the bond either in whole or in part with common shares in the company rather than in cash. To date, no bonds with warrants and/or convertible bonds have been issued under the aforementioned authorization of the Management Board.

On July 6, 1999, the annual general meeting resolved to carry out a contingent capital increase of up to € 14,316,173 by issuing up to 5,600,000 common shares to be used for Metro's stock option plan (contingent capital II).

Pursuant to METRO AG's stock option plan, contingent capital II is used exclusively to grant subscription rights to the members of the Management Board of the company, members of management bodies (management boards and managers) of subordinate affiliated companies, as well as to other managers of the company, and its subordinate affiliated companies which are not publicly listed on a stock exchange.

Under METRO AG's stock option plan, stock options were granted on September 3, 1999, August 19, 2000, July 23, 2001, July 19, 2002 and June 23, 2003. A total of 1,476,693 of these options were in effect as of December 31, 2004. If the exercise terms and conditions are met, these stock options may entail the issuance of up to 1,476,693 shares of common stock, corresponding to 0.45 percent of the capital stock.

The exercise terms determined by the company's Management Board for the subscription rights granted as part of the Metro stock option plan in particular provide for the company to deliver to those with rights from the Metro stock option plan cash compensation equal to the difference between the strike price and the applicable closing price of Metro stock before the exercise of the subscription right in lieu of delivering new common stock. Whether this option is applied is decided by the company each time the subscription rights from the individual tranches are exercised.

Authorized capital I

On May 23, 2002, the annual general meeting resolved to authorize the Management Board to increase the capital stock, with the prior approval of the Supervisory Board, by issuing new common bearer shares in exchange for cash contributions in one or several tranches for a total maximum of € 40,000,000 (authorized capital I) by May 23, 2007.

A subscription right is to be granted to existing stockholders. However, the Management Board has been authorized to exclude the subscription right, with the prior approval of the Supervisory Board, to the extent required to grant the holders of bonds with warrants and convertible bonds issued by METRO AG and its wholly owned direct or indirect subsidiaries a right to purchase the number of new shares to which they would be entitled upon exercise of their option/conversion rights and to further exclude the subscription right to compensate for fractions of shares from rounding.

In addition, the Management Board has been authorized to exclude the stockholders' subscription rights, with the prior approval of the Supervisory Board, for one or several capital increases under the authorized capital, provided that the total par value of such capital increases does not exceed 10 percent of the capital stock registered in the commercial register at the time the authorized capital is first utilized, and further provided that the issue price of the new shares is not substantially below the market price of listed shares of the same category at the time the initial offering price of the new issue is finally fixed. The Management Board is authorized to determine all further details of the capital increases with the prior approval of the Supervisory Board. To date, authorized capital I has not been used.

Authorized capital II

On May 23, 2002, the annual general meeting resolved to authorize the Management Board, with the prior approval of the Supervisory Board, to increase the company's capital stock by issuing new common bearer shares in exchange for non-cash contributions in one or several tranches for a total maximum of € 60,000,000 by May 23, 2007 (authorized capital II). The Management Board is authorized, with the prior approval of the Supervisory Board, to decide on the exclusion of the subscription rights and to determine all further details of the capital increases. To date, authorized capital II has not been used.

Authorized capital III

On June 4, 2004, the annual general meeting authorized the Management Board, with the prior approval of the Supervisory Board, to increase the company's capital stock by issuing new common bearer shares in exchange for cash contributions in one or several tranches for a total maximum of € 100,000,000 by June 3, 2009 (authorized capital III). Existing stockholders shall be granted a subscription right.

However, the Management Board has been authorized to exclude the subscription right, with the prior approval of the Supervisory Board, to the extent required to grant the holders of bonds with warrants and convertible bonds issued by METRO AG and all direct or indirect subsidiaries in which METRO AG holds at least 90 percent of the capital stock a right to purchase the number of new shares they would be entitled to upon exercise of their option/conversion rights and to further exclude subscription rights to compensate for fractions of shares from rounding.

In addition, the Management Board has been authorized to exclude the stockholders' subscription rights, with the prior approval of the Supervisory Board, for one or several capital increases under the authorized capital, provided that the total par value of such capital increases does not exceed 10 percent of the capital stock registered in the commercial register at the time the authorized capital is first utilized, and further provided that the issue price of the new shares is not substantially below the market price of listed shares of the same category at the time the initial offering price of the new issue is finally fixed. The maximum limit of 10 percent of the capital stock decreases in proportion to the amount of capital stock which is comprised of the company's treasury stock issued as part of the authorized capital III under exclusion of the subscription right of the stockholders pursuant to §§ 71 para. 1 no. 8 sentence 5, 186 para. 3 sentence 4 AktG (German Stock Corporation Act). The maximum limit also falls in proportion to the amount of capital stock which is comprised of those shares issued to service bonds with warrants and/or convertible bonds with option or conversion rights or with conversion duties if the bonds were issued during the duration of authorized capital III under the exclusion of the subscription right in the corresponding application of § 186 para. 3 sentence 4 AktG. To date, authorized capital III has not been used.

Authorized capital IV

The annual general meeting of June 4, 2004 further authorized the Management Board, with the prior approval of the Supervisory Board, to increase the company's capital stock by issuing new common bearer shares in exchange for non-cash contributions in one or several tranches for a total maximum of € 125,000,000 by June 3, 2009 (authorized capital IV). The Management Board has been authorized, with the prior approval of the Supervisory Board, to decide on the exclusion of the subscription right. To date, authorized capital IV has not been used.

Stock buyback

Pursuant to § 71 para. 1, 8 AktG (German Stock Corporation Act), the annual general meeting of June 4, 2004 authorized the company to acquire treasury stock up to the equivalent of 10 percent of the capital stock on or before December 4, 2005.

