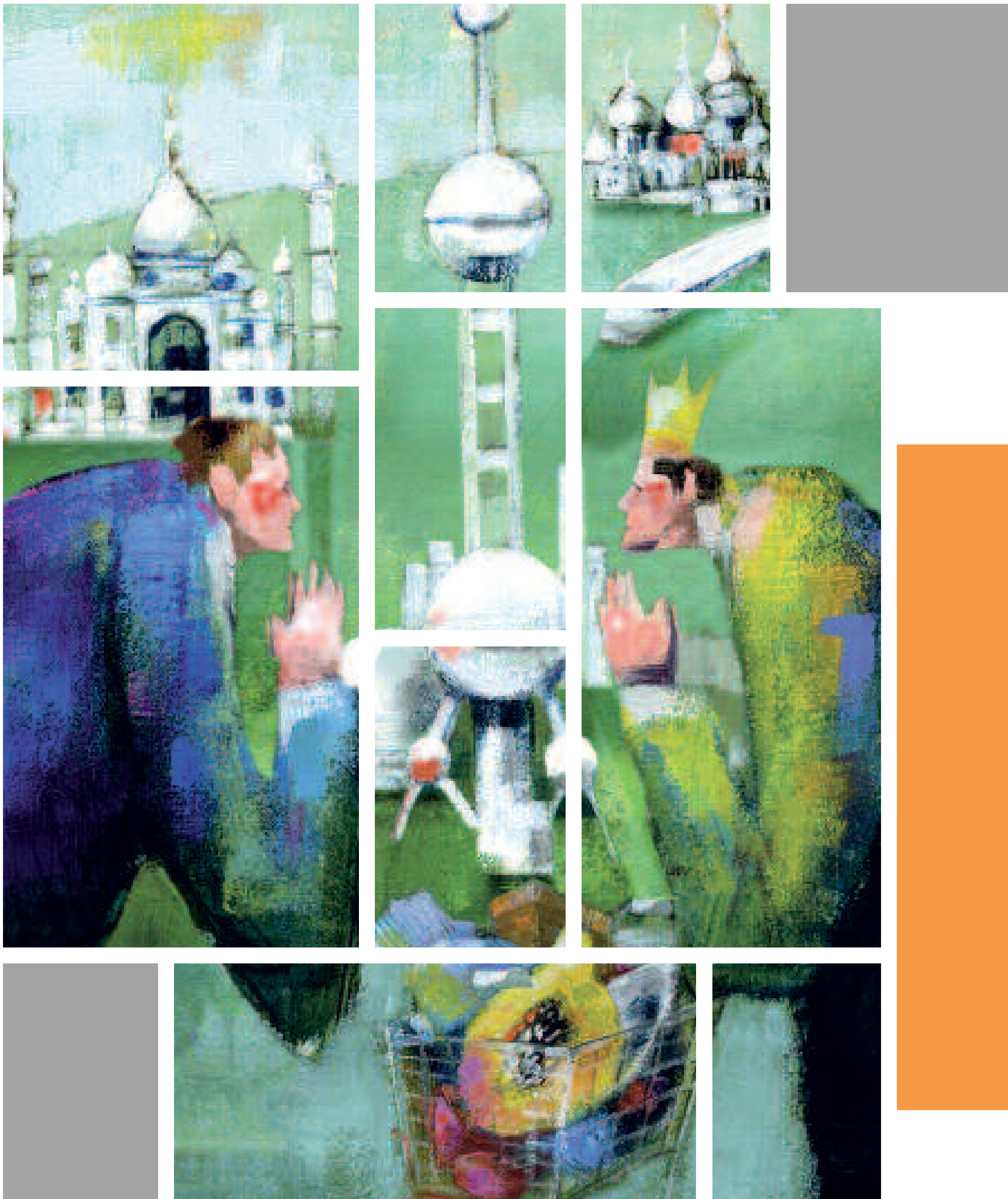
METRO Group

*The Spirit of Commerce*



# Annual Report 2005

Consolidated Financial Statements of the METRO Group

# The METRO Group – a driving force in the international retail trade

The METRO Group was created in 1996 by the merger of leading trade and retail companies. The group is composed of high-performing, independent individual companies and businesses. The group includes the Metro Cash & Carry sales brand, the international market leader in self-service wholesaling; the hypermarket operator Real; the supermarket chain Extra; Europe's leading consumer electronics sales brands, Media Markt and Saturn; and Galeria Kaufhof, the system leader in the department store business. Just as the group profits from the strengths of the individual companies, each sales division reaps the benefits generated by the support and stability provided by the broadly based entrepreneurial potential of the organization. Furthermore, each member of the METRO Group benefits from wide-ranging synergy effects that only a major national and international corporation can generate.

Beneath the umbrella of the METRO Group, a corporate culture with its very own set of values has flourished over the years throughout the company: The fundamental elements of this culture are the Corporate Principles that apply to each sales division, the company's shared business objectives and its goal-achieving concepts. The primary aim of these principles is a mutual commitment to profitable growth and the joint drive to become the market leader in each individual market segment. Other critical elements that underpin the success of the METRO Group are its international focus and its strong innovative drive. As a result, the METRO Group is in an excellent position to remain a business success in Germany and the world.

# METRO Group

METRO AG

Cross-divisional service companies

The METRO Group is headed by METRO AG, which is based in Düsseldorf and acts as a strategic management holding company. The group's operative business is handled by four sales divisions that operate independently with proprietary sales concepts and, in some cases, several sales brands in their respective market segments. Since its public listing in November 2005, the Praktiker sales division has no longer been a part of the METRO Group portfolio. Cross-divisional services such as logistics, information technology and the procurement of advertising media are bundled in cross-divisional service companies.

## At a glance: The METRO Group in figures[1]

| | 2005 € million | 2004[2] € million | 2003 € million |
|---|---|---|---|
| **Key financial figures** | | | |
| Sales (net) | 55,722 | 53,475 | 53,595 |
| EBITDA | 2,938 | 2,844 | 2,615 |
| EBIT | 1,738 | 1,723 | 1,318 |
| Earnings before taxes | 1,358 | 1,260 | 817 |
| Net profit for the period[3] | 649 | 927 | 571 |
| thereof from continuing operations | 618 | 858 | 571 |
| thereof allocable to stockholders of METRO AG[3] | 531 | 828 | 496 |
| Investments | 2,138 | 1,744 | 1,837 |
| Total assets[3] | 28,767 | 28,352 | 26,580 |
| Equity | 5,313 | 4,849 | 4,349 |
| Equity ratio | 18.5 % | 17.1 % | 16.4 % |
| Equity ratio after taxes[4] | 12.2 % | 19.1 % | 19.4 % |
| Earnings per share[3, 4, 5] | € 1.63 | € 2.53 | € 2.35 |
| Earnings per share from continuing operations before write-downs on deferred tax assets from loss carry-forwards for Real Germany[5] | € 2.47 | € 2.32 | – |
| **Operating data** | | | |
| Employees (annual average by headcount) | 246,875 | 231,841 | 242,010 |
| Number of locations | 2,171 | 2,110 | 2,370 |
| Selling space (1,000 m²) | 10,518 | 9,941 | 11,436 |

[1]Exclusively continuing operations in 2005 and 2004
[2]Adjustment of prior year amounts due to the application of new accounting methods
[3]Including discontinued operations
[4]Before scheduled goodwill depreciation in 2003
[5]After minority interests

## Development of group and divisional EBIT from continuing operations

| | 2005 | 2004 | Changes | |
|---|---|---|---|---|
| | € million | € million | € million | % |
| Metro Cash & Carry | 1,012.5 | 963.2 | 49.3 | 5.1 |
| Real (including Extra) | (11.7) | 135.5 | –147.2 | – |
| Media Markt and Saturn | 509.8 | 451.9 | 57.9 | 12.8 |
| Galeria Kaufhof | 69.2 | 56.8 | 12.4 | 21.8 |
| Others | 158.1 | 115.9 | 42.2 | 36.4 |
| **EBIT METRO Group** | **1,737.9** | **1,723.3** | **14.6** | **0.8** |
| Financial result | (379.9) | (463.2) | 83.3 | 18.0 |
| **Earnings before taxes** | **1,358.0** | **1,260.1** | **97.9** | **7.8** |
| Income taxes | (739.8) | (402.5) | –337.3 | –83.8 |
| **Earnings from continuing operations** | **618.2** | **857.6** | **–239.4** | **–27.9** |

[1]Adjustment of prior year amounts due to the application of new accounting methods, refer to the notes to the group accounting principles and methods

# 10 years of the METRO Group – milestones of a success story in trade and retail

The milestones of the company's 10-year history are reflected in the illustrations that appear in this annual report. The works symbolically mark important landmarks along the way as well as strategic goals of the past 10 years, and embody the energy and the broad scope of the METRO Group's development.

# Going public

July 25, 1996: METRO AG goes public. This event was preceded by a 10-month-long, closely watched merger process of important trade and retail companies. As a listed company, the METRO Group has committed itself to the capital markets, to a clear strategic focus and to high-yielding sales concepts. The retail group consistently disseminates market-relevant information in line with international standards, and is committed to fair, transparent and active communication with investors and the public.

## Growth in Western Europe

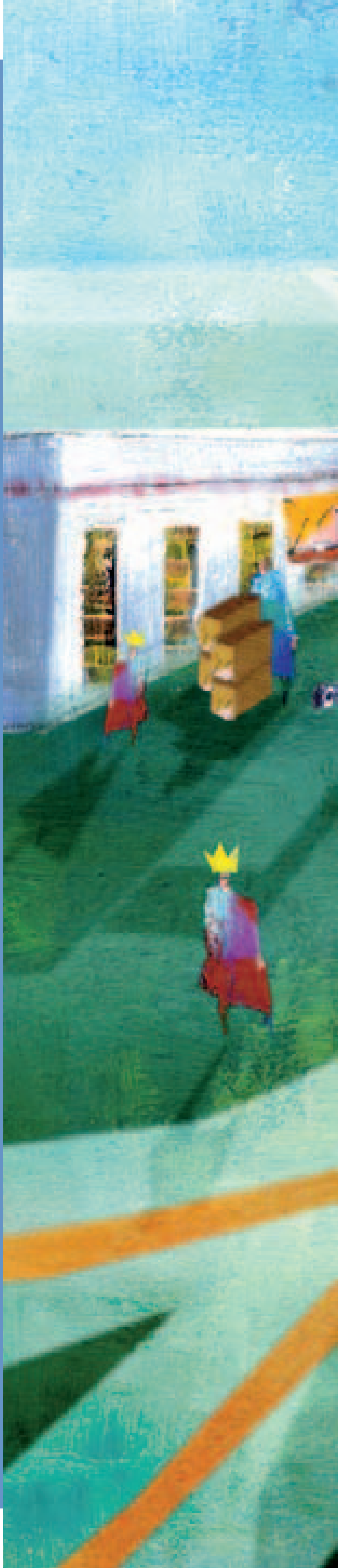
Soon after going public, the METRO Group took its first steps across international borders and rapidly expanded its market presence in Western Europe. In particular, Metro Cash & Carry as well as Media Markt and Saturn vigorously pressed ahead with their regional growth. Within just a few years, the sales brands had set up their businesses in every important market and then rapidly strengthened their sales networks. Today, the METRO Group generates about one-third of its sales in Western Europe, and is among the leaders in the European retail industry.

# The move into growth markets

When it launched its determined effort to develop the growth markets of Asia and Eastern Europe, the METRO Group laid the foundation for the further profitable business development. The far-sighted plan to expand into these up-and-coming economic regions enabled the company to participate in the rising standard of living and growing purchasing power of billions of consumers. Over the past 10 years, the METRO Group has been among the first international retail companies to have entered the relevant markets and has garnered a leading position in each of them. This commitment to the world's important growth regions will continue to contribute significantly to the future success of the METRO Group.

# Pooling forces

In the past 10 years, the METRO Group has reorganized such central retail functions as procurement, logistics, information technology and procurement of advertising media, and converted them into cross-divisional service companies. This reorganization has yielded considerable synergies. By bundling major procurement volumes, for example, the company has gained significant cost advantages and has created high group-wide standards in quality assurance. In the end, the customer is the beneficiary of such efforts. In logistics, the coordination and integrated management of all product flows within the METRO Group have produced considerably lower transport costs while improving efficiency in the process chain and boosting competitiveness.



# Innovative human resources development promotes the growth course

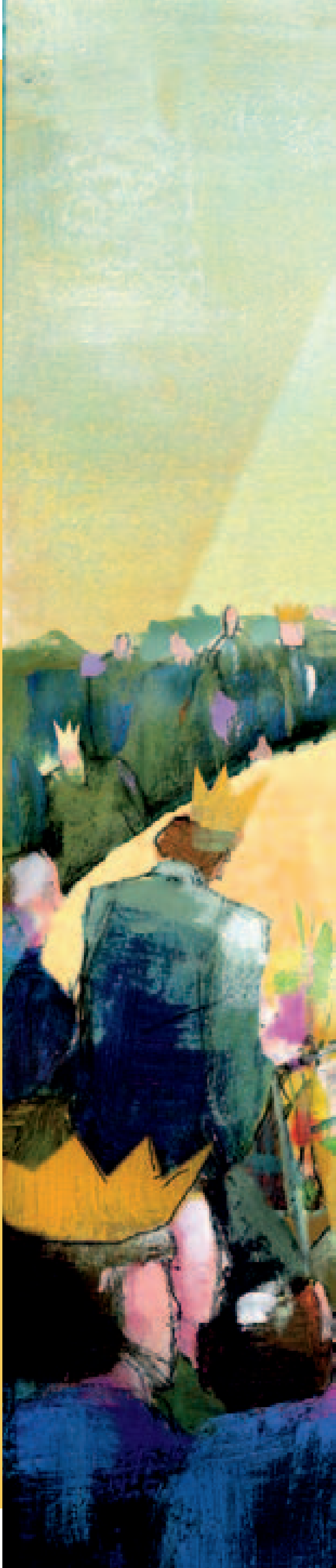
In light of its dynamic growth and its continuing expansion in international markets, the METRO Group is paying increasing heed to goal-oriented human resources development. Highly productive, motivated employees contribute significantly to efforts that will ensure that the company remains successful over the long term and can meet the challenges of the future. The METRO Group promotes the development of managers and employees on all levels, and offers attractive career opportunities in Germany and abroad. In 1997, the company began to set up international development programs for managers. As a result, it has been able to draw on an expanding reservoir of young, cosmopolitan executives. Using such high-impact information events as “Meeting Metro,” the METRO Group has continuously improved its image as an attractive employer.

# Revolution in the shopping world

The METRO Group has been actively involved in shaping the far-reaching technical innovation process in trade and retail seen in the past few years. As part of the METRO Group Future Store Initiative, the company has combined forces with strong partners from other business areas to fuel the development and practical application of new technologies in the industry. The goal is to improve efficiency of business processes throughout the entire value chain and to make shopping even more convenient for customers. One major step taken by the initiative was the opening of the Future Store in Rheinberg, Germany, in 2003. In this shopping laboratory, all of the latest technology available at the time in the retail world was assembled for the first time in the world and tested in a real-life business setting. Right now, Radio Frequency Identification technology (RFID) has stirred intense interest. This technology enables product data to be transmitted in a non-contact manner. As a result, the technology is expected to produce revolutionary changes in retail as well as in upstream production. The METRO Group is one of the pioneers in the development of this technology. Thanks to RFID technology, shopping will become more attractive, individual and pleasant for customers in the future. It will also help improve efficiency in the areas of product supply and logistics, and cut costs.

# METRO Group – a strong retail company with a positive brand image

The evolution of the METRO Group into a high-performance, capital market-oriented and transparent international retail company that accepts its social responsibility has also had a positive impact on the perception of the company by the business, political and social communities, in particularly the media. This positive public resonance and the company's unmistakable brand image are bolstered by targeted campaigns and activities. Examples of this engagement include the extensive sponsoring of athletic, social and cultural events undertaken by the METRO Group and its sales divisions. In addition, the company launched a long-range advertising campaign in the print media in the spring of 2003 and organized the extremely popular exhibition titled "The World of Commerce" in the summer of 2004 in Düsseldorf.




METRO Group

"By focusing the METRO Group on return-oriented growth and internationalization, we extended our position as one of the world's leading trade and retail companies."

**Dr. Hans-Joachim Körber**

Dear Ladies and Gentlemen,

The year of 2005 was an eventful one for the METRO Group. During the 12-month period, we launched a number of new programs; we successfully continued many projects that were begun earlier, but we also missed some of our ambitious goals.

Without a doubt, one of the year's most important events was the initial public offering of Praktiker that followed the company's successful repositioning. In the process, we have further focused on our company's portfolio.

We continued to rigorously pursue our corporate strategy in fiscal year 2005. By focusing the METRO Group on return-oriented growth and internationalization, we extended our position as one of the world's leading trade and retail companies. In early 2005, we entered the Serbian market. As a result, we are now represented in 30 countries and more than 2,100 locations. Throughout the year, we opened a total of 106 stores. The focus of this expansion has been the growth markets in Eastern Europe and Asia. The share of sales generated abroad reached 53.4 percent, clearing the 50-percent level on an annual basis by a considerable distance. This has given us additional independence from developments in individual markets.

The basis of our successful business operations is the development and modification of our sales concepts to meet customers' constantly changing desires. We are able to successfully do so because we conduct an intense dialogue with our customers. We underscored our innovative capacity by pioneering the development and use of new technologies in retail. In particular, we associate high expectations with Radio Frequency Identification technology (RFID), which will fundamentally reshape the industry and the processes used in trade and retail. By optimizing our portfolio and further improving our corporate structure, all-in-all, we are well-equipped to face the growing competition.

From this basis, the METRO Group pushed ahead in 2005 with the robust growth in its international business that the company has experienced over the past few years. Outside Germany, our company boosted both its sales and profits. We achieved very strong growth in Eastern Europe. Our early expansion into this economic region is now paying off. With our business in Germany, however, we were only partially able to reach our original goals.

Not including Praktiker, group sales totaled € 55.7 billion, compared with € 53.5 billion in fiscal year 2004. That amounts to 4.2 percent growth. Excluding special items, earnings per share rose 6.5 percent to € 2.47. The Supervisory Board and the Management Board of METRO AG will propose an unchanged dividend to the annual general meeting.

Overall, domestic business in fiscal year 2005 was characterized by a negative macroeconomic environment, increasingly tough competition, and, above all, consumers' restraint and high price sensitivity. Job worries, social-political disorientation and the resulting fears about the future combined with high energy prices shaped consumers' shopping behavior. This unfavorable business climate contributed to the overall weak results of German retailers and also presented a challenge to the METRO Group. We saw and still see a strong need for changes at Real. The Real sales division, which mainly focuses on the German market, experienced significant drops in sales and profit that were the result of special factors in addition to the unfavorable external conditions. Right now, we are honing the market image and profile of Real by introducing a freshly re-worked sales concept. In addition, we are working hard to create long-term improvements in the sales division's cost structure, and to make its processes more efficient and reduce its costs.

Positive contributions to the METRO Group's development were made by the internationally positioned sales divisions of Metro Cash & Carry as well as Media Markt and Saturn. Internationally, they are among the most profitable sales formats. Metro Cash & Carry is the global market leader in self-service wholesaling. Media Markt and Saturn are Europe's undisputed market leaders in consumer electronics retailing. In 2005, both sales divisions energetically expanded their international presence. Metro Cash & Carry opened a total of 43 new wholesale stores, including the first stores in Serbia. That is the largest number of new openings within a year's time in the company's history. Media Markt and Saturn opened a total of 56 new consumer electronic centers – including the first Media Markt in Greece – and gained additional market share as the market and price leaders in Europe. The share of Metro Cash & Carry as well as Media Markt and Saturn in group sales rose from 72.3 percent in 2004 to 74.3 percent in 2005. As a result, both sales divisions underscored their importance as the group's growth drivers. They form the supporting pillars of our strong company.

We are confident about fiscal year 2006, the 10th year since the METRO Group was established. We have faith in our strengths in international competition, in our distinctive skills and in our extensive innovative powers. Above all, we are counting on our ability to change, which we have exhibited over the past ten years. As a result, a company that once consisted of 14 sales divisions has been reduced to four strong sales divisions over the years. This year, we are concentrating on the continued refinement of our sales concepts in an effort to create unmistakable retail brands, on the further improvement of the cost structure and on the continued internationalization of the location portfolio. At the same time, we are determined to exploit the optimization potential of individual sales divisions, to expand the market position of the METRO Group in its domestic and international markets, and to broaden our market presence, particularly in foreign countries. As in previous years, the focus of the international expansion will be on Metro Cash & Carry as well as Media Markt and Saturn. In this effort, Media Markt plans to make its market entry in Sweden in the current fiscal year and in Russia at the end of 2006 or the beginning of 2007. Metro Cash & Carry is scheduled to open operations in Pakistan in 2007. Following its good experience in the Russian market, Real is planning in 2006 to move ahead with its selective international expansion by entering the Romanian market.

We are cautiously optimistic about the direction of our domestic business operations. We do recognize the possibility that citizens' confidence and faith in an economic upswing under the new government will grow. This is likely to fuel consumption and help improve the situation in the retail sector. We are also expecting that the FIFA World Cup Germany will boost sales for retailers in general and for our company in particular.

Ladies and Gentlemen, to be successful in 2006, we need your trust as stockholders and the hard-working commitment of all employees of the METRO Group. In fiscal year 2005, the company's Management Board could count on the support of stockholders and employees. We are grateful for it. We hope to have the same support in this fiscal year as we continue to forge the company.

Yours sincerely,

Dr. Hans-Joachim Körber
Chairman of the Board of Management
Chief Executive Officer

# Report of the Supervisory Board

## Supervision of executives and cooperation with the Management Board

During the reporting period, the Supervisory Board of METRO AG carried out the consultation and monitoring duties set forth by law and the company's Articles of Association. It regularly advised the Management Board on the management of METRO AG and the group (hereafter referred to as the "METRO Group") during fiscal year 2005 and constantly supervised the group's executives. The Supervisory Board was involved in all decisions that were of material importance to METRO AG or the group.

The work of the Supervisory Board was based in particular on the oral and written reports given by the Management Board both during and outside meetings held by the Supervisory Board and its committees. The Management Board provided the Supervisory Board with detailed and timely reports about all developments of material importance to the METRO Group. The reports covered in particular proposed business policies and fundamental questions about company planning and strategic development; international expansion; material investment and divestment decisions; profitability; current business developments, including the situation of the METRO Group; risk management and operations of material importance to the profitability and liquidity of the METRO Group. The reports were provided regularly pursuant to § 90 Section 2 of the German Stock Corporation Act. Any deviations in business developments from set plans and objectives were explained by the Management Board stating reasons. All issues that were submitted to the Supervisory Board by the Management Board pursuant to the by-laws of the Supervisory Board and the by-laws of the Management Board as a subject for authorization were decided by the Supervisory Board. The primary issues that were subject to authorization were the initial public offering of the Praktiker sales division, the disposition of real estate, the divestment of shares in Loyalty Partner GmbH as well as the approval of the budget for fiscal year 2006. When the Management Board submitted a proposal for a decision by the Supervisory Board that covered these and other issues, the Supervisory Board regularly received written documentation that could be used to prepare for the decision. No use was made of the rights of inspection and audit granted under § 111 Section 2 Subsection 1 and 2 of the German Stock Corporation Act because no matters requiring clarification arose.

During the reporting period, the Chairman of the Supervisory Board was in regular contact with the Chief Executive Officer. The Chairman of the Supervisory Board was kept abreast of important business developments and pending decisions by the Chief Executive Officer during regular one-on-one meetings. For certain issues, the Supervisory Board heard directly from managers in the group.

The Supervisory Board thoroughly discussed and reviewed all reports and documents that were provided to it. Further details will be provided in the following sections. No objections about the Management Board's activities were raised.

## Meetings and decisions of the Supervisory Board

During fiscal year 2005, the Supervisory Board held four meetings. No member of the Supervisory Board attended fewer than half of the meetings. Furthermore, the Supervisory Board took one decision in a written procedure.

During each meeting, the Supervisory Board closely examined current business trends in the METRO Group. In addition, the Chairman of the Supervisory Board gave reports about pivotal issues considered during earlier committee meetings.

The central issues considered during the Supervisory Board meeting held in March 2005 were the annual financial statements of METRO AG and the consolidated financial statements for fiscal year 2004, the management report of METRO AG 2004 and the group's management report 2004, the Management Board's proposal on the appropriation of the balance sheet profit to the annual general meeting in 2005, and the report of the Management Board about relations with associated companies in 2004. The auditor attended this meeting and gave a report about the key findings of his review. Other issues considered during the meeting were preparations for the annual general meeting in 2005 and the continued development of METRO AG's Corporate Governance Code.

The central question addressed during the meeting held in May 2005 was the planned market entry of the Metro Cash & Carry sales division in Pakistan.

In a written decision, the Supervisory Board voted in September 2005 to approve the details of the divestiture of METRO AG's shares in Loyalty Partner GmbH.

During its meeting in October 2005, the Supervisory Board intensely reviewed the strategic options of the Praktiker sales division und the situation of the food retailing business. After extensive discussion of several strategic options, the Supervisory Board gave its approval in principle to the initial public offering of the Praktiker sales division that was favored by the Management Board. Furthermore, the Supervisory Board selected KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt/Main (KPMG) and Fasselt & Partner Wirtschaftsprüfungsgesellschaft, Duisburg, (Fasselt & Partner) to jointly conduct an audit of the annual financial statements and the consolidated financial statements in 2005. It also agreed on the focal points of the audit and the auditors' fee. Other important issues on the agenda were questions about international expansion, the divestment of real estate and risk management.

During its meeting in December 2005, the Supervisory Board discussed and then approved the group's annual budget for fiscal year 2006 that had been presented by the Management Board. This budget covers the planning for profits, sales, investments, locations, personnel and financing. During the meeting, the board also discussed the strategic objectives for fiscal year 2006. In addition, it reviewed the outcome of the IPO for the Praktiker sales division and the structure of international purchasing. Finally, the Supervisory Board conducted its annual efficiency review and approved the joint declaration of conformity issued by the Management Board and the Supervisory Board with regard to the recommendations of the German Corporate Governance Code in accordance with § 161 of the German Stock Corporation Act. It was determined that no members of the Supervisory Board were subject to conflicts of interest.

## Meetings and decisions of the Supervisory Board's committees

To improve its efficiency, the Supervisory Board of METRO AG has formed four committees: the Supervisory Board Presidential Committee; the Personnel and Nominations Committee; the Accounting and Audit Committee; and the Mediation Committee, which was appointed pursuant to § 27 Section 3 of the German Codetermination Act. The Presidential Committee prepares the meetings of the Supervisory Board when the chairman of the Presidential Committee deems it necessary and makes decisions, pursuant to § 107 Section 3 Subsection 2 of the German Stock Corporation Act, about urgent matters and about those issues that have been submitted to it by the Supervisory Board in separate actions. The core responsibilities of the Personnel and Nominations Committee are the personnel issues of the Management Board. The Accounting and Audit Committee basically addresses reporting issues and risk management.

The Accounting and Audit Committee met twice during the reporting year, and held both meetings jointly with the Presidential Committee. In March 2005, the committees basically discussed, in the presence of the auditor, the annual financial statements of METRO AG and the consolidated financial statements for fiscal year 2004, the management report of METRO AG and the group's management report for 2004, the Management Board's proposal on the appropriation of the balance sheet profit, and the report of the Management Board about relations with associated companies 2004. The committees recommended that the Supervisory Board approve the submitted financial statements. During the meeting held in August 2005, the committees recommended to the Supervisory Board that KPMG and Fasselt & Partner be selected to conduct the joint audit of the annual financial statements and consolidated financial statements for 2005 to implement a resolution of the annual general meeting 2005. The recommendation took into consideration the requirements placed on auditors by law and the German Corporate Governance Code. Furthermore, the committees recommended the focal points of the audit that were eventually approved by the Supervisory Board. Other significant points on the agenda were dividend policies and risk management.

The Personnel and Nominations Committee also held two joint meetings with the Presidential Committee during fiscal year 2005. One meeting was held in March and the other in August. The discussion, review and decisions primarily concerned compensation and the remuneration system for members of the Management Board. One decision in particular involved the revision of the stock bonus plan for members of the Management Board.

The Presidential Committee met four times. In addition to the two separate joint meetings it held with the Accounting and Audit Committee and with the Personnel and Nominations Committee, the Presidential Committee conducted a telephone conference in November 2005 to discuss and make a decision about the IPO of the Praktiker sales division.

The Mediation Committee did not have to convene.

## Corporate Governance

In the spring of 2005, the Management Board and the Supervisory Board of METRO AG released an updated version of METRO AG's Corporate Governance Code, in which the company explains since 2002 the principles it applies in corporate management and supervision.

The Management Board and the Supervisory Board address the subject of corporate governance at the METRO Group in the Corporate Governance Report. One section of this report examines the principles used in the remuneration system for members of the Management Board.

In December 2005, the Management Board and the Supervisory Board of METRO AG issued the Declaration of Compliance with regard to the recommendations of the Government Commission on the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act and made it permanently available to stockholders on the Internet site www.metrogroup.de. The full Declaration of Compliance appears in the Corporate Governance Report.

Before the Supervisory Board meeting in March 2005, the auditors issued a declaration of autonomy required under Clause 7.2.1 of the German Corporate Governance Code. The requirements of Clause 7.2 of the German Corporate Governance Code governing the contractual relationship between the company and its auditors have been fulfilled. Among other things, it was agreed that the auditors would promptly inform the Chairman of the Supervisory Board about any disqualification or bias issues that might arise during the audit. Throughout the audit cycle, the auditors never reported any disqualification or bias issues to the Supervisory Board. Furthermore, the Supervisory Board never had any reason to believe that there were ever any disqualification or bias reasons.

## Annual and consolidated financial statements 2005, report on relations with associated companies 2005

The annual financial statements of METRO AG, in consideration of accounting, for fiscal year 2005 that were submitted by the Management Board pursuant to the regulations laid down in the German Commercial Code and the METRO AG management report for 2005 were reviewed jointly by KPMG and

Fasselt & Partner, and were given unqualified approval. The consolidated financial statements 2005 and the group's management report 2005 that METRO AG drew up according to International Financial Reporting Standards (IFRS) were jointly reviewed by KPMG and Fasselt & Partner, and received their unqualified approval. The auditors provided a written report about their findings.

The Supervisory Board reviewed the annual financial statements of METRO AG and the consolidated financial statements for fiscal year 2005, the management report of METRO AG and the group's management report for fiscal year 2005 as well as the Management Board's proposal to the annual general meeting 2006 on the appropriation of the balance sheet profit. For this purpose, these documents and the reports of the auditors were provided in a timely manner to the Supervisory Board, and were discussed and reviewed in detail during the Supervisory Board's annual accounts meeting held in March 2006. The auditors attended this meeting, reported the key findings of their reviews, and were at the Supervisory Board's disposal to answer questions and to provide additional information. The Supervisory Board concurred with the findings of the auditors' review, which found no reason to raise objections. In a concluding finding of its own review, the Supervisory Board determined that it saw no reason to challenge the audits. The Supervisory Board, in particular, supports the conclusions reached by the Management Board in the management report of METRO AG and the group's management report. The Supervisory Board endorses the annual financial statements set up by the Management Board, granting approval to the annual financial statements of METRO AG 2005 which have thus been adopted. The Supervisory Board also supports the Management Board's proposed appropriation of the balance sheet profit.

Pursuant to § 312 of the German Stock Corporation Act, the Management Board of METRO AG wrote a report on relations between the company and associated companies for fiscal year 2005. The auditors jointly reviewed this report, issued a written statement about the findings of their review and issued the following joint opinion:

"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."

This report was submitted to the Supervisory Board together with the audit report, and was discussed and reviewed in detail during the annual accounts meeting of the board held in March 2006. The auditors attended this meeting, reported the key findings of their reviews, and were at the Supervisory Board's disposal to answer questions and to provide additional information. The Supervisory Board concurred with the findings of the auditors' review. In a concluding finding of its own review, the Supervisory Board determined that it saw no reason to challenge the statement of the Management Board at the conclusion of the report.

The aforementioned reviews by the Supervisory Board of the annual and consolidated financial statements 2005, the management reports 2005, the proposed appropriation of the balance sheet profit and the

Management Board's report on relations with associated companies 2005 were prepared during a joint meeting by the Presidential Committee and the Accounting and Audit Committee in March 2006. During this meeting, the committees thoroughly reviewed and discussed the annual and consolidated financial statements, the management reports, the auditing reports, the proposal on the appropriation of the balance sheet profit and the Management Board's report on relations with associated companies and the associated auditing review in the presence of the auditors. The committees recommended that the Supervisory Board approve the submitted financial statements.

## Appointments and resignations

Prof. Dr. Theo Siegert stepped down as a member and Chairman of the Supervisory Board effective at the end of February 4, 2006, in a decision that ended his service on the Supervisory Board of METRO AG. His time in office was characterized by his extraordinary foresight and expertise, his strong commitment, and his mediation skills. The Supervisory Board expresses its deep gratitude for his service.

With the resolution of the Düsseldorf District Court, Dr. Eckhard Cordes was appointed as a member of the Supervisory Board in succession of Prof. Dr. Theo Siegert effective February 5, 2006. During a special meeting in February 2006, the Supervisory Board elected Dr. Eckhard Cordes as its new Chairman.

On January 1, 2005, Mr. Rainer Kuschewski followed Dr. Karlheinz Marth, who resigned on December 31, 2004, as an elected substitute member of the Supervisory Board of METRO AG.

Mr. Volker Claus stepped down as a member of the Supervisory Board on August 31, 2005. He was replaced by Mr. Peter Küpfer with the resolution of the Düsseldorf District Court effective on September 9, 2005.

Following the initial public offering of Praktiker Bau- und Heimwerkermärkte Holding AG, Mrs. Marliese Grewenig left the Supervisory Board in accordance with the requirements of the Codetermination Act on November 24, 2005. As her successor, Mr. Peter Stieger was named a member of METRO AG's Supervisory Board by the Düsseldorf District Court effective January 4, 2006.

The Supervisory Board thanks the Management Board, the executives, all employees and workers' representatives for their dedication and successful work.

Düsseldorf, March 2006

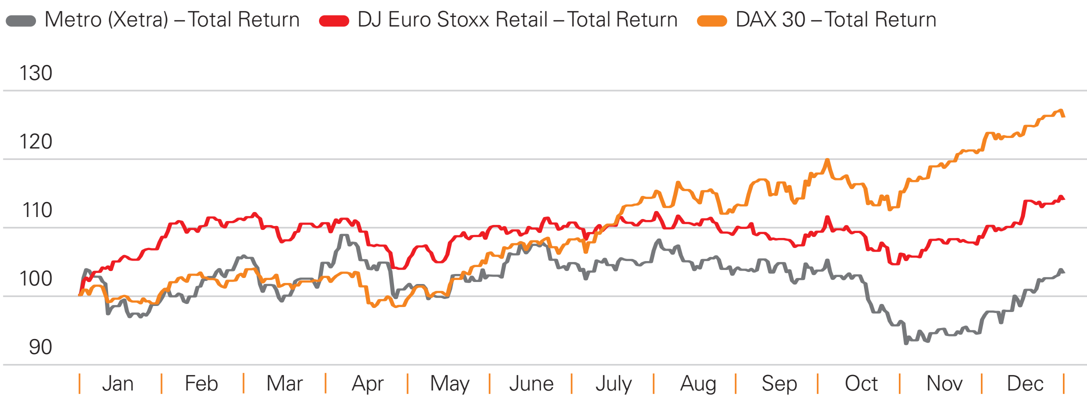
THE SUPERVISORY BOARD

Dr. Eckhard Cordes
Chairman

Metro stock

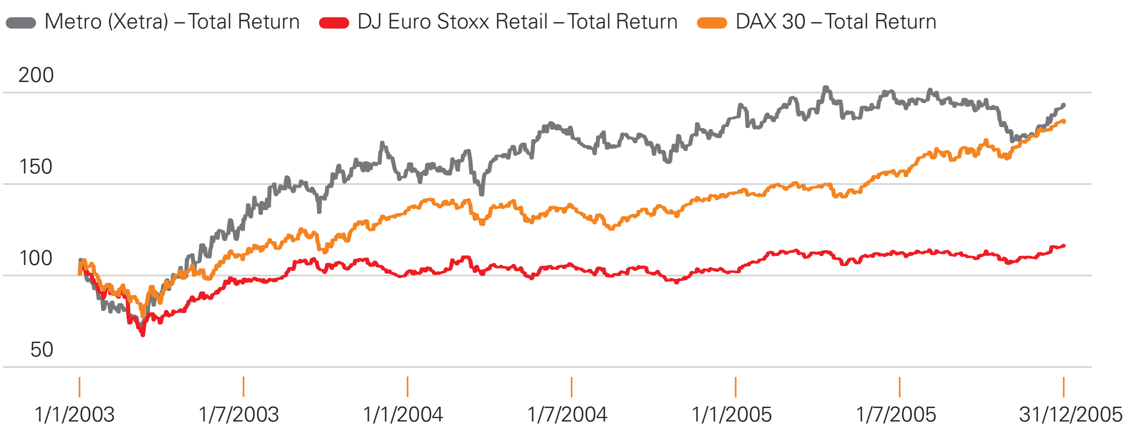
# Metro stock

**Performance of Metro common stock in 2005[1]**




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

**Performance of Metro common stock from 2003 through 2005[1]**




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

After experiencing a good year in 2004, the stock market got off to a sluggish start in 2005. In the first months of the year, international financial markets were slowed by sharply rising oil prices and climbing interest rates in the United States. By May, however, stock prices started a steady rise on European markets. A similarly positive trend began in the United States toward the end of the year. More than anything else, the market mood was brightened in 2005 by positive company reports that in many cases reflected the impact made by far-reaching and successful restructuring strategies.

In Germany, the rise in stock prices was directly connected to the unexpected announcement in May of new national elections. The desire for a change in government was connected to hopes for policies that would benefit business and for the rigorous implementation of necessary reform proposals. However, the surprise outcome of the election in September temporarily halted the rally. It was not until the end of the year that German stocks resumed their upward course. In November, a year-end rally began and pushed the German blue-chip index DAX to 5,408.25 points. The DAX thus was 27.1 percent beyond its closing level in 2004. Retail stocks, however, failed to profit from the positive trend. Retailers represented in the European sectoral index Dow Jones Euro Stoxx Retail trailed far behind the markets' overall upward trend. The cause was primarily the deterioration of the consumer climate in Western Europe.

After achieving an above-average gain of 15.9 percent in 2004, the Metro stock got off to a good start in 2005 and initially outperformed the DAX. These gains reflected the market's recognition of the dynamic development of the company's Eastern European business and strong performance of the growth drivers Metro Cash & Carry as well as Media Markt and Saturn. But this upward trend was halted by the impact of the May announcement of new elections. The party platforms unsettled large segments of voters. As a consumer stock that immediately reflects the mood of consumers, the Metro stock suffered from these extraordinary circumstances and became uncoupled from the positive trend of the DAX during this period. The Metro stock was also weighed down by the unsatisfactory development of Real in Germany. Its mid-year performance failed to meet market expectations, and investors reacted with dismay to the announcement of the results for the first six months of the year. Information about the review of strategic options for the Praktiker sales division was unable to reverse the Metro stock's course as it was overshadowed by the pessimistic mood that weighed on European trade and retail shares in general. Through the end of October, the Metro stock largely moved in parallel with the European sector index, the Dow Jones Euro Stoxx Retail. After sales and profit forecasts underwent a necessary revision at the beginning of November, the stock lagged the sector index.

At the end of the year, the capital markets' increasingly optimistic forecasts about the German consumer climate in 2006 lifted the stock from the year's low that it hit in November. For the year of 2005, the stock rose 0.8 percent and closed at € 40.80 in Xetra trading. Including reinvested dividends, the increase amounted to 3.3 percent.

## Market capitalization and index inclusion

At the end of 2005, the market capitalization of the METRO Group totaled about € 13.4 billion. As a result, the METRO Group is one of Germany's biggest companies and is a component of the German blue-chip index DAX. Based on its free float, the METRO Group ranks 22nd in the DAX. If the entire market capitalization is taken into consideration, the METRO Group is ranked 16th. The METRO Group was 23rd in terms of trading turnover.

