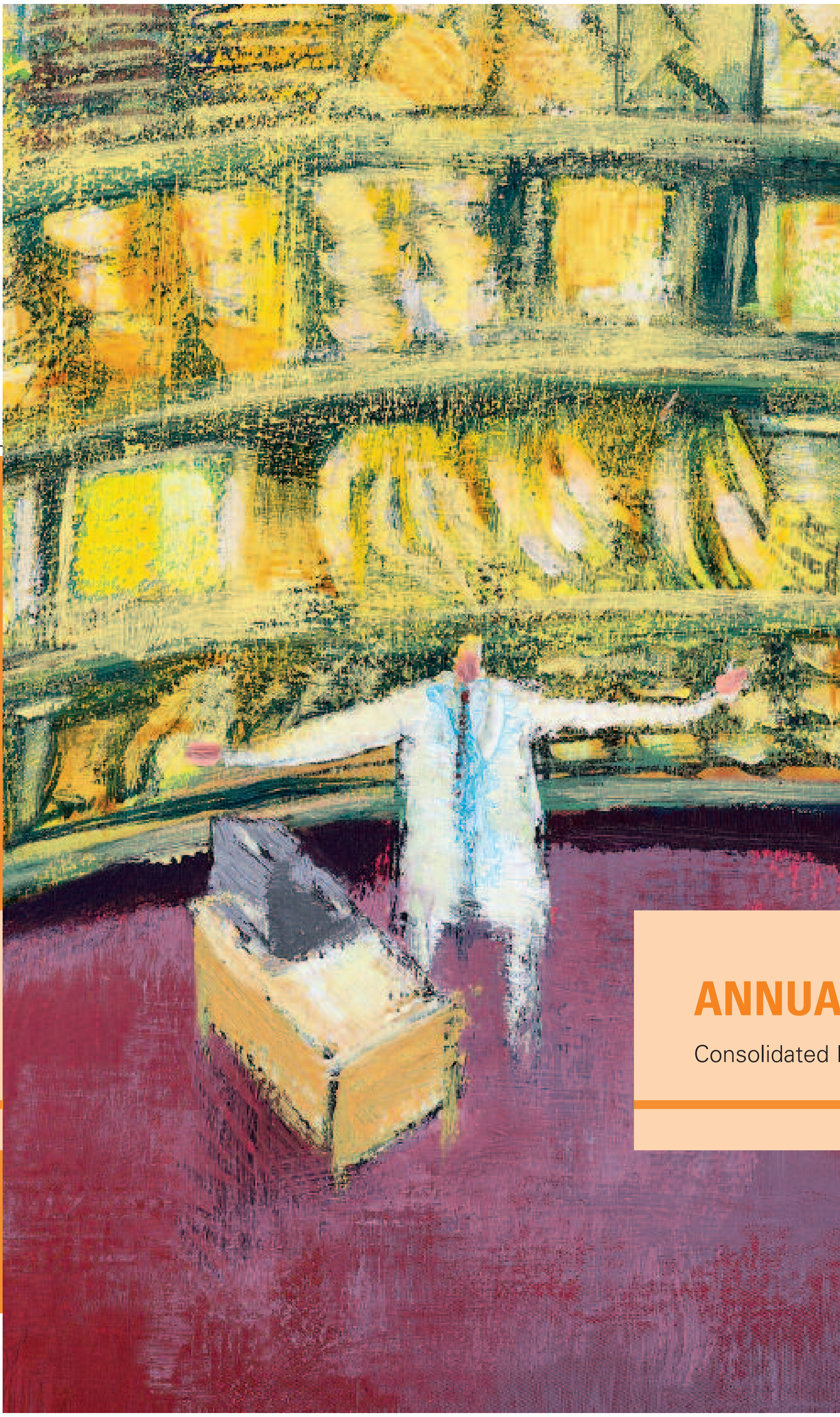
METRO Group

The Spirit of Commerce



ANNUAL REPORT 2004

Consolidated Financial Statements of the METRO Group

METRO Group

The Spirit of Commerce

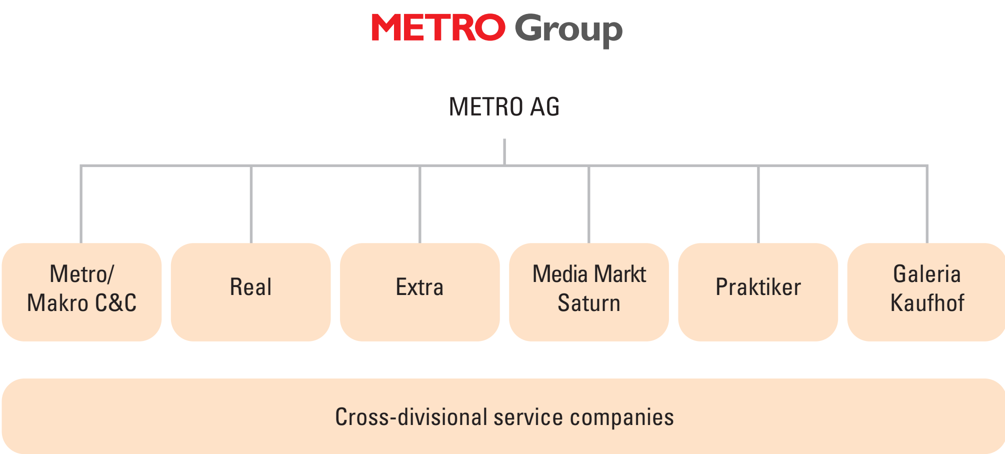
The METRO Group is one of the most important international trading and retailing companies. The METRO Group stands for comprehensive trading and retailing competence, innovative strength and an international corporate culture. Today, the group is present in 30 countries at more than 2,300 locations and has around 250,000 employees from 150 nations. The METRO Group's performance is based on the strength of its sales divisions METRO Cash & Carry, Real, Extra, Media Markt and Saturn as well as Praktiker and Kaufhof.

Trading and retailing are characterized by diversity. Fulfilling customers' needs for a diverse assortment of goods, fresh products and service, goods procurement on international markets, the global management of goods flows and a high level of quality assurance – these are major challenges for the retailing industry. That means that customer orientation, an international presence, innovative strength, high-performance logistics systems and qualified employees as well as capital market orientation are the key criteria for success in the top league of the trading and retailing industry.

The illustrations in this annual report provide a glimpse at the multifaceted world of trading and retailing. They also give a lively, insightful impression of the modern "Spirit of Commerce."

The METRO Group is managed by METRO AG as the strategic management holding company. The responsibility for the operating business lies with six sales divisions each acting independently on the market with its own distinct merchandizing concept. Cross-divisional service companies bundle services for the sales divisions like procurement, logistics, information technology, advertising or financing.

METRO GROUP AT A GLANCE



AT A GLANCE: METRO GROUP IN FIGURES

			2004 € million	2003 € million	2002 € million	2001 € million	2000 € million
Net sales			56,409	53,595	51,526	49,522	46,930
EBITDA			2,978	2,615	2,416	2,383	2,183
EBITA			1,809	1,590	1,427	1,378	1,273
Earnings before taxes			1,344	817	830	673	754
Group net income			933	571	502	449	423
Group net profit[1]			827	496	443	401	359
Investment			1,796	1,837	1,836	1,933	1,885
Total assets			28,092	26,580	22,923	22,320	22,333
Equity capital[2]			4,946	4,349	4,246	4,242	4,146
Return on equity after taxes[2]			18.9%	13.1%	11.8%	10.6%	10.2%
Metro stock							
Annual closing price[3]	Common stock	€	40.49	34.95	22.75	39.85	49.80
	Preferred stock	€	51.00	49.00	34.25	45.25	24.60
Annual high[3]	Common stock	€	40.52	38.44	42.00	55.49	50.60
	Preferred stock	€	52.00	51.00	50.20	45.65	36.95
Annual low[3]	Common stock	€	31.78	15.93	15.77	31.99	33.65
	Preferred stock	€	44.90	27.23	27.86	27.30	18.76
Total outstanding		Shares	326,787,529	326,787,529	326,787,529	326,787,529	326,787,529
	Common stock	Shares	324,109,563	324,109,563	324,109,563	324,109,563	324,109,563
	Preferred stock	Shares	2,677,966	2,677,966	2,677,966	2,677,966	2,677,966
Profit distribution							
Per common share	Dividend	€	1.02[4]	1.02	1.02	1.02	1.02
	Dividend yield[5]	%	2.5	2.9	4.5	2.6	2.0
Per preferred share	Dividend	€	1.122[4]	1.122	1.122	1.122	1.122
	Dividend yield[5]	%	2.2	2.3	3.3	2.5	4.6
Key figures per Metro common stock							
EBITDA		€	9.11	8.00	7.39	7.29	6.68
Earnings per share before goodwill amortization		€	2.53	2.35	2.15	1.99	1.86
Earnings per share after goodwill amortization		€	–	1.52	1.36	1.23	1.10
Market capitalization		€ billion	13.26	11.46	7.47	13.04	16.16

[1] After minority interests
[2] Equity including minority interests
[3] Stock prices: Xetra trading system
[4] Subject to approval by the AGM
[5] Based on the annual closing price

METRO GROUP EARNINGS BY SALES DIVISIONS

	2004 € million	2003 € million	Change € million	Change %
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	–

"In 2004, our group made further progress on its way to becoming a modern, high-performance international trading and retailing company."

Dr. Hans-Joachim Körber

To our stockholders

Dr. Hans-Joachim Körber
Chief Executive Officer

Ladies and gentlemen,

The centerpieces of the METRO Group's success in the past fiscal year were its proven strategy of profitable growth, its customer-oriented strategic optimization and its international expansion.

In 2004, our group made further progress on its way to becoming a modern, high-performance international trading and retailing company. The dynamic expansion of our foreign presence has sharpened our profile as one of the most international trading companies. After entering the Moldavian and Serbian markets, we were present in 30 countries at the beginning of this year. We also underscored our claim to be an important innovation driver in the trading and retailing industry by developing and launching new technologies. We also made clear progress in our push to optimize our merchandizing concepts, to increase efficiency in the process chain and to improve internal structures.

This sums up our response to the challenges of 2004, a year in which the market situation remained unfavorable in Germany, and competition became much tougher both at home and in western Europe.

Adjusted for currency effects, group sales in 2004 rose by 5.3 percent to € 56.4 billion. At the same time, the share of sales generated abroad rose to 49.0 percent from 47.2 percent. We were thus able to increase earnings per share by 7.7 percent and meet our 2004 earnings forecast. Earnings per share rose by 10.4 percent excluding one-time expenditure for the divestment of 119 Extra locations at the beginning of the current fiscal year. Our international operations made an above-average contribution to this result. We also managed to increase economic value added (EVA), a measurement tool aimed at increasing corporate value.

Diverging performance among sales divisions in 2004.

The nonfood sales divisions, Media Markt and Saturn as well as Praktiker, improved their position in Germany with a marketing strategy based on aggressive pricing. The consumer electronics centers also made progress in western Europe. On the whole, all of them gained substantial market share. In contrast, the results of Metro Cash & Carry as well as the Real and Extra sales divisions – both of which focus on food – reflected the predominantly stagnating demand and heavy competition in food retailing in western Europe. The results also reflected rising consumer demand for reasonably priced private labels at the expense of brand name items.

The situation was different in eastern European markets, where the METRO Group's food and nonfood sales divisions both recorded strong sales and earnings growth and expanded their market position. This was especially true of the company's growth driver, Metro Cash & Carry, as well as Media Markt and Saturn. Business in eastern Europe was the most successful in regional comparison. Business in Asia, where the METRO Group operates Metro Cash & Carry outlets, also recorded considerable growth.

The METRO Group's international expansion in 2004 was shaped by the strong growth momentum in eastern European and on Asian markets. Both regions continue to be the focus of the METRO Group's international expansion. Our stated goal is to build a strong market presence in these regions in coming years. In eastern Europe, a market we entered early on, we are already among the leading trading companies. We expanded this position by entering the Moldavian market in 2004 and opening the Serbian market. We expect the next phase of EU expansion, scheduled for 2007, to bring new, positive momentum. We plan to expand our existing sales network in Asia. Here the focus has been on China. But India is becoming an increasingly important market. We want to profit from the opportunities and growth potential of these countries.

In western Europe, our top priorities this year will be to condense our sales network and, above all, continue to optimize all other strategies and processes as well as improve our company structures. By successfully transforming our merchandizing concepts into retail brands while improving capital and cost efficiency, we will improve our competitiveness in these saturated markets in the future. We will also generate savings potential with the efficient use of new technologies in our stores. We are among the pioneers in this area, which will give us a competitive advantage tomorrow. We are placing a lot of hope in the development and introduction of Radio Frequency Identification technology (RFID) in our company. In 2004, we started implementing this technology in several sales divisions. In the medium term, RFID will bring considerable improvements, especially in merchandise management and logistics. This isn’t the only way we plan to improve our management of merchandise flows. In the future, we will organize merchandise distribution across national boundaries, which will bring significant cost savings over an organizational strategy based on national borders. We also see potential efficiency gains in procurement. Despite the progress in integrating processes within the European market, we have discovered that procurement prices continue to vary widely from country to country. We plan to exploit the savings potential.

The breadth of these measures will help the sales divisions continue to expand their extraordinary market position at home and abroad and win additional market share during the current fiscal year. We expect the improved performance and competitiveness to generate sales and earnings growth in 2005.

I thank you, the stockholders of the METRO Group, for your support in 2004. For the current fiscal year, we have set ambitious goals that will contribute to the ongoing development of your company, the METRO Group. We hope that you will continue to put your confidence in us. I would also like to take this opportunity to thank our employees for their dedicated work.

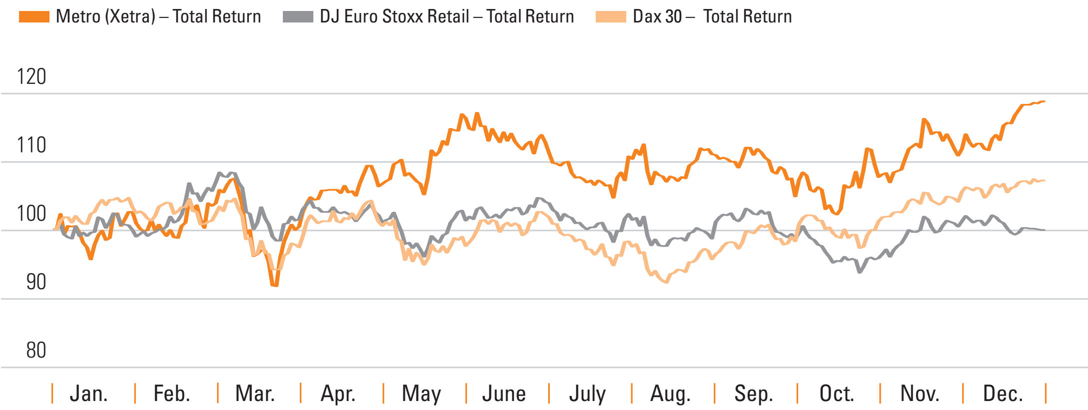
Yours truly,

Dr. Hans-Joachim Körber
Chief Executive Officer

Trading and retailing is one of the most important branches of industry. Consumer goods retailing generates sales of more than $ 7,700 billion a year worldwide. German retailing has a volume of around € 370 billion a year and employs four million people. The 21st century will become an era of retailing, information and services.

Metro stock

PERFORMANCE OF METRO COMMON STOCK IN 2004[1]



[1]Metro common stock with dividend reinvestment, Dax 30 and Dow Jones Euro Stoxx Retail indexed at 100. Source: Datastream & Bloomberg

Following an overall favorable performance in 2003, stock markets got off to a relatively robust start in 2004. Equities fell in response to the terror attacks in Madrid in March, but market sentiment recovered in the third quarter amid largely positive company news and a slightly declining oil price. After the presidential election in the United States, the capital markets started a year-end rally in November, which however was dampened by the strong euro on European markets.

In Germany, the Dax stock market index gained 7.3 percent during the course of the year. The Dax closed the year 2004 at 4,256 points. Exports showed disproportionately strong growth in a persistently tense macroeconomic environment. Domestic demand, in particular private consumption, remained slack. In light of equally subdued consumption in other European countries, the relevant sectoral index, the Dow Jones Euro Stoxx Retail, rose only slightly by 0.2 percent.

With its favorable overall business development and rigorous internationalization, the METRO Group stood out very positively in its sector. Thanks in particular to its fast-growing eastern European business, the company continued to reduce its dependence on individual national markets. In the first quarter, the capital markets welcomed news of the sale of the METRO Group stake in Divaco. The group thus continued to enhance its transparency. Following the successful turnaround of Praktiker in Germany, a key focus in 2004 was the restructuring of the Extra supermarkets. Among other things, the disposal of 137 locations was announced in the fourth quarter. The capital market response to these measures was a boost to the Metro stock price. The Metro stock outperformed all the relevant indices over the year as a whole. Assuming dividends were reinvested, the Metro stock gained 19.1 percent during the course of 2004. It closed near its year's high at € 40.49 in Xetra trading on December 30, 2004.

Continuous dividend payouts

The Management Board will propose a dividend of € 1.02 per common share and € 1.122 per preferred share for fiscal 2004 at the annual general meeting on May 18, 2005. Seven consecutive years of attractive dividend payouts highlight that the METRO Group remains true to its strategy of continuous dividend payouts and continues to offer its stockholders an above-average dividend yield.

Market capitalization

A market capitalization of € 13.3 billion at the end of 2004 made the METRO Group one of Germany's biggest companies with an unchanged No. 15 ranking in the Dax. Metro stock remains one of the 20 most frequently traded Dax stocks in terms of turnover volume. In Germany, the Metro stock is registered for official trading on the stock exchanges in Frankfurt and Düsseldorf and participates in the Xetra electronic trading system and warrant trading on Eurex.

Investor relations

The capital market communication policy at the METRO Group rests on the principles of fair disclosure: timeliness, continuity, credibility and equal treatment. It takes a long-term view in line with the group strategy of sustainable value creation.

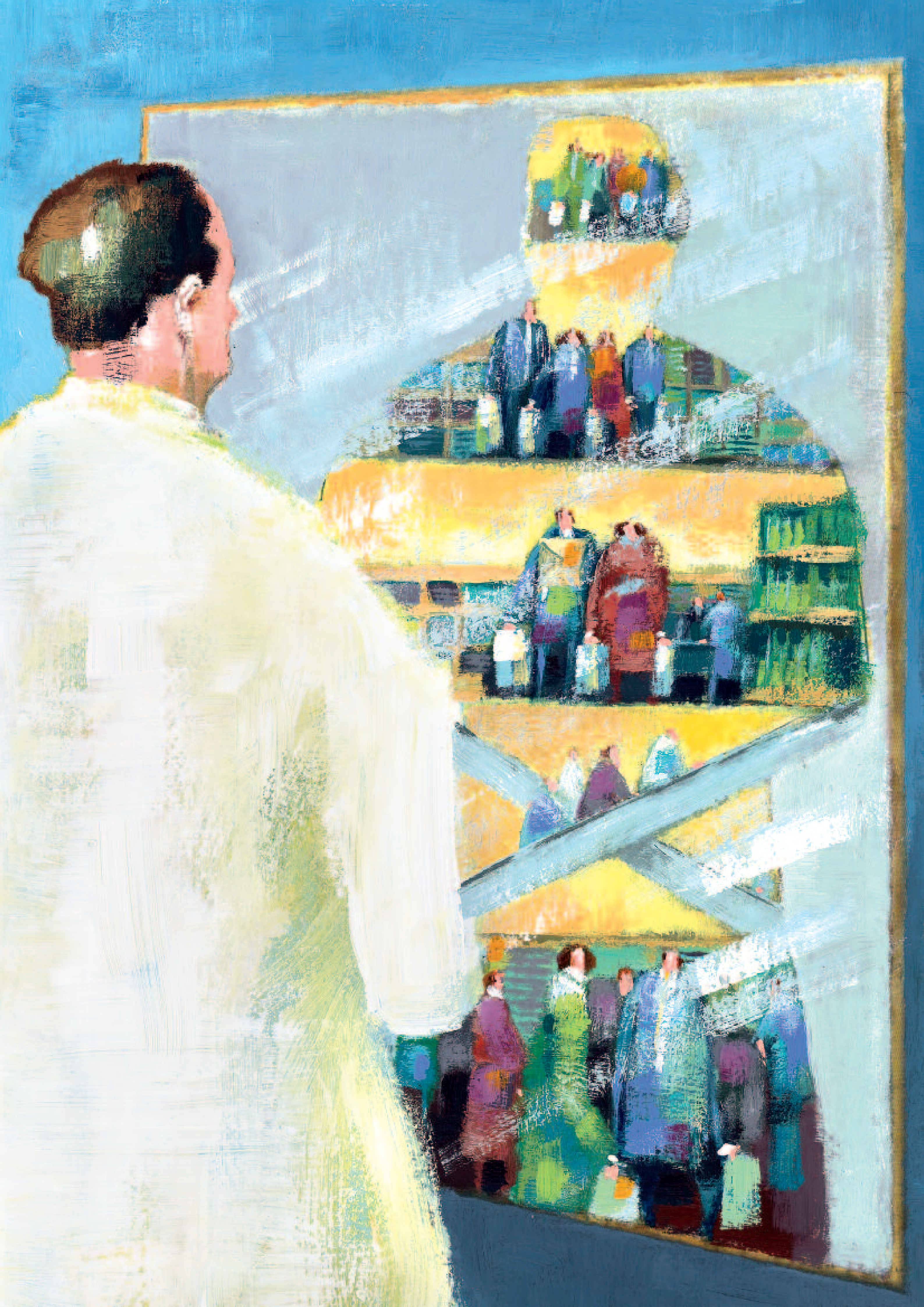
Aside from its annual analysts' meeting, the METRO Group also presented itself to investors and analysts in all major financial centers in Europe, the United States and Asia in fiscal 2004. Participation in nine conferences served as a platform for a further extension of the management board's regular contact with more than 1,300 institutional investors. Private investors, in turn, received center stage at the investor fair organized by Hamburger Börsenverein.

The group provided information on its strategy and business expectations in the context of presentations, conference calls, individual meetings and visits at domestic and foreign locations. The number of investor relations activities rose again to about 270 events in 2004 from 250 a year earlier.

The Internet continued to gain importance for the capital market communications of the METRO Group in 2004. It offers an ideal basis for the provision of transparent and simultaneous information to all market participants. The METRO Group Investor Relations page on the Internet obtained consistently strong ratings in key rankings of external institutes. The online information and service offer for investors and analysts will be improved further in 2005.

The investor relations activities of the METRO Group will continue to focus on systematic and persistently intensive capital markets communications to strengthen investor faith in the company and its stock.

Retailing is **society's mirror image and its driving force** at the same time. Early on, retailers developed tailored procurement and sales concepts to meet the different needs of their customers – from basic food to luxury goods. The autonomous, enlightened customer of today requires from his retailing partner not only a broad, sophisticated assortment but also reasonable prices, a high degree of shopping comfort, competent advice and a pleasant shopping atmosphere. In the course of society's increasing individualization, he also expects to be addressed personally, be engaged in continuous communication and have his very personal needs in terms of assortment and service fulfilled.



Corporate Governance at the METRO Group[1]

The Management Board and Supervisory Board of METRO AG are firmly committed to the principles of transparent, responsible corporate governance aimed at long-term value creation. A key component of corporate governance at the METRO Group is a clear division of duties and areas of responsibility between the Management Board and the Supervisory Board. This is based above all on German stock corporation law and is set forth in the Corporate Governance Code of METRO AG.

The Corporate Governance Code of METRO AG is guided by the recommendations of the German Corporate Governance Code. It was already adopted by the Management and Supervisory Boards in 2002. It is adapted to changing statutory provisions and corporate governance standards at regular intervals; the last change was made in March 2004. The most recent version of the Corporate Governance Code of METRO AG can be found at www.metrogroup.de. The code not only describes the goals and structures of METRO AG and the METRO Group, it also clarifies basic stockholders' rights and relationships with stockholders, the responsibilities and duties of the Management and Supervisory Boards as well as transparency and accounting requirements.

German Corporate Governance Code

The Management and Supervisory Boards of METRO AG in December 2004 issued their yearly statement of compliance with the recommendations of the Government Commission on the German Corporate Governance Code pursuant to § 161 AktG (German Stock Corporation Act). This joint statement declares that METRO AG in the future will adhere to all recommendations of this code without exception. Reprinted in verbatim below is the statement. It refers to the version of the German Corporate Governance Code from May 21, 2003.

"Since the last statement of compliance in December 2003, METRO AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code with the following exceptions:

The recommendation for individualized reporting of Management Board remuneration contained in section 4.2.4 sentence 2 of the German Corporate Governance Code was not adhered to in the notes to the consolidated financial statements for fiscal 2003.

In addition, the recommendation for individualized reporting of the remuneration of Supervisory Board members contained in section 5.4.5 paragraph 3 sentence 1 of the code was not followed in the notes to the consolidated financial statements for fiscal 2003.

[1] At the same time report pursuant to section 3.10 German Corporate Governance Code

METRO AG will adhere to the recommendations of the Government Commission without exception. In the notes to the consolidated financial statements for fiscal 2004, the remuneration of Management Board members and Supervisory Board members of METRO AG are reported individually."

Our stockholders

METRO AG stockholders exercise their rights at the annual general meeting. There they have the opportunity to exercise their voting rights personally or through a proxy. To facilitate stockholder representation at the annual general meeting, METRO AG has also made it possible to nominate a proxy and provide voting instructions via the Internet.

Management and Supervisory Boards

The members of the Management Board and the Supervisory Board as well as its committees are listed on pages 144 to 147 of this annual report and can be found at www.metrogroup.de. The report of the Supervisory Board provides information on the working relationship between the Management and Supervisory Boards in fiscal year 2004. It can be found on pages 150 to 153 of this annual report as well as on the Internet.

Performance-related remuneration

The remuneration of the Management Board of METRO AG comprises fixed remuneration, remuneration based on Economic Value Added (EVA) and a stock bonus.

The EVA-based remuneration is variable and refers to EVA as a group-wide benchmark for measuring value creation. EVA is the result of net operating profit minus capital costs. Further details about EVA-based management can be found on page 33 to 34 of this annual report.

The other variable component, a stock bonus plan, was approved by the personnel and nominations committee of the Supervisory Board of METRO AG in fiscal 2004. This represents the continuation of the fiscal 2003 stock bonus in the form of a program. The stock bonus plan is based on the stock price development of Metro stock and the METRO Group's ongoing success, and uses demanding, relevant benchmarks.

New members of METRO AG's Management Board are not entitled to receive pension or other benefits. Entitlements accrued by members of the Management Board in the past will be continued in accordance with the agreements made at that time.

The remuneration of METRO AG's Supervisory Board members is set by the annual general meeting pursuant to METRO AG's articles of association. It comprises both fixed and performance-related, variable components and considers the work load and responsibility of the individual Supervisory Board members.

Further details on the remuneration of the Management and Supervisory Boards of METRO AG as well as the remuneration of individual members can be found in the notes to the consolidated financial statements on pages 132 to 136 of this annual report.

The articles of association of METRO AG are available to the general public at www.metrogroup.de.

Responsible handling of risks and resources

The METRO Group is a high-growth company with many opportunities in an international market. Sustainable growth, however, is only possible when those responsible recognize and adequately consider both the opportunities as well as the risks. Effective risk management is a key component of corporate governance at the METRO Group. For further details, please turn to pages 35 to 38 of this annual report.

Transparency and information

METRO AG informs stockholders, investors, analysts and the general public in an equal and timely manner. An important information medium is the Internet site www.metrogroup.de. This site makes available to the general public the Corporate Governance Code of METRO AG, its articles of association, information about the Management Board and the Supervisory Board, financial reports, documentation on the annual general meeting, ad-hoc and other notices pursuant to the Stock Corporation Act as well as information about the operating units and sales divisions of the group.

Accounts audit

It has been agreed with the auditor of the annual accounts for fiscal 2004 that the chairman of the Supervisory Board shall be immediately notified of any potential causes of exclusion or partiality emerging in the course of the audit unless they are promptly eliminated. It was also agreed that the auditor should immediately report any findings and events material to the functions of the Supervisory Board that may arise in connection with the accounts audit. Finally, the accounts auditor was instructed to inform the Supervisory Board and/or include a note in the auditor's opinion if facts were found in the course of the accounts audit indicating a deviation from the Management and Supervisory Boards' statement concerning the German Corporate Governance Code.

Implementation and application of the principles of corporate governance

The Management Board and Supervisory Board of METRO AG deliberate at least once a year – most recently during the Supervisory Board Meeting in December 2004 – on the question of compliance with the corporate governance principles of the German Corporate Governance Code and the Corporate Governance Code of METRO AG. In addition, a corporate governance officer supervises adherence to the codes. No deviations from the German Corporate Governance Code or from the Corporate Governance Code of METRO AG have to be reported in fiscal 2004.

Innovation in retailing

In the future, shopping will be different than it is today. Modern technologies will radically transform traditional forms of retailing, perhaps within the next 5 to 10 years. They also offer a way to provide more targeted and more efficient individual customer advisory. Examples are the PC sales assistants installed in shopping carts, "Smart Scales" and Self-Check-outs, which will make a marked contribution to shopping comfort in the coming years.