To date, neither the company nor any company controlled or majority-owned by METRO AG or any other company acting on behalf of METRO AG or any company controlled or majority-owned by METRO AG have exercised this authorization (cf. § 160 para. 1, 2 AktG).

Status of judicial review proceedings

The share exchange ratios fixed for the 1996 mergers of Asko Deutsche Kaufhaus AG and Deutsche SB-Kauf AG with METRO AG are being reviewed upon application by former stockholders in judicial review proceedings. The applicants claim that the respective share exchange ratios were understated to their detriment.

These two judicial review proceedings are still pending before the Regional Courts of Saarbrücken and Frankfurt/Main.

Resolutions of the annual general meeting on May 22, 2003

Action for avoidance and nullity was lodged before the Regional Court of Düsseldorf, commercial division (file no. 41 O 122/03) against the following resolutions adopted by the annual general meeting of METRO AG on May 22, 2003:

1. resolution under agenda item 3 by which the annual general meeting approved the acts of the Management Board and
2. resolution under agenda item 5 by which the annual general meeting elected Fasselt & Partner Wirtschaftsprüfungsgesellschaft, Duisburg, as auditor of the company for the 2003 fiscal year.

A date for the hearing has been set for June 1, 2005.

10. Additional paid-in capital

As of Dec. 31, 2004, the additional paid-in capital was unchanged at € 2,557,964,000.

11. Provisions

€ 1,000	31 Dec 2004	31 Dec 2003
Pension provisions	158,957	187,498
Tax provisions	117,626	138,732
Other provisions	170,323	309,550
	446,906	635,780

Pension provisions of € 121,433,000 (€ 126,218,000 the year before) provide for direct pension commitments, while provisions of € 37,096,000 (€ 60,754,000 in the year before) have been set aside to cover shortfalls of underfunded benevolent funds; this also includes € 29,032,000 for the fund assets' market value as at the closing date. Allocations to benevolent funds totaled € 13,791,000.

Tax provisions adequately provide for tax audit risks.

Other provisions provide for the following:

€ 1,000	31 Dec 2004	31 Dec 2003
Risks from rental contracts	58,970	162,370
Risks from investments	45,995	50,569
Commitments to employees	12,211	5,599
Risks from financial transactions	6,866	21,802
Litigation risks	4,184	4,317
Other	42,097	64,893
	170,323	309,550

In the year before, provisions for risks from rental contracts also included risks from former real estate holdings. These were drawn down during the current fiscal year.

The provisions for risks from financial transactions relate to swap agreements assumed against cash payment.

The reduction of other provisions was essentially due to the availment of provisions for interest on taxes due.

12. Liabilities

€ 1,000	31 Dec 2004	31 Dec 2003
Bonds	1,863,999	1,797,303
Liabilities to banks	794,708	849,758
Trade payables	5,254	3,636
Liabilities to affiliated companies	4,503,871	3,647,851
Other liabilities	186,291	302,377
of which taxes	[82,109]	[80,772]
of which social security	[460]	[286]
	7,354,123	6,600,925

Under the existing debt issuance programme, a € 750 million bond was partially refinanced ahead of maturity with a volume of € 436 million during the fiscal year. The repurchase was financed through the new issue of a bond with a nominal volume of € 500 million and a five-year maturity.

The increase in liabilities to affiliated companies was essentially due to short-term cash investments of METRO Group companies.

As per the year-earlier closing date, other liabilities included short-term deposits of Kaufhof Unterstützungsverein e. V., which were reduced at the beginning of the year.

Breakdown of maturities of liabilities as per December 31, 2004:

€ 1,000	31 Dec 2004 total	up to 1 year	more than 5 years
Bonds	1,863,999	49,738	–
Liabilities to banks	794,708	794,708	–
Trade payables	5,254	5,254	–
Liabilities to affiliated companies	4,503,871	4,503,871	–
Other liabilities	186,291	145,559	27
	7,354,123	5,499,130	27

There are no liabilities secured by rights of lieu or similar rights.

13. Deferred income

Deferred income includes a premium from a bond and a one-time payment from the conclusion of an interest-rate swap.

14. Contingent liabilities

€ 1,000	31 Dec 2004	31 Dec 2003
Liabilities from guarantee and warranty contracts	4,013,656	4,205,431
of which for liabilities of affiliated companies	[3,568,894]	[3,289,065]
of which to affiliated companies	[118,400]	[–]
Liabilities from sureties and guarantees	58,910	146,957
of which for liabilities of affiliated companies	[58,876]	[146,925]
	4,072,566	4,352,388

15. Other financial obligations

€ 1,000	31 Dec 2004	31 Dec 2003
Commitments from share tender rights	167,371	156,455
Obligations from financial derivatives	83,139	94,688
of which to affiliated companies	[41,764]	[35,546]
Obligations from loans granted	61,246	91,939
of which to affiliated companies	[61,246]	[–]
Obligations from rentals and leases (per annum)	42,265	50,761
of which to affiliated companies	[2,022]	[1,851]
Other	375	–
	354,396	393,843

16. Derivative financial instruments

As at the closing date, the following derivative financial instruments were being used to minimize risks:

INTEREST-RATE TRANSACTIONS

	Nominal	Market values		Book values	
€ 1,000	volume	positive	negative	positive	negative
Interest-rate swaps					
Interest-rate swaps as valuation unit with derivative financial transactions	600,000	10,693	10,693		
Interest-rate swaps as valuation unit with primary financial transactions	1,872,584	12,700	14,949		
Other interest-rate swaps	864,679	345	7,211		
of which contained in:					
Other assets				36,284	
Prepaid expenses and deferred charges				282	
Provisions for risks from financial transactions					6,866
Other liabilities					27,284
Deferred income					4,080
	3,337,263	23,738	32,853	36,566	38,230