The METRO Group is also listed in important international indexes. These include the Dow Jones Euro Stoxx; the associated sector index, the Dow Jones Euro Stoxx Retail; and the MSCI Euro. The METRO Group is also a component of the sustainability index DJSI World (Dow Jones Sustainability World) and the DJSI Stoxx.

## Size of dividend leads to DivDAX membership

In 2005, Frankfurt Stock Exchange operator Deutsche Börse introduced the DivDAX, which includes the DAX-listed companies that offer an above-average dividend yield. The METRO Group was a component on the list from the beginning. For fiscal year 2005, the Management Board will propose a dividend of € 1.02 per share of common stock and € 1.122 per share of preferred stock at the annual general meeting on May 18, 2006. This will result in a dividend yield of 2.5 percent on the 2005 closing stock price for the Metro common stock and – like in previous years – an attractive return for stockholders.

## Investor Relations

The dialogue with stockholders and analysts has a high priority at the METRO Group. The principles of fair disclosure apply to this process. These principles include timeliness, continuity, credibility and equal treatment. The dialogue with the capital market is a long-range undertaking and forms an important part of a group strategy that is designed to generate sustainable value enhancement.

In addition to the analysts' meeting held each spring in Düsseldorf, the METRO Group gave presentations about its business activities to investors and analysts at every important financial center in Europe, the United States and Asia during fiscal year 2005. The company's participation in 12 conferences served as a platform where the METRO Group could expand its regular contacts with more than 1,300 institutional investors. The focus was on private investors at the stockholder forum organized by the Deutsche Schutzvereinigung für Wertpapierbesitz (the German Association of Private Investors) in Berlin. Also during 2005, a hotline for private investors in Germany was set up. The telephone number is 01802 followed by 725 750, the code number of the Metro common stock. Investors can call the number and ask any question they have about the Metro stock.

In presentations, telephone conferences, individual meetings and visits to locations inside and outside Germany, the METRO Group discussed its strategy and its business expectations, and the future of trade and retail, including the connection with RFID technology.

The METRO Group's investor relations work has fared well in the rankings done by external institutions. In the Thomson Extel survey, for instance, the METRO Group ranked second among European trade and retail companies. In a survey of analysts and investors conducted by Reuters and Institutional Investor, the METRO Group was ranked no. 1 among European trade and retail companies for its investor relations work. In the fall of 2005, the METRO Group received the French investor relations award "Fils d'Or." This prestigious prize is presented by the magazine "La Vie Financière," one of France's leading financial publications. It recognizes the best financial communication work by the non-French companies that are components of the FTSEurofirst 80 index. The prize honors the multi-faceted investor relations activities by the METRO Group in France, too.

The Internet is becoming increasingly important to communication strategies with the capital markets. This medium enables the necessary information to be kept up to date and made available to all market participants at the same time. The investor relations section of the METRO Group's home page has been further improved. It now includes a portfolio calculator and provides the opportunity to download the historic stock prices since the initial public offering.

**Metro stock 2003 – 2005**

| | | | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Annual closing price | Common stock | € | 40.80 | 40.49 | 34.95 |
| | Preferred stock | € | 53.78 | 51.00 | 49.00 |
| Annual high | Common stock | € | 44.20 | 40.52 | 38.44 |
| | Preferred stock | € | 55.98 | 52.00 | 51.00 |
| Annual low | Common stock | € | 36.54 | 31.78 | 15.93 |
| | Preferred stock | € | 49.60 | 44.90 | 27.23 |
| Dividend | Common stock | € | 1.02[1] | 1.02 | 1.02 |
| | Preferred stock | € | 1.122[1] | 1.122 | 1.122 |
| Dividend yield based on closing price for the year | Common stock | % | 2.5[1] | 2.5 | 2.9 |
| | Preferred stock | % | 2.1[1] | 2.2 | 2.3 |
| Market capitalization | | € billion | 13.37 | 13.26 | 11.46 |

Data based on Xetra closing price
[1] Subject to approval by the annual general meeting

**Information about the 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 |
| Number of shares | 324,109,563 | 2,677,966 |

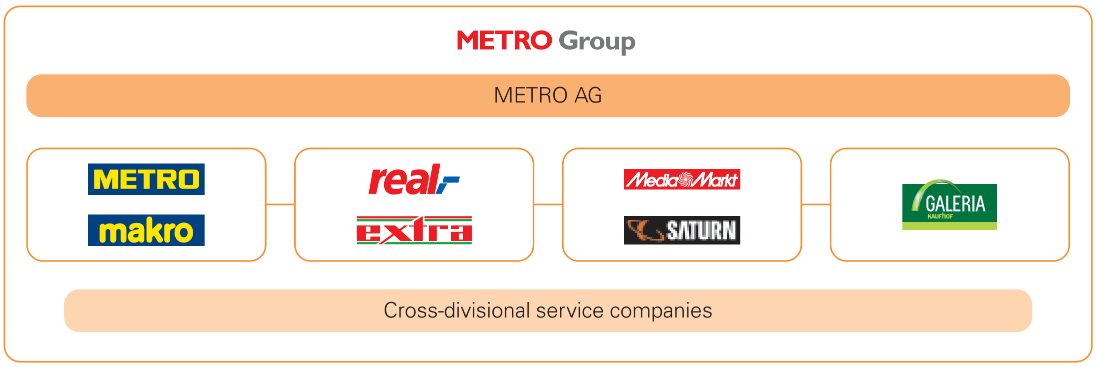
# Group management report

# Group management report

## Business development and parameters

### Group structure

The METRO Group is headed by METRO AG, which is based in Düsseldorf and acts as a strategic management holding company. The group's operative business is handled by four sales divisions that operate independently with proprietary sales concepts and, in some cases, several sales brands in their respective market segments. Since its public listing in November 2005, the Praktiker sales division has no longer been a part of the METRO Group portfolio. Cross-divisional services such as procurement, logistics, information technology and the procurement of advertising media are bundled in cross-divisional service companies.




#### Real and Extra

Since 2004, the Extra supermarkets are managed under the umbrella of Real SB-Warenhaus GmbH. In the meantime, the fundamental streamlining of the Extra location portfolio has been largely completed. As a result of the comprehensive organizational combination of Extra with Real, both sales brands have been summarized in one reporting unit ("Real") since Q2 2005.

#### Other companies

The cross-divisional service companies are included under "other companies" in the management report. These include, among others, METRO Group Asset Management. It handles the complete planning, services and management requirements covering the entire lifecycle of retailing real estate. With more than 800 employees, it services, among others, 1,400 locations of the sales divisions in 12 countries. The Dinea chain of restaurants as well as the Adler fashion stores are also included under "other companies."

#### Consideration of Praktiker in the management report of the METRO Group's annual report 2005

Following its public listing, the Praktiker sales division is no longer included in the group of consolidated companies. It is therefore considered under "discontinued operations" in the following information. All presentations in the management report consider only continuing operations. Business figures for 2004 were adjusted accordingly. For more detailed information on the size of the stakeholding sold as part of the public listing, the divestment proceeds, the remaining stakeholding and the divestment of the real estate used by Praktiker, please refer to the group's management report, chapter "Investments/divestments" as well as to the notes to the consolidated financial statements, no. 37 ("discontinued operations").

## Economic environment

### Strong global economic momentum – little negative impact from drastically higher oil prices

The increasingly globalized world economy coped surprisingly well with the sharp increase in crude oil prices during 2005. Despite the drastic price increase, real growth reached 3.5 percent after growth of 4.0 percent a year earlier. Significant regional differences emerged, however. While the United States and East Asia, in particular China, fueled the global recovery, Europe and Japan fell short of the global growth rate. World trade expanded by about 7 percent on the back of increasing globalization. In addition, the economic data for 2005 show that the global economy continues to depend heavily on economic developments in the United States. The growing importance of the Asian economies, with China and India serving as global growth engines, has not altered this situation so far.

In 2005, the United States recorded real economic growth of 3.5 percent, thanks mostly to the strong domestic economy. Both private consumer spending (+3.6 percent in real terms) and gross capital investments (+7.2 percent in real terms) rose sharply in 2005. A negative trade balance caused the current account deficit to widen further. This external imbalance, which has been growing for years, represents a risk factor for the global economy. It harbors the threat of a strong, possibly abrupt devaluation of the U.S. dollar with potentially dramatic consequences for the global economy.

### Asia – the new global growth engine

China and other emerging markets in East Asia are increasingly assuming the role of a global growth engine. A regional growth core with increasing influence on the global economy is forming around China.

As in 2004, China proved to be one of the key engines of the global economy with a real growth rate of just under 10 percent in real terms in 2005. Chinese exports rose by about 28 percent. Last year's slight revaluation of the yen has remained largely without consequences. This is also reflected by the extraordinarily high current account surplus of 5.5 percent of China's gross domestic product. Aside from exports and investments, private consumption is increasingly fueling the Chinese economy.

The Japanese economy continued its consolidation in 2005. Real economic growth rose to 2.8 percent from 2.3 percent in 2004. The strong increase in investments (by about a real 4.1 percent) and private consumption (by a real 2.1 percent) as well as the ongoing low savings ratio testify to the progressive recovery of the Japanese economy. The Japanese savings ratio has been nearly halved compared with 1991 (2005: 7.0 percent).

India, the world's second most populous country, is assuming an increasingly important role within the global economy. Starting out from a very low level, the Indian economy achieved remarkable growth between 1994 and 2004. The country's gross domestic product increased by a real average of 6 percent per year during this period. The growth rate rose again in 2005 to 7.2 percent. India's future economic development will depend on whether the country manages to continue to improve its infrastructure and to eliminate persistent deficits in its energy supply. This could prove to be a real obstacle to future growth.

The other emerging markets of Southeast Asia also posted solid growth of about 4 percent, although that represented a slight slowdown compared with the previous year. The economic development of these oil-importing countries was dampened by the drastically higher oil prices and strong competition from Chinese products on their export markets. Nonetheless, the growth path of the countries of East Asia and the Pacific region remains intact.

**Western Europe – economic weakness in the euro zone**

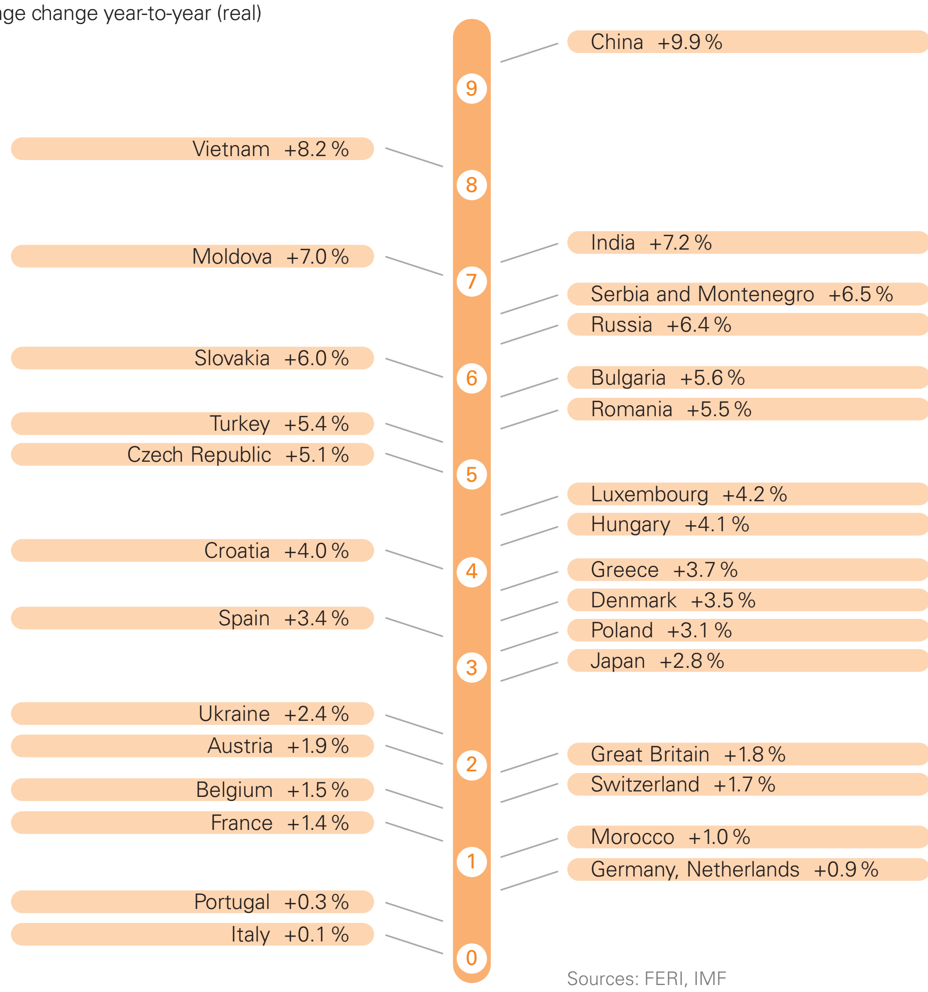
Economic momentum in the euro zone, which is made up of 12 Western European countries, was sluggish in 2005. Gross domestic product rose by no more than a real 1.4 percent. High oil prices, the generally weak consumer climate and companies' reluctance to invest dampened the economy. The weakness in growth of the three major economies, which together account for two-thirds of economic output in the euro zone, was a particular brake on growth. Italy generated no more than real economic growth of 0.1 percent, Germany 0.9 percent and France 1.4 percent. Because of their limited weight in country comparison, such countries as Luxembourg (+4.2 percent) and Ireland (+4.0 percent) could not provide any significant impulse from their higher growth rates.

Although Germany profited from the buoyant global economy in the shape of strong export growth (real +7.6 percent), domestic demand remained in the doldrums. The main reasons here were the weak development of employment and private incomes as well as the significantly higher energy prices, which sapped private households' purchasing power. Employment subject to social insurance continued to retreat, which put another damper on public coffers. The EU's harmonized unemployment rate for Germany was 9.5 percent, which is only slightly lower than in Greece, Spain and France. Public investment also failed to provide any growth impulse. Public expenditures, for example for investments in transportation infrastructure, remained slightly below the year-earlier level (real –0.4 percent). Total corporate investments in Germany retreated by a real 0.3 percent. Real gross domestic product rose by just 0.9 percent in 2005.

The three Western European EU states that are not in the euro zone – Great Britain (real +1.8 percent), Sweden (real +2.8 percent) and Denmark (real +3.5 percent) – recorded somewhat stronger real growth, although they also lagged global economic growth by a significant measure.

**Development of gross domestic product in METRO Group countries 2005**

Percentage change year-to-year (real)




Sources: FERI, IMF

## Eastern Europe – stronger growth momentum in the new EU countries

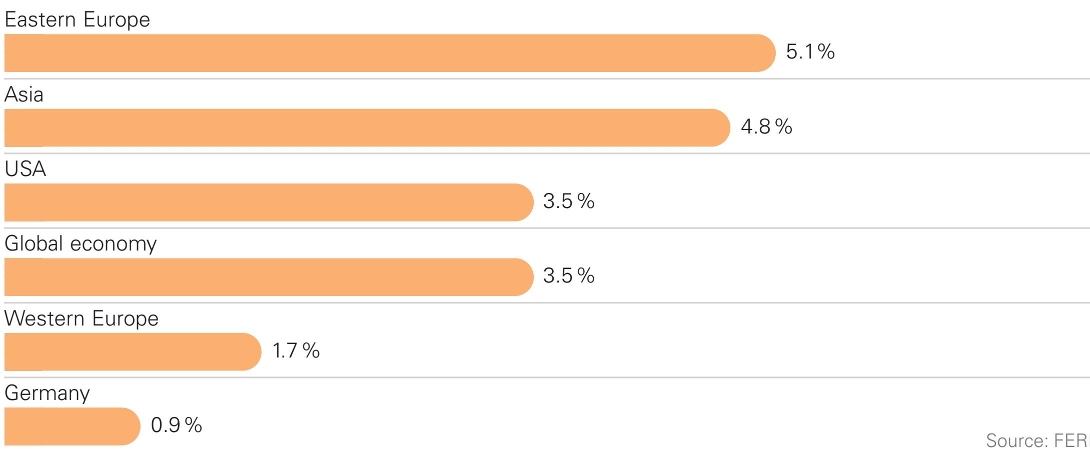
Economic momentum was very robust in the 10 new EU member states. In 2005, this group of countries posted economic growth of about 4 percent after more than 5 percent a year earlier. While growth momentum slowed in Poland (+3.1 percent) and remained static in Hungary (+4.1 percent), the strong upward trend continued in the Czech Republic (+5.1 percent), Slovakia (+6.0 percent) and the three Baltic states (between +6 percent and +10 percent).

Despite an oil price induced weakening of economic momentum, the EU accession candidates Bulgaria and Romania still achieved respectable real economic growth of more than 5 percent each. Turkey, which is currently engaged in membership negotiations with the EU, also recorded growth of 5.4 percent in real terms.

Russia, which profited especially from higher energy prices in 2005, continued its growth course with real economic growth of more than 6 percent. Private consumption increased at an impressive rate of 11.2 percent in real terms, contributing significantly to total economic momentum. The inflation rate rose to 12.6 percent at the same time.

**Development of gross domestic product in the U.S. and Metro-relevant regions in 2005**

Percentage change year-to-year (real)




Source: FERI

# Industry development

### Positioning and market position of the METRO Group

The METRO Group is one of the major international retailing companies. It stands for comprehensive trade and retail expertise, a high level of innovative capacity and an international corporate culture. The group continued to expand its market position in 2005 and successfully defended its position as one of the biggest retailing companies around the world.

### Retail developments differ among regions – strong momentum in Eastern Europe and Asia

In worldwide comparison, the Eastern European countries showed the strongest growth momentum with close to double-digit average retail sales growth. Asia achieved growth in the middle single digits. With about 1 percent, Western Europe was ranked at the bottom of the scale.

#### Germany and Western Europe

Months-long discussions about an increase in the value added tax and the new government's austerity plans, which entail significant financial cutbacks for parts of the German population, caused widespread uneasiness and consumption reluctance among German consumers. These political factors and declining real incomes are the main reason that retail sales in the strict sense of the term (not including car retail, petrol stations, pharmacies and combustibles retail) nearly stagnated at a real 0.3 percent in 2005. Non-specialized wholesale of finished goods, i.e. food and nonfood items, in Germany experienced a sales drop of 0.4 percent in real terms in 2005.

Across Western Europe, declining purchasing power mainly caused by sharply higher energy prices and overall income developments as well as a generally weak consumer climate among private households markedly dampened retail sales momentum. Significant growth lulls were recorded above all in the three major countries of the euro zone. Retail sales volumes in Italy dropped below the year-earlier level in real terms in 2005 (–0.9 percent), while France experienced stagnation (+0.2 percent). Retail sales in Scandinavia, meanwhile, developed favorably. Retailers in these countries recorded growth rates ranging from 3.9 percent in Norway to 8.3 percent in Denmark.

#### Eastern Europe

Strong retail sales growth in Eastern Europe weakened only slightly in 2005 compared with previous years.

The retail trade in Poland has experienced steady growth since the country's economic opening and membership in the European Union. Growth momentum slowed in 2005. This was due mostly to a persistently high unemployment rate and lower income gains compared with previous years.

Russian retailers had another year of strong growth in 2005. Retail sales rose in real terms by 12 percent last year, with inflation still in the double digits. The future development of the Russian retail sector will depend on whether the country manages to expand the local merchandise offering and to remove barriers to market entry in Russia that still hinder the development of international competition in industry and trade.

### Asia

Retail sales growth continued to accelerate in real terms in Asia in 2005. With a high growth rate, China remained the main engine of private consumption in Asia in 2005. Retail sales showed growth in the middle single digits. Strong harvests contributed markedly to the stabilization of consumer price developments. The labor market situation in Japan improved further. In addition, real incomes continued to increase. These two factors boosted consumption. Retailers profited with a real sales increase of 1.7 percent after a sales drop of 0.8 percent in 2004.

## Business activities and market position of Metro Cash & Carry

The Metro Cash & Carry sales division operates in the self-service wholesaling sector. It offers commercial customers a comprehensive merchandise assortment of food and nonfood products. As the worldwide market leader in this segment, Metro Cash & Carry pushed ahead with its targeted international expansion in 2005 and continued to expand its market position.

## Industry development in cash & carry

In 2005, the market volume of the cash & carry sector changed only slightly in most Western European countries where Metro Cash & Carry is active. Sales development in the sector ranged between a slight decline in Germany and Great Britain and modest growth, for example in France.

Bolstered by the continued expansion of the cash & carry format and generally favorable economic developments, the cash & carry segment experienced dynamic growth in Eastern Europe, with strong increases in such countries as Russia, Ukraine, Romania, Croatia and Slovakia.

Cash & carry is still a young sales format in East Asia and therefore offers strong growth potential. Metro Cash & Carry faces only few system competitors in China and Japan. In Vietnam and India, the company mostly competes with classic wholesalers. This niche format position offers substantial growth potential that is being reinforced through the continued expansion of the outlet chain. In 2005, the realization of this growth potential was reflected in strong sales increases in China, India, Japan and Vietnam.

## Business activities and market position in food retailing

The Real sales brand is active in the hypermarket segment. High-quality groceries and an attractive offering of fresh produce form the core of the assortment of the large-area Real hypermarkets. Nonfood products covering daily needs round out the range of merchandise. Besides Germany, Poland and Turkey, Real also entered the Russian market in July 2005. Real was unable to defend its market position in the German hypermarket segment in 2005, but managed to expand its position on its foreign markets.

The Extra supermarkets are neighborhood stores with extensive fresh-produce competence and a broad low-price assortment. Extra offers a comprehensive food assortment as well as nonfood articles covering daily needs and has established itself as a major supermarket chain with regional focus.

### Industry development in food retailing

The German food retail market remained stagnant in 2005. Large-area supermarkets with a selling space of more than 5,000 square meters, which are located outside inner cities and focus on food retailing, experienced hefty sales drops during the year. The main reason for this was a change in consumption patterns. Following the drastic increase in gasoline prices, consumers increasingly took care of their grocery needs in their immediate neighborhood. It was thanks only to the expansion of the format that supermarkets with a selling space of 800 to 4,999 square meters were able to post slight nominal sales increases. Meanwhile, discount supermarkets profited from their proximity to the customer as well as another increase in consumers' price sensitivity. It was on this basis that they managed to boost their market share again. However, their growth weakened markedly compared with previous years and was achieved solely as the result of increased expansion.

The supermarket segment developed favorably in the Polish market, an important foreign market of the METRO Group, during the past fiscal year. Like the discount stores, it managed to gain market share in food retailing. Its positive development was spurred on by the massive expansion of large-area operators and the parallel increase in consumer demand for modern sales formats.

In Russia, modern large-area retail formats are still concentrated mostly in the Moscow and St. Petersburg regions. Although the number of large supermarkets (superstores) and hypermarkets in Russia nearly doubled during the past fiscal year, demand for stores of this format remains high in Russia.

### Business activities and market position of Media Markt and Saturn

The Media Markt and Saturn sales brands operate large-area consumer electronic centers, with their assortment including entertainment electronics, household appliances, new media, telecommunication equipment, computers and photo equipment. During the past fiscal year, the Media Markt and Saturn group of companies successfully expanded its undisputed market leadership in German and European consumer electronics retailing.

### Industry development in consumer electronics retailing

Despite general consumption reluctance consumer electronics retailers once again increased their sales in Germany. This was attributable to new television technologies, among other things, that met with great interest on the part of consumers.

Industry developments in Western Europe diverged among regions. Consumer electronics retailing in the Netherlands, Austria, Italy and Switzerland suffered declining sales, while strong gains were recorded in Spain and Portugal.

Over the past few years, growth of consumer electronics retailing in Eastern Europe has been fueled by consumers' interest in new technologies as well as catch-up demand for classic electronic products on the part of private households. These factors also dominated market developments in 2005. However, sectoral developments also diverged within this region. While sales declined in Hungary, sales growth continued in Poland.

### Business activity and market position of Galeria Kaufhof

The Galeria Kaufhof sales division operates in the department store segment. Kaufhof Warenhaus AG further expanded its system and concept leadership in Germany in 2005. The company managed to gain market share in Belgium.

### Industry development department stores

On the German market, continued growth of retail selling space in conjunction with falling sales in the department store segment further intensified competition in this retail area. The department stores once again lost market share to retail in general in 2005, whereas in Belgium the past years' positive industry trends continued last year.

## EVA – group monitoring

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

The METRO Group is dedicated to value-oriented business management based on economic value added (EVA). 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 group-wide introduction of this key figure at the METRO Group took place in 2000.

The METRO Group's performance potential is reflected by its ability to continuously increase its enterprise value by successfully employing its working capital.

Positive EVA is achieved when the net operating profit exceeds the cost of capital needed to finance working capital. NOPAT is defined as 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. It is calculated by multiplying the working capital with the weighted average cost of capital (WACC). In 2005, the weighted average cost of capital of the METRO Group was unchanged from the previous year at 6.5 percent.

**Calculation of weighted average cost of capital (WACC)**

| Equity cost of capital | | Debt cost of capital | |
|---|---|---|---|
| Risk-free rate of return | 4 % | Risk-free rate of return | 4 % |
| + | | + | |
| Market risk premium | 6 % | Average long-term risk premium | 2 % |
| x Beta factor (specific risk premium for the METRO Group) | 1.0 | = | 6 % |
| | | – Tax effect (40 %) | –2.4 % |
| = | **10 %** | = | **3.6 %** |
| Weighting at market rates | **46 %** | Weighting at market rates | **54 %** |

**6.5 % group WACC**

*The weighted average cost of capital describes the interest claims on invested assets, and is calculated as the average of equity and debt capital costs weighted at market rates. The equity cost of capital is determined on the basis of the capital asset pricing model (CAPM). It is based on the long-term risk-free rate of return, for example German government bonds, of 4 percent. A general, company-specific risk premium of 6 percent is added to this figure, producing an equity cost of capital of 10 percent. The debt cost of capital is also based on the risk-free rate of return to which a long-term average risk premium of 2 percent is added. Assuming a tax rate of 40 percent, this produces a debt cost of capital of 3.6 percent. Both figures are weighted in the weighted average cost of capital in line with the ratio of equity and debt capital at market rates. This produces the above-mentioned group WACC of 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 therefore also a key basis of the variable remuneration system for METRO Group executives.

## Business developments

The METRO Group continued to expand its position as one of the leading international retailing companies in 2005. Group sales improved again. It was due mostly to the declining development at Real in Germany that some expectations were not met.

The election campaign and the surprising election outcome caused uneasiness among German consumers. Combined with persistently high unemployment and unfavorable economic parameters, this had a negative effect on the consumption behavior of large groups of society, reinforcing the general consumption weakness and consumers' price sensitivity. Aside from the department store business with its high-quality assortment, this affected the Real sales division with its German market focus, which also suffered from the impact of quality problems. In Germany all in all, the Media Markt and Saturn consumer electronics centers boosted their sales, while business was weak in the Real sales division, which is active in food retailing. Sales of Metro Cash & Carry were slightly below the previous year's level.

Despite heightening competition and increasingly challenging parameters, the METRO Group achieved altogether favorable business developments in Western Europe. The high-volume Metro Cash & Carry sales division continued its growth course, in particular in the important markets of France and Italy as well as Spain and Belgium. The cash & carry business suffered a decline in a difficult market environment in Great Britain. Even compared with the high year-earlier level, Media Markt and Saturn achieved solid growth rates in Western Europe.

The METRO Group showed great strength in the growth markets of Eastern Europe. The group posted particularly strong sales and earnings as well as dynamic growth momentum in Russia, Ukraine and Poland.

The METRO Group can also look back to successful business developments in Asia in 2005.

## Advanced Retailing

The METRO Group has bundled its key strategic projects in the area of technology under the term "Advanced Retailing." The common objective of these activities is to continually improve business processes through innovative technology, to boost efficiency and to create added value for the customer. In 2005, the METRO Group once again stood out as a driving force behind technological innovation in international trading and retailing.

## METRO Group Future Store Initiative

In the context of the METRO Group Future Store Initiative, the company develops practical new retailing concepts in cooperation with well-known partners from the consumer goods, services and IT sectors. Work processes along the entire process chain are improved and customers' shopping comfort enhanced through the use of innovative technologies. A central component of the initiative is the Future Store in Rheinberg near Düsseldorf that opened in April 2003. At the Future Store, the METRO Group and its partners develop and test new technologies under real-life conditions. For example, a central system for the tracking and tracing of eggs that was introduced at the start of 2005 has ensured maximum transparency along the supply chain, from the farm to the customer. Interest in technological innovation in retailing remains strong. Since the Future Store opened, about 25,000 industry professionals have visited it.

The METRO Group's sales divisions have adopted some of the technologies that have been tested here. For example, "Self Check-outs" have now been installed in more than 50 Real hypermarkets and Extra supermarkets. In August 2005, the sales division started testing a new "Future Check-out" with separate scanning and pay stations. "Information Terminals" are being used in all Galeria Kaufhof stores. Metro Cash & Carry also employs future-oriented technologies to modernize its stores and, among other things, has been using a simplified version of the "Personal Shopping Assistant" since the end of 2005.

## RFID at the core of retail modernization

Radio Frequency Identification (RFID) is a key technology for the design of efficient supply processes and improvements in shopping comfort. This innovative technology will fundamentally alter the process chain in the consumer goods industry. The main areas of application are logistics, merchandise stockpiling and individual customer service. The heart of this technology is the so-called smart chip, a small computer chip with antenna. An electronic product code (EPC) is stored on the smart chip and can be read without direct contact or any visual connection by an RFID reader. In the merchandise management system, information such as the expiration date or the manufacturer of a product can be assigned to the EPC. A data base also traces the route of a delivery from production to the market. In July 2004, the METRO Group established the RFID Innovation Center in Neuss to help promote the use of RFID in retailing. At this center, suppliers, IT partners and representatives of the Metro sales brands test the professional implementation of this technology under real-life conditions. In addition, in November 2005, the METRO Group and the standardization organization GS1 Germany launched Europe's only research and test center for RFID, the "European EPC Competence Center." Here, consumer goods manufacturers apply standardized processes, among other things, to improve types of transponders and optimize the placement of smart chips on packaging units. In practice, more than 20 partners from the consumer goods industry have equipped part of their merchandise pallets with smart chips since the technology was introduced in the logistics area. The Metro Cash & Carry, Real and Galeria Kaufhof sales divisions as well as the

MGL METRO Group Logistics are participating in this initial phase, which started in November 2004. The use of RFID is expected to be expanded step by step over the next few years. In the future, smart chips are also supposed to be integrated into packaging units such as boxes.

### Metro Link

The METRO Group continually optimizes communications and the cooperation efforts with its suppliers. This is why the company developed the supplier platform Metro Link during fiscal year 2005. It serves all suppliers as a uniform Internet platform for an exchange of information and data. In the context of its efficient-consumer-response strategy (ECR), MGB METRO Group Buying plans to use this portal to offer its suppliers numerous programs to simplify complex business processes and tap common potential. For example, Metro Link offers suppliers access to the METRO Group's Data Warehouse as well as to innovative software modules such as the Own Brand Management Program (OBM) and electronic article master data administration (MMS CAT).

### METRO Group Networking

As part of the METRO Group Networking project, which was launched in 2004, the METRO Group created a uniform working and information platform for all group employees. This allows for the representation and optimization of internal administrative processes with the help of innovative IT systems, some of which were developed especially for the group. In 2005, the project work focused on the development and introduction of additional networking components. Since the middle of the past fiscal year, for example, the Networking Collaboration application has allowed for cooperation and communication within project teams across company, location and country borders.

# Earnings position

## Group sales

In fiscal year 2005, the METRO Group boosted sales by 4.2 percent to € 55.7 billion from € 53.5 billion. Adjusted for currency effects, group sales increased by 3.0 percent. Once again, the METRO Group thus solidified its position as one of the biggest international retailing groups in terms of sales in fiscal year 2005.

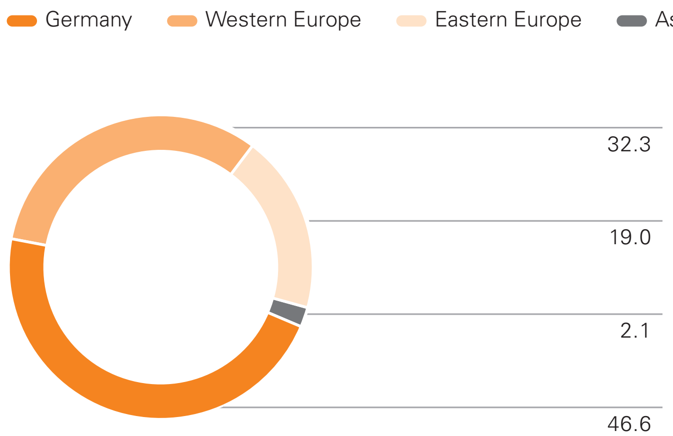
While sales in Germany fell by 2.2 percent to € 25.9 billion from € 26.5 billion a year earlier, the group boosted its foreign sales by 10.5 percent to € 29.8 billion from € 26.9 billion. The foreign share of group sales reached 53.4 percent and thus markedly exceeded the 50 percent mark on an annual basis for the first time in 2005. The group recorded continued strong growth momentum in Eastern Europe. Sales in this economic area rose by 21.9 percent year-on-year, to € 10.6 billion from € 8.7 billion. Sales increased by 9.7 percent to € 1.2 billion in Asia. The METRO Group posted sales growth of 4.8 percent to € 18.0 billion from € 17.1 billion in Western European countries.

**Development of group sales and divisional sales as well as regional sales (net[1])**

| | 2005 € million | 2004[2] € million | Changes € million | Changes % |
|---|---|---|---|---|
| Metro Cash & Carry | 28,087 | 26,442 | 1,645 | 6.2 |
| Real (including Extra) | 9,922 | 10,727 | –805 | –7.5 |
| Media Markt and Saturn | 13,306 | 12,210 | 1,096 | 9.0 |
| Galeria Kaufhof | 3,575 | 3,768 | –193 | –5.1 |
| Others | 832 | 328 | 504 | 153.7 |
| **METRO Group** | **55,722** | **53,475** | **2,247** | **4.2** |
| of which Germany | 25,948 | 26,541 | –593 | –2.2 |
| of which abroad | 29,774 | 26,934 | 2,840 | 10.5 |
| Western Europe | 17,976 | 17,148 | 828 | 4.8 |
| Eastern Europe | 10,614 | 8,707 | 1,907 | 21.9 |
| Asia, Africa | 1,184 | 1,079 | 105 | 9.7 |

[1]Sales represent external sales without sales taxes and after the deduction of trade discounts
[2]Previous year adjusted because of discontinued operations

**Regional group sales 2005 in percent**



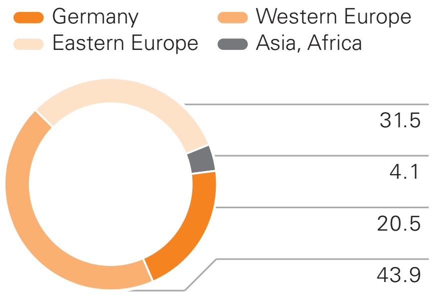

## Metro Cash & Carry

Thanks mostly to its rigorous international expansion, Metro Cash & Carry once again generated substantial sales growth in 2005. The sales division raised its total sales to € 28.1 billion from € 26.4 billion. That was another 6.2 percent improvement over the high year-earlier sales level, which had been the result of sweeping marketing activities on the occasion of the 40-year anniversary of Metro Cash & Carry. Like-for-like sales increased by 1.5 percent. Adjusted for currency effects, total sales were up 4.4 percent. With this result, the sales division underscored its position as one of the group's growth drivers.

German sales at Metro Cash & Carry fell by 1.8 percent to € 5.7 billion compared with the previous year. On a like-for-like basis, the drop in sales amounted to 2.4 percent. The key reason for this sales decline was the continued lull in the gastronomy sector as well as persistent reluctance to spend money among German consumers. In addition, the continued trend toward low-cost private label products had an impact as well. In its foreign business, however, the company managed to post 8.5 percent higher sales of € 22.3 billion compared with € 20.6 billion a year earlier. Adjusted for currency effects, foreign sales increased by 6.1 percent. In the course of a further increase of the location network, the Metro Cash & Carry sales division recorded particularly strong growth in Russia, where sales jumped by 62.6 percent to € 1.5 billion, and in Ukraine, where sales soared by about € 226 million to roughly € 338 million. The large foreign contribution to Metro Cash & Carry's total sales increased again during the past fiscal year, to 79.5 percent from 77.9 percent a year earlier.

In 2005, the sales division forged ahead with its dynamic international expansion of the past few years and thus strengthened its market leading position in the cash & carry business worldwide. Metro Cash & Carry opened a total of 43 new stores during the year – 39 abroad and four in Germany. The company's expansion strategy focused on Eastern Europe, where it opened 23 new locations. Eight

**Regional sales of Metro Cash & Carry 2005**
**in percent**




new stores were opened in Russia alone. Six new stores were added to the Asian sales network, while 10 new stores were opened in Western European countries other than Germany. The company opened four new small-area stores in Germany and closed one. At the end of the reporting year, Metro Cash & Carry was represented in 28 countries with 544 locations, and had total selling space of more than 4 million square meters, making it the group's most international sales division.

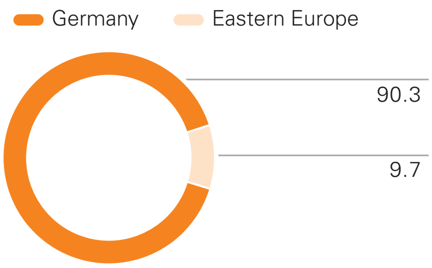
## Real (including Extra)

The Real and Extra sales brands, which focus on food retailing and operate mostly in Germany, suffered a sales decline of 7.5 percent to € 9.9 billion after € 10.7 billion a year earlier. While domestic sales dropped by 9.5 percent – or by 4.0 percent on a like-for-like basis – the division's foreign sales increased by 16.4 percent.

The sales decline in Germany in the amount of € 572 million is directly related to massive cutbacks of the Extra retail outlet chain through the sale, the transfer to franchisees and the closure of a total 156 supermarkets. Together with the integration of an additional 16 Extra stores into the Real hypermarket network, this represented a decisive move toward the pruning of the sales division's location network. Sales trends at Real also mirror the heightened competition in the German food retail market, the distinct consumer reticence and consumers' price sensitivity as well as quality-related incidents at the sales division. In addition, higher gasoline prices also had a negative impact on business at the Real hypermarkets, which are mostly located outside the inner cities and residential areas.

Despite intensifying competition in this market, Real achieved 13.3 percent higher sales in Poland in 2005. Sales in Turkey increased by 11.9 percent. In addition, the sales division continued its selective international expansion during the past fiscal year with the successful market entry of Real in Russia.

**Regional sales of Real (including Extra) 2005**
**in percent**




At the end of the reporting year, the retail outlet chain of the Real sales division comprised a total 592 stores (including Extra), down from 742 in fiscal year 2004 following the rigorous pruning of the portfolio of locations. At the end of 2005, Real operated in a total 328 locations, including 288 in Germany and 40 abroad. At the end of the past fiscal year, the Extra sales network still comprised 264 supermarkets.

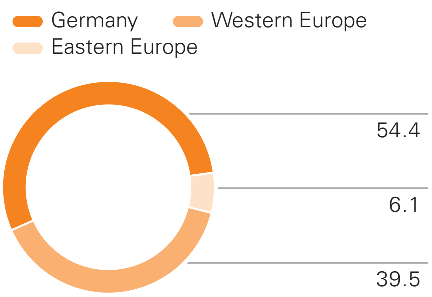
## Media Markt and Saturn

The consumer electronics centers of the Media Markt and Saturn sales division raised their total sales by 9.0 percent to € 13.3 billion in fiscal year 2005 from € 12.2 billion the previous year. Like-for-like sales were 1 percent below the previous year's level. The group of companies continued to expand its market leading position in European electronics retailing as well as its role as a key driver of growth within the METRO Group.

In Germany, Media Markt and Saturn exceeded their high sales volume of the previous year, which had been the result of a multitude of marketing campaigns related to the 25-year anniversary of Media Markt and the opening of the 100th Saturn store, by 2.6 percent. Sales increased to € 7.2 billion from € 7.1 billion. Like-for-like sales dropped by 3.9 percent. The sales division once again managed to post a double-digit sales increase in its foreign business in 2005, with sales outside Germany up by 17.8 percent to € 6.1 billion from € 5.1 billion the previous year. The foreign share of sales in this division thus rose to 45.6 percent from 42.2 percent.

