

GROUP MANAGEMENT REPORT

HIGHLIGHTS OF FISCAL YEAR 2006

March	<ul style="list-style-type: none"> ■ At the CeBIT trade fair, the METRO Group Future Store Initiative displays new retail technologies that we have developed with our partners in the consumer goods and IT industry. "Self-Check-outs," "Smart Scales" and above all the broad range of Radio Frequency Identification (RFID) applications attract visitors' attention. With its presentation, the METRO Group reaffirms its claim as a key contributor to the development of future-oriented retail technologies. ■ After entering the Romanian market, the Real sales brand is now operating in a total of five countries. ■ Continued development of international purchasing through an additional regional structure: we pool our cross-country and cross-divisional activities.
April	<ul style="list-style-type: none"> ■ The METRO Group sells its remaining stake in Praktiker Bau- und Heimwerker-märkte Holding AG.
July	<ul style="list-style-type: none"> ■ July 25, 2006: marking the occasion of its 10-year anniversary as a listed company, the METRO Group launches a series of communication and sponsoring campaigns, including the Germany-wide charity effort "Cook along," which benefits the Tafel-Bewegung (food banks), a German charity that provides food for the needy. ■ The METRO Group announces the takeover of the Polish activities of the French hypermarket chain Géant, a move that markedly expands Real's market presence in Poland. A short time later, the METRO Group announces the acquisition of Wal-Mart Germany. Since November 2006, the company's hypermarkets are integrated into Real's network of outlets and strengthen the sales division's position on the German market.
September	<ul style="list-style-type: none"> ■ The opening of a Media Markt store in Sweden marks the sales division's debut in the Swedish market. ■ The first of four METRO Group regional procurement offices begins work in Milan.
October	<ul style="list-style-type: none"> ■ The METRO Group presents the first comprehensive study on private consumption in Europe at the European Consumption Conference in Berlin. The groundbreaking study offers many fresh insights into similarities and differences in European consumer behavior. ■ The 600th location of the Media Markt sales brand is opened.
December	<ul style="list-style-type: none"> ■ The Media Markt sales brand taps the fast-growing Russian market. With the opening of its first stores in Russia, it follows in the footsteps of the Metro Cash & Carry and Real sales divisions, which have already successfully established themselves in this market.

OVERVIEW OF FISCAL YEAR 2006 AND FORECAST

The METRO Group achieved its sales and earnings objectives for 2006, experiencing its strongest fiscal year of growth since 1998. The strategy of profitable growth and forceful international expansion moved forward.

Earnings position

- The METRO Group boosted sales by 7.5 percent in 2006, setting a record of €59.9 billion
- The group's international sales rose 12.4 percent to €33.5 billion
- Group EBIT reached €1,983 million, topping the previous year's level by 14.1 percent
- Earnings per share from continuing operations increased to €2.79 (previous year €1.54) or, adjusted for acquisitions, to €2.64 (comparable level for the previous year €2.47)

Finance and asset situation

- Investments, including acquisitions, rose by €882 million to €3.0 billion; adjusted for acquisitions, investments were slightly lower than a year earlier, at €2.0 billion
- Net debt fell by €630 million to €5,239 million
- The company's long-term rating remained unchanged: Baa2 (Moody's) and BBB (Standard & Poor's) with a stable outlook
- Cash flow from continuing operations rose by €1,229 million to €3,263 million
- Total assets climbed by €3,381 million to €32.1 billion. Equity grew by €734 million to €6,047 million, and the equity ratio increased by 0.3 percentage points to €18.8 percent

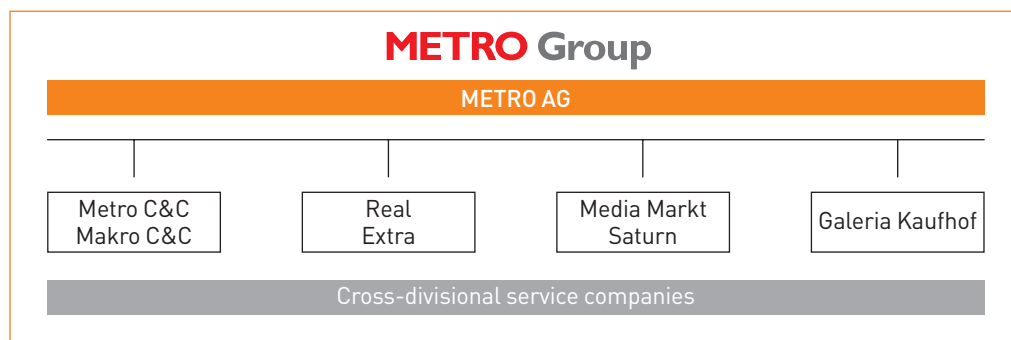
Forecast

- The METRO Group expects its strategy of profitable growth to lead to annual sales growth in the range of 6 percent and an even stronger increase in EBIT before special items over the medium term
- We project sales growth of 8 percent to 9 percent for fiscal year 2007 including the acquisitions of the Wal-Mart Germany group and the Géant business in Poland

I. GROUP STRUCTURE

Our group of companies 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 merchandizing concepts and, in some cases, several sales brands in their respective market segments. Cross-divisional service companies support the sales divisions by providing group-wide and cross-divisional services in such areas as procurement, logistics, information technology and real estate management.

METRO GROUP AND ITS SALES BRANDS AT A GLANCE



OUR SALES BRANDS

Metro Cash & Carry is the global market leader in self-service wholesaling. Operating under the Metro and Makro brands, it is our biggest and most international sales division with operations in 28 countries. Its product assortment is geared exclusively toward commercial and wholesale customers.



Real is the market leader in the German and Polish hypermarket sectors. The sales division combines two food sales brands under one roof: Real and Extra. With locations in Germany, Poland, Romania, Russia and Turkey, Real represents the large-area hypermarket concept. Extra positions itself as a customer-friendly neighborhood store with supermarkets in Northern and Western Germany as well as in Berlin.



Europe's no. 1 consumer electronics centers: the Media Markt and Saturn sales brands impress with their innovative, high-performance and large-area merchandizing and marketing concepts. Both have been posting strong growth for the past few years and are rigorously expanding their leading market position in Europe.



Galeria Kaufhof is the concept and system leader in the German department store sector and the market leader in Belgium. The sales division's department stores help boost the appeal of shopping zones and city centers with their sophisticated, high-quality assortment presented in product worlds that have an event character.



GROUP-WIDE BUNDLING OF CENTRAL FUNCTIONS

Over the past 10 years, we have implemented a cross-divisional organization of central trade and retail functions, and have bundled these in cross-divisional service companies. This pooling of skills creates synergies that benefit all our sales brands – through cost advantages in procurement or special quality standards.

Procurement

Procurement is one of the key areas of competence of a retailing company. MGB METRO Group Buying organizes and is responsible for procurement on a national and international level. Strategic procurement offers all competitive advantages: lower prices, optimal conditions and consistently high quality standards. Our suppliers regard this procurement company as a strong and reliable partner who values long-term business relationships built on mutual trust.

We aim for consistently low procurement costs that allow us to offer our customers low retail prices. This is why the competitiveness and profitability of retailing companies depend to a great extent on the professional usage of synergies in procurement. In 2006, MGB optimized its organizational structures in order to better exploit cross-country and cross-divisional potential: as an umbrella organization, the newly founded MGBI METRO Group Buying International GmbH sets the strategic direction of four regional organizations – South, East, West and Central. These bundle the procurement activities for up to eight countries at a time. Thanks to their regional proximity to customers and suppliers, they can acquire tremendous market knowledge and respond even more flexibly to local customer requirements. MGB METRO Group Buying HK Limited based in Hong Kong is responsible for import and export trade with Asia.

Logistics

The right product at the right place at the right time – the ability to master the highly complex challenges related to trade and retail logistics represents an important success factor. Aside from cost efficiency and quality aspects, process safety and flexibility play a key role.

MGL METRO Group Logistics manages the global merchandise flows of the group companies. It oversees the smooth shipment and distribution among our stores.

Aside from central warehousing and distribution, MGL's successful work is based on a proprietary procurement logistics concept. This innovative plan, which has won much praise from experts, offers several benefits: warehousing costs can be reduced significantly as the merchandise collected at the manufacturer is bundled and delivered directly to stores. In addition, the number of deliveries at the stores' loading ramps declines – which produces cost advantages and environment benefits.

MGL works with especially high-performance logistics providers around the world. As international companies, they operate transportation networks and transshipment centers in all countries where the METRO Group is present.

Information technology

Managing group-wide data and information flows is just as demanding as managing merchandise flows. MGI METRO Group Information Technology, which has four subsidiaries in Poland, Romania, Russia and Turkey, handles this task. MGI develops merchandise management, logistics and data warehousing systems, among others, and operates one of Europe's biggest group networks. It provides the functionality and performance of the IT infrastructure across divisions, and on a national and international level.

Real estate management

Skillful real estate management is another important success factor in the retail trade. The multi-faceted spectrum ranges from strategic location development through commercial, technical and infrastructure management to the integration of properties into the local social or cultural life. METRO Group Asset Management handles the construction and operation of real estate properties used by the METRO Group. It is one of Germany's major retail real estate managers and oversees about 650 METRO Group facilities. METRO Group Asset Management combines a high level of expertise in real estate with trade-specific know-how. Its regional area of activities covers 12 countries: Austria, France, Germany, Great Britain, Greece, Hungary, Italy, Luxembourg, Poland, Russia, Spain and Turkey.

II. ECONOMIC PARAMETERS

GLOBAL ECONOMIC DEVELOPMENTS

Trade with consumer goods profits from global boom

Global economic developments have a decisive impact on the national and international consumer goods trade. Global economic growth accelerated in 2006. Driven by positive developments in the world's major economic regions, global gross domestic product grew by a real 3.8 percent. Even the euro zone economy, which was sluggish a year earlier, gained momentum.

The countries of East Asia – in particular China – as well as Russia and Latin America experienced the strongest growth spurt. Among the established industrial nations, the United States remained the global economic engine: despite drastic jumps in energy prices and the absence of positive momentum on the real estate market, the U.S. economy grew by a real 3.3 percent, with domestic demand bolstering overall growth.

Asia's growth boosts global economy

Booming Asia continued to gain importance as a key driver of the global economy. China, for example, once again posted growth above 10 percent. Japan also profited from the strong global economy and continued its consolidation course, reaching 2.1 percent overall real economic growth. Next to China and Japan, India is the third Asian heavyweight that is likely to gain even more economic weight in the future. During the reporting year, India's gross domestic product grew by a real 8 percent. With real economic growth of about 6 percent, the emerging markets in southeast Asia also enjoyed favorable developments.

Western Europe – global economy fuels euro zone recovery

Economic growth gained speed in the 12 countries that use the common European currency in 2006: real gross domestic product in the euro zone increased by 2.7 percent. Luxembourg and Ireland recorded the highest growth rates. Portugal posted the weakest growth. Germany, France and Italy, which together account for about 45 percent of European gross domestic product, also managed to jump onto the growth bandwagon. Aside from the high export ratio, the key growth engine in Germany was equipment investment, which showed a strong increase of about 7 percent. This includes investments in machinery and vehicles. Construction investment also rose for the first time since 1999.

Eastern Europe – strong growth momentum in the new EU member states

Real gross domestic product rose by 5.7 percent in the Central and Eastern European member states of the European Union (including Bulgaria and Romania). The Polish market, a key focus market of the METRO Group as a result of its size and economic weight, also performed better than a year earlier. With real growth of 6.5 percent, the Russian economy also forged ahead on its expansion course. With real growth of 5.5 percent, Turkey, an EU accession candidate, experienced a continuation of trends witnessed in the previous fiscal year.

DEVELOPMENT OF GROSS DOMESTIC PRODUCT IN METRO GROUP COUTRIES IN 2006

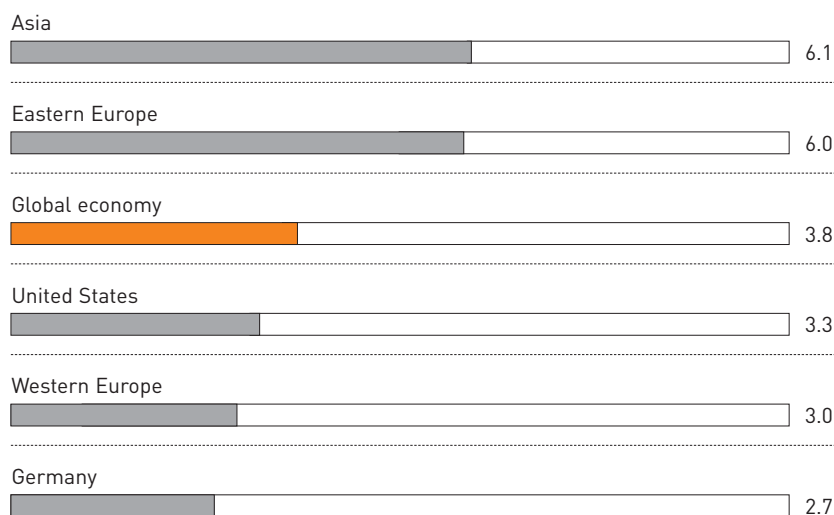
Real percentage change year-to-year



Sources: FERI, SVR

DEVELOPMENT OF GROSS DOMESTIC PRODUCT IN GLOBAL REGIONS IN 2006

Real percentage change year-to-year



Source: FERI

GLOBAL TRADE

Trade boosts employment and wealth

Hardly any other area of the global economy has experienced similarly sustained structural changes as consumer goods retailing over the past few decades – both in the developed industrial nations and in global emerging markets. Free trade and fair competition are key preconditions for social welfare. The strength of trade infrastructure is therefore considered to be a good gauge of the level of economic development and the population's quality of life.

In 2006, global consumer goods retailers posted sales of more than €8,500 billion. That is more than five times as much as the production volume of the global automobile industry. The retail trade also plays a key role as an employer: More than 15 percent of all employees work in wholesale and retail trading. They generate nearly 12 percent of Europe's total gross value added.

Diverse retail momentum in the regions

Retail trends diverged between different international markets during the reporting year. Compared with the other major economic regions, for example, the Eastern European countries experienced the strongest momentum with almost double-digit growth in retail sales. The Asian retail sector posted sales growth in the middle single digits.

Global consumer
goods retail of
more than
€8,500 billion

Western Europe and Germany

European trade also benefited from the global economic recovery. The Western European retail sector posted total sales growth of a real 1 percent. In 2006, retail sales growth reached a real 1.4 percent in Italy, the key laggard in 2005. Sweden posted nearly double-digit growth. German consumer goods trade, in turn, did not profit from the economic revival. While German retailers posted slight growth in nominal terms, narrowly defined retail sales growth – that is excluding motor vehicles, gas stations, pharmacies and fuel – stagnated at the year-earlier level. The year's two special effects – the FIFA World Cup and last-minute purchases before the increase in value-added tax on January 1, 2007 – failed to produce the expected boost to retail sales growth, too.

Western Europe:
Moderate retail
sales growth

Germany: stagnat-
ing development

Eastern Europe

The dynamic expansion of the retail trade in Eastern Europe picked up even more speed, nearly reaching double-digit growth rates. Poland continued to profit from the country's economic opening and EU membership. Retail sales growth in Russia roughly matched the year-earlier growth rate at a real 12 percent on the back of persistently high inflation.

High dynamic
expansion of the
retail in Eastern
Europe and Asia

Asia

Retail sales in Asia remained strong with an increase in the middle single digits. China was once again the key driver of private consumption growth in the region. Like the previous year, Chinese retailers recorded sales increases by 4.9 percent. In Japan, buoyant economic growth failed to spill over into private demand, causing retailers to suffer a real sales decline.

METRO CASH & CARRY: TRENDS IN SELF-SERVICE WHOLESALING

The Metro Cash & Carry brand is the global market leader in the self-service wholesale segment and continues to strengthen this position through rigorous internationalization.

Self-service wholesaling generated a marginal sales growth in Germany during the reporting year. The only positive impulse came from the FIFA World Cup as a result of its importance to the hotel and gastronomy sector, a key customer group for Metro Cash & Carry.

Altogether, market volumes changed slightly positive in the other Western European countries where Metro Cash & Carry is represented. Sales trends in the cash & carry segment ranged from a moderate increase in Italy and France to stronger growth rates for example in Spain.

Modest growth in
Western Europe

Strong momentum in Eastern Europe

The sector experienced strong growth in Eastern Europe. Bolstered by the continued expansion of the cash & carry format and favorable macroeconomic parameters, self-service wholesaling boomed in such countries as Croatia, Czech Republic, Romania, Russia and Ukraine.

Promising growth opportunities in Asia

Cash & carry is still a fledgling merchandizing format in the markets of East Asia. As a result, Metro Cash & Carry has only a few system competitors in these countries. The niche format position offers substantial growth opportunities that Metro Cash & Carry taps through the continued expansion of its outlet network. The sales growth generated in China, India, Japan and Vietnam in 2006 underscored the growth trend.

REAL: FOOD RETAILING TRENDS

Aside from Germany, Poland, Russia and Turkey, the Real sales brand has been active in Romania since March 2006. With its acquisition of Wal-Mart in Germany and Géant in Poland, Real has secured market leadership in the hypermarket segment in both countries. The sales division also expanded its market position in its other foreign markets. Extra positioned itself as a major regional supermarket chain.

Moderate growth in German food retailing

Food retailers recorded moderate overall growth in Germany in 2006. However, hypermarkets outside city centers with a selling space of more than 5,000 square meters and a focus on food products suffered sales declines. Among other things, this was due to the constantly high gasoline prices which caused consumers to turn to neighborhood stores for some of their daily food purchases. Supermarkets with a selling space of 800 to 5,000 square meters achieved nominal sales growth thanks only to an expansion of the format. Meanwhile, discounters managed to expand their market share again as they profited from the proximity to the customer as well as consumers' distinct price sensitivity.

Positive market trends in Eastern Europe

Thanks partly to an expansion of large-area stores and consumers' growing demand for modern sales formats, the hypermarket segment gained market share in the foreign food retail markets of Poland, Romania, Russia and Turkey. Meanwhile, increasing market consolidation can already be observed in Poland and Russia, in particular.

MEDIA MARKT AND SATURN: TRENDS IN CONSUMER ELECTRONICS RETAILING

During the past fiscal year, the Media Markt and Saturn group of companies continued to expand its undisputed market leadership in German and European consumer electronics retailing on the back of densified location portfolios and continued geographic expansion, including market entry in Sweden and Russia.

On average, German consumer electronics retailers recorded slight sales increases in a difficult market environment. Stronger consumption ahead of the increase in value-added tax and new television technologies that met with particularly strong interest in the run-up to the FIFA World Cup even resulted in double-digit sales growth in the entertainment electronics segment. At the same time, the segments information technology, telecommunications and photography regressed.

Moderate sales growth in German consumer electronics retailing

Consumer electronics sales increased in nearly all other Western European countries covered by Media Markt and Saturn. Only Austria experienced a slight sales decline. The Media Markt and Saturn sales brands expanded their market position in all Western European markets including Germany.

Growth in Western Europe

Customers' interest in new technologies and pent-up demand for first-time purchases of classic electronic products characterize Eastern European consumer electronics retailing. These growth factors once again dominated market developments in 2006. The sales brands generated strong growth in Hungary and Poland.

Continued pent-up demand in Eastern Europe

GALERIA KAUFHOF: TRENDS IN THE DEPARTMENT STORE BUSINESS

The Galeria Kaufhof sales brand continued to expand its system and concept leadership in the German department store sector in 2006.

Competition in the German market continued to intensify in 2006. Compared with the retail sector as a whole, department stores continued to lose market share in a challenging industry environment. Meanwhile, department store sales in Belgium continued the past years' positive trends.

III. EARNINGS POSITION

OVERVIEW OF GROUP BUSINESS DEVELOPMENTS

The METRO Group can look back on positive business developments in 2006. The company continued to solidify its position as one of the most important and biggest international retailing groups in terms of sales. With slight sales growth in Germany and a strong increase abroad, group sales reached a record of €59.9 billion. The sales and earnings growth momentum was particularly strong in Eastern Europe. The foreign share of group sales climbed to 55.9 percent. Our continued international expansion made another significant contribution to the business success of the METRO Group. Group EBIT amounted to €1,983 million, exceeding the year-earlier amount by 14.1 percent.

SALES AND EARNINGS DEVELOPMENTS

In fiscal 2006, the METRO Group raised group sales by 7.5 percent to €59.9 billion (previous year €55.7 billion). It was the highest growth rate since 1998. Sales growth accelerated significantly compared with the previous year. The sales volume generated by the newly acquired Géant hypermarkets and Wal-Mart stores was included since November 1, 2006. It contributed to our positive business development in the amount of €494 million. Without these acquisitions, group sales rose by 6.6 percent in the reporting year, with exchange rate effects accounting for +0.2 percentage points of this.

Our German sales increased by 1.8 percent to €26.4 billion in 2006 (previous year €25.9 billion). Adjusted for the acquisition of Wal-Mart's stores, domestic sales were 0.3 percent higher than a year earlier. Group sales abroad rose by 12.4 percent to €33.5 billion (previous year €29.8 billion). At 55.9 percent, the foreign share of group sales reached a record high. Excluding the newly acquired Géant hypermarkets in Poland, foreign sales were up 12.0 percent. Exchange rate effects boosted foreign sales by +0.3 percentage points. Group sales were up by 8.1 percent to €19.4 billion in Western Europe (previous year €18.0 billion). Particularly strong growth was again generated in Eastern Europe, where sales increased by 18.6 percent to €12.6 billion (previous year €10.6 billion). The METRO Group generated sales growth of 20.2 percent to €1.4 billion in Asia/Africa.

DEVELOPMENT OF GROUP SALES BY SALES DIVISIONS AND REGIONS (NET¹)

	2006	2005	Change	
	€ million	€ million	€ million	%
Metro Cash & Carry	29,907	28,087	1,820	6.5
Real	10,378	9,922	456	4.6
Media Markt and Saturn	15,156	13,306	1,850	13.9
Galeria Kaufhof	3,609	3,575	34	0.9
Other companies	832	832	0	-0.2
METRO Group	59,882	55,722	4,160	7.5
of which Germany	26,427	25,948	479	1.8
of which abroad	33,455	29,774	3,681	12.4
Western Europe	19,439	17,976	1,463	8.1
Eastern Europe	12,592	10,614	1,978	18.6
Asia/Africa	1,424	1,184	240	20.2

¹Sales represent external sales without sales taxes and after the deduction of trade discounts

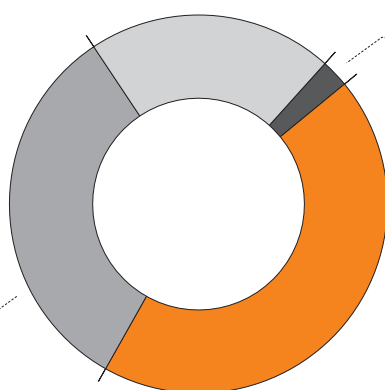
REGIONAL GROUP SALES 2006 IN PERCENT

21.0 Eastern Europe

2.4 Asia/Africa

44.1 Germany

32.5 Western Europe



Group EBIT of the METRO Group rose to €1,983 million in 2006. Adjusted for the effects of Real's repositioning including the acquisitions of the Wal-Mart Germany group as well as the Géant business in Poland, EBIT reached €1,910 million, an increase of 9.9 percent compared to €1,738 million a year earlier. EBIT in Germany increased to €668 million from €535 million, thanks both to the acquisition of the Wal-Mart Germany group and positive earnings developments at Media Markt and Saturn.

The key impulse came once again from the group's foreign business, which posted a strong increase in earnings of 7.9 percent to €1,310 million. In Eastern Europe, in particular, EBIT rose by 30.0 percent to €636 million.

Group EBITDA increased from €2,938 million to €3,233 million in fiscal year 2006.