CURRENCY TRANSACTIONS

€ 1,000	Nominal volume	Market values positive	Market values negative	Book values positive	Book values negative
Forex futures					
Currency derivatives as valuation unit with derivative financial transactions	32,911	1,193	1,193		
Currency derivatives as valuation unit with primary financial transactions	276,823	474	698		
	309,734	1,667	1,891		
Interest-rate/currency swaps					
Interest-rate/currency swaps as valuation unit with derivative financial transactions	1,253,877	53,757	53,757		
of which included in:					
Other assets				3,086	
Other liabilities					3,148
	1,253,877	53,757	53,757	3,086	3,148

The market values of derivative financial instruments are calculated according to the net present value method.

The structure of the table differs compared to the year before. It thus fulfills the stipulations of § 285 sentence 1 no. 18 and 19 HGB (German Commercial Code), which applied for the first time.

For details of the accounting and valuation procedures used for derivative financial instruments, see note no. 1.

Notes to the income statement of METRO AG

17. Net investment income

€ 1,000	2004	2003
Income from profit and loss transfer agreements	830,468	969,742
Income from investments	26,716	78,914
of which from affiliated companies	[23,425]	[15,987]
Expenses from loss absorption	(28,563)	(40,323)
Write-downs on financial assets	(4,173)	(26,004)
	824,448	982,329

Expenses from loss absorption relate primarily to METRO Group Asset Management GmbH & Co. KG and METRO Group Asset Management Services GmbH.

18. Financial result

€ 1,000	2004	2003
Other interest and related income	165,551	143,222
of which from affiliated companies	[114,708]	[70,021]
Income from long-term loans	36,375	28,260
of which from affiliated companies	[32,809]	[25,007]
Other financial income	11,235	5,946
of which from affiliated companies	[842]	[64]
Interest and related expenses	(319,642)	(270,747)
of which to affiliated companies	[(125,536)]	[(91,874)]
Other financial expenses	(13,738)	(16,540)
	(120,219)	(109,859)

The item "other financial income" refers primarily to gains from currency transactions and the dissolution of provisions for risks from financial transactions.

The item "other financial expenses" comprises commissions and costs related to bonds.

19. Other operating income

€ 1,000	2004	2003
Rents	46,086	49,980
Administrative services for subsidiaries	37,063	28,572
Income from the write-back of provisions	20,068	41,589
Book gains from the disposal of assets	309	10,718
Write-ups on financial assets	–	5,205
Other income	3,493	6,182
	107,019	142,246

Rents primarily reflect transitory real estate rents.

The administrative services for subsidiaries include charged-on services rendered by METRO AG for the sales divisions and cross-divisional service companies of the METRO Group.

20. Personnel expenses

€ 1,000	2004	2003
Wages and salaries	41,521	32,075
Social security contributions, expenses for pensions and related benefits	2,178	8,291
of which for pensions	[(878)]	[5,601]
	43,699	40,366

A stock bonus plan with a maturity of five years was launched in fiscal year 2004. This stock bonus plan foresees an annual cash bonus for senior executives (including the members of the Management Board), which is payable after a period of three years, starting 8 weeks after the respective annual general meeting of METRO AG (closing date). METRO AG has hedged the options from 1999 through 2003 and from the 2004 stock option plan by acquiring stock options. The expenses for these transactions will be prorated on a straight-line basis over the life of the bonus plan. In fiscal 2004, they amounted to € 1,909,000 (€ 1,351,000 in the year before). For an unhedged part of the bonus from 2003, a provision was set up corresponding to the market value of the rights granted. This market value was derived from the cost of a hedging transaction to cover this period and was calculated at € 167,000 (€ 440,000 in the year before).

The conditions for exercising the options granted in 1999 and 2000 were not met so that these options have expired.

Wages and salaries include year-end payments and provisions for extraordinary payments totaling € 16,349,000 (€ 7,727,000 in the year before).

The decrease in social security contributions and expenses for pensions and related benefits includes a gain of € 17,004,000 (€ 24,776,000 in the year before) from the reinstatement of the original value of the fund assets of a benevolent scheme as per the closing date.

21. Other operating expenses

€ 1,000	2004	2003
Real estate rents	49,603	53,249
General administrative expenses	45,212	33,616
Legal and other consulting fees	28,894	28,678
Service fees charged by subsidiaries to METRO AG	26,234	23,514
Allocation of positive synergy effects to sales divisions	11,015	11,681
Bad loan charges	1,788	7,816
Provision for accrued inter-company lease obligations	256	2,927
Losses from the disposal of fixed assets	19	12
Waiver of receivables from the Divaco group	–	250,000
Realization, clearing and rental risks	–	65,041
Waiver of receivables from Extra Verbrauchermärkte Deutschland GmbH & Co. KG, restructuring expenses	–	33,550
Other items	24,955	14,653
	187,976	524,737

22. Income taxes

This item shows tax expenses netted against tax refunds.

23. Allocation of net income to other reserves

Pursuant to § 58 para. 2 AktG (Stock Corporation Act), the Supervisory Board and the Management Board have allocated an amount of € 200,000,000 to other reserves from net income at year end of € 544,296,000.

24. Appropriation of balance sheet profit

The Supervisory Board and the Management Board of METRO AG propose that the reported balance sheet profit of € 355,961,000 be used to pay a dividend of € 333,596,000 and that the remaining € 22,365,000 be carried forward to new account.
The balance sheet profit of € 355,961,000 includes € 11,665,000 in profit carried forward from the year before.