Media Markt and Saturn continued to push ahead with their international expansion in 2005. Both sales brands together opened a total of 56 new locations – 16 in Germany and 40 abroad. Media Markt and Saturn opened 13 and three new consumer electronics centers in Germany, respectively. At the end of 2005, Media Markt operated 34 and Saturn 6 new locations abroad, respectively. Toward the end of last year, Saturn's market entry in Spain and Media Markt's market entry in Greece underscored the division's claim to market leadership in Europe. The group of companies now operates in 12 countries with a total 558 consumer electronics centers and has total selling space of 1.7 million square meters.

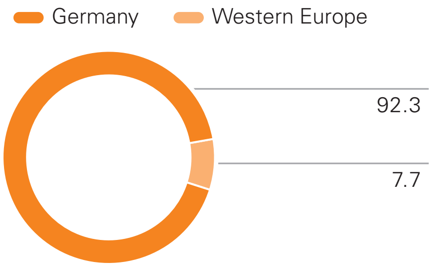
**Regional sales of Media Markt and Saturn 2005 in percent**




## Galeria Kaufhof

The Galeria Kaufhof department stores with their high-end assortment were especially hard hit by the negative impact of the unfavorable overall economic environment and consumer reticence during fiscal year 2005. At € 3.6 billion, the division's sales were 5.1 percent lower at the end of 2005 than the year-earlier level of € 3.8 billion and 4.8 percent on a like-for-like basis, respectively. In response to this negative development in its domestic business, Kaufhof has forced the adaptation of the Galeria concept. Among other things, additional high-profile premium brands will be introduced into the assortment. In addition, new, target-group specific private labels were added to the assortment of the department stores. Kaufhof's appeal as a high-performance, life-style oriented provider is

**Regional sales of Galeria Kaufhof 2005**
**in percent**




supposed to be enhanced and underscored with a high-profile advertising campaign.

In contrast to the domestic business, Kaufhof's Belgian Galeria Inno department stores had another good year in 2005. They raised their sales by 8.0 percent to € 277 million. The Brussels Rue Neuve and Liege stores, which adopted the Galeria concept in the autum of 2004, contributed in particular to this result.

At the end of the reporting year, Kaufhof operated a total of 142 department stores, including 101 Galeria stores.

## Others

Sales growth at the other companies focuses primarily on the initial inclusion of Adler Modemärkte GmbH in the consolidated financial statements of the METRO Group.

## Portfolio of locations

Locations per country

| Country | Metro C&C 2005 | Metro C&C 2004 | Real (incl. Extra) 2005 | Real (incl. Extra) 2004 | Media Markt and Saturn 2005 | Media Markt and Saturn 2004 | Galeria Kaufhof 2005 | Galeria Kaufhof 2004 | Other companies 2005 | Other companies 2004 | METRO Group 2005 | METRO Group 2004 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Germany** | **117** | **114** | **552** | **708** | **318** | **302** | **127** | **132** | **313** | **207** | **1,427** | **1,463** |
| | | | | | | | | | | | | |
| Austria | 12 | 12 | | | 25 | 24 | | | 20 | 7 | **57** | 43 |
| Belgium | 9 | 8 | | | 9 | 5 | 15 | 15 | | | **33** | 28 |
| Denmark | 4 | 4 | | | | | | | | | **4** | 4 |
| France | 84 | 83 | | | 24 | 22 | | | | | **108** | 105 |
| Italy | 46 | 42 | | | 65 | 58 | | | | | **111** | 100 |
| Luxembourg | | | | | | | | | 2 | 0 | **2** | 0 |
| Netherlands | 16 | 16 | | | 21 | 16 | | | | | **37** | 32 |
| Portugal | 10 | 10 | | | 4 | 1 | | | | | **14** | 11 |
| Spain | 33 | 30 | | | 29 | 22 | | | | | **62** | 52 |
| Switzerland | | | | | 16 | 14 | | | | | **16** | 14 |
| United Kingdom | 33 | 33 | | | | | | | | | **33** | 33 |
| **Western Europe total[1]** | 247 | 238 | | | 193 | 162 | 15 | 15 | 22 | 7 | **477** | 422 |
| | | | | | | | | | | | | |
| Bulgaria | 7 | 7 | | | | | | | | | **7** | 7 |
| Croatia | 5 | 3 | | | | | | | | | **5** | 3 |
| Czech Republic | 12 | 11 | | | | | | | | | **12** | 11 |
| Greece | 7 | 6 | | | 1 | 0 | | | | | **8** | 6 |
| Hungary | 13 | 13 | | | 15 | 13 | | | | | **28** | 26 |
| Moldova | 1 | 1 | | | | | | | | | **1** | 1 |
| Poland | 22 | 21 | 30 | 27 | 31 | 26 | | | | | **83** | 74 |
| Romania | 23 | 21 | | | | | | | | | **23** | 21 |
| Russia | 22 | 14 | 3 | 0 | | | | | | | **25** | 14 |
| Serbia and Montenegro | 3 | 0 | | | | | | | | | **3** | 0 |
| Slovakia | 5 | 5 | | | | | | | | | **5** | 5 |
| Turkey | 9 | 9 | 7 | 7 | | | | | | | **16** | 16 |
| Ukraine | 8 | 4 | | | | | | | | | **8** | 4 |
| **Eastern Europe total** | 137 | 115 | 40 | 34 | 47 | 39 | | | | | **224** | 188 |
| | | | | | | | | | | | | |
| China | 27 | 23 | | | | | | | | | **27** | 23 |
| India | 2 | 2 | | | | | | | | | **2** | 2 |
| Japan | 2 | 2 | | | | | | | | | **2** | 2 |
| Vietnam | 6 | 4 | | | | | | | | | **6** | 4 |
| Morocco | 6 | 6 | | | | | | | | | **6** | 6 |
| **Asia, Africa total** | 43 | 37 | | | | | | | | | **43** | 37 |
| **Abroad** | **427** | **390** | **40** | **34** | **240** | **201** | **15** | **15** | **22** | **7** | **744** | **647** |
| | | | | | | | | | | | | |
| **Total** | **544** | **504** | **592** | **742** | **558** | **503** | **142** | **147** | **335** | **214** | **2,171** | **2,110** |

[1]Without Germany

# EBIT

During the 2005 fiscal year, the METRO Group recorded EBIT from continuing operations of € 1,737.9 million, exceeding the comparable previous year's total of € 1,723.3 million by 0.8 percent. Earnings in Germany plunged by 28.4 percent to € 534.6 million largely because of the negative development of the food retailing business. By contrast, earnings outside Germany jumped 17.3 percent to € 1,213.8 million. The METRO Group experienced significant gains particularly in the expanding countries of Eastern Europe.

Group EBITDA rose from € 2,844 million to € 2,938 million.

### Earnings development of the sales divisions

In 2005, the **Metro Cash & Carry** sales division was able to boost its earnings once again despite rising start-up losses and increased investments stemming from continued expansion. EBIT rose 5.1 percent from € 963.2 million to € 1,012.5 million. This earnings development is based in particular on the excellent development of international business activities, especially in Eastern Europe, and underscores the overall strong earnings potential of the wholesale stores.

In 2005, the **Real** sales division operating in the food retailing business saw EBIT fall by € 147.2 million to € –11.7 million from € 135.5 million, including Extra. One major cause of this drop was the negative business development experienced by Real hypermarkets in Germany, mainly influenced by a slump in sales and the additional measures which had to be introduced to stabilize customer frequency. In Eastern Europe, the positive contribution by Real's Polish stores stood in contrast to the start-up costs

**Development of group and divisional EBIT from continuing operations**

| | 2005 € million | 2004[1] € million | Changes € million | Changes % |
|---|---|---|---|---|
| Metro Cash & Carry | 1,012.5 | 963.2 | 49.3 | 5.1 |
| Real (including Extra) | (11.7) | 135.5 | –147.2 | – |
| Media Markt and Saturn | 509.8 | 451.9 | 57.9 | 12.8 |
| Galeria Kaufhof | 69.2 | 56.8 | 12.4 | 21.8 |
| Others | 158.1 | 115.9 | 42.2 | 36.4 |
| **EBIT METRO Group** | **1,737.9** | **1,723.3** | **14.6** | **0.8** |
| Financial result | (379.9) | (463.2) | 83.3 | 18.0 |
| **Earnings before taxes** | **1,358.0** | **1,260.1** | **97.9** | **7.8** |
| Income taxes | (739.8) | (402.5) | –337.3 | –83.8 |
| **Earnings from continuing operations** | **618.2** | **857.6** | **–239.4** | **–27.9** |

[1]Adjustment of prior year amounts due to the application of new accounting methods, refer to the notes to the group accounting principles and methods

associated with the market entry in Russia and the preliminary costs associated with the planned market entry in Romania. After successfully pruning its portfolio of locations, Extra supermarkets posted improved earnings.

**Media Markt and Saturn** boosted EBIT by 12.8 percent from € 451.9 million to € 509.8 million in 2005. Consumer electronics centers both in Germany and abroad, particularly in Spain, Italy and Poland, boosted results despite intense competition. The dynamic of EBIT development that was achieved despite considerable expansion activities demonstrates the continuing earnings strength of Media Markt and Saturn, and the sales division's ability to implement its successful sales concept throughout Europe.

In the course of further optimized cost structures, EBIT of **Galeria Kaufhof** was at € 69.2 million after € 56.8 million in the previous year.
The Belgian department store chain Galeria Inno earned EBIT on the previous year's level.

EBIT growth in the other companies resulted largely from the initial inclusion of Adler Modemärkte GmbH in the consolidated financial statements of the METRO Group.

## Group net profit and earnings per share

At € 649 million, net profit for the period (group net profit) for fiscal 2005 was 30.0 percent lower than the adjusted year-earlier value. Net of minority interests, the group's net profit allocable to the stockholders of METRO AG amounted to € 531 million.

| | | | | Change[1] | |
|---|---|---|---|---|---|
| | | **2005** | **2004[1]** | **absolute** | **%** |
| Income from continuing operations | € million | 618 | 858 | –240 | –27.9 |
| Income from discontinued operations | € million | 31 | 69 | –38 | –55.0 |
| Net profit for the period | € million | 649 | 927 | –278 | –30.0 |
| thereof allocable to minority interests | € million | 118 | 99 | 19 | 18.8 |
| thereof allocable to stockholders of METRO AG | € million | 531 | 828 | –297 | –35.8 |
| Earnings per share[2] | € | 1.63 | 2.53 | –0.90 | –35.8 |
| **Earnings per share from continuing operations before write-downs on deferred tax assets from loss carry-forwards for Real Germany** | **€** | **2.47** | **2.32** | **0.15** | **6.5** |

[1]Adjustment of prior year amounts due to the application of new accounting methods
[2]Including discontinued operations and net of minority interests

In fiscal 2005, the METRO Group generated earnings per share of € 1.63. Adjusted for the write-down on deferred tax assets from loss carry-forwards for Real Germany of € 307 million, earnings per share amounted to € 2.47, an increase of 6.5 percent compared with the comparable year-earlier value.

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

As in the previous year, the calculation for fiscal year 2005 was based on a weighted number of 326,787,529 shares. The group's net profit of € 531 million due to stockholders was distributed among that number of shares.

## Balance sheet profit of METRO AG and profit appropriation

During the year under review, METRO AG received income from shareholdings of € 660.1 million compared with € 828.6 million in the previous year. In consideration of other income, expenditures and taxes as well as the withdrawal of € 200.0 million from revenue reserves, the company had a balance sheet profit of € 337.5 million compared with € 356.0 million in 2004.

The Management Board of METRO AG will propose to the annual general meeting that, from the reported balance sheet profit of € 337.5 million, a dividend of € 333.6 million be paid and that the balance of € 3.9 million be carried forward to new account. The balance sheet profit of € 337.5 million includes retained earnings of € 22.4 million.

The dividend amounts to:

- € 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 2005 fiscal year compared with 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 with its appropriation. In this context, the allocation of the value added to individual interest groups is recorded. The result demonstrates the macro-economic performance of the METRO Group.

**Origin of value added**

| | 2005 | | 2004[1] | | 2005–2004 |
|---|---|---|---|---|---|
| | € million | % | € million | % | delta % |
| Net sales | 55,722 | 97.2 | 53,475 | 97.1 | 4.2 |
| Other income | 1,627 | 2.8 | 1,570 | 2.9 | 3.6 |
| **Corporate performance** | **57,349** | **100.0** | **55,045** | **100.0** | **4.2** |
| Cost of materials | 43,951 | 76.6 | 42,283 | 76.7 | 3.9 |
| Depreciation/amortization | 1,212 | 2.1 | 1,122 | 2.0 | 8.0 |
| Other expenses | 4,409 | 7.7 | 3,851 | 7.0 | 14.5 |
| **Value added** | **7,777** | **13.6** | **7,789** | **14.3** | **-0.2** |

**Appropriation of value added**

| | 2005 | | 2004[1] | | 2005–2004 |
|---|---|---|---|---|---|
| | € million | % | € million | % | delta % |
| Stockholders | 334 | 4.4 | 334 | 4.3 | 0.0 |
| Employees | 5,976 | 76.8 | 5,727 | 73.5 | 4.3 |
| Public sector | 524 | 6.7 | 489 | 6.3 | 7.2 |
| Lenders[2] | 628 | 8.1 | 646 | 8.3 | -2.8 |
| Minority interests | 118 | 1.5 | 99 | 1.3 | 19.2 |
| Corporation (earnings retention) | 197 | 2.5 | 494 | 6.3 | -60.1 |
| **Value added** | **7,777** | **100.0** | **7,789** | **100.0** | **-0.2** |

[1]Adjustment of prior year amounts due to the application of new accounting methods
[2]Including interest expenses for pension provisions

Due to the growth in sales of the METRO Group, the company's total performance during the year under review increased by 4.2 percent to € 57,349 million. Net of advance payments for cost of materials, depreciation/amortization and other expenses, the METRO Group's value added amounted to € 7,777 million or 13.6 percent of corporate performance, respectively. Thus, value added was on the previous year's level.

A total of € 5,976 million of the value added was distributed to employees and € 334 million to stockholders. A total of € 628 million was used for lenders, € 524 million for the public sector, and € 118 million is earmarked for minority interests. The amount of € 197 million is being retained by the company as a reserve.

# Development of EVA

The METRO Group again achieved a positive EVA in 2005 and thus made successful use of its capital employed. EVA reached a total of € 305 million after € 318 million the year before. With the exception of Real, each sales division was able to significantly improve its EVA over the previous year's level. The RoCE ("Return on Capital Employed") was on the previous year's level at 8.0 percent.

Taking into account Praktiker's IPO, capital employed sank to € 20.7 billion. As a result, capital costs fell by € 58 million to € 1,344 million. NOPAT dropped by € 71 million to € 1,649 million. The return on sales in relation to net operating profit remained unchanged from the previous year at 3.0 percent. Capital turnover increased slightly to 2.7 compared with previous year's level.

| | NOPAT € million | Capital employed € million | EVA € million | RoCE % | Delta EVA[1] € million |
|---|---|---|---|---|---|
| Metro Cash & Carry | 820 | 6,636 | 389 | 12.4 | 12 |
| Real (including Extra) | 94 | 5,900 | (289) | 1.6 | –124 |
| Media Markt and Saturn | 397 | 2,029 | 265 | 19.6 | 17 |
| Galeria Kaufhof | 78 | 1,605 | (27) | 4.8 | 11 |
| Others | 260 | 4,504 | (33) | 5.8 | 85 |
| **METRO Group** | **1,649** | **20,674** | **305** | **8.0** | **1** |

[1]Delta EVA is based on adjusted prior year amounts

# Financial position

## Financial management

### Group financing

The METRO AG is responsible for the centralized financial management of the METRO Group. METRO AG acts to ensure that the METRO Group companies have access to the necessary financing for 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 is subject to a monthly variance analysis. This financial planning, which covers a 12-month planning period, is complemented by weekly rolling 14-day liquidity plans.
METRO AG also controls loan placement and guarantees as well as the granting of financial support in the form of guarantees and letters of comfort for group companies. The following principles apply to all group-wide financial activities:

#### Financial unity

By presenting one face to the financial markets, the group can optimize its financial market conditions. The interests of the METRO Group, however, invariably take precedence over the interests of individual companies in the group.

#### Financial leeway

In its relationships with banks and other business partners in the financial arena, the METRO Group consistently maintains its leeway with regard to financial decisions. In the context of the group's bank policy, limits have been defined to ensure that the group can replace one financing partner with another at any time.

#### Centralized risk management

The METRO Group's financial transactions either are based on financing requirements or are concluded to hedge risks related to underlying business transactions. The METRO Group's total financial portfolio is controlled by METRO AG.

#### Risk monitoring

The potential effects of changes in financial parameters for the group, such as interest rate or exchange rate fluctuations, are quantified regularly in the context of scenario analyses. Open risk positions, for example the conclusion of financial transactions without an underlying business activity, may be held exclusively after accordant approval by the Management Board of METRO AG.

### Authorized contractual partners

The METRO Group conducts financial transactions only with contractual partners who have been authorized by METRO AG. The creditworthiness of these contractual partners is tracked regularly. The risk controlling unit of METRO AG's finance department monitors the relevant limits.

### Approval processes

All financial transactions of the METRO Group are concluded with METRO AG. In cases where this is not possible for legal reasons, these transactions are concluded directly between a group company and a financial partner, but only after METRO AG has given its approval.

### Audit security

The two-signature principle applies within the METRO Group. All processes and responsibilities are laid down in group-wide guidelines. The conclusion of financial transactions is separated from settlement and controlling in organizational terms.

## Financial market communication and ratings

Candid communication with market participants and rating agencies is a crucial success factor for tapping the debt 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 debt capital investors. Currently, the METRO Group is rated as follows by the two rating agencies:

| | 2005 | | 2004 | |
|---|---|---|---|---|
| Category | Moody's | Standard & Poor's | Moody's | Standard & Poor's |
| Long-term | Baa2 | BBB | Baa1 | BBB |
| Short-term | P-2 | A-2 | P-2 | A-2 |
| Outlook | stable | stable | negative | stable |

Based on its current ratings, the METRO Group has access to all debt capital markets. Capital markets reacted neutrally to the adjustment of the rating by Moody's in November 2005.

### Financing measures

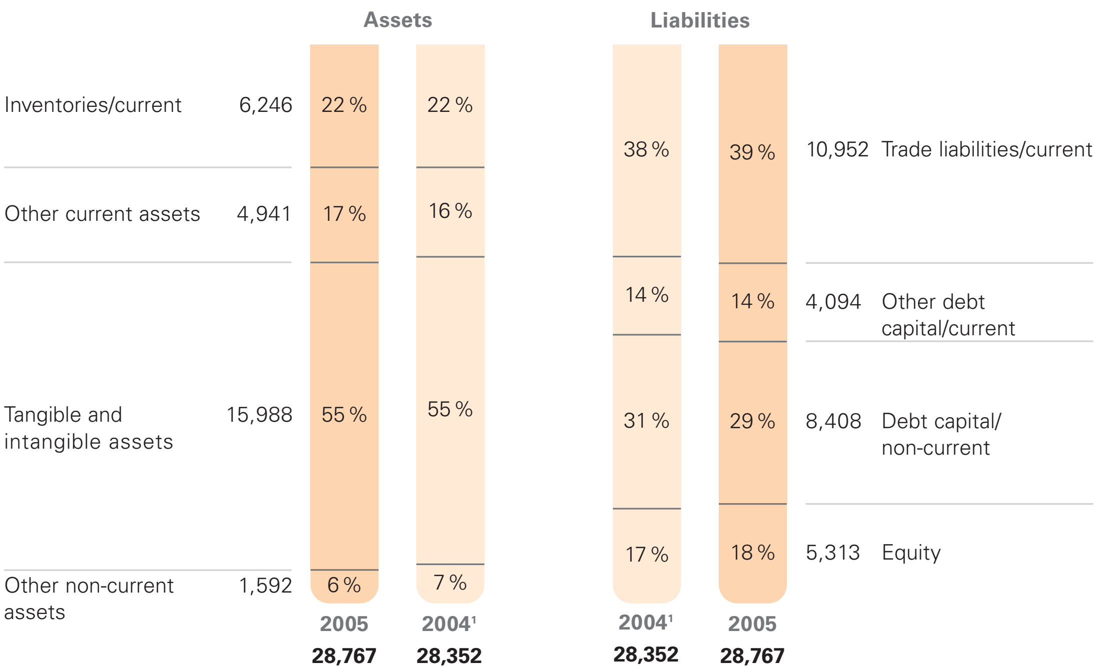
The "Debt Issuance Programme" that was begun in 2000 serves as a source of long-term financing. A floating-rate bond with a face value of € 500 million and a maturity of five years was launched under this program in October 2004. The amount of this issue was raised by another € 250 million in January 2005.

For short- and medium-term financing, the METRO Group uses ongoing capital market issuance programs such as the "Euro Commercial Paper" begun in 1999 and another "Commercial Paper Program." The average amount utilized from both programs was € 1,600 million in 2005. In addition, the METRO Group used syndicated credit lines averaging € 1,000 million in 2005. The group had used bilateral bank facilities, existing at the closing date, totaling € 1,545 million.

Additional information on the METRO Group's financing programs and credit lines is contained in the consolidated financial statements under no. 33 ("Financial liabilities").

## Capital structure

**Capital structure of the METRO Group in € million**




[1]Adjustment of prior year amounts due to the application of new accounting methods

As of the end of 2005, the METRO Group's balance sheet showed equity of € 5,313 million compared with € 4,849 million a year earlier. The equity increase was due to an increase in revenue reserves that, under consideration of the dividend distribution for 2004, essentially derived from the contribution of period income allocable to stockholders of METRO AG. The equity ratio increased by 1.4 percentage points to 18.5 percent. The share of revenue reserves in equity amounted to 32.4 percent compared with 26.9 percent a year earlier.

| € million | Note no. | 31 Dec 2005 | 31 Dec 2004[1] |
|---|---|---|---|
| **Equity** | 28 | 5,313 | 4,849 |
| Subscribed capital | | 835 | 835 |
| Capital reserves | | 2,551 | 2,551 |
| Reserves retained from earnings | | 1,721 | 1,302 |
| Minority interests | | 206 | 161 |

[1]Adjustment of prior year amounts due to the application of new accounting methods

Net financial debt after netting of interest-bearing assets and liabilities including finance leases amounted to € 5,869 million compared with € 5,695 million in 2004. Non-current financial liabilities declined by € 372 million to € 6,046 million during the reporting year, while current financial liabilities increased by € 206 million to € 1,590 million. Cash and cash equivalents declined by € 340 million to € 1,767 million in fiscal 2005. The debt capital ratio declined by 1.4 percentage points to 81.5 percent. Trade liabilities rose by € 181 million to € 10,952 million in fiscal year 2005. This increase corresponded to the sales growth of the Metro Cash & Carry and Media Markt and Saturn sales divisions. Current liabilities amounted to 64.2 percent of total debt capital compared with 62.4 percent in the previous fiscal year.

Information on the maturity, currency and interest rate structure of financial liabilities as well as on lines of credit is included in the notes to the consolidated financial statements under no. 33 (“Financial liabilities”).

| € million | Note no. | 31 Dec 2005 | 31 Dec 2004[1] |
|---|---|---|---|
| **Non-current liabilities** | | 8,408 | 8,844 |
| Provisions for pensions and similar commitments | 29 | 995 | 1,006 |
| Other provisions | 30 | 447 | 469 |
| Financial liabilities | 33 | 6,046 | 6,418 |
| Other liabilities | 34 | 433 | 423 |
| Deferred tax liabilities | 24 | 487 | 528 |
| **Current liabilities** | | 15,046 | 14,659 |
| Trade payables | 32 | 10,952 | 10,771 |
| Provisions | 30 | 288 | 310 |
| Financial liabilities | 33 | 1,590 | 1,384 |
| Other liabilities | 34 | 1,967 | 1,916 |
| Income tax liabilities | | 249 | 278 |

[1]Adjustment of prior year amounts due to the application of new accounting methods

## Investments/divestments

The METRO Group's investments totaled € 2.1 billion in fiscal year 2005. That is about € 394 million more than a year earlier. More than half of the total investment volume went toward the continued international expansion of the particularly high-volume and high-margin sales divisions Metro Cash & Carry and Media Markt and Saturn.

Metro Cash & Carry invested a total of € 900 million during the reporting year compared with € 619 million a year earlier. Investments in 2005 were directed primarily toward the company's accelerated expansion in Eastern Europe. Throughout the year, Metro Cash & Carry opened 43 new stores worldwide, including eight stores in Russia and four stores in Ukraine. In China, the existing outlet chain was expanded by four new stores, while two new stores were added in Vietnam. Metro Cash & Carry also invested in the further expansion of its Western European network of locations. In addition, numerous measures aimed at store modernization were launched in this economic area. Four new Schaper stores were added to the German sales network.

Investments in food retailing rose to € 266 million in fiscal year 2005 from € 128 million a year earlier. This was due mostly to Real's market entry in Russia and preparations for Real's market entry in Romania.

The Media Markt and Saturn consumer electronics centers invested € 315 million in 2005. That is € 54 million more than a year earlier. These funds flowed primarily into the opening of 56 new stores as well as market entry in Greece and the modernization of consumer electronics centers in Germany.

Investments at Galeria Kaufhof amounted to € 96 million in fiscal year 2005. That is € 24 million less than during the previous year. The key focus here was on the modernization of additional department stores in Germany and Belgium based on the Galeria concept.

At € 561 million in fiscal year 2005, the investment volume of the other companies was € 55 million lower than a year earlier. Real estate companies accounted for the lion's share of these investments. The focus here was on the modernization of existing real estate and the development of new real estate locations which are rented mostly to sales divisions of the METRO Group.

Information on investment obligations, which amount to a total of about € 342 million, is included in the notes to the consolidated financial statements no. 19 ("Other intangible assets") and no. 20 ("Tangible assets") as well as no. 40 ("Other financial obligations").

Key divestitures were the sale of shares in Praktiker Bau- und Heimwerkermärkte Holding AG as part of the IPO as well as the sale of 53 properties used by Praktiker. In the process, the METRO Group generated sales proceeds of about € 840 million and earnings after tax of € –31 million. Further details are included in the notes to the consolidated financial statements no. 37 ("Discontinued operations"). Another divestiture involved the relinquishment of Extra stores as part of the regional concentration of the supermarket chain.

Divestitures are listed in the following section "Consolidated cash flow statement" and in the notes under no. 35 ("Notes to the consolidated cash flow statement").

## Consolidated cash flow statement[1]

The cash flow statement serves to identify and display the cash flows that the METRO Group generated or employed in the fiscal year from current operating, investing and financing activities. In addition, it depicts the cash positions at the beginning and at the end of the fiscal year. Following the initial public offering of Praktiker and the sale of properties used by Praktiker, the cash flows from these discontinued operations are presented separately.

| € million | 2005 | 2004[2] |
|---|---|---|
| Cash flow from operating activities of continuing operations | 2,034 | 2,755 |
| Cash flow from operating activities of discontinued operations | 150 | 96 |
| **Cash flow from operating activities (total)** | 2,184 | 2,851 |
| Cash flow from investing activities of continuing operations[3] | (1,125) | (1,303) |
| Cash flow from investing activities of discontinued operations | (43) | (32) |
| **Cash flow from investing activities (total)** | (1,168) | (1,335) |
| Cash flow from financing activities of continuing operations | (1,392) | (907) |
| Cash flow from financing activities of discontinued operations | 23 | (83) |
| **Cash flow from financing activities (total)** | (1,369) | (990) |
| **Total cash flows** | **(353)** | **526** |
| Currency effects on cash and cash equivalents | 13 | 0 |
| **Change in cash and cash equivalents (total)** | **(340)** | **526** |
| Total cash and cash equivalents as of 1 January | 2,107 | 1,581 |
| Total cash and cash equivalents as of 31 December | 1,767 | 2,107 |
| Less cash and cash equivalents from discontinued operations as of 31 December | 0 | (45) |
| **Cash and cash equivalents from continuing operations as of 31 December** | **1,767** | **2,062** |

[1] Abridged version. The complete version is shown in the consolidated financial statements and explained in the notes to the consolidated financial statements, no. 35 ("Notes to the consolidated cash flow statement")
[2] Adjustment of prior year amounts due to the application of new accounting methods
[3] Excluding finance leases and net of divestments

During the year under review, total cash flow of € 2,034 million (previous year € 2,755 million) was generated from current operating activities of continuing operations. The decline in cash flow results for the most part from the lower cash inflows from changes in net working capital. Investment activities of continuing operations caused cash outflows of € 1,125 million (previous year € 1,303 million) during the reporting year. Increased investments were offset primarily by cash inflows from the divestment of Praktiker.

Cash flow from financing activities of continuing operations shows outflows of € 1,392 million (previous year € 907 million). The higher outflows are due mostly to the markedly lower raising of financial liabilities.

# Asset position

In fiscal year 2005, total assets increased by € 415 million to € 28,767 million. Non-current assets increased by € 128 million to € 17,580 million in the reporting year, while current assets rose by € 287 million to € 11,187 million.

| € million | Note no. | 31 Dec 2005 | 31 Dec 2004[1] |
|---|---|---|---|
| **Non-current assets** | | 17,580 | 17,452 |
| Goodwill | 18 | 4,154 | 4,132 |
| Other intangible assets | 19 | 433 | 394 |
| Tangible assets | 20 | 11,037 | 10,560 |
| Investment properties | 21 | 228 | 256 |
| Financial assets | 22 | 136 | 143 |
| Other receivables and assets | 23 | 482 | 422 |
| Deferred tax assets | 24 | 1,110 | 1,545 |

[1]Adjustment of prior year amounts due to the application of new accounting methods

Goodwill in fiscal 2005 resulted from the initial consolidation of Adler Modemärkte, with € 312 million, and from the increase in the stakeholding in Metro Cash & Carry China, with € 13 million. The IPO of Praktiker Bau- und Heimwerkermärkte Holding AG entailed a decrease in goodwill of € 326 million. The increase in tangible and intangible assets resulted from additions to group consolidation, which essentially concerned Adler Modemärkte (€ 131 million) and real estate firms (€ 99 million), as well as from the opening of new stores of the Metro Cash & Carry and Media Markt and Saturn sales divisions. Asset reductions were due mostly to disposals and initial consolidations related to discontinued operations. The change in receivables and other assets of € 60 million resulted largely from prorated advance rental payments, which fell due upon the conclusion of leasing agreements. Deferred taxes on loss carry-forwards and temporary differences amounted to

€ 1,110 million and declined by € 435 million compared with the previous year. This decline was due mostly to the initial public offering of Praktiker and the write-down of deferred tax assets from loss carry-forwards of Real Germany.

| € million | Note no. | 31 Dec 2005 | 31 Dec 2004[1] |
|---|---|---|---|
| **Current assets** | | 11,187 | 10,900 |
| Inventories | 25 | 6,246 | 6,272 |
| Trade receivables | 26 | 367 | 355 |
| Financial assets | | 13 | 28 |
| Other receivables and assets | 23 | 2,200 | 1,936 |
| Income tax refund entitlements | | 253 | 202 |
| Cash and cash equivalents | 27 | 1,767 | 2,107 |
| Non-current assets held for sale | 37 | 341 | – |

[1]Adjustment of prior year amounts due to the application of new accounting methods

Inventories changed only slightly. An increase in food merchandise of € 104 million was offset by a decrease in nonfood merchandise of € 130 million. Other receivables and assets (current) increased by € 264 million to € 2,200 million. This increase resulted, in particular, from an increase in receivables due from suppliers. Cash and cash equivalents declined by € 340 million to € 1,767 million, due mostly to a decline in bank balances. The remaining stakeholding of 40.52 percent in Praktiker Bau- und Heimwerkermärkte Holding AG is stated in the balance sheet as a non-current asset held for sale, in consideration of sales costs stated at € 14.50 per share.

# Summary of the earnings, financial and asset position

The METRO Group continued its profitable growth course in fiscal year 2005, further extending its position as one of the leading international retail companies. Despite the downward trend at Real Germany, group sales and EBIT increased once again. Earnings after taxes were dampened by an extraordinary write-down of deferred tax assets from loss carry-fowards. The company pushed ahead with its consistent international expansion. The foreign share of group sales markedly exceeded the 50 percent mark.

The METRO Group has successfully focused its portfolio as a result of the public listing of Praktiker.

The METRO Group's equity ratio rose to 18.5 percent from 17.1 percent. Investments increased by € 394 million to € 2.1 billion. The METRO Group continues to have a solid financing base. Total assets rose to € 28.8 billion from € 28.4 billion. Both non-current and current assets increased, while inventories declined slightly.

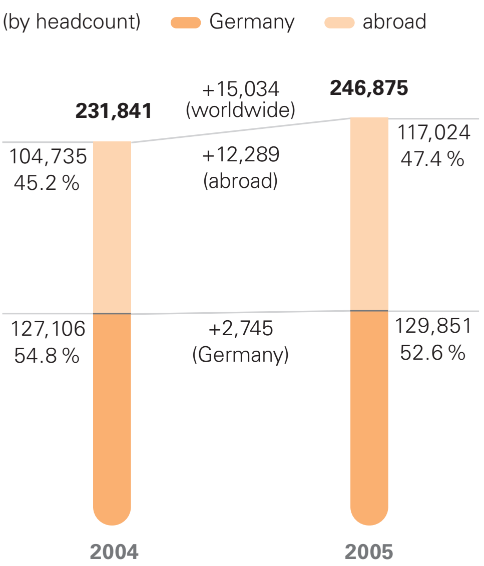
# Employees

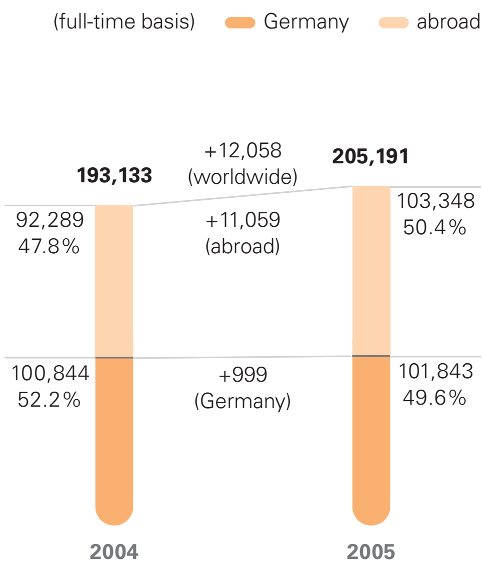
## The METRO Group creates new jobs

In fiscal year 2005, the METRO Group worked vigorously to advance its profitable growth strategy. As a result of this continued expansion, the company's personnel needs grew as well. The number of full-time employees increased by 6.2 percent in 2005, or by 12,058 to 205,191, compared with the previous year. The METRO Group had an average of 246,875 employees during the year, excluding its apprentices. Such figures make the company one of the leading employers in its industry.

The personnel structure remained largely unchanged. In the past fiscal year, 42.2 percent of employees worked part time, compared with 42.6 percent the previous year. The average age rose from 35.8 years to 36.0 years. Average tenure increased from 7.3 years to 7.4 years.

**Workforce of METRO Group in 2005 compared to the previous year**



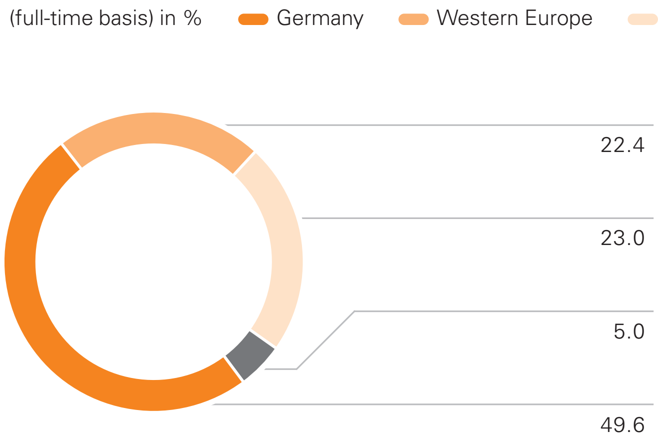




### Domestic job numbers rise – strong increase in employment abroad

In Germany, the METRO Group added 999 full-time employees to its workforce, raising its total there to a year's average of 101,843 during the fiscal year. On average over the year, the group's workforce outside Germany grew by 11,059 to 103,348 full-time workers amid the company's continued international expansion. As a result, the foreign share of the METRO Group workforce rose to 50.4 percent in fiscal year 2005 from 47.8 percent the previous year. The overwhelming majority of people employed outside Germany, 90.1 percent, worked in other European countries. The company had a total of 45,994 employees in Western Europe and 47,089 in Eastern Europe. The number of employees has grown particularly in Eastern Europe as a result of the company's intensified push into these markets. The workforce in this region grew by 17 percent. In Russia, the number of employees increased by 2,271 compared with the previous year, in Ukraine by 1,606 and in Romania by 886. In Asia and Africa, the total grew to 10,265 employees, or about 15 percent, compared with the previous year.

**METRO Group employees by region**

(full-time basis) in %




## Farsighted human resources policy helps shape demographic change

The expected demographic changes will result in a declining labor pool particularly in Germany, a rising average age of the company's workforce and a growing share of foreign employees within the group. The METRO Group is addressing this change process with a new human resources strategy. One focal point of this strategy is an internal health management system that was launched in fiscal year 2005. This strategy is designed to boost employees' health and fitness and furthermore to extend their involvement in the active world of work for a longer period of time while reducing the number of people who enter early retirement. Other focal points include newly developed programs in the areas of "training and qualification," and an internal pension program that supplements the existing collective bargaining regulations. These activities make the METRO Group a more attractive employer and increase employee retention. One other important element of the new human resources strategy is the implementation of active diversity management that will address the cultural breadth of the company's workforce.