DEVELOPMENT OF GROUP AND DIVISIONAL EBIT

	2006 € million	2005 € million	Change	
			€ million	%
Metro Cash & Carry	1,111	1,013	98	9.7
Real	45	-12	57	-
Media Markt and Saturn	587	510	77	15.2
Galeria Kaufhof	82	69	13	18.1
Other companies/consolidation	158	158	0	0.1
EBIT METRO Group	1,983	1,738	245	14.1
Financial result	-449	-380	-69	-18.3
Earnings before taxes	1,534	1,358	176	13.0
Income taxes	-484	-740 ¹	256	34.5
Earnings from continuing operations	1,050	618	432	69.8

¹In 2005, special effect from write-downs on deferred tax assets from loss carry-forwards at Real Germany of €307 million

SALES AND EARNINGS DEVELOPMENTS OF THE SALES DIVISIONS

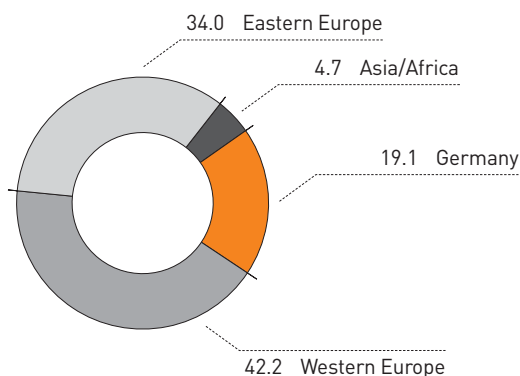
Metro Cash & Carry

As a result of its persistent international expansion in particular, Metro Cash & Carry managed to continue its strong growth: the sales division posted **sales** of €29.9 billion, up from €28.1 billion a year earlier. Adjusted for currency effects, sales rose 6.2 percent. Like-for-like sales increased by 1.9 percent. These successes underscored the sales brand's role as one of the group's key growth drivers.

Compared with the previous year, sales of Metro Cash & Carry in Germany fell by 0.8 percent to €5.7 billion. Like-for-like, the decline amounted to 1.6 percent. The sales division raised its foreign sales to €24.2 billion (previous year €22.3 billion), an increase of 8.4 percent – or 8.0 percent adjusted for currency effects. Metro Cash & Carry recorded disproportionately strong growth in Russia, where sales were up 39.8 percent to €2.0 billion, as well as in Ukraine, where sales rose by €277 million to €615 million. The expansion of the outlet network had a positive effect on sales in both countries. The already high foreign sales ratio increased again from 79.5 percent to 80.9 percent.

REGIONAL SALES OF METRO CASH & CARRY 2006

in percent



Metro Cash & Carry pushed ahead with its international expansion in 2006, strengthening its global market leadership in the hypermarket segment. During the year, the sales brand opened a total of 41 new stores, including 3 in Germany and 38 abroad. The international expansion focused on Eastern Europe in particular, with 24 additional locations. A total of 9 stores were added in Russia alone. Metro Cash & Carry expanded its Asian sales network by 9 stores and added 5 stores to its Western European network, excluding Germany. The domestic market position

was strengthened with the opening of a new store in Berlin and 2 smaller stores. As the group's most international sales brand, Metro Cash & Carry operated 584 locations in 28 countries at the end of 2006. Its total selling space amounted to more than 4.5 million square meters.

Despite the costs related to the sales brand's international expansion, **EBIT** at Metro Cash & Carry rose by 9.7 percent to €1,111 million (previous year €1,013 million). That means the EBIT margin was slightly higher than a year earlier. The strong foreign business, in particular in Eastern Europe, made a substantial contribution to this development. These positive earnings trends underscored the high earnings strength of our cash & carry stores.

SALES AND EBIT OF METRO CASH & CARRY 2006 COMPARED TO THE PREVIOUS YEAR

	2006	2005	Change in %	
			total	like-for-like
Sales in € million	29,907	28,087	6.5	2.2
Germany	5,698	5,746	-0.8	-1.6
Western Europe	12,632	12,338	2.4	1.2
Eastern Europe	10,160	8,837	15.0	5.2
Asia/Africa	1,417	1,166	21.5	8.7
EBIT in € million	1,111	1,013	9.7	-
EBIT margin in %	3.7	3.6	-	-
Number of locations ¹	584	544	-	-
Selling space (in 1,000 m ²) ¹	4,507	4,218	6.9	-

¹As of December 31

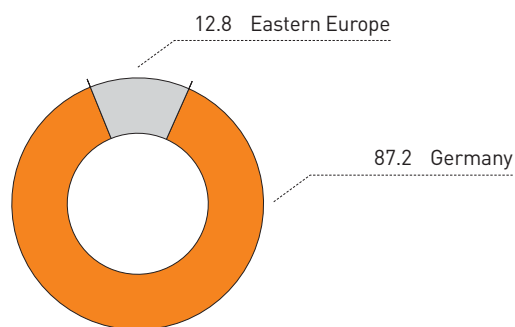
Real

Real posted **sales growth** of 4.6 percent to €10.4 billion in 2006 (previous year €9.9 billion). The increase was attributed mostly to the acquisition of the Polish stores of Géant and those of Wal-Mart Germany.

Sales growth in Germany was based mostly on the takeover of the Wal-Mart Germany group, which was consolidated as of November 1. Sales in the previous network declined by 3.3 percent. Following a difficult first quarter, Real's business stabilized during the rest of 2006. All in all, consumers' persistently high price sensitivity and high gasoline prices impacted business developments. The latter prevented many consumers from buying at the hypermarkets, which are generally located outside city centers and residential areas.

REGIONAL SALES OF REAL 2006

in percent



The sales brand rigorously continued its targeted expansion in Eastern Europe: since the Romanian market entry in March 2006, 8 new stores were opened in that country, all of which subsequently showed positive sales developments. 3 stores were opened in Russia, one store was taken over from another company in the process.

Overall, the retail network comprised 701 stores by the end of the reporting year (previous year 592 stores): Real was represented in 371 domestic and

71 foreign locations. The German Extra sales network consisted of 259 supermarkets.

Real's **EBIT** amounted to €45 million in fiscal year 2006 after €-12 million a year earlier. Real's repositioning, including the acquisitions of the Wal-Mart Germany group and the Géant business in Poland, contributed €44 million in earnings. This includes a negative earnings contribution of €33 million from Wal-Mart Germany's current business and Géant's Polish business. Badwill earnings of €410 million and expenses of €62 million for the restructuring of central departments as well as €271 million in expenses for measures in connection with the store network contributed net earnings of €77 million. Intra-group provisions account for €28 million of expenses for measures in connection with the store network. These provisions impact Real's segment result, but do not burden group earnings. In addition, the result includes higher start-up costs for the selective expansion in Eastern Europe.

For further information to the acquisitions, see the notes to the consolidated financial statements, chapter "Notes on business combinations".

SALES AND EBIT OF REAL 2006 COMPARED TO THE PREVIOUS YEAR

	2006	2005	Change in %	
			total	like-for-like
Sales in € million	10,378	9,922	4.6	-2.0
Germany	9,051	8,956	1.1	-2.4
Eastern Europe	1,327	966	37.4	1.3
EBIT in € million	45	-12	-	-
EBIT margin in %	0.4	-0.1	-	-
Number of locations ¹	701	592	-	-
Selling space (in 1.000 m ²) ¹	3,601	2,693	33.7	-

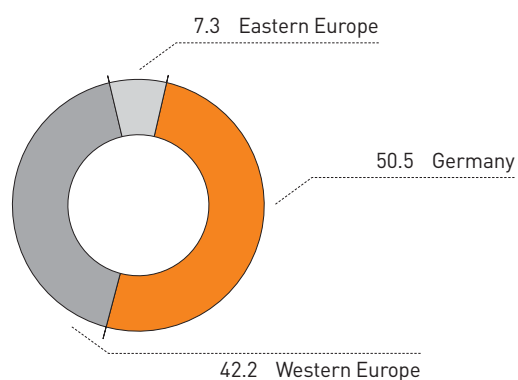
¹As of December 31

Media Markt and Saturn

Our Media Markt and Saturn sales brands continued to solidify their leading position in European consumer electronics retailing: they boosted their sales to €15.2 billion from €13.3 billion, which corresponds to an increase of 13.9 percent. Like-for-like sales rose 3.0 percent compared with the previous year.

REGIONAL SALES OF MEDIA MARKT AND SATURN 2006

in percent



Sales in Germany increased to €7.6 billion from €7.2 billion. Media Markt and Saturn thus managed to exceed the previous year's already high level by an additional 5.6 percent. On a like-for-like basis, domestic sales increased by 0.4 percent despite the continued consolidation of the outlet chain. The sales division once again posted double-digit sales growth abroad: its foreign sales volume rose by 23.9 percent to €7.5 billion (previous year €6.1 billion). The foreign share of total sales increased to 49.5 percent from 45.6 percent.

Media Markt and Saturn also continued to expand their international presence with 64 new locations, including 42 abroad. Media Markt and Saturn opened 8 and 14 new consumer electronics centers in Germany, respectively. Outside Germany, Media Markt and Saturn opened 33 and 9 new stores, respectively. At the end of 2006, our sales division confirmed its claim to European market leadership with its entry into the Swedish and Russian markets. The division now operates 621 consumer electronics centers with a total selling space of 1.9 million square meters in 14 countries.

With its comprehensive, attractive and promptly deliverable product assortment, Media Markt's electronic shopping platform, MediaOnline, has also proven popular with customers, as reflected in its high sales growth rates. MediaOnline has established itself as one of the leading online trade platforms in the German consumer electronics sector.

Despite the highly competitive market environment and the cost of market entry in Russia and Sweden, the consumer electronics centers continued their earnings growth both in Germany and in the sales division's foreign markets – particularly in the Netherlands, Poland and Spain. As a result, the sales division's **EBIT** rose by 15.2 percent to €587 million. This increase, which was achieved amid the division's continued fast expansion, underscored the high earnings strength of Media Markt and Saturn. It also testified to the sales brands' successful implementation of their merchandizing concept across Europe.

SALES AND EBIT OF MEDIA MARKT AND SATURN 2006 COMPARED TO THE PREVIOUS YEAR

	2006	2005	Change in %	
			total	like-for-like
Sales in € million	15,156	13,306	13.9	3.0
Germany	7,649	7,244	5.6	0.4
Western Europe	6,403	5,253	21.9	5.0
Eastern Europe	1,104	809	36.6	13.7
EBIT in € million	587	510	15.2	–
EBIT margin in %	3.9	3.8	–	–
Number of locations ¹	621	558	–	–
Selling space (in 1.000 m ²) ¹	1,914	1,704	12.3	–

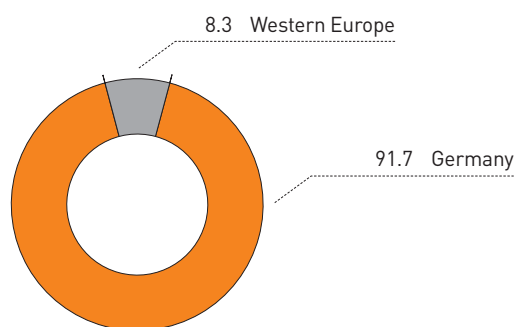
¹As of December 31

Galeria Kaufhof

At €3,609 million, **sales** of our sales division Galeria Kaufhof were 0.9 percent higher than the previous year's figure of €3,575 million.

REGIONAL SALES OF GALERIA KAUFHOF 2006

in percent



Like-for-like, sales declined slightly by 0.6 percent. After a generally positive first half, the mild autumn and winter weather dampened business in the clothing segment in Germany. The Christmas business, in turn, was satisfactory, thanks in part to the introduction of longer shopping hours in Germany. Continuing on their positive growth course, the Belgian Galeria Inno department stores boosted sales by 7.7 percent to €298 million.

During the reporting year, our sales division focused above all on sharpening its profile as a lifestyle provider. As Galeria Kaufhof's biggest store and a prototype of the new "global city department store," the flagship store that was reopened on Berlin's Alexanderplatz in May 2006 gave positive momentum to the sales division's sales growth. At the end of 2006, Galeria Kaufhof operated a total of 142 department stores, including 101 Galeria outlets.

Compared with the previous year, Galeria Kaufhof's **EBIT** rose by 18.1 percent to €82 million during the reporting year. This increase is due partly to rigorous cost optimization and was realized despite reinforced inventory management.

SALES AND EBIT OF GALERIA KAUFHOF 2006 COMPARED TO THE PREVIOUS YEAR

	2006	2005	Change in %	
			total	like-for-like
Sales in € million	3,609	3,575	0.9	-0.6
Germany	3,311	3,298	0.4	-1.2
Western Europe	298	277	7.7	6.7
EBIT in € million	82	69	18.1	-
EBIT margin in %	2.3	1.9	-	-
Number of locations ¹	142	142	-	-
Selling space (in 1,000 m ²) ¹	1,487	1,465	1.5	-

¹As of December 31

Other companies/consolidation

In addition to the consolidation the category "Other companies/consolidation" comprises METRO AG, the cross-divisional service companies, the Adler fashion stores as well as our gastronomy group Dinea. In this segment, both **sales** and **EBIT** remained virtually unchanged in comparison to the year-earlier level.

PORTFOLIO OF LOCATIONS

LOCATIONS PER COUNTRY

Country	Metro C&C		Real		Media Markt and Saturn		Galeria Kaufhof		Other companies		METRO Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Germany	120	117	630	552	340	318	127	127	312	313	1,529	1,427
Austria	12	12			28	25			16	20	56	57
Belgium	9	9			11	9	15	15			35	33
Denmark	4	4									4	4
France	86	84			24	24					110	108
Italy	47	46			76	65					123	111
Luxembourg									2	2	2	2
Netherlands	16	16			23	21					39	37
Portugal	10	10			4	4					14	14
Sweden					2						2	
Switzerland					17	16					17	16
Spain	34	33			39	29					73	62
United Kingdom	33	33									33	33
Western Europe¹	251	247			224	193	15	15	18	22	508	477
Bulgaria	8	7									8	7
Croatia	6	5									6	5
Czech Republic	12	12									12	12
Greece	7	7			5	1					12	8
Hungary	13	13			16	15					29	28
Moldova	3	1									3	1
Poland	25	22	49	30	33	31					107	83
Romania	23	23	8								31	23
Russia	31	22	6	3	3						40	25
Serbia	5	3									5	3
Slovakia	5	5									5	5
Turkey	10	9	8	7							18	16
Ukraine	13	8									13	8
Eastern Europe	161	137	71	40	57	47					289	224
China	33	27									33	27
India	3	2									3	2
Japan	3	2									3	2
Vietnam	7	6									7	6
Morocco	6	6									6	6
Asia/Africa	52	43									52	43
Abroad	464	427	71	40	281	240	15	15	18	22	849	744
Total	584	544	701	592	621	558	142	142	330	335	2,378	2,171

¹Excl. Germany

FINANCIAL RESULTS AND TAXES

€ million	2006	2005
Earnings before interest and taxes (EBIT)	1,983	1,738
Result from associated companies	0	58
Other investment results	14	16
Interest income/expenses (net result)	-466	-471
Other financial results	3	17
Net financial income	-449	-380
Earnings before taxes EBT	1,534	1,358
Income taxes	-484	-740¹
Income from continuing operations	1,050	618
Income from discontinued operations after taxes	143	31
Net profit for the period	1,193	649

¹In 2005, special effect from write-downs on deferred tax assets from loss carry-forwards at Real Germany of €307 million

Financial results

The result from associated companies in the previous year of €58 million was primarily attributed to a profit from selling shares of Loyalty Partner GmbH. Other investment results came largely from dividend payouts. The other financial results stem almost entirely from exchange-rate effects and hedging. With the end of hyperinflationary accounting in Turkey, the remaining financial results no longer contain an indexation result (previous year earnings of €9 million). The result from exchange-rate effects decreased by €46 million. This decline was compensated partly by the result from hedges, which rose by €26 million.

Additional information on the financial results is contained in the notes to the consolidated financial statement, nos. 6 to 9.

Taxes

€ million	2006	2005
Taxes paid or due	585	457
thereof in Germany	[196]	[129]
thereof outside Germany	[389]	[328]
Deferred taxes	-101	283
Income taxes	484	740¹

¹In 2005, special effect from write-downs on deferred tax assets from loss carry-forwards at Real Germany of €307 million

The increase in taxes paid or due in Germany is mostly attributable to the Media Markt and Saturn sales division. Positive developments in Eastern Europe were largely responsible for the increase outside Germany.

Last year's income taxes of €740 million included a special effect from write-downs on deferred tax assets from loss carry-forwards at Real Germany of €307 million.

Information about income taxes is contained in the notes to the consolidated financial statement, no. 10.

GROUP NET PROFIT AND EARNINGS PER SHARE

In 2006, net profit for the period (group net profit) totaled €1,193 million, 83.6 percent higher than the previous year. Net of minority interests, the group's net profit allocable to the stockholders of METRO AG amounted to €1,056 million.

In fiscal year 2006, the METRO Group generated earnings per share of €3.23. Earnings per share from continuing operations before special items (adjusted for the effects of the repositioning of Real including the acquisitions of the Wal-Mart Germany group and the Géant business in Poland) was €2.64. This represents an increase of 6.9 percent over the previous year's total of €2.47. There was no dilution in the year under review or in the previous year.

As in the previous year, the calculation for fiscal year 2006 was based on a weighted number of 326,787,529 shares. The group's net profit of €1,056 million due to stockholders was distributed among that number of shares.

		2006	2005	Change	
				absolute	%
Income from continuing operations	€ million	1,050	618	432	69.8
Income from discontinued operations	€ million	143	31	112	–
Net profit for the period	€ million	1,193	649	544	83.6
thereof allocable to minorities	€ million	137	118	19	15.5
thereof allocable to stockholders of METRO AG	€ million	1,056	531	525	98.8
Earnings per share ¹	€	3.23	1.63	1.60	98.8
Earnings per share from continuing operations before special items ²	€	2.64	2.47	0.17	6.9

¹Including discontinued operations and net of minority interests

²In 2005, special effect from write-downs on deferred tax assets from loss carry-forwards at Real Germany of €307 million; in 2006 adjusted for the effects from acquiring the Wal-Mart Germany group and the Géant business in Poland

BALANCE SHEET PROFIT OF METRO AG AND PROFIT APPROPRIATION

For fiscal year 2006, METRO AG posts income from shareholdings of €894.2 million compared with €381.0 million in the previous year. In consideration of other income, expenditures and taxes as well as the transfer of €400.0 million into revenue reserves, the company had a balance sheet profit of €435.4 million compared with €337.5 million in 2005.

The Management Board of METRO AG will propose to the annual general meeting that, from the reported balance sheet profit of €435.4 million, a dividend of €366.3 million be paid and that the balance of €69.1 million be carried forward to the new account. The balance sheet profit of €435.4 million includes retained earnings of €3.9 million. The dividend proposed by the Management Board amounts to

- €1.120 per share of common stock and
- €1.232 per share of preferred stock.

DEVELOPMENT OF ECONOMIC VALUE ADDED (EVA)

Value-focused management forms the foundation for long-range profitable growth

The METRO Group is committed to value-focused company management based on economic value added (EVA). This is an internationally recognized control and management system that makes it possible to measure all strategic, operational and investment activities on the basis of their contribution to increased company value and to make decisions according to it. The METRO Group introduced the EVA system throughout the company in 2000.

The METRO Group's strength is reflected in its ability to continuously boost the company's value through the successful deployment of its capital.

Positive EVA is achieved when the net operating profit after tax (NOPAT) 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 reflects the expected remuneration to investors for the capital they provide and for their investment risk. It is calculated by multiplying the working capital by the weighted average cost of capital (WACC). In 2006, the cost of capital rate of the METRO Group remained unchanged from the previous year at 6.5 percent.

Delta EVA, the difference between current EVA and year-earlier EVA, plays a key role in evaluating corporate success. The development of delta EVA therefore forms a key basis of the variable remuneration system for METRO Group executives.

CALCULATION OF WEIGHTED AVERAGE COST OF CAPITAL ("WACC")

Equity cost of capital

Risk-free rate of return	4.5 %
+	
Market risk premium	5.0 %
x Beta factor	1.0
(specific risk premium for METRO Group)	
=	
	9.5 %

Debt cost of capital

Risk-free rate of return	4.5 %
+	
Average, long-term risk premium	1.5 %
=	
	6.0 %
- Tax effect (40 %)	-2.4 %
=	
	3.6 %

Weighting at market rates	50 %	Weighting at market rates	50 %
6.5 % group WACC			

Development of EVA

In 2006, the METRO Group once again achieved positive EVA and thus made successful use of its capital employed. The METRO Group's EVA climbed to €426 million, compared with €305 million in the previous year. Metro Cash & Carry as well as Media Markt and Saturn once again posted a significant increase in EVA compared to the previous year's total.

At 8.4 percent, the RoCE (return on capital employed) was higher than the previous year's results.

DEVELOPMENT OF EVA

	NOPAT € million	Capital employed € million	EVA € million	RoCE %	Delta EVA ¹ € million
Metro Cash & Carry	899	6,698	463	13.4	79
Real	202	7,489	-285	2.7	5
Media Markt and Saturn	442	2,302	292	19.2	27
Galeria Kaufhof	67	1,440	-27	4.6	0
Other companies/consolidation	288	4,714	-17	6.1	11
METRO Group	1,898	22,643	426	8.4	121

¹Delta EVA is based on adjusted prior-year amounts

Taking into account the acquisitions of the Wal-Mart Germany group and the Géant business in Poland, capital employed rose to €22.6 billion. In the process, capital costs grew by €128 million to €1,472 million. NOPAT rose by €249 million to €1,898 million. The return on sales in relation to net operating profit amounted to 3.2 percent. Capital turnover remained at the previous year's level of 2.6.

IV. FINANCIAL AND ASSET POSITION

FINANCIAL MANAGEMENT

Principles governing group-wide financial activities

METRO AG is responsible for the centralized financial management of the METRO Group. METRO AG ensures 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.

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.

Centralized 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, including the conclusion of financial transactions without an underlying business activity, may be held exclusively after accordant approval by the Management Board of METRO AG.

Exclusively 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 requirement 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 this is done 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 rating

Transparent and open communication with financial 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. In this respect, the purpose of ratings is to communicate the METRO Group's credit rating to potential debt capital investors. Unchanged from the previous year, the METRO Group is currently rated as follows by two international rating agencies:

RATING

Category	2006	
	Moody's	Standard & Poor's
Long-term	Baa2	BBB
Short-term	P-2	A-2
Outlook	stable	stable

Based on its current ratings, the METRO Group has access to all debt capital markets.

Financing measures

The "Debt Issuance Programme" that was begun in 2000 serves as a source of long-term financing. In 2006, the following transactions were conducted within the context of this program:

FINANCING MEASURES

Type of transaction	Issuance date	Maturity	Maturity date	Nominal volume	Coupon
Redemption	March 2001	5 years	March 2006	€200.0 million	5.75% fixed
Redemption	May 2003	3 years	May 2006	€314.3 million	variable
Redemption	November 1998	8 years	November 2006	€7.6 million	variable
New issue	September 2006	4 years	September 2010	€200.0 million	variable

In addition, note loans totaling €150 million with a maturity of seven years were issued during the year under review.

For short- and medium-term financing, the METRO Group uses ongoing capital market issuance programs such as the "Euro Commercial Paper Program" begun in 1999 and another "Commercial Paper Program" geared especially toward French investors. The average amount utilized from both programs was €1,717 million in 2006. In addition, the METRO Group used syndicated credit lines of €200 million by the closing date as well as bilateral bank facilities totaling €1,559 million.

Additional information on the METRO Group's financing programs and credit lines is contained in the consolidated financial statements under no. 34 ("Financial liabilities")

INVESTMENTS/DIVESTMENTS

In fiscal year 2006, the METRO Group invested €3,020 million, €882 million above the previous year's level. Investments in existing concepts and organic growth amounted to €2,033 million. Acquisitions accounted for €987 million. This includes €651 million for the takeover of the Wal-Mart Germany group (including real estate), which did not lead to any outflow of funds.

INVESTMENTS OF THE METRO GROUP 2006

€ million	2006	2005	Change	
			absolute	%
Metro Cash & Carry	924	900	24	2.7
Real	876	266	610	–
Media Markt and Saturn	370	315	55	17.2
Galeria Kaufhof	151	96	55	56.7
Other companies	699	561	138	24.5
METRO Group	3,020	2,138	882	41.2

Metro Cash & Carry invested a total of €924 million during the reporting year compared with €900 million a year earlier. Metro Cash & Carry opened a total of 41 new stores worldwide. Investments continued to focus on the growth regions in Asia and Eastern Europe. In China, the existing outlet chain was expanded by 6 stores, in Russia by 9 and in the Ukraine by 5. 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.