	Number of shares	Cash distribution in €
Distribution of a dividend of € 1.020 per share of common stock	324,109,563	330,591,754
Distribution of a dividend of € 1.122 per share of preferred stock	2,677,966	3,004,678
	326,787,529	333,596,432

In accordance with the company's articles of association, holders of preferred shares are entitled to receive an extra dividend of 10 percent if the dividend per common share equals or exceeds € 1.02.

Additional disclosures

25. Employees

METRO AG's workforce averaged 279 in fiscal 2004, calculated from the four quarters. This total includes 2 wage earners and 277 salaried employees. Part-time and temporary employees have been converted to full-time equivalents.

26. Stock ownership

Pursuant to § 285 HGB (German Commercial Code), the statement of stock ownership of METRO AG is deposited with the commercial register of the Amtsgericht (district court) of Düsseldorf (HRB 39473). It is also available directly from METRO AG.

27. Group affiliation

The annual financial statements of METRO AG, Düsseldorf, are included in the consolidated financial statements of METRO AG, which were prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the requirements of § 292 a HGB.

28. Disclosures pursuant to § 160 para. 1 AktG (Stock Corporation Act)

On April 19, 2002, METRO AG published, in accordance with § 41 para. 3 WpHG (Securities Trading Act), a notice pursuant to § 41 para. 2 WpHG with the following contents:

The stockholders and reporting parties under the terms of § 41 para. 2, 1 WpHG named below stated on April 2, 2002 that they held the following voting rights in METRO AG (including the voting shares attributable to them pursuant to § 22 WpHG) as of April 1, 2002:

	Voting shares in % (rounded)	thereof attributable acc. to § 22 WpHG	% (rounded)
1. Metro Vermögensverwaltung GmbH & Co. KG, Schlüterstraße 3, 40235 Düsseldorf	55.70	Para. 1, 1: Para. 2:	0.13 16.17
2. Metro Vermögensverwaltung GmbH, Schlüterstraße 3, 40235 Düsseldorf	55.70	Para. 2:	55.70
3. Haniel Finance B.V., Overtoom 60-62, NL-1054 HK Amsterdam	55.70	Para. 2:	50.29
4. Beisheim Holding GmbH, Neuhofstraße 4, CH-6340 Baar	55.70	Para. 2:	50.29
5. Suprapart AG, c/o Dr. Andreas Renggli, Baarer Straße 8, CH-6300 Zug	55.70	Para. 2:	50.29
6. Franz Haniel & Cie. GmbH, Franz-Haniel-Platz 1, 47119 Duisburg	55.70	Para. 2:	55.70
7. O.B. Betriebs-GmbH, Helene-Wessel-Bogen 39, 80939 München	55.70	Para. 2:	55.70
8. BVG Beteiligungs- und Vermögensverwaltungs GmbH, Huyssenallee 44, 45128 Essen	55.70	Para. 2:	55.70
9. Otto-Beisheim-Stiftung, Neuhofstraße 4, CH-6340 Baar	55.70	Para. 2 and 3:	55.70
10. Supra Holding AG, c/o Dr. Andreas Renggli, Baarer Straße 8, CH-6300 Zug	55.70	Para. 2 and 3:	55.70
11. OBV Vermögensverwaltung GmbH & Co. KG, Mörsenbroicher Weg 200, 40470 Düsseldorf	55.70	Para. 2 and 3:	55.70
12. Gebr. Schmidt Verwaltungsgesellschaft mbH & Co. KG, Huyssenallee 44, 45128 Essen	55.70	Para. 2 and 3:	55.70
13. Weka Trust, Pflugstraße 10, FL-9490 Vaduz	55.70	Para. 2 and 3:	55.70
14. Prof. Dr. Otto Beisheim, Neuhofstraße 4, CH-6340 Baar	55.70	Para. 2 and 3:	55.70
15. Dr. Michael Schmidt-Ruthenbeck, Gartenstraße 33, CH-8002 Zürich	55.70	Para. 2 and 3:	55.70

In total, 55.70 percent of the voting rights are exercised by mutual agreement pursuant to § 22 para. 2 WpHG.

The preceding individual statements are included in the above summary disclosure of April 2, 2002.

In addition to the above statement of April 2, 2002, METRO AG obtained another statement pursuant to §§ 21, 22 WpHG dated July 2, 2004, which it disclosed as follows pursuant to § 25 para. 1 sentences 1 and 2 WpHG:

Metro Vermögensverwaltung GmbH & Co. KG, Schlüterstraße 3, 40235 Düsseldorf, has informed METRO AG, Düsseldorf, in its own name and per procurationem of 1. HSB Beteiligungsverwaltung GmbH & Co. KG, 15372 Waltersdorf, that Metro Vermögensverwaltung GmbH & Co. KG holds a 55.58 percent share of the voting capital of METRO AG. Of this, Metro Vermögensverwaltung GmbH & Co. KG is said to have held 14.51 percent directly since July 1, 2004. Since July 1, 2004, 16.07 percent of the voting rights of METRO AG have been attributed to Metro Vermögensverwaltung GmbH & Co. KG pursuant to § 22 para. 2 WpHG; 25 percent of the voting rights are attributed to it pursuant to § 22 para. 1 sentence 1 no. 1 WpHG. The share of voting rights of 1. HSB Beteiligungsverwaltung GmbH & Co. KG, 15372 Waltersdorf, a 100 percent subsidiary of Metro Vermögensverwaltung GmbH & Co. KG, is said to have exceeded 5 percent of the voting capital of METRO AG on July 1, 2004 and to now amount to 25 percent plus one share.