**Development of employee numbers by sales division and country (full-time basis)**[1]

| | Metro C&C | | Real (incl. Extra) | | Media Markt and Saturn | | Galeria Kaufhof | | Other companies | | METRO Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Country | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| **Germany** | **15,580** | **15,850** | **36,020** | **39,139** | **19,116** | **17,677** | **18,074** | **18,623** | **13,053** | **9,555** | **101,843** | **100,844** |
| Austria | 2,002 | 2,005 | | | 1,739 | 1,647 | | | 555 | 157 | **4,296** | 3,809 |
| Belgium | 2,682 | 2,829 | | | 635 | 375 | 1,335 | 1,363 | | | **4,652** | 4,566 |
| Denmark | 505 | 505 | | | | | | | | | **505** | 505 |
| France | 8,252 | 8,118 | | | 1,459 | 1,281 | | | 7 | 6 | **9,718** | 9,405 |
| Italy | 4,340 | 4,409 | | | 4,212 | 3,838 | | | | | **8,553** | 8,248 |
| Luxembourg | | | | | | | | | 75 | | **75** | |
| Netherlands | 3,147 | 3,018 | | | 1,543 | 1,353 | | | 7 | 6 | **4,696** | 4,377 |
| Portugal | 1,892 | 1,874 | | | 247 | 98 | | | | | **2,139** | 1,972 |
| Spain | 2,871 | 2,661 | | | 3,064 | 2,340 | | | | | **5,935** | 5,002 |
| Switzerland | | | | | 985 | 927 | | | 83 | 103 | **1,068** | 1,030 |
| United Kingdom | 4,351 | 4,328 | | | | | | | 5 | 6 | **4,356** | 4,334 |
| **Western Europe total**[2] | 30,041 | 29,747 | | | 13,884 | 11,859 | 1,335 | 1,363 | 732 | 279 | **45,994** | 43,247 |
| Bulgaria | 1,999 | 1,882 | | | | | | | 2 | | **2,001** | 1,882 |
| Croatia | 1,028 | 823 | | | | | | | | | **1,028** | 823 |
| Czech Republic | 3,353 | 3,421 | | | | | | | | | **3,353** | 3,421 |
| Greece | 1,104 | 1,095 | | | 55 | | | | 4 | | **1,162** | 1,095 |
| Hungary | 3,321 | 3,205 | | | 1,208 | 1,003 | | | 7 | | **4,537** | 4,207 |
| Moldova | 306 | 83 | | | | | | | | | **306** | 83 |
| Poland | 5,682 | 5,306 | 5,436 | 5,607 | 2,967 | 2,394 | | | 378 | 347 | **14,463** | 13,654 |
| Romania | 6,079 | 5,228 | | | | | | | 35 | | **6,114** | 5,228 |
| Russia | 5,979 | 4,220 | 571 | 76 | | | | | 31 | 14 | **6,581** | 4,310 |
| Serbia and Montenegro | 563 | 97 | | | | | | | | | **563** | 97 |
| Slovakia | 1,212 | 1,296 | | | | | | | | | **1,212** | 1,296 |
| Turkey | 1,818 | 1,687 | 1,064 | 1,064 | | | | | 196 | 201 | **3,078** | 2,951 |
| Ukraine | 2,693 | 1,087 | | | | | | | | | **2,693** | 1,087 |
| **Eastern Europe total** | 35,138 | 29,428 | 7,070 | 6,746 | 4,230 | 3,396 | | | 652 | 562 | **47,089** | 40,133 |
| China | 6,182 | 5,282 | | | | | | | 522 | 510 | **6,704** | 5,792 |
| India | 592 | 648 | | | | | | | | | **592** | 648 |
| Japan | 267 | 241 | | | | | | | | | **267** | 241 |
| Singapore | | 3 | | | | | | | | | | 3 |
| Vietnam | 1,658 | 1,210 | | | | | | | | | **1,658** | 1,210 |
| Morocco | 1,044 | 1,015 | | | | | | | | | **1,044** | 1,015 |
| **Asia, Africa total** | 9,743 | 8,400 | | | | | | | 522 | 510 | **10,265** | 8,909 |
| **Abroad** | **74,922** | **67,575** | **7,070** | **6,746** | **18,114** | **15,255** | **1,335** | **1,363** | **1,907** | **1,350** | **103,348** | **92,289** |
| **Total** | **90,502** | **83,425** | **43,090** | **45,885** | **37,230** | **32,932** | **19,409** | **19,986** | **14,960** | **10,905** | **205,191** | **193,133** |

[1]Including rounding differences
[2]Without Germany

### Vocational training total remains high

With its broad range of opportunities for people just starting their working lives, the METRO Group is one of Germany's leading vocational trainers. Each year, several thousand young people learn one of around 20 attractive professions in retail and trade – from retail merchant to communications specialist – in the sales divisions and group companies. The recruitment of achievement-oriented young people for professional careers is an important social responsibility and an investment in the long-term business success of the company. In 2005, about 2,917 high school graduates entered apprenticeship programs offered by the METRO Group in Germany, matching the high level achieved in 2004. On a year's average, the company's total number of apprentices in Germany rose by 6.4 percent to 8,469. The vigorous application of the principle "Training Takes Precedence Over Hiring" led to an expansion of apprenticeship positions in the METRO Group in recent years. Overall, the share of apprentices rose from about 7.9 percent in 2004 to 8.3 percent in 2005. This shows that the METRO Group has assumed its full training responsibility and made a significant contribution to the fulfillment of Germany's training pact.

### The METRO Group launches a health offensive

Employees' motivation and health are crucial factors in a company's competitiveness and earnings strength. With its investments in company-wide health promotion, the METRO Group is strengthening and maintaining the performance and employability of its workers over the long term. In June 2005, the company launched a health offensive called "GO." The program took advantage of experience gained during a pilot project conducted in four chain stores. This corporate health management program is scheduled to be gradually introduced across the entire group. The goals of the program are to teach employees about health awareness and understanding, to promote the early diagnosis and prevention of illnesses, and to support rehabilitation and integration.

### Increased employee interest in the company pension plan

As trust in the government pension system erodes, voluntary and supplementary private pension plans are becoming more important. The METRO Group is helping its employees start such private pension plans through its "Metro Future Package." It not only meets the collective bargaining standards seen throughout the sector but also provides voluntary extra benefits. This increases employee retention. In fiscal year 2005, 61,000 employees in Germany signed up for this pension program offered by the METRO Group. That amounts to an increase of 3,000 employees over the previous year.

### The METRO Group fosters equal opportunity for all employees and applicants

As part of its diversity management, the METRO Group develops its employees based on their abilities and performance. The company views the diversity and international character of its workforce as the basis for sustainable business success. As an "equal opportunity employer," the METRO Group offers the same opportunities to all employees and applicants, regardless of their sex, age, ethnic background or beliefs, sexual identity or possible disabilities.

In 2005, the Galeria Kaufhof and Real sales brands fulfilled the legal quota set for the hiring of people with disabilities. In Germany, the METRO Group employs 4,375 people with recognized severe disabilities (previous year 4,082), including 72 apprentices. In addition, the European works councils discussed a European approach to severely handicapped employees for the first time at their annual conference.

Around the world, the METRO Group employs people from more than 160 countries. A total of 135 nationalities are represented in Germany alone. The share of women in managerial positions is about 19 percent – up 4.3 percent compared to 2002 – and as high as 27.6 percent in 2005 among newly hired managers. The METRO Group has organized German and European networking days that are designed to promote informal communications between women, and to make it easier for women to combine family and career. In response to demographic changes, the METRO Group is offering increasing support to older employees. Today, around 22 percent of the approximately 130,000 employees in Germany belong to the age group of 50 plus. In 2005, about 530 people older than 50 were hired in Germany and more than 1,000 abroad.

## A factor in success: personnel development

The primary responsibilities of personnel development in the METRO Group are to select qualified and highly motivated executives, and to promote their individual careers. Continued internationalization, the group's rigorous portfolio and concept optimization, changing customer expectations and shifting market conditions make the identification and acquisition of suitable management recruits and employees as well as their continuous development a strategic success factor. One key monitoring and analytical tool in personnel development is Metro Management Planning (MMP). The annual potential assessment ensures that all executives are judged on the same criteria, the Metro core competencies, so that they are available for positions in the entire company that match their potential. MMP is the basis for all central selection and support programs, including the group-wide assessment centers and professional development programs. In addition to teaching relevant business knowledge, these include above all continued personal development, the development of intercultural skills and the ability to think in international, networked terms, an approach that is indispensable in an international company.

Under the title of "Network & Knowledge," the METRO Group promotes the creation of networks and company-wide knowledge management. This is done through such things as collaboration in IT-supported, virtual work rooms (networking collaboration), the management project network and the Web-based business game Metro Business Simulation.

### Metro Corporate University

The goal of strategic personnel development at the METRO Group is to recruit the major share of executives from the company's own ranks. It is the responsibility of the Metro Corporate University to provide employees with the necessary qualifications. Students from all countries where the METRO Group does business are represented here. They have a chance to share experiences and to learn together. Each year, about 250 executives and "young talents" take advantage of the group's own educational institution. The members of the Management Board of METRO AG contribute to the various programs offered by the university by doing such things as serving as instructors. Experienced external partners assist as well. The METRO Group also offers an open seminar program for the qualification and professional training of employees as well as a special course designed for top management that is attended by 200 executives each year.

### Promoting the young – securing the future

The METRO Group is interested in attracting and inspiring as many qualified applicants as possible for the retail industry. To accomplish this goal, the company uses a platform that is unique to the sector: Under the motto of "Meeting Metro," the METRO Group seeks out teachers, trainers and students at two-day informational conferences in Germany. In November 2005, about 200 employees from various companies of the group – from apprentices to managing directors – gave the more than 1,200 participants a look at their company, thereby raising the METRO Group's profile and polishing its public image.

To ensure high-level qualifications among employees in Eastern Europe, the METRO Group supports the targeted promotion of vocational training through its successful "Metro Education" initiative. This program offers both comprehensive subject-matter support for teaching at local trade schools as well as internships at the METRO Group sales divisions. Following its successful application in Poland and Russia, the program was rolled out in Romania at the start of 2006.

# Environmental management

The METRO Group acknowledges its responsibility to protect the natural foundation of life, and underscores its determination to sparingly use natural resources for both environmental and economic reasons.

As a result of this pledge and in response to the latest rise in energy prices, the METRO Group has further boosted its extensive environmental protection activities. The focal points in fiscal year 2005 were the most careful and efficient use of energy possible, and the reduction of climate-relevant emissions. The sales divisions of the METRO Group have made a concerted effort to cut energy consumption per square meter of selling space. The energy efficiency of the entire company has been measurably increased. In most of the countries where the METRO Group does business, the sales divisions have appointed energy officers who are charged with directing programs that will continuously optimize the company's energy management.

Furthermore, the sales divisions of the METRO Group accelerated the transition to alternative cooling agents in refrigeration appliances and facilities in 2005, making a sustainable contribution to environmental protection in the process. One example of this drive is the new Real store in Tönisvorst, Germany. The commercial refrigeration units at this site use environmentally friendlier carbon dioxide ($CO_2$) instead of fluoro-carbons. This new building also complies with the standard of low-energy structures.

The efficiency of group-wide environmental management is reflected in the METRO Group's successful implementation of the EU directive governing the disposal of electric appliances last year. As a manufacturer of such appliances in its private-label business, the METRO Group is required in 16 EU countries to dispose of these products in an environmentally sound way and to finance the process. In each country that has adopted this directive as a national law, the group has succeeded in fulfilling the requirements of the demanding rules within the required timeframe.

During the current fiscal year, the METRO Group will issue its third sustainability report. It details the company's activities in the areas of environment and assortment, society and social affairs, and personnel. In addition to its environmental commitment, the company's sustainable business practices include initiatives that promote modernization processes in trade and retail internationally, partnerships with suppliers, and the support of social and cultural projects. In such activities, the company underscores its pledge to corporate social responsibility.

# Post-year-end developments (supplementary report)

In February 2006, the so-called bird-flu virus appeared for the first time in Western Europe, including Germany. Despite the extensive precautionary measures that have been taken by many countries, the continued spread of the virus subtype that poses a threat to humans, H5N1, cannot be ruled out.

Since the first breakout of bird flu occurred in Asia in 2003, the METRO Group has taken an extensive number of quality-assurance steps that apply to its purchases of poultry products. The company procures its foods exclusively from producers who are regularly subject to veterinary inspections and from suppliers who have a HACCP certificate and meet hygiene regulations. In addition, it requires guarantees about the safety of the products concerning bird flu.

The impact that bird flu will have on food retail cannot be predicted at the moment. If the virus continues to spread or if it repeatedly appears, a growing shift in demand from poultry to other products is likely. The METRO Group is prepared to react flexibly to possible changes in demand. At the moment, it is not possible to say whether or how this development would affect the food retail business.

# 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 entire group. Dealing with risks in a controlled manner protects the group's assets, financial and earnings position, 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 it 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 that addresses 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 taken only 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 the way that risks are addressed. They are analyzed, evaluated and controlled efficiently at the source where they occur. Risk management responsibility is assumed by the individual business units. Its administration and realization are controlled by METRO AG.

## Clear allocation of responsibilities for risk identification, analysis and assessment

To facilitate the coordinated implementation 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, including in the articles of association and bylaws 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 among 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 decentralized risk management to ensure that it is functional, timely, complete, reliable and effective. The group audit department reports directly to the Management Board. In addition, audits are performed at group companies by internal audit departments. In compliance with the provisions of KonTraG (the German Control and Transparency Law), external 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 intense 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 legal risks are the implementation of packaging regulations ("one-way deposit"), the EU directive on waste electrical and electronic equipment, the EU's chemical policy and the EU directive on F-gases (fluorocarbons).

Marketing 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 in 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. Careful monitoring of 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 the procurement of 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, entail 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 programs for in-house employee qualification. Continuing education and employee 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 programs 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.

**Litigation and tax risks**

Tax risks arise in particular from tax audits. Litigation risks result from labor, criminal and civil law proceedings, among others. Arbitration proceedings also cause litigation risks. The METRO Group protects itself against both types of risks by making special provisions. These provisions are listed in the notes to the consolidated financial statements under no. 30 and no. 41.

**Financial risks**

Financial risks, i.e. liquidity risks, price risks, creditworthiness risks and cash flow risks, and their management, are described in the notes to the consolidated financial statements under no. 38.

## 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 no risks that could endanger its existence in the future are identifiable.

# Forecast report

## Economic and industry development

The global economy is estimated to remain robust in 2006, although growth is likely to slow slightly. The negative effect of high energy prices, in particular, will increase. Despite monetary tightening and the subsiding effect of property price increases, the U.S. economy will remain the key growth engine of the global economy. However, the high fiscal and current account deficits in the United States represent a mid- to long-term threat to the global economy. The Asian countries will continue on their dynamic growth path, supporting global growth. Investment momentum will slow slightly, while consumption will increase.

Positive signs of a moderate economic upswing in the euro zone in 2006 have intensified. Improved competitiveness, rising corporate earnings and higher incoming orders signal an economic uptick. Persistently favorable monetary policy parameters and the buoyant export business will bolster the upward forces. Private consumption in the euro zone will grow only moderately. A substantial increase cannot be expected here due to the high energy prices and persistently high level of unemployment. The British, Swedish and Danish economies will outgrow the euro zone countries.

Signs of a modest upswing are growing in Germany. The business mood has brightened continually in response to rising exports and corporate earnings as well as increasing investments. This should allow for real economic growth of 1 to 2 percent in 2006. Private consumer spending, however, will increase at a below-average rate. A more noticeable revival of consumption can be expected at the end of 2006 as the planned increase in value added tax on January 1, 2007 prompts consumers to push forward their purchases of consumer goods. This, however, is unlikely to lead to sustained growth of consumption. High energy costs and persistently high unemployment will cap growth of private consumption. The value added tax increase in 2007 can be expected to dampen private consumption in that year.

The new central European EU member states are benefiting from EU economic subsidies and from their increasing integration into the common market. Their growth prospects remain positive, and economic momentum in this economic area could increase slightly. Poland is profiting above all from its more market oriented policies. The trend in Eastern Europe, too, is likely to continue to point upward. Thanks to its large oil and gas reserves, Russia is in a position to continue its strong growth. This positive development of the Russian economy will also strengthen private consumption further.

The trading and retailing industry as a whole will profit from the solid global economy in 2006. The improved economic outlook for Western Europe will support a slow increase in employment as well as income growth. Retailers, too, will eventually profit from this trend. The major economies of Great Britain, Italy and France, in particular, will contribute to this dynamism.

The German retail industry will continue to be marked by intense competition in 2006 and 2007. In addition, retail sales growth will be dampened by persistently high unemployment, stagnating real incomes and tax increases. Positive impulses will emanate from the FIFA World Cup 2006 in Germany as well as from consumer spending pushed forward to 2006 with a view to the planned increase in value added tax on January 1, 2007. German retail in the strict sense of the term probably will participate only to a limited extent in Germany's gradual economic recovery.

Retail sales growth in many Eastern European countries will slow slightly at a high level. For example, retail sales growth in Russia will be at 10.2 percent and will still amount to 7 percent in 2007. Private consumption in Poland, in turn, should increase. Retail sales in Poland should grow by roughly a real 3 percent in 2006 and 2007, respectively.

Retail sales growth in Asia is expected to remain stable until 2007. All major economies in Asia will record constant or even slightly rising real increases. With unmitigated strong growth rates, China and India will remain the key drivers of private consumption in this region over the next two years.

## Development of the METRO Group

### Cash & Carry

The cash & carry market volume will change only slightly in most Western European countries in the coming years. The cash & carry business is expected to continue to show strong growth in Eastern Europe. Divergent developments in individual countries are due mostly to the level of expansion. Metro Cash & Carry projects above-average growth in Russia and Ukraine, among other places. The company therefore plans a rigorous expansion of its location network in these countries. Impulses from strong economic developments and rising consumption are expected in Turkey.

The fast-growing economies of Asia continue to offer substantial growth potential for Metro Cash & Carry. Even if system competitors enter the market, there will be no crowding out in this segment. Future growth here will be carried both by favorable general economic developments and by market share gains from classic wholesaling. The parameters are particularly positive in China. This is why Metro Cash & Carry will continually expand its location network on the Chinese market in the coming years.

### Food retailing

Starting from a low level, the German food retail sector will grow slightly in 2006. During fiscal year 2006, Real will focus its efforts in Germany on sharpening the sales brand's profile with an advanced sales concept, recapturing market share and improving cost structures.

Foreign food retail markets, in particular Turkey, Russia and Romania, promise strong growth potential. Continued population growth and generally increasing wealth are having a positive effect in Turkey, with the EU membership negotiations providing additional growth stimulus. In Russia, modern food retailing formats will increasingly replace traditional retail formats and gain market shares. Real will continually expand its presence in both Russia and Turkey over the next few years and open additional stores. The Romanian market is far from saturated when it comes to modern food retail formats. This is why Real is planning its market entry in this country for 2006. Food retailing in Poland will continue to profit from rising consumer spending, although strong competitive pressure will create a more challenging market environment. Real will expand its strong presence on the Polish market through the selective opening of new stores.

**Consumer electronics retailing**

In Europe, business development of consumer electronics retailing will be influenced mainly by new, innovative technologies in the future. The growth driver is digital technology, above all in the areas of TV and photography. The consumer electronics segment will continue to grow in Spain, Portugal and Greece due to continuing high consumer demand for electronic equipment. Growth momentum is likely to be slower in Switzerland and Austria, where households are already well equipped with consumer electronics products. The Western European consumer electronics segment will probably grow by 3.5 percent to 4 percent in 2006. Media Markt and Saturn hope to profit from this trend. The sales division plans to strengthen its market-leading position in Europe through continued strong expansion in 2006. With its market launch in Sweden, Media Markt is entering the 13th European country. Saturn plans to enter the Dutch market in 2006.

The German consumer electronics segment is likely to grow by 2.5 to 3.5 percent. The FIFA World Cup is expected to give positive impulses, which will spur sales in the TV and home cinema sector, in particular. The anticipated effects due to the planned value added tax increase in 2007 should stimulate the market additionally.

**Department stores**

Department store operators will be bound to fight for market share in a difficult retail market environment in Germany. Their positioning in the mid-price segment will pose a particular challenge for the department stores as the polarization between the low-end and high-end sales concepts continues. In light of these developments, Kaufhof will continue to build on its Galeria concept in fiscal year 2006 and sharpen its profile in the upper price segment.

The past years' positive market development in Belgium will continue, with the Belgian department store chain Galeria Inno continuing to expand its market position in this favorable environment.

## Outlook METRO Group

Based on the above trade and retail market projections for the years 2006 and 2007, the METRO Group will continue to rigorously pursue its profitable growth course in the coming two years.

The METRO Group strives for another increase in sales and an improvement in earnings per share, adjusted for the extraordinary effect from the depreciation of deferred tax assets from loss carry-forwards in 2005, as well as an increase in economic value added.

**Disclaimer**
This annual report contains certain statements that are neither reported financial results nor other historical information. These forward-looking statements are subject to risk and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Many of these risks and uncertainties relate to factors that are beyond METRO Group's ability to control or estimate precisely, such as future market and economic conditions, the behavior of other market participants, the ability to successfully integrate acquired businesses and achieve anticipated synergies and the actions of government regulators. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as of the date of this presentation. METRO Group does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of these materials.

METRO

makro

real,-

extra

MediaMarkt

SATURN

GALERIA KAUFHOF

# Strong brands within the METRO Group

The METRO Group offers private and commercial customers a broad spectrum of services in self-service wholesaling and retailing. With services designed to meet the growing demands of their customers, the sales divisions of the METRO Group have evolved into virtually autonomous retail brands. They constantly refine their sales concepts in an effort to convince customers of the value of their services and to build a base for future business successes.

# Metro Cash & Carry

With a total of 544 locations in 28 countries, Metro Cash & Carry is the company within the METRO Group with the most distinct international character. For more than 40 years, the sales division, which is among the growth drivers in the group, has been successful at home in Germany and abroad, and is the undisputed international market leader in self-service wholesaling. A powerful, customer-focused sales concept; high quality standards in its assortment and its services; reasonable prices; strong innovative capabilities, and an international corporate culture form the basis of the long-term business success of this sales division.

| Metro Cash & Carry | 2005 |
|---|---|
| Sales | € 28.1 billion |
| EBIT | € 1,013 million |
| Number of locations | 544 in 28 countries |
| Total selling space | 4.2 million $m^2$ |
| Headcount (annual average of full-time equivalents) | 90,502 |

With its array of products, Metro Cash & Carry specifically targets commercial customers and large-scale consumers, including hotel, restaurant and kiosk operators, caterers, small food retailers, hospitals, government agencies, and, increasingly, service providers. Working under the motto of "From Professionals for Professionals," Metro Cash & Carry offers a broad, high-quality assortment of goods under the brand names of Metro and Makro. Depending on the type and size of store, the assortment includes up to 20,000 food items and 30,000 nonfood items under one roof. About 70 percent account for the food area. One distinct characteristic of Metro Cash & Carry is its special competence in fresh foods. Efficient logistics and a company-wide quality-assurance system ensure that the customer can choose from a wide range of fresh fish, meat, fruit and vegetables. An attractive price-performance ratio and the constant availability of high-quality products contribute to the worldwide success of the sales concept.

### Three store formats optimally fulfill local needs

Another important competitive factor of Metro Cash & Carry is the outstanding ability of the wholesale stores to adapt their assortments to meet local needs and conditions. Three store formats based on the amount of selling space and the depth of assortment – Classic, Junior and Eco stores – allow for the creation of an optimal offer that is tailored to suit local needs.

The largest variety of products in both the food and nonfood areas is offered by the Classic stores operating in Western Europe. The selling space of these stores ranges from 10,000 to 16,000 square meters. The Junior format, which also offers an attractive assortment of food and nonfood products on a selling space of 7,000 to 9,000 square meters, has proven its worth particularly in Eastern Europe and Asia. The Eco markets, on the other hand, focus on fresh products and have a selling space of between 2,500 and 4,000 square meters. Here, the target groups are restaurant and hotel operators as well as retailers who appreciate the high-quality food assortment offered by Metro Cash & Carry wholesale stores. The Eco format is used particularly in France, but increasingly in southern European countries as well.

With its special products for restaurants and large-scale consumers, the C+C Schaper brand completes Metro Cash & Carry's offer on the German market. The wholly owned subsidiary of Metro Cash & Carry Germany relies on a highly flexible sales system and gives its customers the opportunity to pick up the goods at the Schaper stores or to have them delivered to order free of charge.

## Internationality – a crucial success factor

The basis of the international success of the Metro Cash & Carry brand in 28 countries is primarily the performance and flexibility of a sales concept that leaves room for the regional differences in consumer habits and customer wishes. Metro Cash & Carry procures 80 percent to 90 percent of its goods from local producers and suppliers which enhances the company's acceptance abroad. This raises the company's level of acceptance in the region and creates trust among the area's business community. Another contributing factor is that Metro Cash & Carry relies mostly on local workers, including in managerial positions, to operate its wholesale stores. As part of the market-entry process, Metro Cash & Carry supports the creation and expansion of a modern and efficient trade and retail infrastructure, and works to improve training and professional development.

## Metro Cash & Carry in a close dialogue with customers and suppliers

The continuous improvement of customer management helps sharpen the brand profile of Metro Cash & Carry permanently. In pursuit of this goal, the company optimized its service portfolio and intensified its customer support in the past fiscal year. During various forums, Metro Cash & Carry sought out its customers in an effort to hear their views. In Italy, for instance, the sales division brought together its suppliers and its commercial customers as part of the "Metro Exhibition." During this intense dialogue, the specific needs of customers from the areas of hotel, gastronomy and catering could be identified and improvements in the services for this target group could be worked out. A platform for a constructive partnership between Metro Cash & Carry and various international suppliers was offered for the first time by the Strategy Forum held in Vienna in 2005. The conference held in the heart of Europe focused on cross-national partnerships. At the forum attended by a total of more than 300 people, representatives of Metro Cash & Carry discussed how to further improve communications and business processes for the benefit of the customer.

## Metro Cash & Carry: an international leader in quality standards

By developing and implementing high quality standards, Metro Cash & Carry is assuming its special responsibility as a wholesaler. Among other things, the customers at the Metro stores receive professional support in the maintenance of the cold chain. The stores, for instance, are equipped with modern cooling-element equipment. Customers can buy pre-cooled elements or exchange them at no cost in order to transport temperature-sensitive goods without risk. In light of an EU regulation on food hygiene that takes effect in 2006, this additional service will improve quality security for commercial customers. But, the company has gone a step farther. As part of its own quality management, Metro Cash & Carry is applying the EU standards not only in the region of the European Union but also in every other country where the company is represented. As a result, Metro Cash & Carry is doing much to improve food supplies in numerous regions and, at the same time, is strengthening its customers' competitiveness.

# Real and Extra

The Real and Extra sales brands are strong suppliers in food retailing that have an extensive network of locations. Both sales formats offer a high-quality assortment of foods in their hypermarkets and supermarkets, respectively. They are known for their fresh products, reasonable prices and customer orientation. Extra concentrates exclusively on the German market. Real, on the other hand, is gaining an international profile since it expanded into three countries outside Germany. While maintaining the autonomy of the brands, Real and Extra coordinate their business activities under the umbrella of Real SB-Warenhaus GmbH.

| Real (including Extra) | 2005 |
|---|---|
| Sales | € 9.9 billion |
| EBIT | € –12 million |
| Number of locations | 592 in 4 countries |
| Total selling space | 2.7 million m² |
| Headcount (annual average of full-time equivalents) | 43,090 |

## Real focuses on internationalization and new forms of marketing

With 288 locations in Germany alone, the Real sales division is among the largest hypermarket operators. The assortment sold by the hypermarkets includes up to 80,000 articles. The main focus is food products, which account for around 75 percent of sales and are complemented by an attractive wide array of nonfood items. The assortment of products in the fresh produce department is particularly large and attractive. Offering quality products at reasonable prices, Real appeals to young families with children and to the 50 plus age group. In response to the challenge created by consumer reticence in Germany and the past years' stagnation in domestic sales, Real has increasingly turned to foreign markets. Real has operations in Poland, in Turkey and, since last year, in Russia. The market entry in Romania is scheduled for 2006.

By fundamentally redirecting its marketing activities, Real began in the spring of 2005 to sharpen its brand profile as a family-friendly company facing a difficult competitive environment. The effort was launched with an image campaign that was complemented by a discount program called "The New Price Age." The actions are designed to increase customer satisfaction and customer frequency. They will be continued and developed further in the future.

## Quality and innovation – Real moves ahead

The quality and freshness of foods have a top priority at Real. After quality incidents occurred in two stores, immediate and forceful action was taken. The current quality assurance system, which already far exceeded the demands prescribed by legal regulations, was strengthened further. Real has invested heavily in increased inspections, in the training of employees and in its communication activities. The organization of the fresh produce departments was optimized in several steps on a long-term basis.

By increasingly introducing state-of-the-art technology in the retail sector, the Real brand underscored its strong innovative ability. In fiscal year 2005, Real spearheaded technological progress in the retail industry by installing self-service check-outs in around 50 stores. For the first time, cash machines were used in addition to card machines in some markets. Furthermore, a check-out system developed by Real was successfully tested. This system physically separates the scanning process and the payment procedure.

### Extra excels through customer focus and fresh produce competency

After completing a broad restructuring process that produced significant cuts to its portfolio of locations and that required the creation of a strategic alliance with Real, Extra supermarkets have increasingly positioned themselves in northern and western Germany as service-oriented neighborhood suppliers offering a wide and reasonably priced assortment of products. In particular, they have made a name for themselves with their fresh produce competency. The future of the Extra brand is taking shape in several newly designed, trend-setting stores that are equipped with the latest technological innovations. In addition to the standard assortment of every-day nonfood articles, the sales format features, in particular, a huge selection of food items. As a result, food items make up 90 percent of sales at Extra supermarkets. On a selling space ranging between 1,000 and 3,000 square meters, the stores are filled with both brand name and top-quality private label items. They also offer an abundance of fresh products like fruit, vegetables, sausages, meats, cheeses and baked goods. Increasing numbers of consumers are selecting the low-priced "TiP" private label. Extra supermarkets offer this assortment of around 1,000 articles at discount prices. Independent institutes have repeatedly endorsed the quality of these products. Other segments of the assortment that are generating increasing interest among shoppers include organic foods and ethnic products. Adequate surveys carried out last year showed distinct improvements of image rates and customer acceptance of the Extra stores.

# Media Markt and Saturn

Customer-focused sales concepts, an attractive, reasonably priced assortment, international expansion, the persistent focus on profitable growth, a decentralized management structure, strong innovative capabilities and eye-grabbing marketing campaigns – these are the decisive factors behind the success of Media Markt and Saturn. It is on this basis that the group of companies has become the leader in European consumer electronics retailing and has continually expanded this position for years. Within the METRO Group, both formats serve as growth drivers.

In recent years, Media Markt and Saturn have become synonymous with powerful performance in European consumer electronics retailing. As a result of its rigorous expansion strategy, the group of companies now has more than 300 locations in Germany and more than 200 locations in 11 other European countries. The consumer electronic centers of Media Markt and Saturn offer customers a unique variety of brand products. Consumers can choose from 45,000 articles in the areas of entertainment electronics, household appliances, new media, telecommunications, computers and photography, including all of the latest products in a fast-moving market segment characterized by frequent technological changes. Several large flagship stores boast an assortment of as many as 100,000 electronic products. In addition to this broad line-up, Media Markt and Saturn provide the customer with individual assistance from well-trained employees as well as comprehensive service, from professional repair work to the delivery and installation of major appliances. Last year, around 225 million customers across Europe visited the consumer electronics centers of Media Markt and Saturn, and experienced the exceptional line of products offered by the undisputed market leader in consumer electronics retailing.

## Decentralized management creates competitive advantages

The decentralized internal management structure enables both sales formats to quickly and flexibly adapt their assortment to the specific desires of customers from one location to another. The managers of the consumer electronic centers make their own independent decisions about their stores' product line-up, prices, and personnel and marketing policies. This authority enables them to react quickly and efficiently to sales and special product offers made by competitors in their own region. As co-partners, the store managers have a major influence on the sales and profits of their stores, and assume responsibility for the company's success. The entire sales brand profits from the entrepreneurial freedom and the creativity of the individual centers. At the same time, the individual centers benefit from the high performance of the overall group. The decentralized management structure makes a major contribution to the ongoing profitable growth of the Media-Saturn group of companies.

## Eye-grabbing advertising campaigns capture the spirit of the times

Using unconventional, emotional advertising, Media Markt and Saturn have reached an awareness level of 100 percent in Germany. In the past fiscal year, both formats succeeded in sharpening their profiles even further and extended their positions as unmistakable retail brands. Two key factors in this success were: Media Markt's slogan of "Ich bin doch nicht blöd" ("Actually, I'm not stupid") and Saturn's "Geiz ist geil!" ("Stinginess is cool!"). Both campaigns completely capture the spirit of the times – they not only address the price-conscious consumer but also express a modern, dynamic and customer-focused entrepreneurial philosophy. Special sales drew additional attention to the sales brands. Under the motto of "Today, Germany forgets the sales tax," Media Markt gave its customers a discount of 16 percent on its entire line of products at the start of 2005. Saturn offered 100 products at

| Media Markt and Saturn | 2005 |
|---|---|
| Sales | € 13.3 billion |
| EBIT | € 510 million |
| Number of locations | 558 in 12 countries |
| Total selling space | 1.7 million m² |
| Headcount (annual average of full-time equivalents) | 37,230 |

purchase price. The special seasonal campaigns launched by the sales brands generated attention as well. International expansion was reflected in the Saturn slogan of "Saturn is growing around Europe – more service for you!" Media Markt used the advertising slogan "The best ever Media Markt – We'll take the title!."

Both sales formats also carefully refined their communication efforts on the Internet in 2005. Among other changes, Saturn offered its own music download. MediaOnline.de totally reworked and redesigned its home page at www.mediaonline.de after five years.

## Media Markt and Saturn prepare for demographic change and assume their social responsibility

Given their dynamic development and their rapid expansion, Media Markt and Saturn have a large need for competent and motivated employees. In the training year of 2005 alone, the sales brands hired more than 1,000 new apprentices and underscored their commitment to initial training with a total of nearly 2,650 training positions. In addition, Media Markt and Saturn, which create much more than 1,000 new jobs year in and year out, were once again among the select group of employers with the highest number of new positions in Germany last year.

Thanks to its far-sighted human resources policies aimed at recruiting capable young employees, the company is preparing to face the drop-off in qualified workers that is expected to occur as part of demographic change and, at the same time, is working to relieve the job market and to fight unemployment among the young.

| Galeria Kaufhof | 2005 |
|---|---|
| Sales | € 3.6 billion |
| EBIT | € 69 million |
| Number of locations | 142 in 2 countries |
| Total selling space | 1.5 million $m^2$ |
| Headcount (annual average of full-time equivalents) | 19,409 |

## Galeria Kaufhof

Kaufhof Warenhaus AG, which concentrates its business on Germany, is the concept and system leader in the department store segment. Galeria Kaufhof department stores enrich the downtown areas of Germany with their sophisticated, high-quality assortment of brands and a comprehensive range of services that are presented in a colorful shopping environment. Confronted with a sluggish general economic situation and thrifty consumers, Kaufhof is working to increasingly position itself as a modern lifestyle supplier in the marketplace.

The heart of this reorientation is the creation of a strong brand with a clear, authentic profile, and an attractive brand promise based on the successful Galeria concept. With this goal in mind, the sales division has changed its previous assortment strategy and is concentrating even more intensely on internationally recognized brand articles, complemented by high-quality exclusive brands. At the same time, it is expanding the successful shop-in-shop system and is intensifying the professional training of its employees. Kaufhof's attractive price-performance ratio underscores the company's price competence. Using a mixture of experience shopping, service and entertainment, the sales division is increasingly addressing the target group of people older than 35. This strategic re-positioning was launched in the spring of 2005 with a fascinating advertising campaign that was the result of a complete marketing makeover. The central design element was a green banderole that bore the Galeria logo and the slogan "Ich freu' mich drauf!" ("I can't wait!").

### Galeria Kaufhof Aachen: the prototype of a new department-store generation

The new focal point of the Kaufhof brand positioning that is organized around the successful Galeria concept can be experienced in Aachen, Germany, where the 100th Galeria store was opened in 2005. This department store projects the future of Galeria stores with its more than 100 brand shops set up in various theme worlds. An appealing shopping atmosphere is created by a spacious and sophisticated room design, elaborate product presentations, and attentive, well-trained employees providing assistance to customers. As a result, shopping becomes an experience for customers.

### Exclusive brands made by Galeria Kaufhof

In addition to the widely expanded line of products supplied by well-known German and international brand makers, Kaufhof provides its customers with an attractive assortment of exclusive private labels that offer top quality at reasonable prices. With its private labels, the company has taken a determined step aimed at addressing the latest market and fashion trends, and at responding to the rapidly changing desires and expectations of customers in the fashion sector. In 2005, Kaufhof created four top-quality Galeria private labels and added them to its lines of products across Germany. The brands – "Mark

Adam New York" and "Miss H" for women and "Rover & Lakes" and "Redwood" for men – offer complete outfits and the appropriate accessories for clearly defined target groups. The distinct touch of the Galeria fashion designers, specially designed shops and a faster collection rhythm have turned the exclusive brands into an unmistakable element of the Galeria lifestyle concept.

### Payback program being expanded

With 29 million members around the world, Payback is the most successful customer loyalty program in Germany. Galeria Kaufhof alone has 8 million cardholders. The program offers an excellent, trust-creating platform for an individual dialogue with the customer and for targeted marketing. This helps satisfy the customer and foster his or her willingness to enter a long-term commitment to Galeria Kaufhof as "his" or "her" partner in retail. This, in turn, is the foundation of the sales division's business success. Thanks to Payback's significant contributions, the sales division was able to tap the potential of the customer loyalty program more deeply than before in 2005 as part of a number of target group-oriented marketing efforts.

### Technological innovations boost productive capacities

Through the use of the latest technology, Galeria Kaufhof creates the foundation for further improvements in service for the customer on the one hand. On the other hand, this technology creates significant cost-cutting potential throughout the entire process chain, particularly in logistics. It is precisely this technology that enables large numbers of customers to be addressed on an individual basis. Thanks to electronic data exchange, a smooth, seamless flow of information – something that is indispensable to the efficient, global management of goods – can be set up among Kaufhof, its suppliers and the manufacturers. This is why Kaufhof has made a long-term commitment to new technologies and is pressing forward with such projects as the increased networking of the electronic remittance advice. Working with its suppliers, the company also plans to further expand "cross docking." By largely abandoning temporary storage of products, inventory volumes can be significantly reduced and costs can be sharply cut.

Already in November 2004, Kaufhof began to introduce RFID to logistics and warehouse management. In cooperation with the makers of consumer goods and the IT industry, the company is increasingly tapping the cost-cutting potential that RFID transponders offer to pallets and packages. In addition, the company has been working with the standardization organization GS1 Germany on potential applications for RFID tags on individual clothing articles. Besides automatically identifying products, RFID is to be used in electronic article surveillance.