Management Report

Economic environment and industry development

World economy booms in 2004 – Europe lags behind

The nascent recovery of the world economy that began in 2003 gained momentum last year. In 2004, the world economy grew by a real 4 percent. Low interest rates across the globe and expansive fiscal policy in important economic regions supported this development. However, growth slowed during the course of the year amid a sharp rise in raw material prices. Still, the volume of world trade grew by almost 9 percent last year.

East Asia continues to grow

Growth momentum varied from region to region. China again recorded real economic growth of more than 9 percent, making the People's Republic of China and India the driving forces behind the Asian economy. As an importer of raw materials and a provider of goods and services, the world's most populous country is playing an increasingly important role in the world economy. In 2004, the factual devaluation of the Chinese currency, the Renminbi Yuan, which is pegged to the U.S. dollar, supported the country's exports. China's domestic economy profited from an unabated investment boom and a continuing increase in private consumption.

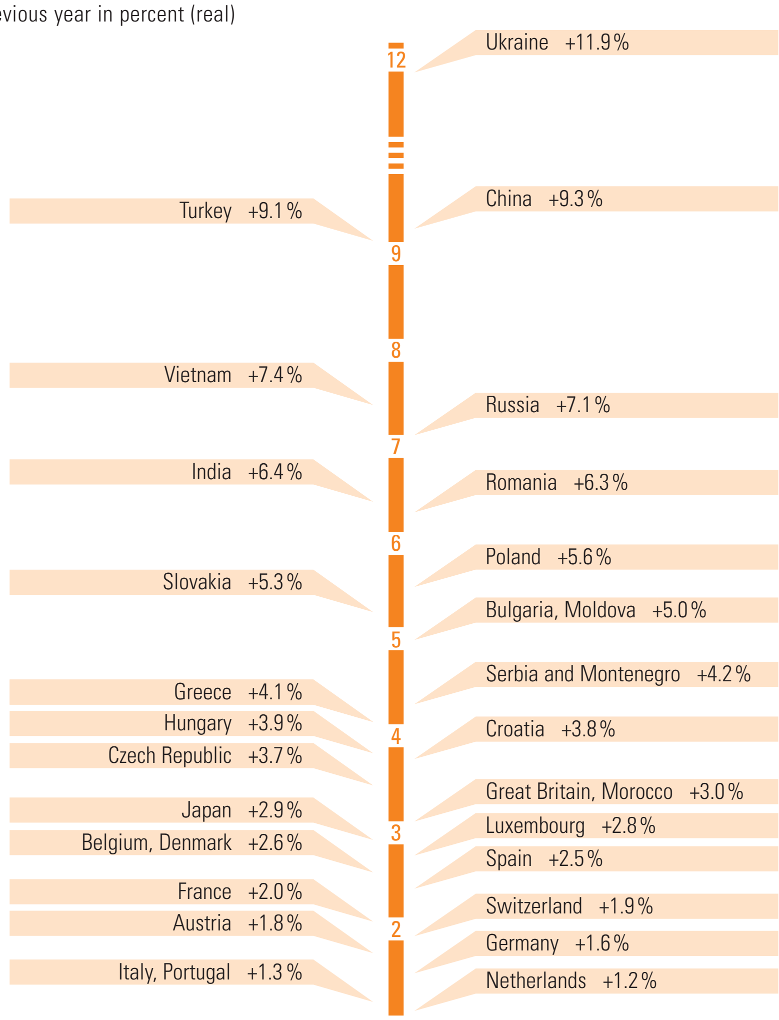
After years of economic stagnation, Japan's gross domestic product expanded by 2.9 percent in 2004. Export volume increased by a real 13.9 percent, private consumption rose by 1.9 percent and investments by 5.6 percent. Joblessness was also on the decline in Japan last year, which also speaks for a lasting recovery. Other emerging markets in East Asia profited from the upward trend in Japan and the dynamic economic development in China. They recorded real economic growth of more than 5 percent.

United States has strong influence on world economy

The economic development in the United States played a decisive role for the entire world economy again last year. For example, America's expansive fiscal policy was one of the main drivers of the international economy. Private consumption recorded real growth of around 3.7 percent and thus made a considerable contribution to overall economic growth of 4.4 percent. The investment climate in the United States has improved markedly. Real gross investment increased by around 9 percent. Central and South America profited from the positive developments in North America and from the worldwide increase in the demand for raw materials. This helped commodities exporting countries in Central and South America increase their economic output by a total of around 5 percent.

DEVELOPMENT OF GROSS DOMESTIC PRODUCT IN THE METRO GROUP COUNTRIES IN 2004

Change from previous year in percent (real)



Source: FERI, IMF

Moderate economic growth in the euro zone

The economy in Europe trailed that of the world economy at quite a distance. The 12 countries that make up the euro zone recorded a slight economic uptick. But at 1.8 percent, real GDP growth was well behind the global upward trend. Private consumption in the euro zone grew by 1.1 percent in real terms. At 9 percent, the unemployment rate in 2004 was still high. In contrast, the economies of Great Britain and the 10 new EU member states grew faster. They were able to increase their GDP by around 5 percent. The Russian economy, which expanded by around a real 7 percent, was above the global average.

German economy still weak

Private consumption and public spending stagnated in Germany last year. Real gross business investment contracted slightly again last year, down by 0.9 percent against the previous year. In contrast, exports developed well. Despite the strong euro, real export volume in 2004 increased by 8.6 percent compared to the previous year. The domestic economy was unable to profit from this development. The EU-harmonized unemployment rate rose to 9.8 percent from 9.6 percent, and the budget deficit was 3.7 percent of GDP, meaning that Germany failed to meet the euro-zone deficit criteria in the Maastrict treaty for the third time in a row.

Retail economy in Germany

There was not enough momentum to increase Germany's retail sales because of the economic stagnation in Germany and ongoing consumer reticence. Retail sales (exluding vehicle and gas station sales) sank by a nominal 1.6 percent and by a real 1.7 percent in 2004. This means that German retailers were forced to deal with shrinking sales for the third year in a row. At the same time, retail selling space continued to expand and price competition continued to increase. Real sales growth is not to be expected in 2005, too.
In Germany, wholesale sales for durable and non-durable consumer goods grew by a nominal 0.6 percent and by a real 2.8 percent. Wholesale food, drink and tobacco sales grew much more slowly. Sales in 2004 fell by 3.8 percent in nominal and 5.2 percent in real terms.

Group sales

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 in the group 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 developed satisfactorily.
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.

Metro Cash & Carry

In 2004, Metro Cash & Carry was able to generate again considerable sales growth, thanks to its ongoing international expansion and the continued growth of its existing outlet chain. This sales division increased its total sales by 5.4 percent to € 26.4 billion from € 25.1 billion during its 40th anniversary year, underscoring its importance as one of the main growth drivers within the METRO Group. Like-for-like growth was 0.9 percent. Currency-adjusted sales rose by 5.6 percent.

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 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

In Germany, Metro Cash & Carry's sales slid by 0.6 percent to € 5.8 billion from € 5.9 billion the year before amid a general downturn in the gastronomy business. Furthermore, the ongoing trend toward inexpensive private labels had a negative impact on sales. Foreign sales rose to € 20.6 billion, surpassing last year's level of € 19.2 billion, which amounts to a rise of 7.2 percent. Currency-adjusted foreign sales grew by 7.5 percent. Once again, Russia was an especially strong growth market for Metro Cash & Carry, with a sales plus of € 384 million. Last year, Metro Cash & Carry generated 77.9 percent of its total sales abroad, up from 76.6 percent the year before.

The sales division pressed ahead with its expansion in 2004, extending its worldwide market-leading position in cash & carry wholesaling. During 2004, Metro Cash & Carry opened 33 new stores, 29 abroad and four in Germany. With 16 new locations, eastern Europe was the focal point of this expansion. The outlet chain was bolstered by six stores in Asia and seven in other western European countries. In Germany, Metro Cash & Carry opened a store in Darmstadt as well as three stores of its Schaper subsidiary. Four small wholesale stores were closed. At the end of fiscal 2004, Metro Cash & Carry operated 504 markets in 27 countries with total selling space of 4 million square meters. On January 4, 2005, Metro Cash & Carry entered the Serbian market with the opening of its first store in Belgrade. As a result, the sales division increased its market presence to 28 countries.

Real

Last year, Real maintained its superior market position as a hypermarket operator in Germany, Poland and Turkey. Real's total sales reached € 8.2 billion, the same level as the year before. This is also true of currency-adjusted sales. Like-for-like, sales declined by 2.5 percent.

The business situation of this sales division in 2004 was influenced by the increasingly tough competition in food retailing on its domestic market. Declining fresh produce prices as well as growing demand for inexpensive private labels also had a negative impact on sales. Under these conditions, the sales divisions recorded sales of € 7.4 billion in Germany, a slight decline of 1.0 percent or 2.9 percent like-for-like. In 2004 fiscal year, Real generated considerable sales growth abroad. In Poland, sales grew 5.2 percent compared with 2003. In Turkey, Real hypermarkets generated sales growth of 9.7 percent compared with the year before.

Last year, Real added 17 stores to its hypermarket outlet chain in Germany. It took over 16 Extra stores and opened one new store. At the end of 2004, Real's outlet chain comprised a total of 306 hypermarkets – 272 in Germany and 34 abroad.

Extra

The sales trend at Extra supermarkets in 2004 was driven by the sales division's ambitious restructuring program and by the ongoing consolidation of its portfolio of locations. The reduction of its outlet chain and the corresponding decline in selling space above all were behind the 8.2 percent decline in sales to € 2.5 billion. Like-for-like, 2004 sales declined by 2.8 percent compared with the year before.

Last year, the sales division divested itself of 32 locations. It transferred 16 Extra supermarkets to the Real sales division. Another 16 were closed or are being run by franchisees. Two new Extra supermarkets were opened. At the end of the year, Extra was present at 436 locations. At the same time, its total selling space decreased to 750,000 square meters from 818,000 square meters. As part of the rigorous optimization of its outlet network, Extra divested itself of 119 supermarkets effective from January 1, 2005. Of the 18 locations earmarked for disposal, eight were passed on to Real and one was closed, bringing the total number of locations down to 308.

Media Markt and Saturn

In the previous fiscal year, Media Markt and Saturn underscored their operating strength and continued to expand their market-leading position in Europe. They boosted their sales by 15.6 percent to € 12.2 billion, compared with € 10.6 billion the year before. Like-for-like, sales expanded by 4.4 percent.

Despite the overall downward trend in this sector, Media Markt and Saturn boasted strong sales growth in Germany. Sales jumped to € 7.1 billion compared with € 6.3 billion the previous year. This corresponds to sales growth of 13.0 percent or 4.5 percent like-for-like. The sales division increased its foreign sales by 19.4 percent to € 5.1 billion, compared with € 4.3 billion the year before. Like-for-like, this corresponds to an increase of 4.3 percent. In fiscal 2004, Media Markt and Saturn generated 42.2 percent of their sales abroad, up from 40.8 percent the year before.

Media Markt, which celebrated its 25th anniversary year in 2004, and Saturn stepped up their rapid pace of expansion both at home and abroad, opening a total of 69 new consumer electronics centers. In Germany, the number of stores grew by 33 to 302 locations compared with 269 in 2003. Media Markt opened 20 new outlets and Saturn 15. Two Media Markt outlets were integrated into existing centers. In the rest of Europe, the sales division expanded its outlet chain by 34 new stores. In May 2004, Media Markt opened its first store in Portugal, in October the first Saturn store was opened in Poland, and in November, Saturn opened its first center in Hungary. At the end of 2004, Media Markt operated 361 outlets in 11 European countries. Saturn ran 142 consumer electronics centers in six countries. The sales division operated 503 stores in 11 countries with a total selling space of 1.5 million square meters.

Praktiker

The Praktiker sales division in fiscal year 2004 pressed ahead with the positive progress of the year before. The company was able to further expand its market position and gain market share. Praktiker's home improvement and DIY centers boosted their sales by 5.0 percent to € 3.0 billion from € 2.8 billion the year before. This corresponds to a rise of 3.4 percent like-for-like.

Despite heightened competition, the sales division was able to increase its sales in Germany to € 2.2 billion in the 2004 fiscal year because of its consistent pricing policy and the continued optimization of its outlet chain. This corresponds to sales growth of 3.0 percent or 3.4 percent like-for-like.

Praktiker's business abroad also developed positively in 2004. Sales volume increased by 12.2 percent to € 704 million from € 628 million. Praktiker achieved especially strong growth in Greece, Romania and Turkey. Like-for-like, the home improvement and DIY centers achieved sales growth of 3.7 percent in eastern Europe. At the end of fiscal 2004, Praktiker's outlet chain comprised 339 markets. It reduced its outlet chain in Germany to 278 from 283 as part of an ongoing effort to consolidate its portfolio of locations; eight outlets were closed and three were newly opened. Praktiker increased its network of foreign locations to 61 from 56. It opened new stores in Romania, Hungary and Bulgaria.

Kaufhof

In 2004, Kaufhof department stores asserted their position in the department store sector amid heightened competition among German retailers. With their high-end assortment, they were hit especially hard by consumers' general unwillingness to shop and by overly price-conscious shoppers. The company, which looked back on its 125th history in the 2004 fiscal year, generated sales of € 3.8 billion, down 1.3 percent from 2003 and 1.2 percent like-for-like. In response to this development, Kaufhof continued to shift its assortment toward high-end brand products and attractive private labels, improved its service and trimmed its business processes.

Business at Belgium's Inno department stores was again brisk. They increased their sales by 3.2 percent to € 257 million. The reopened department store in Brussels' Rue Neuve in September 2004 also made contribution to this positive development.
At the end of fiscal 2004, Kaufhof operated a total of 147 department stores, including 99 Galeria outlets.

Portfolio of locations and real estate management

LOCATIONS PER COUNTRY

	Metro C&C		Real		Extra		Media Markt and Saturn		Praktiker		Kaufhof		METRO Group[1]	
Country	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Germany	114	113	272	255	436	466	302	269	278	283	132	133	1,741	1,733
Austria	12	12					24	22	4	4			43	41
Belgium	8	8					5	3			15	15	28	26
Bulgaria	7	7							1	0			8	7
China	23	18											23	18
Croatia	3	3											3	3
Czech Republic	11	10											11	10
Denmark	4	4											4	4
France	83	80					22	18					105	98
Great Britain	33	33											33	33
Greece	6	6							7	7			13	13
Hungary	13	12					13	10	15	14			41	36
India	2	2											2	2
Italy	42	41					58	50					100	91
Japan	2	2											2	2
Luxembourg									3	3			3	3
Moldova	1	0											1	0
Morocco	6	6											6	6
Netherlands	16	15					16	12					32	27
Poland	21	20	27	27			26	20	16	16			90	83
Portugal	10	10					1	0					11	10
Romania	21	19							7	4			28	23
Russia	14	7											14	7
Slovakia	5	5											5	5
Spain	30	29					22	18					52	47
Switzerland							14	14					14	14
Turkey	9	9	7	7					8	8			24	24
Ukraine	4	1											4	1
Vietnam	4	3											4	3
Abroad	390	362	34	34			201	167	61	56	15	15	704	637
Total	504	475	306	289	436	466	503	436	339	339	147	148	2,445	2,370

[1] Including 210 (previous year 217) Dinea restaurants, of which 207 (previous year 214) in Germany and 3 (previous year 3) in Austria

The METRO Group is pooling its real estate services and facility management activities in one company as part of the strategic repositioning of its real estate activities and the consolidation on December 31, 2003, of Asset Immobilienbeteiligungen GmbH & Co. KG and its subsidiaries (AIB group). As a service provider for the METRO Group's sales divisions, METRO Group Asset Management covers the complete planning, service and management requirements in the life cycle of retailing real estate – from strategic location and project development over value-oriented portfolio management, complete business, technical and infrastructure management to location marketing. Its activities also include the acquisition of locations previously rented as part of leasing agreements to the extent that such acquisitions make economic sense and under consideration of the impact on debt gearing. With more than 700 employees, METRO Group Asset Management currently manages more than 650 properties in 10 countries, including 40 shopping centers in Germany, Poland and Turkey alone. In addition, it manages 1,700 locations of the sales divisions across Europe.

Investment

In fiscal year 2004, METRO Group investments totaled € 1.8 billion, unchanged from the previous year. Around half of the overall investment volume was deployed for the ongoing international expansion of Metro Cash & Carry as well as Media Markt and Saturn, two sales divisions with especially strong sales and earnings.

In the year under review, Metro Cash & Carry invested € 619 million, compared with € 737 million the previous year. The 2003 figure includes capital expenditure for the acquisition of three large-area stores in Germany. Adjusted for these investments, Metro Cash & Carry's 2004 investments increased by € 67 million compared to the previous year. Last year, investment activity focused mainly on the company's expansion in eastern Europe. For example, seven new stores opened their doors in Russia and three in Ukraine. Asia was another focal point of Metro Cash & Carry's investment activities. The outlet network in China was bolstered by five new stores, and a store was newly opened in Vietnam. In western Europe, Metro Cash & Carry's investment activity focused on tightening its location network and modernizing existing stores. To optimize the outlet network in Germany, Metro Cash & Carry closed three stores with relatively little selling space and opened up one large "classic" format store and three new Schaper locations.

Investment volume at the Real sales division in fiscal year 2004 was down to € 110 million from € 174 million the previous year. This decline is due in part to the shift in focus of conceptual adjustments to the stores acquired from Extra in 2004. Real took over 16 Extra stores and opened one new store.

In fiscal year 2004, Extra supermarkets invested € 18 million, down from € 40 million in 2003. The decline is due in part to the consolidation of Extra's location portfolio.

The Media-Saturn group's investments totaled € 255 million in 2004, € 26 million more than the previous year. Most of these funds were used to set up 69 new consumer electronics centers.

The Praktiker sales division invested € 56 million in fiscal year 2004, up from € 44 million the previous year. Investment activity focused on restructuring and modernization measures in Germany as well as the opening of new stores, mainly abroad.

In fiscal year 2004, Kaufhof department stores invested € 119 million, an increase of € 15 million from the previous year. The sales division pumped large sums into the modernization of additional department stores in Germany and Belgium using the successful Galeria concept.

The investment volume of the other companies was € 619 million in 2004, € 110 million more than in 2003. This increase is due mainly to large projects and the exercise of acquisition rights by the companies of METRO Group Asset Management GmbH & Co. KG. The majority of these investments are attributable to real estate companies, which in particular carry out projects for existing and future locations of the Metro Cash & Carry, Real, Media Markt and Saturn, Praktiker and Kaufhof sales divisions.

Consolidated cash flow statement[1]

The cash flow statement serves to identify and portray the cash flows that the METRO Group generated or employed in the fiscal year from or for ongoing business, capital expenditure and financial activities. In addition, it depicts the cash positions at the beginning and at the end of the fiscal year.

€ million	2004	2003
Cash flow from operating activities	2,888	3,096
Cash flow from investment activities[2]	(1,336)	(1,220)
Cash flow from financial activities	(1,026)	(1,820)
Total cash flows	526	56
Change in cash & cash equivalents due to the first-time consolidation of companies	0	233
Overall change in cash & cash equivalents	526	289
Cash & cash equivalents at January 1	1,581	1,292
Cash & cash equivalents at December 31	2,107	1,581

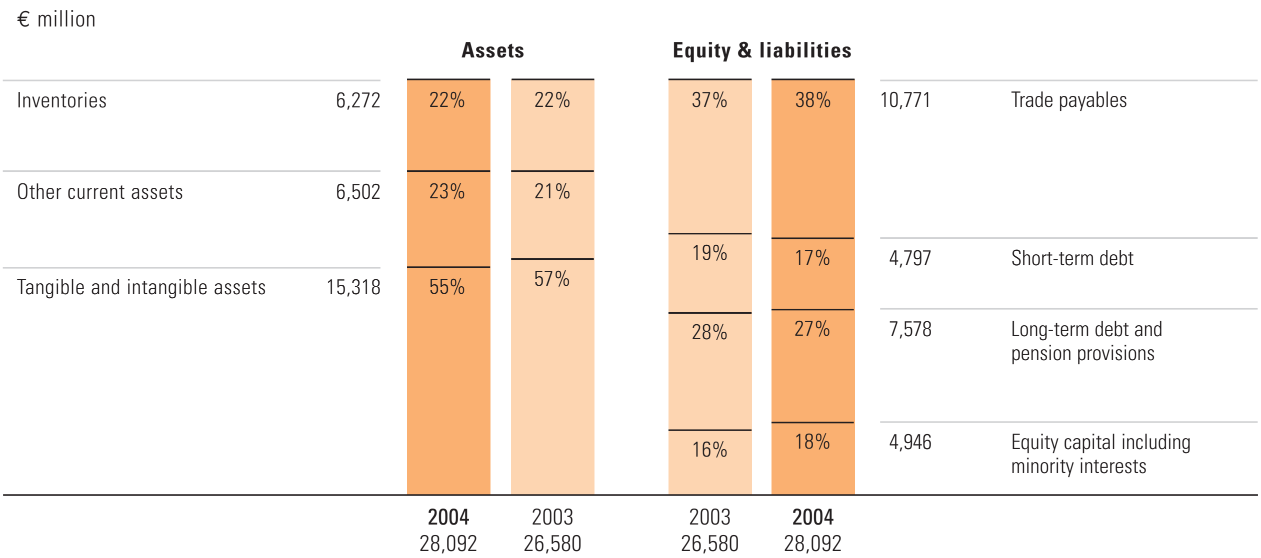
[1] Abridged version. For full version see consolidated financial statements on page 80.
[2] Excluding finance leases and including divestments

The decline of cash flow from operating activities mainly results from the distinct increase of outflow of funds for taxes on income of € 455 million compared to the previous year.

Asset and capital structure

The METRO Group's 2004 balance sheet shows an equity capital including minority interests of € 4,946 million. This means that 32.3 percent of tangible assets are covered by equity. Total assets of € 28,092 million bring the equity ratio to 17.6 percent. Net financial accounting debt amounts to € 5,673 million (previous year € 6,209 million) after netting interest-bearing assets and liabilities including finance leases.

BALANCE SHEET STRUCTURE OF METRO GROUP



EBITA

Because of revised accounting standards, regular goodwill amortization no longer applies as of the first quarter of 2004. To improve comparability with year-earlier figures, the 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 is due to the strong earnings performance of the sales divisions, especially in eastern Europe. In addition, the consolidation of the AIB group 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.

DEVELOPMENT OF GROUP EBITA AND EBITA OF THE SALES DIVISIONS

	2004	2003	Change	
	€ 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 of 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.

Group net profit and earnings per share

At € 933 million, group net income in 2004 was 10.7 percent above the previous year's value, which was adjusted in line with changed accounting standards. Net of minority interests, the group's net profit allocable to the stockholders of METRO AG amounts to € 827 million.

In fiscal 2004, the METRO Group generated earnings per share of € 2.53. This key figure, calculated pursuant to IAS 33 (Earnings per Share), represents an increase of 7.7 percent compared to the previous year's € 2.35, which has been adjusted for information purposes.

There was no dilution in the year under review or in the previous year.

As in the year before, the calculation for fiscal year 2004 was based on a weighted number of 326,787,529 shares. The group's net profit of € 827 million due to stockholders was distributed among that number of shares.

				Change on adjusted Basis		
		2004	2003 adjusted	absolute	%	2003 reported
Group net income	€ million	933	843	90	10.7	571
Minority interests	€ million	(106)	(75)	-31	-42.7	(75)
Group net profit after minority interests	€ million	827	768	59	7.7	496
Earnings per share	€	2.53	2.35	0.18	7.7	1.52

Balance sheet profit of METRO AG and dividend proposal

In the year under review, METRO AG received income from shareholdings of € 829 million from its subsidiaries compared to € 1,008 million in the previous year. In consideration of other income, expenditure and taxes, as well as after allocation of € 200 million to revenue reserves, the company shows a balance sheet profit of € 356 million compared to € 345 million in 2003.

The Supervisory Board and the Management Board of METRO AG will propose to the annual general meeting that from the reported balance sheet profit at year end of € 356.0 million a dividend in the amount of € 333.6 million be paid and that the balance of € 22.4 million be carried forward to new account. The balance sheet profit of € 356.0 million includes retained earnings of € 11.7 million. This will result in a dividend distribution of

- € 1.020 per share of common stock and
- € 1.122 per share of preferred stock.

Statement of value added

With its value added statement, the METRO Group recognizes the origin and appropriation of its economic performance in the 2004 fiscal year compared to the previous year. The value added is determined by deducting from the corporate performance (return on sales and other income) the necessary advance payments relating to cost of materials, depreciation/amortization and other expenses. The origin of value added is compared to its appropriation. In this context, the contributions to the value added made by the individual interest groups are posted. The result demonstrates the macroeconomic performance of the METRO Group.

The total performance of the company was enhanced in the year under review by the growth in sales revenues of the METRO Group by 4.8 percent to € 58,404 million. Net of advance payments for materials, depreciation/amortization and other expenses, the value added of the METRO Group amounted to € 8,271 million or 14.2 percent of the corporate performance, respectively. This corresponds to a 11.6 percent increase compared to the previous year. Adjusted for the effect from changed accounting standards, the increase amounts to 7.6 percent.

€ 6,162 million of the value added were contributed by the employees and € 334 million by the stockholders. € 675 million will be appropriated to the lenders, € 501 million to the public sector and € 106 million are earmarked for minority interests. The amount of € 493 million is retained in the company as reserve.

Origin of value added	2004		2003		2004-2003
	€ million	%	€ million	%	delta %
Net sales	56,409	96.6	53,595	96.2	5.3
Other income	1,995	3.4	2,131	3.8	-6.4
Corporate performance	58,404	100.0	55,726	100.0	4.8
Cost of materials	43,701	74.8	41,496	74.4	5.3
Depreciation/amortization	1,172	2.0	1,312	2.4	-10.7
Other expenses	5,260	9.0	5,505	9.9	-4.5
Value added	8,271	14.2	7,413	13.3	11.6

Appropriation of value added	2004		2003		2004-2003
	€ million	%	€ million	%	delta %
Stockholders	334	4.0	334	4.5	–
Employees	6,162	74.4	5,902	79.6	4.4
Public sector	501	6.1	326	4.4	53.7
Lenders[1]	675	8.2	614	8.3	9.9
Minority interests	106	1.3	75	1.0	41.3
Corporation (earnings retention)	493	6.0	162	2.2	204.3
Value added	8,271	100.0	7,413	100.0	11.6

[1]Including interest expenses for pension accruals

EVA – group monitoring

Value-oriented business management as the basis of sustained profitable growth

The METRO Group has been dedicated to value-oriented corporate management based on economic value added (EVA) since 2000. EVA is an internationally proven management and control instrument that enables companies to assess and position all strategic, operative and investment activities and decisions in terms of their contribution to enterprise value.

The METRO Group's performance potential is reflected by its ability to continuously increase its enterprise value by successfully employing its working capital. This is mirrored by a growing, positive EVA.

Positive EVA is achieved when the net operating profit exceeds the cost of capital needed to finance working capital. NOPAT is defined as net operating profit before financing costs, but after income taxes. The cost of capital represents the expected compensation of the investors for the capital they provide and for their investment risk. In 2004, the weighted average cost of capital of the METRO Group was unchanged from the previous year at 6.5 percent.

Delta EVA, the difference between current EVA and year-earlier EVA, plays a key role in the evaluation of corporate success. The development of delta EVA is the key basis of the variable remuneration system for METRO Group executives. The major share of the variable income of bonus recipients, from the members of the METRO AG Management Board to store managers in the sales divisions, is linked to the development of delta EVA.

EVA and delta EVA in the METRO Group in fiscal 2004

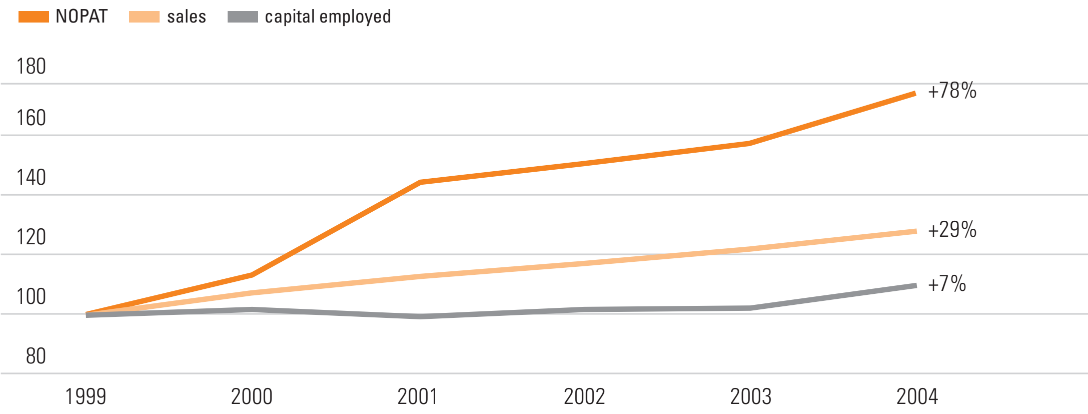
Thanks to the successful implementation of a strategy of profitable growth, the METRO Group managed once again to markedly boost EVA in fiscal 2004 compared with the previous year. At € 317.9 million, 2004 EVA exceeded the year-earlier value by € 114.2 million. This positive EVA development underscores the successful employment of capital, which resulted in another increase in enterprise value. The RoCE (Return on Capital Employed) reached 8.0 percent.