29. Supervisory Board and Management Board

Supervisory Board remuneration

The total remuneration of all members of the Supervisory Board amounted to € 1,596,000 subject to statutory VAT. Aside from the reimbursement of cash expenses, the Supervisory Board members received a fixed payment and a performance-related payment. The latter is based on the earnings before taxes and minority interests in the 2004 consolidated financial statements of METRO AG (EBT 2004). The fixed and performance-based components accounted for € 919,000 and € 677,000, respectively, of total compensation. The performance-based payment is due after the annual general meeting of METRO AG on May 18, 2005. The members of the Supervisory Board were not granted any additional remuneration or benefits for work performed, in particular consulting and brokerage services, on behalf of other companies of the METRO Group.

Further details on the remuneration of members of the Supervisory Board are provided by the articles of association of METRO AG, which is available on the Internet under www.metrogroup.de.

Management Board remuneration

Total remuneration (fixed and EVA-based remuneration entitlements) paid to the Management Board amounted to € 8,887,000. This was divided into fixed remuneration of € 3,171,000 and variable performance-based remuneration of € 5,716,000. Economic value added (EVA) is a critical factor for the measurement of performance-based remuneration.

Due to the bonus bank system, the full payment of EVA-based remuneration entitlements depends on EVA factors in the coming years.

In addition, the company made payments to the members of the Management Board to cover benefits and social insurance contributions and provided company cars as non-cash remuneration (€ 611,000).

Pursuant to the resolution of the annual general meeting in 1999, the members of the Management Board in fiscal years 2000 to 2002 received **stock options**. In fiscal year 2003, **stock bonuses** were promised. Stock options/stock bonuses from previous years did not mature. Further details on the stock options and stock bonuses can be found in the annual reports of previous years.

A **stock bonus plan** with a maturity of five years was launched in fiscal year 2004. This stock bonus plan foresees an annual cash bonus for members of the Management Board, which is payable after three years and starting eight weeks after the respective annual general meeting of METRO AG (closing date). The stock price per tranche corresponds to the arithmetic mean of the closing prices of the common stock of METRO AG in Xetra trading at Deutsche Börse AG in Frankfurt/Main on the last 20 consecutive trading days before the closing date. The full bonus is paid upon reaching the target price, which is 15 percent above the basis price after the respective three-year period. This defines the target price which reflects the expectations of an investor for the stock performance assuming that the dividend yield remains stable. The target price corresponds to the arithmetic mean of the closing prices of the company's common stock in Xetra trading in the last 20 consecutive trading days before the completion of the respective 3-year period. The bonus is increased or decreased respectively when the 15 percent price target is exceeded or not met.

The amount of the respective bonus also depends on the performance of Metro stock compared to the benchmark German and European sector indices. The stock bonus is increased to 120 percent when Metro stock outperforms and decreased to 80 percent when it underperforms. Out/underperformance occurs when the average price performance of Metro stock exceeds/falls below the aforementioned mean by more than 10 percent. Out/underperformance is ascertained when it is determined whether the target price has been attained.

The stock bonus from the 2004 tranche amounts to € 1,390,000 gross, of which Dr. Körber (Chairman) received € 400,000 gross and of which Messrs. Feuerstein, Mierdorf and Unger received € 330,000 each.

Payment of the stock bonus depends on the fulfillment of the aforementioned conditions and is in each case limited to the level of fixed remuneration. Any amount exceeding this is used to increase the stock bonus in the following three years if this is below the target bonus. The bonus can be limited by a resolution of the personnel and nominations committee. The company has hedged the stock bonuses granted in 2004. Expenditures for these transactions amount to € 217,000.

Former members of the Management Board of METRO AG and of companies merged into METRO AG as well as their surviving relatives received € 3,593,000; METRO AG formed pension provisions of € 40,610,000 for this circle of persons.

30. Disclosure of the stock ownership of Management and Supervisory Board members

As per December 31, 2004, the ownership of stocks, including options and other derivatives of individual Supervisory and Management Board members neither directly nor indirectly exceeded 1 percent of the shares issued by the company. The total stock ownership of all Supervisory and Management Board members also amounted to less than 1 percent on the closing date.

31. Statement of Compliance with the German Corporate Governance Code

The Management Board and the Supervisory Board of METRO AG issued their statement of compliance with the recommendations of the government commission German Corporate Governance Code in December 2004 pursuant to § 161 AktG (German Stock Corporation Act) and published it on the Internet site of METRO AG (www.metrogroup.de).

Corporate Boards of METRO AG and their mandates

Members of the Supervisory Board

Günther Hülse † (Chairman)
until 3 June 2004
CEO of Franz Haniel & Cie. GmbH
until 30 November 2004
a) Celesio AG until 30 November 2004
(Chairman until 28 April 2004)
TAKKT AG until 30 November 2004
(Chairman until 5 April 2004)
Allianz Lebensversicherungs AG
until 30 June 2004
b) Imperial Reederei GmbH (Member of the Advisory Board) until 30 November 2004

Prof. Dr. Theo Siegert (Chairman)
from 4 June 2004
Member of the Management Board
of Franz Haniel & Cie. GmbH
a) Celesio AG (Chairman) from 29 April 2004
ERGO Versicherungsgruppe AG

Dr. Wulf H. Bernotat
CEO of E.ON AG
a) Allianz AG
E.ON Energie AG (Chairman)
E.ON Ruhrgas AG (Chairman)
RAG AG (Chairman)
b) E.ON US Investments Corp. (Chairman)
E.ON Nordic AB (Chairman)
E.ON UK plc (Chairman)
Sydkraft AB (Chairman)