At Real, investments rose by €610 million to €876 million in the fiscal year. The investments included €292 million for the acquisition of the Wal-Mart Germany group, which did not lead to any outflow of funds. The investments were also made to continue international expansion. In addition to the successful market entry in Romania with 8 locations, 3 sites were added to the store network in Russia. In Poland, 19 locations were added to the existing store network through the acquisition of Géant's business operations.

The Media Markt and Saturn consumer electronics centers invested €370 million in 2006, €55 million more than a year earlier. These funds were primarily used to open 64 new stores, including market entry in Sweden with 2 stores and market entry in Russia with 3. In addition, consumer electronics centers in Germany were modernized.

Investments at Galeria Kaufhof amounted to €151 million in fiscal year 2006, €55 million more than the previous year. The key focus here was on store modernization in Germany and Belgium based on the Galeria concept, for example at the Alexanderplatz location in Berlin.

The investment volume of other business totaled €699 million in the reporting year, €138 million above the previous year. The investments included €359 million for the acquisition of 19 locations of the Wal-Mart Germany group, which did not lead to any outflow of funds. In addition, other investments were made to modernize existing real estate and to develop new property locations that are being rented primarily to the METRO Group's sales divisions.

Information on investment obligations, which amount to a total of €207 million, is included in the notes to the consolidated financial statements no. 19 ("Other intangible assets") and no. 20 ("Tangible assets").

Divestments essentially concerned the sale of real estate, which generated about €300 million in cash inflows for the METRO Group. In addition, the remaining share of 40.52 percent in Praktiker Bau- und Heimwerkermärkte Holding AG was sold in the course of strategic portfolio optimization. The METRO Group accrued €484 million from this sale.

Additional information on divestments is included in the consolidated financial statements ("Consolidated cash flow statement") as well as in the notes to the consolidated financial statements under no. 36 ("Notes to the consolidated cash flow statement").

CONSOLIDATED CASH FLOW STATEMENT¹

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 sale of the remaining stockholding in Praktiker Bau- und Heimwerkermärkte Holding AG, the cash flows from these discontinued operations are presented separately.

CASH FLOW

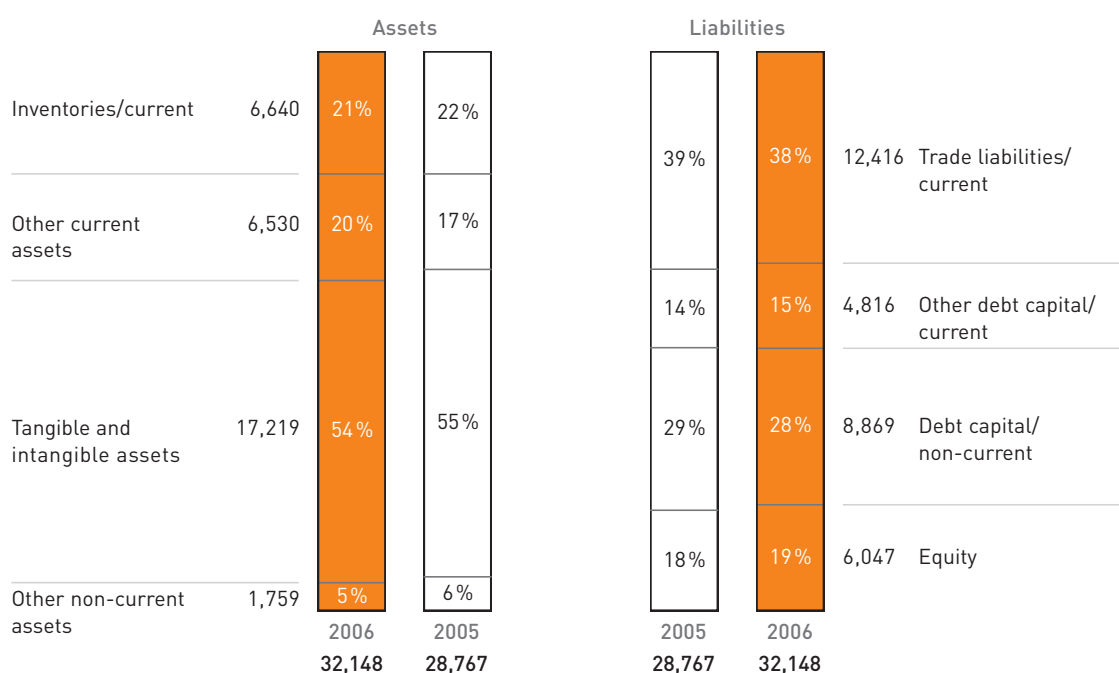
€ million	2006	2005
Cash flow from operating activities of continuing operations	3,263	2,034
Cash flow from operating activities of discontinued operations	–	150
Cash flow from operating activities (total)	3,263	2,184
Cash flow from investing activities of continuing operations	(1,302)	(1,125)
Cash flow from investing activities of discontinued operations	–	(43)
Cash flow from investing activities (total)	(1,302)	(1,168)
Cash flow from financing activities of continuing operations	(995)	(1,392)
Cash flow from financing activities of discontinued operations	–	23
Cash flow from financing activities (total)	(995)	(1,369)
Total cash flows	966	(353)
Currency effects on cash and cash equivalents	(1)	13
Change in cash and cash equivalents (total)	965	(340)

¹Abridged version. The complete version is shown in the consolidated financial statements and explained in the notes to the consolidated financial statements, no. 36 ("Notes to the consolidated cash flow statement")

During the year under review a total cash flow of €3,263 million (previous year €2,034 million) was generated from current operating activities of continuing operations. The increase resulted mostly from the extraordinarily strong improvement of net working capital. Investment activities of continuing operations caused cash outflows of €1,302 million (previous year €1,125 million) during the reporting year. Increased cash outflows compared to the previous year is due largely to lower cash inflows from divestments. Cash flow from financing activities of continuing operations shows outflows of €995 million (previous year €1,392 million).

CAPITAL STRUCTURE

CAPITAL STRUCTURE OF THE METRO GROUP IN € MILLION



At the end of 2006, the METRO Group's balance sheet showed equity of €6,047 million compared with €5,313 million in the previous year. The increase in equity was attributed to a rise in revenue reserves that, taking the dividend payment in 2005 (€334 million) into consideration, essentially derived from the contribution of period income allocable to stockholders of METRO AG. The equity ratio rose 0.3 percentage points to 18.8 percent. The share of revenue reserves in equity totaled 40.5 percent compared with 32.4 percent in the previous year.

€ million	Note no.	Dec 31, 2006	Dec 31, 2005
Equity	29	6,047	5,313
Subscribed capital		835	835
Capital reserves		2,544	2,551
Reserves retained from earnings		2,451	1,721
Minority interests		217	206

Net financial debt after netting of cash and cash equivalents (including fixed-interest investments of more than three months and less than one year duration) with financial debts, including finance leases, totaled €5,239 million compared with €5,869 million in 2005. Non-current financial liabilities

rose by €233 million to €6,279 million during the year under review; current financial liabilities increased by €150 million to €1,740 million. During fiscal year 2006, cash and cash equivalents rose by €965 million to €2,732 million.

€ million	Dec 31, 2006	Dec 31, 2005
Cash, cash equivalents according to balance sheet	2,732	1,767
Fixed-term investments > 3 months < 1 year ¹	48	–
Financial liabilities (including finance leases)	8,019	7,636
Net debt	5,239	5,869

¹Shown in the balance sheet under other receivables and assets (current)

The debt capital ratio declined by 0.3 percentage points to 81.2 percent. Trade liabilities increased in 2006 by €1,464 million to €12,416 million. Aside from a calendar-related increase in liabilities due, the rise was attributed primarily to the expansion of the sales divisions Metro Cash & Carry as well as Media Markt and Saturn, and the acquisitions of the Wal-Mart Germany group and the Géant business in Poland. Current liabilities account for a share of 66.0 percent of total debt capital compared with 64.2 percent in the previous fiscal year.

Information on the maturity, currency and interest-rate structure of financial liabilities as well as on the lines of credit is included in the notes to the consolidated financial statements under no. 34 ("Financial liabilities").

€ million	Note no.	Dec 31, 2006	Dec 31, 2005
Non-current liabilities		8,869	8,408
Provisions for pensions and similar commitments	30	1,023	995
Other provisions	31	506	447
Financial liabilities	34	6,279	6,046
Other liabilities	35	599	433
Deferred tax liabilities	24	462	487
Current liabilities		17,232	15,046
Trade payables	33	12,416	10,952
Provisions	31	719	288
Financial liabilities	34	1,740	1,590
Other liabilities	35	2,029	1,967
Income tax liabilities		304	249
Liabilities connected to non-current assets held for sale		24	–

ASSET POSITION

In fiscal year 2006, total assets increased by €3,381 million to €32,148 million. Non-current assets rose by €1,389 million to €18,978 million during fiscal year 2006 while current assets increased by €1,983 million to €13,170 million.

NON-CURRENT ASSETS

€ million	Note no.	Dec 31, 2006	Dec 31, 2005
Non-current assets		18,978	17,580
Goodwill	18	4,379	4,154
Other intangible assets	19	478	433
Tangible assets	20	12,087	11,037
Investment properties	21	136	228
Financial assets	22	139	136
Other receivables and assets	23	535	482
Deferred tax assets	24	1,224	1,110

In the reporting year, goodwill worth €184 million was generated, mostly from the acquisition of the Géant business in Poland. The increase in tangible assets of €1,050 million primarily resulted from the acquisitions of the Wal-Mart Germany Group and the Géant business in Poland. In addition, the rise can also be attributed to the opening of new stores by the sales divisions Metro Cash & Carry as well as Media Markt and Saturn. The decline in investment properties was due largely to the reclassification of real estate in the item „Non-current assets held for sale.“ Deferred taxes totaled €1,224 million and climbed by €114 million compared with the previous year. The increase is largely attributed to temporary differences arisen from intra-group business.

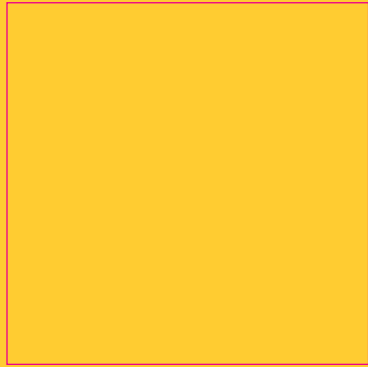
CURRENT ASSETS

€ million	Note no.	Dec 31, 2006	Dec 31, 2005
Current assets		13,170	11,187
Inventories	25	6,640	6,246
Trade receivables	26	481	367
Financial assets		21	13
Other receivables and assets	23	2,852	2,200
Income tax refund entitlements		279	253
Cash and cash equivalents	27	2,732	1,767
Non-current assets held for sale	28	165	341

Inventories increased by €394 million to €6,640 million. The increase is attributable both to the initial consolidation of the Wal-Mart Germany group and the takeover of the Géant business in Poland as well as to the expansion, in particular of the international business, of the Media Markt and Saturn as well as Metro Cash & Carry sales divisions. Despite its continued expansion, the Metro Cash & Carry sales division managed to reduce its inventories through rigorous inventory management. The rise in trade receivables of €114 million primarily resulted from increased payments with direct debiting and longer store hours on the last sales day in Germany compared with the previous year.

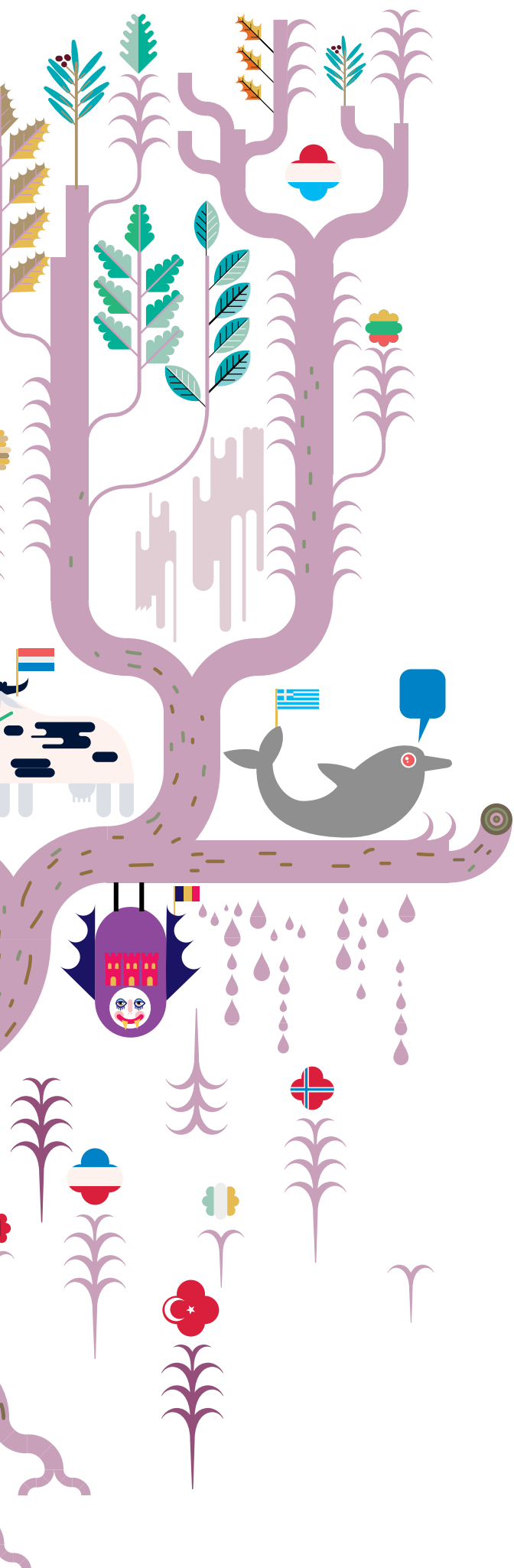
The increase of cash and cash equivalents is due mostly to the continued expansion and the particularly strong growth in the nonfood area toward year's end compared to the previous year. During the last fiscal year, the remaining shares in Praktiker Bau- und Heimwerkermärkte Holding AG were shown in the item „Non-current assets held for sale“ (€341 million). The sale of these remaining shares took place in April of fiscal year 2006. In the course of the continued optimization of the real estate portfolio, the sale of properties was initiated in the current fiscal year. They are shown in the item „Non-current assets held for sale.“

**ACTING RESPONSIBLY – SECURING SUCCESS POTENTIAL:
ITS COMMITMENT TOWARD ITS EMPLOYEES AND THE
ENVIRONMENT IS ONE OF THE KEY PILLARS OF THE
METRO GROUP'S CORPORATE STRATEGY AND CULTURE.**



STRONG ROOTS: THE EUROPEAN FAMILY TREE





Organic growth has transformed the diversity of European nations and cultures into a strong unity: Europe grows like a tree, with deep supporting roots and strong, reliable branches. Since the great turning point in its history, 1989, political and economic systems bear witness to the fact that the people from Scandinavia to the Bosphorus and from the Atlantic to the Urals have always belonged together – regarding history and culture.

V. EMPLOYEES

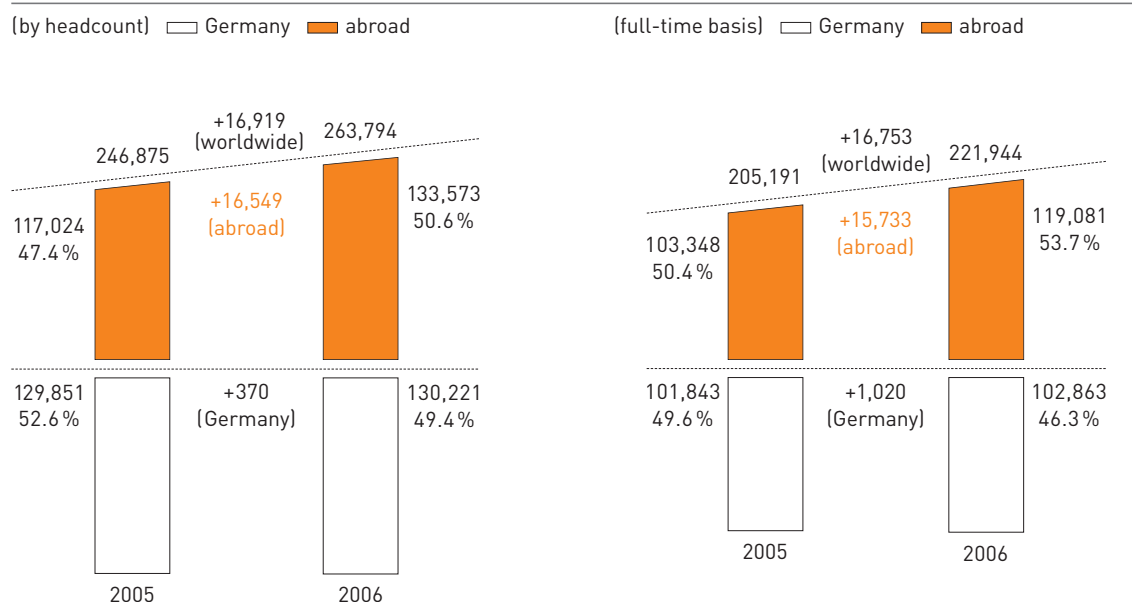
INTERNATIONALIZATION INCREASES NUMBER OF EMPLOYEES

It is the people who make the difference in retail. Around the world, committed employees stand for the METRO Group's success. Through ongoing internationalization, their number again grew in 2006. Not counting apprentices, the group employed a total of 263,794 employees on average during the year. The total number of full-time employees rose by 16,753 – or 8.2 percent – to 221,944, making the METRO Group one of the leading employers in its industry.

Number of employees up by 8.2 percent – strong gains in Eastern Europe and Asia

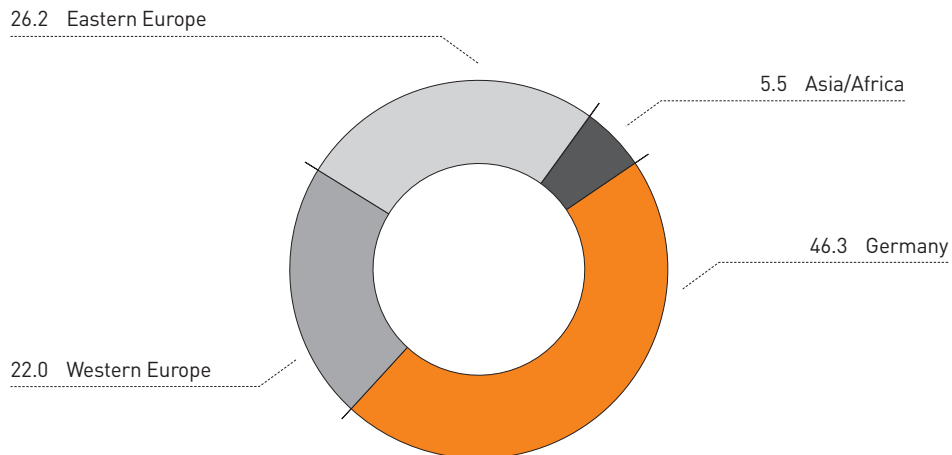
On average over the year, the number of employees abroad grew by 15,733 to 119,081 (full-time equivalents). Because of this above-average growth, the foreign share of our workforce increased from 50.4 percent to 53.7 percent. Nine out of ten employees outside of Germany worked in European countries – 48,905 in Western Europe and 58,117 in Eastern Europe. In the growth regions Eastern Europe and Asia, the workforce grew particularly fast on average over the year – namely by 23.4 percent in Eastern Europe and 17.5 percent in Asia.

WORKFORCE OF THE METRO GROUP IN 2006 COMPARED TO THE PREVIOUS YEAR



METRO GROUP EMPLOYEES BY REGION

(full-time basis) in percent

**Positive change in personnel structure**

Contrary to the sector trend, the share of part-time employees dropped markedly to 39.1 percent (previous year 42.2 percent) companywide and to 50.8 percent (previous year 51.5 percent) in Germany. The average age of employees rose from 36.0 to 36.2 years. The average tenure increased from 7.4 to 7.7 years.

Human resources policy tackles future challenges

People are getting older; at the same time, birthrates are sinking. This demographic development is changing the structure of Europe's population. Soon, companies will have fewer workers at their disposal. In order to remain competitive under these altered parameters, the METRO Group is working with farsighted personnel concepts. One key measure is the implementation of a health management system with a focus on early diagnosis and prevention of illnesses, rehabilitation and integration that aims to encourage an understanding of health and greater health awareness. Group-wide health promotion boosts our employees' vitality and creates the conditions they need to remain active in the workforce for a longer period of time. At the same time, early-retirement models like semi-retirement are no longer being offered. Based on a pilot project, the concept is to be rolled out across the entire company.

Attractive vocational training in retail

Training schemes for performance-oriented young people represent a key contribution to society and an investment in the company's long-term business success. With its broad range of opportunities for those just starting their working lives, the METRO Group is one of Germany's leading vocational trainers. Each year, thousands of young people learn one of around 20 professions in our sales divisions and companies – from retail merchant to communications specialist. Across Germany, 3,005 high school graduates began their training with us in fiscal year 2006 – 3 percent more than in the year

before. On a yearly average, the total number of apprentices in Germany increased to 8,807, exceeding the already high level of the previous year by 4.0 percent. The share of apprentices also increased from 8.3 percent to 8.6 percent. This shows that the METRO Group is making another significant contribution to fulfilling Germany's training pact.

Share of apprentices remains high

Equal opportunity for employees and job applicants

Worldwide, the METRO Group employs people from 154 countries. In Germany alone, 132 nationalities are represented. The international character and diversity of our workforce represent important potential. With our diversity management program, we develop each employee according to his or her performance and abilities.

The METRO Group has employees from 154 countries

The METRO Group is an "equal opportunity employer." It offers applicants and employees the same opportunities regardless of gender, age, race, ethnic origin, sexual identity, possible disabilities, religion or beliefs. The current share of women in managerial positions is 19.0 percent and is to be continually increased. In the year under review, we employed 4,506 (previous year 4,375) people in Germany who had recognized severe disabilities, including 64 apprentices. About 400 other employees have been placed on the same level as the severely disabled. About 26 percent of the 130,221 employees in Germany are in the 50plus age group. In 2006, 521 people older than 50 were hired across Germany. The total was 1,195 outside Germany.

Continuing strong interest in the company pension plan

In face of the rising retirement age and foreseeable reductions in retirement benefit levels, it will be increasingly important to plan for retirement. Our "Future Package" assists employees in building their supplemental pension plan. The group-wide pension program provides additional voluntary benefits that go beyond the stipulations of collective-bargaining agreements and has been embraced by employees: in the reporting year, nearly 58,000 employees signed up for this program in Germany.