	2004				
	NOPAT € million	Capital employed € million	EVA € million	RoCE %	Delta EVA € million
Metro Cash & Carry	751.6	5,631.6	385.5	13.3	29.8
Real	248.1	5,203.1	(90.1)	4.8	-13.9
Extra	(10.4)	1,081.9	(80.7)	(1.0)	19.7
Media Markt and Saturn	332.7	1,308.2	247.7	25.4	73.8
Praktiker	96.8	2,435.1	(61.5)	4.0	33.0
Kaufhof	78.2	1,818.3	(40.0)	4.3	3.9
Metro sales divisions	1,497.0	17,478.2	360.9	8.6	146.3
Other companies/consolidation	223.2	4,095.6	(43.0)	5.4	-32.1
METRO Group	1,720.2	21,573.8	317.9	8.0	114.2

Capital employed increased to € 21.6 billion because of expansion, the cost of capital increased because of this by € 64.9 million to € 1,402.3 million. At the same time, the METRO Group was able to generate a disproportionately high increase in NOPAT by € 179.1 million to € 1,720.2 million. At 3.0 percent in fiscal 2004, the return on sales in relation to net operating profit once again exceeded the year-earlier value of 2.9 percent. At 2.6, capital turnover was maintained at the level of previous years.

The Real sales division's delta EVA was materially impacted by structural changes from the acquisition of Extra stores. These structural effects had a negative impact on Real's delta EVA of € 10.6 million. Since this was exclusively a group-internal change, there is no resulting impact on the EVA of the METRO Group.

DEVELOPMENT BETWEEN 1999 – 2004



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. Its administration and realization is controlled by 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.

Financial risks, i.e. liquidity risks, price risks, creditworthiness risks and cash flow risks, are described in the notes under no. 39.

Summary of the risk situation at the METRO Group

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 credit rating to potential 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.

The demographic transformation in Germany and Europe will bring new challenges to the retailing industry. Success in an aging, increasingly multiethnic and shrinking society will require forward-looking ideas. The main themes in tomorrow's retailing will be optimizing sales concepts with a view to differing customer needs, developing new forms of customer loyalty, customer-specific assortment design and the continued improvement of service and consulting through targeted employee qualification measures.


100
90
80
70
40
30
20
10
0
600

Employees

The METRO Group creates new jobs

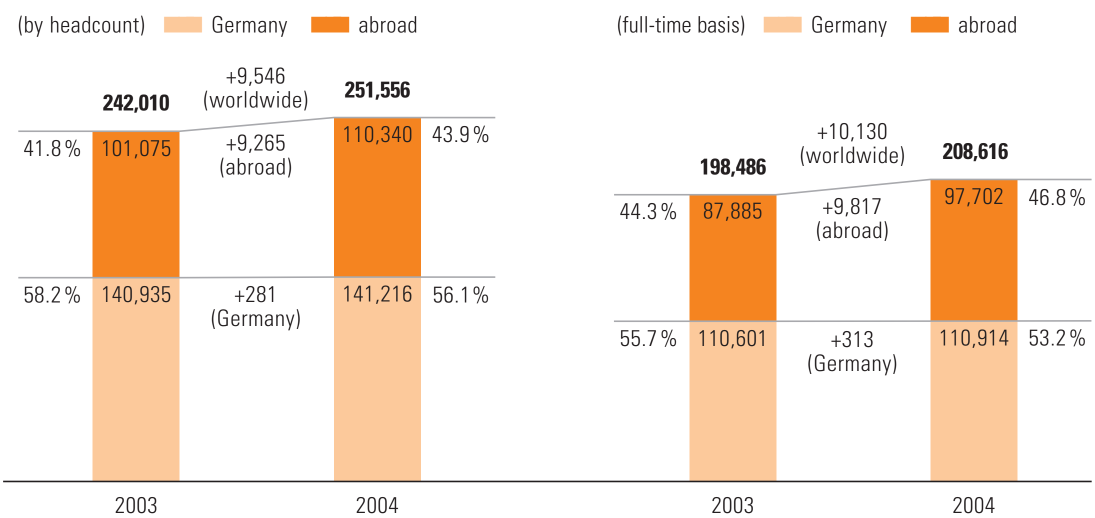
Thanks to the continued dynamic growth of the METRO Group, the number of employees rose to a year's average of 251,556 for 2004, not including apprentices. That was the equivalent of 208,616 full-time employees, an increase of 5.1 percent, or 10,130 full-time employees, compared to the previous year. The company thus once again underscored its position as an important employer in international trading and retailing.

The ratio of part-time employees across the group as a whole fell from 44.2 percent to 42.6 percent in 2004. The average tenure increased to 7.2 years from 7.1 years a year earlier. The average age of employees remained at 35.7 years across the group.

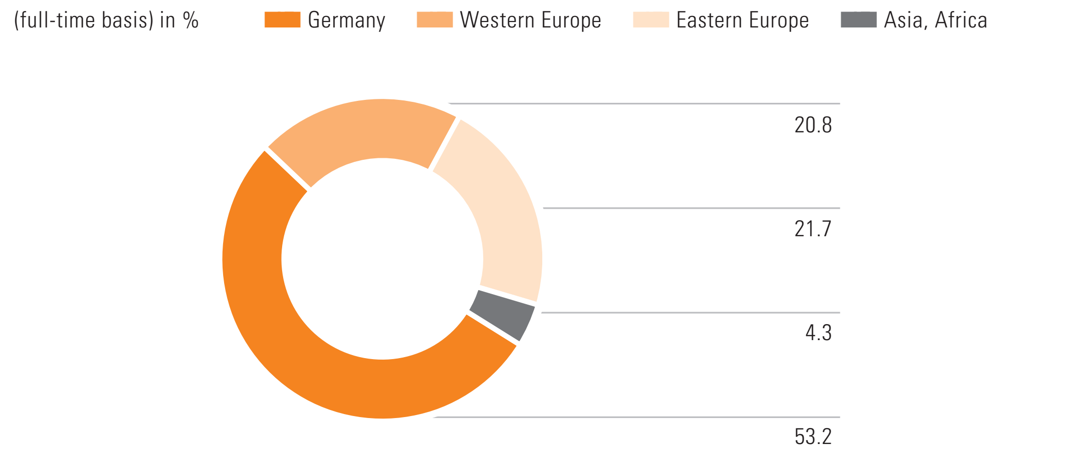
Domestic staff numbers stabilize at year-earlier level – strong increase in employment abroad

At 110,914, the number of full-time employees in Germany was slightly above the level a year earlier. In line with its continued internationalization, the METRO Group increased staff at its foreign operations substantially. On average over the year, the international locations of the METRO Group employed 97,702 full-time employees, an increase of 9,817 from the previous year. The foreign share of the group workforce thus rose to 46.8 percent from 44.3 percent. Of that total, 90.9 percent were employed in other European countries, including 43,459 employees in western Europe and 45,334 employees in eastern Europe. As part of the strong expansion of business activities in the eastern European growth regions, the local workforce was increased by 14.3 percent. Compared to the previous year, the METRO Group added 1,522 employees in Russia, 743 in Ukraine and 1,391 in Romania. The number of employees in the Asian countries and Morocco rose by a total of 15.6 percent to 8,909.

WORKFORCE OF METRO GROUP IN 2004 COMPARED TO THE PREVIOUS YEAR



METRO GROUP EMPLOYEES BY REGION



Sustainable human resources policy prepares for demographic change

The METRO Group is bracing for the consequences of demographic change by pursuing a sustainable human resources strategy. The labor pool will decline in the foreseeable future, while the average age of domestic employees will increase. The METRO Group has decided to only support part-time schemes for older employees in justified individual cases and to prepare its employees for employment until they reach the regular retirement age. At the same time, the company put in place the necessary preconditions for the introduction of a systematic company health care management system. Additional human resources measures will be implemented over the coming years, in particular in the areas of "education and qualification," "health," "old-age provisions" and "diversity."

Number of apprentices continues to rise

As one of Germany's major employers and providers of apprenticeships, the METRO Group makes a significant social contribution. Each year, the sales divisions and group companies offer a broad range of attractive apprenticeships to several thousand interested young people. In view of demographic changes, a key component of the company's efforts to secure its future is the training and recruitment of performance-oriented young people. During the past fiscal year, 3,087 recruits started their professional career at the METRO Group. At the beginning of the new apprenticeship year, the number of new apprenticeships thus rose markedly again compared to the year 2003, by about five percent. The company trained a year's average of 8,391 apprentices in Germany in 2004, which comes up to an unchanged high apprenticeship ratio of 7.6 percent. The METRO Group is thus meeting its responsibility. This is also why it actively supports the initiative "TeamWork for Germany," which was launched by the Federal Economics and Labor Ministry, and the "national pact for career training and skilled manpower in Germany." In the context of these projects concluded between the government and German business last year, the sales divisions and companies offered additional apprenticeships in 2004.

The METRO Group invests in company health promotion

The METRO Group considers the protection of its employees' health as a key factor of its social responsibility and a precondition for the sustained competitiveness of its companies. Company health promotion at the METRO Group companies represents an investment in strengthening and maintaining the performance and employability of all employees throughout their entire career. For this reason, the METRO Group has published company-wide guidelines on company health promotion. Based on these guidelines, preventive fitness programs and rehabilitation measures will support health promotion for employees of the METRO Group.

Employees profit from company pensions

Since 1997, the METRO Group has supported its employees in Germany in the creation of voluntary pension provisions. With the Metro Future Package, the group does not merely follow collectively agreed standards, which were developed with the help of the METRO Group, but also grants voluntary additional services. More than 58,000 employees – about 16 percent more than a year earlier – made use of the company's offer in 2004 to bolster their old-age provisions in this way.

The METRO Group promotes the integration of severely handicapped employees

The METRO Group once again participated in a multitude of initiatives in 2004 which aim to advance the professional and social integration of severely handicapped people.
The number of severely handicapped employees increased by 15 percent from 3,775 to 4,367. The number of severely handicapped apprentices also rose again markedly, from 52 at the start of the apprenticeship year in 2003 to 64 a year later. The METRO Group thus employs around 1.3 percent of all nationally registered apprentices with a recognized severe disability.
In cooperation with the Federal Health Ministry and in the context of the Germany-wide initiative, "Jobs without barriers," the METRO Group has also encouraged the integration of youth with learning disabilities from the vocational training centers in the first labor market.

Strategic personnel marketing secures professional and management recruitment

In response to labor market requirements, the METRO Group has introduced a cross-divisional electronic application management system. Initial successes include a substantial acceleration of application processing and fast and efficient access by all of the group's personnel departments to an internal pool of applicants. In addition, the use of electronic media in personnel recruiting renders processes more effective and cost-efficient.

In 2004, the company organized the fourth "Meeting Metro" event, where it presented itself as an attractive employer to invited university graduates, apprentices and pedagogues. The METRO Group has used this information and communication platform, which is unique in its sector, since 2002 to target academic recruits from the business management, economics and commercial information technology disciplines and, for the first time last year, specially qualified apprentices. In addition, the company has provided practical information about requirements, areas of activity and career opportunities in retailing to pedagogues. Acting as multipliers, the teachers are supposed to help give school leavers a realistic picture of the multi-faceted nature of the world of trade and retail during their phase of professional orientation.

Targeted promotion of in-house managers

The systematic selection and promotion of a performance-oriented, highly qualified pool of management recruits is one of the primary tasks of personnel development. The METRO Group, which currently fills 75 percent of all management positions with in-house high-potentials, can only ensure its future business success if its sales divisions and companies continue to identify qualified management recruits, to bind them to the company over the long term and systematically prepare them for the assumption of management responsibility.

This is the goal of the group-wide, uniform personnel development strategy "Metro Management Planning" (MMP). This forms the basis on which the METRO Group identifies in-house management potential in a targeted manner. With the help of MMP, suitable candidates in Germany and abroad are identified early on, trained and prepared for the assumption of management responsibility. The group-wide standards by which the METRO Group management recruits are rated include such core competencies as market and customer orientation and a high degree of ability in the area of corporate strategy as well as social competence. In response to the company's increasing internationalization, the catalogue of requirements was expanded in 2004 to include inter-cultural competence.

The intensive, practice-oriented preparation for the assumption of management tasks is complemented by sophisticated theoretical training offers. The "Metro Corporate University" (MCU) teaches management recruits the necessary knowledge for the later assumption of key functions within the METRO Group. The training programs focus on the Metro company policy. They also seek to complement in-house know-how with the external expertise of internationally experienced experts. Employees from all countries in which the METRO Group is active take part in the MCU qualification programs. Participants thus receive early training to prepare them for the inter-cultural environment in which they will work as managers later on. Board Members of the METRO Group support the targeted training and promotion of management recruits at the "Metro Corporate University" through their personal commitment as mentors or lecturers.

DEVELOPMENT OF EMPLOYEE NUMBERS IN THE SALES DIVISIONS (FULL-TIME BASIS)[1]

	Metro C&C		Real		Extra		Media Markt and Saturn		Praktiker		Kaufhof		Other companies		METRO Group	
Country	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Germany	15,850	15,967	28,054	27,714	11,085	12,601	17,677	15,753	10,070	10,195	18,623	19,056	9,555	9,316	110,914	110,601
Austria	2,005	1,976					1,647	1,599	125	160			32	32	3,809	3,766
Belgium	2,829	2,768					375	228			1,363	1,428			4,566	4,424
Bulgaria	1,882	1,781							74	0					1,957	1,781
China	5,282	4,559											510	486	5,792	5,045
Croatia	823	665													823	665
Czech Republic	3,421	3,258													3,421	3,258
Denmark	505	494													505	494
France	8,118	7,409					1,281	1,202					6	6	9,405	8,617
Great Britain	4,328	4,406											6	4	4,334	4,410
Greece	1,095	1,098							1,162	1,072			0	5	2,257	2,175
Hungary	3,205	3,169					1,003	813	1,238	1,164					5,446	5,146
India	648	406													648	406
Italy	4,409	4,163					3,838	3,181					0	20	8,248	7,363
Japan	241	251													241	251
Luxembourg									212	204					212	204
Morocco	1,015	990													1,015	990
Moldova	83	0													83	0
Netherlands	3,018	3,151					1,353	973					6	6	4,377	4,131
Poland	5,306	5,138	5,607	5,611			2,394	1,771	1,334	1,275			347	309	14,987	14,105
Portugal	1,874	1,846					98	0							1,972	1,846
Romania	5,228	4,273							733	297					5,961	4,570
Russia	4,220	2,772	76	16									14	0	4,310	2,788
Serbia	97	0													97	0
Singapore	3	10													3	10
Slovakia	1,296	1,322													1,296	1,322
Spain	2,661	2,449					2,340	1,815							5,002	4,264
Switzerland							927	837					103	154	1,030	991
Turkey	1,687	1,679	1,064	1,086					660	570			201	181	3,611	3,516
Ukraine	1,087	344													1,087	344
Vietnam	1,210	1,004													1,210	1,004
Abroad	67,575	61,380	6,746	6,713			15,255	12,418	5,539	4,742	1,363	1,428	1,244	1,203	97,702	87,885
Total	83,425	77,347	34,800	34,427	11,085	12,601	32,932	28,171	15,609	14,937	19,986	20,484	10,779	10,519	208,616	198,486

[1] Including rounding differences

Advanced retailing

The METRO Group is a driving force behind technological innovation in trading and retailing and thus advances the sustained modernization of the entire industry. The company develops, optimizes and tests technical systems in practice and supports the development of uniform global standards. The goal is continually to improve business processes along the entire supply chain, increase efficiency and create added value for our customers. The term "Advanced Retailing" is used to pool all activities and projects that are geared toward improving trading and retailing with innovative technologies.

METRO Group Future Store – a testing ground for technological progress

A central component of Advanced retailing is the METRO Group Future Store Initiative, which the company launched with renowned partners from the IT, consumer goods and service industries. Since 2003, the METRO Group and its partners have been developing, optimizing and testing new retailing technologies under real-life conditions at the Future Store in Rheinberg near Düsseldorf, the first major joint project of the initiative. These technologies include the Personal Shopping Assistant, Smart Scales and Self-Check-outs. After the successful conclusion of the test phase, the METRO Group's sales divisions began using some of these technologies. Real, for example, has equipped more than 30 of its hypermarkets with Self-Check-outs. Extra is using Self-Check-outs, Smart Scales and Electronic Advertising Displays in the new supermarket it opened in Düsseldorf at the end of 2004.

Customers have responded positively to these new technologies. Almost 80 percent of them have made ample use of these technological innovations. They have also met with a lot of interest in professional circles. Last year alone, more than 15,000 industry professionals visited the Future Store in Rheinberg.

METRO Group introduces Radio Frequency Identification (RFID) in logistics

RFID is a key technology for the optimization of business processes in retailing and trading. It enables the contactless transfer of product and process information via radio signals. The heart of this technology is the RFID transponder, also known as a Smart Chip. Smart Chips are wafer-thin identification labels which house a programmable chip and an incorporated miniature antenna. RFID readers in the warehouse or the supermarket identify the number code stored in the chip. The readers are linked to the METRO Group's merchandise management system, making it possible to automatically assign the number code to the corresponding product and process information. Using RFID tags, it is possible to trace and manage goods seamlessly along the entire process chain, from the manufacturer over the transport route to the store shelves. The use of RFID technology also considerably improves goods availability and security.

Last November, the METRO Group became one of the first retailing companies worldwide to begin introducing RFID technology. In a first phase, 20 suppliers equipped with RFID transponders their pallets and hanging goods deliveries for select warehouses of the METRO Group as well as for stores of the sales divisions Metro Cash & Carry, Real and Kaufhof. In a second phase, which will be launched in the current fiscal year, our industrial partners will also equip cardboard boxes and parcel packages with RFID transponders.

The METRO Group launched the RFID Innovation Center in Neuss, Germany, in July 2004 as an information platform for RFID technology. Here, the company's industrial and IT partners and its sales divisions can learn about and test the professional implementation of RFID technology under real-life conditions with more than 30 installations on a total floor space of around 1,300 square meters.

Well-informed employees guarantee high acceptance of technological innovation

To deploy new technologies in the most efficient possible way requires their thorough acceptance by employees. To dismantle possible reservations among employees and to secure their constructive contribution to the implementation of new technologies, the METRO Group relies on open, comprehensive information and communication. To this end, all affected employees were given access to an Advanced Retailing information portal during the past fiscal year. This portal offers an overview of the group's activities in areas such as process optimization, customer orientation and international committee work. It serves our employees as a knowledge pool and a foundation for improved cooperation and communication with suppliers across sales divisions.

Environmental management

Profitable growth and environmental protection are not opposites in the entrepreneurial world of the METRO Group. Both are key aspects of corporate management that contribute to the company's success in its domestic and foreign markets. The group therefore places great value on resource protection and the ongoing optimization of environmental management.

The past year's initiatives in this area proved very successful. During the past fiscal year, the METRO Group managed to further reduce resource consumption and waste volume, making a significant contribution to environmental protection. At the same time, these measures helped tap substantial savings potential.

In addition, the METRO Group continued to push ahead with the implementation of internationally comparable key figures for energy and water consumption as well as waste volume in 2004, creating the foundation for systematic environmental monitoring and controlling. By the end of the fiscal year, the environmental key figures for more than 70 percent of the national and international Metro locations had been recorded. Based on these data, the METRO Group will continue to improve its energy and resource management and rigorously exploit the calculated potential for cost savings. The group's declared goal is to also track key figures for those locations that are currently not covered to further increase the company's economic and ecological efficiency.

Like all environmentally relevant service units within the METRO Group, the waste management division is bundled under the roof of METRO Group Asset Management GmbH & Co. KG. In 2004, the high recycling standards of METRO Group locations in Germany were also adopted in other European countries. The tailor-made disposal concepts take into account the respective local disposal infrastructure and increase the level of waste separation. In France, for example, the group managed to both reduce the total volume of waste and significantly increase the share of materially recycled waste.

The strategic tasks of environmental management also include the cost-efficient implementation of statutory regulations at the European and national levels. Among other things, the environmental management of the METRO Group has successfully advanced the implementation of the EU Waste Electrical and Electronic Equipment Directive in cooperation with the responsible company divisions. In the context of this project, all internal processes are being examined and adapted to the new statutory requirements.

The METRO Group published its second Sustainability Report in the past fiscal year. It documents the improvements in environmental management achieved since the first report was published in 2002. At the same time, it describes the group's personnel developments and activities in the area of corporate and social responsibility. The report thus highlights the success of the responsible, environmentally-oriented business policy of the METRO Group.

Corporate and social responsibility

As one of the world's major retailing companies, the METRO Group is firmly committed to its corporate and social responsibility. The company's image of itself is reflected in its comprehensive social, cultural and socio-political activities at the local, regional and international levels. For the same purpose, the METRO Group independently initiates a wide range of projects that it either carries out on its own or which it sponsors by providing the necessary financial, personnel and logistical resources to other institutions.

Active membership of associations and organizations

The METRO Group is engaged in a continuous dialogue with representatives of the political and business communities, associations and relevant social groups. It contributes its business expertise and experience to the work of associations and other non-parliamentary bodies at both the national and international level. The company is involved in the development of proposals for the legal handling of retail-relevant issues as well as other international regulations and standards. The company also contributes to finding answers to current challenges in the retail trade and thus actively helps shape the future of retailing. This is why executives of the METRO Group are volunteers on numerous committees in the retail and wholesale associations as well as chambers of industry and trade in Germany and abroad.

Fostering talent

The future business development of the METRO Group depends to a great extent on whether and to what extent the company manages to continue to attract performance-oriented, qualified young people to the group's sales divisions and companies. This is why the METRO Group offers a multitude of initiatives and training schemes addressing students to give these young people an impression of the wide variety of training programs and the attractive career opportunities within an international retailing group and to awaken their interest in working for this group.

A key focus of talent promotion during the past business year was eastern Europe. The METRO Group continued to expand "Metro Edukacja," an education scheme that has been successfully established in Poland and was also introduced in Russia in 2004. The program aims to give Polish and Russian students and apprentices theoretical and practical know-how on trade and retail issues. In Poland, practice-oriented curricula have been developed in close cooperation with local commercial colleges and the Education Center of the Retail Trade for Saxony-Anhalt ("Bildungszentrum des Einzelhandels" – BZE), which will relate economic relationships to students and teach them fundamental know-how on the world of trade and retail. The sales divisions Metro Cash & Carry (Makro), Real and Praktiker provide the necessary internship positions. About 700 Polish students and trainees had taken part in "Metro Edukacja" at the end of the past fiscal year. Since the autumn of 2004, 350 trainees have been prepared for a career in trading and retailing via a program called "Metro Education" that is offered by three commercial colleges in Moscow and four Metro Cash & Carry stores in Moscow. The training scheme will be extended to cover additional locations in Russia during the current fiscal year. The company also plans to launch a similar project in Romania, which would involve Metro Cash & Carry and Praktiker, two sales divisions that are represented locally.

In Germany, the METRO Group became even more involved in the learning partnership of the Institute Companies & School ("Unternehmen & Schule") in 2004. The goal of this cooperation, which is supported by chambers of industry and trade, employers' associations and school authorities, is to strengthen the ties between schools and private companies and to add practical economic content to theoretical school curricula. The sales divisions of the METRO Group participated in a total of 40 such learning partnerships with German schools of various levels during the past fiscal year.

The METRO Group supports indigent groups and fosters the social competence of young employees

The METRO Group also assumes social and socio-political responsibility beyond the areas of training and education. The company supports many projects on behalf of the disabled as well as needy people near its locations. A key project in this context is the promotion of the Germany-wide initiative "The Table," which focuses on providing food to people in need. About 500 stores of the Metro Cash & Carry, Real and Extra sales divisions supported this organization in 2004 by providing large-scale food supplies free of charge.

Another established component of the social aid programs of the METRO Group is the "Azubi-Sozial-engagement" ("Trainee Social Commitment") initiative. Each year, the sales divisions and cross-divisional service companies of the METRO Group free up about 30 particularly qualified and performance-oriented trainees for participation in a charity event. In 2004, 30 select trainees helped out in the "Special Olympics" in Hamburg, where the national summer games for mentally handicapped people took place. With this, the METRO Group hopes to foster the social competence of its young employees as a key component of its corporate culture.

Düsseldorf in the limelight of cultural and sports sponsoring

The METRO Group has underscored its integration into its social environment with comprehensive cultural and sports sponsoring. Its activities in this area are focused above all on the city of Düsseldorf. Based on a partnership with the "museum kunst palast," the METRO Group supports the efforts of the state capital of North Rhine-Westphalia to raise its profile as an international art metropolis with a lively and multi-faceted art scene. Among the high-profile exhibits of 2004, public attention focused above all on the Andy Warhol exhibit and an exhibition of pieces from the African art scene entitled "Africa Remix – Contemporary Art of a Continent." The Metro Foundation Sculpture Park also aims to enrich the art scene around the site of the company's headquarters. Following the acquisition of a collection of sculptures, the foundation, which is based in Düsseldorf, now owns significant works of art that will be shown to the public under the title "the public museum" during the course of 2005.

The close ties between the METRO Group and the city and citizens of Düsseldorf also comes to the fore in sports sponsoring. In November 2004, the METRO Group announced its commitment as title sponsor of the METRO Group Marathon Düsseldorf. The company thus became the sponsor of an event that has established itself among the leading marathons in Germany over the past years and is one of the city's major sports events. The METRO Group also continued to support the Düsseldorf DEL ice hockey team "DEG METRO STARS" during the past fiscal year. The company not only promotes professional sports, but also the club's youth work. Both projects are vital to the sustained development of a sports culture in Düsseldorf.

The World of Commerce

The exhibition "The World of Commerce," which the METRO Group organized at a prominent location in the center of Düsseldorf, proved a special attraction. Hidden behind an imposing architectural facade and an equally unusual form of presentation inside, this exhibition provided insight into the variety and complexity of the world of trade and retail, putting it in a historical context. The extraordinarily successful four-week event attracted a total of 41,000 visitors, including more than 8,000 students, who cast a glance behind the scenes of the world of trading and retailing and gained insight into the industry's performance strength and innovative capacity.

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 28, 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 last year.

In addition, the METRO Group seeks to generate additional purchasing synergies with the cross-boarder 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.

The modern customer unifies differing and at times contrasting characteristics, while traditional consumer profiles are disappearing. The share of hybrid shoppers, who frequent discount stores while simultaneously paying above-average prices for impulse purchases and basic goods, is on the rise. This makes it necessary to establish long-term partnerships with customers.

Metro Cash & Carry, the global market leader in self-service wholesale stores, continued its selective international expansion during 2004. The company, which celebrated its 40th anniversary in the reporting year, continued to systematically expand its presence especially in the growing markets of Asia and Eastern Europe. With its line of products and services which aims especially at commercial customers and large-scale consumers, Metro Cash & Carry had a total of 504 store locations in 27 countries at the end of the fiscal year. The success of this sales division at home and abroad is due to its very competitive sales strategy whose distinguishing features are a strict orientation on customers, concentration on efficiency and a high degree of adaptability to local customer needs.

Sales at Metro Cash & Carry's two brand name wholesale stores, Metro and Makro, rose 5.4 percent over the year before to € 26.4 billion, thus underscoring again the sales division's position as a growth driver within the METRO Group. The share of sales earned abroad has continually risen over the past few years and 2004 was no exception. Sales outside of Germany accounted for 78 percent of the total, further underlining the international orientation of this sales division. The number of full-time employees rose during the year by 7.9 percent to 83,425.

The Cash & Carry strategy focuses on commercial customers and large-scale consumers

Metro Cash & Carry's sales strategy is specially tailored to the needs of commercial customers and large-scale consumers. These include hotels, restaurants, kiosks, small food retailers, hospitals, government offices, and to a growing extent, service companies. Under the motto, "From professionals for professionals," Metro Cash & Carry offers these customers an extraordinarily large, diversified range of high-quality goods under one roof. Depending on the type and size of the store, the selection includes up to 20,000 food items and 30,000 nonfood items. One feature of all Metro and Makro Cash & Carry stores worldwide that is appreciated by customers is their special competence in fresh foods. In addition to that, low wholesale prices and a consistently guaranteed supply at the same level of quality have contributed to the success of the sales strategy.

Selective expansion course continued, especially abroad

Metro Cash & Carry opened 33 new stores worldwide in the past fiscal year, of which 29 were outside of Germany. This raised the total number of stores to 114 in Germany and 390 abroad. In China alone, Metro Cash & Carry increased its sales network by five to 23 stores during the year. In Russia, the number of stores doubled from seven to 14. In 2004, Metro Cash & Carry opened its first location in Moldova and its first store in Serbia opened at the beginning of the new fiscal year. The key to the success of the international expansion has been and still is the continuous refinement of the high performance sales strategy. It can easily be adapted to meet national and local consumption customs and customer needs. Its international success moreover is particularly based on the fact that 80 to 90 percent of Metro Cash & Carry's merchandise comes from local producers and suppliers. This increases acceptance in foreign markets and creates trust. The positive effect is further reinforced by the fact that Metro Cash & Carry almost exclusively employs local workers in its stores, including at management levels.