Prof. Dr. Dr. h. c. Klaus Brockhoff
Rector of Management University "Wissenschaftliche Hochschule für Unternehmensführung – Otto-Beisheim-Hochschule"
until 30 September 2004
Holder of the Chair for Corporate Management at Management University "Wissenschaftliche Hochschule für Unternehmensführung – Otto-Beisheim-Hochschule"
a) Steuler Industriewerke GmbH (Chairman)
b) Norddeutsche Private Equity GmbH
(Member of the Advisory Board)

Klaus Bruns (Vice Chairman)
Chairman of the Group Works Council
of METRO AG
Chairman of the General Works Council
of Kaufhof Warenhaus AG
a) Tourismus & Marketing Oberhausen GmbH

Volker Claus
CPA and Tax Consultant
b) Gebr. Schmidt Verwaltungsgesellschaft mbH
(Member of the Advisory Board)

Ulrich Dalibor
National Chairman of the Retail Section of the Ver.di Union
a) Metro Großhandelsgesellschaft mbH
until 22 May 2004
Kaufhof Warenhaus AG

Prof. Dr. Dr. h. c. Erich Greipl
CEO of Metro Vermögensverwaltung
GmbH & Co. KG
a) Kaufhof Warenhaus AG
Metro Großhandelsgesellschaft mbH
Real Holding GmbH
Duales System Deutschland AG (Chairman)
from 16 June 2004

b) BBE Unternehmensberatung GmbH
(Member of the Board of Directors)
KGG Kreditgarantiegemeinschaft Handel in Bayern GmbH
(Chairman of the Board of Directors)
Beisheim Holding Schweiz AG
(President of the Board of Directors)

Marliese Grewenig
Chairwoman of the General Works Council of Praktiker AG
a) Praktiker Bau- und Heimwerkermärkte AG
(Vice Chairwoman)

Jürgen Hennig
Head of Department at Metro Großhandelsgesellschaft mbH

Anja Kiehne-Neuberg
Head of Section Personnel and Organization Development at Kaufhof Warenhaus AG

Werner Klockhaus
Vice Chairman of the Group Works Council of METRO AG
Vice Chairman of the General Works Council of Real SB-Warenhaus GmbH

Rainer Kuschewski
from 1 January 2005
Business Economist, Secretary of the National Executive Board of the Ver.di Union
a) Real Holding GmbH

Dr. Klaus Mangold
Executive Advisor to the Chairman of DaimlerChrysler AG
a) Jenoptik AG
Leipziger Messe GmbH
b) Chubb Corporation, Warren, New Jersey
(Member of the Board of Directors)
Magna International Inc., Toronto
(Member of the Board of Directors)

Dr. Karlheinz Marth
until 31 December 2004
Secretary of the National Executive Board of the Ver.di Union
a) Extra Verbrauchermärkte GmbH
(Vice Chairman) until 17 March 2004
Kaufhof Warenhaus AG until 31 December 2004

Marianne Meister
Chairwoman of the General Works Council of Metro Großhandelsgesellschaft mbH
a) Metro Großhandelsgesellschaft mbH
(Vice Chairwoman)

Dr. rer. pol. Klaus von Menges
Businessman and Agronomist
a) DEG Deutsche Investitions- und Entwicklungsgesellschaft mbH (Member of the Audit Committee)
Dresdner Bank Lateinamerika AG
until 18 March 2004
MAN Ferrostaal AG
b) HSBC Trinkaus & Burkhardt KGaA (Member of the Board of Directors) until 10 November 2004

Dr.-Ing. e. h. Dipl.-Ing. Bernd Pischetsrieder
CEO of Volkswagen AG
a) Audi AG (Chairman)
Dresdner Bank AG
Münchener Rückversicherungs-Gesellschaft

b) Scania AB (Chairman of the Board of Directors)
SEAT S.A.
(Member of the Consejo de Administración)
Tetra-Laval Group (Member of the Board of Directors)

Sylvia Raddatz
Commercial Clerk, Extra Verbrauchermärkte Deutschland GmbH & Co. KG
a) Extra Verbrauchermärkte GmbH
until 17 March 2004

Renate Rohde-Werner
Trained Retail Saleswoman, Kaufhof Warenhaus AG

Dr. jur. Hans-Jürgen Schinzler
former CEO of Münchener Rückversicherungs-Gesellschaft
a) Bayerische Hypo- und Vereinsbank AG (Vice Chairman)
Deutsche Telekom AG
Münchener Rückversicherungs-Gesellschaft (Chairman)

Dr. Manfred Schneider
Graduate in Business Administration (Diplom)
a) Allianz AG
Bayer AG (Chairman)
DaimlerChrysler AG
Linde AG (Chairman)
RWE AG
TUI AG

Committees of the Supervisory Board and their members

Presidential Committee
Günther Hülse † (Chairman) until 3 June 2004
Prof. Dr. Theo Siegert (Chairman) from 4 June 2004
Klaus Bruns (Vice Chairman)
Werner Klockhaus
Dr. Manfred Schneider

Personnel and Nominations Committee
Günther Hülse † (Chairman) until 3 June 2004
Prof. Dr. Theo Siegert (Chairman) from 4 June 2004
Klaus Bruns (Vice Chairman)
Werner Klockhaus
Dr. Manfred Schneider

Accounting and Audit Committee
Günther Hülse † (Chairman) until 3 June 2004
Prof. Dr. Theo Siegert (Chairman) from 4 June 2004
Klaus Bruns (Vice Chairman)
Volker Claus
Ulrich Dalibor
Dr. Karlheinz Marth until 31 December 2004
Dr. jur. Hans-Jürgen Schinzler