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

	Metro C&C		Real		Media Markt and Saturn		Galeria Kaufhof		Other companies		METRO Group	
Country	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Germany	15,384	15,580	36,645	36,020	20,097	19,116	17,773	18,074	12,964	13,053	102,863	101,843
Austria	1,986	2,002			1,852	1,739			501	555	4,339	4,296
Belgium	2,753	2,682			814	635	1,270	1,335			4,837	4,652
Denmark	498	505									498	505
France	8,275	8,252			1,500	1,459			7	7	9,783	9,718
Italy	4,315	4,340			4,837	4,212			3		9,154	8,553
Luxembourg									70	75	70	75
Netherlands	3,111	3,147			1,693	1,543			6	7	4,811	4,696
Portugal	1,859	1,892			433	247					2,292	2,139
Sweden					133						133	
Switzerland					1,065	985			82	83	1,147	1,068
Spain	3,105	2,871			4,328	3,064			2		7,435	5,935
United Kingdom	4,405	4,351								5	4,405	4,356
Western Europe²	30,308	30,041			16,656	13,884	1,270	1,335	671	732	48,905	45,994
Bulgaria	2,174	1,999							6	2	2,181	2,001
Croatia	1,247	1,028									1,247	1,028
Czech Republic	3,330	3,353									3,330	3,353
Greece	1,107	1,104			355	55			8	4	1,471	1,162
Hungary	3,402	3,321			1,334	1,208			18	7	4,754	4,537
Moldova	516	306									516	306
Poland	6,263	5,682	6,914	5,436	3,446	2,967			497	378	17,120	14,463
Romania	6,335	6,079	1,947						100	35	8,382	6,114
Russia	7,449	5,979	1,178	571	222				106	31	8,955	6,580
Serbia	1,061	563									1,061	563
Slovakia	1,218	1,212									1,218	1,212
Turkey	2,078	1,818	1,229	1,064					212	196	3,519	3,078
Ukraine	4,365	2,693									4,365	2,693
Eastern Europe	40,546	35,138	11,268	7,070	5,356	4,230			947	652	58,117	47,089
China	7,206	6,182							518	522	7,724	6,704
India	752	592									752	592
Japan	358	267									358	267
Vietnam	2,134	1,658									2,134	1,658
Morocco	1,091	1,044									1,091	1,044
Asia/Africa	11,541	9,743							518	522	12,059	10,265
Abroad	82,395	74,922	11,268	7,070	22,012	18,114	1,270	1,335	2,136	1,907	119,081	103,348
Total	97,779	90,502	47,913	43,090	42,109	37,230	19,043	19,409	15,100	14,960	221,944	205,191

¹Including rounding differences²Excluding Germany

PERSONNEL DEVELOPMENT UNLOCKS FUTURE POTENTIAL

We depend on specialists and managers with the motivation and skills to implement the company's strategic goals. Personnel development's primary responsibility is to identify qualified talents and support them on an ongoing basis. They contribute significantly to the METRO Group's ability to meet the challenges of the future.

We would like to staff about 75 percent of all managerial positions from our own ranks. Systematic qualification measures and a detailed insight into employees' performance, experience, expertise and potential provide the foundation for this. Every year, all managers are evaluated against consistent criteria within the scope of Metro Management Planning (MMP), with Metro core competencies serving as the basis. They define the qualification profile for managers, and the MMP results serve as the starting point for targeted development measures and planning for successors worldwide.

Our competency model for managers includes profiles of top-management positions as well as biographies and performance assessments of management recruits. By assigning each candidate an "individual competence grade" irrespective of his or her current position, the model increases the company's flexibility in staffing strategic positions while providing for a high degree of transparency and, as a result, fair, performance-based personnel decisions.

Competency model allows for more flexible staffing of managerial positions

Metro Corporate University draws on international support

We are working hard to exploit available know-how within the group and further develop our intercultural competence. Managers from 30 countries regularly meet at the Metro Corporate University to learn together and exchange experiences. The Metro Excellence Program prepares managers for demanding management work. The program is based on a cooperation with renowned business schools – the International Institute for Management Development (IMD) in Lausanne, St. Gallen University and Saïd Business School in Oxford. In addition to the professors of INSEAD, board members and company executives are available as instructors or discussion partners in the top-management programs. Countless additional management-development programs, seminars, project and foreign assignments round out the opportunities.

Initiatives attract the employees of tomorrow

In Eastern Europe, young people are especially in demand. The goal of "Metro Education" is to professionalize vocational training there, thereby developing the employees' entry qualifications. Because these countries do not have a dual training system, the initiative supports local commercial schools and provides apprenticeships. "Metro Education" is active in Poland, Russia and, since 2006, Romania as well. A total of 39 schools in three countries partner with the METRO Group on the initiative, and more than 2,000 young people have already participated.

"Metro Education" development program efficiently prepares young Eastern Europeans for working in the retailing business

In Germany, we use a platform unique in the sector to inspire qualified applicants for a career in retail: "Meeting Metro." The event creates the opportunity for direct, face-to-face contact with teachers, trainers and students. Using this platform, METRO Group employees offered around 1,500 participants a hands-on look at the diverse fields of responsibility within retail. "Meeting Metro" contributes significantly to the company's exposure and reputation as an "employer brand."

OTHERS COPY GROUND-BREAKING COLLECTIVE BARGAINING POLICY

Nine months of negotiations came to a close in January 2006 for the German retail industry, writing collective bargaining history in many ways. The agreement, which will be in effect for 24 months, calls for a linear increase in compensation by 1 percent and a lump-sum payment of €200 for 2006. In addition, a further payment of €75 for 2007 was agreed on. These regulations address retailers' domestic economic situation and take into account the particular challenges confronting the whole sector. A welcome outcome is that the collective bargaining parties agreed to set up a variable lump-sum payment linked to the respective company's business success. In addition, the parties agreed to a job security settlement that broadens the scope for company-level agreements. Accordingly, companies can diverge from collective wage agreements in economic emergencies. Following the retail industry's example, several other sectors, such as the metal and electronics industries, have since adopted similarly flexible agreements.

More leeway
through new wage
agreement

Reform initiative promotes innovative collective bargaining system

The Federation for Innovative Bargaining Policy (FIT), founded on the initiative of the METRO Group, has been working with the Ver.di union since 2002 to reform the collective bargaining system for the German retail sector. The additional experience will be factored into a new remuneration system. This is scheduled to be passed on to the collective bargaining partners by the end of the first half of 2007 to serve as a basis for negotiations. We are planning to dovetail the project with the upcoming bargaining round.

VI. ADVANCED RETAILING

Our research and development activities are bundled under the term “Advanced Retailing.” The METRO Group sees itself as a driving force behind the modernization process in international trade and retail. The Advanced Retailing strategy, which comprises our most important future-oriented projects, was developed to strengthen our leading position. We systematically tackle important strategic issues in the context of this group-wide initiative. All Advanced Retailing initiatives aim to facilitate our business processes through innovative technology and, thus, to reduce our employees’ workload in order to allow them to dedicate more time to their core tasks – professional advice and assistance to our customers.

At the METRO Group, the introduction of technological innovations builds on an open, constructive dialogue with all affected groups: we discuss the use of innovative technologies both in employee training programs, and in national and international meetings, such as a conference that examined the impact of new technologies on the trade and retail sector held by the International Labor Organization (ILO) during the reporting year. We continued to advance our Advanced Retailing projects in 2006. Our aim was to expand the use of future-oriented technologies in our stores and in our cooperation with suppliers and business partners. At the heart of these initiatives is the Radio Frequency Identification (RFID) technology.

OVERVIEW OF EXEMPLARY FUTURE-ORIENTED PROJECTS

METRO Group Future Store Initiative reaffirms our pioneering role

Within the context of the METRO Group Future Store Initiative, the company assumes a leading role in shaping the future face of trade and retail in cooperation with well-known partners from the consumer goods and IT sectors. The focus is on developing, testing and using innovative technologies that produce substantial benefits both for our customers and the METRO Group itself. RFID technology, for example, enables more individualized customer assistance and more customer-oriented service offers. At the same time, our company profits from the use of Radio Frequency Identification in its logistics and warehousing operations.

Radio Frequency Identification (RFID) sets new standards

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 heart of this technology is the so-called Smart Chip, a small computer chip equipped with an 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, such information as the expiration date or the manufacturer of a product can be assigned to the EPC. A database also traces the route of a delivery from production to the store.

In 2006, we continued to expand our RFID Innovation Center in Neuss to help promote the use of RFID in logistics. The center, which was opened in July 2004, is the only information and development platform of its kind in Europe.

Harmonized platforms promote the exchange of information

METRO Group Networking, the work and information platform for all employees, develops concepts to manage and improve internal administrative processes with the help of innovative IT systems. The resulting networking fundamentally improves the group's processes. In the future, Metro Link will serve as the platform for METRO Group suppliers. The portal offers comprehensive information as well as programs for an exchange of data. Metro Link aims to intensify the cooperation with suppliers and optimize processes.

VII. ENVIRONMENTAL AND SUSTAINABILITY MANAGEMENT

For the METRO Group, sustainable action is a key element of responsible corporate management. Since we regard economic and environmental factors as equals rather than opposites, environmental needs are considered early on in our decision-making processes. On the one hand, we address the legitimate public interest to protect the basis of life for future generations. On the other, we safeguard our competitiveness and future success, bolstering the foundation for continued profitable growth.

The energy sector highlights the interdependency of environmental and economic interests: around the world, fossil energy sources are being depleted. The simultaneous and dramatic increase in the demand for oil, gas and coal fuels the price of these resources. Reducing the use of energy and boosting energy efficiency are necessary not only for environmental considerations, but also for economic and competitive reasons. This thinking shapes our entrepreneurial decision-making processes.

As a result, we pay particularly close attention to the energy usage of our stores' refrigerating and air-conditioning equipment, heating systems and ventilation. Systematic monitoring of consumption data allows us to reduce environmentally harmful emissions and energy consumption as well as to lower costs. We commission on-site studies at locations with extraordinarily high energy consumption to scale back energy use and to boost our energy efficiency. At our location Walzmühle Ludwigshafen (Germany), for example, modification of our ventilation system resulted in markedly lower energy consumption and roughly 8 percent lower CO₂ emissions. Our ambitious goal for 2007 is to achieve reduction of energy consumption per square meter of selling space by at least 5 percent.

In 2006, the METRO Group reviewed the worldwide merchandise flow management with the aim of furthering environmental protection and cutting energy costs at the same time. The delivery of products to about 2,400 stores in 30 countries entails high transportation costs and environmental damage. With the help of an intelligent merchandise flow management system, the group's logistics company markedly optimized the capacity usage of its trucks, substantially reducing empty runs and holding times. By the end of 2009, we will convert our entire fleet of vehicles to the Euro-5 norm, which will be the most favorable emission class at that point.

Concrete key figures and project examples in the areas of environmental protection, assortment responsibility, social engagement and employees are included in our Sustainability Report.

This information is regularly updated and supplemented on our Internet pages at www.metrogroup.de/sustainability

Responsible supply chain management

The METRO Group also demands that its suppliers maintain high environmental and social standards. Fruit and vegetable suppliers, for example, must be certified in accordance with the internationally accepted production standard EurepGAP (Eurep = Euro-Retailer Produce Working Group; GAP = Good Agricultural Practice). EurepGAP requires producers to reduce the use of pesticides and to protect workers' safety and health, among other things. Through its membership in the Business Social Compliance Initiative (BSCI), the METRO Group also has committed itself to monitoring and evaluating its suppliers' adherence to minimum social standards, and to helping its suppliers improve their employees' working conditions.

In addition, our stores offer organic fruit and vegetables as well as fish and wood products from sustainable fishing and forestry. This allows our customers to contribute to environmentally and socially responsible consumption.

VIII. RISK AND OPPORTUNITIES REPORT

Within the context of its entrepreneurial activities, the METRO Group aims to use opportunities and limit risks. We protect the company's existing and future performance potential through efficient risk management. The METRO Group sees risk management as an integral part of value-oriented business management. The group's risk management is based on a systematic process of risk identification, assessment and control for the entire group. This allows us to recognize unfavorable developments at an early point in time. As a result, corrective action can be taken promptly when necessary. We also ensure that opportunities are identified, assessed and exploited in a targeted manner across the company.

CENTRALIZED MANAGEMENT AND EFFICIENT ORGANIZATION

The METRO Group's risk management officer continuously and promptly informs the Management Board of METRO AG of important developments in risk management. Based on an annual group-wide risk audit, the risk management officer writes a risk report that addresses the 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 and opportunities situation.

Group-wide risk management tasks and responsibility for risk management are clearly regulated and mirror the METRO Group's corporate structure. This combines centralized management by the management holding company, METRO AG, with the decentralized operative responsibility of the individual sales divisions. The sales divisions and consolidated subsidiaries are thus responsible for the risks, in particular operative risks. They oversee risk management, while METRO AG supervises its implementation. Risk management is discussed in the Supervisory Board's Accounting and Audit Committee.

ECONOMIC VALUE ADDED (EVA) AS A RISK ASSESSMENT FACTOR

The crucial benchmark for corporate success is the principle of economic value added (EVA) that is used across the group. When deciding whether to assume specific risks, the METRO Group's guiding principle is a sustainable increase in enterprise value. In particular, EVA 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.

STRICT RISK POLICY PRINCIPLES

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 business models, decisions on outlet locations, the procurement of merchandise and services, human resources development relating to specialists and managers as well as liquidity protection. As a matter of principle, the METRO Group does not assume risks that are not related to core or support processes.

CLEARLY DEFINED RISK MANAGEMENT DETAILS

To guarantee the coordinated implementation of risk management activities, all relevant facts have been laid down in several sets of rules, including the Articles of Association and by-laws of the group companies, internal group procedures and the risk management manual of METRO AG. The latter provides information on how the risk management system works. It offers a comprehensive overview of potential areas of risk, assigns responsibility for risk monitoring and provides instructions on how to act. A bottom-up process of risk – and opportunity – identification covering all management levels across the group ensures that relevant business risks do not go unnoticed. An early warning system assesses business risks in terms of scope for the three-year planning period.

GROUP REPORTING PROMOTES 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. 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

Within the METRO Group, each manager is responsible for overseeing the implementation and effectiveness of risk management in his or her particular area. Risk management officers ensure that the risk management system as a whole is operational, and monitor the timeliness of standards and stipulations. In compliance with the KonTraG (the German Control and Transparency Law), external auditors periodically review our risk management system. The findings are reported to the Management Board and the Supervisory Board.

For the METRO Group, this results in the following substantial internal and external risks that are consistently tied to opportunities arising from our entrepreneurial activities:

Business risks Intense competition, in particular in the German and Western European retail sectors, produces factors that could influence business developments and represent natural business risks. Another general risk is the fluctuating willingness of consumers to spend money. This willingness depends on numerous political, social and economic factors. The continued internationalization of the METRO Group offers the opportunity to offset fluctuating demand in individual countries. At the same time, the group may be confronted with economic, legal or political risks in other countries.

Constant changes in consumption patterns and customer expectations offer opportunities as well as create risks. They require a continuous adaptation and optimization of merchandizing concepts. To recognize market trends and changing consumer expectations early on, we regularly analyze internal information and select external sources. Our group's own market research uses quantitative methods such as time series analyses and market trend forecasts based on the analysis of internal sales figures and market research. The time series analyses include the observation of product segments on the market over a certain period of time. Our sales brands initially test the practicability and acceptance of innovative concept modules in test stores before introducing them systematically and swiftly across the area. Continuous fund allocation allows for the optimization of merchandizing concepts and the modernization of stores. These measures help all sales brands maintain their competitive strength.

Location risks We consider our presence in the large growth regions of Eastern Europe and Asia as a key investment in our group's future. By entering these markets, we use our entrepreneurial opportunity to profit from the rising purchasing power of millions of consumers. However, our rigorous expansion in these economic regions also entails location risks. Comprehensive feasibility studies, which analyze the parameters and opportunities of a foreign commitment in great detail, are one way the METRO Group identifies these risks.

Supplier risks As a trade and retail company, the METRO Group depends on external providers for the supply of goods and services. To prepare for contingencies related to the procurement of goods and services, our company cooperates with a sufficiently large number of suppliers. These suppliers are continually monitored and must adhere to the procurement policy standards of the METRO Group. This includes the stipulations of the Food Safety Initiative, which must be observed by all our suppliers and are designed to ensure a high food safety standard for all production, processing and distribution levels.

IT and logistics risks The highly diverse selection of goods in bricks-and-mortar retailing and the high merchandise turnover rate entail fundamental organizational, IT and logistics risks. The METRO Group's international focus and our concentration on national, regional and local product assortments in the respective countries add 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 backup systems and works with several parallel service

providers to reduce its dependency on individual suppliers and service providers. In addition, our group has special emergency plans and adheres to the principle of efficient internal division of labor.

Personnel risks The expertise, dedication and motivation of our employees are key success factors that have a decisive impact on our competitive position. 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 for the best people. The demand for qualified personnel is particularly high in markets where the METRO Group is expanding. This requires appropriate programs for in-house employee qualification. Continuing education and employee training activities promoted at all group levels are designed to guarantee the professional competences of group employees. 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 levels serves this purpose as well. Direct participation in business success increases employees' identification with the METRO Group, and enhances their awareness of opportunities and risks in all entrepreneurial decisions.

For more details,
see the notes to the
consolidated
financial statements
under no. 31

Litigation and tax risks Tax risks arise in particular in the context of tax audits. Litigation risks result from labor, criminal and civil law proceedings, among others. The METRO Group protects itself adequately against both types of risks by making special provisions.

These risks and the
management of
these risks are
described in the
notes to the consoli-
dated financial
statements under
no. 38

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

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 can be identified at the moment.

IX. SUPPLEMENTARY AND FORECAST REPORT

EVENTS AFTER THE BALANCE SHEET DATE

No events that are of material importance to an assessment of the earnings, financial and asset position of METRO AG and the METRO Group had occurred by February 26, 2007 (date of release of the accounts for presentation to the Supervisory Board). The Supervisory Board bears the task to control the consolidated financial statements and to declare if it is approved.

ECONOMIC OUTLOOK

In 2007 and 2008, global business trends once again will be largely shaped by the U.S. economy. The most likely scenario for the American economy is that it will make a "soft landing." The economy is being slowed by several factors: the significantly declining real estate market, relatively high prices for raw materials and energy as well as an inflation rate that requires tight-money policies. In the wake of these developments, the global economy is slowing, while avoiding a recession – the economy of Eastern Asia countries has developed enough momentum on its own to underpin the world's economy.

A moderate slowdown in growth is expected in the euro zone. After exports provided fresh fuel to the economy, domestic impulses will presumably grow in 2007/2008. As a result, growing employment and rising pay levels are expected to promote increased spending on private consumption.

Euro zone:
moderate slow-
down in growth
is expected

Germany holds a special place in the euro zone: in 2007, the country's value-added tax was increased by an unprecedented amount – from 16 percent to 19 percent. Still, a reduced tax rate continues to apply to such things as food. But the tax increase and other fiscal actions certainly may draw buying power from households, causing private consumption to stagnate. As a result, Germany's overall economic growth rate will slightly lag that of the rest of Europe.

Thanks to increasing integration in the joint economic region, the new members of the European Union will continue their powerful upswing. They are profiting from international competitiveness, attractive tax systems and, as a result, investments from established EU countries. Only the Hungarian economy will grow considerably slower. This country's monetary and fiscal policies remain restrictive in a push to counteract undesirable societal and social developments with economic reforms.

As a result of its large reserves of raw materials, oil and natural gas as well as over the prices of raw materials and energy, Russia will maintain its rapid economic pace. This growth will fuel private consumption, which, in turn, will generate investments.

Asia will presumably continue the growth trend of the last years. Especially India and China will remain growth drivers of the East, Japan is expected to continue its consolidation path.

SECTOR OUTLOOK

The trade and retail sector is expected to profit from the robust world economy: in Western Europe, the significantly improved economic outlook will promote a slow rise in employment and higher incomes. Retail will profit from these trends as well. The major economies of Great Britain, Italy and France will contribute in particular to these positive trends.

Intense competition will continue to be the hallmark of German retail in 2007/2008. At best, growth will be further restrained by stagnating real incomes, and considerable increases in taxes and fees. Given these considerations, it can be assumed that German retail, in the strictest sense, most probably will not yet follow the economic growth trend. Rather, it will stagnate again in price-adjusted terms.

In many Eastern European countries, retail will continue to achieve high growth rates. In Russia, for instance, real growth of around 8 percent in 2007 and about 7 percent in 2008 is possible. In Poland, real growth of 4 to 5 percent might be achieved in 2007/2008 as a result of a considerable increase in private consumption.

In the Asian region, retail growth is expected to remain stable in 2007 and 2008. Each of the important economies can reach the growth rates of the previous year or slightly improve on them. Once again, China and India are powering the upswing of retail in this region. At a level of 6 percent, Pakistan may achieve the highest growth rate in private consumption.

DEVELOPMENT OF THE METRO GROUP

Metro Cash & Carry

In most Western European countries, the market volume for cash & carry will change little in the next few years. In Eastern Europe, on the other hand, significant growth is expected to continue in this trade segment. Metro Cash & Carry is expecting above-average positive developments in Russia and Ukraine. As a result, significant expansion of the location network in these countries is being planned. In Turkey, the continued good economic situation and rising consumption are forecast to provide further momentum.

The rapidly growing economies of Asia offer exceptional potential to Metro Cash & Carry. Even the market entry of system competitors will probably not produce a destructive fight in the marketplace. The continued growth is based on overall positive economic trends and on gains of market share being achieved at the expense of traditional wholesale. The general conditions of the Asian market are also very favorable. As a result, Metro Cash & Carry will continuously expand its network of locations in the years ahead in the Chinese market and press ahead with its commitment to India. The market entry to Pakistan is planned for 2007. Outside Asia, the sales brand is advancing its expansion in Eastern Europe. In 2007, the opening of 40 more locations is planned.

Real

In 2007, food retail in Germany could grow slightly. Real will concentrate in Germany on sharpening the sales brand's market profile with new concepts, expanding its leading market position and further improving its cost structure. Integrating the Wal-Mart locations into Real's sales network is scheduled to be completed by the middle of fiscal year 2007. In addition to one store, which was already scheduled to be closed by the middle of 2007 by the seller Wal-Mart, USA, another 15 of the 85 acquired locations will not remain in operation. The closure of the former headquarters for Wal-Mart Germany is scheduled for the third quarter of 2007.

In food retail, international markets offer good growth potential. This view applies in particular to Turkey, Russia and Romania. In addition to population growth and increasing levels of prosperity, ascension negotiations with the European Union are generating economic momentum in Turkey. In Russia, modern food retail formats are increasingly replacing traditional retail and are gaining market share. In the years ahead, Real will continuously expand its presence both in Russia and Romania, and open additional stores. In Poland, food retail will continue to profit from increased consumer spending. But the market environment is becoming difficult as a result of strong competitive pressure. In the Polish market, Real will expand its strong position by adding stores. New stores are planned for Turkey, too. In 2008, the first Real store in Ukraine is scheduled to be opened.

Media Markt and Saturn

New, innovative technologies will impact the future business direction of European consumer electronics retail. The growth driver will be digital technology, particularly flat screen technology for televisions and mobile telephony. Given consumers' continuing high needs for electronic products, the sector will post additional growth in Spain, Portugal and Greece. In Poland and Hungary, growing incomes and the increased spending on electronic products that arises from it will create further potential for sustainable growth by Media Markt and Saturn.

Western European consumer electronics retail is expected to grow 3 percent to 4 percent in 2007. Media Markt and Saturn will profit from this growth. As a result of their strong expansion, the sales brands are bolstering their market leadership in Europe. In 2007, about 70 new international stores are scheduled to be opened, including 15 to 20 in Germany. After making successful premieres in Sweden and Russia – including store openings in the cities of Stockholm, Gothenburg, Moscow and St. Petersburg – Media Markt is planning to enter Turkey in 2007. Saturn will enter the Belgian market in 2007.

In Germany's demanding retail environment, Media Markt and Saturn will expand their market leadership by boosting the locations in their networks and by intensive, eye-catching marketing activities.

Galeria Kaufhof

Given the unfavorable conditions faced by German retail, department store companies will have to continue fighting for customer trust and market share in 2007. Department stores' position in the mid-price range creates a special challenge for them because the sales concepts of the lower and

upper segment continue to polarize. As a result of these factors, Kaufhof will continue to energetically refine the Galeria concept during fiscal year 2007 and to sharpen its profile as a lifestyle provider in the upper price segment.

In Belgium, positive sector trends are expected to continue. The Belgian department store chain Galeria Inno can continue to maintain its market leadership and gain market share.

OUTLOOK FOR THE METRO GROUP

We intend to forcefully continue our growth strategies in 2007 and 2008. On the basis of economic forecasts, the sector's business situation and developments in the sales divisions, we expect positive results for the METRO Group in 2007.

We expect the METRO Group's profitable growth strategy to lead to sales growth of about 6 percent and an even higher increase in EBIT before special items over the medium term. For fiscal year 2007 we project sales growth of 8 or 9 percent including the acquisitions of the Wal-Mart Germany group and the Géant business in Poland.

We are also striving to increase economic value added (EVA), our key measure of the company's success. As a result, the foundation would be laid for proposing an attractive dividend to the annual general meeting in the future.