# Consolidated financial statements

# Consolidated financial statements

## Income statement for the fiscal year from 1 January to 31 December 2005

| € million | Note no. | 2005 | 2004[1] |
|---|---|---|---|
| **Net sales** | 1 | 55,722 | 53,475 |
| Cost of sales | | (44,086) | (42,431) |
| **Gross profit on sales** | | 11,636 | 11,044 |
| Other operating income | 2 | 1,149 | 1,056 |
| Selling expenses | 3 | (9,885) | (9,289) |
| General administrative expenses | 4 | (1,094) | (992) |
| Other operating expenses | 5 | (68) | (96) |
| **Earnings before interest and taxes (EBIT)** | | 1,738 | 1,723 |
| Result from associated companies | 6 | 58 | 35 |
| Other investment result | 7 | 16 | (4) |
| Interest income | 8 | 143 | 151 |
| Interest expenses | 8 | (614) | (628) |
| Other financial result | 9 | 17 | (17) |
| **Net financial income** | | (380) | (463) |
| **Earnings before taxes (EBT)** | | 1,358 | 1,260 |
| Income taxes | 10 | (740) | (402) |
| write-downs on deferred tax assets from loss carry-forwards at Real Germany | | [(307)] | [–] |
| **Income from continuing operations** | | 618 | 858 |
| Income from discontinued operations after taxes | 37 | 31 | 69 |
| **Net profit for the period** | | 649 | 927 |
| allocable to minorities | 11 | 118 | 99 |
| from continuing operations | | [117] | [98] |
| from discontinued operations | | [1] | [1] |
| allocable to stockholders of METRO AG | | 531 | 828 |
| from continuing operations | | [501] | [760] |
| from discontinued operations | | [30] | [68] |
| **Earnings per share in €** | 12 | 1.63 | 2.53 |
| from continuing operations | | [1.54] | [2.32] |
| from discontinued operations | | [0.09] | [0.21] |

[1] Adjustment of prior year amounts due to the application of new accounting methods as described in the notes to the group accounting principles and methods

# Balance sheet as per 31 December 2005

## Assets

| € million | Note no. | As per 31 Dec 2005 | As per 31 Dec 2004[1] |
|---|---|---|---|
| **Non-current assets** | | 17,580 | 17,452 |
| Goodwill | 18 | 4,154 | 4,132 |
| Other intangible assets | 19 | 433 | 394 |
| Tangible assets | 20 | 11,037 | 10,560 |
| Investment properties | 21 | 228 | 256 |
| Financial assets | 22 | 136 | 143 |
| Other receivables and assets | 23 | 482 | 422 |
| Deferred tax assets | 24 | 1,110 | 1,545 |
| **Current assets** | | 11,187 | 10,900 |
| Inventories | 25 | 6,246 | 6,272 |
| Trade receivables | 26 | 367 | 355 |
| Financial assets | | 13 | 28 |
| Other receivables and assets | 23 | 2,200 | 1,936 |
| Entitlements to income tax refunds | | 253 | 202 |
| Cash and cash equivalents | 27 | 1,767 | 2,107 |
| Non-current assets held for sale | 37 | 341 | – |
| | | **28,767** | **28,352** |

[1]Adjustment of prior year amounts due to the application of new accounting methods as described in the notes to the group accounting principles and methods

**Liabilities**

| € million | Note no. | As per 31 Dec 2005 | As per 31 Dec 2004[1] |
|---|---|---|---|
| **Equity** | 28 | 5,313 | 4,849 |
| Capital stock | | 835 | 835 |
| Additional paid-in capital | | 2,551 | 2,551 |
| Reserves retained from earnings | | 1,721 | 1,302 |
| Minority interests | | 206 | 161 |
| **Non-current liabilities** | | 8,408 | 8,844 |
| Provisions for pensions and similar commitments | 29 | 995 | 1,006 |
| Other provisions | 30 | 447 | 469 |
| Financial liabilities | 33 | 6,046 | 6,418 |
| Other liabilities | 34 | 433 | 423 |
| Deferred tax liabilities | 24 | 487 | 528 |
| **Current liabilities** | | 15,046 | 14,659 |
| Trade payables | 32 | 10,952 | 10,771 |
| Provisions | 30 | 288 | 310 |
| Financial liabilities | 33 | 1,590 | 1,384 |
| Other liabilities | 34 | 1,967 | 1,916 |
| Income tax liabilities | | 249 | 278 |
| | | **28,767** | **28,352** |

[1]Adjustment of prior year amounts due to the application of new accounting methods as described in the notes to the group accounting principles and methods

# Cash flow statement[1]

| € million | 2005 | 2004[2] |
|---|---|---|
| EBIT | 1,738 | 1,723 |
| Depreciation and amortization on tangible and intangible assets | 1,200 | 1,118 |
| Change in provisions for pensions and similar commitments | (19) | 58 |
| Change in net working capital | 66 | 535 |
| Income taxes paid | (499) | (546) |
| Other | (452) | (133) |
| **Cash flow from operating activities of continuing operations** | 2,034 | 2,755 |
| Cash flow from operating activities of discontinued operations | 150 | 96 |
| **Total cash flow from operating activities** | 2,184 | 2,851 |
| First-time consolidation Adler | 19 | 0 |
| Investments in tangible assets (excl. finance leases) | (1,922) | (1,434) |
| Other investments | (253) | (226) |
| Company divestments | 48 | 0 |
| Divestment of Praktiker | 670 | 0 |
| Disposals of fixed assets | 313 | 357 |
| **Cash flow from investing activities of continuing operations** | (1,125) | (1,303) |
| Cash flow from investing activities of discontinued operations | (43) | (32) |
| **Total cash flow from investing activities** | (1,168) | (1,335) |
| Profit distribution | | |
| to METRO AG stockholders | (334) | (334) |
| to other stockholders | (72) | (70) |
| Raising of financial liabilities | 935 | 1,521 |
| Redemption/repayment of financial liabilities | (1,415) | (1,506) |
| Interest paid | (637) | (622) |
| Interest received | 137 | 151 |
| Profit and loss transfers and other financing activities | (6) | (47) |
| **Cash flow from financing activities of continuing operations** | (1,392) | (907) |
| Cash flow from financing activities of discontinued operations | 23 | (83) |
| **Cash flow from financing activities (total)** | (1,369) | (990) |
| **Total cash flows** | **(353)** | **526** |
| Exchange rate effects on cash and cash equivalents | 13 | 0 |
| **Overall change in cash and cash equivalents** | **(340)** | **526** |
| Cash and cash equivalents on 1 January | 2,107 | 1,581 |
| Cash and cash equivalents on 31 December | 1,767 | 2,107 |
| Less cash and cash equivalents from discontinued operations as per 31 December | 0 | (45) |
| **Cash and cash equivalents from continuing operations as per 31 December** | 1,767 | 2,062 |

[1]The cash flow statement is explained in the notes under no. 35
[2]Adjustment of prior year amounts due to the application of new accounting methods as described in the notes to the group accounting principles and methods

# Statement of changes in equity[1]

| € million | Capital stock | Capital reserve | Reserves retained from earnings | Total | Minorities | Total equity |
|---|---|---|---|---|---|---|
| **1 Jan 2004** | 835 | 2,551 | 775 | 4,161 | 188 | 4,349 |
| Adjustment IAS 32 | – | – | (8) | (8) | (73) | (81) |
| Adjustment IAS 37 in combination with IAS 8 | – | – | (60) | (60) | – | (60) |
| Adjustment IFRS 2 | – | – | 7 | 7 | – | 7 |
| **1 Jan 2004 adjusted** | 835 | 2,551 | 714 | 4,100 | 115 | 4,215 |
| Net profit for the period | – | – | 828 | 828 | 99 | 927 |
| Profit distribution | – | – | (334) | (334) | (67) | (401) |
| Remeasurement IAS 39 | – | – | 18 | 18 | – | 18 |
| Currency translation | – | – | 81 | 81 | – | 81 |
| Other | – | – | (5) | (5) | 14 | 9 |
| **31 Dec 2004/1 Jan 2005** | 835 | 2,551 | 1,302 | 4,688 | 161 | 4,849 |
| First-time consolidation Adler | – | – | 23 | 23 | – | 23 |
| Net profit for the period | – | – | 531 | 531 | 118 | 649 |
| Profit distribution | – | – | (334) | (334) | (72) | (406) |
| Remeasurement IAS 39 | – | – | 26 | 26 | – | 26 |
| Currency translation | – | – | 169 | 169 | 1 | 170 |
| Other | – | – | 4 | 4 | (2) | 2 |
| **31 Dec 2005** | **835** | **2,551** | **1,721** | **5,107** | **206** | **5,313** |

[1]Adjustment of prior year amounts due to the application of new accounting methods as described in the notes to the group accounting principles and methods

# 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 International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London. METRO AG's consolidated financial statements comply with all accounting standards and interpretations as of December 31, 2005 as adopted by the European Union.

The present financial statements are based on the historical cost principle except for financial instruments recognized at their fair values and assets and liabilities that are recognized at their fair values as hedged items within a fair value hedge. Furthermore, non-current assets held for sale and disposal groups are entered in the balance sheet at fair value less costs to sell as long as this value is lower than the carrying amount.

Certain items in the income statement and the balance sheet have been combined with a view to enhancing the transparency of presentation. These items are listed separately and are detailed in the notes. The income statement has been prepared using the cost of sales method. All amounts are millions of euros (€ million) unless otherwise indicated.

The following accounting procedures were used in the preparation of the financial statement.

### Application of new accounting methods

### Revised and new accounting regulations

For the first time, the current consolidated financial statements apply the accounting standards and interpretations amended and newly released by the IASB. Their application was mandatory for the 2005 annual report of METRO AG:

IAS 1 (Presentation of Financial Statements)
IAS 2 (Inventories)
IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors)
IAS 10 (Events after the Balance Sheet Date)
IAS 16 (Property, Plant and Equipment)
IAS 17 (Leases)
IAS 21 (The Effects of Changes in Foreign Exchange Rates)
IAS 24 (Related Party Disclosures)
IAS 27 (Consolidated and Separate Financial Statements)
IAS 28 (Investments in Associates)
IAS 31 (Interests in Joint Ventures)
IAS 32 (Financial Instruments: Disclosure and Presentation)

IAS 33 (Earnings per Share)
IAS 39 (Financial Instruments: Recognition and Measurement)
IAS 40 (Investment Property)
IFRS 2 (Share-based Payment)
IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations)
SIC-12 (Consolidation – Special Purpose Entities)
IFRIC 1 (Changes in Existing Decommissioning, Restoration and Similar Liabilities)
IFRIC 2 (Members' Shares in Co-operative Entities and Similar Instruments)

The material impact of the initial application of the revised and new accounting regulations is restricted to the standards described below:

**IAS 1 (Presentation of Financial Statements)**
Starting with fiscal year 2005, companies must present a classified balance sheet, separating current and non-current assets and liabilities. As a rule, assets and liabilities are considered to be current if their term is less than a year. They are considered to be non-current if their term is longer than a year. Furthermore, minority interests must be listed separately from the parent company's equity in the equity section of the corporate balance sheet. In both cases, the prior year figures had to be adjusted accordingly.

**IAS 32 (Financial Instruments: Disclosure and Presentation)**
In accordance with the amended standard IAS 32, a financial instrument that gives the holder the right to return it to the issuer for cash or another financial asset (a "puttable instrument") is a financial liability of the issuer. As a result, commitments to stock tender rights, in particular, must be classified as debt rather than equity. Due to the first-time application of this accounting regulation, certain minority interests with put options had to be recognized as liabilities. Analogous to the regulations for the recognition of business combinations under IAS 22 and IFRS 3, the stock tender rights were treated as "contingent consideration." Profit distributions to such minorities are shown as interest expenses. As a result of the requirement for retrospective application under IAS 32, the prior year figures had to be restated accordingly.

The stock tender rights were agreed on, for the most part, in 2002. As per January 1, 2004, they resulted in additional other liabilities of € 275 million, additions to goodwill of € 194 million and an equity decrease of € 81 million. Of the latter, the scheduled goodwill amortization by the end of 2003 accounts for € 8 million, while the derecognition of previously recognized minority interests accounts for € 73 million.

As a result of the required annual valuation of stock tender rights and the necessary addition of accrued interest due to the mostly long-term maturity of these stock tender rights, liabilities increased by

€ 21 million to € 275 million in fiscal year 2005 (previous year decrease by € 21 million to € 254 million due to the additional exercise of a stock tender right). The respective goodwill increased by € 16 million to € 216 million (previous year increase by € 6 million to € 200 million). The annual addition of accrued interest resulted in interest expenses of € 12 million (previous year € 11 million). The adjustment of derecognizable minority interests amounted to € 7 million (previous year € 7 million). Profit allocable to minority interests fell by € 9 million (previous year € 8 million).

**IFRS 2 (Share-Based Payment)**

IFRS 2, which was introduced in February 2004, for the first time provides a binding regulation governing the accounting treatment of share-based payments. Pursuant to IFRS 2, the stock-based remuneration systems for METRO Group executives must be classified as "cash-settled share-based payment transactions." Proportionate provisions recognized at the fair value of the commitments must be formed for these transactions. The proportionate formation of provisions must be recognized as personnel expenses prorated over the respective underlying blocking period. Insofar as the granted share-based payments have been hedged, the corresponding hedging transactions are recognized at their fair values and stated under other assets. The portion of the hedges' value fluctuation that corresponds to the value fluctuation of the share-based payments is recognized in personnel expenses. The surplus amount of value fluctuations is recognized in equity with no effect on income.

The required retrospective application of IFRS 2 to existing stock-based remuneration systems resulted in minor changes of prior year amounts that, to date, essentially affect only the proportionate distribution of hedging costs. The prior year amounts were restated accordingly.

As per January 1, 2004, this resulted in an additional other provision of € 4 million, a € 15 million increase in other assets as well as an equity increase of € 7 million in consideration of deferred taxes. Under consideration of the pro rata valuation and the partial exercise of share-based remuneration in the interim period, the additional provision amounts to € 26 million for the year under review (previous year € 26 million). The additional other assets amount to € 35 million (previous year € 48 million). In fiscal year 2005, this resulted in a decline of personnel expenses in the area of selling expenses of € 2 million (previous year € 3 million). The change in the share of value fluctuations of hedging transactions that was recognized in equity with no effect on income amounts to € –15 million (previous year € 8 million).

**IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)**

IFRS 5 regulates for the first time the accounting treatment of non-current assets held for sale. In addition, IFRS 5 replaces IAS 35 (Discontinued Operations), which previously regulated the accounting treatment of discontinued operations.

Under IFRS 5, non-current assets must be classified as “held for sale” if and when their carrying amounts are to be realized above all through a sale rather than through continued utilization. These assets must be recognized at the lower of carrying amount and fair value less costs to sell and shown separately in the balance sheet. If associated liabilities are to be sold in a single transaction with the non-current assets, the assets and liabilities are bundled in a disposal group. In this case, the aforementioned accounting and measurement regulations apply to the entire disposal group.

IFRS 5 also requires that a corporate unit be recognized as a discontinued operation if and when it is held for sale or has already been disposed of. Discontinued operations must be recognized at the lower of carrying amount and fair value less costs to sell. Discontinued operations must be presented separately in the income statement, the balance sheet, the cash flow statement and the segment report, and explained in the notes. With the exception of the balance sheet, prior year amounts must be restated accordingly. Under IFRS 5, the divestment of the Praktiker sales division must be reported as a discontinued operation (see also note no. 37).

Under IFRS 5, the previous non-consolidation requirement for acquisitions with a view to resale under IAS 27 (Consolidated and Separate Financial Statements) was abandoned. The amended standard must be applied for the first time starting in fiscal year 2005. Adler Modemärkte GmbH and its subsidiaries (Adler Modemärkte) were acquired in 2004 with a view to resale. As a result of the amended regulation under IAS 27, the Adler Modemärkte have been consolidated since the first quarter of 2005. Due to their minor significance, the prior year amounts were not restated. See also the explanations under group consolidation and associated companies.

The first-time application of the other above-mentioned accounting regulations had no material impact on the group’s asset, financial and earnings position.

In the meantime, the IASB has newly introduced or amended a series of other accounting standards and interpretations that will be applicable for the first time effective January 1, 2006, or January 1, 2007, if they are adopted by the European Union. These accounting standards will – if applicable – be applied by METRO AG starting with fiscal year 2006 or 2007:

| No. | Title | Application from |
|---|---|---|
| IAS 1 | (Presentation of Financial Statements – Added disclosures about an entity’s capital) | 1 Jan 2007 |
| IAS 19 | (Employee Benefits) | 1 Jan 2006 |
| IAS 39 | (Financial Instruments: Recognition and Measurement – amendment for hedges of forecast intragroup transactions) | 1 Jan 2006 |

| No. | Title | Application from |
|---|---|---|
| IAS 39 | (Financial Instruments: Recognition and Measurement – amendment for fair value option) | 1 Jan 2006 |
| IAS 39 | (Financial Instruments: Recognition and Measurement – amendment for financial guarantee contracts) | 1 Jan 2006 |
| IFRS 4 | (Insurance Contracts – amendment for financial guarantee contracts) | 1 Jan 2006 |
| IFRS 6 | (Exploration for and Evaluation of Mineral Resources) | 1 Jan 2007 |
| IFRS 7 | (Financial Instruments: Disclosures) | 1 Jan 2007 |
| IFRIC 4 | (Determination whether an Arrangement Contains a Lease) | 1 Jan 2006 |
| IFRIC 5 | (Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds) | 1 Jan 2006 |
| IFRIC 6 | (Liabilities arising from Participation in a Specific Market – Waste Electrical and Electronic Equipment) | 1 Jan 2006 |
| IFRIC 7 | (Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies) | 1 Jan 2007 |
| IFRIC 8 | (Scope of IFRS 2) | 1 Jan 2007 |

At this point, the first-time application of the aforementioned accounting regulations is not expected to have any material impact on the group's asset, financial and earnings position.

**Changes in accounting methods**

As per December 31, 2004, merchandise inventories were valued in consideration of a more precise determination of other costs of purchase, supplier discounts and net realizable values. In fiscal year 2005, this resulted in a restructuring of sales costs and selling expenses with no effect on income. In addition, allowances for advertising expenses were, for the first time, netted against associated advertising expenses. The prior year's figures were adjusted in accordance with IAS 2 (Inventories) in combination with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors).

In particular, personnel costs – essentially in the areas of goods receipt and procurement – of € 322 million (previous year € 313 million) were transferred from selling expenses to cost of sales, and revenues of € 252 million (previous year € 235 million) and € 420 million (previous year € 375 million) from allowances for advertising expenses nettable against associated advertising expenses were transferred from sales costs and other operating income, respectively, to selling expenses.

Overall, selling expenses were credited with € 994 million (previous year € 923 million), while sales costs and other operating income were debited with € 574 million (previous year € 548 million) and € 420 million (previous year € 375 million), respectively.

METRO AG believes that the consolidated financial statements provide a more informative basis for an evaluation of the group's asset, financial and earnings situation as well as cash flows thanks to the changed presentation.

Beginning in fiscal year 2005, property not held for use in the production or supply of goods or services or for administrative services, but to earn rentals and/or for capital appreciation is shown separately in the item "investment property" under non-current assets in accordance with IAS 40 (Investment Property). Based on the historical cost principle, investment property is measured at cost less scheduled and potentially necessary non-scheduled depreciation. Investment properties are stated separately in the balance sheet and explained in the notes. The prior year amounts were adjusted for the purpose of comparability.

As per January 1, 2004, a total of € 194 million in investment properties was identified, stated separately in the balance sheet and extrapolated accordingly. As per December 31, 2005, investment properties amounted to a total of € 228 million (previous year € 256 million). There was no effect on income.

In 2005, METRO AG also changed the method to account for store-related risks. Store-related risks can arise from leased objects. Under the previous practice, individual locations were already considered for the determination of provisions for deficient rental cover. This practice now also applies to continued locations insofar as present corporate planning yields a deficient rental cover for any one location. The recognized provision maximally amounts to the deficient cover resulting from a possible subleasing of the location. A potentially necessary non-scheduled write-down of the non-current assets belonging to the respective location, however, takes precedence over the formation of provisions. METRO AG believes that this method of presentation provides a more transparent picture of the risk and opportunity structure of the location portfolio. The accounting method is also in line with international customs in the sector, fulfills the purpose of regional customer retention and is better suited to identifying possible location risks at an early stage.

The change was carried out retrospectively and in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) in combination with IAS 8 and, as of January 1, 2004, led to a decrease in equity of € 60 million from impairments in the area of other intangible and tangible assets totaling € 11 million, the creation of provisions for store-related risks totaling € 47 million and deferred tax assets of € 7 million. During the year under review, impairments still amounted to € 1 million (previous year € 5 million), provisions amounted to € 38 million (previous year € 57 million), and deferred tax assets amounted to € 7 million (previous year € 6 million). In fiscal 2005, provisions declined as a result of disposals from discontinued operations of € 31 million (previous year € 0 million).

**Consolidated group and associated companies**

Besides METRO AG, the consolidated financial statements comprise 671 (previous year 654) German and 401 (previous year 346) foreign subsidiaries controlled by METRO AG in accordance with IAS 27 (Consolidated and Separate Financial Statements) in combination with SIC-12 (Consolidation – Special Purpose Entities).

Since their impact on the group's asset, financial and earnings position is of minor significance, 19 (previous year 37) subsidiaries were not included in the consolidation. The combined sales of these companies account for considerably less than 1 percent of group sales.

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

| | |
|---|---|
| Status 1 January 2005 | 1,001 |
| Changes in fiscal 2005: | |
| Companies merged with other consolidated subsidiaries | (31) |
| Companies divested | (18) |
| Other disposals | (10) |
| Companies newly formed | 101 |
| Other first-time consolidation | 15 |
| Other additions | 15 |
| **Status 31 December 2005** | **1,073** |

Company divestments concern exclusively the companies sold as part of the divestment of Praktiker.

Additions from newly formed companies (101 companies) are due mainly to the expansion of the Metro Cash & Carry and Media Markt and Saturn sales divisions.

Other first-time consolidations concern the integration of companies that own property that is rented to the sales divisions of the METRO Group.

Other additions concern 10 companies as part of the necessary inclusion of Adler Modemärkte due to new/amended accounting regulations. Due to the minor overall significance to the asset, financial and earnings position as well as the cash flows of the METRO Group, the inclusion of the companies acquired on March 25, 2004 (acquisition date) was carried out on January 1, 2005, for the purpose of simplification. A total of 100 percent of the voting rights and the equity capital were acquired for a purchase price of € 60 million. The purchase price allocation carried out on the basis of the proportionate values at the date of acquisition produced goodwill of € 312 million in consideration of the assets and liabilities of Adler Modemärkte, including a bank liability of € 280 million. Net profit of Adler Modemärkte included in the consolidated financial statements for 2005 amounted to € 14 million. Due to the minor significance of the transaction, the prior year figures were not adjusted.

Any material effects from changes in the group consolidation are detailed in the respective notes to the financial statements. Please refer to note no. 37 for details on the divestment of Praktiker.

One associated company (previous year 2) is valued according to the equity method. The associated company Loyalty Partner GmbH was divested in 2005 (see also note no. 6). A total of 14 companies was not valued at equity (previous year 22). 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 the investments in question were immaterial or did not qualify as associated companies. These investments are valued at cost.

A full list of group companies and associated companies is filed with the commercial register of the District Court of Düsseldorf (HRB 39473). An overview of major group companies is shown under note no. 51.

**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 companies that, unlike METRO AG, do not close their fiscal year on December 31 prepared interim financial statements for consolidation purposes.

For business combinations 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 charges 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 beginning on 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 charges attributable to minority interests must be disclosed and reported as minority interests in accordance with IFRS 3.

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 non-scheduled amortization of this goodwill being included in income from associated companies in the financial result. 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 and measurement methods.

Shares in non-consolidated group companies are recognized in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). 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, transactions in foreign currency are translated at the rate prevailing on the transaction date. Exchange losses incurred up to the closing date on the measurement of receivables and payables in foreign currency are reported. The resulting gains and losses 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). The functional currency is defined as the currency of the primary economic environment of the subsidiary. Since all consolidated companies operate as financially, economically and organizationally autonomous entities, their respective local currency is the functional currency. Assets and liabilities are therefore translated at the average exchange rate prevailing 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 revenue reserves. 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 prevailing on the closing date. The carrying amounts of the non-monetary balance sheet and income statement items of these companies, however, are adjusted to the price changes in the fiscal year, prior to the translation at the mean rate as per the closing 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. In fiscal 2005, hyperinflationary accounting concerned group companies based in Turkey. In the previous year, it also affected group companies based in Romania.

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

| | Average rate per € | | Closing rate per € | |
|---|---|---|---|---|
| | 2005 | 2004 | 31 Dec 2005 | 31 Dec 2004 |
| Pound sterling | 0.68401 | 0.67846 | 0.68720 | 0.70505 |
| Bulgarian lev | 1.95583 | 1.95583 | 1.95583 | 1.95583 |
| Chinese renminbi | 10.19896 | 10.29068 | 9.51806 | 11.27342 |
| Danish kroner | 7.45219 | 7.43971 | 7.46085 | 7.43880 |
| Hong Kong dollar | 9.68207 | 9.68763 | 9.17960 | 10.54315 |
| Indian rupee | 54.79039 | 56.27849 | 53.26750 | 58.66650 |
| Japanese yen | 136.89510 | 134.38463 | 139.12000 | 139.65000 |
| Croatian kuna | 7.39937 | 7.49567 | 7.37563 | 7.66455 |
| Moroccan dirham | 11.02202 | 11.02682 | 10.94635 | 11.19815 |
| Moldavian leu | 15.65331 | 15.20096 | 15.18290 | 16.76400 |
| Pakistani rupee | 71.12220[1] | – | 70.69240[1] | – |
| Polish zloty | 4.02327 | 4.53069 | 3.84570 | 4.08450 |
| Romanian leu | 36,229.20000 | 40,520.50000 | 36,845.00000 | 39,390.00000 |
| Russian rouble | 35.21306 | 35.81658 | 34.18500 | 37.60080 |
| Swiss franc | 1.54843 | 1.54399 | 1.55530 | 1.54290 |
| Serbian dinar | 82.93610 | 72.60083 | 85.50000 | 79.08030 |
| Singapore dollar | 2.07081 | 2.10162 | 1.96855 | 2.21345 |
| Slovak koruna | 38.60147 | 40.03454 | 37.84000 | 38.74500 |
| Czech koruna | 29.78005 | 31.90045 | 29.08500 | 30.46400 |
| New Turkish lira | 1.67685 | 1.77504 | 1.59580 | 1.83620 |
| Ukrainian hryvnia | 6.38699 | 6.61086 | 5.97163 | 7.20275 |
| Hungarian forint | 248.05260 | 251.74755 | 252.47000 | 245.97000 |
| U.S. dollar | 1.24495 | 1.24314 | 1.18350 | 1.36210 |
| Vietnamese dong | 19,732.62000 | 19,582.01000 | 18,839.79000 | 21,395.29000 |

[1]First-time inclusion in the consolidated financial statements as per 31 December 2005

The Turkish inflation rate in 2005 amounted to 8.0 percent (previous year 8.6 percent).

### 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, where applicable by using the effective interest method.

### Intangible assets

In accordance with IFRS 3, **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 lower recoverable amount. No write-up is performed if the reasons for a non-scheduled write-down in previous years have ceased to exist.

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 of purchase. **Internally generated intangible assets** are capitalized at cost of conversion if the capitalization criteria of IAS 38 (Intangible Assets) are met. The cost of conversion comprises all expenditure directly attributed or indirectly allocated to the conversion process. Financing 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 three to five years because of its **determined useful life**, with licenses being amortized over the term of the respective agreement. Non-scheduled amortization of the above-mentioned intangible assets is effected at the closing date if the recoverable amount is below the amortized cost. The assets are written back if the reasons for non-scheduled amortization implemented 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 |

In accordance with IAS 17 (Leases), economic ownership of **leased assets** is attributable to the lessee if all the material risks and reward 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 subjected to scheduled depreciation 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 the reasons for non-scheduled depreciation have ceased to exist.

**Investment properties**

In accordance with IAS 40 (Investment Property), **investment properties** comprise properties that are held to earn rentals and/or for capital appreciation. In analogy to tangible assets, they are recognized at cost less scheduled and potentially required non-scheduled depreciation based on the historical cost model. Scheduled depreciation of investment properties is effected over a useful life of 15 to 33 years. The fair value of these properties is stated in the notes. It is determined either on the basis of recognized measurement methods or independent expert opinions.

**Financial assets**

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

**Shares in associated companies, investments and long-term securities** are assets to be classified as "available-for-sale financial assets." They are measured at their fair values including transaction costs 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 values. If there are no active markets and if the fair values cannot be determined without undue effort, they are recognized at cost. **Loans** are classified as “loans and receivables,” and therefore recognized at amortized cost based on the effective interest method. Financial assets designated as hedged items as part of a fair value hedge are recognized in income at their fair value.

Fluctuations in the value of “available-for-sale financial assets” are recognized in 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 retrospective impairment of the assets has occurred.

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

### Deferred taxes

**Deferred taxes** are determined in accordance with IAS 12, according to which future tax benefits and liabilities are recognized for temporary differences between the carrying amounts of assets or liabilities in the consolidated financial statements 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 recognized only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax assets and deferred tax liabilities are netted if these income tax assets and liabilities concern the same tax authority and refer to the same tax subject or a group of different tax subjects that are jointly assessed for income tax purposes.

### Inventories

Merchandise carried as **inventories** is reported at cost of purchase. As a rule, the cost of purchase is determined by means of the weighted average cost formula. Merchandise is valued as per the 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 direct costs necessary to make the sale.

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

### Trade receivables

In accordance with IAS 39, **trade receivables** are classified as "loans and receivables," and recognized at amortized cost. Where their recoverability appears doubtful, the trade receivables are recognized at the lower recoverable amount. Aside from the required specific bad-debt allowances, a lump-sum bad debt allowance is carried to account for the general credit risk.

### Other receivables and assets

The financial assets in the **other receivables and assets** item that are classified as "loans and receivables" under IAS 39 are recognized at amortized cost.

The **deferred income item** comprises transitory deferrals.

**Other assets** include inter alia investments and derivative financial assets to be classified as "held for trading" in accordance with IAS 39. They are recognized at their fair value, which corresponds to the cost of purchase without transaction costs, 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 cost. All other receivables and assets are recognized at cost.

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

### Cash and cash equivalents

**Cash and cash equivalents** comprise checks, cash on hand as well as bank deposits and are recognized at their respective nominal values.

### Provisions

The actuarial measurement of **pension provisions** for company pension plans 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 recognized only 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 result. **Other provisions for pensions and similar commitments** are formed on the basis of actuarial valuations under IAS 19.

**(Other) provisions** are formed if de jure or de facto obligations to third parties that are based on past business transactions or events will probably result in an outflow of financial funds that 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.

Provisions for deficient rental cover in the case of location risks related to leased objects are based on a consideration of individual locations. The same applies to continued locations insofar as a deficient cover for the respective location arises from current corporate planning. The provision maximally amounts to the size of the deficient cover resulting from a possible subleasing.

Long-term provisions, e.g. for deficient rental cover or reinstatement obligations, are recognized at their settlement amounts discounted to the balance sheet date.

### Liabilities

**Trade liabilities** are recognized at amortized cost.

In principle, all **financial liabilities** are recognized at amortized cost using the effective interest method in accordance with IAS 39. Financial liabilities 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 liabilities have been determined on the basis of the interest rates prevailing on the closing date for the remaining terms and redemption structures.

In principle, financial liabilities from finance leases are carried as liabilities at the present value of future lease payments.

**Other liabilities** are carried at their settlement amounts unless they represent derivative financial instruments or commitments to stock tender rights, which are recognized at their fair value under IAS 39. Deferred income comprises transitory deferrals.

### Contingent liabilities

**Contingent liabilities** are potential or existing obligations arising from past events for which, however, an outflow of resources is not considered probable. According to IAS 37, 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, in accordance with the respective group guideline.

In accordance with IAS 39, all derivative financial instruments are recognized at their fair values and shown under "other receivables and assets" or "other liabilities."

Derivative financial instruments 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 correspond to 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 instruments 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 and which, accordingly, did not qualify for **hedge accounting** are recognized in income. Results from derivative financial instruments for which a cash flow hedge has been formed and whose effectiveness has been established are carried in equity with no effect on income up to the date of realization of the hedge 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-based remuneration

The stock options (SOP), stock appreciation rights (SAR) and stock bonuses granted under the stock-based remuneration program are classified as "cash-settled share-based payment transactions." Proportionate provisions measured at the fair value of the obligations entered are formed for these payments. The proportionate formation of the provisions is prorated over the underlying blocking period and recognized in income as personnel expenses. To the extent that the granted share-based payments are hedged, the corresponding hedging transactions are recognized at their fair values and included under other assets. The portion of the hedges' value fluctuation that corresponds to the value fluctuation of the share-based payments is recognized in personnel expenses. The surplus amount of value fluctuations is recognized in equity with no effect on income.

### Accounting for non-current assets held for sale and discontinued operations

A **non-current asset** is classified as "held for sale" if the respective carrying amount is to be realized above all through a sale rather than through continued utilization. The asset is measured at the lower of carrying amount and fair value less costs to sell and presented separately in the balance sheet.

A component of an entity is classified as a **discontinued operation** if it is held for sale or has already been disposed of. The discontinued operation is measured at the lower of carrying amount and fair value less costs to sell. Discontinued operations must be presented separately in the income statement, the balance sheet, the cash flow statement and the segment report, and explained in the notes. With the exception of the balance sheet, prior year amounts are restated accordingly.

### Use of assumptions and estimates

The preparation of the consolidated financial statements was based on a number of **assumptions** and **estimates** that 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 assessment of the recoverability of goodwill, the group-wide establishment of useful lives, the measurement of provisions, e.g. for pensions or store-related risks, and feasibility of future tax savings, in particular from loss carry-forwards. The actual values may deviate from the assumptions and estimates in individual cases. Changes 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 | 2005 | 2004 |
|---|---|---|
| Metro Cash & Carry | 28,087 | 26,442 |
| Real (including Extra) | 9,922 | 10,727 |
| Media Markt and Saturn | 13,306 | 12,210 |
| Galeria Kaufhof | 3,575 | 3,768 |
| Others[1] | 832 | 328 |
| | **55,722** | **53,475** |

[1]The sales listed under others were mainly generated by the Dinea group at € 192 million (€ 193 million the year before), and Adler Modemärkte, which was first consolidated in 2005, at € 572 million

A total of € 29.8 billion of net sales (previous year € 26.9 billion) was generated by group companies based outside of Germany.

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

## 2. Other operating income

| € million | 2005 | 2004 |
|---|---|---|
| Rents | 408 | 406 |
| Services/cost refunds | 206 | 223 |
| Commissions | 91 | 52 |
| Income from allowances for advertising expenses | 70 | 68 |
| Income from sale-and-lease-back transactions | 64 | 12 |
| Central A/P clearing for sales divisions | 63 | 69 |
| Gains from the disposal of fixed assets and from write-ups | 22 | 20 |
| Income from damages and indemnities | 18 | 17 |
| Income from construction services | 13 | 9 |
| Others | 194 | 180 |
| | **1,149** | **1,056** |

The sale of real estate objects that were rented after the sale accounts for € 52 million of the increase in other operating income of € 93 million. For details on non-scheduled write-downs on real estate see note no. 13. The increase in commissions by € 39 million is largely due to the expansion of the Media Markt and Saturn sales division.

Aside from proceeds from the write-back of receivables impairments of € 19 million (previous year € 18 million), other operating income includes a number of individual items.

## 3. Selling expenses

| € million | 2005 | 2004 |
|---|---|---|
| Personnel expenses | 4,958 | 4,734 |
| Cost of materials | 4,927 | 4,555 |
| | **9,885** | **9,289** |

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

The cost of materials primarily includes sales-related expenses for rent, depreciation, advertising and building costs (energy, maintenance, etc.).

## 4. General administrative expenses

| € million | 2005 | 2004 |
|---|---|---|
| Personnel expenses | 545 | 533 |
| Cost of materials | 549 | 459 |
| | **1,094** | **992** |

The increase in cost of materials results partly from the subcontracting of EDP services and partly from an increase of € 16 million in write-downs and € 8 million in maintenance measures. The latter is due mostly to the expansion of the Düsseldorf location.

Due mostly to the sales divisions' continued expansion, the costs of hiring personnel at the Metro Cash & Carry and Media Markt and Saturn sales divisions rose by € 14 million.

The rest of the increase resulted from a number of individual items.

## 5. Other operating expenses

Other operating expenses mainly include expenses for losses from disposals of fixed assets totaling € 27 million (previous year € 34 million), necessary write-downs on assets totaling € 19 million (previous year € 14 million) as well as expenses for construction services totaling € 9 million (previous year € 4 million).

Miscellaneous other operating expenses totaling € 13 million (previous year € 44 million) mainly include a number of individual items of under € 1 million.

### 6. Result from associated companies

Result from associated companies totaling € 58 million marked an improvement of € 23 million compared to the previous year and is due mainly to the proceeds from the sale of shares in Loyalty Partner GmbH.

### 7. Other investment income

Dividends of € 10 million and proceeds from divestments of € 7 million account for the main portion of other investment income of € 16 million (previous year € –4 million).

Financial instruments that, in accordance with IAS 39, are "available for sale" contributed € 2 million to other investment income.

### 8. Interest income/expenses

Net interest income can be broken down as follows:

| € million | 2005 | 2004 |
|---|---|---|
| Interest income | 143 | 151 |
| from finance leases | [1] | [2] |
| from pension provisions | [30] | [20] |
| Interest expenses | (614) | (628) |
| from finance leases | [(135)] | [(160)] |
| from pension provisions | [(94)] | [(89)] |
| | **(471)** | **(477)** |

The reduced interest expenses from finance leases mostly result from the derecognition of finance leases due to the initial consolidation of real estate companies in 2005. In return, this produced higher financing interest.

### 9. Other financial result

| € million | 2005 | 2004 |
|---|---|---|
| Other financial income | 212 | 212 |
| thereof currency effects | [114] | [67] |
| thereof indexation | [70] | [118] |
| Other financial expenses | (195) | (229) |
| thereof currency effects | [(78)] | [(78)] |
| thereof indexation | [(61)] | [(108)] |
| | **17** | **(17)** |

The increase in other financial income was due mostly to positive exchange rate effects in Turkey and Russia.

Despite the termination of hyperinflationary accounting in Romania, the indexation result remained virtually unchanged at € +9 million (previous year € +10 million).

Financial instruments that, in accordance with IAS 39, are “available for sale” contributed € –2 million (previous year € 0 million) to other financial income.

## 10. Income taxes

Income corporate taxes include income 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 tax rate of 17.35 percent of trade income. This amount can be deducted when calculating corporate income tax. Corporate income tax amounts to 25 percent, plus a 5.50 percent solidarity surcharge on corporate income tax. The aggregate tax rate is 39.15 percent.

Deferred taxes are determined on the basis of the tax rates expected 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 9.65 percent to 40.69 percent.

| € million | 2005 | 2004 |
|---|---|---|
| Taxes paid or due | 457 | 509 |
| thereof in Germany | [129] | [169] |
| thereof abroad | [328] | [340] |
| Deferred taxes | 283 | (107) |
| **Income tax expenses** | **740** | **402** |

Included in paid or due taxes is € 31 million of tax income (previous year € 32 million in tax expenses) that is attributable to earlier periods.

The deferred taxes include write-downs for deferred tax assets on loss carry-forwards at Real Germany totaling € 307 million. Adjusted for this one-time special item, the group tax ratio is 31.9 percent.

Deferred tax assets from the creation and release of temporary differences that are recognized in income total € 99 million (previous year € 48 million in deferred tax liabilities).

The deferred tax assets for fiscal year 2005 include € 24 million in tax income from new tax rates (previous year € 8 million).

Deferred taxes of € 12 million resulted in an equity increase without an effect on income (previous year decline in equity of € 11 million). These changes resulted essentially from the application of IAS 39.

At € 740 million (previous year € 402 million), income tax expenses are € 208 million higher (previous year € 91 million lower) than expected tax expenses of € 532 million (previous year € 493 million) that would have resulted if the German corporate income tax rate had been applied to the group's taxable income for the year.

Reconciliation of estimated to actual income tax expenses:

| € million | 2005 | 2004 |
|---|---|---|
| Group earnings before taxes | 1,358 | 1,260 |
| Expected income tax expenses (39.15 %) | 532 | 493 |
| Effects of differing national tax rates | (197) | (165) |
| Write-downs of deferred tax assets on loss carry-forwards at Real Germany | 307 | – |
| Tax expenses and income relating to other periods | (34) | 31 |
| Non-deductible business expenses | 71 | 55 |
| Other deviations | 61 | (12) |
| **Income tax expenses** | **740** | **402** |

The item "other deviations" includes above all tax effects from the non-capitalization of deferred tax assets on tax losses of € 125 million within the METRO AG tax group. In addition, this item includes capitalized deferred taxes on a tax-deductible goodwill in Hungary of € 75 million.

### 11. Income attributable to minority interests

Of income attributable to minority interests, profit shares accounted for € 134 million (previous year € 110 million), loss shares for € 16 million (previous year € 11 million). 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

METRO AG defines earnings per share as earnings per common share. In the past, preferred stockholders of METRO AG were entitled to a dividend of € 1.122 that was € 0.102 higher than that paid to common shareholders. In the calculation of earnings per share, this additional dividend is deducted from profits attributable to METRO AG shareholders.

Earnings per share are determined by dividing earnings attributable to METRO AG shareholders by a weighted number of issued shares.

There was no dilution in fiscal year 2005 or the year before from so-called potential shares.

| | 2005 | 2004 |
|---|---|---|
| Weighted number of no-par value shares outstanding | 326,787,529 | 326,787,529 |
| Group net income after minority interests attributable to METRO AG stockholders (€ million) | 531 | 828 |
| Earnings per share (€) | 1.63 | 2.53 |

Earnings per preferred share amount to € 1.73 (previous year € 2.63) in fiscal year 2005 and thus exceed earnings per share by the amount of the additional dividend of € 0.102.

Earnings per share from continuing operations total € 1.54 (previous year € 2.32).

## 13. Depreciation/amortization

| € million | 2005 | 2004 |
|---|---|---|
| Scheduled depreciation on tangible and intangible assets and investment properties | 1,143 | 1,105 |
| Non-scheduled write-downs on tangible and intangible assets and investment properties | 57 | 16 |
| Write-downs on non-current financial assets | 12 | 1 |
| | **1,212** | **1,122** |

Real estate accounts for € 53 million of non-scheduled write-downs, including € 11 million for investment properties. Within non-current financial assets, investments and loans were written down by € 8 million and € 4 million (previous year € 1 million), respectively.

## 14. Cost of materials

The cost of sales includes the following cost of materials:

| € million | 2005 | 2004 |
|---|---|---|
| Cost of raw materials, supplies and goods purchased | 43,905 | 42,229 |
| Cost of services purchased | 46 | 54 |
| | **43,951** | **42,283** |

### 15. Personnel expenses

Personnel expenses can be broken down as follows:

| € million | 2005 | 2004 |
|---|---|---|
| Wages and salaries | 4,892 | 4,685 |
| Social security payments, expenses for pensions and related employee benefits | 1,084 | 1,042 |
| thereof pension expenses | [45] | [43] |
| | **5,976** | **5,727** |

Personnel expenses include the prorated expense for share-based payments totaling € 20 million (previous year € 14 million).

As a result of the first-time retrospective application of IFRS 2, personnel costs changed by a total of € –2 million (previous year € –3 million).

Annual average of group employees:

| Number of employees | 2005 | 2004 |
|---|---|---|
| White collar | 176,970 | 170,782 |
| Blue collar | 69,905 | 61,059 |
| Apprentices/trainees | 10,040 | 9,425 |
| | **256,915** | **241,266** |

The above figure includes an absolute number of 104,078 (previous year 98,811) part-time employees. On the basis of full-time equivalents, the percentage of employees working outside Germany rose to 50.4 percent from 47.8 percent the year before.