Mediation Committee pursuant to § 27 paragraph 3 MitbestG [German law on codetermination]
Günther Hülse † (Chairman) until 3 June 2004
Prof. Dr. Theo Siegert (Chairman) from 4 June 2004
Klaus Bruns (Vice Chairman)
Prof. Dr. Dr. h. c. Erich Greipl
Werner Klockhaus

a) Member of other statutory supervisory boards of domestic companies
b) Member of comparable German and foreign boards of business enterprises

Members of the Management Board

Dr. Hans-Joachim Körber (CEO)
a) Bertelsmann AG from 17 May 2004
Kaufhof Warenhaus AG (Chairman)
Real Holding GmbH (Chairman until 19 February 2004, hereafter member)
b) Loyalty Partner GmbH (Member of the Supervisory Board)
Skandinaviska Enskilda Banken AB (Member of the Supervisory Board)

Stefan Feuerstein
a) Dinea Gastronomie GmbH (Chairman)
Extra Verbrauchermärkte GmbH (Chairman) until 17 March 2004
Real Holding GmbH (Chairman from 19 February 2004, formerly member)
b) Extra Verbrauchermärkte Management GmbH (Chairman of the Advisory Board) from 20 April 2004
GNX GlobalNetXchange, LLC, San Francisco, (Board Member) from 1 January 2004
Metro International Handels AG, on 5 January 2004 changed to Metro International AG (President of the Board of Directors) until 29 April 2004
Metro SB-Handels AG (President of the Board of Directors)

Zygmunt Mierdorf
(Executive Vice President Human Resources)
a) Adler Modemärkte GmbH (Chairman from 9 June 2004, formerly member since 15 April 2004)
Extra Verbrauchermärkte GmbH until 17 March 2004
Praktiker Bau- und Heimwerkermärkte AG (Chairman)
Real Holding GmbH
b) METRO Group Asset Management GmbH & Co. KG, formerly Asset Immobilienbeteiligungen GmbH & Co. KG (Chairman of the Shareholders' Committee)
Wagner International AG (Member of the Board of Directors)
Tertia Handelsbeteiligungs GmbH (Chairman of the Supervisory Board)

Thomas Unger
a) Divaco Beteiligungs AG until 5 April 2004
Real Holding GmbH
b) Assevermag AG (President of the Board of Directors)
Divaco AG & Co. KG (Member of the Shareholders' Committee) until 5 April 2004
Divaco Beteiligungs AG & Co. KG (Member of the Shareholders' Committee) until 5 April 2004
Divaco AG & Co. Handelsbeteiligungen KG (Member of the Shareholders' Committee) until 5 April 2004
Metro Capital B.V. (Member of the Supervisory Board)
Metro Euro Finance B.V. (Member of the Supervisory Board)
Metro Finance B.V. (Member of the Supervisory Board)
Metro International AG (on 7 January 2004 changed to METRO Group Settlement AG, President of the Board of Directors) until 28 April 2004
Metro International Handels AG (on 5 January 2004 changed to Metro International AG, since 5 January 2004 Member, since 29 April 2004 President of the Board of Directors)
Metro International Finance B.V. (Member of the Supervisory Board)
Metro Reinsurance B.V. (Member of the Supervisory Board)

Düsseldorf, 25 February 2005

THE MANAGEMENT BOARD

Dr. Körber

Feuerstein Mierdorf Unger

Auditor's opinion

We have duly audited the annual financial statements, together with the bookkeeping system, and the management report of METRO AG for the fiscal year from January 1, 2004 to December 31, 2004. The maintenance of the books and records as well as the preparation of the annual financial statements and the management report in accordance with German GAAP (HGB) and any supplementary provisions contained in the articles of METRO AG are the responsibility of the legal representatives of the company. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW), the institute of auditors and certified public accountants in Germany. These standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and operating income in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes an assessment of the accounting principles used and significant assumptions made by the legal representatives as well as an evaluation of the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonably reliable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements provide a true and fair view of the net assets, financial position and operating income of the company in accordance with German principles of proper accounting. The management report provides a suitable understanding of the company's position and suitably presents the risks of future performance.

Duisburg, 25 February 2005

FASSELT & PARTNER
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Dr. Kußmann — Auditor

Müller-Kemler — Auditor

Report of the Supervisory Board

In fiscal year 2004, the METRO Group continued to expand on its position as one of the world's largest trading and retailing companies despite the difficult economic environment in Germany. This success is due in large part to the persistent strategy of the Management Board – in coordination with the Supervisory Board – to continue expanding, especially into eastern Europe and Asia.

As part of an open and trust-based cooperation, the Supervisory Board monitored and advised the Management Board in fiscal year 2004 and was involved in all decisions of material importance for the group.

Regular, timely and comprehensive reports and information from the Management Board form the basis for the activities of the Supervisory Board. This information included all business plans relevant for the company and the group, including financial, investment, income and personnel planning, business development, risk situation and risk management.

The Supervisory Board Chairman received information from the Management Board on all material business incidents and pending decisions, also between Supervisory Board meetings, and was in constant contact with the Chief Executive Officer.

The Supervisory Board held six meetings in fiscal year 2004; one of them was an extraordinary Supervisory Board meeting to discuss important business measures concerning the regional focus of Extra. The main themes of the ordinary meetings, which were discussed in detail, were all measures subject to Supervisory Board approval, the economic situation of the METRO Group and its strategic direction. The Supervisory Board also discussed new technologies, which will have an important influence on the future of retailing.

Committees

The Supervisory Board was supported in its activities by the committees created from its own ranks, namely the presidential committee, the personnel and nominations committee, the accounting and audit committee as well as the mediation committee, which was set up pursuant to § 27 section 3 MitbestG (German Codetermination Law). The members of the individual committees are listed on page 40 of this annual report.