Our investments in the current store network, including the switch of the Wal-Mart stores to the Real brand, and in our organic expansion are expected to total about €2.5 billion in 2007. As a result of continuing international expansion, the number of employees will continue to grow.

We are working to further extend our position as a leading international trade and retail company. In the process, we will continue to assume our social responsibility. We are focusing particularly on sensitizing consumers about a healthful lifestyle with a balanced diet and ample exercise. We stress the message through our long-term initiative called "Gut für Dich" (Good for You).

X. REMUNERATION REPORT¹

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 managing directors and executives of the operative METRO Group companies are eligible.

In the past, the executives of METRO AG and the cross-divisional service companies received options from a **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 program stipulated that the company may grant the qualifying SOP beneficiaries 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 2006 changed as follows:

STOCK OPTIONS/STOCK APPRECIATION RIGHTS (METRO GROUP)

	2006		2005	
	Stock options units	Stock appreciation rights units	Stock options units	Stock appreciation rights units
Outstanding on Jan 1	507,420	1,460,120	1,476,693	3,155,760
Issued	0	0	0	0
Executed	471,020	1,263,650	575,503	1,058,365
Expired/forfeited	5,470	107,890	393,770	637,275
Outstanding on Dec 31	30,930	88,580	507,420	1,460,120

The rights with a maturity of approximately 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.

¹Also part of the Corporate Governance Report 2006

The terms of the tranches existing at the end of 2006 are listed in the following table:

TRANCHES

Tranche	Expiration date	Basis price	Exercising hurdle	Stock options		Stock appreciation rights	
				Dec 31, 2006 units outstanding	Dec 31, 2005 units outstanding	Dec 31, 2006 units outstanding	Dec 31, 2005 units outstanding
2002	8 weeks after AGM in 2006	€28.73	€37.35	0	23,920	0	77,170
2003	8 weeks after AGM in 2007	€26.99	€35.09	30,930	483,500	88,580	1,382,950

In the year under review, 21,250 stock options and 62,480 stock appreciation rights were exercised from the 2002 tranche. The average strike price per right was €43.87. A total of 2,670 stock options and 14,690 stock appreciation rights were forfeited.

From the 2003 tranche, 449,770 stock options and 1,201,170 stock appreciation rights were exercised in the year under review. The average strike price per right was €44.09. A total of 2,800 stock options and 93,200 stock appreciation rights were forfeited, and the remaining term of the rights that may still be exercised from the 2003 tranche ends on 18 July 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 stock 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 not been reached by mutual consent at the time of maturity. In addition, the payment of stock bonuses is limited to the amount 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	€21,610,000
2005	July 2008	€41.60	€47.84	€23,825,000
2006	July 2009	€43.15	€49.62	€25,510,000

The target bonus values are based on the assumption that the target prices are attained. The value of the stock bonus paid in 2006 was €32,764,776 at the time of payment and was calculated by independent experts using the Monte Carlo method.

COMPENSATION OF MANAGEMENT BOARD MEMBERS

Compensation for members of the Management Board is a component of an integrated compensation system for executives of the METRO Group. It creates performance incentives for the long-term growth of the company's value, and contains both fixed and variable elements. Total remuneration and the individual compensation components are geared appropriately to the responsibilities of each individual board member, his personal performance, the performance of the entire board and the economic situation of METRO AG.

Variable, performance-based compensation

The variable, performance-based compensation for members of the Management Board is determined in large part by the development of economic value added (EVA) and can also include the achievement of individually determined targets.

Positive EVA is achieved when the net operating profit exceeds the cost of capital needed to finance working capital. NOPAT (Net Operating Profit After Tax) is defined as operating profit before financing costs, but after income taxes. The cost of capital represents the 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 fiscal year 2006, the weighted average cost of capital of the METRO Group was unchanged from the previous year at 6.5 percent.

Delta EVA, the difference between current EVA and year-earlier EVA, plays a key role in the evaluation of corporate success. The development of delta EVA is therefore also a key basis of the EVA-based remuneration system for members of the Management Board. The EVA compensation system is based on a comparison of delta EVA with defined targets that were set by the Supervisory Board's Personnel and Nominations Committee under consideration of capital market expectations of value creation. If a target is achieved, an agreed-upon 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's 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

A stock option program forms another variable component of Management Board remuneration. It is tied to the direction of the METRO AG stock price and the sustained success of the METRO Group, and measures up to ambitious relevant benchmarks. The actual receipt of compensation from this program is linked to the fulfillment of all preconditions.

The stock option program was introduced in fiscal year 2004 as a result of a decision by the Presidential Committee and the Personnel and Nominations Committee of the Supervisory Board at METRO AG for members of the Management Board. It corresponds to the previously mentioned stock

option program for executives of the METRO Group. The target bonuses for members of the Management Board are set each year by the Supervisory Board's Presidential Committee and the Personnel and Nominations Committee. The payment of the bonus can be limited by a decision of the Committee.

Remuneration in fiscal year 2006

The relevant individual amounts for the members of the Management Board are as follows¹:

€1,000	Fixed salary	Variable, performance-based remuneration	Stock bonus 2006	Other remuneration	Total compensation
Dr. Hans-Joachim Körber	1,000	3,150	514	2	4,666
Zygmunt Mierdorf	800	2,100	424	9	3,333
Frans W. H. Muller ²	333	856	424	97	1,710
Thomas Unger	683	1,789	424	12	2,908
Prof. Stefan Feuerstein ³	467	560	0	39	1,066
Total	3,283	8,455	1,786	159	13,683

¹The company's pro rata expenses for stock-based compensation with maturities in fiscal year 2006 or later must also be shown pursuant to §§ 285 Sentence 1 No. 9 a, 314 Section 1 No. 6 a German Commercial Code: Dr. Körber €1,050,000, Mr. Mierdorf €867,000, Mr. Muller €73,000, Mr. Unger €867,000 and Prof. Feuerstein €243,000

²Member of the Management Board since Aug 1, 2006

³Member of the Management Board until July 31, 2006

The amount of the variable, performance-based compensation for fiscal year 2006 results from EVA-based compensation entitlements whose complete payment is dependent, as a result of the bonus bank system, on EVA factors from past and future years.

In addition, stock-bonus entitlements with long-term incentives that were granted to be posted at their fair value at the time of granting (see above table).

Due to the granting of a monetary target bonus, a number of subscription rights in accordance with §§ 285 Sentence 1 No. 9a, 314 Section 1 No. 6a German Commercial Code cannot be released. The payment of the bonuses depends on the previously described conditions of the stock option plan.

Other remuneration includes non-cash benefits from the provision of company cars and benefits related to guidelines for promoting international mobility among executives of the METRO Group.

Payment after the end of employment

In fiscal year 2006 a total of €2.3 million was used for remuneration of active members of the Management Board of METRO AG for services after the end of their employment. Individually, the amounts totaled:

€1,000 (rounded)	
Dr. Hans-Joachim Körber	1,722
Zygmunt Mierdorf	536
Total	2,258

The previously listed amounts also cover allocations to reserves for payments following the end of the employment contracts of Dr. Körber and Mr. Mierdorf. These commitments materially provide for a one-time capital sum to be granted when they leave the company. This will be determined on the basis of the average compensation from the past two calendar years, consisting of salary and performance-based compensation. It will amount to at least the salary and performance-based compensation on the basis of a simple EVA bonus. Dr. Körber will receive twice the amount of the calculated total. Mr. Mierdorf will receive this single total.

Furthermore, this provision concerns insurance premiums to cover pension commitments for Dr. Körber that increase from the profit-sharing of the insurance contract and are adjusted annually to meet the increased cost of living. For Mr. Mierdorf, provisions are being made for pension commitments that will be paid out when Mr. Mierdorf turns 60, or if he were to become permanently incapacitated or his employment contract were to be terminated prematurely or not renewed. In the latter two cases, other income will be deducted from the pension commitments. The pension commitment for Mr. Mierdorf is also adjusted annually to cover the increased cost of living. Both commitments were made before their appointment to the Management Board.

Should the employment contract be canceled prematurely as a result of changes in oversight and strategy, Dr. Körber and Mr. Mierdorf will retain the entitlements arising from the employment contracts even if they terminate the contract. No such agreements have been reached with employees.

Total compensation of former members of the Management Board

Former members of the Management Boards of METRO AG and the companies that were merged into METRO AG as well as their surviving dependents received €6.2 million. The provisions for current pensions and pension entitlements made for this group totaled €40.4 million.

COMPENSATION OF THE MEMBERS OF THE SUPERVISORY BOARD

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 2006 and the two preceding fiscal years.

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 total compensation of all members of the Supervisory Board amounted to a net €1.7 million in fiscal year 2006. The fixed component accounted for €0.9 million and the performance-based element for €0.8 million. The performance-based compensation will be payable after METRO AG's annual general meeting on May 23, 2007.

The following individual totals apply in fiscal year 2006:

COMPENSATION OF THE SUPERVISORY BOARD

In €	Fixed compensation	Performance-based compensation
Dr. Eckhard Cordes, Chairman (since February 2006)	96,250	86,592
Prof. Dr. Theo Siegert, Chairman (until February 2006)	17,500	15,744
Klaus Bruns, Vice Chairman	70,000	62,976
Dr. Wulf H. Bernotat	35,000	31,488
Prof. Dr. Dr. h. c. Klaus Brockhoff	35,000	31,488
Ulrich Dalibor	52,500	47,232
Prof. Dr. Dr. h. c. mult. Erich Greipl	52,500	47,232
Jürgen Hennig	35,000	31,488
Anja Kiehne-Neuberg	52,500	47,232
Werner Klockhaus	52,500	47,232
Peter Küpfer	35,000	31,488

Chart continued on next page

COMPENSATION OF THE SUPERVISORY BOARD

In €	Fixed compensation	Performance-based compensation
Rainer Kuschewski	35,000	31,488
Dr. Klaus Mangold	35,000	31,488
Marianne Meister	35,000	31,488
Dr. rer. pol. Klaus von Menges	35,000	31,488
Dr.-Ing. e. h. Bernd Pischetsrieder	35,000	31,488
Sylvia Raddatz	35,000	31,488
Renate Rohde-Werner	35,000	31,488
Dr. jur. Hans-Jürgen Schinzler	52,500	47,232
Dr. Manfred Schneider	52,500	47,232
Peter Stieger	35,000	31,488
Total	918,750	826,560

In fiscal year 2006, the members of the Supervisory Board of METRO AG received €0.1 million 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 €	
Ulrich Dalibor	33,200
Prof. Dr. Dr. h. c. mult. Erich Greipl	49,800
Rainer Kuschewski	6,136
Marianne Meister	9,000
Sylvia Raddatz	9,000
Peter Stieger	9,203
Total	116,339

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.

XI. NOTES PURSUANT TO § 315 SECTION 4 GERMAN COMMERCIAL CODE

COMPOSITION OF CAPITAL

On December 31, 2006, the capital stock of METRO AG totaled €835,419,052.27. It is divided into a total of 326,787,529 no-par-value bearer shares. The proportional value per share amounted to about €2.56.

The capital stock is broken down into the following types of stock:

Common stock	Shares	324,109,563	
	Proportional value of the capital stock in €	828,572,941	[Yields 99.18 %]
Preferred stock	Shares	2,677,966	
	Proportional value of the capital stock in €	6,846,111	[Yields 0.82 %]
Total capital stock	Shares	326,787,529	
	€	835,419,052	

Each share of common stock of METRO AG grants an equal voting right. In addition, common stock of METRO AG entitles the holder to dividends. In contrast to common stock, preferred stock does not carry any voting rights and is 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.”

Other rights associated with common and preferred stock include in particular the right to attend the annual general meeting (§ 118 Section 1 Stock Corporation Law), the right to information (§ 131 Stock Corporation Law) and the right to file a legal challenge or a complaint for nullity (§§ 245 No. 1–3, 246, 249 Stock Corporation Law). In addition to the previously mentioned right to receive dividends, stockholders have a subscription right when the capital stock is increased (§ 186 Section 1 Stock Corporation Law), a claim to liquidation proceeds after the closure of the company (§ 271 Stock Corporation Law) and claims to compensation and settlements as a result of certain structural measures, particularly those pursuant to §§ 304 ff., 320 b, 327 b of the Stock Corporation Law.

LIMITATIONS RELEVANT TO VOTING RIGHTS

According to information obtained by the Management Board, an agreement has been set up among O.B. Betriebs GmbH, Overpart GmbH (formerly Beisheim Holding GmbH), BVG Beteiligungs- und Vermögensverwaltung GmbH, Franz Haniel & Cie. GmbH, Haniel Finance B.V., Haniel Finance Deutschland GmbH, METRO Vermögensverwaltung GmbH & Co. KG, METRO Vermögensverwaltung GmbH, the 1. HSB Beteiligungsverwaltung GmbH & Co. KG and the 1. HSB Verwaltung GmbH to coordinate the exercise of voting rights associated with shares of METRO AG, which can be regarded as restrictions in the sense of § 315 Section 4 No. 2 German Commercial Code.

CAPITAL INTERESTS

Notes pursuant to § 315 Section 4 No. 3 German Commercial Code – direct and indirect (pursuant to § 22 German Securities Trading Act) capital interests that exceed 10 percent of the voting rights:

Name/company	Direct/indirect stakes exceeding 10 percent of voting rights
METRO Vermögensverwaltung GmbH & Co. KG, Düsseldorf	direct and indirect
METRO Vermögensverwaltung GmbH, Düsseldorf	indirect
1. HSB Beteiligungsverwaltung GmbH & Co. KG, Schönefeld-Waltersdorf	direct and indirect
1. HSB Verwaltung GmbH, Schönefeld-Waltersdorf	indirect
Haniel Finance B.V., Venlo/Netherlands	indirect
Haniel Finance Deutschland GmbH, Duisburg	indirect
Franz Haniel & Cie. GmbH, Duisburg	indirect
Prof. Otto Beisheim Stiftung, Baar/Switzerland	indirect
O.B. Betriebs GmbH, Munich	indirect
O.B.V. Vermögensverwaltungs GmbH & Co. KG, Düsseldorf	indirect
O.B.V. Vermögensverwaltungs GmbH, Düsseldorf	indirect
Overpart GmbH (formerly Beisheim Holding GmbH), Baar/Switzerland	indirect
Prof. Dr. Otto Beisheim, Baar/Switzerland	indirect
BVG Beteiligungs- und Vermögensverwaltung GmbH, Essen	indirect
Gebr. Schmidt GmbH & Co. KG, Essen	indirect
Gebr. Schmidt Verwaltungsgesellschaft mbH, Essen	indirect
Dr. Michael Schmidt-Ruthenbeck, Zurich/Switzerland	indirect

The above information is based on notifications under § 21 of the German Securities Trading Act which METRO AG received and released in fiscal year 2006.

REGULATIONS GOVERNING THE APPOINTMENT AND REMOVAL OF MANAGEMENT BOARD MEMBERS, AND CHANGES TO THE ARTICLES OF ASSOCIATION

In instances when members of the Management Board are appointed and removed, legal regulations laid down in §§ 84, 85 of the German Stock Corporation Act and §§ 30, 31, 33 of the German Code-termination Act apply. A supplementary regulation is contained in § 5 in the METRO AG's Articles of Association. It states:

“(1) The Management Board shall consist of at least two members.

(2) Apart from this, the Supervisory Board shall determine the number of members on the Management Board.”

Changes to the Articles of Association at METRO AG are determined principally in accordance with §§ 179, 181, 133 of the German Stock Corporation Act. Numerous other sections of the Stock Corporation Act would apply to a change to the Articles of Association, and modify or supersede the previously mentioned regulations, e.g. §§ 182 ff. of the Stock Corporation Act during capital increases, §§ 222 ff. of the Stock Corporation Act during capital reductions or § 262 of the Stock Corporation Act during the dissolution of the AG. Pursuant to § 14 of the METRO AG's Articles of Association, changes that would affect only the text of the Articles of Association may be decided by the Supervisory Board without a vote by the annual general meeting.

AUTHORITIES OF THE MANAGEMENT BOARD

Authorities to issue new shares

In accordance with § 202 Section 1 of the Stock Corporation Act, the annual general meeting can authorize the Management Board to increase the capital stock through the issuance of new shares against deposit. The following authorizations exist at the moment:

Authorized capital I

On May 23, 2002, the annual general meeting resolved to authorize the Management Board to increase the capital stock, with the 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 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/conver-

sion 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 further authorize the Management Board, with the 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 issues for a maximum total of €60,000,000 by May 23, 2007 (authorized capital II). The Management Board is authorized, with the 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 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 cash contributions in one or several issues 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 of the 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 of the Stock Corporation Act. 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 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 issues for a maximum total of €125,000,000 by June 3, 2009 (authorized capital IV). The Management Board has been authorized, with the approval of the Supervisory Board, to decide on the restriction of the subscription right. To date, authorized capital IV has not been used.

Stock option program

The annual general meeting of July 6, 1999, approved a stock option program for executives.

Within the framework of the METRO AG's stock option program, the Management Board distributed stock options to executives in the years 1999–2003. On December 31, 2006, a total of 30,930 options remained in effect. In compliance with the agreed terms of exercise, it was decided that cash compensation would be provided to executives entitled to the options in place of new shares of common stock when the existing subscription rights were exercised.

Authority to acquire the company's own stock

METRO AG is authorized to acquire its own stock in accordance with § 71 of the German Stock Corporation Act.

On the basis of § 71 Section 1 No. 8 of the Stock Corporation Act, the annual general meeting decided on May 18, 2006:

- “a) On or before November 18, 2007, the company is hereby authorized to acquire the company stock of any share class. The authorization shall be limited to the acquisition of shares that make up a maximum of 10 percent of the capital stock that existed as of the date that this resolution was adopted. The authorization may be exercised in whole or in part, in the latter case several times. It also may be exercised either for common stock or for preferred stock only.
- b) The stock may be acquired on the stock exchange or through a public tender offer made to all company stockholders.
 - If the shares are acquired on the stock exchange, the price per share paid by the company (excluding incidental transaction prices) may not exceed or fall below the arithmetic average of the closing auction price of the company shares of the same class in the XETRA trading system (or in a comparable system that replaces the XETRA system) at the Frankfurt Stock Exchange during the last three trading days immediately preceding the acquisition by more than 10 percent.

- If the shares are acquired through a public tender offer made to all stockholders of the company, the offered purchase price per share may not exceed or fall below the arithmetic average of the closing auction price of company shares of the same class in the XETRA trading system (or in a comparable system that replaces the XETRA system) at the Frankfurt Stock Exchange during the last three trading days immediately preceding the date of the announcement of the offer by no more than 20 percent. A public tender offer may provide for preferred acceptance of sell offers for small numbers of stock up to 100 shares per stockholder.
- c) In addition to selling acquired shares on the stock exchange or by offer to all stockholders, the Management Board is authorized, subject to approval of the Supervisory Board, to use the company shares acquired in accordance with the authorization granted in paragraph a) above for any of the following purposes:
- (1) Listing of company shares on international stock exchanges where they had not been admitted to trading yet
 - (2) Transfer of company shares to a third party as part of a company merger or of the acquisition of companies, divisions of other companies or interests in other companies
 - (3) Redemption of company shares, without the redemption and implementation of such being subject to another decision by the annual general meeting
 - (4) Sale of company shares through means other than the stock exchange or an offer to all stockholders provided that the stock is sold for a cash payment and at a price that is not substantially lower than the stock market price for company shares of the same class at the time of the purchase. The foregoing authorization shall be limited to the acquisition of shares collectively representing no more than 10 percent of the capital stock. The limit of 10 percent of the capital stock shall be reduced by the amount of capital stock represented by any shares issued (a) during the effective period of this authorization in the course of any capital increase by exclusion of subscription rights pursuant to § 186 Section 3 Sentence 4 of the German Stock Corporation Act or (b) to service option bonds and/or convertible bonds with option or conversion rights or conversion obligations if such bonds were issued during the effective period of the authorization by exclusion of the subscription rights by analogous application of § 186 Section 3 Sentence 4 of the Stock Corporation Act
 - (5) Issuance of stock to holders of option bonds or convertible bonds of the company or its affiliates in accordance with the terms and conditions applicable to such bonds, including the issuance of stock based on the exercise of subscription rights that, in the event of a sale of treasury stock through an offer to stockholders may be granted to holders of option or convertible bonds of the company or any of its affiliates to the same extent that holders of such option or convertible bonds would have had a subscription right to company stock after exercising

their option and conversion rights or performing their option or conversion obligations. The shares issued on the basis of this authorization shall collectively not exceed 10 percent of capital stock if such stock is used to service conversion and option rights or conversion obligations that were issued or created by analogous application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act. Stock issued or sold by direct or analogous application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act during the effective period of this authorization to the date of use of treasury stock shall count towards the aforementioned limit.

- d) The authorizations granted in Paragraph c) may be exercised on one or several occasions, in whole or in part. The price at which shares of the company are initially listed on foreign stock exchanges pursuant to the authorization in Paragraph c) No. (1) und (4) or are sold to third parties for cash payments shall not fall below the arithmetic average of the closing auction price of company shares in the same category in the XETRA trading system (or in a comparable system that replaces the XETRA system) at the Frankfurt Stock Exchange during the last five trading days immediately preceding the date of the listing on the exchange or a legally binding agreement with a third party by more than 5 percent.
- e) Subscription rights shall be excluded if treasury stock is used for any of the purposes authorized in Paragraph c) No. (1), (2), (4) and (5).“

Authorization for issuing option bonds and convertible bonds

The annual general meeting on June 4, 2004, authorized the Management Board, with the approval of the Supervisory Board, to issue bearer and/or registered option and/or convertible bonds by June 3, 2009, in one or several tranches totaling up to a nominal value of €1,000,000,000 with a maturity of at least 15 years and to grant the option bond holders option rights or owners of convertible bonds conversion rights for new shares of common stock in the company in proportion to the capital stock of up to €127,825,000 pursuant to option bond or convertible bond conditions.

In addition to euros, the option bonds and/or convertible bonds may be issued – limited to the equivalent euro value – in the legal currency of an OECD country. The option bonds and/or convertible bonds may also be issued by the affiliates (§ 18 of the German Stock Corporation Act) of METRO AG in which METRO AG directly or indirectly holds at least 90 percent of the capital stock. In this case, the Management Board is authorized to assume the guarantee for the option bonds/convertible bonds on behalf of the company and to grant option or convertible bond rights for new shares of METRO AG common stock to the holders of option or convertible bonds.

All stockholders are entitled to a subscription right. The option bonds or convertible bonds should be assumed by a lending institution or a consortium under the condition that they will be offered to the stockholders. The company must also ensure the stockholders' legal subscription right when the option bonds and/or convertible bonds are issued by a 90 percent direct or indirect group company of METRO AG. The Management Board, however, is authorized, with the approval of the Supervisory Board, to exclude odd-lot amounts resulting from subscription conditions from the subscription right

of stockholders and to preclude the subscription right insofar as it is necessary to grant holders of previously issued option and convertible rights at the time of the new issue or holders of option or convertible bonds containing option and conversion obligations a subscription right to the extent that they would be entitled after exercising the option or conversion rights or after fulfilling option and conversion obligations.

The Management Board is further authorized, with the approval of the Supervisory Board, to exclude the subscription right of stockholders to option and/or convertible bonds insofar that the Management Board has concluded after a mandatory review that the issue price of the option or convertible bonds does not significantly fall below their hypothetical market value as calculated by recognized financial-mathematic methods. This authorization to issue option or convertible bonds under the exclusion of the subscription right in accordance with § 186 Section 3 Sentence 4 German Stock Corporation Act applies only so far as the shares being issued to satisfy conversion option rights do not collectively exceed 10 percent of the capital stock that existed as of the date of the initial exercise of this authorization. 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 stock issued during the authorization period under the exclusion of the subscription right in accordance with § 186 Section 3 Sentence 4 of the Stock Corporation Act in connection with a capital increase or sold from a pool of treasury stock.

In the case of the issuance of option bonds, one or several options are added to every partial debenture that, according to the option conditions, entitle the owner to acquire the company's common stock. The proportionate share of capital stock that is allotted to the subscription shares for each partial debenture may not exceed the nominal value of the option bond. Under the option and bond conditions, fractional amounts of stock may be turned into complete shares, including upon the payment of an additional sum. The maximum period of the option right is 15 years.