### 16. Other taxes

Other taxes of € 91 million (previous year € 87 million) are included in the cost of sales and the selling and administrative expenses.

# Notes to the balance sheet

## 17. Tangible and intangible assets

| € million | Goodwill | Other intangible assets | Tangible assets | Investment properties | Financial assets | Total fixed assets |
|---|---|---|---|---|---|---|
| **Acquisition or production costs** | | | | | | |
| At 1 Jan 2004 | 3,987 | 622 | 16,408 | – | 272 | 21,289 |
| Adjustment IAS 32 | 194 | – | – | – | – | 194 |
| Adjustment IAS 40 | – | – | (354) | 354 | – | – |
| Adjusted value at 1 Jan 2004 | 4,181 | 622 | 16,054 | 354 | 272 | 21,483 |
| Currency translation | – | 5 | 135 | – | (1) | 139 |
| Additions to group consolidation | – | 5 | 64 | 63 | 5 | 137 |
| Additions | 12 | 120 | 1,466 | 5 | 51 | 1,654 |
| Disposals | (2) | (43) | (725) | – | (129) | (899) |
| Transfers | (59) | 60 | (9) | (1) | (39) | (48) |
| As of 31 Dec 2004/1 Jan 2005 | 4,132 | 769 | 16,985 | 421 | 159 | 22,466 |
| Currency translation | – | 5 | 281 | – | 3 | 289 |
| Additions to group consolidation | 312 | 3 | 232 | 1 | – | 548 |
| Additions | 41 | 143 | 1,845 | 4 | 91 | 2,124 |
| Disposals | (331) | (64) | (1,542) | (10) | (117) | (2,064) |
| Transfers | – | 12 | (45) | (5) | 15 | (23) |
| As of 31 Dec 2005 | 4,154 | 868 | 17,756 | 411 | 151 | 23,340 |
| **Depreciation/amortization** | | | | | | |
| As of 1 Jan 2004 | – | 296 | 5,918 | – | 38 | 6,252 |
| Adjustment IAS 37 in combination with IAS 8 | – | 2 | 9 | – | – | 11 |
| Adjustment IAS 40 | – | – | (160) | 160 | – | – |
| Adjusted value at 1 Jan 2004 | – | 298 | 5,767 | 160 | 38 | 6,263 |
| Currency translation | – | 2 | 45 | – | – | 47 |
| Additions, scheduled | – | 98 | 1,050 | 5 | – | 1,153 |
| Additions, non-scheduled | – | 10 | 6 | – | 1 | 17 |
| Disposals | – | (33) | (436) | – | (3) | (472) |
| Write-ups | – | – | (5) | – | (20) | (25) |
| Transfers | – | – | (2) | – | – | (2) |
| As of 31 Dec 2004/1 Jan 2005 | – | 375 | 6,425 | 165 | 16 | 6,981 |
| Currency translation | – | 3 | 74 | – | – | 77 |
| Additions, scheduled | – | 106 | 1,077 | 7 | – | 1,190 |
| Additions, non-scheduled | – | 2 | 44 | 11 | 12 | 69 |
| Disposals | – | (52) | (868) | – | (12) | (932) |
| Write-ups | – | (1) | (1) | – | (1) | (3) |
| Transfers | – | 2 | (32) | – | – | (30) |
| As of 31 Dec 2005 | – | 435 | 6,719 | 183 | 15 | 7,352 |
| Book value at 1 Jan 2004 | 4,181 | 324 | 10,287 | 194 | 234 | 15,220 |
| Book value at 31 Dec 2004 | 4,132 | 394 | 10,560 | 256 | 143 | 15,485 |
| **Book value at 31 Dec 2005** | **4,154** | **433** | **11,037** | **228** | **136** | **15,988** |

Additions to write-downs include € 47 million (previous year € 48 million) in write-downs concerning discontinued operations. This is the amount to which the write-downs in the assets analysis deviate from the values in the income statement.

## 18. Goodwill

Of the total goodwill of € 4,154 million (previous year € 4,132 million) as of December 31, 2005, € 4,013 million (previous year € 3,994 million) is the difference resulting from capital consolidation and € 141 million (previous year € 138 million) is goodwill taken from the separate financial statements of subsidiaries.

Goodwill in fiscal year 2005 resulted from the initial consolidation of Adler Modemärkte, with € 312 million, and from the increase in the stakeholding in Metro Cash & Carry China, with € 13 million. As a result of the recognition of the stock tender rights, the resulting goodwill rose by € 16 million to € 216 million in 2005 (previous year increase of € 6 million to € 200 million). The divestment of Praktiker entailed a decrease in goodwill of € 326 million.

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

| € million | 31 Dec 2005 | 31 Dec 2004 |
|---|---|---|
| Real Germany | 1,083 | 1,083 |
| Metro Cash & Carry France | 398 | 401 |
| Metro Cash & Carry Netherlands | 351 | 351 |
| Metro Cash & Carry Hungary | 239 | 239 |
| Metro Cash & Carry Germany | 223 | 223 |
| Adler Modemärkte Germany | 218 | – |
| Metro Cash & Carry Poland | 213 | 213 |
| Media Markt and Saturn Germany | 202 | 191 |
| Metro Cash & Carry Italy | 171 | 171 |
| Metro Cash & Carry Belgium | 145 | 145 |
| Extra Germany | 110 | 110 |
| Metro Cash & Carry Portugal | 91 | 91 |
| Adler Modemärkte Austria | 78 | – |
| Media Markt and Saturn Italy | 75 | 74 |
| Kaufhof Warenhäuser Belgium | 57 | 57 |
| Metro Cash & Carry Spain | 51 | 51 |
| Media Markt and Saturn Spain | 49 | 47 |
| Metro Cash & Carry Greece | 45 | 45 |
| Metro Cash & Carry United Kingdom | 37 | 37 |

chart continued on p. 114

| € million | 31 Dec 2005 | 31 Dec 2004 |
|---|---|---|
| Metro Cash & Carry Austria | 27 | 27 |
| Media Markt and Saturn Netherlands | 22 | 21 |
| Metro Cash & Carry China | 17 | 4 |
| Media Markt and Saturn Poland | 16 | 16 |
| Media Markt and Saturn Austria | 16 | 16 |
| Media Markt and Saturn Switzerland | 16 | 15 |
| Metro Cash & Carry Denmark | 16 | 16 |
| Adler Modemärkte Luxembourg | 16 | – |
| Praktiker Germany | – | 256 |
| Praktiker Greece | – | 43 |
| Praktiker Hungary | – | 16 |
| Others | 172 | 173 |
| **Total** | **4,154** | **4,132** |

In accordance with IFRS 3 in combination with IAS 36, goodwill is tested for impairment once a year. The book value of the cash generating unit is compared with the recoverable amount. The determination of the recoverable amount is based on the value in use as the cash value of future cash flows using a valuation before taxes. 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 comprises three to five years. As in the previous year, the growth rates considered at the end of the detailed planning period are usually 1 percent. The capitalization rate as the weighted average cost of capital was determined using the capital asset pricing model. The individually determined pre-tax capitalization rates are nearly unchanged from the previous year at between 8.5 and 11.6 percent. Overall, the impairment test confirmed the recoverability of the capitalized goodwill. As in the previous year, there was therefore no need for extraordinary amortizations.

## 19. Other intangible assets

| € million | Concessions, franchises, trademarks and similar rights, licenses and other such rights | [thereof internally generated intangible assets] | Prepayments | Total |
|---|---|---|---|---|
| **Purchase or production costs** | | | | |
| Balance on 1 Jan 2004 | 609 | [166] | 13 | 622 |
| Currency translation | 5 | [0] | – | 5 |
| Change in group consolidation | 5 | [0] | – | 5 |
| Additions | 119 | [67] | 1 | 120 |
| Disposals | (37) | [(3)] | (6) | (43) |
| Transfers | 68 | [0] | (8) | 60 |
| Balance on 31 Dec 2004/1 Jan 2005 | 769 | [230] | – | 769 |
| Currency translation | 5 | [1] | – | 5 |
| Change in group consolidation | 3 | [0] | – | 3 |
| Additions | 142 | [101] | 1 | 143 |
| Disposals | (64) | [(9)] | – | (64) |
| Transfers | 12 | [(3)] | – | 12 |
| Balance on 31 Dec 2005 | 867 | [320] | 1 | 868 |
| **Depreciation/amortization** | | | | |
| Balance on 1 Jan 2004 | 296 | [58] | – | 296 |
| Adjustment IAS 37 in combination with IAS 8 | 2 | – | – | 2 |
| Adjusted value as of 1 Jan 2004 | 298 | [58] | – | 298 |
| Currency translation | 2 | – | – | 2 |
| Additions, scheduled | 98 | [37] | – | 98 |
| Additions, non-scheduled | 10 | – | – | 10 |
| Disposals | (33) | [(1)] | – | (33) |
| Write-ups | – | – | – | – |
| Transfers | – | – | – | – |
| Balance on 31 Dec 2004/1 Jan 2005 | 375 | [94] | – | 375 |
| Currency translation | 3 | – | – | 3 |
| Additions, scheduled | 106 | [42] | – | 106 |
| Additions, non-scheduled | 2 | [1] | – | 2 |
| Disposals | (52) | [(3)] | – | (52) |
| Write-ups | (1) | – | – | (1) |
| Transfers | 2 | – | – | 2 |
| Balance on 31 Dec 2005 | 435 | [134] | – | 435 |
| Book value on 1 Jan 2004 | 311 | [108] | 13 | 324 |
| Book value on 31 Dec 2004 | 394 | [136] | – | 394 |
| **Book value on 31 Dec 2005** | **432** | **[186]** | **1** | **433** |

The other intangible assets have a finite useful life and are therefore amortized as scheduled. The non-scheduled write-downs concern trademark rights (€ 1 million) and software licenses (€ 1 million). During the previous year, the non-scheduled write-downs referred to rental rights (€ 10 million) whose realizable returns have fallen below their amortized cost.

The additions to amortizations on intangible assets are shown in selling expenses at an amount of € 68 million (previous year € 78 million) and in administrative expenses at an amount of € 39 million (previous year € 27 million).

As in the previous year, there are no material limitations to the title of or right to dispose of intangible assets. Purchasing obligations amounting to € 3 million for intangible assets were made. In the previous year, such purchasing obligations amounted to € 0.2 million.

## 20. Tangible assets

| € million | Land and buildings | Plants and machinery | Other plants, business and office equipment | Prepayments and assets under construction | Total |
|---|---|---|---|---|---|
| **Purchasing or production cost** | | | | | |
| Balance on 1 Jan 2004 | 11,560 | 11 | 4,695 | 142 | 16,408 |
| Adjustment IAS 40 | (353) | – | – | (1) | (354) |
| Adjusted value at 1 Jan 2004 | 11,207 | 11 | 4,695 | 141 | 16,054 |
| Currency translation | 92 | – | 41 | 2 | 135 |
| Changes in group consolidation | 64 | – | – | – | 64 |
| Additions | 420 | 1 | 561 | 484 | 1,466 |
| Disposals | (315) | – | (401) | (9) | (725) |
| Transfers | 206 | – | 84 | (299) | (9) |
| Balance on 31 Dec 2004/1 Jan 2005 | 11,674 | 12 | 4,980 | 319 | 16,985 |
| Currency translation | 199 | – | 69 | 13 | 281 |
| Changes in group consolidation | 199 | – | 32 | 1 | 232 |
| Additions | 541 | 1 | 568 | 735 | 1,845 |
| Disposals | (889) | – | (631) | (22) | (1,542) |
| Transfers | 568 | – | 85 | (698) | (45) |
| Balance on 31 Dec 2005 | 12,292 | 13 | 5,103 | 348 | 17,756 |
| **Depreciation/amortization** | | | | | |
| Balance on 1 Jan 2004 | 2,829 | 7 | 3,077 | 5 | 5,918 |
| Adjustment IAS 37 in combination with IAS 8 | 5 | – | 4 | – | 9 |
| Adjustment IAS 40 | (160) | – | – | – | (160) |
| Adjusted value on 1 Jan 2004 | 2,674 | 7 | 3,081 | 5 | 5,767 |
| Currency translation | 17 | – | 28 | – | 45 |
| Additions, scheduled | 505 | 1 | 544 | – | 1,050 |
| Additions, non-scheduled | 4 | – | 2 | – | 6 |
| Disposals | (66) | – | (370) | – | (436) |
| Write-ups | (3) | – | (2) | – | (5) |
| Transfers | (18) | – | 16 | – | (2) |
| Balance on 31 Dec 2004/1Jan 2005 | 3,113 | 8 | 3,299 | 5 | 6,425 |
| Currency translation | 33 | – | 41 | – | 74 |
| Additions, scheduled | 519 | 1 | 557 | – | 1,077 |
| Additions, non-scheduled | 42 | – | 2 | – | 44 |
| Disposals | (344) | – | (524) | – | (868) |
| Write-ups | (1) | – | – | – | (1) |
| Transfers | (24) | – | (9) | 1 | (32) |
| Balance on 31 Dec 2005 | 3,338 | 9 | 3,366 | 6 | 6,719 |
| Book value on 1 Jan 2004 | 8,533 | 4 | 1,614 | 136 | 10,287 |
| Book value on 31 Dec 2004 | 8,561 | 4 | 1,681 | 314 | 10,560 |
| **Book value on 31 Dec 2005** | **8,954** | **4** | **1,737** | **342** | **11,037** |

With retroactive effect from January 1, 2004, investment properties of € 194 million were transferred from tangible assets and recognized separately in the group assets analysis (see note no. 21).

Additions to the changes in group consolidation item primarily involved Adler Modemärkte (€ 131 million) and real estate companies (€ 99 million).

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

Disposals from tangible assets were affected for the most part by initial consolidations and disposals related to discontinued operations.

Non-scheduled write-downs of € 42 million (previous year € 4 million) shown for fiscal 2005 are related to the market valuation of land and buildings.

Limitations on the disposal of assets in the form of liens and encumbrances amounted to € 508 million (previous year € 614 million). The property lien entered into the land register amounts to € 437 million (previous year € 578 million).

Purchasing obligations for tangible assets in the amount of € 230 million (previous year € 115 million) were made.

Assets used by the group under the terms of finance lease agreements were valued at € 1,357 million (previous year € 1,608 million). The assets involved are mainly leased buildings. Of the decrease compared with the previous year, € 172 million is related to the previously mentioned initial consolidations. The corresponding disposal of finance lease liabilities amounts to about € 231 million.

Finance leases generally have initial terms of 15 to 25 years with options upon expiration to extend them at least once for five years. The interest rates in the leases vary by market and date of signing between 2.4 and 15.3 percent.

In addition to finance leases, the METRO Group has also signed other types of leases classified as operating leases based on their economic value. Operating leases generally have an initial term of up to 15 years. The interest rates in the leases are based partly on variable and partly on fixed rents. Options to extend the lease lie – insofar as they are available – either with the lessor or the lessee.

Payments due under finance 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) | 232 | 870 | 1,632 |
| Discounts | (14) | (172) | (755) |
| Present value | 218 | 698 | 877 |
| **Operating leases** | | | |
| Future lease payments due (nominal) | 1,117 | 3,881 | 4,616 |

Payments due on finance leases contain payments amounting to € 172 million (previous year € 131 million) 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 € 424 million (previous year € 516 million).

The nominal value of future lease payments to the METRO Group coming from the subleasing of assets held under operating leases amounts to € 1,432 million (previous year € 1,289 million).

The annual account contains payments made under leasing agreements amounting to € 1,107 million (previous year € 1,286 million) and payments received under subleasing agreements amounting to € 357 million (previous year € 438 million).

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

| € million | within 1 year | 1 to 5 years | over 5 years |
|---|---|---|---|
| **Finance leases** | | | |
| Future lease payments due (nominal) | 1 | 3 | 3 |
| Discounts | 0 | (1) | (1) |
| Present value | 1 | 2 | 2 |
| **Operating leases** | | | |
| Future lease payments due (nominal) | 16 | 51 | 36 |

From the perspective of the lessor, the non-guaranteed residual value must be added to the nominal minimum lease payments of € 7 million (previous year € 35 million) in existing finance leases. The non-guaranteed residual value amounts to € 0 million for fiscal 2005 (previous year € 1 million). The resulting gross investment amount was thus unchanged at € 7 million (previous year € 36 million). In addition, there is an unrealized amount from finance leases of € 2 million (previous year € 10 million).

### 21. Real estate held as investment properties

Real estate held as investment properties is recognized at amortized cost. As of December 31, 2005, this amounted to € 228 million (previous year € 256 million). The fair value of these properties is determined by means of a proprietary evaluation using recognized measurement methods or is based on an expert opinion. It totals € 274 million. 40 percent of total fair value is based on an expert valuation.

## 22. Financial assets

| € million | Shares in group companies | Loans | Investments | Long-term securities | Total |
|---|---|---|---|---|---|
| **Acquisition costs** | | | | | |
| Balance on 1 Jan 2004 | 4 | 176 | 86 | 6 | 272 |
| Currency translation | – | – | (1) | – | (1) |
| Change in group consolidation | 5 | – | – | – | 5 |
| Additions | – | 51 | – | – | 51 |
| Disposals | (5) | (79) | (44) | (1) | (129) |
| Transfers | 2 | (39) | (2) | – | (39) |
| Balance on 31 Dec 2004/1 Jan 2005 | 6 | 109 | 39 | 5 | 159 |
| Currency translation | – | 1 | 2 | – | 3 |
| Additions | 20 | 56 | 15 | – | 91 |
| Disposals | (23) | (70) | (23) | (1) | (117) |
| Transfers | 1 | 15 | – | (1) | 15 |
| Balance on 31 Dec 2005 | 4 | 111 | 33 | 3 | 151 |
| **Depreciation/amortization** | | | | | |
| Balance on 1 Jan 2004 | 1 | 8 | 29 | – | 38 |
| Currency translation | – | – | – | – | – |
| Additions, scheduled | – | – | – | – | – |
| Additions, non-scheduled | – | 1 | – | – | 1 |
| Disposals | – | (2) | (1) | – | (3) |
| Write-ups | – | (2) | (18) | – | (20) |
| Transfers | – | – | – | – | – |
| Balance on 31 Dec 2004/1 Jan 2005 | 1 | 5 | 10 | – | 16 |
| Currency translation | – | – | – | – | – |
| Additions, scheduled | – | – | – | – | – |
| Additions, non-scheduled | – | 4 | 8 | – | 12 |
| Disposals | – | (1) | (11) | – | (12) |
| Write-ups | – | – | (1) | – | (1) |
| Transfers | – | – | – | – | – |
| Balance on 31 Dec 2005 | 1 | 8 | 6 | – | 15 |
| Book value on 1 Jan 2004 | 3 | 168 | 57 | 6 | 234 |
| Book value on 31 Dec 2004 | 5 | 104 | 29 | 5 | 143 |
| **Book value on 31 Dec 2005** | **3** | **103** | **27** | **3** | **136** |

The book value of investments of € 27 million includes € 2 million from investments in associated companies as of December 31, 2005. The decline from the previous year is primarily due to the divestment of Loyalty Partner GmbH.

### 23. Other receivables and assets

| € million | 31 Dec 2005 Total | 31 Dec 2005 Remaining term up to 1 year | 31 Dec 2005 Remaining term of over 1 year | 31 Dec 2004 Total | 31 Dec 2004 Remaining term up to 1 year | 31 Dec 2004 Remaining term of over 1 year |
|---|---|---|---|---|---|---|
| Due from suppliers | 1,394 | 1,394 | – | 1,096 | 1,096 | – |
| Other tax receivables | 239 | 239 | – | 203 | 203 | – |
| Prepaid expenses and deferred charges | 249 | 57 | 192 | 188 | 53 | 135 |
| Other assets | 800 | 510 | 290 | 871 | 584 | 287 |
| | **2,682** | **2,200** | **482** | **2,358** | **1,936** | **422** |

The book values of the financial assets shown in these positions are essentially their market values.

As in the previous year, no material ownership or disposal limitations exist for the stated other receivables and other assets.

The item of prepaid expenses and deferred charges includes prorated rental, leasing and interest prepayments as well as other deferments. The increase compared with the previous year results primarily from advance lease payments that fell due with the conclusion of leasing agreements in China, Russia and Romania.

### 24. Deferred taxes

Deferred tax assets on loss carry-forwards and temporary differences amount to € 1,110 million, a decline of € 435 million compared with the previous year. The decrease is the result of the divestment of Praktiker and the write-down on deferred tax assets (see also note no. 10).

Deferred taxes resulting from temporary differences and unutilized tax losses totaling € 794 million (previous year € 316 million) were not capitalized. They mainly concern tax losses and tax losses carried forward that probably cannot be used in the short term. Of the uncapitalized deferred taxes, € 616 million applies to domestic companies and € 178 million to foreign companies, where the realization of the deferred tax assets cannot be viewed as certain at this time.

Deferred taxes recognized concern the following balance sheet items:

| € million | 31 Dec 2005 | | 31 Dec 2004 | |
|---|---|---|---|---|
| | Asset | Liability | Asset | Liability |
| Goodwill | 396 | 105 | 296 | 88 |
| Other intangible assets | 235 | 72 | 269 | 45 |
| Tangible assets | 129 | 1,002 | 136 | 1,167 |
| Financial assets | 5 | 1 | 9 | 13 |
| Inventories | 42 | 10 | 55 | 22 |
| Receivables and other assets | 8 | 55 | 17 | 90 |
| Provisions for pensions and similar commitments | 122 | 6 | 113 | 4 |
| Other provisions | 99 | 19 | 90 | 17 |
| Financial liabilities | 724 | 0 | 844 | 0 |
| Other liabilities | 68 | 20 | 93 | 17 |
| Outside basis differences | 36 | 17 | – | 12 |
| Loss carry-forwards | 66 | – | 570 | – |
| Total | 1,930 | 1,307 | 2,492 | 1,475 |
| Offset | (820) | (820) | (947) | (947) |
| **Book value of deferred taxes** | **1,110** | **487** | **1,545** | **528** |

The increase in deferred taxes on goodwill mainly results from the capitalization of tax deductible goodwill at Metro Cash & Carry Hungary (see no. 10).

In accordance with IAS 12, deferred taxes relating to differences between the carrying amount of a subsidiary's pro rata assets and liabilities in the balance sheet and the investment book value for this subsidiary in the parent company's tax statement must be created (so-called outside basis differences) if the tax benefit is likely to be realized in the future. No deferred tax liabilities were created for outside basis differences of € 209 million because a realization is not planned.

The decrease in deferred tax liabilities by € 41 million in comparison with the previous year mainly results from the divestment of Praktiker.

## 25. Inventories

| € million | 31 Dec 2005 | 31 Dec 2004 |
|---|---|---|
| Food merchandise | 1,844 | 1,740 |
| Nonfood merchandise | 4,402 | 4,532 |
| | **6,246** | **6,272** |

Inventories can be broken down by sales division as follows:

| € million | 31 Dec 2005 | 31 Dec 2004 |
|---|---|---|
| Metro Cash & Carry | 2,329 | 2,053 |
| Real (including Extra) | 865 | 902 |
| Media Markt and Saturn | 2,131 | 1,853 |
| Praktiker | – | 609 |
| Galeria Kaufhof | 626 | 642 |
| Others | 295 | 213 |
| | **6,246** | **6,272** |

The increase in inventories in the Metro Cash & Carry and Media Markt and Saturn sales divisions was mainly due to expansion.

During the reporting year, write-downs of € 328 million were carried out (previous year € 348 million).

## 26. Trade receivables

Trade receivables amounted to € 367 million (previous year € 355 million). Of that amount, € 0.3 million (previous year € 0.3 million) is due in over one year.

The carrying amounts of trade receivables represent an appropriate approximation to their fair values.

## 27. Cash and cash equivalents

| € million | 31 Dec 2005 | 31 Dec 2004 |
|---|---|---|
| Checks and cash on hand | 111 | 101 |
| Bank balances | 1,656 | 2,006 |
| | **1,767** | **2,107** |

The stated carrying amounts of cash and cash equivalents included in these items essentially correspond to their fair values.

Short-term monetary investments included in cash and cash equivalents during the previous year were transferred in an amount of € 9 million (previous year € 23 million) to current other receivables and assets.

### 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, 2004, and totals € 835,419,052.27. The subscribed capital is divided as follows:

| Category: no-par bearer shares, accounting par value approx. € 2.56 | | 31 Dec 2005 | 31 Dec 2004 |
|---|---|---|---|
| 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 |

Each common share of METRO AG grants an equal voting right that allows the stockholder to participate in resolutions at the annual general meeting. In addition, common shares of METRO AG entitle the holder to dividends. In contrast to common shares, preferred shares do not carry any voting rights and are equipped with a preferential right to profits in line with § 21 of the Articles of Association of METRO AG, which state:

"(1) Holders of non-voting preferred stock will receive from the annual net earnings a preferred dividend of € 0.17 per share of preferred stock.

(2) Should the net earnings available for distribution not suffice in any one fiscal year to pay the preferred dividend, the arrears (excluding any interest) shall be paid from the net earnings of future fiscal years in an order based on age, i.e. in such manner that any older arrears are paid off prior to any more recent ones and that the preferred dividends payable from the profit of a fiscal year are not distributed until all of any accumulated arrears have been paid.

(3) After the preferred dividend has been distributed, the common stockholders will receive a dividend of € 0.17 per share of common stock. Thereafter, a non-cumulative extra dividend of € 0.06 per share will be paid to the holders of non-voting preferred stock. The extra dividend shall amount to 10 percent of such dividend as, in accordance with section 4 herein below, will be paid to the holders of common stock inasmuch as such dividend equals or exceeds € 1.02 per share of common stock.

(4) The holders of non-voting preferred stock and of common stock will equally share in any additional profit distribution at the ratio of their shares in the capital stock."

#### 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 option bonds 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 option bonds 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).

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 507,420 of these options was in effect as of December 31, 2005. In line with the exercise terms, it was determined that eligible participants would be granted cash compensation in lieu of new common shares upon exercise of existing options. The exercise of subscription rights from the stock option plan will therefore not result in an increase in capital stock.

**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 restrict this subscription right, with the prior approval of the Supervisory Board, to the extent required to grant the holders of option bonds 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 restrict 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 maximum total 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 restriction 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 maximum total 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 restrict the subscription right, with the prior approval of the Supervisory Board, to the extent required to grant the holders of option bonds 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 rule out subscription rights to compensate for fractions of shares from rounding.

In addition, the Management Board has been authorized to restrict 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 that 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 Section 1 Subsection 8 Sentence 5, § 186 Section 3 Sentence 4 AktG (German Stock Corporation Act). The maximum limit also falls in proportion to the amount of capital stock that is comprised of those shares issued to service option bonds 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 Section 3 Sentence 4 AktG. To date, authorized capital III has not been used.

**Authorized capital IV**

The annual general meeting held on 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 maximum total 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 restriction of the subscription right. To date, authorized capital IV has not been used.

### Stock buyback

Pursuant to § 71 Section 1 Subsection 8 AktG (German Stock Corporation Act), the annual general meeting held on May 18, 2005, authorized the company to acquire treasury stock up to the equivalent of 10 percent of the capital stock on or before November 18, 2006.

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 has exercised this authorization (cf. § 160 Section 1 Subsection 2 AktG).

### Additional paid-in capital

As in the previous year, additional paid-in capital amounted to € 2,551 million.

### Reserves retained from earnings

| € million | 31 Dec 2005 | 31 Dec 2004 |
|---|---|---|
| Legal reserve | 28 | 29 |
| Statutory reserve | 48 | 48 |
| Valuation reserve pursuant to IAS 39 (incl. deferred taxes) | 48 | 22 |
| Reserve for currency translation | 126 | (43) |
| Other reserves | 1,471 | 1,246 |
| | **1,721** | **1,302** |

Reserves retained from earnings include, among other things, valuation effects with no effect on net income pursuant to IAS 39 plus deferred taxes thereon. In the fiscal year under review, a total € 41 million (previous year € 17 million) was reported in equity in relation to derivative financial instruments within cash flow hedges. In the category of assets classified as "available for sale," € 2 million in income and € 2 million in expenses were recognized in income (previous year € 0 million). The share of fair value changes in hedges for stock-based remuneration recognized without an effect on income resulted in a decrease in equity by € 15 million (previous year increase in equity by € 8 million).

In addition, an increase in equity due to currency translation differences of € 169 million (previous year € 81 million) is primarily attributable to Turkey, Poland, Russia, Ukraine and Romania.

Under consideration of the dividend payout for 2004 (€ –334 million), the remaining increase in revenue reserves to € 1,471 million resulted mainly from the transfer of the period income due to stockholders of METRO AG (€ 531 million).

**Minority interests**

Minority interests are the share of third parties in the capital stock of the consolidated subsidiaries. At year's end, minority interests amounted to € 206 million (previous year € 161 million). Significant minority interests exist in Media-Saturn-Holding GmbH.

**Mandatory disclosures pursuant to § 21 Section 1 WpHG (German Securities Trading Act)**

METRO AG is controlled by Metro Vermögensverwaltung GmbH & Co. KG and other companies of the majority stockholders of Beisheim, Haniel and Schmidt-Ruthenbeck. The stockholders have ensured the uniform exercise of their rights from the METRO AG shareholding by means of a contractual agreement. The stakeholdings, of which METRO AG was notified in accordance with § 21 Section 1 WpHG, are listed in the notes to the financial statements 2005 of METRO AG in accordance with § 160 Section 1 Subsection 8 AktG.

**Appropriation of balance sheet profit, dividends**

Dividend distribution by METRO AG is based on METRO AG's annual financial statements prepared under German commercial law.

As resolved by the annual general meeting on May 18, 2005, 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 was paid in fiscal year 2005 from the reported net income of € 356.0 million for 2004. The remaining amount of € 22.4 million was carried forward to the new account.

The Management Board of METRO AG will propose to the annual general meeting to pay from the reported net income of € 337.5 million for 2005 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 € 3.9 million forward to the new account. The net income 2005 of € 337.5 million includes profit carried forward of € 22.4 million.

## 29. Provisions for pensions and similar commitments

| € million | 31 Dec 2005 | 31 Dec 2004 |
|---|---|---|
| Pension provisions (employer's commitments) | 570 | 574 |
| Provisions for indirect commitments | 209 | 210 |
| Provisions for transferring benefits | 97 | 83 |
| Provisions for voluntary pension benefits | 4 | 4 |
| Provisions for company pensions | 880 | 871 |
| Other provisions for commitments similar to pensions | 115 | 135 |
| | **995** | **1,006** |

Pension commitments 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 that are financed partly or wholly by funds in accordance with IAS 19 (as "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 4.00 percent (previous year 4.75 percent), average wage and salary increases of 2.50 percent (previous year 2.50 percent) and average pension increases of 1.25 percent (previous year 1.20 percent). The anticipated average return from plan assets amounts to 6.43 percent (previous year 5.86 percent). 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 and external plan assets are shown in the table below:

| € million | 2005 | 2004 |
|---|---|---|
| **Net present value (DBO)** | | |
| Balance on 1 Jan | 1,928 | 1,640 |
| Effect of "remeasurement"[1] | 6 | 14 |
| Adjusted balance on 1 Jan | 1,934 | 1,654 |
| Change in group consolidation | 6 | 95 |
| Interest expenses | 91 | 94 |
| Service cost | 42 | 37 |
| Transfer of assets | (2) | – |
| Past service cost | 1 | 1 |
| Pension payments | (112) | (107) |
| Actuarial gains (-)/losses (+) | 236 | 154 |
| Currency translation | 3 | – |
| **Balance on 31 Dec** | **2,199** | **1,928** |

| € million | 2005 | 2004 |
|---|---|---|
| **Changes in plan assets** | | |
| Balance on 1 Jan | 746 | 589 |
| Effects of "remeasurement"[1] | 7 | 2 |
| Adjusted balance on 1 Jan | 753 | 591 |
| Change in group consolidation | – | 86 |
| Expected return on plan assets | 44 | 38 |
| Pension payments | (66) | (65) |
| Employer contributions incl. vesting balances | 59 | 62 |
| Actuarial gains (+)/losses (-) | 52 | 34 |
| Currency translation | 2 | – |
| **Balance on 31 Dec** | **844** | **746** |

| € million | 2005 | 2004 |
|---|---|---|
| **Funding level** | | |
| Net present value DBO, provision financed | 820 | 718 |
| Net present value DBO, partly or wholly fund financed | 1,379 | 1,210 |
| Subtotal | 2,199 | 1,928 |
| Market value of plan assets | (844) | (746) |
| Balance on 31 Dec | 1,355 | 1,182 |
| Not yet recognized actuarial gains (+)/losses (-) | (508) | (341) |
| Past service costs | (11) | (12) |
| **Net debt balance on 31 Dec** | **836** | **829** |

[1] The "remeasurement" concerns Kaufhalle AG and Kaufhof Warenhaus AG, where the quantity structure was adjusted on the basis of new data as of January 1, 2005

In addition, liabilities of € 5 million (previous year € 0 million) were measured in line with local criteria.

The increase in actuarial losses resulted almost exclusively from the adjustment of the assumed interest rate from 4.75 to 4.00 percent.

The provisions for company pension plans in the amount of € 880 million (previous year € 871 million) are netted against assets for indirect pension plans in Great Britain and the Netherlands in the amount of € 39 million (previous year € 42 million). That leaves a net liability of € 841 million (previous year € 829 million).

Plan assets include self-utilized real estate in the amount of € 103 million (previous year € 104 million).

The pension expenses of the direct and indirect company pension plans can be broken down as follows:

| € million | 2005 | 2004 |
|---|---|---|
| Interest expense on net present value DBO | 91 | 94 |
| Expected return on plan assets | (44) | (38) |
| Recognized actuarial gains (-)/losses (+) | 17 | 13 |
| Effective interest expenses | 64 | 69 |
| Service cost[1] | 37 | 31 |
| Past service cost | 2 | 1 |
| | **103** | **101** |

[1]Netted against employees' contributions

Service costs were considered in selling expenses of € 35 million (previous year € 29 million) and administrative expenses of € 4 million (previous year € 3 million).

The item concerning **other provisions for commitments similar to pensions** mainly includes 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. As a matter of principle, the parameters used are identical to those employed in the company pension plan.

### 30. Other provisions (non-current)/provisions (current)

In the year under review, other provisions (non-current)/provisions (current) changed as follows:

| € million | Real-estate related obligations | Obligations from merchandise trading | Restructuring | Tax risks | Other provisions | Total |
|---|---|---|---|---|---|---|
| Balance on 1 Jan 2005 | 113 | 119 | 47 | 156 | 262 | 697 |
| Adjustment IAS 37 in combination with IAS 8 | 57 | – | – | – | – | 57 |
| Adjustment IFRS 2 | – | – | – | – | 26 | 26 |
| Adjusted value on 1 Jan 2005 | 170 | 119 | 47 | 156 | 288 | 780 |
| Currency translation | 0 | 0 | – | – | 1 | 1 |
| Addition | 75 | 80 | 9 | 22 | 101 | 287 |
| Release | (19) | (7) | (10) | (1) | (46) | (83) |
| Utilization | (20) | (69) | (18) | (26) | (66) | (199) |
| Change in group consolidation | (45) | 14 | (1) | 3 | (2) | (31) |
| Interest portion in addition/ change in interest rate | 2 | – | 0 | – | 0 | 2 |
| Transfers | (9) | 2 | (1) | 0 | (14) | (22) |
| **Balance on 31 Dec 2005** | **154** | **139** | **26** | **154** | **262** | **735** |
| Non-current | 127 | 36 | 18 | 119 | 147 | 447 |
| Current | 27 | 103 | 8 | 35 | 115 | 288 |
| **Balance on 31 Dec 2005** | **154** | **139** | **26** | **154** | **262** | **735** |

The addition to the real estate related obligations item primarily relates to uncovered rental commitments in the amount of € 67 million (previous year € 67 million), to other store-related risks in the amount of € 38 million (previous year € 57 million), rental commitments in the amount of € 25 million (previous year € 26 million) as well as deconstruction obligations in the amount of € 19 million (previous year € 13 million).

The main components of the obligations from merchandise trading are reserves for rebates from the Payback sales promotion plan in the amount of € 72 million (previous year € 67 million) and reserves for guarantee services in the amount of € 36 million (previous year € 34 million).

An addition of € 15 million to the restructuring reserves was made due to the focus on the former Extra sales division (included in the Real sales division). An additional € 9 million concerns previous year business combinations and relates to the purchase of Innovation S.A., Belgium, in 2001.

In general, tax reserves comprise reserves for tax risks from previous years.

The other reserves item contains mainly litigation costs/risks amounting to € 51 million (previous year € 44 million) and surety and guarantee risks of € 30 million (previous year € 30 million) as well as reserves for stock-based remuneration of € 32 million (previous year € 26 million).

Obligations from litigation costs/risks primarily include provisions for lawsuits, in particular proceedings against suppliers and customers.

The changes in group consolidation include € 36 million from the initial consolidation of Adler Modemärkte and € –66 million from the divestment of Praktiker.

## 31. Liabilities

| € million | 31 Dec 2005 total | Remaining term up to 1 year | Remaining term 1 to 5 years | Remaining term more than 5 years | 31 Dec 2004 total |
|---|---|---|---|---|---|
| **Trade payables** | 10,952 | 10,952 | – | – | 10,771 |
| Bonds | 3,458 | 610 | 2,103 | 745 | 3,157 |
| Due to banks | 1,545 | 307 | 658 | 580 | 1,633 |
| Note loans | 389 | 57 | 332 | – | 582 |
| Notes payable | 451 | 451 | – | – | 347 |
| Liabilities from finance leases | 1,793 | 165 | 593 | 1,035 | 2,083 |
| **Total financial liabilities** | 7,636 | 1,590 | 3,686 | 2,360 | 7,802 |
| Tax liabilities | 431 | 431 | – | – | 447 |
| Prepayments received on orders | 20 | 20 | – | – | 20 |
| Payroll | 805 | 785 | 20 | – | 799 |
| Liabilities from other financial transactions | 35 | 35 | – | – | 109 |
| Deferred income | 123 | 52 | 32 | 39 | 114 |
| Miscellaneous liabilities | 986 | 644 | 315 | 27 | 850 |
| **Other liabilities** | 2,400 | 1,967 | 367 | 66 | 2,339 |
| **Income tax liabilities** | 249 | 249 | – | – | 278 |
| | **21,237** | **14,758** | **4,053** | **2,426** | **21,190** |

## 32. Trade liabilities

The book values essentially correspond to the market values. The increase is in line with sales growth and results primarily from the expansion of the Metro Cash & Carry as well as Media Markt and Saturn sales divisions.

### 33. Financial liabilities

A Debt Issuance Programme begun in 2000 provides **long-term financing**. The nominal amount to be raised amounts to € 5 billion. Under this program, bonds with maturities of up to 30 years can be issued under German or U.K. law in any currency.

The amount of the variable interest bond with a nominal volume of € 500 million and a maturity of five years that was issued in October 2004 was raised by € 250 million in January 2005.

For **short- and medium-term financing**, the METRO Group uses ongoing capital market issuance programs such as the "Euro Commercial Paper Program" launched in 1999 with an authorized volume of up to € 3 billion. Another commercial paper program with a volume of € 2.0 billion was launched in May 2003 to attract, in particular, investor groups on the French capital market. The average amount utilized by the two programs was € 1.6 billion in 2005 (previous year € 1.3 billion).

In addition, the METRO Group has access to syndicated lines of credit totaling € 2,975 million with terms ending between November 2008 and February 2011. If the credit lines are used, the interest rates range between EURIBOR +20.0 basis points (bps) and EURIBOR +30.0 bps. The average amount drawn on the credit lines in 2005 was € 1,000 million (previous year € 1,023 million).

The contract terms for the syndicated lines of credit provide for a decrease of 2.5 bps 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 to 5 to 7.5 bps.

Syndicated lines of credit over € 1,023 million and € 1,500 million ending in July 2005 and October 2006 were replaced by new syndicated lines of credit with a term of 5 years and a nominal value of € 1,000 million in January and December 2005, respectively.