With the goal of boosting cross-border synergies and pooling the purchasing volume of individual countries, Metro Cash & Carry has bundled its sales activities in western and eastern Europe into regional business units. During 2004, it continued to develop its already existing business units of Spain/Portugal, Czech Republic/Slovakia, and Austria/Croatia/Serbia. The bundling of resources in the two-year-old Spain/Portugal business unit was particularly successful in improving business there. A new business unit, Romania/Moldova, was created in fiscal 2004. Continually achieving new synergies by expanding existing and creating new regional business units will remain an important part of the international expansion and should make a positive contribution to business growth in the future.

Special offer for restaurants and large-scale consumers rounds out the range of products and services

The C+C Schaper brand supplements Metro Cash & Carry's range of products and services in the domestic German market. As a partner to the restaurant industry, retailers and large-scale consumers, this 100-percent subsidiary of Metro Cash & Carry operates a particularly flexible sales system. Commercial customers have a choice: Either they pick up their goods at a Schaper wholesale store themselves or they can have their orders delivered. Over 20 percent of total sales are earned on the delivery of food and nonfood items. C+C Schaper GmbH operates 54 self-service wholesale stores in Germany, and it plans to expand mainly in medium-size cities in the future. Three new stores were opened in fiscal 2004.

Flexible store sizes ensure high market penetration

Continuous modernization of the stores and a uniform line of brands are important building blocks for further developing Metro Cash & Carry's sales strategy. Furthermore, the strengths of the company include the high degree of flexibility that comes from operating three different store formats. This gives the sales division the ability to establish a market presence which takes local conditions into account. The portfolio comprises Classic, Junior and Eco wholesale stores. Classic stores, which operate mainly in Germany, offer the largest selection of merchandise in both the food and nonfood categories. They have 10,000 to 16,000 square meters of selling space. Next are the Junior stores, which generally have between 7,000 and 9,000 square meters of selling space. Eco stores are the smallest, with only 2,500 to 4,000 square meters of selling space and a merchandise assortment which concentrates on food items. Within this assortment, fresh food again is the main focus. Eco stores are found mainly in France – 75 of the 83 total Metro Cash & Carry wholesale stores in France are Eco stores. With their special competence in fresh food, they appeal especially to restaurants and hotels as well as retailers which have a daily need for large amounts of fresh, high-quality food.

Development projects in Vietnam and India ensure sustainable supply of agricultural products

When it opens up new markets abroad, Metro Cash & Carry also assumes social responsibility. Following its entry into a foreign market, Metro Cash & Carry supports in multiple ways the creation and expansion of a modern, efficient commercial infrastructure; creates secure, long-term jobs; makes considerable contributions to training and continuing education; and helps to raise the standard of living and quality of life of the people in the country. For example, last year Metro Cash & Carry started a development project in Vietnam jointly with the German Investment and Development Society (Deutsche Investitions- und Entwicklungsgesellschaft) which is aimed at improving the productivity and quality of the agricultural sector through intensive education of farmers in the country. The first conference with over 1,000 Metro Cash & Carry suppliers took place in Ho Chi Minh City in June 2004. The objective of the conference was to present Metro Cash & Carry's business strategy and to intensify direct contacts between purchasers and their suppliers.

In India in 2004, just a year after entering the market there, Metro Cash & Carry also started an extensive training program for the local agricultural and fishery industries. In a one-year project together with the German Investment and Development Society, around 14,000 sheep farmers and 1,000 fishermen are being trained in the areas of animal husbandry, animal hygiene and food processing. In India today, a large share of perishable products is still lost to spoilage on the way from the producer to the consumer because of a lack of refrigeration and inefficient supply chains. By passing on know-how, Metro Cash & Carry contributes to improving the local food supply.

“House of Training” ensures uniform qualification standards worldwide

The strong international expansion would not be possible without a structured, multinational personnel development system. This realization has led to the creation of the “House of Training” concept. Metro Cash & Carry will soon conduct extensive training in the areas of purchasing and distribution at a total of four locations: Royaumont (outside Paris), Shanghai, Düsseldorf and Moscow. Improving customer service further is at the heart of all the training. In addition, the training program also includes courses aimed at personality development and management skills. The goal is to further improve the skills of the employees and achieve a uniformly high qualification standard worldwide. The training centers in France and China were opened in 2004. Over 450 employees from 26 countries were trained in Royaumont alone by the end of the year.

Outlook

In the current fiscal year, Metro Cash & Carry will continue to follow its course of profitable growth and further expand its presence in foreign markets. The rapidly growing economies in eastern Europe and Asia in particular offer great potential which Metro Cash & Carry plans to systematically tap into. In 2005 the sales networks in China and Russia, along with those in other countries, will be further expanded. Continued growth abroad, optimization of the customer-oriented sales strategy, and constant improvement of its sales processes represent a good basis for earnings to rise once again in 2005. This sales division remains one of the main growth drivers of the METRO Group and it will further expand its position as a global leader in the self-service wholesale store area. Moreover, increased marketing measures targeted at specific groups of customers will raise Metro Cash & Carry’s brand profile.

Metro Cash & Carry	2004
Sales	€ 26.4 billion
EBITA	€ 962.2 million
Number of locations	504 in 27 countries
Total selling space	4.0 million square meters
Headcount (annual average of full-time equivalents)	83,425

Real maintained its outstanding market position in the hypermarket segment in Germany and on the company's foreign markets in 2004. On average, nearly one million customers a day visited the sales division's stores in Germany, Poland and Turkey. Key strengths of the customer-oriented sales strategy proved to be the high-quality selection of products, the high level of fresh produce competency in food retailing as well as an attractive price-performance ratio. Based on this strong foundation, total sales for 2004 reached € 8.2 billion despite growing competition on the German market and unfavorable macroeconomic parameters. The continued upward trend in foreign sales also contributed to this development. A total of 17 outlets were added to the sales network during the past fiscal year. The network of hypermarkets thus comprised a total of 306 stores by the end of the year.

The outlet network of the Real retail brand, which operates mainly in Germany, comprised 272 hypermarkets in Germany at the end of 2004. 17 of these stores were taken over from the Extra sales division or newly opened during the past fiscal year. The hypermarkets offer up to 80,000 different articles on an average selling space of 7,000 square meters. The focus of the assortment is on high-quality food, which accounted for 75 percent of total sales during the past fiscal year. The attractive range of fresh produce markedly contributed to this. A highly competitive assortment of nonfood products rounds out the product offering in the Real hypermarkets. Thanks to this varied assortment, its proven fresh produce competency, a family-friendly profile and an attractive price-performance ratio, Real successfully defended its outstanding position on the German market in 2004, despite declining sectoral demand and heightened competitive pressure. At the same time, Real also continued to strengthen its position in foreign markets. The sales division now has 27 hypermarkets in Poland and seven hypermarkets in Turkey, all of which recorded positive business developments during the past fiscal year.

Real and Extra tap profit-enhancing synergies

To further increase efficiency in the food retailing business, substantial parts of the management of the Real and Extra sales divisions were bundled as early as 2003. Since then, the two companies have used common systems, for example in the areas of controlling, personnel, organization/IT and accounting/finance. Both Real and Extra have thus been able to markedly improve their cost structures. A rigorous move was the adaptation of the company law structure to the altered operating conditions. This was implemented in mid-2004. The Real outlets and Extra supermarkets have since been managed under the umbrella of Real SB-Warenhaus GmbH. Despite pooling forces in internal operations, the independent profiles of the two sales strategies have been maintained. Their respective independence in areas such as category management and advertising will ensure that this does not change in the future.

Customer-oriented marketing – the company's face to the public

About 80 percent of German consumers know Real as a provider of high-quality food and other products. The company's high level of public awareness was achieved thanks also to such successful events as the Real Children's Days and the sponsorship of the Real Berlin Marathon. Various promotion campaigns raised the company's profile during the past fiscal year. "Free Weeks 300," held for the opening of the 300th Real hypermarket, is just one example: Between September 27 and November 20, 2004, Real handed out € 15 gift vouchers to customers who bought goods worth a total € 300 during this period.

In light of growing competition in food retailing, successful customer retention measures continue to gain importance. Real has long relied on "Payback," Germany's biggest and by now very well-established customer loyalty program with more than 28 million participants. During the past fiscal year, Real again managed to raise the number of participants in this program. By the end of 2004, the sales division had issued nearly 8 million Payback cards. Customer cards were used for more than 50 percent of all purchases last year. A glance at cardholders' shopping habits highlights the potential of the customer loyalty program: Payback customers spent on average 65 percent more a year shopping at Real than customers without such a card.

Real focuses on innovation in retailing

Real's image of itself has traditionally been characterized by its strong ability to innovate. The sales division proved this in 2004. Real was the first German company to allow its customers to choose between conventional check-out services with a cashier and modern Self-Check-outs. This innovative technology was installed in the first hypermarket in November 2003. Given the positive customer response, another 36 hypermarkets were equipped with the new system during 2004, which had previously passed its practical test in the Extra Future Store of the METRO Group in Rheinberg. Customers using the new check-outs can comfortably scan and pack their wares and then pay for them in cash or by EC or credit card. This saves time shopping and speeds up the payment process. If required, a Real employee instructs customers on the use of the Self-Check-outs. This new form of check-out is regarded as an alternative to conventional payment processes – the traditional check-out systems will continue to be available for use.

Real invests in human resources

The company concentrated its future-oriented investments not only on technological innovation, but also on personnel development. In 2004, Real invested more in the professional and personal development of its apprentices than is required by law or collective bargaining contracts. Real is thus preparing today for the expected shortage of qualified staff as a result of future demographic developments. Last November, Real was voted "Ausbilder des Jahres" (Apprenticeship Provider of the Year) in a competition organized by the specialist magazine Lebensmittel Praxis.

Dynamic foreign business

Real sharpened its profile as a quality-oriented and family-friendly retailing company on its foreign markets. The sales division was ranked third in a peer-group comparison in Turkey at the end of 2004, placing it in a pole position for further expansion. With its slogan, "Real – part of the family," the sales division underscores its ability to answer the needs of all members of the family. Primarily on Sundays, when many families go shopping together, Real organizes specially targeted activities, prize draws and competitions. The seven hypermarkets in Turkey generate about 50 percent of their total sales on the weekend.

The Real sales division is also one of the biggest retailers in the Polish hypermarket segment. Its local outlet network comprises 27 stores. In Poland, Real focused on optimizing its brand presence in 2004. The sales division organized new marketing measures such as the "Street of Offers" – a range of special offers placed in the central aisle and advertised with handouts – to underscore its competence as a provider of an all-round, high-quality and fairly priced product assortment.

Outlook

Real will use a highly visible and authentic advertising campaign to sharpen its profile as a strong and customer-oriented retail partner during the current fiscal year. The aim of this measure is to boost both sales and profitability. The sales division will continue to expand its business activities on its foreign markets. Poland is looking forward to the opening of another hypermarket this year. Market entry in Russia is scheduled for mid-2005 – a move with which the company will tap new growth potential.

Real	2004
Sales	€ 8.2 billion
EBITA	€ 219.3 million
Number of locations	306 in 3 countries
Total selling space	2.1 million square meters
Headcount (annual average of full-time equivalents)	34,800

In 2004, Extra made substantial headway with the restructuring process launched the year before. The goal has been to create the basis for higher earnings and greater competitiveness. To achieve this, Extra has weeded out its portfolio of outlets and sharpened its profile as a local supplier of the freshest possible goods. As of January 1, 2005, Extra has divested 128 supermarkets and focused its market presence on northern and western Germany.

Against the backdrop of a persistently tough market environment, Extra pushed ahead with the restructuring of the company in the previous fiscal year. Extra has made substantial progress above all in the optimization of its store network. During 2004, Extra divested 32 supermarkets. 16 of them with selling space of more than 3,000 square meters each were merged with Real. Five were acquired by franchisees, and 11 were closed. As of January 1, 2005, Extra also sold 119 stores in eastern and southern Germany. An additional eight were transferred to Real at the beginning of the current year and one was closed. Extra's store network thus had 308 supermarkets in January 2005 compared with 466 at the end of 2003. After cleaning up its portfolio of locations, Extra will focus on northern and western Germany, where it has a dense outlet network and wide brand recognition. Logistics and marketing can thus be done especially efficiently in these regions. Because of the dense outlet network, it also will be possible to exploit advertising synergies. By fine-tuning its portfolio of locations and creating a new regional focus, Extra will perform better and become more competitive.

Extra sharpens its profile as a local provider with the freshest possible goods and a high degree of assortment competence

Extra markets are located near customers and offer them a wide assortment of inexpensive goods with a strong focus on freshness. The product range is heavily weighted toward food, which accounts for 90 percent of sales. This offering comprises mainly well-known brand names and is complemented by attractive private labels especially promoted in 2004. This offering is enhanced by such nonfood items as cutlery and small household appliances.

The diverse selection of fresh foods includes fruit, vegetables, cold cuts, meat, milk products and baked goods. Oven-fresh baked goods have been an integral part of the assortment since bakery shops were successfully integrated into many Extra supermarkets as well as a special selection of natural foods with an organic seal of approval sold under the "Grünes Land" brand name. Depending on the location, this standard assortment is supplemented with ethnic products to fulfill the specific needs of foreign customers.

Customers have responded favorably to Extra's low-price private label "Tip." Under this brand, Extra offers around 900 high-quality items at discount prices. The high standard has been confirmed in quality tests conducted by independent institutes. Of the 121 private labels in the food segment recently tested, 66 were deemed "good" and 16 "very good."

Customer and service orientation is the focus of our employee training

Extra markets are there for their customers. They gain these customers' confidence by providing fresh quality products as well as friendly service. With the goal of expanding their service and customer orientation, work processes and structures were optimized in individual markets. Employees played an important role in this process. Extra also pushed ahead with its training programs last year. Here the focus was on acquiring skills and improving social competence.

Outlook

The Extra sales division plans to press ahead with the restructuring process this year with the goal of generating higher earnings in the current fiscal year. By focusing on the northern and western regions of Germany, which have a dense store network, the sales division has created a strong basis for its mid-term goal of positioning itself as a supermarket company that focuses on fresh foods. On selling space of between 1,000 and 3,000 square meters, Extra will operate a chain of supermarkets with a uniform strategy that will be optimized on an ongoing basis to meet customer needs. The continued improvement of the cost structure and its market appearance will contribute to further enhancing the operational strength of the sales strategy.

Extra	2004
Sales	€ 2.5 billion
EBITA	€ -80.8 million
Number of locations	436
Total selling space	750,000 square meters
Headcount (annual average of full-time equivalents)	11,085

The Media Markt and Saturn group is the market leader in European consumer electronics retailing, with 503 locations in 11 countries. Last year, Media Markt and Saturn continued to expand their already strong market position. Although the overall situation in this industry was characterized by weak sales, the Media Markt and Saturn group was able to grow its sales considerably and win market share against the general trend. At the same time, Media Markt and Saturn pressed ahead with their profitable growth strategy of past years. They opened 69 stores at home and abroad. The ongoing business success of both formats is based above all on innovative, high-performance sales and marketing strategies. The sales strategies are characterized by a persistent orientation to the customer, a diverse and continually updated assortment as well as an attractive price-performance ratio.

Media Markt and Saturn are managed as two independent retail brands under the umbrella of Media-Saturn-Holding GmbH. With a total of 197 outlets, Media Markt had the densest sales network of any large-area consumer electronics chain in Germany at the end of 2004. At the same time, Saturn operated 105 stores across Germany. Both companies pressed ahead with their strategy of profitable growth abroad last year. Media Markt entered the Portuguese market in 2004 and has since been present in a total of 11 European countries. After its successful market entry in Poland and Hungary, Saturn operates in six European countries.

Focus on the customer

Across Europe last year, around 210 million customers visited the stores of both sales formats. The desire to cover the diverse range of individual customer needs has led to an extraordinarily broad and deep assortment of brand name products. In Germany, Media Markt and Saturn have around 45,000 products on offer from the areas of consumer electronics, household appliances, new media, telecommunications, computers and photographic equipment. Of course, this includes all major new products in a market segment that is subject to rapid technological change. Some big Saturn stores boast an assortment of as many as 100,000 products. One of Saturn's hallmarks is the extraordinarily comprehensive selection of recordings. With this diversity, which is unrivalled in the sector, Saturn offers its customers a unique shopping experience. The size and quality of the assortment corresponds to the individual advice from qualified personnel as well as comprehensive service. This includes professional repair service as well as delivery and the installation of large devices on the customer's premises.

Decentral management structure – an important success factor

The decentral management structure within the sales formats makes an important contribution to the Media-Saturn group's ongoing profitable growth. The store managers of the Media Markt and Saturn stores are co-owners and thus directly linked to responsibility for the company's success. Their personal responsibility for putting together the assortment, setting prices and in personnel and marketing issues has an important effect on the sales and profits of their stores. This decentral management structure makes it possible, among other things, to adapt the assortment of goods rapidly and flexibly to diverse customer needs at the individual locations. It also allows for direct and efficient responses to the price and assortment policy of the local competition. The entire sales division thus profits from business freedom and fantasy in the individual markets. The other way around, the individual locations can take advantage of the strong performance of the group.

The high performance of the Media-Saturn group was recognized once again last year with important awards. For the fourth time, the sales division received the MAPIC Award, a prize awarded by the largest European trade fair for real estate and retail trading in Cannes, in recognition of its particularly dynamic international expansion. In addition, the Association of German Retailers awarded Media Markt and Saturn the "German Retailing Prize," and Lebensmittel Zeitung awarded the group the "Golden Sugar Hat."

Media Markt and Saturn sharpen their brand profile

With the help of an attention-grabbing, emotional advertising campaign, Media Markt and Saturn in the past fiscal year solidified their brand profiles among their customers and expanded upon their position as a unique retail brand. Media Markt's slogan "Ich bin doch nicht blöd" ("Actually, I'm not stupid") as well as Saturn's "Geiz ist geil!" ("Stinginess is cool!") spoke directly to the zeitgeist – they not only address the price-conscious customer, they are also the expression of a modern, dynamic company philosophy which is geared toward customer needs. The sales brands reflect the customer's demand for the latest high-quality brand name products at reasonable prices. In Germany, both brands have been able to increase brand awareness to 100 percent with unconventional advertising campaigns.

Special events surrounding the anniversaries of the two sales brands also met with a positive customer response. Media Markt turned 25 and also celebrated its 10th anniversary in Switzerland. Saturn opened its 100th store in Germany and looked back on 10 years of success in Austria.

European market presence spreads rapidly

Last year, Media Markt and Saturn continued to expand their leading market position in Germany and the rest of Europe. The sales formats opened a total of 69 new consumer electronics centers in 2004, compared to 52 openings the year before, thus increasing on the high rate of expansion in previous years. In 2004, the network of locations was expanded by 33 stores in Germany alone, including eight Fröschl stores. The stores of this former competitor were acquired last January and converted into Media Markt or Saturn outlets. After that, the group had a total of 302 locations in Germany, Europe's largest market. In the other European countries the number of locations increased by 34 stores to a total of 201. The share of stores run by Media Markt and Saturn abroad increased to around 40 percent. The sales formats operate in Austria, Belgium, France, Hungary, Italy, the Netherlands, Poland, Portugal, Spain and Switzerland.

Parallel to the European-wide expansion of its store network, the sales division continued to modernize existing outlets. In Germany alone, 17 Media Markt and Saturn stores were remade to meet increased customer demands in a changing market environment.

Expansion creates work and apprenticeships

For Media Markt and Saturn, this fast pace of expansion means strong demand for competent and motivated employees. At the beginning of the 2004 apprenticeship year, they hired 1,106 new apprentices – another 7,7 percent increase compared to the year before. With a total of 2,644 apprentices, the sales formats underscore their strong position in the area of entry-level apprenticeships. Media Markt and Saturn together create well above 1,000 new positions a year in Germany alone. Both were thus ranked among the German companies that created the largest number of new positions in 2004. At the end of 2004, the Media-Saturn group employed a total of around 33,000 employees – based on full-time positions.

Outlook

The Media Markt and Saturn brands will continue to expand on their market-leading position in European consumer electronics retailing. With their successful and attractive sales strategies as well as their efficient and decentral management structure, they have a powerful basis for continued strong sales and earnings growth. In 2005, the sales division will enter the Greek market, bringing its European country network to 12. With its fast pace of internationalization and the bundling of purchasing volume on the European level, the sales formats will develop additional competitive advantages. Determined to further increase the profitability of their consumer electronics centers, Media Markt and Saturn will also continue to optimize their organizational structures and processes.

Media Markt and Saturn	2004
Sales	€ 12.2 billion
EBITA	€ 451.2 million
Number of locations	503 in 11 countries
Total selling space	1.5 million square meters
Headcount (annual average of full-time equivalents)	32,932

Praktiker Bau- und Heimwerkermärkte AG reinforced its strong market position in Germany and abroad during 2004 and continued the past year's distinct upward trend. Thanks to aggressive pricing and strong assortment competence, the sales division managed to markedly boost its sales and gain additional market share on the highly competitive German market. Praktiker defended its market-leading position abroad and continued its targeted expansion, in particular in eastern European growth markets. Following market entry in Bulgaria in the autumn of 2004, the sales division is now represented in four former Eastern Bloc states.

With sales of about € 3.0 billion and a dense outlet network of 339 stores – including 278 in Germany – Praktiker is one of the leading operators of home improvement centers in Germany and Europe. On an average selling space of more than 5,800 square meters, Praktiker stores offer their customers a broad product spectrum with about 70,000 articles in the areas of building, workshop, decorating and gardening. The stores' product range comprises the merchandise of well-known branded product manufacturers and high-quality private labels. The company's customer-oriented sales concept addresses the professional craftsman as much as the hobby handyman. Aside from the wide variety of products on offer and the attractive price-performance ratio, Praktiker sways its customers with its competent and customized assistance.

The fact that Praktiker home improvement centers managed to boost their competitiveness again during the past fiscal year is a result of the company's successful restructuring efforts over the past few years. But it also rests on the success of the company's continual improvement of the efficient sales strategy, its distinct assortment competence and the strong pricing image. The highly visible marketing campaigns conducted during 2004 also underscored these special characteristics of the sales division.

Marketing offensive and price guarantee provide sustained purchasing momentum

With a combination of everyday low prices, weekly special offers and special seasonal campaigns with price discounts of 20 percent, Praktiker managed to realize a sustained increase in customer frequency and sales during the past fiscal year as well as gain additional market share. This positive development was also supported by the introduction of a price guarantee with an unlimited duration in the spring of

2004. The company has pledged to sell its customers any product from its assortment that they find for a lower price in a competing store not only for the same price, but to grant them an additional 20-percent discount. Praktiker now has the most far-reaching price guarantee to date in the German home improvement sector. Surveys by independent market research institutions show that customers responded enthusiastically to this campaign. In 2004, customers ranked the company at No. 1 among all nation-wide home improvement centers in terms of its price-performance ratio.

Key accounts appreciate price and assortment competence

Praktiker's key accounts also developed favorably during the past fiscal year. The number of major customers nearly doubled in the space of one year and had reached about 220,000 by the end of 2004. The goal of the key account card is to gain the long-term loyalty of these customers. The card addresses customers with annual purchases of more than € 1,500, in particular, and offers its holder attractive discounts in line with annual purchases. Nearly two-thirds of these top customers already covered about 75 percent of their demand at Praktiker during the past fiscal year. These figures highlight just how much Praktiker has raised its profile as a partner for craftsmen. At the same time, they show that the company has reaped initial success in winning the loyalty of these customers.

Rigorous optimization of domestic outlet network

While sectoral developments remained subdued, Praktiker continued to optimize its portfolio of locations in Germany to improve overall profitability in 2004. Eight stores were closed during the past fiscal year. Numerous outlets of the sales division were converted or expanded, with new product lines added to the assortment.

Sights set on growth momentum in eastern Europe

Praktiker again tapped the potential available in foreign markets in 2004. The company successfully defended its market-leading position in Greece, Luxembourg, Romania, Turkey and Hungary. At the same time, the sales division continued its targeted expansion on foreign markets. The focus here was on the continued expansion in eastern European markets, with investments concentrated above all on Romania and Bulgaria. Given substantial backlog in the area of private housing construction, these countries offer attractive prospects for Praktiker. The prospective membership of the European Union should provide ample economic momentum there. Praktiker aimed to tap this potential by expanding its outlet network in Romania and entering the Bulgarian market in autumn 2004. By the end of 2004, the sales division was thus active in a total of eight foreign markets. At the same time, the number of foreign locations rose to 61 stores from 56 stores during the past business year. The foreign share of total divisional sales rose to around 24 percent.

Outlook

Praktiker will continue to strengthen its position as the German price leader in the current business year. Additional marketing activities will contribute to this. The company's undisputed price and assortment competence offer a sound foundation to gain additional market share and further boost earnings in 2005. With its special assortment and tailor-made service offers for major customers, Praktiker will further enhance its appeal to this lucrative customer group, which must be expanded continually. The key tasks of the current business year also include the continued optimization of the portfolio of domestic locations. In addition, Praktiker will rigorously exploit growth potential on its foreign markets and push ahead with its expansion. In 2005, the sales division will speedily expand its sales network in Bulgaria, in particular. At the same time the company aims to further tighten the existing sales networks in Romania, Poland and Turkey.

Praktiker	2004
Sales	€ 3.0 billion
EBITA	€ 59.3 million
Number of locations	339 in 9 countries
Total selling space	2.0 million square meters
Headcount (annual average of full-time equivalents)	15,609

In 2004, consumers in Germany continued to limit their spending amid an environment of general economic insecurity. This had an especially strong impact on the department store business. In response, Kaufhof Warenhaus AG tailored its powerful Galeria concept to the changed circumstances. The company, which celebrated its 125th anniversary in 2004, thus aims to improve its earnings situation on an ongoing basis in a challenging market environment. The core of this improvement process has been the persistent extension of leading brands, structural improvements as well as a long-term qualification offensive for employees. At the same time, the sales division is also sharpening its competitive profile and underscoring its claim to system leadership in the German department store business.

Kaufhof Warenhaus AG operates 115 department stores across Germany. In 2004, another three stores adopted the Galeria concept and one Galeria outlet opened its doors. At the same time, the assortment strategy was given a new focus. The sales division now concentrates even more on high-quality brand products and attractive private labels. In addition, the company has intensified its employee training efforts and increased the efficiency of its business processes. Aiming for a targeted sales approach, Kaufhof has stepped up its direct-marketing activities and expanded its customer-loyalty programs. In Belgium, the company grew its sales and gained market share. The Brussels outlet was remade in line with the Galeria concept. In addition, all Belgian stores have been hooked up to the Kaufhof merchandise management system.

A lean organization brings efficiency gains

Structural improvements have helped the company become more efficient and competitive. This has created the basis for a sustained improvement in Kaufhof's earnings situation. The greatest savings potential is generated at headquarters. Personnel at headquarters is being reduced by 300 in a socially responsible manner. Overall, the number of employees at the Kaufhof group was cut to 19,986 in the 2004 fiscal year. The Emotions sales concept with its special assortment for women was discontinued on January 31, 2005. The Cologne, Nuremberg and Karlsruhe locations were closed.

Galeria – a forward-looking strategy with strong performance

The Galeria Kaufhof name stands for the merging of tradition and innovation. The strong market acceptance and attractiveness of these department stores derives equally from the ability rapidly to spot market trends and adjust to changing customer needs in assortment and service. The high performance of the Galeria concept is the basis for the company's competitiveness now and in the future. Kaufhof stores are characterized by their high-quality assortment of goods. Updated on a regular basis, this includes national and international brand producers as well as high-performance private labels. A unique feature is the presentation of goods in theme worlds, which speak to customers on an emotional level. The qualified sales force offers good advice, friendly service and comprehensive information.

The sales division continued to consolidate its assortment portfolio in the past fiscal year. Profitable leading brands now make up an even greater share of the clothing, lingerie, perfume, watch, jewelry and leather goods segments. At the end of 2004, the company cooperated with 170 well-known brand manufacturers, making the assortment even more attractive. The Stuttgart, Halle and Mönchengladbach outlets reopened their doors after being remodeled in line with the Galeria concept. A new Galeria Kaufhof department store was established in Frankfurt's Nord-West-Zentrum.

Kaufhof turns 125 – successful combination of tradition and modernity

In 2004, Kaufhof turned 125, and Germany's oldest department store operator invited its customers to celebrate. At the same time, Kaufhof launched a marketing campaign with the goal of expanding long-term customer loyalty and simultaneously winning new groups of customers. With quality at fair prices and good service, the department stores illustrated their high performance standard. The campaign started off with "Happy Weeks" in September 2004.