In the case of the issuance of convertible bonds, the holders of the debentures receive the indefeasible right to transform their convertible debentures under the conditions of the convertible bonds into the company's common stock. The conversion ratio results from dividing the nominal value or the issue amount of a partial debenture that is below the nominal value by the fixed conversion price for a common share of company stock. The convertible bond conditions can stipulate that the conversion ratio is variable and the conversion price can be altered within a fixed band depending on the course of the common stock's price during the authorization period. In any case, the conversion ratio can be rounded up or down to a whole number. In addition, a cash payment can be set. Furthermore, it can be stipulated that non-convertible amounts will be combined and/or settled with a money payment.

The convertible bond or option conditions can constitute a convertible or option obligation at the end of the duration period or at some other point in time, or provide for the right of the company to grant, at the time of maturity of the convertible or option bonds, shares of common stock in the company or in another listed business to bondholders completely or partially in the place of the payment of the due amount upon maturity.

In each case, the bond conditions can stipulate that, in the case of the exercise of conversion or options (including as a result of a conversion or warrant option or as a result of the company's exercise of a stock issuance option) some treasury stock can be granted. It can further be stipulated that the company will not provide company stock to people entitled to conversions or options. Rather, the amount will be paid in cash. Under the bond conditions, this amount will correspond to the volume-weighted average of the price of the METRO AG's common stock in XETRA trading on the Frankfurt Stock Exchange or in an equivalent successor system on at least two successive trading days during the period of 10 trading days before and 10 trading days after the announcement of the conversion or the exercise of the option.

The individually fixed option or conversion price for a share of common stock must amount to at least 80 percent of the volume-weighted average of the price of the METRO AG's common stock in XETRA trading on the Frankfurt Stock Exchange or an equivalent successor system on 10 trading days before the Management Board's decision about issuing option bonds or convertible bonds. Deviations may be made for cases of option and conversion obligations or the issuance of stock on the basis of the exercise of a company voting right. In this case, the bond conditions must provide for a warrant or conversion price for a share of the company's common stock that is at least 80 percent of the volume-weighted average of the price of the METRO AG's stock in XETRA trading on the Frankfurt Stock Exchange or in an equivalent successor system during the reference time period of 3 to 20 trading days before the maturity of the option bond or convertible bond or the start of an option obligation. For the concession of the subscription right, the individually determined option and conversion price for a share of common stock (subject to the special regulation covering cases of option or conversion obligation or the transmittal of stock on the basis of a voting right of the company) must amount to at least 80 percent of the volume-weighted average of the price of the METRO AG's common stock in XETRA trading on the Frankfurt Stock Exchange or in an equivalent successor system during the days on which the subscription rights to option bonds and convertible bonds were traded on the Frankfurt Stock Exchange, with the exception of both final days of the subscription right trading. In each of the described cases, § 9 Section 1 of the German Stock Corporation Act shall remain unaffected.

Irrespective of § 9 Section 1 of the German Stock Corporation Act, the option and conversion price will be discounted as a result of an antidilution clause following a more detailed determination of the option or convertible-bond conditions if the company, during the option or conversion term, increases the capital stock including a subscription right to its stockholders or raises capital from the company's financial resources or issues or guarantees further option bonds or convertible bonds or option rights and does not grant a subscription right to holders of option and conversion rights to the extent to which they are entitled after the exercise of the option or conversion right. In addition, the conditions could provide for, in cases of a reduction in capital or other exceptional measures or events, including unusually high dividends or a takeover by a third party, an adjustment of the option and conversion rights or option or conversion obligations or the regulations concerning the exercise of company options for a supply of stock.

The Management Board is authorized to clarify the additional details concerning the issue and conditions of option bonds and/or convertible bonds, particularly the interest rate, issue price, maturity

and denominations, option or conversion price and option or conversion period, or to determine in consultation with the departments of the group companies issuing the option bonds and/or convertible bonds.

FUNDAMENTAL AGREEMENTS RELATED TO THE CONDITIONS OF A TAKEOVER AND COMPENSATION AGREEMENTS IN CASE OF A TAKEOVER

As a borrower, METRO AG is a party to three consortium loan contracts that the lender may cancel in the case of a takeover inasmuch as the credit rating of METRO AG also drops in a way stipulated in the contract. The requirements of a takeover are, first, that the stockholders who controlled METRO AG at the time when each contract was signed lose this control. The second requirement is the takeover of control of METRO AG by one or several parties. The lending banks may cancel the contract and demand the return of the loan only if the takeover and the drop in the credit rating occur cumulatively. In 2006, the average amount used from the consortium loan contracts was €217 million.

In the event that a takeover led to a significant change in strategy, the Management Board members Dr. Körber and Mr. Mierdorf would be authorized to resign from their board positions at the end of the third month that followed the change in control and strategy and to terminate their employment contracts. In the event of such an extraordinary termination of their employment contracts, Dr. Körber and Mr. Mierdorf would retain the remuneration entitlements arising from each contract.

CONSOLIDATED FINANCIAL STATEMENTS

INCOME STATEMENT FOR THE FISCAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2006

€ million	Note no.	2006	2005
Net sales	1	59,882	55,722
Cost of sales		(47,390)	(44,086)
Gross profit on sales		12,492	11,636
Other operating income	2	1,895	1,149
Selling expenses	3	(11,098)	(9,885)
General administrative expenses	4	(1,252)	(1,094)
Other operating expenses	5	(54)	(68)
Earnings before interest and taxes (EBIT)		1,983	1,738
Result from associated companies	6	0	58
Other investment result	7	14	16
Interest income	8	158	143
Interest expenses	8	(624)	(614)
Other financial result	9	3	17
Net financial income		(449)	(380)
Earnings before taxes (EBT)		1,534	1,358
Income taxes	10	(484)	(740) ¹
Income from continuing operations		1,050	618
Income from discontinued operations after taxes		143	31
Net profit for the period		1,193	649
allocable to minorities	11	137	118
from continuing operations		(137)	(117)
from discontinued operations		[-]	[1]
allocable to stockholders of METRO AG		1,056	531
from continuing operations		(913)	(501)
from discontinued operations		(143)	(30)
Earnings per share in €	12	3.23	1.63
from continuing operations		(2.79)	(1.54)
from discontinued operations		(0.44)	(0.09)

¹In 2005, special effect from write-downs on deferred tax assets from loss carry-forwards at Real Germany of €307 million

BALANCE SHEET AS PER DECEMBER 31, 2006

ASSETS

€ million	Note no.	As per Dec 31, 2006	As per Dec 31, 2005
Non-current assets		18,978	17,580
Goodwill	18	4,379	4,154
Other intangible assets	19	478	433
Tangible assets	20	12,087	11,037
Investment properties	21	136	228
Financial assets	22	139	136
Other receivables and assets	23	535	482
Deferred tax assets	24	1,224	1,110
Current assets		13,170	11,187
Inventories	25	6,640	6,246
Trade receivables	26	481	367
Financial assets		21	13
Other receivables and assets	23	2,852	2,200
Entitlements to income tax refunds		279	253
Cash and cash equivalents	27	2,732	1,767
Non-current assets held for sale	28	165	341
		32,148	28,767

EQUITY AND LIABILITIES

€ million	Note no.	As per Dec 31, 2006	As per Dec 31, 2005
Equity	29	6,047	5,313
Capital stock		835	835
Additional paid-in capital		2,544	2,551
Reserves retained from earnings		2,451	1,721
Minority interests		217	206
Non-current liabilities		8,869	8,408
Provisions for pensions and similar commitments	30	1,023	995
Other provisions	31	506	447
Financial liabilities	32, 34	6,279	6,046
Other liabilities	32, 35	599	433
Deferred tax liabilities	24	462	487
Current liabilities		17,232	15,046
Trade payables	32, 33	12,416	10,952
Provisions	31	719	288
Financial liabilities	32, 34	1,740	1,590
Other liabilities	32, 35	2,029	1,967
Income tax liabilities		304	249
Liabilities related to non-current assets held for sale	28	24	–
		32,148	28,767

STATEMENT OF CHANGES IN EQUITY¹

€ million	Capital stock	Capital reserve	Reserves retained from earnings	Total	Minorities	Total equity
Jan 1, 2005	835	2,551	1,302	4,688	161	4,849
First-time consolidation of 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
Dec 31, 2005/Jan 1, 2006	835	2,551	1,721	5,107	206	5,313
Net profit for the period	-	-	1,056	1,056	137	1,193
Profit distribution	-	-	(334)	(334)	(122)	(456)
Remeasurement IAS 39	-	-	2	2	-	2
Currency translation	-	-	6	6	3	9
Other	-	(7)	-	(7)	(7)	(14)
Dec 31, 2006	835	2,544	2,451	5,830	217	6,047

¹Changes in equity are explained in the notes to the consolidated financial statements under no. 29

CASH FLOW STATEMENT¹

€ million	2006	2005
EBIT	1,983	1,738
Depreciation and amortization on tangible and intangible assets	1,250	1,200
Change in provisions for pensions and other provisions	273	(19)
Change in net working capital	1,137	66
Income taxes paid	(543)	(499)
Elimination of negative difference Wal-Mart	(410)	–
Other	(427)	(452)
Cash flow from operating activities of continuing operations	3,263	2,034
Cash flow from operating activities of discontinued operations	–	150
Total cash flow from operating activities	3,263	2,184
First-time consolidation of Wal-Mart (previous year first-time consolidation of Adler)	108	19
Company acquisitions (Géant and Marktkauf Russia)	(205)	–
Investments in tangible assets (excl. finance leases)	(1,824)	(1,922)
Other investments	(268)	(253)
Company divestments	–	48
Divestment of Praktiker	484	670
Disposals of fixed assets	403	313
Cash flow from investing activities of continuing operations	(1,302)	(1,125)
Cash flow from investing activities of discontinued operations	–	(43)
Total cash flow from investing activities	(1,302)	(1,168)
Profit distribution		
to METRO AG stockholders	(334)	(334)
to other stockholders	(122)	(72)
Raising of financial liabilities	1,423	935
Redemption/repayment of financial liabilities	(1,571)	(1,415)
Interest paid	(610)	(637)
Interest received	169	137
Profit and loss transfers and other financing activities	50	(6)
Cash flow from financing activities of continuing operations	(995)	(1,392)
Cash flow from financing activities of discontinued operations	–	23
Total cash flow from financing activities	(995)	(1,369)
Total cash flows	966	(353)
Exchange rate effects on cash and cash equivalents	(1)	13
Overall change in cash and cash equivalents	965	(340)
Cash and cash equivalents on January 1	1,767	2,107
Cash and cash equivalents on December 31	2,732	1,767
less cash and cash equivalents from discontinued operations as per December 31	–	0
Cash and cash equivalents from continuing operations as per December 31	2,732	1,767

¹The cash flow statement is explained in the notes under no. 36

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEGMENT REPORTING¹

PRIMARY SEGMENTS (DIVISIONS)

	Metro Cash & Carry		Real		Media Markt and Saturn		
€ million	2006	2005	2006	2005	2006	2005	
External sales (net)	29,907	28,087	10,378	9,922	15,156	13,306	
Internal sales (net)	47	137	1	1	9	–	
Total sales (net)	29,954	28,224	10,379	9,923	15,165	13,306	
EBITDA	1,510	1,377	234	132	776	679	
Depreciation/amortization	399	364	189	144	189	169	
EBIT	1,111	1,013	45	(12)	587	510	
Investments	924	900	876	266	370	315	
Segment assets	12,378	11,721	4,360	3,395	6,057	5,486	
Segment liabilities	6,181	5,671	2,397	1,461	5,359	4,523	
Employees at closing date (full-time equivalents)	102,100	96,118	60,850	43,533	45,666	40,255	
Selling space (in 1,000 sqm)	4,507	4,218	3,601	2,693	1,914	1,704	
Locations (number)	584	544	701	592	621	558	

SECONDARY SEGMENTS (REGIONS)

	Germany		Western Europe without Germany		Eastern Europe		
€ million	2006	2005	2006	2005	2006	2005	
External sales (net)	26,427	25,948	19,439	17,976	12,592	10,614	
Internal sales (net)	13	14	2	1	–	–	
Total sales (net)	26,440	25,962	19,441	17,977	12,592	10,614	
EBITDA	1,370	1,236	1,033	1,045	847	674	
Depreciation/amortization	702	701	300	284	211	185	
EBIT	668	535	733	761	636	489	
Investments	1,419	811	407	512	1,126	735	
Segment assets	13,657	12,914	9,801	9,053	6,557	5,268	
Segment liabilities	7,821	7,162	5,361	5,003	3,195	2,260	
Employees at closing date (full-time equivalents)	109,987	102,646	51,099	48,801	69,029	52,057	
Selling space (in 1,000 sqm)	6,885	6,093	2,624	2,533	2,032	1,571	
Locations (number)	1,529	1,427	508	477	289	224	

¹The segment reporting is explained in the notes under no. 37

²Included in 2005: €15.2 million in expenses for the assumption of realization risks from former Real locations

Galeria Kaufhof		Other companies/consolidation		Continuing operations METRO Group		Discontinued operations	
2006	2005	2006	2005 ²	2006	2005	2006	2005
3,609	3,575	832	832	59,882	55,722	-	2,789
13	8	[70]	[146]	-	-	-	-
3,622	3,583	762	686	59,882	55,722	-	2,789
192	189	521	561	3,233	2,938	-	18
110	120	363	403	1,250	1,200	-	47
82	69	158	158	1,983	1,738	-	[29]
151	96	699	561	3,020	2,138	-	83
1,335	1,266	3,024	2,867	27,154	24,735	-	-
1,025	1,013	1,588	1,794	16,550	14,462	-	-
19,283	19,983	15,240	15,048	243,139	214,937	-	-
1,487	1,465	415	438	11,924	10,518	-	-
142	142	330	335	2,378	2,171	-	-

Asia/Africa		Consolidation		Continuing operations METRO Group		Discontinued operations	
2006	2005	2006	2005	2006	2005	2006	2005
1,424	1,184	-	-	59,882	55,722	-	2,789
715	860	[730]	[875]	-	-	-	-
2,139	2,044	[730]	[875]	59,882	55,722	-	2,789
[24]	[6]	7	[11]	3,233	2,938	-	18
35	31	2	[1]	1,250	1,200	-	47
[59]	[37]	5	[10]	1,983	1,738	-	[29]
68	80	-	-	3,020	2,138	-	83
743	728	[3,604]	[3,228]	27,154	24,735	-	-
454	395	[281]	[358]	16,550	14,462	-	-
13,024	11,433	-	-	243,139	214,937	-	-
383	321	-	-	11,924	10,518	-	-
52	43	-	-	2,378	2,171	-	-

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, 2006 as adopted by the European Union.

The consolidated financial statements in their present form comply with the stipulations of § 315 a of the German Commercial Code (HGB). Together with Directive (EC) No. 1606/2002 of the European Parliament and Council of July 19, 2002 concerning the application of international accounting standards, they present the legal basis for group accounting by international standards in Germany and apply to fiscal years starting on or after January 1, 2005.

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 shown in the balance sheet at their 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. Amounts below €0.5 million are rounded and reported as "0"; a "-" means negative report.

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 whose application was mandatory for the 2006 annual report of METRO AG:

IAS 19 (Employee Benefits)

The amended IAS 19 grants the option to recognize so-called actuarial gains and losses with no effect on income. In its consolidated financial statements, METRO AG adhered to the previous procedure, whereby actuarial gains and losses are amortized in income under the corridor method. Except for the

increased disclosure requirement, the first-time application of revised IAS 19 thus had no effect on the consolidated financial statements of METRO AG.

IAS 39 (Financial Instruments: Recognition and Measurement)

The revisions of IAS 39 concern the option of recognizing financial instruments at fair value through profit or loss, the extension of the area of application to the balance sheet treatment of issued financial guarantees as well as the accounting treatment of cash flow hedges for the hedging of highly probable currency risks in forecast intra-group transactions. In its consolidated financial statements, METRO AG made no use of the option of recognizing financial instruments at fair value through profit or loss. The two other changes also had no effect on the consolidated financial statements of METRO AG.

IFRIC 4 (Determination whether an Arrangement Contains a Lease)

IFRIC 4 includes criteria on the identification of leasing components that may be included in agreements that are not formally designed as leasing contracts. Such leasing components are recognized in accordance to the regulations of IAS 17. The first-time application of IFRIC 4 had no effect on the consolidated financial statements of METRO AG.

IFRIC 6 (Liabilities arising from Participation in a Specific Market – Waste Electrical and Electronic Equipment)

The interpretation refers to the recognition of provisions for disposal obligations resulting from the Directive 2002/96/EC on waste electrical and electronic equipment (amended by Directive 2003/108/EC). The application of this interpretation in fiscal year 2006 did not have any material impact on the consolidated financial statements of METRO AG.

The IASB has newly introduced or amended a series of other accounting standards and interpretations that will be applicable earliest as of January 1, 2007, if they are adopted by the Council of the European Commission, and are applicable to METRO Group:

No.	Title	Application from
IAS 1	Presentation of Financial Statements – Added disclosures about an entity's capital	Jan 1, 2007
IFRS 7	Financial Instruments: Disclosures	Jan 1, 2007
IFRS 8	Operating Segments	Jan 1, 2009
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	Jan 1, 2007
IFRIC 8	Scope of IFRS 2	Jan 1, 2007
IFRIC 9	Reassessment of Embedded Derivatives	Jan 1, 2007
IFRIC 10	Interim Financial Reporting and Impairment	Jan 1, 2007
IFRIC 11	Group and Treasury Share Transactions	Jan 1, 2008
IFRIC 12	Service Concession Arrangements	Jan 1, 2008

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.

Consolidated group and associated companies

Besides METRO AG, the consolidated financial statements comprise all subsidiaries in which METRO AG controls the financial and business policy through a majority of voting rights or according to the by-laws, company contract or contractual agreement. These include 698 domestic (previous year 671) and 466 (previous year 401) 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).

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

Status January 1, 2006	1,073
Changes in fiscal year 2006:	
Companies merged with other consolidated subsidiaries	(39)
Acquisition of stockholdings	17
Disposal of stockholdings	(22)
Other disposals	(7)
Companies newly founded	121
Other first-time consolidations	22
Status December 31, 2006	1,165

Additions from newly founded companies (121 companies) are due mainly to the expansion of the Metro Cash & Carry and Media Markt and Saturn sales divisions.

Acquisitions of stockholdings (13 companies) concern the acquisition of Wal-Mart's German activities. Other first-time consolidations concern 6 special-purpose entities from the acquisition of the Wal-Mart activities in Germany.

Effects from changes in the consolidation group are detailed under "Notes on business combinations" and, insofar as they are of particular significance, explained in detail in the respective accounts items.

One associated company (previous year 1) is valued according to the equity method. A total of 13 companies (previous year 14) were not valued at equity. Although the METRO Group holds between 20 percent and 50 percent of the voting rights, these investments were valued at cost because they did not qualify as associated companies or because the investments in question were immaterial.

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.

Capital consolidation is effected under the purchase method. 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 is 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. Also in accordance with IFRS 3, any negative differences remaining after the allocation of hidden reserves and charges after another examination during the period in which the business combination took place, are amortized to income. Retroactive purchase price and fair value adjustments within 12 months after the first-time consolidation are recognized at equity with no effect on income.

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.

Any amounts written up or written down for shares in consolidated subsidiaries carried in the individual 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. Profits and losses resulting from intra-group transactions that are recorded as fixed assets or inventories 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 reserves retained from earnings. Such currency differences are recorded as income in the year in which foreign subsidiaries are deconsolidated.

In fiscal year 2006, no functional currency of a consolidated company was classified as hyperinflationary in the meaning of IAS 29. In 2005, financial reporting in hyperinflationary economies in accordance with IAS 29 still affected group companies based in Turkey; it was ended on January 1, 2006.

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 exchange rate in €		Period-end exchange rate in €	
	2006	2005	Dec 31, 2006	Dec 31, 2005
Bulgarian lev	1.95583	1.95583	1.95583	1.95583
Chinese renminbi	10.00962	10.19896	10.27930	9.51806
Croatian kuna	7.32238	7.39937	7.34508	7.37563
Czech koruna	28.33614	29.78005	27.48500	29.08500
Danish krone	7.45929	7.45219	7.45600	7.46085
Hong Kong dollar	9.76158	9.68207	10.26250	9.17960
Hungarian forint	264.19671	248.05260	251.77000	252.47000
Indian rupee	56.78867	54.79039	58.20750	53.26750
Japanese yen	146.11121	136.89510	156.93000	139.12000
Moldovan leu	16.52637	15.65331	17.08700	15.18290
Moroccan dirham	11.04083	11.02202	11.14480	10.94635
Pakistani rupee	75.77332	71.12220	80.15880	70.69240
Polish zloty	3.89517	4.02327	3.83100	3.84570
Pound sterling	0.68174	0.68401	0.67150	0.68720
New Romanian leu	3.52351 ¹	3.62292	3.38350 ¹	3.68450
Russian ruble	34.12286	35.21306	34.69650	34.18500
Serbian dinar	84.17432	82.93610	79.00000	85.50000
Singapore dollar	1.99512	2.07081	2.02395	1.96855
Slovak koruna	37.20851	38.60147	34.43500	37.84000
Swedish krone	9.25257	–	9.04040	–
Swiss franc	1.57332	1.54843	1.60690	1.55530
New Turkish lira	1.80716	1.67685	1.86400	1.59580
Ukrainian hryvnia	6.34049	6.38699	6.65236	5.97163
US dollar	1.25595	1.24495	1.31700	1.18350
Vietnamese dong	20,096.69000	19,732.62000	21,185.09000	18,839.79000

¹First-time inclusion in the consolidated financial statements as per December 31, 2006

Income statement

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.

Balance sheet

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.

Direct costs	Direct material costs
	Direct production expenses
	Special direct production expenses
Overhead (directly allocable)	Material overhead
	Production overhead
	Depreciation of fixed assets
	Development-related administrative costs

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) and in combination with IFRIC 4, economic ownership of **leased assets** is attributable to the lessee if all the material risks and rewards incidental 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 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.

Provisions for restructuring measures related to the closure of locations are recognized in so far as the factual restructuring commitment was formalized by means of the adoption of a detailed restructuring plan and its communication vis-a-vis those affected as per the closing date. Restructuring provisions comprise only obligatory restructuring expenses that are not related to the company's current activities.

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 relate to the assessment of the recoverability of goodwill, the group-wide establishment of useful lives, the measurement of provisions, e.g. for restructuring, pensions or location risks, and feasibility of future tax savings, in particular from loss carry-forwards. In addition, assumptions and estimates concern the determination of fair values and the cost of purchase in the context of first-time consolidations. 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 ON BUSINESS COMBINATIONS

a) Wal-Mart Germany group

The Wal-Mart Germany group has been part of the METRO Group's Real segment since November 1, 2006. The preliminary negative cost of purchase of this business combination amounts to €187 million. This includes other costs of purchase of €3 million.

The business combination was recognized in accordance with IFRS 3. The consolidation of the 19 Wal-Mart Germany companies into the group accounts was carried out in accordance with IAS 27 in combination with SIC-12. Two subsidiaries with some minority interests were acquired indirectly as part of the takeover of these companies. In addition, other stockholders have holdings in six companies that are consolidated in accordance with SIC-12. The company's business activities mainly comprise the operation of hypermarkets. Since the fair value of the identified assets, liabilities, contingent liabilities and costs of purchase could not be finally determined by the closing date, the first-time consolidation in the group accounts as per November 1, 2006 must be considered preliminary in accordance with IFRS 3.62.