The accounting and audit committee met three times during the reporting period. The personnel and nominations committee met twice. The presidential committee met five times, three of which jointly with the accounting and audit committee and twice with the personnel and nominations committee. There was no need for the mediation committee to meet. The Supervisory Board received regular reports on the work of the committees.

Corporate Governance

The Management Board and the Supervisory Board of METRO AG published an updated version of the Corporate Governance Code of METRO AG in spring 2004, in which the company has specified the corporate governance principles it has applied since 2002.

In December 2004, the Supervisory Board last conferred on the implementation of the German Corporate Governance Code and the Corporate Governance Code of METRO AG and probed the efficiency of its activity.

Pursuant to § 3.10 of the German Corporate Governance Code, the Management Board and the Supervisory Board of METRO AG reported on the corporate governance of the METRO Group on pages 14 to 17 of the group's annual report. This report includes an explanation of the basic principles governing the remuneration of the Management Board.

In December 2004, the Management Board and Supervisory Board of METRO AG issued a statement of compliance on the recommendations of the Government Commission on the German Corporate Governance Code pursuant to §161 AktG (German Stock Corporation Act). This declaration as well as the Corporate Governance Code of METRO AG have been published on the Internet site www.metrogroup.de.

Annual financial statements and consolidated financial statements

The consolidated financial statements and the group management report as well as the annual financial statements and the management report of METRO AG were audited by Fasselt & Partner Wirtschaftsprüfungsgesellschaft, Duisburg, in accordance with a resolution by the annual general meeting 2004 of METRO AG held on June 4, 2004, and the subsequent mandate by the Supervisory Board. The auditor issued an unqualified auditor's certificate for the annual financial statements and the management report of METRO AG as well as for the consolidated financial statements and the group management report. The annual financial statements of METRO AG and the consolidated financial statement of the METRO Group including the respective management reports were submitted to the Supervisory Board members jointly with the audit reports two weeks before the annual accounts meeting of the Board.

The consolidated financial statements were drawn up in accordance with International Financial Reporting Standards (IFRS). The financial statements presented were discussed in detail at a joint meeting of the presidential committee and the accounting and audit committee as well as at the Supervisory Board's annual accounts meeting, which was attended by the auditors. The Supervisory Board of METRO AG agrees with the audit result, which does not contain any reservations. The Supervisory Board examined and approved the annual financial statements submitted by the Management Board for METRO AG as well as for the METRO Group including the respective management reports; the annual financial statements of METRO AG have thus been adopted. The Supervisory Board also accepted the Management Board's proposal for the appropriation of net earnings.

Pursuant to § 312 of the German Stock Corporation Act, the Management Board of METRO AG wrote a report on the relationship of the company to associated companies for fiscal year 2004 and submitted it to the Supervisory Board prior to the annual accounts meeting. The auditor also audited this particular report, submitted a written report on the audit and issued the following auditor's certificate:

"After our due audit and assessment we confirm that

1. the factual information in the report is correct,
2. in the legal transactions listed in the report, the company's expenses were not inappropriately high."

In view of the final result of the audit, the Supervisory Board of METRO AG raised no objections to the Management Board's declaration pursuant to § 312 AktG and to the auditor's opinion.

Appointments and resignations

Ms. Sylvia Raddatz on January 1, 2004, joined the Supervisory Board of METRO AG as the duly elected substitute member for Mr. Hubert Haselhoff.

Mr. Günther Hülse stepped down as Supervisory Board Chairman for reasons of health on June 3, 2004, and resigned from the Supervisory Board of METRO AG. The Management Board and the Supervisory Board thanked him for his extraordinary commitment to the METRO Group. Mr. Hülse died on November 30, 2004. The members of the Management Board and the Supervisory Board will remember his leadership, which was shaped by his strong business experience as well as his honest and open character. The members of the Management Board and the Supervisory Board of METRO AG offer their sincerest condolences to his family.

With the resolution of the Düsseldorf District Court of May 6, 2004, the undersigned was appointed successor to Mr. Hülse effective as of June 4, 2004, as member of the Supervisory Board of METRO AG. On the same day, the Supervisory Board of METRO AG elected the undersigned as its Supervisory Board Chairman.

Dr. Karlheinz Marth resigned from the Supervisory Board on December 31, 2004. The Management Board and the Supervisory Board of METRO AG thank him not only for his work on the Supervisory Board of METRO AG. He supported the group until the end of 2004 as a member of the Supervisory Board of Kaufhof Warenhaus AG and the Advisory Council of Extra Verbrauchermärkte Management GmbH.

Mr. Rainer Kuschewski will succeed Dr. Karlheinz Marth on the Supervisory Board of METRO AG.

The Supervisory Board thanks the Management Board, the management and all employees and employee representatives for their dedication and their successful work.

Düsseldorf, March 2005

THE SUPERVISORY BOARD

Prof. Dr. Theo Siegert
Chairman

Supplementary Information

Financial schedule

Business press conference/analysts' meeting	22 March 2005
Quarterly report Q1 2005	3 May 2005
Annual general meeting	18 May 2005
Quarterly report Q2 2005	2 August 2005
Quarterly report Q3 2005	2 November 2005

Codes

Metro stock	
Code numbers	
Common stock	725 750
Preferred stock	725 753
ISIN codes	
Common stock	DE 000 725 750 3
Preferred stock	DE 000 725 753 7
Reuters codes	
Common stock	MEOG.DE
Preferred stock	MEOG_p.DE
Bloomberg codes	
Common stock	MEO GR
Preferred stock	MEO3 GR
Stock markets	Frankfurt, Düsseldorf, Xetra

Imprint

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