Strong ability to innovate creates the basis for greater value added

Kaufhof has taken advantage of the latest developments in the logistics segment and is using state-of-the-art information technology in order to improve its performance and intensify customer loyalty, a factor that is critical for success in today's world. For example, advertising and marketing events have been implemented using computer-supported campaign-management systems. To optimize company controlling, the company in the past fiscal year installed an SAP business warehouse program (SAP-BW). RFID technology also facilitates marked efficiency gains in the supply chain. As part of the METRO Group Future Store Initiative, Galeria Kaufhof in November 2004 began the introduction of this technology in several outlets with select suppliers. Smart Chips are used in the textile fashion segment, for example for the products of Gerry Weber, Esprit and Triumph. The touch-free identification of deliveries makes it possible to track and steer the route a product takes seamlessly, from the manufacturer to the department store. For example, RFID makes goods receipt much simpler and more efficient.

Payback focuses on high-sales target groups

With around 28 million members, Payback is Germany's most successful customer-loyalty program. In 2004, the number of people with a Payback card rose to more than eight million. The Kaufhof sales division uses Payback as an efficient instrument to address customers directly. They have responded enthusiastically to the attractive offers and gift certificates for samples, which are enclosed with an overview of collected points that is sent on a regular basis. In addition, the company specifically targets high-spending customers. With mailings addressed to buyers of certain product categories, Galeria Kaufhof also enhances assortment-specific customer loyalty. A particularly successful mailing campaign of Kaufhof Warenhaus AG was awarded the German Direct Marketing Prize Gold in 2004.

Qualified employees guarantee customer satisfaction

Motivated and competent employees are a decisive success factor in the competition for market share. That is why Kaufhof has made employee training a focal point of its strategic improvement efforts. Kaufhof's long-term qualification offensive contributed to a sustained improvement of its customer orientation in 2004. To meet the Galeria Kaufhof brand's high service standard, the sales staff has undergone training. The "Just Sell More" strategy, which was launched successfully in 2004, aims to improve processes in daily operations.

Belgium operations strengthen sales

The Belgian department store chain Inno continued its positive development in the year under review. Since the restructured outlets in Rue Neuve in Brussels were reopened in the autumn of 2004, all 15 department stores of Innovation S.A. in Belgium have been transferred to the Galeria concept. Inno's total sales in 2004 increased markedly and reached a share of 6.8 percent of the company's overall sales.

Outlook

Kaufhof Warenhaus AG will continue to develop the successful Galeria concept in the current fiscal year. The integration of well-known brands into the assortment, the simultaneous focus on high-quality and profitable private labels as well as the targeted sales approach will continue to sharpen the Galeria Kaufhof brand. In the future, the company's department stores will make an even bigger contribution to the resurgence and design of town and city centers with their sales, communication and experience worlds.

Kaufhof	2004
Sales	€ 3.8 billion
EBITA	€ 56.1 million
Number of locations	147 in 2 countries
Total selling space	1.5 million square meters
Headcount (annual average of full-time equivalents)	19,986

The successful retailer always has an eye to the market and an ear to the customer. In retailing, customers vote with their feet. Customers alone with their individual needs and expectations determine the economic success of the retailer. That makes it crucial to identify the ongoing change of customers' needs and new trends early on and to react directly with new offers.

Consolidated financial statements

Income statement
for the financial year from 1 January to 31 December 2004

€ million	Note no.	2004	2003 adjusted[1]	2003
Net sales	1	56,409	53,595	53,595
Cost of sales		(43,851)	(41,687)	(41,687)
Gross profit on sales		12,558	11,908	11,908
Other operating income	2	1,511	1,461	1,461
Selling expenses	3	(11,110)	(10,636)	(10,636)
General administrative expenses	4	(1,047)	(1,031)	(1,031)
Other operating expenses	5	(103)	(112)	(112)
Earnings before interest, taxes and amortization (EBITA)		1,809	1,590	1,590
Goodwill amortization	6	–	–	(272)
Earnings before interest and taxes (EBIT)		1,809	1,590	1,318
Net investment income	7	31	(60)	(60)
Net interest result	8	(484)	(425)	(425)
Other financial result	9	(12)	(16)	(16)
Net financial income		(465)	(501)	(501)
Earnings before taxes		1,344	1,089	817
Income taxes	10	(411)	(246)	(246)
Group net income		933	843	571
Minorities	11	(106)	(75)	(75)
Group net profit		827	768	496
Earnings per share in €	12	2.53	2.35	1.52

[1]Previous year adjusted for information purposes because of the elimination of scheduled goodwill amortization as of 2004

Balance sheet as per 31 December 2004

ASSETS

€ million	Note no.	Balance at 31 Dec 2004	Balance at 31 Dec 2003
Fixed assets	17		
Goodwill	18	3,932	3,987
Other intangible assets	19	395	326
Tangible assets	20	10,820	10,490
Financial assets	21	171	238
		15,318	15,041
Current assets			
Inventories	22	6,272	5,941
Trade receivables	23	355	339
Other receivables and assets	24	2,302	2,061
Cash and cash equivalents	25	2,130	1,593
		11,059	9,934
Deferred tax assets	26	1,527	1,456
Prepaid expenses and deferred charges	27	188	149
		28,092	26,580

LIABILITIES

€ million	Note no.	Balance at 31 Dec 2004	Balance at 31 Dec 2003
Equity	28		
Capital stock		835	835
Additional paid-in capital		2,551	2,551
Reserves retained from earnings		526	279
Group net profit		827	496
		4,739	4,161
Minority interests	29	207	188
Provisions			
Provisions for pensions and similar commitments	30	1,006	1,012
Other provisions	31	697	758
		1,703	1,770
Liabilities	32		
Financial debt	33	7,803	7,802
Trade payables	34	10,771	9,907
Other liabilities	35	2,245	2,097
		20,819	19,806
Deferred tax liabilities	26	509	526
Deferred income	36	115	129
		28,092	26,580

Cash flow statement

€ million	2004	2003
EBITA	1,809	1,590
Depreciation and amortizations on fixed and other intangible assets	1,169	1,025
Change in provisions for pensions and similar commitments	40	(6)
Change in net working capital	534	330
Income taxes paid[1]	(562)	(107)
Others[1]	(102)	264
Cash flow from operating activities	2,888	3,096
M&A transactions	–	(184)
Expenditure for tangible assets (excl. finance leases)	(1,468)	(1,118)
Other expenditure	(226)	(127)
Disposal of fixed assets	358	209
Cash flow from investment activities	(1,336)	(1,220)
Profit distributed to		
METRO AG stockholders	(334)	(334)
other stockholders	(74)	(88)
Change in minority interests	(31)	–
Raising of financial liabilities	1,521	1,909
Redemption/repayment of financial liabilities	(1,567)	(831)
Interest paid	(639)	(574)
Interest received	151	141
Profit and loss transfers and other financing activities	(53)	(2,043)
Cash flow from financing activities	(1,026)	(1,820)
Total cash flow	526	56
Exchange rate effects on cash and cash equivalents	0	0
Change in cash and cash equivalents due to the first-time inclusion of companies	0	233
Overall change in cash and cash equivalents	526	289
Cash and cash equivalents at 1 January	1,581	1,292
Cash and cash equivalents at 31 December	2,107	1,581

[1]Reclassification of other taxes as “others” rather than as “income tax expenses.” The comparison figure for the previous year was adjusted accordingly.

Statement of changes in equity

€ million	Capital stock	Additional paid-in capital	Reserves retained from earnings	Group net profit	Total
1 Jan 2003	835	2,558	305	443	4,141
Net income	–	–	–	496	496
Cash dividend	–	–	–	(334)	(334)
Unwinding of equity component of convertible bond	–	(7)	(57)	–	(64)
Subsequent measurement under IAS 39	–	–	7	–	7
Currency translation	–	–	(91)	–	(91)
Reclassification net income	–	–	109	(109)	–
Other	–	–	6	–	6
31 Dec 2003/1 Jan 2004	835	2,551	279	496	4,161
Net income	–	–	–	827	827
Cash dividend	–	–	–	(334)	(334)
Subsequent measurement under IAS 39	–	–	18	–	18
Currency translation	–	–	81	–	81
Reclassification net income	–	–	162	(162)	–
Other	–	–	(14)	–	(14)
31 Dec 2004	835	2,551	526	827	4,739

Notes to the consolidated financial statements

Notes to the group accounting principles and methods

Accounting principles

METRO AG's consolidated financial statements were prepared in accordance with the rules of the International Accounting Standards Board (IASB), London, and the interpretations of the Standing Interpretations Committee (SIC). METRO AG's consolidated financial statements comply with all provisions of the International Financial Reporting Standards (IFRS) effective as of December 31, 2004.

The consolidated financial statements conform to the Group Accounting Directive of the European Union (Directive 83/349/EEC). For full equivalence to group accounts prepared in accordance with HGB (German Commercial Code), all disclosures and comments extending beyond the scope of the IASB and required under HGB have been duly made.

As the prerequisites of § 292 a HGB have been satisfied, the present consolidated financial statements, prepared in accordance with the International Financial Reporting Standards (IFRS), have an exempting effect on the duty to prepare consolidated financial statements in accordance with HGB. This assessment is based on German Accounting Standards no. 1 and 1 a (DRS 1 and DRS 1 a) of the Deutsche Rechnungslegungs Standards Committee DRSC e. V.

Certain items in the income statement and the balance sheet have been combined with a view to enhancing transparency of presentation. These items are listed separately and detailed in the Notes. The income statement is prepared using the cost of sales method.

All amounts are millions of euros (€ million) unless otherwise indicated.

The consolidated financial statements are based on the historical cost principle and were prepared in accordance with the consolidation, accounting and measurement methods outlined below.

Use of new accounting regulations

The accounting principles adopted by the International Accounting Standards Board at the beginning of 2004, Business Combinations (IFRS 3) and the revised standards Impairment of Assets (IAS 36) and Intangible Assets (IAS 38), were applied for the first time in fiscal year 2004. These new or revised principles partly change the accounting for business mergers and intangible assets (including goodwill).

The main impact of the first-time application of these accounting principles in these consolidated financial statements concerns the discontinuation of scheduled goodwill amortization.

Further information on the impact of the (first-time) application of the new accounting standards can be found in the consolidation principles, the accounting and measurement methods for intangible assets as well as Notes no. 6 (Goodwill amortization), no. 18 (Goodwill) and no. 19 (Other intangible assets).

Consolidated group and associated companies

Besides METRO AG, the consolidated financial statements comprise 654 (613 the year before) German and 346 (254 the year before) foreign subsidiaries in which METRO AG directly or indirectly holds the majority of voting rights.

Since their impact on the group's financial position and performance is of minor significance, 37 (32 the year before) subsidiaries were not included in the consolidation. The combined sales of these companies account for distinctly less than one percent of group sales.

The group of consolidated companies changed as follows versus the previous year:

Status 1 January 2004	868
Changes in fiscal 2004:	
Companies merged with other consolidated subsidiaries	(14)
Companies divested	(1)
Companies newly formed	108
Companies acquired	34
Other first-time consolidation	16
Other changes	(10)
Status 31 December 2004	1.001

Additions from newly formed companies (108 companies) are due mainly to the expansion of the Metro Cash & Carry as well as the Media Markt and Saturn sales divisions.

Other first-time consolidations concern the integration of companies as of December 31, 2004 that own property which is rented to the sales divisions of the METRO Group.

Any material effects from changes in the group consolidation are detailed in the Notes to the financial statement items concerned.

Two associated companies are valued at equity. A total of 22 companies (previous year 12) are not valued at equity. Although the METRO Group holds between 20 percent and 50 percent of the voting rights, these investments were not accounted for by the equity method because significant influence does not exist or on grounds of materiality. These shareholdings are carried at cost.

A complete list of group and associated companies is filed in the Commercial Register (HRB 39473) of the District Court of Düsseldorf. An overview of the major group companies can be found on page 148.

Consolidation principles

The financial statements of German and foreign subsidiaries included in the consolidated accounts are prepared according to uniform accounting methods, as required by IAS 27 (Consolidated Financial Statements and Accounting for Investments in Subsidiaries).

Consolidated subsidiaries which, unlike METRO AG, do not close their fiscal year on December 31 prepared interim financial statements for consolidation purposes.

For company mergers prior to January 1, 2004, pursuant to IAS 22 (Business Combinations), capital consolidation was effected by offsetting the carrying amounts of the investment against the revalued pro rata equity of the subsidiaries as of their acquisition date. Any positive differences remaining after the allocation of hidden reserves and burdens were capitalized as goodwill and amortized to income on a straight-line basis in accordance with their useful lives.

With the first-time application of IFRS 3 (Business Combinations), scheduled straight-line amortization of goodwill was discontinued from January 1, 2004. From this date, goodwill must be tested for impairment regularly once a year or more frequently if changes in circumstances indicate a possible impairment, and if applicable written down to the lower recoverable amount. For business acquisitions as of January 1, 2004, hidden reserves and burdens attributable to minority interests must be disclosed and reported as minority interests.

Investments accounted for under the equity method are treated in accordance with the principles applying to full consolidation, with any goodwill being included in the recognition of the investment, and unscheduled amortization of this goodwill being included in investment income. Any deviating accounting and measurement methods used in the financial statements' underlying equity valuation are retained as long as they do not substantially contradict the METRO Group's uniform accounting methods. Investments operating as marketing companies are carried as other assets under current assets and recognized in accordance with IAS 39 (Financial Instruments: Recognition and Measurement), as these companies will be dissolved once the marketing activities have been completed. Shares in non-consolidated group companies are also recognized in accordance with IAS 39. Any amounts written back or written down for shares in consolidated subsidiaries carried in the separate financial statements have been reversed in the consolidated accounts.

Intra-group profits and losses, revenues, expenses and income, as well as receivables and payables or liabilities among consolidated subsidiaries are eliminated. Interim results in assets or inventories from intra-group transfers are also eliminated unless they are of minor significance. Third-party debt is consolidated to the extent that the prerequisites for such consolidation are met. In accordance with IAS 12 (Income Taxes), deferred taxes are recognized for consolidated transactions affecting net income.

Currency translation

In the subsidiaries' separate financial statements, financial currency transactions are translated at the date of the transaction. Exchange losses incurred up to the closing date on the measurement of receivables and payables are reported; gains and losses from exchange rate fluctuations are recognized in income.

The financial statements of foreign subsidiaries are translated into euros according to the functional currency concept of IAS 21 (The Effects of Changes in Foreign Exchange Rates). Since all consolidated companies operate as financially, economically and organizationally independent entities, their respective local currency is the functional currency. Assets and liabilities are therefore translated at the average exchange rate on the closing date, whereas income statement items are translated at the annual average exchange rate.

Differences from the translation of the financial statements of non-German subsidiaries do not affect income and are shown as a separate item under reserves retained from earnings. Such currency differences are released to income in the year in which foreign subsidiaries are deconsolidated.

The financial statements of subsidiaries based in hyperinflationary economies are translated in accordance with IAS 29 (Financial Reporting in Hyperinflationary Economies). As with the income statement items, assets and liabilities are translated at the exchange rate on the closing date. This principle affects group companies based in Romania and Turkey.

Consequently, the expense and income items, including net income or loss for the year, corresponding to the changed general purchasing power are translated at the respective exchange rate on the closing date. The carrying amounts of the non-monetary balance sheet items of these companies were adjusted to the price changes in the fiscal year, prior to translation at the mean rate as per the balance sheet date on the basis of applicable indices to measure purchasing power. The purchasing power gains or losses resulting from the indexation are recognized as other financial income/expenses under other financial result.

The following exchange rates were applied in the translation of key currencies outside the European Monetary Union which are of major significance for the METRO Group:

	Average rate €		Closing rate €	
	2004	2003	2004	2003
Pound sterling	0.67846	0.69177	0.70505	0.70480
Bulgarian leva	1.95583	1.95583	1.95583	1.95583
Chinese renminbi	10.29068	9.35554	11.27342	10.45347
Danish kroner	7.43971	7.43074	7.43880	7.44500
Hong Kong dollar	9.68763	8.80628	10.54315	9.75505
Indian rupee	56.27849	52.56853	58.66650	57.58901
Japanese yen	134.38463	130.88843	139.65000	135.05000
Croatian kuna	7.49567	7.56387	7.66455	7.64954
Moroccan dirham	11.02682	10.82710	11.19815	11.06820
Moldavian leu	15.20096[1]	–	16.76400[1]	–
Polish zloty	4.53069	4.39812	4.08450	4.70190
Romanian leu	40,520.50000	37,535.69000	39,390.00000	41,158.00000
Russian rouble	35.81658	34.67045	37.60080	37.09790
Swiss franc	1.54399	1.52096	1.54290	1.55790
Serbian dinar	72.60083	65.45733	79.08030	68.48610
Singapore dollar	2.10162	1.96911	2.21345	2.14975
Slovak koruna	40.03454	41.49151	38.74500	41.17000
Czech koruna	31.90045	31.84784	30.46400	32.41000
Turkish lira	1,775,044.82000	1,694,716.68633	1,836,200.00000	1,771,638.00000
Ukrainian hrywnja	6.61086	6.05277	7.20275	6.66224
Hungarian forint	251.74755	253.55691	245.97000	262.50000
US dollar	1.24314	1.13592	1.36210	1.26300
Vietnamese dong	19,582.01000	17,589.53605	21,395.29000	19,715.43000

[1] First-time inclusion in the consolidated financial statements as per 31 Dec 2004

Accounting and measurement methods

Recognition of income and expenses

In principle, **net sales** and **other operating income** are reported upon rendering of the service or delivery of the goods or merchandise and hence upon transfer of the risk to the customer.

Operating expenses are recognized as expenses upon availment or causation.

As a rule, dividends are recognized when the legal claim to payment arises. Interest is recognized as a prorated income or expenses.

Intangible assets

In accordance with IFRS 3 (Business Combinations), goodwill from capital consolidation will be capitalized and tested for impairment regularly once a year – or more frequently if changes in circumstances indicate a possible impairment – and if applicable written down to the recoverable amount. No write-up is performed if the reasons for an unscheduled write-down in previous years have ceased to exist.

With the first-time application of IFRS 3, scheduled amortization is replaced by an impairment test, whereby book value is compared with the recoverable amount. The determination of the recoverable amount is based on the value in use, i.e. it is premised on the useful life as the cash value of expected future cash flows. Expected future cash flows are based on a competent planning process under consideration of the company's experience, as well as on macroeconomic data collected by sources outside of the company. The detailed planning period usually comprises three years. The growth rates considered at the end of the detailed planning period are usually 1 percent and thus below the long-term average growth rates for the respective countries or markets estimated externally. The capitalization rate as the weighted average cost of capital was derived from capital market data using the capital asset pricing model. The interest rates identified for the individual countries were between 6.3 percent and 9.1 percent.

Goodwill was tested for impairment on the level of the cash-generating unit (CGU). A CGU is defined as the smallest identifiable group of assets that generates cash flows largely independently from other assets or other groups of assets. For the METRO Group, these conditions are met for the organization unit sales division per country.

Purchased other intangible assets are recognized at cost. Internally generated intangible assets are capitalized at cost if the capitalization criteria of IAS 38 (Intangible Assets) are met. The cost therefore comprises all expenditure directly attributed or indirectly allocated to the manufacturing process. Financing costs and research expenses are not capitalized. Capitalized internally generated software – in line with purchased software – is amortized on a straight-line basis over a period of 3 to 5 years because of its finite useful life, with licenses being amortized over the term of the respective agreement. Non-scheduled amortization of the above-mentioned intangible assets is effected if the recoverable amount is below the amortized cost. The assets are written back if and when the reasons for non-scheduled amortization implemented in previous years have ceased to exist.

Intangible assets with an **indefinite useful life** are not written down on a straight-line basis but tested for impairment regularly once a year or more frequently if changes in circumstances indicate a possible impairment, and if applicable written down to the lower recoverable amount. They are written back if and when the reasons for an unscheduled write-down in previous years have ceased to exist.

Tangible assets

Tangible assets used in operations for a period of more than one year are recognized at cost less scheduled depreciation. The cost of internally generated assets includes both direct costs and appropriate portions of allocable overheads. Financing costs are not capitalized as a cost element. **Investment allowances** received and non-earmarked investment grants are offset against the cost of the corresponding asset. **Reinstatement obligations** are included in the cost at the discounted settlement amount. The capitalized reinstatement costs are proportionately depreciated over the useful life of the asset.

Tangible assets are depreciated solely on a straight-line basis. Throughout the group, scheduled depreciation is based on the following useful lives:

Buildings	10 to 33 years
Leasehold improvements	8 to 15 years or shorter rental contract duration
Business and office equipment	3 to 13 years
Machinery	3 to 8 years

Low-value assets are fully written off in their year of acquisition.

In accordance with IAS 17 (Leases), economic ownership of **leased assets** is attributable to the lessee if all the material risks and rewards incident to ownership of the asset are transferred to the lessee (finance lease). If economic ownership is allocable to METRO Group companies, the leased asset is capitalized at fair value or at the lower present value of the lease payments when the lease is signed. In analogy to the comparable purchased tangible assets, leased assets are depreciated over their useful lives or the lease term, if shorter. Future lease payments are carried as liabilities.

If there are any indications of impairment and if the recoverable amount is below the amortized cost, the assets are subjected to non-scheduled depreciation. They are written back if and when the reasons for non-scheduled depreciation have ceased to exist.

Financial assets

Financial assets are assets held by the METRO Group for more than one period for the purpose of capital appreciation, increases in the value of the capital employed or the establishment of business relations.

Financial assets that do not represent **associated companies** under IAS 28 (Accounting for Investments in Associates) are recognized in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). Depending on the classification required under IAS 39, financial investments are capitalized either at (amortized) cost or fair value, and recognized on the date of purchase.

Shares in not consolidated group companies, investments and long-term securities are assets to be classified as "available-for-sale financial assets." They are measured at cost for the first recognition period. If the fair value of these financial assets can be reliably determined in subsequent periods, they are recognized at their fair value; if there are no active markets and if the fair values cannot be determined without undue effort, they are recognized at (amortized) cost. **Loans** are classified as "loans and receivables originated by the company" and therefore measured at amortized cost. Financial assets designated as hedged items as part of a fair value hedge are recognized at their fair value.

Fluctuations in the value of "available-for-sale financial assets" are recognized at equity with no effect on income – taking account of deferred taxes, where applicable. The amounts recognized with no effect on income are not transferred to net income for the respective period until they are disposed of or a sustained impairment of the assets has occurred.

If there are any indications of impairment, the assets are written down to their lower recoverable amounts by way of a non-scheduled depreciation.

Inventories

Merchandise carried as **inventories** is reported at cost. As a rule, the cost is determined by means of the weighted average cost formula. Merchandise is measured as per closing date at the lower of cost or net realizable value.

Merchandise is written down on a case-by-case basis if the anticipated net realizable value declines below the carrying amount of the inventories. Such net realizable value corresponds to the anticipated estimated selling price less the estimated costs necessary to make the sale.

Inventories were measured as of December 31, 2004, using a precised identification of other cost of purchase, supplier discounts and net realizable value. There was no ensuing effect on income. From fiscal year 2005, there will be related structural shifts between sales costs and other operating income that will not have an impact on income.

When the reasons for a write-down of the merchandise have ceased to exist, the write-down is reversed.

Receivables and other assets

In accordance with IAS 39 (Financial Instruments: Recognition and Measurement), **trade receivables** are classified as "loans and receivables originated by the company" and recognized at cost. Where their recoverability appears doubtful, they are recognized at the lower recoverable amount. Besides the required specific bad-debt allowances, a lump-sum bad-debt allowance is carried to account for the general credit risk.

Other receivables and other assets classified as "loans and receivables originated by the company" under IAS 39 (Financial Instruments: Recognition and Measurement) are measured at amortized cost.

Other assets include inter alia investments and derivative financial assets to be classified as "held for trading" in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). They are measured at cost for the first recognition period. Where the fair values of these financial instruments can be reliably determined, such fair values are carried. Where no active markets exist and the fair values cannot be determined without undue effort, the assets are carried at amortized cost.

All other receivables and assets are recognized at cost.

If there are any indications of impairment, the assets are written down to the lower recoverable amount by way of a non-scheduled depreciation.

Cash and cash equivalents

Securities reported under **cash and cash equivalents** are classified as "held for trading" in accordance with IAS 39 (Financial Instruments: Recognition and Measurement) and are recognized at their fair values.

Deferred taxes

Deferred taxes are determined in accordance with IAS 12 (Income Taxes), according to which future tax benefits and liabilities are recognized for temporary differences between the carrying amounts of assets or liabilities in the balance sheet and their tax base. Anticipated tax savings from the use of tax loss carry-forwards expected to be recoverable in future periods are capitalized.

Deferred tax assets in respect of deductible temporary differences and tax loss carry-forwards exceeding the deferred tax liabilities in respect of taxable temporary differences are only recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Prepaid expenses and deferred income

Prepaid expenses and deferred income on the assets and liabilities side mainly include transitory deferrals.

Provisions

The actuarial measurement of pension provisions for company pension schemes is effected in accordance with the Projected Unit Credit Method stipulated by IAS 19 (Employee Benefits). This method takes account of pensions and pension entitlements known at the closing date as well as of future pay and pension increases. Any differences arising at year-end (so-called actuarial gains or losses) between pension commitments determined in this way and the actual net present value are only recognized if they fall outside of a range of 10 percent of the commitment. In that case, they are spread over the average residual service life of the employees with pension entitlements as of the subsequent year and recognized as income or expenses. The interest element of the transfer to the provision contained in the expenditure for pensions is shown as interest paid under the financial income. Other provisions for pensions and similar commitments are formed on the basis of actuarial valuations under IAS 19.

Other provisions are formed if and when de jure or de facto obligations to third parties that are based on past business transactions or events may result in an outflow of financial funds and can be reliably determined. They are stated at the anticipated settlement amount with due regard to all identifiable risks attached, and are not offset against any claims to recourse. The settlement amount with the highest possible likelihood of occurrence is used. Accrued long-term liabilities such as for deficient rental cover or reinstatement obligations are carried at their settlement amounts discounted to the balance sheet date.

Liabilities

In principle, all **financial debts** are reported at amortized cost using the effective interest method in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). Financial debts designated as the hedged item in a fair value hedge are carried as liabilities at their fair value. The fair values indicated for the financial debts have been determined on the basis of the interest rates applicable on the closing date for the remaining maturities and redemption structures.

In accordance with IAS 32 (Financial Instruments: Disclosure and Presentation), the equity and debt components of **compound financial instruments** (such as a convertible bond) are stated separately: the bond is recognized at the value that would have been generated by the issuance of a similar debt instrument without an equity component on the basis of the then prevailing market rates. Accordingly, the amount carried at equity – taking account of deferred taxes – equals the market value of the conversion or option right at the time the debt was originally issued. In subsequent periods, the debt component is reported under bonds at amortized cost after adding the interest portion of the period as of the balance sheet date. The (unchanged) equity component is retained in the capital reserves until the conversion/redemption.

Financial debts from finance leases are carried as liabilities at the present value of future lease payments.

Trade liabilities are recognized at amortized cost.

Other liabilities are carried at their settlement amounts unless they represent derivative financial assets which are recognized at their fair values under IAS 39 (Financial Instruments: Recognition and Measurement).

Contingent liabilities

Contingent liabilities are possible or present obligations arising from past events for which, however, an outflow of resources is not considered probable. According to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), such liabilities should not be recognized in the balance sheet but disclosed in the Notes.

Accounting for derivative financial instruments/hedge accounting

Derivative financial instruments are exclusively used to reduce risks. These derivatives are used in accordance with the guidelines established by the group.

In accordance with IAS 39 (Financial Instruments: Recognition and Measurement), all derivative financial assets are recognized at their fair values and shown under other receivables and assets or other liabilities.

Derivative financial assets are measured on the basis of inter-bank terms and conditions, possibly including the credit margin or stock exchange price applicable to the METRO Group. The bid and ask prices at the balance sheet date are applied. Where no stock exchange prices are used, the fair value is determined by means of acknowledged valuation models. The recognized fair values equal the amounts for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length agreement.

Gains and losses from derivative financial assets designated as qualified hedges in the framework of a fair value hedge or for which a qualified hedge relationship could not be established in accordance with the provisions of IAS 39 (Financial Instruments: Recognition and Measurement) and which, accordingly, did not qualify for hedge accounting, are carried in the income statement with an effect on income. Results from derivative financial assets for which a cash flow hedge has been formed and whose effectiveness has been established, are carried at equity with no effect on income up to the date of realization of the hedged transaction. Any potential changes in results due to the ineffectiveness of these financial instruments are recognized in the income statement with an immediate effect on income.

Accounting for stock option plans

To the extent that it makes economic sense, the stock option plans (SOP), stock appreciation rights (SAR) or similar rights granted under the stock-based compensation scheme are secured by hedging transactions. The cost of the hedges is spread proportionally over the term of the SOP/SAR and similar rights and recognized as personnel expenses. If the establishment of the hedge does not coincide with the granting of the rights, a prorated reserve amounting to the pro rata temporis value of the granted rights is formed. The market value is determined using the costs that would have been incurred if a hedge transaction had been concluded on the closing date.

Use of assumptions and estimates

The preparation of the consolidated financial statements was based on a number of assumptions and estimates which had an effect on the value and presentation of the reported assets, liabilities, income and expenses as well as contingent liabilities. These assumptions and estimates mainly related to the establishment of uniform useful lives, the measurement of provisions and feasibility of future tax savings. The actual values may deviate from the assumptions and estimates made in individual cases. Changes affecting income are taken into account at the time new information becomes available.