Additional bilateral bank lines of credit totaling € 2,645 million (previous year € 2,667 million) were available to the METRO Group as of December 31, 2005. Of this amount, € 1,105 million (previous year € 1,511 million) had a remaining term of up to one year. On the closing date, € 1,545 million (previous year € 1,634 million) of the bilateral lines of credit had been utilized. Of this amount, € 307 million has a remaining term of up to one year (previous year € 466 million).

In addition, bills of exchange totaling € 451 million (previous year € 347 million) were used for short-term financing.

The largest creditor holds 15 percent of liabilities due to banks plus note loans. 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.

The METRO Group principally does not provide collateral for financial liabilities. An exception was made in 2003 due to the first-time consolidation of Asset Immobilienbeteiligungen GmbH & Co. KG and its subsidiaries. As at December 31, 2005, real collateral in the amount of € 437 million (previous year € 578 million) had been put up for their real estate portfolio.

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 issue in million currency | Remaining term | Par values 31 Dec 2005 in € million | Book values 31 Dec 2005 in € million | Fair values 31 Dec 2005 in € million |
|---|---|---|---|---|---|---|
| Bonds | EUR | 522 | up to 1 year | 522 | 610 | 611 |
| | | 2,049 | 1 to 5 years | 2,049 | 2,066 | 2,083 |
| | | 750 | over 5 years | 750 | 745 | 801 |
| | CZK | – | up to 1 year | – | 0 | 0 |
| | | 9 | 1 to 5 years | 0 | 0 | 0 |
| | | – | over 5 years | – | – | – |
| | JPY | – | up to 1 year | – | 0 | 0 |
| | | 5.000 | 1 to 5 years | 36 | 37 | 37 |
| | | – | over 5 years | – | – | – |
| Liabilities to banks (excl. open account) | EUR | 112 | up to 1 year | 112 | 112 | 169 |
| | | 611 | 1 to 5 years | 611 | 611 | 621 |
| | | 563 | over 5 years | 563 | 563 | 575 |
| | BGN | 1 | up to 1 year | 1 | 1 | 1 |
| | | – | 1 to 5 years | – | – | – |
| | | – | over 5 years | – | – | – |
| | CNY | 771 | up to 1 year | 81 | 81 | 81 |
| | | 446 | 1 to 5 years | 47 | 47 | 49 |
| | | – | over 5 years | – | – | – |
| | CZK | 77 | up to 1 year | 3 | 3 | 3 |
| | | – | 1 to 5 years | – | – | – |
| | | – | over 5 years | – | – | – |
| | DKK | 8 | up to 1 year | 1 | 1 | 1 |
| | | – | 1 to 5 years | – | – | – |
| | | – | over 5 years | – | – | – |
| | GBP | 1 | up to 1 year | 2 | 2 | 2 |
| | | – | 1 to 5 years | – | – | – |
| | | – | over 5 years | – | – | – |

| Funding | Currency | Total amount issue in million currency | Remaining term | Par values 31 Dec 2005 in € million | Book values 31 Dec 2005 in € million | Fair values 31 Dec 2005 in € million |
|---|---|---|---|---|---|---|
| | INR | 50 | up to 1 year | 1 | 1 | 1 |
| | | – | 1 to 5 years | – | – | – |
| | | – | over 5 years | – | – | – |
| | JPY | 7,935 | up to 1 year | 57 | 57 | 57 |
| | | – | 1 to 5 years | – | – | – |
| | | – | over 5 years | – | – | – |
| | MAD | 41 | up to 1 year | 4 | 4 | 4 |
| | | – | 1 to 5 years | – | – | – |
| | | – | over 5 years | – | – | – |
| | PLN | 3 | up to 1 year | 1 | 1 | 1 |
| | | – | 1 to 5 years | – | – | – |
| | | – | over 5 years | – | – | – |
| | RUB | 91 | up to 1 year | 3 | 3 | 3 |
| | | – | 1 to 5 years | – | – | – |
| | | – | over 5 years | – | – | – |
| | SKK | 86 | up to 1 year | 2 | 2 | 2 |
| | | – | 1 to 5 years | – | – | – |
| | | – | over 5 years | – | – | – |
| | VND (1,000) | 296 | up to 1 year | 16 | 16 | 16 |
| | | – | 1 to 5 years | – | – | – |
| | | 317 | over 5 years | 17 | 17 | 17 |
| | USD | 4 | up to 1 year | 4 | 4 | 4 |
| | | – | 1 to 5 years | – | – | – |
| | | – | over 5 years | – | – | – |
| Loan notes | EUR | 43 | up to 1 year | 43 | 57 | 57 |
| | | 332 | 1 to 5 years | 332 | 332 | 350 |
| | | – | over 5 years | – | – | – |

The remaining terms of liabilities due to banks, which are redeemed over several periods, are shown by redemption dates. The fair values were shown as the difference between book value and fair value with a term of less than one year.

The following table depicts the interest rate structure of the financial liabilities:

| Funding | Interest terms | Currency | Remaining term | Weighted interest rate when issued (%) | Total amount issued in million currency |
|---|---|---|---|---|---|
| Bonds | Fixed interest bonds | EUR | up to 1 year | 5.75 | 200 |
| | | | 1 to 5 years | 5.21 | 1,299 |
| | | | over 5 years | 4.63 | 750 |
| | | CZK | up to 1 year | – | – |
| | | | 1 to 5 years | 10.50 | 9 |
| | | | over 5 years | – | – |
| | | JPY | up to 1 year | – | – |
| | | | 1 to 5 years | 1.32 | 5,000 |
| | | | over 5 years | – | – |
| | Floating rate bonds | EUR | up to 1 year | 3.24 | 322 |
| | | | 1 to 5 years | 2.58 | 750 |
| | | | over 5 years | – | – |
| Liabilities to banks (excl. open account) | Fixed interest bonds | EUR | up to 1 year | 3.68 | 112 |
| | | | 1 to 5 years | 5.42 | 611 |
| | | | over 5 years | 5.48 | 563 |
| | | BGN | up to 1 year | 2.67 | 1 |
| | | | 1 to 5 years | – | – |
| | | | over 5 years | – | – |
| | | CNY | up to 1 year | 4.92 | 771 |
| | | | 1 to 5 years | 5.28 | 446 |
| | | | over 5 years | – | – |
| | | CZK | up to 1 year | 2.16 | 77 |
| | | | 1 to 5 years | – | – |
| | | | over 5 years | – | – |
| | | DKK | up to 1 year | 3.10 | 8 |
| | | | 1 to 5 years | – | – |
| | | | over 5 years | – | – |
| | | GBP | up to 1 year | 5.75 | 1 |
| | | | 1 to 5 years | – | – |
| | | | over 5 years | – | – |
| | | INR | up to 1 year | 6.85 | 50 |
| | | | 1 to 5 years | – | – |
| | | | over 5 years | – | – |
| | | MAD | up to 1 year | 4.15 | 41 |
| | | | 1 to 5 years | – | – |
| | | | over 5 years | – | – |

| Funding | Interest terms | Currency | Remaining term | Weighted interest rate when issued (%) | Total amount issued in million currency |
|---|---|---|---|---|---|
| | | PLN | up to 1 year | 4.95 | 3 |
| | | | 1 to 5 years | – | – |
| | | | over 5 years | – | – |
| | | RUB | up to 1 year | 6.00 | 91 |
| | | | 1 to 5 years | – | – |
| | | | over 5 years | – | – |
| | | SKK | up to 1 year | 2.16 | 86 |
| | | | 1 to 5 years | – | – |
| | | | over 5 years | – | – |
| | | VND (1,000) | up to 1 year | 8.35 | 296 |
| | | | 1 to 5 years | – | – |
| | | | over 5 years | – | – |
| | | USD | up to 1 year | 4.82 | 4 |
| | | | 1 to 5 years | – | – |
| | | | over 5 years | – | – |
| | Floating rate bonds | VND (1,000) | up to 1 year | – | – |
| | | | 1 to 5 years | – | – |
| | | | over 5 years | 9.97 | 317 |
| | | JPY | up to 1 year | 0.74 | 7,935 |
| | | | 1 to 5 years | – | – |
| | | | over 5 years | – | – |
| Loan notes | Fixed interest bonds | EUR | up to 1 year | 5.47 | 43 |
| | | | 1 to 5 years | 5.81 | 332 |
| | | | over 5 years | – | – |

The fixed interest rate of short- and medium-term financial liabilities and the repricing dates of all fixed-interest financial liabilities essentially correspond to the displayed remaining terms. The repricing dates for variable interest rates are less than one year.

Financial liabilities of € 1,146 million are subject to a variable interest rate which is 2.78 percent for the year under review. A change in interest rates of 0.1 percent reduces/raises interest expenses by € 1 million.

### 34. Other liabilities

Miscellaneous liabilities listed among other liabilities include numerous individual items such as liabilities to non-group companies, liabilities from rental contracts and costs for the annual accounts.
In addition, this item includes commitments from stock tender rights.
Amounts shown for financial instruments under miscellaneous liabilities are essentially their market values.

# Other notes

### 35. 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, investing and financing activities. Following the initial public offering of Praktiker and the sale of real estate used by Praktiker (see also note no. 37), the cash flows of these discontinued operations are stated separately. Cash and cash equivalents includes checks and cash on hand as well as bank deposits.

In fiscal year 2005, net cash provided by operating activities of continuing operations amounted to € 2,034 million (previous year € 2,755 million).

The decrease in operating cash flow was primarily the result of increased receivables due from suppliers and an extraordinarily strong improvement in net working capital in the previous year.

In fiscal year 2005, the group recorded cash outflows of € 1,125 million from investing activities of continuing operations (previous year cash outflow of € 1,303 million). At € 515 million, cash outflows from investments exceeded the total from the previous year. The divestment of Praktiker resulted in cash inflows of € 670 million.

The amount of investments 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 of continuing operations shows cash outflows of € 1,392 million during the year under review (previous year € 907 million).

### 36. Segment report

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.

Primary reporting is carried out by division. Secondary reporting distinguishes between the regions Germany, Western Europe excluding Germany, Eastern Europe and Asia/Africa.

- External sales represent sales of the divisions to third parties outside the group.

- Internal sales represent sales between the group's divisions.

- EBIT as the key ratio for segment reporting describes operating earnings for the period before net financial income and income taxes.

- Segment EBITDA comprises EBIT before depreciation on tangible and intangible assets.

- Segment assets include that portion of non-current and current assets that are used for the segment's operating activities. This includes, in particular, intangible assets (including goodwill acquired), tangible assets, inventories, trade receivables as well as the operationally used portion of other receivables and assets.

- Segment liabilities include that portion of non-current and current liabilities that results from the segment's operating activities. This includes, in particular, provisions for pensions and similar commitments, trade payables as well as the portion of other provisions and liabilities that originates in the segment's operative activities.

- Aside from total purchasing and production costs which arose from the purchase or production of segment assets during the reporting period, segment investments also include investments in non-current financial assets.

- Transfers between segments are made at arm's length.

- As a result of the first application of IFRS 5, the nonfood specialty center division was renamed Media Markt and Saturn. The discontinued operations comprise Praktiker (which was listed in the segment of nonfood specialty centers in the previous year) as well as Praktiker real estate (which was listed in the segment of other/consolidation in the previous year). Praktiker Austria was transferred from the segment of nonfood specialty centers to the segment of other/consolidation.

- The food retail segment was renamed Real (incl. Extra) and the department store segment was renamed Galeria Kaufhof.

- The previous year's amounts were restated to account for the application of new accounting methods.

**Primary segments (divisions)**

| € million | Metro Cash & Carry 2005 | 2004 | Real (incl. Extra) 2005 | 2004 | Media Markt and Saturn 2005 | 2004 |
|---|---|---|---|---|---|---|
| External sales (net) | 28,087 | 26,442 | 9,922 | 10,727 | 13,306 | 12,210 |
| Internal sales (net) | 137 | 143 | 1 | 1 | – | – |
| Net sales | 28,224 | 26,585 | 9,923 | 10,728 | 13,306 | 12,210 |
| EBITDA | 1,377 | 1,280 | 132 | 303 | 679 | 612 |
| Depreciation/amortization | 364 | 317 | 144 | 168 | 169 | 160 |
| EBIT | 1,013 | 963 | (12) | 135 | 510 | 452 |
| Investments | 900 | 619 | 266 | 128 | 315 | 261 |
| Segment assets | 11,721 | 10,466 | 3,395 | 3,372 | 5,486 | 5,016 |
| Segment liabilities | 5,671 | 5,176 | 1,461 | 1,514 | 4,523 | 4,311 |
| Employees at closing date (full-time basis) | 96,118 | 88,607 | 43,533 | 45,908 | 40,255 | 35,996 |
| Selling space (in 1,000 $m^2$) | 4,218 | 3,952 | 2,693 | 2,885 | 1,704 | 1,514 |
| Locations (number) | 544 | 504 | 592 | 742 | 558 | 503 |

[1]Including € 15.2 million in expenses for the assumption of realization risks for former Real locations (incl. Extra)

**Secondary segments (regions)**

| € million | Germany 2005 | 2004 | W. Europe excl. Germany 2005 | 2004 | Eastern Europe 2005 | 2004 |
|---|---|---|---|---|---|---|
| External sales (net) | 25,948 | 26,541 | 17,976 | 17,148 | 10,614 | 8,707 |
| Internal sales (net) | 14 | 13 | 1 | 1 | – | – |
| Net sales | 25,962 | 26,554 | 17,977 | 17,149 | 10,614 | 8,707 |
| EBITDA | 1,236 | 1,432 | 1,045 | 957 | 674 | 521 |
| Depreciation/amortization | 701 | 686 | 284 | 263 | 185 | 151 |
| EBIT | 535 | 746 | 761 | 694 | 489 | 370 |
| Investments | 811 | 913 | 512 | 359 | 735 | 419 |
| Segment assets | 12,914 | 12,262 | 9,053 | 8,809 | 5,268 | 4,061 |
| Segment liabilities | 7,162 | 7,278 | 5,003 | 4,475 | 2,260 | 1,821 |
| Employees at closing date (full-time basis) | 102,646 | 102,230 | 48,801 | 45,611 | 52,057 | 44,328 |
| Selling space (in 1,000 $m^2$) | 6,093 | 5,985 | 2,533 | 2,349 | 1,571 | 1,320 |
| Locations (number) | 1,427 | 1,463 | 477 | 422 | 224 | 188 |

| Galeria Kaufhof 2005 | Galeria Kaufhof 2004 | Other/consolidation[1] 2005 | Other/consolidation[1] 2004 | Continuing group operations METRO Group 2005 | Continuing group operations METRO Group 2004 | Discontinued group operations 2005 | Discontinued group operations 2004 |
|---|---|---|---|---|---|---|---|
| 3,575 | 3,768 | 832 | 328 | 55,722 | 53,475 | 2,789 | 2,934 |
| 8 | 8 | (146) | (152) | – | – | – | – |
| 3,583 | 3,776 | 686 | 176 | 55,722 | 53,475 | 2,789 | 2,934 |
| 189 | 199 | 561 | 450 | 2,938 | 2,844 | 18 | 142 |
| 120 | 142 | 403 | 334 | 1,200 | 1,121 | 47 | 48 |
| 69 | 57 | 158 | 116 | 1,738 | 1,723 | (29) | 94 |
| 96 | 120 | 561 | 616 | 2,138 | 1,744 | 83 | 58 |
| 1,266 | 1,313 | 2,867 | 2,058 | 24,735 | 22,225 | – | 1,669 |
| 1,013 | 1,024 | 1,794 | 1,538 | 14,462 | 13,563 | – | 619 |
| 19,983 | 20,412 | 15,048 | 10,815 | 214,937 | 201,738 | – | 15,686 |
| 1,465 | 1,473 | 438 | 117 | 10,518 | 9,941 | – | 1,958 |
| 142 | 147 | 335 | 214 | 2,171 | 2,110 | – | 335 |

| Asia/Africa 2005 | Asia/Africa 2004 | Consolidation 2005 | Consolidation 2004 | Continuing group operations METRO Group 2005 | Continuing group operations METRO Group 2004 | Discontinued group operations 2005 | Discontinued group operations 2004 |
|---|---|---|---|---|---|---|---|
| 1,184 | 1,079 | – | – | 55,722 | 53,475 | 2,789 | 2,934 |
| 860 | 726 | (875) | (740) | – | – | – | – |
| 2,044 | 1,805 | (875) | (740) | 55,722 | 53,475 | 2,789 | 2,934 |
| (6) | (1) | (11) | (65) | 2,938 | 2,844 | 18 | 142 |
| 31 | 28 | (1) | (7) | 1,200 | 1,121 | 47 | 48 |
| (37) | (29) | (10) | (58) | 1,738 | 1,723 | (29) | 94 |
| 80 | 53 | – | – | 2,138 | 1,744 | 83 | 58 |
| 728 | 613 | (3,228) | (3,520) | 24,735 | 22,225 | – | 1,669 |
| 395 | 300 | (358) | (311) | 14,462 | 13,563 | – | 619 |
| 11,433 | 9,569 | – | – | 214,937 | 201,738 | – | 15,686 |
| 321 | 287 | – | – | 10,518 | 9,941 | – | 1,958 |
| 43 | 37 | – | – | 2,171 | 2,110 | – | 335 |

### 37. Discontinued operations

At the end of November 2005, METRO AG sold 53.00 percent of its stakeholding in Praktiker Bau- und Heimwerkermärkte Holding AG as part of an initial public offering. In the course of the IPO, all properties in METRO Group ownership that were exclusively used by Praktiker were sold in December 2005.

The remaining stakeholding in Praktiker Bau- und Heimwerkermärkte Holding AG, which was diluted to 40.52 percent as a result of a capital increase carried out parallel to the IPO, is mostly scheduled to be sold during the coming year.

Income from discontinued operations can be broken down as follows:

| € million | 2005[1] | 2004 |
|---|---|---|
| Income | 2,878 | 3,027 |
| Expenses | (2,803) | (2,947) |
| **Current income from discontinued operations before taxes** | 75 | 80 |
| Income taxes | (13) | (11) |
| **Current income from discontinued operations after taxes** | 62 | 69 |
| Valuation of remaining shares in Praktiker to € 14.50 per share | (101) | – |
| Expenses for the deconsolidation of Praktiker incl. related costs before taxes | (140) | – |
| Proceeds from the sale of Praktiker real estate incl. related costs before taxes | 210 | – |
| **Divestment result from discontinued operations before taxes** | (31) | – |
| Income taxes | 0 | – |
| **Divestment result from discontinued operations** | (31) | – |
| **Net income from discontinued operations** | **31** | **69** |

[1]Data for Praktiker refer only to the period January to November 2005

The following assets and liabilities are attributable to discontinued operations at the time of divestment:

| | 2005 |
|---|---|
| **Non-current assets** | 999 |
| Goodwill | 326 |
| Other intangible assets | 7 |
| Tangible assets | 469 |
| Financial assets | 0 |
| Other receivables and assets | 1 |
| Deferred tax assets | 196 |
| **Current assets** | 1,021 |
| Inventories | 650 |
| Trade receivables | 16 |
| Financial assets | 0 |
| Other receivables and assets | 171 |
| Income tax refund entitlements | 6 |
| Cash and cash equivalents | 178 |
| **Minority interests** | (2) |
| **Non-current liabilities** | (232) |
| Provisions for pensions and similar commitments | (10) |
| Other provisions | (43) |
| Financial liabilities | (103) |
| Other liabilities | (4) |
| Deferred tax liabilities | (72) |
| **Current liabilities** | (600) |
| Trade liabilities | (436) |
| Provisions | (23) |
| Financial liabilities | (13) |
| Other liabilities | (114) |
| Income tax liabilities | (14) |
| **Balance of divested assets and liabilities** | **1,186** |

Under consideration of sales costs, the remaining stakeholding in Praktiker Bau- und Heimwerkermärkte Holding AG is valued at € 14.50 per share or a total € 341 million and is stated separately in the balance sheet as a non-current asset available for sale.

## 38. 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 the METRO Group, price risks result from the impact of changes in market interest rates or foreign currency 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, however, 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 optimize results.

Hedging may be carried out only with standard financial derivatives whose correct actuarial and accounting mapping and valuation in the treasury system is guaranteed.

As per the closing date, the following financial instruments were being used for risk reduction:

| € million | 31 Dec 2005 | Fair values | | 31 Dec 2004 | Fair values | |
|---|---|---|---|---|---|---|
| | Nominal volume | Financial assets | Financial liabilities | Nominal volume | Financial assets | Financial liabilities |
| **Interest rate transactions** | | | | | | |
| Interest rate swaps | 1,670 | 46 | (4) | 3,190 | 61 | 55 |
| within fair value hedges | [850] | [31] | [–] | [1,198] | [50] | [–] |
| within cash flow hedges | [8] | [0] | [0] | [1,095] | [0] | [33] |
| not part of a hedge | [812] | [15] | [(4)] | [897] | [11] | [22] |
| Interest limitation agreements | 750 | 3 | – | 0 | 0 | 0 |
| within fair value hedges | [–] | [–] | [–] | [–] | [–] | [–] |
| within cash flow hedges | [750] | [3] | [–] | [0] | [0] | [0] |
| not part of a hedge | [–] | [–] | [–] | [–] | [–] | [–] |
| | 2,420 | 49 | (4) | 3,190 | 61 | 55 |
| **Currency transactions** | | | | | | |
| Forex futures/options | 1,021 | 8 | (4) | 905 | 6 | 28 |
| within fair value hedges | [–] | [–] | [–] | [–] | [–] | [–] |
| within cash flow hedges | [230] | [7] | [(1)] | [310] | [1] | [22] |
| not part of a hedge | [791] | [1] | [(3)] | [595] | [5] | [6] |
| Interest rate/currency swaps | 239 | 9 | (26) | 238 | 14 | 25 |
| within fair value hedges | [0] | [0] | [–] | [36] | [0] | [12] |
| within cash flow hedges | [(4)] | [0] | [–] | [–] | [–] | [–] |
| not part of a hedge | [243] | [9] | [(26)] | [202] | [14] | [13] |
| | 1,260 | 17 | (30) | 1,143 | 20 | 53 |
| **Total** | **3,680** | **66** | **(34)** | **4,333** | **81** | **108** |

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

The nominal volume of the forex futures/options 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 currency derivatives are used primarily for British pound, Danish krone, Slovak koruna, Czech koruna, Polish zloty, Japanese yen, Swiss franc and Turkish lira.

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 | 5 | 37 | 0 |
| within fair value hedges | [–] | [31] | [–] |
| within cash flow hedges | [0] | [–] | [–] |
| not part of a hedge | [5] | [6] | [0] |
| Interest limitation agreements | – | 3 | – |
| within fair value hedges | [–] | [–] | [–] |
| within cash flow hedges | [–] | [3] | [–] |
| not part of a hedge | [–] | [–] | [–] |
| **Currency transactions** | | | |
| Forex futures/options | 4 | – | 0 |
| within fair value hedges | [–] | [–] | [–] |
| within cash flow hedges | [6] | [–] | [–] |
| not part of a hedge | [(2)] | [–] | [0] |
| Interest/currency swaps | 0 | (17) | – |
| within fair value hedges | [–] | [0] | [–] |
| within cash flow hedges | [0] | [–] | [–] |
| not part of a hedge | [0] | [(17)] | [–] |
| **Total** | **9** | **23** | **0** |

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 market value losses of all financial instruments, 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 probably 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 investing 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 at all times so that there is no danger of liquidity risks 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 item.

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 or internal credit assessments. An individual limit is allocated to every counterparty 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/Africa | Derivatives with positive market values | Total |
| Investment Grade | Aaa | AAA | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| | Aa1 to Aa3 | AA+ to AA– | 12.1 | 23.3 | 0.8 | 0.8 | 2.2 | |
| | A1 to A3 | A+ to A– | 12.4 | 31.0 | 5.4 | 1.1 | 1.4 | |
| | Baa1 to Baa3 | BBB+ to BBB– | 2.3 | 0.0 | 3.5 | 0.0 | 0.0 | 96.3 |
| Non Investment Grade | Ba1 to Ba3 | BB+ to BB– | 0.1 | 0.0 | 1.6 | 0.3 | 0.0 | |
| | B1 to B3 | B+ to B– | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| | C | C | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.0 |
| No rating | | | 0.3 | 1.1 | 0.3 | 0.0 | 0.0 | 1.7 |
| **Total** | | | **27.2** | **55.4** | **11.6** | **2.2** | **3.6** | **100.0** |

The table shows that as of the closing date 96 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 2 percent of the total volume.
The METRO Group's level of exposure to creditworthiness 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 55 percent variable and 45 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.

## 39. Contingent liabilities and other contingencies

| € million | 31 Dec 2005 | 31 Dec 2004 |
|---|---|---|
| Liabilities from suretyships and guarantees | 28 | 40 |
| Liabilities from guarantee and warranty contracts | 215 | 587 |
| | **243** | **627** |

The decline in liabilities from guarantee and warranty contracts results mainly from the elimination of guarantees through the integration of the Adler Modemärkte.
The remaining liabilities from guarantee and warranty contracts relate mostly to potential obligations from the divestment of Extra markets as well as from the sale of Praktiker real estate.

## 40. Other financial obligations

| € million | 31 Dec 2005 | 31 Dec 2004 |
|---|---|---|
| Purchasing/sourcing commitments | 90 | 8 |
| Other | 19 | 52 |
| | **109** | **60** |

In line with the revised accounting standard IAS 32, commitments from stock tender rights were recognized as debt rather than equity. The commitments from stock tender rights stated in the previous year were eliminated on account of the retrospective application of this accounting standard.

Purchasing/sourcing commitments concern a number of contracts regarding the sourcing of services (maintenance contracts), energy, advertising material and office supplies.

Please see notes no. 19 and 20 for information on purchasing commitments for other intangible and tangible assets and obligations from finance and operating leases.

## 41. Other legal issues

### Status of legal challenge

The share exchange ratio set for the incorporation of Asko Deutsche Kaufhaus AG and Deutsche SB-Kauf AG into METRO AG in 1996 is undergoing judicial review in appraisal processes initiated by former stockholders. The former stockholders maintain that the exchange ratio was set too low, putting them at a disadvantage.

These two legal challenges are pending in district courts located in Saarbrücken and Frankfurt am Main.

**Resolutions of the annual general meeting of May 22, 2003**

A lawsuit seeking to annul the following resolutions of the annual general meeting held on May 22, 2003 was filed in the District Court of Düsseldorf, Chamber for Commercial Matters (docket number 41 O 122/03):

1. The resolution on agenda item 3, with which the annual general meeting approved the acts of the Management Board
2. The resolution on agenda item 5, with which the annual general meeting elected FASSELT & PARTNER Wirtschaftsprüfungsgesellschaft, Duisburg, as the auditor for fiscal year 2003.

In a ruling issued on September 28, 2005, the 11th Chamber for Commercial Matters in the District Court of Düsseldorf voided the decision on agenda item 5 with which the annual general meeting elected FASSELT & PARTNER Wirtschaftsprüfungsgesellschaft, Duisburg, as the auditor for fiscal year 2003.

The chamber dismissed the lawsuit filed against the decision on agenda item 3, with which the annual general meeting approved the acts of the Management Board.

The petitioners and the company have appealed the ruling. As a result, the district court ruling has not gone into legal effect yet and the decisions that have been challenged remain valid. The appeal is pending in the Higher District Court Düsseldorf (I-6 U 241/05). Oral proceedings have not been held yet.

## 42. Stockholding

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

## 43. Post-year-end developments

In February 2006, the so-called bird-flu virus appeared for the first time in Western Europe, including Germany. Despite the extensive precautionary measures that have been taken by many countries, the continued spread of the virus subtype that poses a threat to humans, H5N1, cannot be ruled out.

Since the first breakout of bird flu occurred in Asia in 2003, the METRO Group has taken an extensive number of quality-assurance steps that apply to its purchases of poultry products. The company procures its foods exclusively from producers who are regularly subject to veterinary inspections and from suppliers who have a HACCP certificate and meet hygiene regulations.
In addition, it requires a written guarantee about the safety of the products concerning bird flu.

The impact that bird flu will have on food retail cannot be predicted at the moment. If the virus continues to spread or if it repeatedly appears, a growing shift in demand from poultry to other products is likely. The METRO Group is prepared to react flexibly to possible changes in demand. At the moment, it is not possible to say whether or how this development would affect the food retail business.

### 44. Notes on related parties

In 2005 and 2004, the METRO Group maintained the following business relations to related companies:

| | Goods/services provided | | Goods/services received | |
|---|---|---|---|---|
| **€ million** | **2005** | **2004** | **2005** | **2004** |
| Supplies and other services | 8 | 1 | 170 | 109 |

The goods/services received consist primarily of property leases by companies in the METRO Group. The properties are owned by companies that are included in the circle of related companies.

The goods/services provided in business relations to related companies consist primarily of services provided by group companies to the Praktiker group following the initial public offering. In particular, they include leasing and IT services.

Overall, the companies of the METRO Group hold receivables totaling € 9 million and liabilities totaling € 102 million toward various companies in the Praktiker group.

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

### 45. Stock-based compensation for executives

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

In the past, the executives of METRO AG and the cross-divisional service companies received options from the **stock option program**. The executives of the sales divisions received so-called **stock appreciation rights** that result in a cash payment when exercised.

Participation in the stock option program gave 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, stipulated that the company may 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. This option was used by all beneficiaries of the program with regard to all subscription rights issued.

The stock options and stock appreciation rights held in the group during fiscal year 2005 changed as follows:

**Stock options/stock appreciation rights**[1]

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Stock options units | Stock appreciation rights units | Stock options units | Stock appreciation rights units |
| Outstanding on 1 Jan | 1,476,693 | 3,155,760 | 1,957,863 | 3,835,525 |
| Issued | 0 | 0 | 0 | 0 |
| Exercised | 575,503 | 1,058,365 | 0 | 0 |
| Expired/forfeited | 393,770 | 637,275 | 481,170 | 679,765 |
| **Outstanding on 31 Dec** | **507,420** | **1,460,120** | **1,476,693** | **3,155,760** |

[1]Excluding stock bonuses granted to Management Board members in 2003 totaling € 1,247,550 (target bonus)

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

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

| | | | | Stock options | | Stock appreciation rights | |
|---|---|---|---|---|---|---|---|
| Tranche | Expiration date | Basis price € | Exercising hurdle € | 31 Dec 2005 units outstanding | 31 Dec 2004 units outstanding | 31 Dec 2005 units outstanding | 31 Dec 2004 units outstanding |
| 2001 | 8 weeks after AGM in 2005 | 43.72 | 56.84 | 0 | 380,010 | 0 | 626,225 |
| 2002 | 8 weeks after AGM in 2006 | 28.73 | 37.35 | 23,920 | 604,783 | 77,170 | 1,135,535 |
| 2003 | 8 weeks after AGM in 2007 | 26.99 | 35.09 | 483,500 | 491,900 | 1,382,950 | 1,394,000 |
| | | | | **507,420** | **1,476,693** | **1,460,120** | **3,155,760** |

During the year under review, 575,503 stock options and 1,058,365 stock appreciation rights were exercised from the 2002 tranche. The average strike price per right was € 40.89. A total of 5,360 stock options were forfeited, and the remaining term of the rights that may still be exercised from the 2002 tranche is 6.5 months (July 13, 2006).

From the 2003 tranche, 8,400 stock options and 11,050 stock appreciation rights were forfeited. The remaining term of the rights that may still be exercised from the 2003 tranche is 19 months (July 18, 2007).

In fiscal year 2004, a five-year **stock bonus program** was introduced to replace the stock option program. In contrast to the previous granting of subscription rights, this program provides the entitlement to stock bonuses. The size of the cash bonus depends on the performance of the Metro stock price and the parallel consideration of 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 initially depends on the ratio of opening price and target price.

The opening price of each tranche corresponds to the arithmetic mean of the closing prices of the METRO AG common stock in Xetra trading of Deutsche Börse AG in Frankfurt/Main on the 20 last consecutive trading days before the closing date (eight weeks after the respective annual general meeting).

The target price, upon which the full bonus is granted, is calculated based on the opening price and assumes a stock price increase of 15 percent over the course of three years. Whether the target price has been reached is determined by means of the arithmetic mean of the closing prices of the company’s common stock in Xetra trading on the last 20 consecutive trading days before expiration of the relevant three-year period. The bonus increases or decreases proportionately when the stock price exceeds or falls below the 15 percent price target.

The size of the respective bonus also depends on the performance of the Metro stock compared with relevant German and European sectoral indices. When the Metro stock has outperformed these indices, the stock bonus is raised to 120 percent. When it underperforms, it is reduced to 80 percent. Outperformance or underperformance applies when the Metro stock exceeds or falls below the aforementioned average by more than 10 percent. Outperformance or underperformance is determined analogous to the determination of whether the target price has been reached.

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 reached by mutual consent at the time of maturity. In addition, the payment of stock bonuses is limited to the size of the fixed salary. Any potential excess amounts are used to raise the stock bonus during the following three years when the latter is lower than the target bonus.

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

**Stock bonus**

| Tranche | Due date | Basis price | Target price | Total target bonus |
|---|---|---|---|---|
| 2004 | July 2007 | 37.14 € | 42.71 € | 23,030,000 € |
| 2005 | July 2008 | 41.60 € | 47.84 € | 25,225,000 € |

The target bonus values are based on the assumption that the target prices are attained. The value of the stock bonus paid in 2005 was € 17,348,000 at the time of payment and was calculated by independent experts using the Monte Carlo method.

## 46. Management Board and Supervisory Board

### Compensation of Management Board members

#### Compensation in fiscal year 2005

Compensation of active members of the Management Board totaled € 8.5 million in fiscal year 2005 (previous year € 10.2 million).

Of this total, fixed compensation accounted for € 3.2 million, variable, performance-based compensation for € 4.3 million and entitlements to stock bonuses granted in 2005 for € 0.9 million (variable compensation with long-term incentives). A total of € 85,000 was used for other compensation (employer contributions to Germany's social services systems and non-cash benefits for the use of company cars). The following individual sums apply:

| € 1,000 | Fixed salary | Variable, performance-based compensation | Entitlements to stock bonuses granted in 2005 | Other compensation | Total |
|---|---|---|---|---|---|
| Dr. Hans-Joachim Körber | 1,000 | 1,684 | 272 | 21 | 2,977 |
| Zygmunt Mierdorf | 800 | 1,123 | 225 | 22 | 2,170 |
| Stefan Feuerstein | 800 | 602 | 225 | 22 | 1,649 |
| Thomas Unger | 600 | 842 | 225 | 20 | 1,687 |
| **Total** | **3,200** | **4,251** | **947** | **85** | **8,483** |

The size of the variable, performance-based compensation results largely from EVA-based remuneration entitlements. Due to the bonus bank system, the full payout of EVA-based compensation entitlements depends on EVA factors in the coming years. Stock bonus entitlements are stated at their fair value at the time they are granted. Payment of the stock bonus depends on the fulfillment of the aforementioned conditions for the stock bonus plan.

The company has hedged the entitlements from remuneration components with long-term incentives.

### Payments after the end of employment

Former members of the Management Board of METRO AG and of the companies merged into METRO AG as well as their surviving dependents received € 3,581,000. METRO AG has made pension provisions of € 40,889,000 for this group.

Remuneration of active Management Board members amounted to € 2.3 million in accordance with agreements made in the past. No new entitlements to receive pension or other benefits were issued.

### Supervisory Board compensation

The total compensation of all members of the Supervisory Board amounts to a net € 1.6 million for fiscal year 2005. The fixed and performance-based pay components account for € 0.9 million and € 0.7 million, respectively, payable after the end of METRO AG's annual general meeting on May 18, 2006.

The following individual totals apply in fiscal year 2005:

| € | Fixed compensation | Performance based compensation |
|---|---|---|
| Prof. Dr. Theo Siegert, chairman (until February 2006) | 105,000 | 83,784 |
| Dr. Eckhard Cordes, chairman (from February 2006) | 0 | 0 |
| Klaus Bruns, vice chairman | 70,000 | 55,856 |
| Dr. Wulf H. Bernotat | 35,000 | 27,928 |
| Prof. Dr. Dr. h. c. Klaus Brockhoff | 35,000 | 27,928 |
| Volker Claus (until August 2005) | 35,000 | 27,928 |
| Ulrich Dalibor | 52,500 | 41,892 |
| Prof. Dr. Dr. h. c. Erich Greipl | 39,375 | 31,419 |
| Marliese Grewenig (until November 2005) | 32,083 | 25,601 |
| Jürgen Hennig | 35,000 | 27,928 |
| Anja Kiehne-Neuberg | 49,583 | 39,565 |
| Werner Klockhaus | 52,500 | 41,892 |

| € | Fixed compensation | Performance based compensation |
|---|---|---|
| Peter Küpfer (from September 2005) | 11,667 | 9,309 |
| Rainer Kuschewski (from January 2005) | 35,000 | 27,928 |
| Dr. Klaus Mangold | 35,000 | 27,928 |
| Marianne Meister | 35,000 | 27,928 |
| Dr. rer. pol. Klaus von Menges | 35,000 | 27,928 |
| Dr. e. h. Dipl.-Ing. Bernd Pischetsrieder | 35,000 | 27,928 |
| Sylvia Raddatz | 35,000 | 27,928 |
| Renate Rohde-Werner | 35,000 | 27,928 |
| Dr. jur. Hans-Jürgen Schinzler | 52,500 | 41,892 |
| Dr. Manfred Schneider | 52,500 | 41,892 |
| Peter Stieger (from January 2006) | 0 | 0 |
| **Total** | **902,708** | **720,310** |

In fiscal year 2005, the members of the Supervisory Board of METRO AG received about € 40,234 in net compensation for Supervisory Board mandates (and in one case for an advisory council mandate) at group companies. The amounts listed in the following table apply to the individual members of the METRO AG Supervisory Board.

Other intra-group compensation:

| € | 2005 |
|---|---|
| Marliese Grewenig (until 24 Nov 2005) | 6,895 |
| Rainer Kuschewski | 6,136 |
| Marianne Meister | 9,000 |
| Sylvia Raddatz | 9,000 |
| Peter Stieger | 9,203 |
| **Total** | **40,234** |

These data do not include the remuneration entitlements of Supervisory Board members from intra-group Supervisory Board mandates in cases where the Supervisory Board member renounced the payment.

Further compensation provided by a group company is dependent on a decision of its Supervisory Board that follows the attestation of this appendix. This compensation is listed in the Corporate Governance Report included in the 2005 annual report of the METRO Group.

Beyond this, no compensation or benefits for personally provided services, in particular consultation and intermediation services, in the sense of Subsection 5.4.7 of the German Corporate Governance Code were paid to members of the Supervisory Board by other companies in the METRO Group.

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

As of December 31, 2005, 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.

### 48. Expenses on the fee for the auditor

All fees related to the audit of the METRO Group and recorded as expenses totaled for:

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and related companies:

| € million | 2005 |
|---|---|
| Audit | 5 |
| Other certification or evaluation services | 1 |
| Tax consultation services | 1 |
| Other services | 1 |
| **Total** | **8** |

PKF FASSELT & PARTNER Wirtschaftsprüfungsgesellschaft:

| € million | 2005 |
|---|---|
| Audit | 2 |
| Other certification or evaluation services | 1 |
| Tax consultation services | 0 |
| Other services | 1 |
| **Total** | **4** |

Only services that are consistent with the task as the auditor of the annual financial statements were provided.

### 49. Declaration of compliance with the German Corporate Governance Code

The Management and Supervisory Boards of METRO AG in December 2005 made a declaration of compliance with the recommendations of the government commission German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act which can be accessed on the METRO AG website (www.metrogroup.de) at any time.

### 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 2005 as well as mostly from disclosing their (HGB) notes and management report.