The preliminary negative cost of purchase recognized for these companies was netted against the following assets and liabilities at the date of purchase:

€ million	Carrying amount before acquisition	Adjustments	Fair value
Other intangible assets	0	11	11
Tangible assets	691	(61)	630
Deferred tax assets	90	4	94
Inventories	173	-	173
Receivables and other assets	83	-	83
Cash and cash equivalents	95	-	95
Provisions	(210)	-	(210)
Financial liabilities	(309)	(35)	(344)
Trade liabilities	(148)	-	(148)
Other liabilities	(56)	(24)	(80)
Deferred tax liabilities	(90)	(4)	(94)
Total acquired assets and liabilities			210
Profit allocable to minorities			13
Negative difference			(410)
Negative purchase price			(187)
Received cash and cash equivalents			(95)
Remaining receivable from negative purchase price			174
Cash inflow			(108)

Since the share of the total identified assets, liabilities and contingent liabilities to be recognized at fair value (€223 million) exceeds the cost of purchase of the business combination, a negative difference of €410 million resulted. Following a renewed examination of the fair values of assets, liabilities and contingent liabilities, the negative difference was recognized fully in other operating income pursuant to IFRS 3.56 (b). The recognition in income is allocable to the Real segment. The negative difference is netted against necessary large-scale restructuring measures following the first-time consolidation.

b) Géant business

Effective from November 1, 2006, the Polish Real company acquired the Géant business in Poland as part of an asset deal. The preliminary purchase price, which has already been paid, amounted to €184 million, including other cost of purchase of €0.4 million.

The consolidation of the business with a total 19 stores and one warehouse into the group accounts was conducted in accordance with IFRS 3. The acquired business is mostly active in the operation of hypermarkets. Since the fair value of the identified assets, liabilities, contingent liabilities and cost of purchase could not be finally determined by the closing date, the first-time inclusion in the accounts as per November 1, 2006 must be regarded as preliminary in line with IFRS 3.62.

As per the closure of the transaction, the purchase price of €184 million was netted against the following assets and liabilities:

€ million	Book value before acquisition	Adjustments	Fair value
Goodwill	–	184	184
Other intangible assets	1	3	4
Tangible assets	124	(39)	85
Deferred taxes	–	17	17
Inventories	48	–	48
Receivables and other assets	4	–	4
Provisions	(8)	–	(8)
Financial liabilities	(79)	–	(79)
Trade payables	(4)	–	(4)
Other liabilities	(1)	(66)	(67)
Total of acquired assets and liabilities = cash outflow¹			184

¹Purchase price

The shown goodwill reflects largely future synergies in procurement and logistics. In accordance to the effects of these synergies on the future result of the METRO Group sales divisions, goodwill of €44 million was attributed to the Metro Cash & Carry segment in Poland and goodwill of €140 million to the Real segment in Poland.

c) Marktkauf Russia

With effect from November 30, 2006, Real International Holding GmbH acquired 100 percent of the shares in a hypermarket operated by Marktkauf in Moscow, Russia. The preliminary purchase price, which has already been paid, amounted to €35 million.

The first-time consolidation of the acquired company in the METRO Group accounts was conducted in line with IFRS 3 in combination with IAS 27. Since the fair value of the acquired assets, liabilities, contingent liabilities and cost of purchase could not finally be determined by the closing date, the first-time inclusion in the accounts as per November 30, 2006 must be regarded as preliminary in line with IFRS 3.62.

As per the closure of the transaction, the purchase price of €35 million was netted against the following assets and liabilities:

€ million	Book value before acquisition	Adjustments	Fair value
Goodwill	–	22	22
Other intangible assets	1	(1)	–
Tangible assets	3	1	4
Deferred taxes	–	1	1
Inventories	10	(4)	6
Trade receivables	5	–	5
Receivables and other assets	1	–	1
Cash & cash equivalents	14	–	14
Financial liabilities	(10)	–	(10)
Trade payables	(7)	–	(7)
Other liabilities	(1)	–	(1)
Total acquired assets and liabilities ¹			35
Cash inflow			(14)
Cash outflow			21

¹Purchase price

The shown goodwill represents strategic and location-related benefits.

The Wal-Mart Germany group, the Géant business in Poland and Marktkauf Russia contributed €–35 million, €+2 million and €0 million respectively to the METRO Group's operating income in 2006.

Assuming that the business combinations described under a) to c) had been completed by January 1, 2006, group sales would have been €2,146 million higher. Operative group earnings would have been burdened with an amount of about €-200 million, which, however, due to the compensatory effect of the negative difference to a), would have had only a marginal impact on the METRO Group's net profit for the period. These pro forma indications serve only the purpose of comparison. They do not necessarily represent the results that would have been realized if the business combinations had indeed been completed by January 1, 2006, and also cannot serve as an indicator of future results.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. Net sales

Breakdown of net sales:

€ million	2006	2005
Metro Cash & Carry	29,907	28,087
Real	10,378	9,922
Media Markt and Saturn	15,156	13,306
Galeria Kaufhof	3,609	3,575
Other companies ¹	832	832
	59,882	55,722

¹The sales listed under other companies were mainly generated by Adler Modemärkte at €539 million (previous year €572 million) and the Dinea group at €202 million (previous year €192 million)

A total of €33.5 billion of net sales (previous year €29.8 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	2006	2005
Rents	496	408
Earnings from the first-time consolidation of the Wal-Mart Germany group	410	-
Services/cost refunds	309	206
Services rendered to suppliers	137	70
Commissions	100	91
Income from sale-and-lease-back transactions	85	64
Central A/P clearing for sales divisions	60	63
Gains from the disposal of fixed assets and from write-ups	47	22
Income from damages and indemnities	21	18
Income from construction services	5	13
Other	225	194
	1,895	1,149

Aside from earnings from the first-time consolidation of the Wal-Mart Germany group (€410 million), rental income from Praktiker (€54 million) and services rendered to Praktiker, which had been consolidated until November 30, 2005 (€99 million), accounted for the increase in other operating income of €746 million.

Other operating income includes a number of individual items.

3. Selling expenses

€ million	2006	2005
Personnel expenses	5,325	4,958
Cost of materials	5,773	4,927
	11,098	9,885

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

In addition, repositioning expenses related to the acquisition of the Wal-Mart Germany group had a significant impact on selling expenses in the Real segment.

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

4. General administrative expenses

€ million	2006	2005
Personnel expenses	653	545
Cost of materials	599	549
	1,252	1,094

The increase in personnel expenses is due both to the expansive sales divisions Metro Cash & Carry and Media Markt and Saturn as well as one-time expenses relating to the acquisition of the Wal-Mart Germany group.

The cost of materials increased, in particular, due to €19 million in write-downs and €10 million in restructuring costs.

5. Other operating expenses

€ million	2006	2005
Losses from the disposal of fixed assets	18	27
Write-downs on receivables and other assets	–	19
Expenses for construction services	0	9
Other	36	13
	54	68

In fiscal 2006, expenses from write-downs on receivables are no longer included in other operating expenses, but are reclassified under selling expenses.

The transfer of freight compensation to Praktiker, which had been consolidated in the previous year, until November 30, 2005, was responsible for €17 million of the increase in other operating expenses of €23 million.

6. Result from associated companies

The result from associated companies amounts to €0 million. The previous year's result of €58 million was largely attributable to earnings from the disposal of a stockholding in Loyalty Partner GmbH.

7. Other investment income

Dividends account for the main portion of other investment income of €14 million (previous year €16 million).

Financial instruments that, in accordance with IAS 39, are "available for sale," had no effect on other investment income (previous year €2 million).

8. Interest income/interest expenses

Net interest income can be broken down as follows:

€ million	2006	2005
Interest income	158	143
from finance leases	[0]	[1]
from pension provisions	[49]	[30]
Interest expenses	(624)	(614)
from finance leases	[(121)]	[(135)]
from pension provisions	[(120)]	[(94)]
	(466)	(471)

9. Other financial result

€ million	2006	2005
Other financial income	173	212
thereof currency effects	[104]	[114]
thereof hedging transactions	[67]	[23]
thereof indexation	[–]	[70]
Other financial expenses	(170)	(195)
thereof currency effects	[(114)]	[(78)]
thereof hedging transactions	[(47)]	[(29)]
thereof indexation	[–]	[(61)]
	3	17

The result from currency effects amounts to €–10 million (previous year €+36 million) and stems mostly from Russia and Turkey. It is offset by the according opposite valuation results from hedging transactions of €+20 million (previous year €–6 million). Due to the termination of hyperinflationary accounting in Turkey, no indexation result (previous year €+9 million) applied.

Financial instruments that, in accordance with IAS 39, are “available for sale,” had no effect on other financial income (previous year €–2 million).

10. Income taxes

Corporate income 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 0.00 percent (tax holidays) to 40.69 percent.

€ million	2006	2005
Taxes paid or due	585	457
thereof in Germany	[196]	[129]
thereof abroad	[389]	[328]
Deferred taxes	(101)	283
Income tax expenses	484	740

The increase in domestic taxes paid or due is mostly attributable to the Media Markt and Saturn sales division. The increase abroad was due mostly to positive developments in Eastern Europe.

Included in paid or due taxes is €7 million of tax income (previous year €31 million) that is attributable to earlier periods.

Deferred taxes from the creation and release of temporary differences that are recognized in income total €79 million (previous year €99 million).

The deferred taxes include €8 million in tax expenses from new tax rates (previous year €24 million in tax income).

The first-time consolidation of the foreign acquisitions resulted in an increase in deferred taxes of €18 million with no effect on income. Other recognition of deferred taxes without an effect on income in total had no effect on equity (previous year €12 million increase in equity).

At €484 million (previous year €740 million), income tax expenses are €117 million lower (previous year €208 million higher) than expected tax expenses of €601 million (previous year €532 million) that would have resulted if the German corporate income tax rate had been applied to the group's taxable income for the year.

The past year's income taxes of €740 million include a special effect from €307 million in write-downs on deferred tax assets on loss carry-forwards at Real Germany.

Reconciliation of estimated to actual income tax expenses:

€ million	2006	2005
Group earnings before taxes	1,534	1,358
Expected income tax expenses (39.15%)	601	532
Effects of differing national tax rates	(164)	(197)
Negative difference Wal-Mart Germany group	(160)	–
Non-capitalized deferred tax assets on current tax losses in Germany (in particular Wal-Mart Germany group)	122	307 ¹
Tax expenses and income relating to other periods	6	(34)
Non-deductible business expenses	88	71
Other deviations	(9)	61
Income tax expenses	484	740

¹In 2005 special effect from €307 million in write-downs on deferred tax assets on loss carry-forwards at Real Germany

The item “other deviations” includes €3 million in tax effects from the use of non-capitalized deferred tax assets on tax losses within the METRO AG tax group.

11. Income attributable to minority interests

Of income attributable to minority interests, profit shares accounted for €160 million (previous year €134 million) and loss shares for €23 million (previous year €16 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 stockholders. In the calculation of earnings per share, this additional dividend is deducted from profits attributable to METRO AG stockholders.

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

There was no dilution in fiscal year 2006 or the year before from so-called potential shares.

	2006	2005
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)	1,056	531
Earnings per share (€)	3.23	1.63

Earnings per preferred share amount to €3.34 (previous year €1.73) in fiscal year 2006 and thus exceed earnings per share by the amount of the additional dividend of €0.112 (previous year €0.102).

Earnings per share from continuing operations total €2.79 (previous year €1.54).

13. Depreciation/amortization

€ million	2006	2005
Scheduled depreciation on tangible and intangible assets and investment properties	1,174	1,143
Non-scheduled write-downs on tangible and intangible assets and investment properties	76	57
Write-downs on non-current financial assets	1	12
	1,251	1,212

Real estate accounts for €70 million of non-scheduled write-downs (previous year €53 million), including €12 million for investment properties (previous year €11 million). Within non-current financial assets, loans were written down by €1 million (previous year €4 million). No write-downs on investments were carried out (previous year €8 million).

Non-scheduled write-downs of €62 million were included in selling expenses (previous year €56 million), €14 million in administrative expenses (previous year €1 million) and €1 million in other financial result (previous year €12 million).

Real accounts for €51 million (previous year €4 million) of non-scheduled write-downs, Galeria Kaufhof for €1 million (previous year €5 million) and other companies for €25 million (previous year €60 million).

14. Cost of materials

The cost of sales includes the following cost of materials:

€ million	2006	2005
Cost of raw materials, supplies and goods purchased	47,232	43,905
Cost of services purchased	48	46
	47,280	43,951

15. Personnel expenses

Personnel expenses can be broken down as follows:

€ million	2006	2005
Wages and salaries	5,316	4,892
Social security payments, expenses for pensions and related employee benefits	1,138	1,084
thereof pension expenses	[44]	[45]
	6,454	5,976

Personnel expenses include prorated expenses for share-based payments totaling €24 million (previous year €20 million).

Annual average of group employees:

Number of employees	2006	2005
Blue collar/white collar	263,794	246,875
Apprentices/trainees	10,465	10,040
	274,259	256,915

The above figure includes an absolute number of 103,037 (previous year 104,078) part-time employees. The percentage of employees working outside Germany (full-time equivalents) rose to 53.7 percent from 50.4 percent the year before.

16. Other taxes

Other taxes of €123 million (previous year €91 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 Jan 1, 2005	4,132	769	16,985	421	159	22,466
Currency translation	–	5	281	–	3	289
Additions to consolidation group	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)
At Dec 31, 2005/Jan 1, 2006	4,154	868	17,756	411	151	23,340
Currency translation	2	(1)	2	–	0	3
Additions to consolidation group	206	15	730	0	11	962
Additions	17	167	1,849	1	27	2,061
Disposals	0	(36)	(885)	(187)	(40)	(1,148)
Transfers	0	(13)	(57)	71	3	4
At Dec 31, 2006	4,379	1,000	19,395	296	152	25,222
Depreciation/amortization						
At Jan 1, 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)
At Dec 31, 2005/Jan 1, 2006	–	435	6,719	183	15	7,352
Currency translation	–	0	4	–	1	5
Additions, scheduled	–	114	1,054	6	0	1,174
Additions, non-scheduled	–	3	61	12	1	77
Disposals	–	(27)	(509)	(70)	(2)	(608)
Write-ups	–	0	(3)	–	(1)	(4)
Transfers	–	(3)	(18)	29	(1)	7
At Dec 31, 2006	–	522	7,308	160	13	8,003
Book value at Jan 1, 2005	4,132	394	10,560	256	143	15,485
Book value at Dec 31, 2005	4,154	433	11,037	228	136	15,988
Book value at Dec 31, 2006	4,379	478	12,087	136	139	17,219

The additions to consolidation group include above all additions from the first-time consolidation of the Wal-Mart Germany group of €651 million.

18. Goodwill

Of goodwill in the amount of €4,379 million (previous year €4,154 million) as per December 31, 2006,

€4,052 million (previous year €4,013 million) concern differences resulting from the capital consolidation, and €327 million (previous year €141 million) concern goodwill taken from individual financial statements.

Goodwill in fiscal year 2006 resulted mostly from the acquisition of the Géant business in Poland, at €184 million, and a stockholding in a hypermarket operated in Russia, at €22 million. As a result of the recognition of the stock tender rights, the resulting goodwill of Media Markt and Saturn rose by €12 million in 2006 (previous year increase by €16 million).

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

€ million	Dec 31, 2006	Dec 31, 2005
Real Germany	1,083	1,083
Metro Cash & Carry France	398	398
Metro Cash & Carry Netherlands	351	351
Metro Cash & Carry Poland	258	213
Metro Cash & Carry Hungary	239	239
Metro Cash & Carry Germany	223	223
Adler Modemärkte Germany	218	218
Media Markt and Saturn Germany	211	202
Metro Cash & Carry Italy	171	171
Metro Cash & Carry Belgium	145	145
Real Poland	142	-
Extra Germany	110	110
Metro Cash & Carry Portugal	91	91
Adler Modemärkte Austria	78	78
Media Markt and Saturn Italy	76	75
Kaufhof Warenhäuser Belgium	57	57
Metro Cash & Carry Spain	51	51
Media Markt and Saturn Spain	51	49
Metro Cash & Carry Greece	45	45
Metro Cash & Carry UK	37	37
Metro Cash & Carry Austria	27	27
Media Markt and Saturn Netherlands	22	22
Real Russia	22	-
Metro Cash & Carry China	17	17
Media Markt and Saturn Poland	17	16
Media Markt and Saturn Austria	17	16
Media Markt and Saturn Switzerland	17	16
Metro Cash & Carry Denmark	16	16
Adler Modemärkte Luxembourg	16	16
Other companies	173	172
Total	4,379	4,154

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 higher of value in use or fair value less cost to sell, which is determined as the cash value of future cash flows. Expected future cash flows are based on a competent planning process under consideration of the company's experience as well as on macroeconomic data collected by sources outside of the company. The detailed planning period comprises 3 to 4 years. As in the previous year, the growth rates considered at the end of the detailed planning period are usually 1.0 percent. The capitalization rate as the weighted average cost of capital was determined using the capital asset pricing model. The individually determined capitalization rates amount to between 6.1 percent and 7.5 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				
At Jan 1, 2005	769	[230]	–	769
Currency translation	5	[1]	–	5
Change in consolidation group	3	[0]	–	3
Additions	142	[101]	1	143
Disposals	(64)	[(9)]	–	(64)
Transfers	12	[(3)]	–	12
At Dec 31, 2005/Jan 1, 2006	867	[320]	1	868
Currency translation	(1)	[(1)]	0	(1)
Change in consolidation group	15	[–]	–	15
Additions	167	[112]	0	167
Disposals	(36)	[(2)]	0	(36)
Transfers	(12)	[6]	(1)	(13)
At Dec 31, 2006	1,000	[435]	–	1,000
Depreciation/amortization				
At Jan 1, 2005	375	[94]	–	375
Currency translations	3	[–]	–	3
Additions, scheduled	106	[42]	–	106
Additions, non-scheduled	2	[1]	–	2
Disposals	(52)	[(3)]	–	(52)
Write-ups	(1)	[–]	–	(1)
Transfers	2	[–]	–	2
At Dec 31, 2005/Jan 1, 2006	435	[134]	–	435
Currency translations	0	[0]	–	0
Additions, scheduled	114	[53]	–	114
Additions, non-scheduled	3	[1]	–	3
Disposals	(27)	[0]	–	(27)
Write-ups	0	[–]	–	0
Transfers	(3)	[4]	–	(3)
At Dec 31, 2006	522	[192]	–	522
Book value on Jan 1, 2005	394	[136]	–	394
Book value on Dec 31, 2005	432	[186]	1	433
Book value on Dec 31, 2006	478	[243]	–	478

The other intangible assets have a finite useful life and are therefore amortized as scheduled. The non-scheduled write-downs of €3 million (previous year €2 million) concern lease rights and licenses.

The additions to amortizations on intangible assets are shown in cost of sales at an amount of €3 million, in selling expenses at an amount of €67 million (previous year €68 million) and in administrative expenses at an amount of €47 million (previous year €39 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 €5 million (previous year €3 million) for intangible assets were made.

20. Tangible assets

€ million	Land and buildings	Plant and machinery	Other plant, business and office equipment	Assets under construction ¹	Total
Acquisition or production costs					
At Jan 1, 2005	11,674	12	4,980	319	16,985
Currency translation	199	–	69	13	281
Change in consolidation group	199	–	32	1	232
Additions	541	1	568	735	1,845
Disposals	(889)	–	(631)	(22)	(1,542)
Transfers	568	–	85	(698)	(45)
At Dec 31, 2005/Jan 1, 2006	12,292	13	5,103	348	17,756
Currency translation	11	0	(9)	0	2
Change in consolidation group	657	–	71	2	730
Additions	515	0	602	732	1,849
Disposals	(468)	0	(408)	(9)	(885)
Transfers	522	–	168	(747)	(57)
At Dec 31, 2006	13,529	13	5,527	326	19,395
Depreciation/amortization					
At Jan 1, 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)
At Dec 31, 2005/Jan 1, 2006	3,338	9	3,366	6	6,719
Currency translation	5	0	(1)	–	4
Additions, scheduled	513	1	540	–	1,054
Additions, non-scheduled	58	–	2	1	61
Disposals	(156)	0	(353)	–	(509)
Write-ups	(3)	–	0	–	(3)
Transfers	(24)	–	8	(2)	(18)
At Dec 31, 2006	3,731	10	3,562	5	7,308
Book value on Jan 1, 2005	8,561	4	1,681	314	10,560
Book value on Dec 31, 2005	8,954	4	1,737	342	11,037
Book value on Dec 31, 2006	9,798	3	1,965	321	12,087

¹Prepayments of €47 million included as per Dec 31, 2005

Additions to the changes in consolidation group primarily concern the Wal-Mart Germany group with €630 million and the Géant business in Poland with €85 million.

Additions to tangible assets resulted mainly from the opening of new Metro Cash & Carry stores in Eastern Europe as well as new Media Markt and Saturn store openings in Germany.

Disposals from tangible assets were affected by the sale of real estate in the amount of €174 million and the reclassification of nine properties with a book value of €56 million in "Non-current assets held for sale."

Non-scheduled write-downs of €58 million (previous year €42 million) shown for fiscal year 2006 are related to the market valuation of land and buildings.

Limitations to the disposal of assets in the form of liens and encumbrances amounted to €760 million (previous year €508 million). The property lien entered into the land register amounts to €698 million (previous year €437 million).

Purchasing obligations for tangible assets in the amount of €202 million (previous year €230 million) were made.

Assets used by the group under the terms of finance lease agreements were valued at €1,514 million (previous year €1,357 million). The assets involved are mainly leased buildings. Of the increase compared to the previous year, €238 million is related to the above-mentioned first-time consolidation of the Wal-Mart Germany group and the acquisition of the Géant business in Poland.

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 17.6 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	up to 1 year	1 to 5 years	over 5 years
Finance leases			
Future lease payments due (nominal)	211	877	2,221
Discounts	(12)	(161)	(993)
Present value	199	716	1,228
Operating leases			
Future lease payments due (nominal)	1,242	4,230	4,804

Payments due on finance leases contain payments amounting to €168 million (previous year €172 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 €441 million (previous year €424 million).

The nominal value of future lease payments to the METRO Group resulting from the subleasing of assets held under operating leases amounts to €1,331 million (previous year €1,432 million).

The group net profit for the period contains payments made under leasing agreements amounting to €1,283 million (previous year €1,107 million) and payments received under subleasing agreements amounting to €432 million (previous year €357 million).

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

€ million	up to 1 year	1 to 5 years	over 5 years
Finance leases			
Future lease payments due (nominal)	1	3	2
Discounts	0	(1)	(1)
Present value	1	2	1
Operating leases			
Future lease payments due (nominal)	28	96	146

From the perspective of the lessor, the non-guaranteed residual value must be added to the nominal minimum lease payments of €6 million (previous year €7 million) in existing finance leases. The non-guaranteed residual value amounts to €0 million for the fiscal year (previous year €0 million). The resulting gross investment amount is thus €6 million (previous year €7 million). In addition, there is an unrealized amount from finance leases of €1 million (previous year €2 million).

21. Investment properties

Real estate held as investment properties is recognized at amortized cost. As of December 31, 2006, this amounted to €136 million (previous year €228 million). The fair value of these properties is determined by means of a proprietary evaluation using recognized measurement methods. It totals €190 million (previous year €274 million). Rental income from the properties amounts to €14 million (previous year €18 million). The related expenses amount to €18 million (previous year €20 million). The decline in investment properties is due largely to the reclassification of 30 real estate objects in the item "Non-current assets held for sale" (€105 million).

22. Financial assets

€ million	Shares in group companies	Loans	Investments	Long-term securities	Total
Acquisition costs					
At Jan 1, 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
At Dec 31, 2005/Jan 1, 2006	4	111	33	3	151
Currency translation	–	0	0	0	0
Change in consolidation group	–	11	0	0	11
Additions	–	27	0	0	27
Disposals	(4)	(29)	(6)	(1)	(40)
Transfers	–	3	0	–	3
At Dec 31, 2006	0	123	27	2	152
Depreciation/amortization					
At Jan 1, 2005	1	5	10	–	16
Currency translation	–	–	–	–	–
Additions, scheduled	–	–	–	–	–
Additions, non-scheduled	–	4	8	–	12
Disposals	–	(1)	(11)	–	(12)
Write-ups	–	–	(1)	–	(1)
Transfers	–	–	–	–	–
At Dec 31, 2005/Jan 1, 2006	1	8	6	–	15
Currency translation	–	2	(1)	–	1
Additions, scheduled	–	–	0	0	0
Additions, non-scheduled	–	1	–	–	1
Disposals	–	–	(2)	–	(2)
Write-ups	–	–	(1)	–	(1)
Transfers	(1)	–	–	–	(1)
At Dec 31, 2006	0	11	2	0	13
Book value on Jan 1, 2005	5	104	29	5	143
Book value on Dec 31, 2005	3	103	27	3	136
Book value on Dec 31, 2006	0	112	25	2	139

The carrying amounts of investments of €25 million include an investment of €2 million in an associated company as of December 31, 2006.