Notes to the consolidated income statement

1. Net sales

Breakdown of net sales:

€ million	2004	2003
Metro Cash & Carry	26,442	25,093
Real	8,182	8,205
Extra	2,545	2,773
Media Markt and Saturn	12,210	10,563
Praktiker	2,953	2,811
Kaufhof	3,768	3,819
Other companies[1]	309	331
	56,409	53,595

[1] The sales listed under other companies were mainly generated by the Dinea group at € 193 million (€ 180 million in the year before), the MGB METRO Group Buying HK Limited (formally the Gemex group) at € 86 million (€ 99 million in the year before) and MGE Warenhandelsgesellschaft mbH & Co. KG at € 27 million (€ 35 million in the year before).

€ 27.6 billion of net sales (€ 25.3 billion in the year before) were generated by group companies based outside of Germany.

For a breakdown of net sales by divisions and geographical regions, see the segment report.

2. Other operating income

€ million	2004	2003
Advertising services	448	310
Rents	439	414
Services/cost refunds	227	215
Central A/P clearing for sales divisions	80	81
Commissions	52	43
Gains from the disposal of fixed assets and from write-ups	21	30
Income from damages and indemnities	18	18
Income from sale-and-lease-back transactions	12	18
Income from construction services	9	40
Release of provisions	–	67
Release of other liabilities	–	49
Other	205	176
	1,511	1,461

Income from the release of provisions and the release of other liabilities (€ 105 million) has been reclassified as sales and administrative expenses and is thus not included under other operating income in 2004. Therefore, the € 50 million increase in other operating income results mainly from the omission of the

€ 116 million income reported in this item the year before and a € 138 million increase in income from advertising allowances and € 25 million more in rental income.

3. Selling expenses

€ million	2004	2003
Personnel expenses	5,439	5,223
Cost of materials	5,671	5,413
	11,110	10,636

The increase in selling expenses mainly results from the expansion of the Metro Cash & Carry as well as the Media Markt and Saturn sales divisions.

Selling expenses of the other sales divisions in fiscal 2004 also rose in line with sales. The cost of materials item primarily includes sales-related expenses for rent, depreciation, advertising and buildings (energy, maintenance, etc.).

In contrast to the year before, income from the release of reserves and other liabilities of € 67 million was classified as selling expenses rather than as other operating income.

4. General administrative expenses

€ million	2004	2003
Personnel expenses	563	544
Cost of materials	484	487
	1,047	1,031

Material costs include in particular expenses for consulting services, depreciation, rent as well as expenses for human resources management and costs for training and continuing education.

In contrast to the year before, income from the release of reserves and other liabilities of € 38 million was reclassified as administrative expenses rather than operating expenses.

5. Other operating expenses

Other operating expenses mainly include expenses for losses from disposals of fixed assets totaling € 35 million (€ 14 million the year before), necessary value adjustments for assets totaling € 17 million (previous year € 22 million) as well as expenses for construction services totaling € 4 million (previous year € 19 million).

Lower expenses for construction services are balanced against lower income from construction services in other operating income.

6. Amortization of goodwill

€ million	2004	2003
Amortization of goodwill from capital consolidation	–	259
Amortization of goodwill from separate financial statements	–	13
	–	272

Because of the first-time application of IFRS 3 (Business Combinations), no scheduled goodwill amortization was taken in fiscal 2004 (previous year € 272 million). The impairment tests carried out pursuant to IAS 36 (Impairment of Assets) showed that no writedown on goodwill was necessary. No unscheduled amortization was taken the year before either.

7. Net investment income

€ million	2004	2003
Income from affiliated companies	35	(3)
Other investment income	(4)	(57)
	31	(60)

Net investment income was a total of € 91 million higher than the year before.

Income from affiliated companies refers primarily to the proceeds from the sale of an affiliated company. For the remaining investment income, distributed profits of € 20 million were offset by expenses for real estate investments amounting to € 22 million.

As in the year before, net investment income was not affected by any "available-for-sale" financial assets in accordance with IAS 39 (Financial Instruments: Recognition and Measurement).

8. Net interest result

Net interest result can be broken down as follows:

€ million	2004	2003
Other interest and similar income	153	158
Interest and similar expenses	(416)	(366)
Interest portion of lease payments under finance leases	(165)	(162)
Interest portion of the transfers to pension provisions	(56)	(55)
	(484)	(425)

The consolidation of Asset Immobilienbeteiligungen GmbH & Co. KG as well as its subsidiaries on December 31, 2003 reduced interest result by € 93 million. On the other hand, lower financing interest rates had a positive impact.

9. Other financial result

€ million	2004	2003
Other financial income	227	202
Other financial expenses	(239)	(218)
	(12)	(16)

As in the year before, the other financial result item was not affected by any "available-for-sale" financial assets in accordance with IAS 39 (Financial Instruments: Recognition and Measurement).

10. Income taxes

Income taxes include taxes paid or due in the individual countries as well as deferred taxes. The German companies of the METRO Group are subject to an average trade earnings tax of 17.35 percent of trade earnings. This amount can be deducted when calculating corporate income tax. Corporate income tax amounts to 25.00 percent, plus a 5.50 percent solidarity surtax. The aggregate tax rate is 39.15 percent.

Deferred taxes are determined on the basis of the tax rates expected to apply in each country upon realization. In principle, the rates applied are those contained in currently valid laws or legislation that has been passed at the time of the closing date.

Non-German income tax is calculated on the basis of the respective laws and regulations applying in the individual countries. The income tax rates applied to foreign companies vary in a range from 10.00 percent to 42.30 percent.

€ million	2004	2003
Taxes paid or due	525	390
thereof in Germany	[172]	[122]
thereof abroad	[353]	[268]
Deferred taxes	(114)	(144)
	411	246

The actual tax expenses of € 411 million (€ 246 million the year before) are € 115 million lower (€ 74 million the year before) than the estimated income tax expenses of € 526 million (previous year € 320 million), which would have resulted if the German income tax rate had been applied to the group's taxable income for the year.

Tax expenses for the year include € 9 million in tax income resulting from new tax rates (previous year tax expenses of € 8 million).

Reconciliation of estimated to actual income tax expense:

€ million	2004	2003
Group earnings before taxes	1,344	817
Expected income tax expense (39.15 %)	526	320
Effects of differing national tax rates	(165)	(118)
Amortization of goodwill from capital consolidation	–	51
Tax expenses and income relating to other periods	31	(83)
Nondeductible business expenses	55	51
Other deviations	(36)	25
	411	246

Other deviations include tax effects from value adjustments for a deferred tax credit on losses carried forward and on temporary differences in amount totaling € 180 million (€ 55 million the year before).

In addition, deferred taxes of € 162 million were capitalized on an intangible asset from an internal restructuring measure in the hypermarket division that had not been deductible in the past.

11. Minority interests

The share of minority interests in profits amounted to € 117 million (€ 97 million the year before) and in losses to € 11 million (€ 22 million the year before). This mainly concerns profit/loss shares of minority interests in the Metro Cash & Carry and Media Markt and Saturn sales divisions.

12. Earnings per share

Earnings per share are determined by dividing group net income after minority interests by the number of shares outstanding. There was no dilution in fiscal 2004 or the year before from so-called potential shares.

	2004	2003
Weighted number of no-par value shares outstanding	326,787,529	326,787,529
Group net profit after minority interests due to METRO AG stockholders (€ million)	827	496
Earnings per share (€)	2.53	1.52

Adjusted for the elimination of scheduled goodwill amortization, earnings per share in 2003 were € 2.35.

13. Depreciation/amortization

€ million	2004	2003
Scheduled depreciation on tangible and intangible assets (includes goodwill amortization in 2003)	1,153	1,297
Write-downs on tangible and intangible assets	16	–
Write-downs on financial assets	3	15
	1,172	1,312

The non-scheduled write-downs include intangible assets worth € 10 million and tangible assets worth € 6 million. The amount shown for writedowns on financial investments relates to a € 3 million value adjustment on loans.

14. Cost of materials

The cost of sales includes the following cost of materials:

€ million	2004	2003
Cost of raw materials, supplies and goods purchased	43,647	41,448
Cost of services purchased	54	48
	43,701	41,496

15. Personnel expenses

Personnel expenses can be broken down as follows:

€ million	2004	2003
Wages and salaries	5,035	4,827
Social security payments, expenses for pensions and related employee benefits	1,127	1,075
thereof pension expenses	[44]	[38]
	6,162	5,902

Personnel expenses include the prorated expense for hedges totaling € 14 million (€ 11 million the year before) contracted by the METRO Group for the stock option programs (SOP/SAR) launched between 2000 and 2004. Provisions of € 3 million were formed for the unhedged portion for options, capital gains rights and similar rights.

Annual average number of group employees:

Number of employees	2004	2003
White collar	188,948	184,680
Blue collar	62,608	57,330
Apprentices/trainees	9,882	10,027
	261,438	252,037

The above figure includes an absolute number of 107,225 (previous year 107,063) part-time employees. On the basis of full-time equivalents, the percentage of employees working outside Germany rose to 46.8 percent from 44.3 percent the year before.

16. Other taxes

Other taxes of € 90 million (€ 80 million the year before) are included in the cost of sales and the selling and administrative expenses.

Notes to the consolidated balance sheet

17. Assets

€ million	Goodwill	Other intangible assets	Tangible assets	Financial assets	Total assets
Purchase or production cost					
Balance at 1 Jan 2004	3,987[1]	622	16,408	276	21,293
Currency translation	–	5	135	(1)	139
Change in group consolidation	–	6	141	(51)	96
Additions	6	120	1,471	73	1,670
Disposals	(2)	(44)	(739)	(90)	(875)
Transfers	(59)	60	(10)	(24)	(33)
Balance at 31 Dec 2004	3,932	769	17,406	183	22,290
Depreciation/amortization/write-down					
Balance at 1 Jan 2004	–[1]	296	5,918	38	6,252
Currency translation	–	2	45	–	47
Additions, scheduled	–	98	1,055	–	1,153
Additions, non-scheduled	–	10	6	3	19
Disposals	–	(32)	(436)	(41)	(509)
Write-ups	–	–	–	(24)	(24)
Transfers	–	–	(2)	36	34
Balance at 31 Dec 2004	–	374	6,586	12	6,972
Book value at 31 Dec 2004	3,932	395	10,820	171	15,318
Book value at 31 Dec 2003	3,987	326	10,490	238	15,041

[1] For the first application of IFRS 3 (Business Combinations), the beginning balance as of January 1, 2004 was calculated by subtracting accumulated goodwill amortization of € 1,874 million from total purchase costs of € 5,861 million.

18. Goodwill

Of the total goodwill of € 3,932 million as of December 31, 2004 (€ 3,987 million the year before), € 3,794 million of the amount (€ 3,853 million the year before) is the difference resulting from capital consolidation and € 138 million (€ 134 million the year before) is goodwill taken over from the separate financial statements of subsidiaries.

Goodwill-like assets (lease rights) in the amount of € 59 million with finite useful lives were transferred to the other intangible assets item.

As a result of the first-time application of IFRS 3 (Business Combinations), no scheduled amortization was made in fiscal 2004 (€ 272 million the year before).

As of the closing date, the breakdown of goodwill among the major business units was as shown below:

€ million	31 Dec 2004
Real Germany	1,083
Metro Cash & Carry France	401
Metro Cash & Carry Netherlands	351
Praktiker Germany	256
Metro Cash & Carry Hungary	239
Metro Cash & Carry Germany	223
Metro Cash & Carry Poland	213
Metro Cash & Carry Italy	171
Metro Cash & Carry Belgium	145
Media Markt and Saturn Germany	115
Extra Germany	110
Metro Cash & Carry Portugal	91
Media Markt and Saturn Italy	59
Kaufhof department stores Belgium	57
Metro Cash & Carry Spain	51
Metro Cash & Carry Greece	45
Praktiker Greece	43
Metro Cash & Carry Great Britain	37
Metro Cash & Carry Austria	27
Metro Cash & Carry Denmark	16
Praktiker Hungary	16
Others	183
Total	3,932

As in the year before, no unscheduled write-downs were required.

19. Other intangible assets

€ million	Concessions, franchises, trademarks and similar rights, licences and other such rights	[thereof internally generated intangible assets]	Prepayments	Total
Purchase or production cost				
Balance at 1 Jan 2004	609	[166]	13	622
Currency translation	5	[0]	0	5
Change in group consolidation	6	[0]	–	6
Additions	119	[67]	1	120
Disposals	(38)	[(3)]	(6)	(44)
Transfers	68	[0]	(8)	60
Balance at 31 Dec 2004	769	[230]	–	769
Depreciation/amortization/write-down				
Balance at 1 Jan 2004	296	[58]	–	296
Currency translation	2	–	–	2
Additions, scheduled	98	[37]	–	98
Additions, non-scheduled	10	–	–	10
Disposals	(32)	[(1)]	–	(32)
Write-ups	–	–	–	–
Transfers	–	–	–	–
Balance at 31 Dec 2004	374	[94]	–	374
Book value at 31 Dec 2004	395	[136]	–	395
Book value at 31 Dec 2003	313	[108]	13	326

The other intangible assets have a finite useful life and are therefore written down as scheduled. The non-scheduled amortization refers to rental rights whose realizable returns in 2004 have fallen below their amortized cost. No non-scheduled amortization was taken in the year before.

As in the year before, there are no material limitations to the title of or right to dispose of intangible assets. Purchasing obligations amounting to € 0.2 million for intangible assets were entered into. No such purchasing obligations were entered into the year before.

Goodwill-like assets (lease rights) with finite useful lives were transferred out of the goodwill item to other intangible assets. The net value amounts to € 59 million and will be written off over the next seven years.

20. Tangible assets

€ million	Land and buildings	Plant and machinery	Other plant, business and office equipment	Prepayments and assets under construction	Total
Purchase or production cost					
Balance at 1 Jan 2004	11,560	11	4,695	142	16,408
Currency translation	92	–	41	2	135
Change in group consolidation	141	–	–	–	141
Additions	424	1	561	485	1,471
Disposals	(329)	–	(401)	(9)	(739)
Transfers	206	–	84	(300)	(10)
Balance at 31 Dec 2004	12,094	12	4,980	320	17,406
Depreciation/write-down					
Balance at 1 Jan 2004	2,829	7	3,077	5	5,918
Currency translation	17	–	28	–	45
Additions, scheduled	510	1	544	–	1,055
Additions, non-scheduled	4	–	2	–	6
Disposals	(66)	–	(370)	–	(436)
Write-ups	–	–	–	–	–
Transfers	(18)	–	16	–	(2)
Balance at 31 Dec 2004	3,276	8	3,297	5	6,586
Book value at 31 Dec 2004	8,818	4	1,683	315	10,820
Book value at 31 Dec 2003	8,731	4	1,618	137	10,490

Additions to the changes in group consolidation item resulted mainly from real estate assets already rented when first consolidated (€ 77 million) or which were already rented under a finance lease (€ 52 million). The latter figure is the difference between the total value of the real estate assets of € 406 million minus capitalized finance leases amounting to € 354 million.

Additions to tangible assets resulted mainly from the opening of new Metro Cash & Carry stores as well as Media Markt and Saturn stores.

The disposals shown under land and buildings represent the real estate assets of Asset Immobilienbeteiligungen GmbH & Co. KG and its subsidiaries which were placed on the market at the beginning of the year.

The unscheduled write-downs shown for fiscal 2004 mainly come from the Kaufhof Department Store group and are related to the ending of the Emotions sales format. There were no unplanned write-downs in the year before.

Limitations on the disposal of tangible assets in the form of liens and encumbrances amounted to € 614 million (€ 681 million the year before). The property lien entered in the land register amounts to € 578 million (€ 586 million the year before).

Purchasing obligations for tangible assets in the amount of € 115 million (€ 12 million the year before) were entered into.

Assets used by the group under the terms of finance lease agreements were valued at € 1,608 million (€ 2,082 million the year before). The assets concerned are mainly leased buildings. Of the decrease compared to the year before, € 354 million is related to the above-mentioned first consolidation. The corresponding disposal of financial leasing obligations amounts to approximately € 420 million.

Finance leases generally had initial terms of between 15 and 25 years with options upon expiration to extend them at least once for another five years. The interest rates in the leases vary by market and date of signing between 2.9 percent and 14.9 percent.

In addition to finance leases, the METRO Group also has signed other types of leases classified as operating leases based on their economic value.

Payments due under financial and operating leases in the indicated periods are shown below:

€ million	within 1 year	1 to 5 years	over 5 years
Finance leases			
Future lease payments due (nominal)	280	988	1,998
Discounts	(17)	(193)	(966)
Present value	263	795	1,032
Operating leases			
Future lease payments due (nominal)	1,182	4,234	5,548

Payments due on finance leases contain payments amounting to € 131 million (€ 150 million the year before) for options to purchase assets at favorable prices.

The nominal value of future lease payments to the METRO Group coming from the subleasing of assets held under finance leases amounts to € 516 million compared to € 467 million the year before.

The nominal value of future lease payments to the METRO Group coming from the subleasing of assets held under operating leases amounts to € 1,289 million compared to € 1,618 million the year before.

The annual account contains payments made under leasing agreements amounting to € 1,286 million (€ 1,448 million the year before) and payments received under subleasing agreements amounting to € 438 million (€ 407 million the year before).

Lease payments due in the indicated periods from entities outside the METRO Group are shown below:

€ million	within 1 year	1 to 5 years	over 5 years
Finance leases			
Future lease payments due (nominal)	3	14	18
Discounts	0	(3)	(7)
Present value	3	11	11
Operating leases			
Future lease payments due (nominal)	28	73	58

The unrealized amount from the above finance leases is € 10 million (€ 13 million the year before), the non-guaranteed residual value amounts to € 1 million (€ 1 million the year before).

21. Financial assets

€ million	Shares in group companies	Loans	Investments	Long-term securities	Total
Cost of acquisition					
Balance at 1 Jan 2004	4	180	86	6	276
Currency translation	–	–	(1)	–	(1)
Change in group consolidation	5	(56)	–	–	(51)
Additions	–	73	–	–	73
Disposals	(5)	(41)	(44)	–	(90)
Transfers	2	(24)	(2)	–	(24)
Balance at 31 Dec 2004	6	132	39	6	183
Amortization/write-down					
Balance at 1 Jan 2004	1	8	29	–	38
Currency translation	–	–	–	–	–
Additions, scheduled	–	–	–	–	–
Additions, non-scheduled	–	3	–	–	3
Disposals	–	(39)	(2)	–	(41)
Write-ups	–	(7)	(17)	–	(24)
Transfers	–	36	–	–	36
Balance at 31 Dec 2004	1	1	10	–	12
Book value at 31 Dec 2004	5	131	29	6	171
Book value at 31 Dec 2003	3	172	57	6	238

The decrease in loans in the change in group consolidation is mainly due to the first-time consolidations of real estate items.

Disposals refer to shareholdings at Metro Cash & Carry, Real as well as Media Markt and Saturn sales divisions.

22. Inventories

€ million	31 Dec 2004	31 Dec 2003
Food merchandise	1,740	1,656
Nonfood merchandise	4,532	4,285
	6,272	5,941

Breakdown of inventories by sales division:

€ million	31 Dec 2004	31 Dec 2003
Metro Cash & Carry	2,053	1,927
Real	704	653
Extra	198	228
Media Markt and Saturn	1,853	1,671
Praktiker	609	586
Kaufhof	642	646
Other companies	213	230
	6,272	5,941

The increase in inventories in the Metro Cash & Carry as well as the Media Markt and Saturn sales divisions was due mainly to expansion. At Real and Extra there were inventory exchanges resulting from the takeover of Extra stores.

23. Trade receivables

Trade receivables amounted to € 355 million (€ 339 million the year before). Of that amount, € 0.3 million (€ 0.2 million the year before) is due in over one year.

24. Other receivables and other assets

€ million	31 Dec 2004 Total	31 Dec 2004 Of which due in over 1 year	31 Dec 2003 Total	31 Dec 2003 Of which due in over 1 year
Due from suppliers	1,096	–	1,023	–
Tax receivables	404	1	397	1
Other assets	802	239	641	163
	2,302	240	2,061	164

The values for the financial instruments included in the above items are their market value.

As in the year before, there are no material limitations to the title of or right to dispose of the trade receivables or other assets shown in this section.

25. Cash and cash equivalents

€ million	31 Dec 2004	31 Dec 2003
Checks and cash on hand	101	113
Bank balances	2,006	1,468
Other short-term deposits	23	12
	2,130	1,593

The increase in cash and cash equivalents is due to expansion. As at the closing date, financial management did not invest all of the money taken in by METRO AG.

26. Deferred taxes

Deferred taxes resulting from temporary differences and unutilized tax losses totaling € 316 million (€ 136 million the year before) were not capitalized. They mainly concern tax losses and tax losses carried forward in foreign countries which probably cannot be used. Of the uncapitalized deferred taxes, € 173 million applies to domestic companies and € 143 million applies to foreign companies where the realization of the deferred tax claims cannot be viewed as certain at this time.

The capitalized deferred taxes apply to the following items:

€ million	31 Dec 2004 asset	31 Dec 2004 liability	31 Dec 2003 asset	31 Dec 2003 liability
Intangible assets	515	116	370	98
Tangible assets	117	807	65	858
Financial assets	9	13	12	5
Inventories	49	21	51	4
Receivables and other assets	28	74	10	63
Pension provisions and similar commitments	113	4	136	2
Other provisions	77	14	45	25
Liabilities	947	15	1,023	22
Loss carry-forwards	570	–	584	–
Total from separate financial statements	2,425	1,064	2,296	1,077
Deferred taxes from consolidation	49	392	216	505
Offset	(947)	(947)	(1,056)	(1,056)
	1,527	509	1,456	526

Equity was lowered by deferred taxes amounting to € 11 million (€ 15 million the year before). This did not have any impact on earnings.

27. Prepaid expenses and deferred charges

Prepaid expenses and deferred charges consists of rent, lease and interest prepayments as well as other prepayments. Of the total prepaid expenses and deferred charges, € 53 million have a remaining term of one year or less. The increase over the year before is due primarily to prepayments of rents due under leasing agreements signed in China and Russia.

28. Equity

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:

Category: no-par bearer shares, accounting par value € 2.56		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. Details of the stock option plan can be found under no. 45.

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 paragraph 1 number 8 sentence 5, 186 paragraph 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 paragraph 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 paragraph 1, number 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 paragraph 1, number 2 AktG).

Reserves retained from earnings

€ million	31 Dec 2004	31 Dec 2003
Legal reserve	29	25
Statutory reserve	48	48
Valuation reserve pursuant to IAS 39 (incl. deferred taxes)	17	(1)
Reserve for currency translations	(43)	(124)
Other reserves	475	331
	526	279

Reserves retained from earnings include valuation effects with no effect on net income pursuant to IAS 39 (Financial Instruments: Recognition and Measurement) plus deferred taxes thereon. In the fiscal year under review, a total of € 18 million (previous year € 7 million) were reported under equity with no effect on net income, including an amount of € 17 million (previous year € 6 million) accounted for by financial derivatives within cash flow hedges and € 1 million (previous year € 1 million) by assets classified as "available for sale." As in the previous year, results were not affected by assets classified as "available for sale."

Equity was increased by € 81 million (previous year € 91 million reduction) due to currency translation differences. The increase of equity due to currency is primarily attributable to Poland, Turkey, Romania, Hungary and the Czech Republic.

The remaining increase in revenue reserves resulted mainly from the transfer of the remained 2003 net income after dividends to the other revenue reserves.

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.

Mandatory disclosures pursuant to §§ 21 paragraph 1, 22 paragraph 1, number 1 and 2 WpHG (German Securities Trading Act)

METRO AG is controlled by Metro Vermögensverwaltung GmbH & Co. KG and other companies of the majority stockholders Beisheim, Haniel and Schmidt-Ruthenbeck. The stockholders have ensured the uniform exercise of their rights from the METRO AG majority shareholding by means of a contractual agreement. For further details of the announcements made in 2002 and 2004, see the notes to the respective METRO AG financial statements.

Dividend distribution proposal

In accordance with § 58 paragraph 2 AktG (German Stock Corporation Act), dividend distribution by METRO AG is based on METRO AG's net profit for the year reported in the annual financial statements prepared under German commercial law. The Supervisory and Management Boards of METRO AG propose to the annual general meeting to pay from the reported net income of € 356.0 million a dividend of € 1.020 per share of common stock and € 1.122 per share of preferred stock for a total of € 333.6 million and to carry the remaining amount of € 22.4 million forward to the new account. The retained earnings of € 356.0 million include profit carried forward from the previous year of € 11.7 million.

29. Minority interests

Minority interests are the share of third parties in the capital stock of the consolidated subsidiaries. At year end, minority interests amounted to € 207 million compared with € 188 million the year before. Significant minority interests exist in the Media-Saturn-Holding GmbH.

30. Provisions for pensions and other commitments

€ million	31 Dec 2004	31 Dec 2003
Pension provisions (employer's commitments)	574	584
Provisions for indirect commitments	210	180
Provisions for transferring benefits	83	78
Provision for voluntary pension benefits	4	4
Provisions for company pension plans	871	846
Other provisions for obligations similar to pensions	135	166
	1,006	1,012

Pension obligations for the most part consist of benefits arising under the **company pension plan**. There are defined benefit plans directly from the employer (employer's commitments) and defined benefit plans from external providers (benevolent funds in Germany and pension funds abroad), which are financed partly or wholly by funds in accordance with IAS 19 (Post Employment Benefits). The benefits under the different plans are based on performance and length of service, furthermore the length of service benefits are guaranteed certain fixed amounts. New employees are not covered by the company pension plan.

The above pension commitments are valued on the basis of actuarial calculations using the legal, economic and tax circumstances of each country. The commitments exist almost exclusively in the European area. They are calculated on the basis of an assumed rate of interest of 4.75 percent (5.50 percent the year before), average wage and salary increases of 2.50 percent (2.50 percent the year before) and average pension increases of 1.20 percent (1.20 percent the year before). The employee turnover rate is determined separately for each business taking age/length of service into account. The actuarial assumptions and calculations are based on country-specific mortality tables.

Changes in the net present value of defined benefit obligations (DBO) and external plan assets are shown in the table below:

€ million	2004	2003
Net present value (DBO)		
Balance at 1 January	1,640	1,541
Change in group consolidation	109	13
Interest expense	94	86
Service cost	37	33
Past service cost	1	–
Pension payments	(107)	(97)
Actuarial gains (-)/losses (+)	154	64
Balance at 31 December	1,928	1,640

€ million	2004	2003
Changes in plan assets		
Balance at 1 January	589	569
Change in group consolidation	86	–
Expected return on plan assets	38	31
Pension payments	(65)	(54)
Employer contributions incl. vesting balances	62	65
Actuarial gains (+)/losses (-)	34	(22)
Balance at 31 December	744	589

€ million	2004	2003
Funding level		
Net present value DBO, provision-financed	718	657
Net present value DBO, partly or wholly fund-financed	1,210	983
Subtotal	1,928	1,640
Market value of plan assets	(744)	(589)
Balance at 31 December	1,184	1,051
Not yet recognized actuarial gains (+)/losses (-)	(341)	(234)
Past service cost	(12)	(13)
Net debt balance at 31 December	831	804

The increase in actuarial losses resulted almost exclusively from the adjustment of the assumed interest rate from 5.50 percent to 4.75 percent.

The provisions for company pension plans in the amount of € 871 million (€ 846 million the year before) are netted against assets for indirect pension plans in Great Britain and the Netherlands in the amount of € 40 million (€ 42 million the year before) leaving a net liability of € 831 million (€ 804 million the year before).

The pension expenses of the direct and indirect company pension plans consist of the service costs which include the cost of sales, selling expenses, general administrative expenses, and the interest expense shown in the financial results. The pension expenses are shown below:

€ million	2004	2003
Interest expense on net present value DBO	94	86
Expected return on plan assets	(38)	(31)
Effective interest expenses	56	55
Service cost[1]	31	28
Past service cost	1	1
Recognized actuarial gains (-)/losses (+)	13	7
	101	91

[1] Including setoff of contributions made by employees

The **other provisions for similar pension obligations** item includes mainly commitments from early retirement/pre-retirement part time plans, employment anniversary allowances and death benefits. The commitments are valued on the basis of actuarial calculations. In principle, the parameters used are identical to those used in the company pension plan (see above).

31. Other provisions

In the year under review, other provisions changed as follows:

€ million	Real-estate related obligations	Obligations from merchandise trading	Restruc-turing	Tax risks	Other provisions	Total
Balance at 1 January 2004	113	116	39	197	293	758
Currency translation	0	0	0	0	0	0
Addition	41	76	30	56	111	314
Release	(15)	(9)	(2)	(8)	(48)	(82)
Utilization	(20)	(68)	(20)	(89)	(97)	(294)
Change in group consolidation	0	–	–	0	0	0
Interest portion in addition/ change in interest rate	1	–	–	–	–	1
Transfers	(7)	4	0	–	3	0
Balance at 31 December 2004	113	119	47	156	262	697
thereof due within one year	[26]	[75]	[32]	[31]	[146]	[310]

The addition to the real estate related obligations item mainly relates to uncovered rental commitments resulting from the closure of business sites.