**a) Operative companies and service entities**

| | |
|---|---|
| 1. Schaper Objekt GmbH & Co. Wächtersbach KG | Düsseldorf |
| 2. Schaper Objekt GmbH & Co. Memmingen KG | Düsseldorf |
| A LA CARTE Warenvertriebsgesellschaft mbH | Düsseldorf |
| Allkauf Konzern Verwaltungs GmbH | Alzey |
| Allkauf SB-Warenhaus GmbH & Co. KG | Alzey |
| Allkauf Vermietungs- und Verwaltungs-GmbH | Mönchengladbach |
| Allkauf-Fruchtzentrale GmbH | Mönchengladbach |
| Axxe Reisegastronomie GmbH | Cologne |
| C+C Schaper GmbH | Hanover |
| Deutsche Gesellschaft für Anlageverwaltung mbH | Düsseldorf |
| Dinea Gastronomie GmbH | Cologne |
| Emotions GmbH | Cologne |
| Extra Multi-Markt Warenvertriebs-GmbH & Co. KG | Sarstedt |
| Extra Verbrauchermarkt Verwaltungsgesellschaft mbH | Sarstedt |
| Extra Verbrauchermärkte Management GmbH | Alzey |
| Gemini Personal Service GmbH | Cologne |
| Goldblume-O'LACY'S-Handels GmbH | Düsseldorf |
| Goldhand Lebensmittel- u. Verbrauchsgüter-Vertriebsgesellschaft mit beschränkter Haftung | Düsseldorf |
| Hans Köfer GmbH, Weinkellerei | Düsseldorf |
| Johannes Berg GmbH, Weinkellerei | Düsseldorf |
| Kaufhaus Kerber GmbH & Co. KG | Fulda |
| Kaufhof Warenhaus AG | Cologne |
| Kaufhof Warenhaus am Hauptbahnhof Berlin GmbH | Berlin |
| Kaufhof Warenhaus Rostock GmbH | Rostock |
| Kerber Beteiligungs-GmbH | Fulda |
| KIM Kaufhof Innovation und Medien GmbH | Cologne |
| LSZ Betriebsführungsgesellschaft mbH & Co. KG | Alzey |
| Lust for Life Gastronomie GmbH | Cologne |
| MDH Secundus GmbH & Co. KG | Düsseldorf |
| MDH Secundus Vermögensverwaltung GmbH | Düsseldorf |
| Meister feines Fleisch – feine Wurst GmbH & Co. KG | Gäufelden-Nebringen |
| Metro Beteiligungsmanagement Düsseldorf GmbH & Co. KG | Düsseldorf |
| Metro Cash & Carry Brunnthal GmbH | Berlin |
| Metro Cash & Carry Deutschland GmbH | Düsseldorf |
| Metro Cash & Carry Eastern Europe GmbH | Düsseldorf |
| Metro Cash & Carry International GmbH | Düsseldorf |
| Metro Cash & Carry International Holding GmbH | Düsseldorf |
| Metro Cash & Carry Western Europe GmbH | 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 SB-Großmärkte Verwaltungsgesellschaft mit beschränkter Haftung | Mülheim a. d. Ruhr |
| Metro Sechste Gesellschaft für Vermögensverwaltung mbH | Düsseldorf |
| Metro Siebte 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 |
| MGL METRO Group Logistics Warehousing GmbH & Co. KG | Sarstedt |
| MGL METRO Group Logistics Warehousing Management GmbH | Sarstedt |
| 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 | Hanover |
| 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 |
| Weinkellerei Thomas Rath GmbH | Düsseldorf |

**b) Real estate companies**

| | |
|---|---|
| ADAGIO 2. Grundstücksverwaltungsgesellschaft mbH | Saarbrücken |
| ADAGIO 3. Grundstücksverwaltungsgesellschaft mbH | Saarbrücken |
| ADAGIO Grundstücksverwaltungsgesellschaft mbH | Saarbrücken |

| | |
|---|---|
| Adolf Schaper GmbH & Co. Grundbesitz KG | Saarbrücken |
| ANDANTE Grundstücksverwaltungsgesellschaft mbH | Langenburg |
| ARKON Grundbesitzverwaltung GmbH | Saarbrücken |
| ASH Grundstücksverwaltung XXX GmbH | Saarbrücken |
| Asset Grundbesitz GmbH | Cologne |
| Asset Immobilienbeteiligungen GmbH | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Wohnanlage Frankfurt KG | Saarbrücken |
| Asset Verwaltungs-GmbH | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Aachen II KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Aachen, Adalbertstr. 20-30 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 Leipzig 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 München, Marienplatz KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt München, Pelkovenstr. 155 KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Nürnberg, Königsstr. 42-52 KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Offenbach KG | Saarbrücken |

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| 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 Würzburg KG | Saarbrücken |
| Bassa Grundstücksverwaltungsgesellschaft mbH | Saarbrücken |
| Batra Grundstücksverwaltungsgesellschaft mbH | Saarbrücken |
| BAUGRU Immobilien-Beteiligungsgesellschaft mbH & Co. Grundstücksverwaltung KG | Saarbrücken |
| BLK Grundstücksverwaltung GmbH | Saarbrücken |
| Deutsche SB-Kauf GmbH & Co. KG | Saarbrücken |
| Dorina Immobilien-Vermietungsgesellschaft mbH | Cologne |
| FZB Fachmarktzentrum Bous Verwaltungsgesellschaft mbH & Co. KG | Munich |
| GBS Gesellschaft für Unternehmensbeteiligungen mbH | Saarbrücken |
| GBS Vermögensverwaltung GmbH | Saarbrücken |
| Gewerbebau Flensburg GmbH | Flensburg |
| Gewerbebau Flensburg GmbH & Co. Objekt Fachmarktzentrum KG | Flensburg |
| GF Grundstücksverwaltungsgesellschaft mbH | Mannheim |
| GKF Saar-Grund GbR | 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. 10. Objekt-KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. 21. Objekt-KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. 22. Objekt-KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. 25. Objekt-KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Gewerbegrundstücke KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Grundstücksverwaltung KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Arnsberg KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Bochum Otto Straße KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Bonn 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 Dresden-Heidenau KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Düren KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Edingen-Neckarhausen KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Finowfurt KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Frankenthal KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Frankenthal-Studernheim KG | Saarbrücken |

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| 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 Fössestraße KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Hannover/Davenstedter Straße 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-Senkingstraße KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Hillesheim KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Kirkel KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Krefeld-Fischeln KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Kulmbach KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Neuwied KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Nürnberg KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Oldenburg KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Paderborn “Südring Center” 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 Trier KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Überlingen KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Wesel 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 |
| GKF Vermögensverwaltungsgesellschaft mit beschränkter Haftung | Saarbrücken |
| Horten GmbH | Düsseldorf |
| Horten Verwaltungs GmbH | 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 |

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|---|---|
| Horten Verwaltungs GmbH & Co. Objekt Duisburg 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 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 |
| Kaufhaus Suhl Verwaltungsgesellschaft mbH | Saarbrücken |
| Kaufhof Warenhaus am Alex GmbH | Berlin |
| Kaufhof Warenhaus Neubrandenburg GmbH | Saarbrücken |
| LSR Grundstücksverwaltungs GmbH & Co. KG | Suhl |
| LSR Grundstücksverwaltungs GmbH & Co. KG, Immobilien | Suhl |
| MEM METRO Group Energy Production & Management GmbH | Düsseldorf |
| METRO Group Asset Management GmbH & Co. KG | Saarbrücken |
| METRO Group Asset Management Services GmbH | Saarbrücken |
| NIGRA Verwaltung GmbH & Co. Objekt Haibach KG | Munich |
| NIGRA Verwaltung GmbH & Co. Objekt Kassel oHG | Munich |
| NIGRA Verwaltung GmbH & Co. Objekt Saarbrücken KG | Munich |

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|---|---|
| PIL Grundstücksverwaltung GmbH | Saarbrücken |
| Saalbau-Verein Ulm GmbH | Saarbrücken |
| Schaper Grundbesitzverwaltungsgesellschaft mbH | Saarbrücken |
| STW Grundstücksverwaltung GmbH | Saarbrücken |
| TANDOS Grundstücks-Verwaltungsgesellschaft mbH | Saarbrücken |
| WestBTL Handel-Beteiligungsgesellschaft mit beschränkter Haftung | Düsseldorf |
| Wirichs Immobilien GmbH | Saarbrücken |
| Wirichs Verwaltungsgesellschaft mbH & Co. Objekt Duisburg KG | Saarbrücken |
| Wirichs Verwaltungsgesellschaft mbH & Co. Objekt Kleve KG | Saarbrücken |
| Wirichs Verwaltungsgesellschaft mbH & Co. Objekt Marl KG | Saarbrücken |
| Wirichs Verwaltungsgesellschaft mbH & Co. Objekt Riesa KG | Saarbrücken |
| Wirichs Verwaltungsgesellschaft mbH & Co. Objekt Schönebeck KG | Saarbrücken |
| Wirichs Verwaltungsgesellschaft mbH & Co. Objekt Schwelm KG | Saarbrücken |
| Wirichs Verwaltungsgesellschaft mbH & Co. Objekt Stolberg KG | Saarbrücken |
| Wirichs Verwaltungsgesellschaft mbH & Co. Objekt Voerde und Kamen KG | Saarbrücken |
| Wirichs Verwaltungsgesellschaft mbH & Co. Objekte Nordhausen und Magdeburg KG | Saarbrücken |
| Wirichs Verwaltungsgesellschaft mbH & Co. Vermietungs-KG | Saarbrücken |
| Wirichs Verwaltungsgesellschaft mit beschränkter Haftung | Saarbrücken |
| Wolfgang Wirichs GmbH | Saarbrücken |
| Zentra Beteiligungsgesellschaft mit beschränkter Haftung | Saarbrücken |
| Zentra-Grundstücksgesellschaft mbH | Saarbrücken |

## 51. Overview of major group companies

| Name | Head office | Stake % | Equity[1] € 1,000 |
|---|---|---|---|
| **METRO AG** | Düsseldorf | | 4,414,835 |
| Metro Kaufhaus und Fachmarkt Holding GmbH | Düsseldorf | 100.00 | 3,404,469 |
| 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 | 255,591 |
| | | | |
| **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 |
| MGL METRO Group Logistics Warehousing GmbH & Co. KG | Sarstedt | 100.00 | 5,150 |
| MGI METRO Group Information Technology GmbH | Düsseldorf | 100.00 | 97,348 |

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

## 52. Corporate Boards of METRO AG and their mandates

### Members of the Supervisory Board

**Prof. Dr. Theo Siegert** (Chairman)
Until 4 February 2006
Chairman of the Managing Board
of Franz Haniel & Cie. GmbH, until 31 December 2005
a) Celesio AG (Chairman)
ERGO Versicherungsgruppe AG
Takkt AG, since 3 May 2005
b) None

**Dr. Eckhard Cordes** (Chairman)
since 5 February 2006, Chairman since 20 February 2006
Chairman of the Managing Board
of Franz Haniel & Cie. GmbH, since 1 January 2006
a) Rheinmetall Aktiengesellschaft
b) FIEGE Holding Stiftung & Co. KG –
Supervisory Board, since 5 February 2006

**Dr. Wulf H. Bernotat**
Chairman of the Board of Management 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., Delaware (OH), USA –
Board of Directors (Chairman)
E.ON Nordic AB, Malmö, Sweden –
Board of Directors (Chairman)
E.ON UK plc, Coventry, Great Britain –
Board of Directors (Chairman)
E.ON Sverige AB, Malmö, Sweden
(formerly Sydkraft AB, Malmö, Sweden) –
Board of Directors (Chairman)

**Prof. Dr. Dr. h. c. Klaus Brockhoff**
Honorary professor for business affairs at the Management University "Wissenschaftliche Hochschule für Unternehmensführung – Otto-Beisheim-Hochschule"
a) Steuler Industriewerke GmbH (Chairman)
b) Bucerius/WHU MLB gGmbH –
Supervisory Board, since January 2006
Norddeutsche Private Equity GmbH –
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
b) None

**Volker Claus**
Until 31 August 2005
CPA and tax consultant
a) None
b) Gebr. Schmidt Verwaltungsgesellschaft mbH –
Advisory Board until 29 April 2005

**Ulrich Dalibor**
National Chairman of the Retail Section of the Ver.di union
a) Kaufhof Warenhaus AG
b) None

**Prof. Dr. Dr. h. c. Erich Greipl**
CEO of Metro Vermögensverwaltung GmbH & Co. KG
a) Duales System Deutschland AG (Chairman)
Kaufhof Warenhaus AG
Metro Großhandelsgesellschaft mbH
Real Holding GmbH
b) BBE Unternehmensberatung GmbH –
Board of Directors
KGG Kreditgarantiegemeinschaft Handel
in Bayern GmbH – Board of Directors (Chairman)
Beisheim Holding Schweiz AG, Baar, Switzerland –
Board of Directors (President)

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

**Marliese Grewenig**
Until 24 November 2005
Chairwoman of the Group Works Council and the General Works Council of Praktiker Bau- und Heimwerkermärkte AG
a) Praktiker Bau- und Heimwerkermärkte AG (Vice Chairwoman)
Praktiker Bau- und Heimwerkermärkte Holding AG (Vice Chairwoman), since 30 November 2005
b) None

**Jürgen Hennig**
Department Head at Metro Großhandelsgesellschaft mbH
a) None
b) None

**Anja Kiehne-Neuberg**
Section Head of Personnel und Organizational Development of Kaufhof Warenhaus AG
a) None
b) None

**Werner Klockhaus**
Vice Chairman of the Group Works Council of METRO AG
Vice Chairman of the General Works Council of Real SB-Warenhaus GmbH
a) None
b) None

**Peter Küpfer**
since 9 September 2005
Business consultant
a) None
b) Gebr. Schmidt GmbH & Co. KG – Advisory Board, since 7 February 2006
Bank Julius Bär & Co. AG, Zurich, Switzerland – Board of Directors (Vice President)
Brändle, Missura & Partner Informatik AG, Zurich, Switzerland – Board of Directors
Holcim AG, Jona, Switzerland – Board of Directors
Karl Steiner AG, Zurich, Switzerland – Board of Directors
LB (Swiss) Privatbank AG, Zurich, Switzerland – Board of Directors
PSW Holding AG, Zurich, Switzerland – Board of Directors
Pilatus Flugzeugwerke AG, Stans, Switzerland – Board of Directors (President)
UFJ Bank (Schweiz) AG, Zurich, Switzerland – Board of Directors
Supra Holding AG, Baar, Switzerland – Board of Directors, since 29 June 2005
Suprapart AG, Baar, Switzerland – Board of Directors, since 29 June 2005
Valora Holding AG, Bern, Switzerland – Board of Directors

**Rainer Kuschewski**
since 1 January 2005
Secretary of the National Executive Board of the Ver.di union
a) Real Holding GmbH
b) None

**Dr. Klaus Mangold**
Executive Advisor to the Chairman of DaimlerChrysler AG
a) Jenoptik AG
Leipziger Messe GmbH
b) Rothschild GmbH – Advisory Board (Chairman)
Chubb Corporation, Warren (NJ), USA – Board of Directors
Magna International Inc., Toronto, Canada – Board of Directors

**Marianne Meister**
Chairwoman of the General Works Council of Metro Großhandelsgesellschaft mbH
a) Metro Großhandelsgesellschaft mbH (Vice Chairwoman)
b) None

**Dr. rer. pol. Klaus von Menges**
Businessman and Agronomist
a) DEG Deutsche Investitions- und Entwicklungsgesellschaft mbH
MAN Ferrostaal AG
b) None

**Dr. e. h. Dipl.-Ing. Bernd Pischetsrieder**
Chairman of the Board of Management of Volkswagen AG
a) Audi AG (Chairman)
Dresdner Bank AG
Münchener Rückversicherungs-Gesellschaft
b) Scania AB, Södertälje, Sweden –
Board of Directors (Chairman)
SEAT S.A., Barcelona, Spain –
Consejo de Administración
Tetra-Laval Group, Pully, Switzerland –
Board of Directors

**Sylvia Raddatz**
Commercial Clerk, Real SB-Warenhaus GmbH,
Sparte Extra-Verbrauchermärkte
a) None
b) Extra Verbrauchermärkte Management GmbH –
Advisory Board (Vice Chairwoman)

**Renate Rohde-Werner**
Trained Retail Saleswoman, Kaufhof Warenhaus AG
a) None
b) None

**Dr. jur. Hans-Jürgen Schinzler**
Chairman of the Supervisory Board
of Münchener Rückversicherungs-Gesellschaft
a) Bayerische Hypo- und Vereinsbank AG (Vice Chairman),
until 28 November 2005
Deutsche Telekom AG
Münchener Rückversicherungs-Gesellschaft (Chairman)
b) UnitCredit S.p.A., Genoa, Italy – Board of Directors,
since 11 January 2006

**Dr. Manfred Schneider**
Chairman of the Supervisory Board of Bayer AG
a) Allianz AG
Bayer AG (Chairman)
DaimlerChrysler AG
Linde AG (Chairman)
RWE AG
TUI AG
b) None

**Peter Stieger**
Since 4 January 2006
Chairman of the General Works Council
of Real SB-Warenhaus GmbH
a) Real Holding GmbH (Vice Chairman)
b) None

## Committees of the Supervisory Board and their members

**Presidential Committee**
Prof. Dr. Theo Siegert (Chairman), until 4 February 2006
Dr. Eckhard Cordes (Chairman), since 20 February 2006
Klaus Bruns (Vice Chairman)
Werner Klockhaus
Dr. Manfred Schneider

**Personnel and Nominations Committee**
Prof. Dr. Theo Siegert (Chairman), until 4 February 2006
Dr. Eckhard Cordes (Chairman), since 20 February 2006
Klaus Bruns (Vice Chairman)
Werner Klockhaus
Dr. Manfred Schneider

**Accounting and Audit Committee**
Prof. Dr. Theo Siegert (Chairman), until 4 February 2006
Dr. Eckhard Cordes (Chairman), since 20 February 2006
Klaus Bruns (Vice Chairman)
Volker Claus, until 31 August 2005
Ulrich Dalibor
Prof. Dr. Dr. h. c. Erich Greipl, since 27 October 2005
Anja Kiehne-Neuberg, since 17 March 2005
Dr. jur. Hans-Jürgen Schinzler

**Mediation Committee pursuant to § 27 Section 3 MitbestG (German law on codetermination)**
Prof. Dr. Theo Siegert (Chairman), until 4 February 2006
Dr. Eckhard Cordes (Chairman), since 20 February 2006
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** (Chairman and CEO)

a) Bertelsmann AG
Kaufhof Warenhaus AG (Chairman)
Real Holding GmbH

b) Loyalty Partner GmbH – Supervisory Board, until 29 January 2006
LP Holding GmbH – Supervisory Board, since 13 February 2006
Skandinaviska Enskilda Banken AB, Stockholm, Sweden – Board of Directors

**Stefan Feuerstein**

a) Dinea Gastronomie GmbH (Chairman)
Real Holding GmbH (Chairman)

b) Extra Verbrauchermärkte Management GmbH – Advisory Board (Chairman)
GNX GlobalNetXchange, LLC, San Francisco (CA), USA – Board, until 18 October 2005
MGP METRO Group Account Processing International AG, Baar, Switzerland (formerly Metro SB-Handels AG, Baar, Switzerland) – Board of Directors (President), until 14 September 2005

**Zygmunt Mierdorf** (Executive Vice President Human Resources)

a) Adler Modemärkte GmbH (Chairman)
Praktiker Bau- und Heimwerkermärkte AG (Chairman, until 7 December 2005; since then ordinary member)
Praktiker Bau- und Heimwerkermärkte Holding AG, since 29 November 2005
Real Holding GmbH

b) METRO Group Asset Management GmbH & Co. KG – Shareholders' Committee (Chairman)
MGP METRO Group Account Processing International AG, Baar, Switzerland – Board of Directors (President), since 14 September 2005
Wagner International AG, Altstätten, Switzerland – Board of Directors
Tertia Handelsbeteiligungsgesellschaft mbH – Supervisory Board (Chairman)

**Thomas Unger**

a) Praktiker Bau- und Heimwerkermärkte AG, since 28 November 2005
Praktiker Bau- und Heimwerkermärkte Holding AG, since 29 November 2005
Real Holding GmbH

b) Assevermag AG, Baar, Switzerland – Board of Directors (President)
Metro Capital B.V., Venlo, Netherlands – Raad van Commissarissen
Metro Euro Finance B.V., Venlo, Netherlands – Raad van Commissarissen
Metro Finance B.V., Venlo, Netherlands – Raad van Commissarissen
Metro International AG, Baar, Switzerland – Board of Directors (President)
Metro International Finance B.V., Venlo, Netherlands – Raad van Commissarissen
Metro Reinsurance B.V., Amsterdam, Netherlands – Raad van Commissarissen

Düsseldorf, February 27, 2006

THE MANAGEMENT BOARD

Dr. Körber

Feuerstein Mierdorf Unger

# Auditor’s Report

We have audited the consolidated financial statements prepared by the METRO AG comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2005 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch “German Commercial Code”] and supplementary provisions of the shareholder agreement are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the shareholder agreement and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group’s position and suitably presents the opportunities and risks of future development.

Duisburg, February 27, 2006

PKF FASSELT & PARTNER
Wirtschaftsprüfungsgesellschaft

Dr. Kußmann
Auditor

Müller-Kemler
Auditor

Cologne, February 27, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Siemes
Auditor

Dr. Böttcher
Auditor

# Corporate Governance Report

In line with the recommendation under Subsection 3.10 of the German Corporate Governance Code, the Management Board and Supervisory Board of METRO AG deliver the following report on corporate governance at the METRO Group:

The METRO Group attaches great value to good corporate governance standards. 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 on German stock corporation law and is set forth in the Corporate Governance Code of METRO AG.

## 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 adopted by the Management and Supervisory Boards in 2002 and was most recently amended in March 2005 to meet changing statutory provisions and corporate governance standards. The most recent version of the Corporate Governance Code of METRO AG can be found on the website www.metrogroup.de. The code not only describes the goals and structures of METRO AG and the METRO Group, but 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.

## Statement of compliance with the German Corporate Governance Code

The Management and Supervisory Boards of METRO AG in December 2005 issued the following statement pursuant to § 161 of the German Stock Corporation Act. Stockholders can access this statement on the website www.metrogroup.de at any time.

METRO AG adheres to all recommendations of the Government Commission German Corporate Governance Code in the version of June 2, 2005, which the Ministry of Justice has published in the official section of the electronic Federal Gazette.

METRO AG has complied with the recommendations of the Government Commission in the relevant versions effective since the last statement of compliance in December 2004 with the following exception:

Subsection 4.2.3 of the German Corporate Governance Code on variable components of Management Board remuneration contains the recommendation to make stock options and similar instruments dependent on ambitious, relevant benchmarks. A retroactive adjustment of benchmarks is supposed to be precluded.

A retroactive adjustment became necessary in the case of the stock bonus program for members of the Management Board of METRO AG. The size of the bonuses payable under this program depends on, among other things, the performance of the Metro stock compared to the median performance of a German and a European stock market index. However, the European sectoral index that had previously served as the benchmark for the stock bonus program was closed. The Metro stock was overweighted in the German benchmark index. In addition, this index did not reflect the current perception of the capital markets, which regard the METRO Group largely as an international trade and retail group. It is for this reason that the Presidential Committee and the Personnel and Nominations Committee of the Supervisory Board of METRO AG identified appropriate new benchmark indices for the Management Board's stock bonus program.

## 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. Documents and information regarding any annual general meeting are made available on the METRO Group website ahead of time.

## Annual general meeting 2006: new registration and legitimation procedure

The registration and legitimation procedure for the annual general meetings of METRO AG has been amended to meet the new stipulations of the Law on Corporate Integrity and on Modernization of the Right to Challenge Contracts (UMAG). In the case of shares held in deposit, proof of the right to participate at the annual general meeting and to exercise voting rights must now be submitted no later than the 21st day before the annual general meeting. Like the registration for the annual general meeting itself, this verification must be submitted to METRO AG or other locations listed in the invitation no later than the seventh day before the annual general meeting. The concrete registration and participation conditions for each annual general meeting are made public in the relevant invitation.

## Stock-based remuneration for executives

In 1999, METRO AG introduced a program for stock-based remuneration. Following person subgroup is entitled to benefit: The members of the Management Board and other top executives of METRO AG as well as management organs and executives of selected METRO Group companies.

In the past, the executives of METRO AG and the cross-divisional service companies obtained options from a **stock option program**. The executives of the sales divisions obtained so-called **stock appreciation rights**, which, when exercised, result in a cash payment.

Participation in the stock option program gave participants the right to acquire METRO AG common stock at a previously determined basis price for a set period of time. The exercise terms and conditions of the stock option plan stipulate that the company should grant the qualifying SOP beneficiaries cash compensation in lieu of the delivery of new common stock, which amounts to the difference between the opening price and the applicable closing price of Metro stock at the time the options are exercised. This option was used by all beneficiaries of the program with regard to all subscription rights issued.

The stock options and stock appreciation rights held in the group during fiscal year 2005 changed as follows:

**Stock options/stock appreciation rights[1]**

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Stock options units | Stock appreciation rights units | Stock options units | Stock appreciation rights units |
| Outstanding as of 1/1 | 1,476,693 | 3,155,760 | 1,957,863 | 3,835,525 |
| Issued | 0 | 0 | 0 | 0 |
| Exercised | 575,503 | 1,058,365 | 0 | 0 |
| Expired/forfeited | 393,770 | 637,275 | 481,170 | 679,765 |
| **Outstanding as of 31/12** | **507,420** | **1,460,120** | **1,476,693** | **3,155,760** |

[1]Excluding stock bonuses of € 1,247,550 (target premiums) granted to Management Board members in 2003

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

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

| | | | | Stock options | | Stock appreciation rights | |
|---|---|---|---|---|---|---|---|
| Tranche | Expiry dates | Basis price € | Exercise hurdle € | 31 Dec 2005 Units outstanding | 31 Dec 2004 Units outstanding | 31 Dec 2005 Units outstanding | 31 Dec 2004 Units outstanding |
| 2001 | 8 weeks after AGM in 2005 | 43.72 | 56.84 | 0 | 380,010 | 0 | 626,225 |
| 2002 | 8 weeks after AGM in 2006 | 28.73 | 37.35 | 23,920 | 604,783 | 77,170 | 1,135,535 |
| 2003 | 8 weeks after AGM in 2007 | 26.99 | 35.09 | 483,500 | 491,900 | 1,382,950 | 1,394,000 |
| | | | | **507,420** | **1,476,693** | **1,460,120** | **3,155,760** |

During the reporting year, 575,503 stock options and 1,058,365 stock appreciation rights from the 2002 tranche were exercised. The average exercise price per right amounted to € 40.89. 5,360 stock options have expired and the stipulated remaining term of the exercisable rights from the 2002 tranche is 6.5 months (13/7/2006).

8,400 stock options and 11,050 stock appreciation rights from the 2003 tranche expired in 2005. The stipulated remaining term of the exercisable rights from the 2003 tranche amounts to 19 months (18/7/2007).

In fiscal year 2004, the METRO Group introduced a five-year **stock bonus program** to replace the previously existing stock option program. In contrast to the previous granting of subscription rights, this program foresees the consent of payments of stock bonuses, whereby the size of the cash bonus depends on the performance of the Metro stock price and the parallel consideration of 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 initially depends on the ratio of opening price and target price.

The opening price of each tranche corresponds to the arithmetic mean of the closing prices of the METRO AG common stock in Xetra trading of Deutsche Börse AG in Frankfurt/Main on the 20 last consecutive trading days before the closing date (eight weeks after the respective annual general meeting).

The target price, upon which the full bonus is granted, is calculated based on the opening price and assumes a stock price increase of 15 percent over the course of three years. Whether the target price has been reached is determined by means of the arithmetic mean of the closing prices of the company's common stock in Xetra trading on the last 20 consecutive trading days before expiration of the relevant three-year period. The bonus increases or decreases proportionately when the stock price exceeds or falls below the 15 percent price target.

The size of the respective bonus also depends on the performance of the Metro stock compared with relevant German and European sectoral indices. When the Metro stock has outperformed these indices, the stock bonus is raised to 120 percent. When it underperforms, it is reduced to 80 percent. Outperformance or underperformance applies when the Metro stock on an average exceeds or falls below the aforementioned mean value by more than 10 percent. Outperformance or underperformance is determined analogous to the determination of whether the target price has been reached.

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 reached by mutual consent at the time of maturity. In addition, the payment of stock bonuses is limited to the size of the fixed salary. Any potential excess amounts are used to raise the stock bonus during the following three years if the latter is lower than the target bonus.

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

**Stock bonus**

| Tranche | Due date | Basis price € | Target price € | Target bonus € |
|---|---|---|---|---|
| 2004 | July 2007 | 37.14 | 42.71 | 23,030,000 |
| 2005 | July 2008 | 41.60 | 47.84 | 25,225,000 |

The target bonus amounts are based on the assumption that the target prices are attained. At the time of the grant, the value of the stock bonuses granted in 2005 amounted to € 17,348,000 and was determined by external consultants according to the Monte Carlo method.

## Management Board remuneration

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 element as well as variable components. The total amounts and 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.

### Variable, performance-based remuneration

The variable, performance-based remuneration of Management Board members is based above all on the development of economic value added (EVA) and the attainment of set targets.

Positive EVA is achieved when net operating profit after tax (NOPAT) exceeds the cost of capital for the financing of working capital. The cost of capital reflects the remuneration of investors for the capital they provide as well as their investment risk. The cost of capital is calculated by multiplying working capital with the weighted average cost of capital ("WACC"). The cost of capital rate of the METRO Group was unchanged at 6.5 percent in fiscal year 2005.

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 also the key basis of the EVA-based remuneration system for members of the METRO AG Management Board. The EVA-based remuneration system is based on a comparison of delta EVA with a target set by the Supervisory Board's Personnel and Nominations Committee in consideration of capital market expectations of value creation. If the target is reached, an agreed target bonus is paid in full (bonus factor 1.0).

Balanced remuneration systems consider not only the short-term, but also the medium- and long-term development of enterprise value. This is why the annual bonus entitlements from the EVA-based remuneration system are combined with a medium-term bonus bank. Even if the calculated bonus for any one year exceeds the target, it is only paid in full up to the target bonus. Any bonus amount in excess of the target bonus is initially credited to the bonus bank. Irrespective of the payment of the target bonus, a fixed percentage of the bonus bank deposit is paid out each year, with the remaining amount being carried forward. A negative bonus results in a reduction of bonus bank deposits. The negative bonus bank deposit for the sales divisions and the METRO AG is capped at a value of –1.0. If a bonus factor of more than +2.0 is generated in one or both of the two fiscal years following the capping, the remuneration share resulting from the bonus factor in excess of +2.0 is offset against the capping of the bonus bank. The bonus bank thus serves to balance bonus payments and to promote sustainable management decisions favoring long-term value creation.

The Personnel and Nominations Committee of the METRO AG Supervisory Board sets the conditions for EVA-based Management Board remuneration, in particular the targets for the development of delta EVA, the target bonuses and the bonus bank system. By Management Board resolution, these conditions apply equally to all METRO Group executives. The Personnel and Nominations Committee supervises the systematic determination of EVA and the calculation of the EVA-based variable component of Management Board remuneration.

### Stock-based compensation with long-term incentives

The stock option program approved by the annual general meeting in 1999 and the stock bonus program introduced in fiscal year 2004 form another variable component of Management Board remuneration. Both programs are related to the movement of the METRO AG stock price 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.

The conditions of the stock option program are detailed in the preceding section on "stock-based management compensation." Under the stock option program, Management Board members received stock options in fiscal years 1999 to 2002. The tranche of 2002 could be exercised during fiscal year 2005. The Personnel and Nominations Committee of the Supervisory Board decided to grant entitled Management Board members cash compensation in lieu of stocks upon the exercise of subscription rights.

Stock bonus entitlements were awarded to Management Board members in fiscal year 2003. No payments from these entitlements fell due in fiscal year 2005. Please refer to the previous years' annual reports for details on the stock options that were granted and the stock bonus.

In fiscal year 2004, the Presidential Committee and the Personnel and Nominations Committee of the Supervisory Board of METRO AG agreed on a stock bonus plan for Management Board members that corresponds to the stock bonus program of METRO Group executives outlined above. In contrast to the stock bonus program for executives, the target bonuses for Management Board members are approved annually by the Presidential Committee and the Personnel and Nominations Committee of the Supervisory Board. In addition, the bonus may be limited by resolution of the Personnel and Nominations Committee.

### Remuneration in fiscal year 2005

The remuneration for active members of the Management Board total € 8.5 million in fiscal year 2005 (previous year € 10.2 million).

This includes € 3.2 million in fixed salaries, € 4.3 million in variable, performance-based payments and € 0.9 million from stock bonus entitlements (variable remuneration with long-term incentives) granted in fiscal year 2005. Other remuneration (employer's social insurance contributions and non-cash benefits from the provision of company cars) account for € 85,000.

The relevant individual amounts are as follows:

| € 1,000 | Fixed salary | Variable, performance-based remuneration | Stock bonus entitlements granted in 2005 | Other remuneration | Total |
|---|---|---|---|---|---|
| Dr. Hans-Joachim Körber | 1,000 | 1,684 | 272 | 21 | 2,977 |
| Zygmunt Mierdorf | 800 | 1,123 | 225 | 22 | 2,170 |
| Stefan Feuerstein | 800 | 602 | 225 | 22 | 1,649 |
| Thomas Unger | 600 | 842 | 225 | 20 | 1,687 |
| **Total** | **3,200** | **4,251** | **947** | **85** | **8,483** |

The size of the variable, performance-based compensation results largely from EVA-based remuneration entitlements. Due to the bonus bank system, the full payout of EVA-based compensation entitlements depends on EVA factors in the coming years. Stock bonus entitlements are stated at their fair value at the time they are granted. Payment of the stock bonus depends on the fulfillment of the aforementioned conditions for the stock bonus plan.

The company has hedged the entitlements from remuneration components with long-term incentives.

**Payments after the end of employment**

Former members of the Management Board of METRO AG and of the companies merged into METRO AG as well as their surviving dependents received € 3,581,000. METRO AG has made pension provisions of € 40,889,000 for this group.

Remuneration of active Management Board members amounted to € 2.3 million in accordance with agreements made in the past. No new entitlements to receive pension or other benefits were issued.

## Supervisory Board compensation

Remuneration of members of the METRO AG Supervisory Board is regulated by § 13 of METRO AG's articles of association.

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. Fixed compensation amounts to € 35,000 per board member. The performance-related remuneration component is based on earnings before taxes and minorities (EBT) in the METRO AG financial statements. Each member of the Supervisory Board receives € 600 per € 25 million in EBT exceeding an EBT (before regular goodwill amortization) of € 100 million for the average of fiscal year 2005 and the two preceding fiscal years.

The total compensation of all members of the Supervisory Board amounts to a net € 1.6 million for fiscal year 2005. The fixed and performance-based pay components account for € 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, 2006.

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 higher than 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 higher, respectively. A Supervisory Board member who holds several offices receives compensation for only one office, in the case of different levels of remuneration for the most highly paid office.

The following individual totals apply in fiscal year 2005:

| € | Fixed compensation | Performance based compensation |
|---|---|---|
| Prof. Dr. Theo Siegert, Chairman (until February 2006) | 105,000 | 83,784 |
| Dr. Eckhard Cordes, Chairman (from February 2006) | 0 | 0 |
| Klaus Bruns, Vice Chairman | 70,000 | 55,856 |
| Dr. Wulf H. Bernotat | 35,000 | 27,928 |
| Prof. Dr. Dr. h. c. Klaus Brockhoff | 35,000 | 27,928 |
| Volker Claus (until August 2005) | 35,000 | 27,928 |
| Ulrich Dalibor | 52,500 | 41,892 |
| Prof. Dr. Dr. h. c. Erich Greipl | 39,375 | 31,419 |
| Marliese Grewenig (until November 2005) | 32,083 | 25,601 |
| Jürgen Hennig | 35,000 | 27,928 |
| Anja Kiehne-Neuberg | 49,583 | 39,565 |
| Werner Klockhaus | 52,500 | 41,892 |
| Peter Küpfer (from September 2005) | 11,667 | 9,309 |
| Rainer Kuschewski (from January 2006) | 35,000 | 27,928 |
| Dr. Klaus Mangold | 35,000 | 27,928 |
| Marianne Meister | 35,000 | 27,928 |
| Dr. rer. pol. Klaus von Menges | 35,000 | 27,928 |
| Dr. e. h. Dipl.-Ing. Bernd Pischetsrieder | 35,000 | 27,928 |
| Sylvia Raddatz | 35,000 | 27,928 |
| Renate Rohde-Werner | 35,000 | 27,928 |
| Dr. jur. Hans-Jürgen Schinzler | 52,500 | 41,892 |
| Dr. Manfred Schneider | 52,500 | 41,892 |
| Peter Stieger (from January 2006) | 0 | 0 |
| **Total** | **902,708** | **720,310** |

In fiscal year 2005, the members of the Supervisory Board of METRO AG received € 123,234 in net compensation for Supervisory Board mandates (and in one case for an advisory council mandate) at group companies. The amounts listed in the following table apply to the individual members of the METRO AG Supervisory Board. 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 in the sense of Subsection 5.4.7 of the German Corporate Governance Code.

| Other intra-group compensation (in €) | 2005 |
|---|---|
| Ulrich Dalibor | 33,200 |
| Prof. Dr. Dr. h. c. Erich Greipl | 49,800 |
| Marliese Grewenig (until 24/11/2005) | 6,895 |
| Rainer Kuschewski | 6,136 |
| Marianne Meister | 9,000 |
| Sylvia Raddatz | 9,000 |
| Peter Stieger | 9,203 |
| **Total** | **123,234** |

The above amounts do not include the remuneration entitlements of one Supervisory Board member from intra-group Supervisory Board mandates of which the Supervisory Board member waived the payment.

## Directors' dealings and stock ownership of Management Board and Supervisory Board members

In line with § 15a of the German Securities Trading Act, persons in management functions at METRO AG must notify METRO AG of any of their own trading of METRO AG stock or related financial instruments, in particular derivatives. This obligation also applies to persons entertaining a close relationship with such a person. The information requirement does not apply as long as the total value of transactions conducted by a person in a management function and the persons entertaining a close relationship with this person do not exceed an amount of € 5,000 by the end of the calendar year. METRO AG was not informed of any such transactions in fiscal year 2005.

In line with METRO AG's corporate governance guidelines, ownership of METRO AG stock or related financial instruments by members of the Management or Supervisory Boards is disclosed when it directly or indirectly exceeds 1 percent of the stock issued by METRO AG. If the total stock ownership of all members of the Management and Supervisory Boards exceeds 1 percent of the stock issued by the company, the total ownership is stated separately for the Management Board and the Supervisory Board. The threshold values of 1 percent were not reached in fiscal year 2005.

## Risk management: a core element of corporate governance at the METRO Group

The METRO Group is a high-growth company facing many opportunities in an international market. Sustainable growth, however, is possible only when those responsible recognize and adequately consider both the opportunities as well as the risks of entrepreneurial activities. This is why effective risk management is a key component of corporate governance at the METRO Group.

## Transparency and information

An important information medium for METRO AG stockholders, investors and the general public is the website www.metrogroup.de, which is available in German and English. Aside from a host of information on the operating units and sales divisions of the METRO Group, this site contains the financial reports of METRO AG as well as ad-hoc and other notices pursuant to the German Securities Trading Act, among other things. Stockholders and the general public can also access documentation on the annual business press conference and analysts' meeting on this site, and can subscribe to an electronic Investor Relations newsletter.

## Accounts audit

It has been agreed with the auditors of the annual accounts for fiscal 2005 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 report if facts were found in the course of the accounts audit indicating a deviation from the Management and Supervisory Boards' statement of compliance with the German Corporate Governance Code. The auditors neither included a note regarding such deviations in their opinion nor informed the Supervisory Board of any deviations.

In addition, the auditors did not inform the Supervisory Board of any exclusion or partiality reasons until the completion of their audit. The Supervisory Board also had no reason to believe that such exclusion or partiality reasons existed.

## Implementation and application of the principles of corporate governance

The Management and Supervisory Boards of METRO AG deliberate at least once a year – most recently during the Supervisory Board Meeting in December 2005 – on practiced corporate governance within the METRO Group. In addition, a corporate governance officer supervises compliance with the German Corporate Governance Code and the Corporate Governance Code of METRO AG. One deviation from the corporate governance standards became necessary in fiscal 2005. It is explained in the above statement of compliance with the German Corporate Governance Code. Apart from this, no deviations were reported in fiscal 2005 with respect to the German Corporate Governance Code or the Corporate Governance Code of METRO AG .

# Supplementary information

## Financial schedule

| | |
|---|---|
| Annual business press conference/ analysts' meeting | March 22, 2006 |
| Quarterly report Q1 2006 | May 3, 2006 |
| Annual general meeting | May 18, 2006 |
| Quarterly report Q2 2006 | August 1, 2006 |
| Quarterly report Q3 2006 | October 31, 2006 |

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