The main components of the obligations from merchandise trading are reserves for rebates from the Payback sales promotion plan in the amount of € 67 million (€ 71 million the year before) and reserves for guarantee services in the amount of € 34 million (€ 23 million the year before).

An addition of € 30 million to the restructuring reserves was made due to the focus on the Extra sales division.

The other reserves item contains mainly litigation costs/risks amounting to € 44 million (€ 43 million the year before) as well as surety and guarantee risks of € 30 million (€ 82 million the year before).

32. Liabilities

€ million	31 Dec 2004 total	Remaining term up to 1 year	Remaining term 1 to 5 years	Remaining term over 5 years	31 Dec 2003 total
Bonds	3,157	164	2,248	745	2,758
Due to banks	1,634	466	653	515	1,566
Note loans	582	206	376	–	582
Notes payable	347	347	–	–	303
Liabilities from finance leases	2,083	202	671	1,210	2,593
Total financial debts	7,803	1,385	3,948	2,470	7,802
Trade payables	10,771	10,767	4	–	9,907
Tax liabilities	722	722	–	–	741
Prepayments received on orders	20	20	–	–	19
Payroll	799	781	18	–	663
Liabilities from other financial transactions	109	83	12	14	142
Miscellaneous liabilities	595	489	98	8	532
Other liabilities	2,245	2,095	128	22	2,097
	20,819	14,247	4,080	2,492	19,806

33. Financial debts

The Debt Issuance Programme was begun in the year 2000 to provide **long-term financing**. The nominal amount to be raised was originally set at € 3 billion in 2003 but this figure was raised to € 5 billion. Under this program, bonds with maturities of up to 30 years can be issued under German or UK law in any currency. In 2004 bonds with a total value of € 1.25 billion were issued. These included a 4.625 % bond issue in May 2004 with a face value of € 600 million and a maturity of 7 years. The amount of this issue was raised in July 2004 by another € 150 million. In addition, a floating rate bond with a face value of € 500 million and a five-year maturity was issued in October 2004. Proceeds from this bond are for the purpose of buying back € 436 million of a € 750 million floating rate bond set to mature in May 2006.

The following table shows the maturity structure of the outstanding bond debt. The book and fair values indicated include the interest accrued when the maturity is less than one year.

Funding	Currency	Total amount issued in million currency	Remaining term	Par values 31 Dec 2004 € million	Book values 31 Dec 2004 € million	Fair values 31 Dec 2004 € million
Debt Issuance Programme	EUR	77	up to 1 year	77	164	163
		2,193	1 to 5 years	2,193	2,212	2,250
		750	over 5 years	750	745	825
	JPY	–	up to 1 year	–	0	0
		5,000	1 to 5 years	36	36	37
		–	over 5 years	–	–	–
	CZK	–	up to 1 year	–	0	0
		9	1 to 5 years	0	0	0
		–	over 5 years	–	–	–

The following table depicts the interest rate structure of the bonds issued:

Funding	Interest terms	Currency	Fixed interest period	Weighted interest rate when issued	Total amount issued in million currency
Debt Issuance Programme	Fixed interest bonds	EUR	up to 1 year	5.01	48
			1 to 5 years	5.31	1,371
			over 5 years	4.63	750
		JPY	up to 1 year	–	–
			1 to 5 years	1.32	5,000
			over 5 years	–	–
		CZK	up to 1 year	–	–
			1 to 5 years	10.50	9
			over 5 years	–	–
	Floating rate bonds	EUR	up to 1 year	2.52	29
			1 to 5 years	2.71	822
			over 5 years	–	–

Interest rates on floating rate bonds are adjusted at intervals of less than one year.

In addition to bonds, bank loans, note loans and finance leasing agreements are used as sources of long-term financing.

Note loans have an average fixed interest rate of 5.57 percent. The following table shows the maturity structure and the book value of the accrued interest due in less than one year:

Funding	Currency	Issue volume in million currency	Remaining term	Par values 31 Dec 2004 € million	Book values 31 Dec 2004 € million	Fair values 31 Dec 2004 € million
Note loans	EUR	184	up to 1 year	184	206	207
		376	1 to 5 years	376	376	405
		–	over 5 years	–	–	–

The decrease in debt from financial leasing agreements relates primarily to the first consolidation of real estate items. See no. 20 for more information.

For **short and medium-term financing**, the METRO Group uses ongoing capital market issuance programs such as the Euro Commercial Paper Program begun in 1999 with an authorized volume of up to € 3 billion. Another Commercial Paper Program was begun in May of 2003 to tap up to € 1 billion. This amount was increased by another € 1 billion in June 2004 to attract additional investors in the French capital market. The average amount utilized by the two programs was € 1.3 billion in 2004 compared with € 1.2 billion in the year before.

In addition, the METRO Group has access to syndicated credit lines totaling € 4,498 million with terms ending between July 2005 and November 2008. If the credit lines are used, the interest rates range between +35.0 to +46.25 basis points above EURIBOR. The average amount drawn on the credit lines in 2004 was € 1,023 million.

The contract terms for the syndicated credit lines provide for a 5 to 7.5 basis point decrease in the spread if the METRO Group's credit rating is raised one step. If the rating is lowered by one step, the spread would increase by between 9 to 12.5 basis points.

Additional bilateral bank facilities totaling € 2,667 million were available to the METRO Group as at December 31, 2004 (€ 3,247 million the year before). Of this amount, € 1,511 million had a remaining term of one year or less compared to € 1,460 million the year before. At the closing date, € 1,634 million had been utilized (€ 1,566 million the year before). Of this amount, € 466 million have a remaining term of one year or less compared to € 467 million the year before.

Bills of exchange totaling € 347 million (€ 303 million the year before) were used for short term-financing.

The METRO Group in principle does not provide collateral for financial liabilities. An exception was made in 2003 due to the first consolidation of the Asset Immobilienbeteiligungen GmbH & Co. KG and its subsidiaries. As at December 31, 2004, real collateral in the amount of € 578 million (€ 586 million the year before) had been put up for their real estate portfolio.

The largest creditor holds 12 percent of the total due to banks plus note loans. This is the same percentage as the year before. If a creditor no longer provides credit to the METRO Group, the loss can be covered at any time by the unused portion of existing credit facilities and/or of existing money and capital market programs. The METRO Group therefore is exposed to no significant risk from the loss of a creditor.

34. Trade payables

Amounts shown for the trade payables are essentially their market values. As in the year before, most of these liabilities are due within one year. Trade payables rose in line with sales and the increase resulted mainly from the expansion of the Metro Cash & Carry as well as the Media Markt and Saturn sales divisions.

35. Other liabilities

Miscellaneous liabilities includes a number of individual items such as liabilities to non-group companies, liabilities from rental contracts and costs for the annual accounts.

Amounts shown for financial instruments are essentially their market values.

36. Deferred income

Deferred income includes mainly the prorated book gains from sale and lease-back transaction in accordance with IAS 17 (Leases) which are released to income over the lifetime of the underlying lease. In fiscal 2004, a scheduled € 12 million was booked compared to € 18 million the year before.

Of the total deferred income, € 32 million (€ 27 million the year before) had a remaining term of one year or less.

Other notes

37. Notes to the consolidated cash flow statement

In accordance with IAS 7 (Cash Flow Statement), the consolidated statement of cash flows describes changes in the group's liquid funds through cash inflows and outflows during the year under review.

The consolidated cash flow statement distinguishes between changes in cash levels from operating activities, investment and financing activities. Cash and cash equivalents include checks and cash on hand as well as bank deposits.

For the year under review, net cash provided by operating activities amounted to € 2,888 million (€ 3,096 million the year before). Aside from markedly higher cash outflows for income tax payments, which rose to € 562 million from € 107 million the year before, the group recorded cash outflows of € 102 million (cash inflows of € 264 million the year before) for other operating activities. Cash inflows from changes in net operating assets rose sharply to € 534 million from € 330 million a year earlier.

Investment activities resulted in cash outflows of € 1,336 million in fiscal 2004 (€ 1,220 million the year before). At € 1,694 million, cash outflows from investments were € 265 million higher than a year earlier. Divestments generated cash inflows of € 358 million (€ 209 million the year before). The amount of investment in tangible assets stated as cash outflows differs from the addition reported in the analysis of fixed assets by the non-cash additions from finance leases.

Cash flow from financing activities shows cash outflows of € 1,026 million during the year under review compared to € 1,820 million the year before. The decline results chiefly from the inclusion in the year-earlier figure of the financing of Asset Immobilienbeteiligungen GmbH & Co. KG and its subsidiaries (AIB group).

38. Segment reporting

Segment reporting has been carried out in line with IAS 14 (Segment Reporting). The segmentation corresponds to the group's internal controlling and reporting structures. Details on the segments are included in the Management Report and the chapter on "Brands."

Primary reporting is carried out by division. Secondary reporting distinguishes between the regions Germany, western Europe excluding Germany, eastern Europe and other countries.

- External sales represent sales of the divisions to third parties outside the group.
- Internal sales represent sales between the group's divisions.
- EBITA as the key ratio for segment reporting describes earnings for the period before unscheduled goodwill amortization, net financial income, special items and income taxes. Due to the elimination of scheduled goodwill amortization, EBITA replaced EBIT as the key ratio for segment reporting.
- Segment EBITDA comprises EBITA before depreciation of tangible assets and intangible assets.
- The segments' operating assets include intangible, tangible and current assets (excluding cash and cash equivalents). Derivative goodwill is allocated among the divisions.
- Segment liabilities include each segment's portion of non-interest bearing liabilities and reserves.
- Segment investments refer to intangible assets (including acquired goodwill), tangible assets and financial investments.
- Depreciation relates to segment assets allocated to the individual divisions. Due to the elimination of scheduled goodwill amortization starting in 2004, figures for the year before were adjusted for better comparability and therefore include no scheduled goodwill amortization.
- Transfers between segments are made at arm's length prices.

PRIMARY SEGMENTS (DIVISIONS)

€ million	Cash & Carry 2004	Cash & Carry 2003	Food retail[1] 2004	Food retail[1] 2003
External sales (net)	26,442	25,093	10,727	10,978
Internal sales (net)	143	185	1	1
Sales revenues (net)	26,585	25,278	10,728	10,979
EBITDA	1,279	1,200	306	362
EBITA	962	904	139	179
Net financial income	28	(30)	(66)	(68)
Amortization/depreciation	317	299	168	191
Capital expenditure	619	737	128	214
Operating assets	10,458	10,009	3,370	3,502
Non-interest bearing liabilities	5,168	4,872	1,471	1,453
No. of employees on closing date (full-time basis)	88,607	81,268	45,908	47,455
Selling space (in 1,000 m^2)	3,952	3,725	2,885	2,896
Locations (number)	504	475	742	755

[1] In 2003, € 11 million in income from the sale of stores to Real was eliminated at Extra.
[2] 2003 includes the assumption of restructuring expenses for the administration of Extra totaling € 12 million.

SECONDARY SEGMENTS (REGIONS)

€ million	Germany 2004	Germany 2003	Western Europe excluding Germany 2004	Western Europe excluding Germany 2003
External sales (net)	28,790	28,300	17,188	16,264
Internal sales (net)	13	18	1	135
Sales revenues (net)	28,803	28,318	17,189	16,399
EBITDA	1,500	1,357	964	932
EBITA	783	736	701	689
Net financial income	292	(308)	15	31
Amortization/depreciation	720	636	263	244
Capital expenditure	926	1,049	359	417
Operating assets	13,435	13,575	8,715	7,489
Non-interest bearing liabilities	7,445	7,132	4,461	4,154
No. of employees on closing date (full-time basis)	112,194	112,044	45,823	43,108
Selling space (in 1,000 m^2)	7,540	7,414	2,369	2,260
Locations (number)	1,741	1,733	425	394

Nonfood specialty stores 2004	Nonfood specialty stores 2003	Department stores 2004	Department stores 2003	Other/ consolidation[2] 2004	Other/ consolidation[2] 2003	METRO Group 2004	METRO Group 2003
15,163	13,374	3,768	3,819	309	331	56,409	53,595
1	2	8	5	(153)	(193)	–	–
15,164	13,376	3,776	3,824	156	138	56,409	53,595
711	571	199	249	483	233	2,978	2,615
510	383	56	99	142	25	1,809	1,590
15	(11)	(44)	(44)	(398)	(348)	(465)	(501)
201	189	143	150	343	211	1,172	1,040
311	273	119	104	619	509	1,796	1,837
6,196	5,103	1,312	1,323	2,338	2,883	23,674	22,820
4,884	4,109	1,021	967	1,302	1,422	13,846	12,823
51,811	45,836	20,412	20,890	10,686	10,565	217,424	206,014
3,494	3,263	1,473	1,457	95	95	11,899	11,436
842	775	147	148	210	217	2,445	2,370

Eastern Europe 2004	Eastern Europe 2003	Other countries 2004	Other countries 2003	Consolidation 2004	Consolidation 2003	METRO Group 2004	METRO Group 2003
9,352	8,053	1,079	978	–	–	56,409	53,595
–	–	726	624	(740)	(777)	–	–
9,352	8,053	1,805	1,602	(740)	(777)	56,409	53,595
580	412	(1)	(18)	(65)	(68)	2,978	2,615
414	278	(29)	(45)	(60)	(68)	1,809	1,590
(22)	(13)	(8)	(11)	(742)	(200)	(465)	(501)
166	134	28	26	(5)	–	1,172	1,040
458	298	53	73	–	–	1,796	1,837
4,447	3,327	613	580	(3,536)	(2,151)	23,674	22,820
1,953	1,490	300	281	(313)	(234)	13,846	12,823
49,838	42,373	9,569	8,489	–	–	217,424	206,014
1,703	1,514	287	248	–	–	11,899	11,436
242	212	37	31	–	–	2,445	2,370

39. Management of financial risks

The finance department of METRO AG manages the financial risks of the METRO Group. These include, in particular,

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

Price risks

For METRO AG, price risks result from the impact of changes in market interest rates or exchange rates on the fair value of a financial instrument.

Interest rate risks are caused by potential changes in the fair value of financial instruments due to changes in market interest rates. Interest rate swaps and interest limitation agreements are used to cap these interest rate risks.

The METRO Group faces currency risks in its international procurement of merchandise and because of costs that are incurred in a currency other than the relevant local currency or are pegged to the price of another currency. The resulting currency risk exposure must be hedged at the time it is incurred. Forex futures, interest rate swaps and currency swaps are used in these cases to limit currency risks.

Interest and currency risks are substantially reduced and limited by the principles laid down in the internal treasury guidelines of the METRO Group. These include, for example, a regulation that is applicable throughout the group whereby all hedging operations must adhere to predefined limits and may by no means lead to increased risk exposure. The METRO Group is aware that this severely limits the opportunities to exploit current or expected interest rate and exchange rate movements to improve results.

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.

At closing date the following derivative financial instruments were being used for risk containment:

€ million	Nominal volume	31 Dec 2004 Fair values Financial assets	Financial liabilities	Nominal volume	31 Dec 2003 Fair values Financial assets	Financial liabilities
Interest rate transactions						
Interest rate swaps	3,190	61	55	2,477	52	92
within fair value hedges	[1,198]	[50]	[–]	[1,203]	[38]	[–]
within cash flow hedges	[1,095]	[0]	[33]	[1,095]	[0]	[60]
Interest limitation agreements	0	0	0	0	0	0
within fair value hedges	[–]	[–]	[–]	[–]	[–]	[–]
within cash flow hedges	[0]	[0]	[0]	[0]	[0]	[0]
	3,190	61	55	2,477	52	92
Currency transactions						
Forex futures	905	6	28	685	4	26
within fair value hedges	[–]	[–]	[–]	[9]	[0]	[–]
within cash flow hedges	[310]	[1]	[22]	[255]	[1]	[25]
Interest rate/currency swaps	238	14	25	231	13	18
within fair value hedges	[36]	[0]	[12]	[37]	[0]	[11]
within cash flow hedges	[–]	[–]	[–]	[(8)]	[0]	[–]
	1,143	20	53	916	17	44
Total	4,333	81	108	3,393	69	136

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

The nominal volume of the forex futures transactions and interest limitation agreements is determined by the net position of amounts bought and sold underlying the individual transactions. The nominal volume of the interest rate swaps and interest rate/currency swaps and the interest rate hedging agreements is reported at gross values.

The derivative financial instruments have the following maturities:

€ million			Fair values
	up to 1 year	1 to 5 years	Maturities over 5 years
Interest rate transactions			
Interest rate swaps	(39)	59	(14)
within fair value hedges	[1]	[49]	[–]
within cash flow hedges	[(33)]	[0]	[–]
Interest limitation agreements	–	0	–
within fair value hedges	[–]	[–]	[–]
within cash flow hedges	[–]	[0]	[–]
Currency transactions			
Forex futures	(22)	0	0
within fair value hedges	[–]	[–]	[–]
within cash flow hedges	[(21)]	[0]	[–]
Interest rate/currency swaps	–	(11)	–
within fair value hedges	[–]	[(12)]	[–]
within cash flow hedges	[–]	[–]	[–]
Total	(61)	48	(14)

Listed below the maturities are the fair values of the financial assets and liabilities that fall due during these periods.

Floating interest rates are adjusted at intervals of less than one year.

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 short period of time. Other parameters include the historical market data for the past 100 days and a 99 percent confidence level.

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. The necessary information is provided by means of a rolling group financial forecast, updated quarterly, and checked monthly for deviations. This financial forecast with a planning horizon of 12 months is complemented by a short-term, weekly rolling 14-day liquidity plan.

Funding needs are met by a mix of money market and capital market instruments (time deposits, call money, commercial paper and bonds sold as part of ongoing 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.

Further details on financial instruments and credit lines are provided by the explanatory notes under the respective balance sheet items.

Intra-group cash pooling reduces the amount of debt and optimizes the money market and capital market investments of the METRO Group, 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.

In addition, 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 through 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.

Creditworthiness risks

Creditworthiness risks may arise from the total or partial loss of a counterparty, for example through bankruptcy, in connection with monetary investments and derivative financial instruments 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, which are based mainly on the ratings of international rating agencies and internal credit assessments. An individual limit is allocated to every partner of METRO Group; compliance is constantly monitored by the treasury systems.

The following table shows a breakdown of counterparties by credit ratings:

Rating classes			Volume in %					
			Monetary investments					
Grade	Moody's	Standard & Poor's	Germany	Western Europe excl. Germany	Eastern Europe	Asia and rest	Derivatives with positive market values	Total
Investment Grade	Aaa	AAA	0.0	2.8	0.0	0.0	0.0	
	Aa1 to Aa3	AA+ to AA-	22.2	19.3	0.1	0.2	1.6	
	A1 to A3	A+ to A-	22.5	19.2	3.2	0.6	1.2	
	Baa1 to Baa3	BBB+ to BBB-	1.7	0.9	1.8	0.2	0.0	97.5
Non Investment Grade	Ba1 to Ba3	BB+ to BB-	0.0	0.0	0.2	0.1	0.0	
	B1 to B3	B+ to B-	0.0	0.0	0.5	0.0	0.0	
	C	C	0.0	0.0	0.0	0.0	0.0	0.8
No rating			0.0	0.9	0.8	0.0	0.0	1.7
Total			46.4	43.1	6.6	1.1	2.8	100.0

The table shows that as of the closing date 97 percent of the capital investment volume, including the positive market value of derivatives, had been placed with investment-grade counterparties, in other words, those with good or very good credit ratings.

Most of the counterparties that do not yet have an internationally accepted rating are respected financial institutions whose creditworthiness can be considered flawless based on our own analyses. The METRO Group also operates in countries where local financial institutions do not have investment-grade ratings due to the rating of their country. For reasons of national and tax law as well as cost and efficiency considerations, cooperation with these institutions is, however, unavoidable. These institutions account for less than 1 percent of the total volume.

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

Cash flow risks

A future change in interest rates may cause cash flow from variable interest rate asset and debt items to fluctuate. Part of the variable interest rate debt has been hedged with derivative financial instruments. 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.

The finance department also 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 45 percent variable and 55 percent fixed interest. However, this surplus does not result in a noteworthy interest rate risk for the METRO Group. The use of appropriate financing instruments makes it possible for the interest profile to adjust to the underlying original financial transactions in order to reach the above-mentioned benchmark.

40. Contingent liabilities and other contingencies

€ million	31 Dec 2004	31 Dec 2003
Liabilities from suretyships and guarantees	40	82
Liabilities from guarantee and warranty contracts	587	982
	627	1,064

The decline in contingent liabilities and other contingencies primarily relates to suretyships and guarantees for liabilities of the Divaco group, which have been eliminated.

41. Other financial obligations

€ million	31 Dec 2004	31 Dec 2003
Commitments from stock tender rights	167	156
Purchasing/sourcing commitments	8	97
Other	52	480
	227	733

The reduction in purchasing/sourcing commitments results chiefly from progress made in the construction of several new buildings at the Düsseldorf location (project "Stadtkante Düsseldorf").

The reduction in other obligations results primarily from the elimination of credit commitments for the interim financing of property rented by group companies.

42. Stockholdings

The list of stockholdings of METRO AG pursuant to § 313 HGB (German Commercial Code) is filed with the commercial register of the District Court of Düsseldorf (HRB 39473). It is also available from METRO AG on request.

43. Events after the balance sheet date

As part of its efforts to streamline the location portfolio of Extra supermarkets, the METRO Group in November 2004 sold 119 Extra supermarkets with effect from January 1, 2005.

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 28, 2005 (release of the annual report for publication).

44. Notes on related parties

In the years 2004 and 2003, the METRO Group maintained the following business relations to related companies:

	Goods/services provided		Goods/services received	
€ million	2004	2003	2004	2003
Supplies and other services	1	1	109	110

In the previous year, the METRO Group acquired stakes in three cash & carry companies through the exercise of stock tender rights to optimize the domestic distribution network. These stakes were sold by third parties and companies belonging to the group of related companies.

In 2004, one related company repaid € 0.9 million to these three cash & carry companies from settlements dating back to the time prior to the change in ownership.

Business relations with related companies are based on contractual agreements providing for arm's length prices.

The METRO Group does not maintain any business relations with any related persons.

45. Stock-based compensation for executive staff

In 1999, METRO AG introduced a program for stock-based remuneration. The members of the Management Board and other top executives of METRO AG as well as executives of selected group companies are eligible.

The executives of METRO AG and the cross-divisional service companies obtain options from the stock option program (SOP). The executives of the sales divisions obtain stock appreciation rights (SAR), which, when exercised, will result in a cash payment.

Participation in the stock option program gives participants the right to acquire METRO AG common stock at a previously determined price for a set period of time. The exercise terms and conditions of the stock option plan, as agreed by the Management Board, stipulate that the company grant the qualifying SOP beneficiaries a cash compensation in lieu of the delivery of new common stock, which is equal to the difference between the opening price and the applicable closing price of Metro stock at the time the options are exercised.

The stock options and stock appreciation rights held in the group during the fiscal year changed as follows:

	2004		2003	
	SOP units	SAR units	SOP units	SAR units
Outstanding at 1 Jan	1,957,863	3,835,525	1,760,068	2,961,825
Issued	–	–	526,475	1,537,500
Exercised	–	–	–	–
Expired	481,170	679,765	328,680	663,800
Outstanding at 31 Dec	1,476,693	3,155,760	1,957,863	3,835,525

The rights can be exercised during a one-year window following the ending of a three-year blocking period. The rights may only be exercised if the stock price of METRO AG exceeded the strike price by at least 30 percent (exercise hurdle) during the last 20 consecutive trading days before the options are exercised after the end of the blocking period.

The first exercise period for the rights of the 2000 tranche began at the end of the first banking day in Frankfurt after the annual general meeting of METRO AG in May 2003 and ended eight weeks after the annual general meeting in 2004. These rights expired at the end of the exercise period.

The conditions of the tranches issued so far are listed in the following table:

				SOP		SAR	
Tranche	Expiry dates	Basis price €	Exercise hurdle €	31 Dec 2004 Units outstanding	31 Dec 2003 Units outstanding	31 Dec 2004 Units outstanding	31 Dec 2003 Units outstanding
2000	8 weeks after AGM in 2004	44.14	from 57.38	–	399,645	–	552,015
2001	8 weeks after AGM in 2005	43.72	from 56.84	380,010	399,685	626,225	661,050
2002	8 weeks after AGM in 2006	28.73	from 37.35	604,783	632,058	1,135,535	1,186,235
2003	8 weeks after AGM in 2007	26.99	from 35.09	491,900	526,475	1,394,000	1,436,225
				1,476,693	1,957,863	3,155,760	3,835,525

The stock-based compensation for Management Board members is outlined in detail under no. 46.

In August 2004, the METRO Group introduced a five-year stock bonus program to replace the stock option program.

In contrast to the previous granting of subscription rights, this program foresees the entitlement to stock bonuses, whereby the size of the cash bonus depends on the performance of the Metro stock price and the parallel consideration of sector-specific benchmark indices.

The stock bonus program is divided into a tranche for each year, with the target parameters being calculated separately for each tranche. The maturity of each tranche is three years. The last tranche will be granted in 2008.

The size of the bonus depends on the ratio of opening price and target price. The opening price is determined eight weeks after the respective annual general meeting of METRO AG. It corresponds to the average price of the Metro stock during the last 30 days before the closing date. The target price is calculated based on the opening price and assumes a stock price increase of 15 percent over the course of three years. The bonus increases or decreases respectively when the stock price exceeds or falls below the 15 percent price target. The stock bonus is granted only if the terms of employment within the METRO Group have not been ended unilaterally or a contract termination has been agreed by mutual consent at the time of maturity.

The conditions of the tranches granted so far are listed in the following table:

Tranche	Due date	Basis price	Target price	Target bonus
2004	August 2007	€ 37.14	€ 42.71	€ 23,795,000

46. Supervisory Board and Management Board

Supervisory Board compensation

Aside from the reimbursement of cash expenses, the members of the Supervisory Board of METRO AG receive a fixed payment and a performance-based payment. The total compensation of all members of the Supervisory Board amounted to about € 1.6 million (subject to statutory VAT) for fiscal year 2004. The fixed and performance-based pay components accounted for about € 0.9 million and € 0.7 million, respectively. The performance-based compensation is payable after the end of METRO AG's annual general meeting on May 18, 2005.

The following individual sums apply (in €):

€	Fixed compensation	Performance based compensation
Prof. Dr. Theo Siegert, Chairman (from June 2004)	61,250	45,136
Günther Hülse †, Chairman (until June 2004)	52,500	38,688
Klaus Bruns, Vice Chairman	70,000	51,584
Dr. Wulf H. Bernotat	35,000	25,792
Prof. Dr. Dr. h. c. Klaus Brockhoff	35,000	25,792
Volker Claus	52,500	38,688
Ulrich Dalibor	52,500	38,688
Prof. Dr. Dr. h. c. Erich Greipl	35,000	25,792
Marliese Grewenig	35,000	25,792
Jürgen Hennig	35,000	25,792
Anja Kiehne-Neuberg	35,000	25,792
Werner Klockhaus	52,500	38,688
Dr. Klaus Mangold	35,000	25,792

€	Fixed compensation	Performance based compensation
Dr. Karlheinz Marth	52,500	38,688
Marianne Meister	35,000	25,792
Dr. rer. pol. Klaus von Menges	35,000	25,792
Dr.-Ing. e. h. Dipl.-Ing. Bernd Pischetsrieder	35,000	25,792
Sylvia Raddatz	35,000	25,792
Renate Rohde-Werner	35,000	25,792
Dr. jur. Hans-Jürgen Schinzler	52,500	38,688
Dr. Manfred Schneider	52,500	38,688

Beyond this, the members of the Supervisory Board were not granted any remuneration or benefits for work performed, in particular consulting and brokerage services, on behalf of other companies of the METRO Group.

The individual size of fixed and performance-based Supervisory Board remuneration takes into account the duties and responsibilities of the individual Supervisory Board members by consideration of special assignments. The compensation of the Chairman of the Supervisory Board is three times as high as that of an ordinary member of the Supervisory Board, that of the Vice Chairman and the Chairmen of the Committees is twice as high, and that of the other members of the committees one and a half times as high, respectively. A Supervisory Board member that holds several offices only receives compensation for one office, in the case of different levels of remuneration for the most highly paid office.

Performance-based remuneration is based on earnings before taxes and minority interests in the 2004 consolidated financial statements of METRO AG (EBT 2004).
Further details on the remuneration of Supervisory Board members are provided in the Articles of Association of METRO AG, which are available on the Internet at www.metrogroup.de.

Management Board compensation
Management Board member remuneration is part of an integrated compensation system for executives of the METRO Group. It provides performance incentives to achieve a sustained increase in economic value added. It includes a fixed and two variable components. The individual components stand in appropriate relation to the duties of the respective Management Board member, his personal performance, the performance of the Management Board as a whole and the financial situation of METRO AG.

Economic Value Added (EVA). A management and control instrument measuring the value creation of the METRO Group anchors value orientation in the decisions of the Management Board and the executives. The growth of enterprise value is measured by NOPAT after deduction of the cost of capital (EVA). The variable component of Management Board remuneration depends to a large degree on improvements in economic value added (EVA). The variable remuneration components of senior employees are also tied to increases in EVA in their respective areas of responsibility. Balanced compensation systems focus not only on the short-term, but also the medium- and long-term development of enterprise value. This is why the annual bonus entitlements from the EVA compensation system are combined with a medium-term bonus bank. The calculated bonus for one year is only paid fully up to the target bonus. Any bonus amount in excess of the target bonus is initially credited to the bonus bank. A fixed percentage of the bonus bank deposit is paid out each year, the remaining amount is carried forward. A negative bonus results in a reduction of bonus bank deposits. The bonus bank thus fosters sustained value creation.

Stock-based compensation. Aside from the fixed and EVA-based components, stock-option programs and similar schemes represent the third pillar of Management Board remuneration. These are related to the stock price movement and the sustained success of the METRO Group and measure up to ambitious relevant benchmarks. The actual receipt of such compensation presupposes the fulfillment of all preconditions of the respective program.

Compensation in fiscal year 2004. The **compensation (fixed remuneration and EVA-based entitlements)** of the Management Board amounted to € 8.9 million. The fixed and performance-based components accounted for € 3.2 million and € 5.7 million, respectively.

The following individual sums apply:

€ 1,000	Fixed remuneration	EVA-based entitlements	Total
Dr. Hans-Joachim Körber	995	2,067	3,062
Zygmunt Mierdorf	776	1,453	2,229
Stefan Feuerstein	800	1,098	1,898
Thomas Unger	600	1,098	1,698
Total	3,171	5,716	8,887

Due to the bonus bank system, the full payout of EVA-based compensation 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 (€ 0.6 million).

Pursuant to the resolution of the annual general meeting in 1999, the members of the Management Board obtained **stock options** in fiscal years 2000 to 2002. **Stock bonus** entitlements were awarded in fiscal 2003. Stock options/stock bonuses from previous years did not fall due in fiscal year 2004. Details on the stock options and stock bonuses are provided in the previous years' annual reports.

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 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). 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 opening 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 change 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 bonuses from the 2004 tranche are as follows:

€ 1,000	
Dr. Hans-Joachim Körber	400
Zygmunt Mierdorf	330
Stefan Feuerstein	330
Thomas Unger	330
Total	1,390

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 € 0.2 million.

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

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

Separate notes and disclosures pursuant to § 292 a HGB (German Commercial Code)

48. Accounting, measurement and consolidation methods deviating from German legislation

The main deviations of these consolidated financial statements from German legislation relate to the following accounting, measurement and consolidation methods:

- Assets and liabilities from future income tax benefits and liabilities must be recognized according to the balance sheet liability method of IAS 12 (Income Taxes) by applying the tax rates relevant to any future realization of such tax benefits or charges; this also includes the obligation to recognize deferred tax assets on unused tax losses and unused tax credits, provided that the realization of this benefit is reasonably certain.

- Leased tangible assets must be capitalized in accordance with IAS 17 (Leases) and the resulting liabilities recognized to the extent required by IFRS criteria on the economic ownership of the assets, which deviate from HGB.

- Pension reserves and similar obligations are assessed in accordance with the projected unit credit method under IAS 19 (Employee Benefits) and duly take into account future pay and pension increases.

- Under IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), longer-term reserves are recognized at the settlement amount discounted to the closing date of the balance sheet.

- Under IAS 38 (Intangible Assets), internally generated intangible assets are capitalized at cost and written down over their useful lives on a straight-line basis.

- Primary and derivative financial instruments are stated in the balance sheet as assets and liabilities in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). Depending on their classification, some of the financial instruments must be recognized at their fair value, even though this may exceed their (historical) cost of acquisition. In addition, IAS 39 provides for special recognition of qualified hedges in the balance sheet with the consequence that, in some cases, the fluctuations in value are recognized in equity with no effect on the result.

- According to IFRS 3 (Business Combinations), the disclosure of hidden reserves during first-time consolidation is not restricted to the cost of acquisition of the stake. Since January 1, 2004, goodwill created in the context of capital consolidation is no longer written down on a straight-line basis, but tested for inpairment regularly once a year or more frequently if changes in circumstances indicate a possible impairment, and if applicable written down to the lower recoverable amount. Under IAS 27 (Consolidated Financial Statements and Accounting for Investments in Subsidiaries), interests of other stockholders (minority interests) are reported on the liabilities side in a separate item outside of equity capital.

49. 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 and published it on the Internet home page of METRO AG (www.metrogroup.de).

50. Election to be exempt from §§ 264 para. 3 and 264 b HGB

Having fulfilled the exemption requirements according to § 264 para. 3 and § 264 b HGB, the following domestic subsidiaries in the legal form of stock corporations or partnerships have elected to be exempt from disclosing their annual financial statements for 2004 as well as mostly from their (HGB) Notes and Management Report.

a) Operative companies and service entities	
A LA CARTE Warenvertriebsgesellschaft mbH	Düsseldorf
Allkauf SB-Warenhaus GmbH & Co. KG	Mönchengladbach
Axxe Reisegastronomie GmbH	Cologne
BMH Baumarkt Holding GmbH	Kirkel
C + C Schaper GmbH	Hanover
Deutsche Gesellschaft für Anlageverwaltung mbH	Düsseldorf
Dinea Gastronomie GmbH	Cologne
Emotions GmbH	Cologne
Extra Verbrauchermärkte Management GmbH	Alzey
Gemini Personal Service GmbH	Cologne
GPM Consulting GmbH & Co. KG	Düsseldorf
Kaufhaus Kerber GmbH & Co. KG	Fulda
Kaufhof Warenhaus AG	Cologne
Kaufhof Warenhaus am Hauptbahnhof Berlin GmbH	Berlin
Kaufhof Warenhaus Rostock GmbH	Rostock
KIM GmbH	Cologne
Lust for Life Gastronomie GmbH	Cologne
MDH Secundus GmbH & Co. KG	Düsseldorf
MDL METRO Group Distribution Logistics GmbH & Co. KG	Sarstedt
Meister feines Fleisch – feine Wurst GmbH & Co. KG	Gäufelden-Nebringen
Metro Cash & Carry Deutschland GmbH	Düsseldorf
Metro Cash & Carry Eastern Europe GmbH	Düsseldorf
Metro Cash & Carry International Holding GmbH	Düsseldorf
Metro Cash & Carry International GmbH	Düsseldorf
Metro Cash & Carry Western Europe GmbH	Düsseldorf
Metro Dritte Gesellschaft für Vermögensverwaltung mbH	Düsseldorf
Metro Einzelhandel Holding GmbH	Düsseldorf
Metro Großhandelsgesellschaft mbH	Düsseldorf
Metro International Beteiligungs GmbH	Düsseldorf
Metro Kaufhaus und Fachmarkt Holding GmbH	Düsseldorf
Metro Leasing GmbH	Saarbrücken
Metro Luxemburg Holding GmbH	Düsseldorf
Metro Online GmbH	Düsseldorf
Metro SB-Großmärkte GmbH & Co. KG Esslingen	Esslingen
Metro SB-Großmärkte GmbH & Co. KG Linden-Großen-Linden	Linden-Großen-Linden
Metro Sechste Gesellschaft für Vermögensverwaltung mbH	Düsseldorf

MFM METRO Group Facility Management GmbH	Düsseldorf
MGA METRO Group Advertising GmbH	Düsseldorf
MGB METRO Group Buying GmbH	Düsseldorf
MGC METRO Group Clearing GmbH	Düsseldorf
MGE Warenhandels GmbH & Co. KG	Düsseldorf
MGI METRO Group Information Technology GmbH	Düsseldorf
MGL METRO Group Logistics GmbH	Düsseldorf
MGP METRO Group Account Processing GmbH	Kehl-Sundheim
MGS METRO Group Services Holding GmbH	Düsseldorf
MGT METRO Group Travel Services GmbH	Düsseldorf
MIB METRO Group Insurance Broker GmbH	Düsseldorf
MIP METRO Group Intellectual Property Management GmbH & Co. KG	Düsseldorf
MTT METRO Group Textiles Transport GmbH	Düsseldorf
Multi-Center Warenvertriebs GmbH & Co. KG	Böblingen
Praktiker Bau- und Heimwerkermärkte AG	Kirkel
Praktiker Baumärkte GmbH	Kirkel
Praktiker GmbH	Kirkel
Praktiker Vierte Baumärkte GmbH	Kirkel
Real Holding GmbH	Alzey
Real International Holding GmbH	Alzey
Real Multi-Markt Warenvertriebs-GmbH & Co. KG	Alzey
Real SB-Warenhaus GmbH	Alzey
SIG Import GmbH & Co. KG	Düsseldorf
Sportarena GmbH	Cologne
Varena – Lagerhaus GmbH	Unna
WestBTL Handel-Beteiligungs GmbH	Düsseldorf

b) Real estate companies

Adagio Grundstücksverwaltungsgesellschaft mbH	Saarbrücken
Adolf Schaper GmbH & Co. Grundbesitz KG	Saarbrücken
ALS Grundstücksverwaltung GmbH	Saarbrücken
ALS Grundstücksverwaltung GmbH & Co. Objekt-KG	Saarbrücken
Ariston Grundstücksverwaltung GmbH & Co. Vermietungs-KG	Saarbrücken
Asset Grundbesitz GmbH	Cologne
Asset Immobilienbeteiligungen GmbH	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Aachen, Adalbertstr. 20-30 KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Aachen II KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Aschaffenburg KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Bergen-Enkheim KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Bonn, Acherstr. KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Chemnitz KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Cottbus KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Darmstadt KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Dortmund KG	Saarbrücken

Asset Verwaltungs-GmbH & Co. Objekt Düren KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Düsseldorf, Königsallee 1 KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Frankfurt Hauptwache KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Frankfurt Konstablerwache KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Freiburg im Breisgau KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Gäufelden KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Gelsenkirchen KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Hamburg-Poppenbüttel, Kritenbarg 10 KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Hanau KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Hannover KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Hof KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Kassel KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Kassel, Obere Königstraße KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Köln, Minoritenstraße KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Köln, Schildergasse 94-96a KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Köln-Kalk, Kalker Hauptstr. 118-122 KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Lüdenscheid KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Mainz KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Mönchengladbach KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Mülheim/Ruhr KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt München, Marienplatz KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt München, Pelkovenstr. 155 KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Nürnberg, Königstr. 42-52 KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Offenbach KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Saarbrücken, Bahnhofstr. 82-92, 98-100 KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Siegburg KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Stuttgart, Königstr. 6 KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Stuttgart-Bad Cannstadt, Badstraße, Marktstraße 3 KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Wetzlar KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Wohnanlage Frankfurt KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Würzburg KG	Saarbrücken
BAUGRU Immobilien-Beteiligungsgesellschaft mbH & Co. Grundstücksverwaltung KG	Saarbrücken
Dalos Beteiligungs GmbH & Co. Vermietungs-KG	Munich
Deutsche SB-Kauf GmbH & Co. KG	Saarbrücken
Dorina Immobilien-Vermietungsgesellschaft mbH	Cologne
FZB Fachmarktzentrum Bous Verwaltungsgesellschaft mbH & Co. KG	Munich
FZG Fachmarktzentrum Guben Verwaltungsgesellschaft mbH & Co. Vermietungs-KG	Saarbrücken
GBS Gesellschaft für Unternehmensbeteiligungen mbH	Saarbrücken
Gewerbebau Flensburg GmbH	Flensburg
Gewerbebau Flensburg GmbH & Co. Objekt Fachmarktzentrum KG	Flensburg
GKF Vermögensverwaltungsgesellschaft mbH & Co. 10. Objekt-KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. 21. Objekt-KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. 22. Objekt-KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. 24. Objekt-KG	Saarbrücken

GKF Vermögensverwaltungsgesellschaft mbH & Co. 25. Objekt-KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. 3. Objekt-KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. 6. Objekt-KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. 8. Objekt-KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Gewerbegrundstücke KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Grundstücksverwaltung KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Bochum Otto Str. KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Braunschweig C&C KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Bremerhaven-Pferdebade KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Brühl KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Castrop-Rauxel KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Edingen-Neckarhausen KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Freiburg KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Fulda KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Gießen KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Hamburg-Neuwiedenthal KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Hannover-Linden KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Hannover-Misburg KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Hannover-Ricklingen KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Hannover-Südstadt KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Herne KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Herten KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Hildesheim KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Hildesheim-Senking KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Hillesheim KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Krefeld-Fischeln KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Kronach KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Lahr KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Neuwied KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Nürnberg KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Paderborn KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Rastatt KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Rinteln KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Rüsselsheim KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Stuttgart/Deizisau KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Trier KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt WEZ Dortmund KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Wiesbaden KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Wiesbaden-Nordenstadt KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Vermietungs- und Handels-KG	Saarbrücken
Horten GmbH	Düsseldorf
Horten Verwaltungs GmbH & Co. Objekt Duisburg KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Aachen KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Braunschweig KG	Saarbrücken

Horten Verwaltungs GmbH & Co. Objekt Bremen KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Düsseldorf Berliner Allee KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Düsseldorf Carschhaus KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Erlangen KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Gießen KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Hamburg KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Hamm KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Hannover KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Heidelberg KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Heilbronn KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Hildesheim KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Ingolstadt KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Kempten KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Krefeld KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Ludwigshafen KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Moers KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Münster KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Neumünster KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Nürnberg KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Oldenburg KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Osnabrück KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Pforzheim KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Regensburg KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Reutlingen KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Schwäbisch Gmünd KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Schweinfurt KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Stuttgart KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Trier KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Ulm KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Wiesbaden KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Witten KG	Saarbrücken
Immopol GmbH & Co. KG	Pöcking
Kaufhof Warenhaus am Alex GmbH	Berlin
Kaufhof Warenhaus Neubrandenburg GmbH	Saarbrücken
Lerus Verwaltung GmbH & Co. Objekt Duisburg KG	Saarbrücken
Lerus Verwaltung GmbH & Co. Objekt Kleve KG	Saarbrücken
Lerus Verwaltung GmbH & Co. Objekt Marl KG	Saarbrücken
Lerus Verwaltung GmbH & Co. Objekt Nordhausen und Magdeburg KG	Munich
Lerus Verwaltung GmbH & Co. Objekt Riesa KG	Munich
Lerus Verwaltung GmbH & Co. Objekt Schönebeck KG	Munich
Lerus Verwaltung GmbH & Co. Objekt Schwelm KG	Munich
Lerus Verwaltung GmbH & Co. Objekt Stolberg KG	Munich
Lerus Verwaltung GmbH & Co. Objekt Vermietungs-KG	Saarbrücken
Lerus Verwaltung GmbH & Co. Objekt Voerde und Kamen KG	Saarbrücken

LSR Grundstücksverwaltungs GmbH & Co. KG	Suhl
METRO Group Asset Management GmbH & Co. KG	Saarbrücken
METRO Group Asset Management Services GmbH	Saarbrücken
Metro Handels GmbH	Saarbrücken
MTE Grundstücksverwaltung GmbH & Co. Objekt Duisburg oHG	Pöcking
Nigra Verwaltung GmbH & Co. Objekt Elfte Vermietungs-KG	Munich
Nigra Verwaltung GmbH & Co. Objekt Fünfundzwanzigste Vermietungs-KG	Munich
Nigra Verwaltung GmbH & Co. Objekt Neunte Vermietungs-KG	Munich
Nigra Verwaltung GmbH & Co. Objekt Bonn KG	Munich
Nigra Verwaltung GmbH & Co. Objekt Detmold KG	Munich
Nigra Verwaltung GmbH & Co. Objekt Dresden-Heidenau KG	Munich
Nigra Verwaltung GmbH & Co. Objekt Eschweiler KG	Pöcking
Nigra Verwaltung GmbH & Co. Objekt Frankenthal-Einkaufszentrum KG	Munich
Nigra Verwaltung GmbH & Co. Objekt Frankenthal-Studernheim KG	Munich
Nigra Verwaltung GmbH & Co. Objekt Germersheim KG	Munich
Nigra Verwaltung GmbH & Co. Objekt Hannover Fössestraße KG	Munich
Nigra Verwaltung GmbH & Co. Objekt Kassel oHG	Munich
Nigra Verwaltung GmbH & Co. Objekt Kulmbach KG	Munich
Nigra Verwaltung GmbH & Co. Objekt Langendreer KG	Munich
Nigra Verwaltung GmbH & Co. Objekt Moers KG	Munich
Nigra Verwaltung GmbH & Co. Objekt Neunkirchen KG	Munich
Nigra Verwaltung GmbH & Co. Objekt Oberhausen oHG	Munich
Nigra Verwaltung GmbH & Co. Objekt Rendsburg KG	Pöcking
Nigra Verwaltung GmbH & Co. Objekt Saarbrücken KG	Munich
Nigra Verwaltung GmbH & Co. Objekt Salzgitter KG	Munich
Nigra Verwaltung GmbH & Co. Objekt Überlingen KG	Munich
Nigra Verwaltung GmbH & Co. Vierzehnte Vermietungs-KG	Munich
Nigra Verwaltung GmbH & Co. Zehnte Vermietungs-KG	Munich
Nodal Beteiligungs GmbH & Co. Vermietungs-KG	Munich
Rutil Verwaltung GmbH & Co. SB-Warenhaus Bielefeld KG	Munich
Schaper Grundbesitzverwaltungsgesellschaft mbH	Saarbrücken
Secundus Grundstücksverwertungs-GmbH & Co. Objekt Stuttgart-Königstr. KG	Cologne
STW Grundstücksverwaltung GmbH	Saarbrücken
Wirichs Immobilien GmbH	Saarbrücken
Wolfgang Wirichs GmbH	Saarbrücken
Zarus Verwaltung GmbH & Co. Dritte Vermietungs-oHG	Munich
Zarus Verwaltung GmbH & Co. Objekt Braunschweig Berliner Str. KG	Munich
Zarus Verwaltung GmbH & Co. Objekt Davenstedter Str. 80 KG	Munich
Zarus Verwaltung GmbH & Co. Objekt Düren oHG	Saarbrücken
Zarus Verwaltung GmbH & Co. Objekt Mutterstadt KG	Pöcking
Zarus Verwaltung GmbH & Co. Objekt Niedersachsen KG	Munich
Zarus Verwaltung GmbH & Co. Objekt Osnabrück KG	Munich
Zentra-Grundstücksgesellschaft mbH	Saarbrücken

51. 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, 28 February 2005

THE MANAGEMENT BOARD

Dr. Körber

Feuerstein Mierdorf Unger

Overview of major group companies

Name	Head office	Stake %	Equity[1] € 1,000
METRO AG	Düsseldorf		4,633,321
Metro Kaufhaus und Fachmarkt Holding GmbH	Düsseldorf	100.00	3,508,269
Metro Einzelhandel Holding GmbH	Düsseldorf	100.00	2,107,296
Cash & Carry			
Metro Cash & Carry International GmbH	Düsseldorf	100.00	3,159,714
Metro Cash & Carry International Holding GmbH	Düsseldorf	100.00	3,830,060
Hypermarkets			
Real Holding GmbH	Alzey	100.00	639,809
Consumer electronics centers			
Media-Saturn-Holding GmbH	Ingolstadt	75.41	185,393
Home improvement and DIY centers			
Praktiker Bau- und Heimwerkermärkte AG	Kirkel	100.00	775,701
Department stores			
Kaufhof Warenhaus AG	Cologne	100.00	168,726
Other companies			
METRO Group Asset Management GmbH & Co. KG	Saarbrücken	49.00[2]	159,594
MGB METRO Group Buying GmbH	Düsseldorf	100.00	51,223
MIAG C.V.	Diemen/NL	100.00	550,001
Dinea Gastronomie GmbH	Cologne	100.00	8,238
MDL METRO Group Distribution Logistics GmbH & Co. KG	Sarstedt	100.00	5,153
MGI METRO Group Information Technology GmbH	Düsseldorf	100.00	94,299

[1] Calculated in accordance with local accounting standards.
[2] METRO AG holds 75 percent of the voting rights.

Auditor's opinion

We have duly audited the consolidated financial statements of METRO AG consisting of the consolidated balance sheet, the consolidated income statement, the statement of changes in stockholders' equity, the consolidated cash flow statement and the notes thereto for the fiscal year from January 1, 2004 to December 31, 2004. The preparation and contents of the consolidated financial statements fall within the responsibility of METRO AG's Management Board. Our task, based on the audit performed by us, is to express an opinion on whether the consolidated financial statements are in conformity with the International Financial Reporting Standards (IFRS).

We have conducted our audit of the consolidated financial statements in accordance with German audit regulations and with due regard to the generally accepted standards on the auditing of financial statements as established by the IDW, the institute of auditors and certified public accountants in Germany, as well as with additional regard to the International Standards on Auditing (ISA). These standards require the audit to be planned and executed in such a way that reasonable assurance is obtained on whether the consolidated financial statements are free from any material misstatements. 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 audit also includes, on a sampling basis, evidence supporting the amounts reported and the disclosures made in the consolidated financial statements. Furthermore, it involves an assessment of the accounting principles used and the major assumptions made by the Management Board as well as an appreciation of the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonably reliable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view, in accordance with IFRS, of the group's net assets, financial position and results of operations as well as cash flow during the fiscal year under review.

Our audit, which also covered the group management report from January 1, 2004 to December 31, 2004, has not led to any reservations. In our opinion, the group management report, together with the other information provided in the consolidated financial statements, provides a suitable understanding of the company's position and suitably presents the risks of future performance. In addition, we confirm that the consolidated financial statements and the group management report for the fiscal year from January 1, 2004 to December 31, 2004 satisfy the requirements for exempting the company from preparing consolidated financial statements and a group management report in accordance with German law.

Duisburg, 28 February 2005

FASSELT & PARTNER
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Dr. Kußmann	Müller-Kemler
Auditor	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 formed 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 146 of the annual report for the group.

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 published an updated version of the Corporate Governance Code in Spring 2004, in which the company specifies 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 section 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 certificate.

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	Common stock	Preferred stock
Code numbers	725 750	725 753
ISIN codes	DE 000 725 750 3	DE 000 725 753 7
Reuters codes	MEOG.DE	MEOG_p.DE
Bloomberg codes	MEO GR	MEO3 GR

Stock markets Frankfurt, Düsseldorf, Xetra

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www.saturn.de

Praktiker Bau- und Heimwerkermärkte AG
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Kaufhof Warenhaus AG
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www.galeria-kaufhof.de

Glossary

Overview of important terms used in the annual report 2004

Concept optimization

Concept optimization is a permanent task. Under the guideline terms of “customer focus“ and “earnings improvement“ the objective, among others, is to continuously increase the efficiency of business processes, improve and modernize the outlet chains, convert stores to innovative marketing concepts and intensify measures of customer retention. Activities aimed at addressing customers directly are also part of this approach. In the METRO Group concept optimization is an important pillar of our corporate strategy geared to achieving profitable growth.

Cross-divisional service companies

In addition to the sales divisions responsible for the operational business there are also companies in the METRO Group that assume tasks like buying, logistics, IT, advertising, financing or waste management and environmental management for the sales divisions and for the entire group. They act as interfaces at which group-wide services are bundled as a result of which synergies can be used and costs reduced.

Efficient Consumer Response (ECR)

Efficient Consumer Response (ECR) describes the holistic view of the entire supply chain. ECR focuses on the best possible adjustment of trading and retailing to the needs and expectations of customers. Consumer needs must be met in the most efficient way possible. This can only be done if business processes are viewed and optimized along the entire value chain from the raw materials supplier via the manufacturer all the way to the trader or retailer and, eventually, to the customer.

Food, nonfood

In the METRO Group the following categories are considered part of our food assortment: fresh produce (including fruit, vegetable, fresh meat and fish, dairy products), non-perishable foodstuffs (including sausages and other meat products, canned food, delicatessen, staple diets like noodles, and sauces), frozen food products, beverages of all kinds (including alcoholic beverages), cigarettes, food supplements (like vitamin products), pet food, detergents and household cleaners. All other merchandise comes under the heading of “nonfood.”

Fresh produce competency

This is the quality hallmark of the Metro sales divisions in the food area. Fresh produce competency describes the ability to offer customers food items of the highest level of quality and freshness on a continuous basis. The very foundation and guarantee of the METRO Group’s fresh produce competency is a sophisticated logistics system.

Future Store

METRO Group's Future Store is a completely new type of supermarket of Metro's Extra sales division where the main new technologies available today that will shape the retailing of tomorrow are tested for the first time in complex interaction. These technologies include basic technologies like the Radio Frequency Identification (RFID) or technical systems with a high specific benefit for the customer, e.g. Self-Check-outs.

Logistics

This is the management of merchandise flows. Logistics is a major part of the value chain in a trading and retailing company. It is possible to reduce transportation and warehousing costs by means of a carefully planned control of the merchandise flows. The METRO Group has concentrated its logistics competency as a cross-divisional service function for the entire group in its logistics companies MGL METRO Group Logistics and MDL METRO Group Distribution Logistics (in the future: MGL METRO Group Logistics Warehousing GmbH & Co. KG).

Meeting Metro

METRO Group presents itself to the job market using the brand name "Meeting Metro" as an umbrella for its activities. On the occasion of an information event under the same heading which is organized one to two times a year, the METRO Group presents the company as well as the retailing sector to students of economics and trading-related areas and to teachers. Comprehensive information is to be found on the home page at www.meeting-metro.de.

Merchandizing concept

This term describes the sales concept of a trade or retail company. In all its sales divisions the METRO Group has very unique and distinctive merchandizing concepts whose efficiency is consistently increased by permanent concept optimization.

Payback

With more than 28 million members in Germany, Payback is the market leader in customer retention programs. Participating customers receive a club card. For every purchase for which they present their card they will be credited with a certain number of bonus points. In addition, Payback customers benefit from special discount promotions and target group specific product offers. The Payback program provides the opportunity for target group oriented marketing and individual customer address.

Process optimization

This term describes the sustainable and profitable improvement of the efficiency of business processes.

Profitable growth

The METRO Group's corporate strategy is geared toward the sustainable growth of the value of the company. Growth is profitable if and when the profitability of the sales divisions increases in line with sales. The METRO Group achieves profitable growth by establishing sustainable market penetration with its sales divisions in the national and international markets.

Quality assurance

The constant improvement of quality standards of the merchandise offered and the safety of food products enjoy a high priority at the METRO Group. The group therefore has a particularly efficient quality assurance system. Quality assurance covers, among other things, food items and the raw materials used for their production, manufacturers and suppliers, the adequate transportation of merchandise as well as the hygiene provisions at the establishments of the METRO Group.

Retail brands

These are unique corporate brands in retailing. The clear-cut brand profile makes for the essential difference today between successful and less successful trading companies. This is why for the METRO Group the development of its merchandizing formats into retail brands constitutes an important objective (retail branding). The status as a retail brand is achieved by a sales division if it meets all fundamental customer expectations during shopping (quality execution), if it unmistakably positions itself vis-à-vis competitors through a special and efficient service and value strategy (retail excellence) and, finally, if it communicates its identity as a brand in a very targeted manner.

RFID (Radio Frequency Identification)

New technology for the contactless data transfer operating on the physical basis of alternating electromagnetic fields. Under the METRO Group Future Store Initiative, the METRO Group is currently testing the practical application of RFID in retailing at the Future Store and at the new METRO Group RFID Innovation Center in Neuss (Germany). Labels provided with RFID technology can be read by a computer-controlled device (reader) without requiring visual contact. This innovative technology provides decisive impulses for the optimization of the process chain.

Sales divisions

In the METRO Group the six sales divisions Metro Cash & Carry, Real, Extra, Media Markt and Saturn, Praktiker as well as Kaufhof are responsible for the operational business. They operate independently in the markets with their own specific merchandizing concepts covering the wholesale trade, different food and consumer goods retailing formats as well as specialist outlets in the high-growth areas of consumer electronics and home improvement centers.

Value-oriented corporate management

The management focus on increasing corporate value is an essential principle governing the work in the METRO Group and its sales divisions. It is reflected in the total focus on profitability targets and economic value added (EVA), among others.

A detailed glossary of important terms of the trade and retail business is provided in the Metro Retail Compendium 2004/2005 on pages 58-127. The Metro Retail Compendium can be ordered at: handelslexikon@metro.de

Professor Ute Helmbold illustrates the METRO Group's annual report

The illustrations in the METRO Group's annual report this year are by the artist Ute Helmbold. Born in Bremen in 1958, Ute Helmbold is one of the best-known graphic artists in Germany today. She has illustrated numerous books and publications, and her work has been presented at numerous exhibitions. Since 1994, she has taught communication design at the Braunschweig Academy of Fine Arts.

With the illustrations in this annual report, Helmbold formulates independent pictorial statements on topics related to retailing. These illustrations seek to stimulate a deeper engagement with the subject matter. The fanciful combination of real situations, metaphors and visions makes the various facets of retailing clear and graspable in new ways.

Imprint

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Realization:
Pleon Kohtes Klewes GmbH

Printing:
Druckpartner Essen

English language version:
F.A.Z.-Institut

The German version is legally binding.

Annual Report 2004

Consolidated Financial Statements of the METRO Group

METRO Group