23. Other receivables and assets

€ million	Dec 31, 2006			Dec 31, 2005		
	Total	Remaining term		Total	Remaining term	
		up to 1 year	over 1 year		up to 1 year	over 1 year
Due from suppliers	1,583	1,583	0	1,394	1,394	0
Other tax receivables	322	322	-	239	239	-
Prepaid expenses and deferred charges	321	77	244	249	57	192
Other assets	1,161	870	291	800	510	290
	3,387	2,852	535	2,682	2,200	482

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

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 Russia.

The increase in other assets includes purchase price receivables from the addition of the Wal-Mart Germany group in the amount of €174 million.

24. Deferred taxes

Deferred tax assets on loss carry-forwards and temporary differences amount to €1,224 million, an increase of €114 million compared with the previous year. This increase is essentially due to temporary differences resulting from intra-group business.

Deferred taxes resulting from temporary differences and unutilized tax losses totaling €1,983 million (previous year €794 million) were not capitalized. They mainly concern tax losses and tax losses carried forward that probably cannot be used in the short term. The increase in non-capitalized deferred tax assets is largely due to the acquisition of the Wal-Mart Germany group.

Of the uncapitalized deferred taxes, €1,838 million applies to domestic companies and €145 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	Dec 31, 2006		Dec 31, 2005	
	Asset	Liability	Asset	Liability
Goodwill	435	125	396	105
Other intangible assets	286	85	235	72
Tangible assets and investment properties	120	972	129	1,002
Financial assets	8	2	5	1
Inventories	56	35	42	10
Other receivables and assets	58	100	8	55
Provisions for pensions and similar commitments	136	8	122	6
Other provisions	136	37	99	19
Financial liabilities	747	2	724	0
Other liabilities	94	20	68	20
Outside basis differences	–	16	36	17
Loss carry-forwards	88	–	66	–
Total	2,164	1,402	1,930	1,307
Offset	(940)	(940)	(820)	(820)
Book value of deferred taxes	1,224	462	1,110	487

Deferred tax assets of €4 million were transferred to item “Non-current assets held for sale.” In addition, deferred tax liabilities of €24 million are shown in item “Liabilities in connection with non-current assets held for sale.” The transferred deferred taxes concern the balance sheet items “Tangible assets” and “Investment properties.”

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 outside basis differences requiring disclosure – beyond the deferred charges and prepaid accounts carried as liabilities in the balance sheet – arose in fiscal year 2006 (previous year outside basis differences that were not carried as liabilities €–209 million). This decrease is due to intra-group restructuring.

25. Inventories

€ million	Dec 31, 2006	Dec 31, 2005
Food merchandise	1,895	1,844
Nonfood merchandise	4,745	4,402
	6,640	6,246

Inventories can be broken down by sales division as follows:

€ million	Dec 31, 2006	Dec 31, 2005
Metro Cash & Carry	2,296	2,329
Real	1,058	865
Media Markt and Saturn	2,404	2,131
Galeria Kaufhof	567	626
Other companies	315	295
	6,640	6,246

Business expansion – in particular of international activities – led to an increase in inventories at the Media Markt and Saturn sales division. Despite the expansion at Metro Cash & Carry, inventories could be reduced with the help of rigorous inventory management. Stock optimization measures also resulted in lower inventories at the Galeria Kaufhof sales division.

Inventories in the Real sales division essentially reflect the first-time consolidation of the Wal-Mart Germany group as well as the acquisition of the Géant business in Poland as of November 1, 2006 (€193 million).

During the reporting year, write-downs of €335 million were carried out (previous year €328 million).

26. Trade receivables

Trade receivables amounted to €481 million (previous year €367 million). Of that total, €0.4 million (previous year €0.3 million) is due in over one year.

This increase is due mostly to the higher share of payments with debit memo procedure as well as the extended shopping hours compared to the previous year on the last shopping day in Germany.

In addition, the acquisitions in the Real segment raised trade receivables by €29 million.

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

27. Cash and cash equivalents

€ million	Dec 31, 2006	Dec 31, 2005
Checks and cash on hand	178	111
Bank balances	2,554	1,656
	2,732	1,767

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

The addition of the Wal-Mart Germany group and the acquisition of the Géant business in Poland result in an increase of €59 million.

28. Non-current assets held for sale

In the annual accounts for 2005 the remaining stockholding of 40.52 percent in Praktiker Bau- und Heimwerkermärkte Holding AG was valued at €14.50 per share, that is a total €341 million under consideration of the cost of disposal, and shown separately in the balance sheet as “non-current assets held for sale.” This remaining share was sold on April 11, 2006. METRO AG accrued €484 million from this sale.

Due to the favorable market situation, the sale of 39 domestic properties was initiated in the course of the continued optimization of the real estate portfolio in fiscal year 2006. These essentially comprise developed properties that are treated as a disposal group pursuant to IFRS 5.

The transferred assets and directly related liabilities are shown in the balance sheet items “Non-current assets held for sale” and “Liabilities in connection with non-current assets held for sale.” The liabilities exclusively concern deferred taxes. Concrete offers from interested potential buyers have already been made for all of these objects.

In the segment report, the thus recognized values are shown in the item “Segment assets” and “Other companies/consolidation.”

Non-scheduled write-downs of the disposal groups to their fair value less the cost of disposal were not required.

29. Equity

In terms of amount and composition, i.e. the ratio of common to preferred stock, subscribed capital has not changed versus December 31, 2005 and totals €835,419,052.27. It is divided as follows:

No-par-value bearer shares, accounting par value approx. €2.56		Dec 31, 2006	Dec 31, 2005
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 share of common stock of METRO AG grants an equal voting right that allows the stockholder to participate in resolutions at the annual general meeting. In addition, common stock of METRO AG entitles the holder to dividends. In contrast to common stock, preferred stock does not carry any voting rights and is 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 stock 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 shares of common stock 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 30,930 of these options was still outstanding as of December 31, 2006. In line with the exercise terms, it was until now determined that

eligible participants would be granted cash compensation in lieu of new common stock upon exercise of existing options. The exercise of subscription rights from the stock option plan therefore did 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, 2006, authorized the company to acquire treasury stock up to the equivalent of 10 percent of the capital stock on or before November 18, 2007.

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

Additional paid-in capital amounts to €2,544 million (previous year €2,551 million).

Since, in accordance to IAS 32, the present value of the preferred dividends granted pursuant to § 21 (1) of METRO AG's Articles of Association must be classified as a liability toward the owners of preferred shares, the additional paid-in capital declined by €7 million. The necessary reclassification is considered in the statement of changes in equity.

Reserves retained from earnings

€ million	Dec 31, 2006	Dec 31, 2005
Valuation reserve pursuant to IAS 39 (incl. deferred taxes)	50	48
Reserve for currency translation	132	126
Other reserves	2,269	1,547
	2,451	1,721

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 €–1 million (previous year €41 million) was reported in equity in relation to derivative financial instruments within cash flow hedges. As in the previous year, in the category of assets classified as “available for sale,” no income or expenses were recognized in income. The share of fair value changes in hedges for stock-based remuneration recognized without an effect on income resulted in an increase in equity by €3 million (previous year decrease in equity by €15 million).

In addition, an increase in equity due to currency translation differences of €6 million (previous year €169 million) is primarily attributable to Romania, the Czech Republic, Serbia and Great Britain, while decreases in equity due to currency translation differences stem mostly from Ukraine, Turkey and Russia.

Under consideration of the dividend payout for 2005 (€–334 million), the remaining increase in revenue reserves to €2,269 million resulted mainly from the transfer of the period income due to stockholders of METRO AG for 2006 (€1,056 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 €217 million (previous year €206 million). Significant minority interests exist in Media-Saturn-Holding GmbH.

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, 2006, 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 2006 from the reported net income of €337.5 million for 2005. The remaining amount of €3.9 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 €435.4 million for 2006 a dividend of €1.120 per share of common stock and €1.232 per share of preferred stock, for a total of €366.3 million and to carry the remaining amount of €69.1 million forward to the new account. The net income 2006 of €435.4 million includes profit carried forward of €3.9 million.

30. Provisions for pensions and similar commitments

€ million	Dec 31, 2006	Dec 31, 2005
Pension provisions (employer's commitments)	589	570
Provisions for indirect commitments	223	209
Provisions for severance benefits	102	97
Provisions for company pension upgrades	5	4
Provisions for company pension plans	919	880
Other provisions for similar pension obligations	104	115
	1,023	995

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 4.65 percent (previous year 4.00 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 1.25 percent). The anticipated average return from plan assets amounts to 6.50 percent (previous year 6.43 percent). The employee turnover rate is determined separately for each business, taking age/length of service into account. The average employee turnover rate in Germany is 7.63 percent. The actuarial assumptions and calculations are based on country-specific mortality tables. Calculations for the German group companies are based on the tables 2005 G according to Dr. Klaus Heubeck.

Breakdown of the fair values of plan assets by asset category (weighted averages):

	Dec 31, 2006	Dec 31, 2005
Fixed-interest securities	36 %	36 %
Stocks, funds	43 %	42 %
Real estate	11 %	12 %
Other assets	10 %	10 %
	100 %	100 %

The expected average rate of interest is 4.9 percent for fixed-interest securities, 8.5 percent for stocks and funds and 5.1 percent for real estate. The respective rate of interest takes into account country-specific factors and is based, among others, on the expected long-term interest rates, and dividend payouts and the expected capital growth of the investment portfolio.

The actual income from plan assets was €61 million in fiscal year 2006 (previous year €96 million).

The financing status that results from the balance of the plan assets' net present value and fair value, developed as follows over the past five years:

€ million	Dec 31, 2006	Dec 31, 2005	Dec 31, 2004	Dec 31, 2003	Dec 31, 2002
Net present value	2,034	2,199	1,928	1,640	1,235
Plan assets	(907)	(844)	(744)	(589)	(316)
Financing status	1,127	1,355	1,184	1,051	919

In fiscal year 2007, pension obligations are expected to result in benefit payments of €53 million.

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

€ million	2006	2005
Net present value (DBO)		
Balance on Jan 1	2,199	1,928
Effect of remeasurement ¹	–	6
Adjusted balance on Jan 1	2,199	1,934
Change in consolidation group	40	6
Interest expenses	88	91
Service cost	48	42
Transfer of assets	4	(2)
Past service cost	1	1
Curtailment	(10)	–
Pension payments	(126)	(112)
Actuarial gains (–)/losses (+)	(212)	236
Currency translation	2	3
Balance on Dec 31	2,034	2,199
€ million	2006	2005
Changes in plan assets		
Balance on Jan 1	844	746
Effect of remeasurement ¹	–	7
Adjusted balance on Jan 1	844	753
Change in consolidation group	27	–
Expected return on plan assets	51	44
Pension payments	(75)	(66)
Employer contributions incl. vesting balances	49	59
Actuarial gains (+)/losses (–)	10	52
Currency translation	1	2
Balance on Dec 31	907	844
€ million	2006	2005
Funding level		
Net present value (DBO), not fund financed	768	820
Net present value (DBO), partly or wholly fund financed	1,266	1,379
Subtotal	2,034	2,199
Market value of plan assets	(907)	(844)
Balance on Dec 31	1,127	1,355
Not yet recognized actuarial gains (+)/losses (–)	(249)	(508)
Past service costs	(9)	(11)
Net liabilities on Dec 31	869	836

¹The 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 €5 million) were measured in line with local criteria.

Provisions for company pension plans in the amount of €919 million (previous year €880 million) are netted against assets for indirect pension plans in Great Britain and the Netherlands of €45 million (previous year €39 million). That leaves a net liability of €874 million (previous year €841 million).

The decline in actuarial losses essentially results from the adjustment of the assumed interest rate from 4.00 percent to 4.65 percent.

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

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

€ million	2006	2005
Interest expense on net present value (DBO)	88	91
Expected return on plan assets	(51)	(44)
Recognized actuarial gains (-)/losses(+)	34	17
= Effective interest rate expenses	71	64
Service cost ¹	42	37
Curtailment	(7)	–
Asset limitation	1	–
Past service cost	1	2
	108	103

¹Netted against employees' contributions

Service costs were considered in selling expenses of €29 million (previous year €35 million) and administrative expenses of €8 million (previous year €4 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.

31. 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	Taxes	Other Provisions	Total
Balance on Jan 1, 2006	154	139	26	154	262	735
Currency translation	0	0	–	0	1	1
Addition	103	91	218	70	172	654
Release	(33)	(7)	(6)	(10)	(72)	(128)
Utilization	(35)	(75)	(17)	(35)	(79)	(241)
Change in consolidation group	141	3	35	0	23	202
Interest portion in addition/change in interest rate	2	0	0	–	0	2
Transfers	(3)	0	15	0	(12)	0
Balance on Dec 31, 2006	329	151	271	179	295	1,225
Non-current	201	35	15	143	112	506
Current	128	116	256	36	183	719
Balance on Dec 31, 2006	329	151	271	179	295	1,225

Provisions for real estate-related obligations essentially concern uncovered rental commitments in the amount of €85 million (previous year €67 million), location risks in the amount of €103 million (previous year €38 million), rental commitments in the amount of €28 million (previous year €25 million) as well as reinstatement obligations of €31 million (previous year €19 million). Their increase during the reporting year is due mostly to the acquisition of the Wal-Mart Germany group.

The main components of the obligations from merchandise trading are reserves for rebates from the Payback program in the amount of €77 million (previous year €72 million) and reserves for guarantee services in the amount of €40 million (previous year €36 million).

The additions to restructuring reserves come essentially from the first-time consolidation of the Wal-Mart Germany group, with €35 million, and subsequent integration and other structural measures, with €204 million.

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

The other reserves item contains mainly litigation costs/risks amounting to €69 million (previous year €51 million), gratuity commitments of €18 million (previous year €17 million), surety and guarantee risks of €6 million (previous year €30 million) as well as reserves for stock-based remuneration of €56 million (previous year €32 million).

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

Further information on stock-based compensation in the METRO Group is included in the notes no. 45.

32. Liabilities

€ million	Dec 31, 2006 total	Remaining term			Dec 31, 2005 total
		up to 1 year	1 to 5 years	over 5 years	
Trade payables	12,416	12,416	–	–	10,952
Bonds	3,106	383	2,723	–	3,458
Due to banks	1,759	501	653	605	1,545
Note loans	498	144	204	150	389
Notes payable	513	513	–	–	451
Liabilities from finance leases	2,143	199	716	1,228	1,793
Financial liabilities	8,019	1,740	4,296	1,983	7,636
Other tax liabilities	515	515	–	–	431
Prepayments received on orders	30	30	–	–	20
Payroll	767	749	18	–	805
Liabilities from other financial transactions	48	26	22	–	35
Deferred income	258	63	104	91	123
Miscellaneous liabilities	1,010	646	338	26	986
Other liabilities	2,628	2,029	482	117	2,400
Income tax liabilities	304	304	–	–	249
	23,367	16,489	4,778	2,100	21,237

33. Trade payables

The book values essentially correspond to the market values.

Aside from the expansion of the Metro Cash & Carry as well as Media Markt and Saturn sales divisions, the disproportionate increase in trade payables compared to sales growth is attributable to a calendar-related increase in liabilities due for settlement.

In addition, the acquisition of the Wal-Mart Germany group and the takeover of the Géant business in Poland led to an increase in trade payables of €159 million.

34. Financial liabilities

The “Debt Issuance Programme” begun in 2000 provides **long-term financing**. The following transactions were carried out under this program in 2006:

Type of transaction	Date of issuance	Maturity	Maturity date	Nominal volume	Coupon
Redemption	March 2001	5 years	March 2006	€200.0 million	5.75% fixed
Redemption	May 2003	3 years	May 2006	€314.3 million	variable
Redemption	November 1998	8 years	November 2006	€7.6 million	variable
New issue	September 2006	4 years	September 2010	€200.0 million	variable

In addition, note loans in the amount of €150 million with a maturity of seven years were issued during the reporting year.

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 €1.7 billion in 2006 (previous year €1.6 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 2012. 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 2006 was €217 million (previous year €1,000 million), the average amount drawn as per the closing date was €200 million (previous year €0 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 by 5 to 7.5 bps.

Additional bilateral bank lines of credit totaling €2,888 million (previous year €2,645 million) were available to the METRO Group as of December 31, 2006. Of this amount, €1,176 million (previous year €1,105 million) had a remaining term of up to one year. On the closing date, €1,559 million (previous year €1,545 million) of the bilateral lines of credit had been utilized. Of this amount, €301 million has a remaining term of up to one year (previous year €307 million).

In addition, bills of exchange totaling €513 million (previous year €451 million) were used for short-term financing.

The following table shows the maturity structure of the financial liabilities. The book and fair values (market values) indicated include the interest accrued when the maturity is less than one year.

Funding	Currency	Total amount issued in million currency	Remaining term	Par values Dec 31, 2006 in € million	Book values Dec 31, 2006 in € million	Fair values Dec 31, 2006 in € million
Bonds	EUR	299	up to 1 year	299	383	381
		2,700	1 to 5 years	2,700	2,691	2,720
		–	over 5 years	–	–	–
	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	32	32	32
		–	over 5 years	–	–	–
Liabilities to banks (excl. open account)	EUR	357	up to 1 year	357	370	416
		562	1 to 5 years	562	565	567
		561	over 5 years	561	561	561
	CNY	659	up to 1 year	64	64	64
		578	1 to 5 years	56	56	56
		–	over 5 years	–	–	–
	JPY	353	up to 1 year	2	2	2
		5,025	1 to 5 years	32	32	33
		1,680	over 5 years	11	11	11
	Other	–	up to 1 year	15	15	15
		–	1 to 5 years	–	–	–
		–	over 5 years	33	33	33
Note loans	EUR	128	up to 1 year	128	144	146
		205	1 to 5 years	205	204	208
		150	over 5 years	150	150	150

The remaining terms of liabilities due to banks are shown by redemption dates. For remaining terms over one year, the fair values principally include the book value. The difference between book value and fair value of the entire loan is shown in the remaining term under 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
Bonds	Fixed interest bond	EUR	up to 1 year	5.48	299
			1 to 5 years	4.94	1,750
			over 5 years	-	-
		CZK	up to 1 year	-	-
			1 to 5 years	10.50	0
			over 5 years	-	-
		JPY	up to 1 year	-	-
			1 to 5 years	1.32	32
			over 5 years	-	-
	Floating rate bonds	EUR	up to 1 year	-	-
			1 to 5 years	3.87	950
			over 5 years	-	-
Liabilities to banks (excl. open account)	Fixed interest	EUR	up to 1 year	3.75	357
			1 to 5 years	5.86	562
			over 5 years	5.46	551
		CNY	up to 1 year	5.15	64
			1 to 5 years	5.60	56
			over 5 years	-	-
		Other	up to 1 year	7.22	15
			1 to 5 years	-	-
			over 5 years	-	-
	Variable interest	EUR	up to 1 year	-	-
			1 to 5 years	-	-
			over 5 years	4.39	10
		JPY	up to 1 year	1.10	2
			1 to 5 years	1.05	33
			over 5 years	0.97	11
		Other	up to 1 year	-	-
			1 to 5 years	-	-
			over 5 years	7.78	33
Note loans	Fixed interest	EUR	up to 1 year	5.82	128
			1 to 5 years	5.80	205
			over 5 years	3.79	100
	Variable interest	EUR	up to 1 year	-	-
			1 to 5 years	-	-
			over 5 years	3.60	50

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 €1,089 million are subject to a variable interest rate of 3.86 percent p. a. A change in interest rates of 0.1 percentage points reduces/raises interest expenses by €1 million.

35. Other liabilities

€ million	Dec 31, 2006			Dec 31, 2005		
	Total	Remaining term		Total	Remaining term	
		up to 1 year	over 1 year		up to 1 year	over 1 year
Other tax liabilities	515	515	–	431	431	–
Payroll	767	749	18	805	785	20
Deferred income	258	63	195	123	52	71
Miscellaneous liabilities	1,088	702	386	1,041	699	342
	2,628	2,029	599	2,400	1,967	433

The addition of the Wal-Mart Germany group and the Géant business in Poland added €94 million to the deferred income item through fair value adjustments for lease obligations.

Miscellaneous liabilities listed among other liabilities include numerous individual items such as liabilities to non-group companies, liabilities from other financial business, liabilities from real estate and liabilities from 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

36. 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, the cash flows of these discontinued operations were stated separately during the previous year.

The item cash and cash equivalents includes checks and cash on hand as well as bank deposits.

In fiscal year 2006, net cash provided by operating activities of continuing operations amounted to €3,263 million (previous year €2,034 million). An extraordinarily strong improvement of net working capital essentially accounted for the increase in operating cash flow.

EBIT includes the negative difference from the acquisition of the Wal-Mart Germany group that is allocated to the Real segment. This was corrected as a non-cash contribution to cash flow from other operating activities. The non-cash increase in other reserves resulted essentially from provisions for the restructuring of central departments and expenses related to store network measures in the Real segment.

In fiscal year 2006, the group recorded cash outflows of €1,302 million from investing activities of continuing operations (previous year cash outflows of €1,125 million). The divestment of Praktiker resulted in cash inflows of €484 million (previous year €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 €397 million lower cash outflows during the reporting year compared to the previous year.

37. Segment reporting

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

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.

- Segment EBITDA comprises EBIT before depreciation on tangible and intangible assets.
- EBIT as the key ratio for segment reporting describes operating earnings for the period before net financial income and income taxes.
- Aside from all historic costs resulting from the purchase or production of segment assets during the reporting period, segment investments also include investments in non-current financial 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 portion of other receivables and assets that originates in the segment's operating activities.
- 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 operating activities.
- Transfers between segments are made at arm's length.

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.

Stock price risks result from stock-based compensation of METRO Group executives. The remuneration (monetary bonus) is essentially based on the stock price development of the Metro common stock. Stock options on the METRO AG common stock are used to cap this risk.

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	Dec 31, 2006 Fair values			Dec 31, 2005 Fair values		
	Nominal volume	Financial assets	Financial liabilities	Financial volume	Financial assets	Financial liabilities
Interest rate transactions						
Interest rate swaps	1,461	25	–	1,670	46	4
within fair value hedges	[950]	[19]	[–]	[850]	[31]	[–]
within cash flow hedges	[500]	[6]	[–]	[8]	[0]	[0]
not part of a hedge	[11]	[0]	[–]	[812]	[15]	[4]
Interest limitation agreements	750	7	–	750	3	–
within fair value hedges	[–]	[–]	[–]	[–]	[–]	[–]
within cash flow hedges	[750]	[7]	[–]	[750]	[3]	[–]
not part of a hedge	[–]	[–]	[–]	[–]	[–]	[–]
	2,211	32	–	2,420	49	4
Currency transactions						
Forex futures/options	874	6	10	1,021	8	4
within fair value hedges	[–]	[–]	[–]	[–]	[–]	[–]
within cash flow hedges	[190]	[0]	[7]	[230]	[7]	[1]
not part of a hedge	[684]	[6]	[3]	[791]	[1]	[3]
Interest rate/currency swaps	161	0	30	239	9	26
within fair value hedges	[32]	[0]	[16]	[0]	[0]	[–]
within cash flow hedges	[6]	[0]	[0]	[[4]]	[0]	[–]
not part of a hedge	[123]	[–]	[14]	[243]	[9]	[26]
	1,035	6	40	1,260	17	30
Stock price-related transactions						
Hedging of stock bonus programs ¹	58	102	–	49	68	–
within fair value hedges	[–]	[–]	[–]	[–]	[–]	[–]
within cash flow hedges	[52]	[91]	[–]	[49]	[68]	[–]
not part of a hedge	[6]	[11]	[–]	[–]	[–]	[–]
	58	102	–	49	68	–
Total	3,304	140	40	3,729	134	34

¹The nominal volume of hedging transactions for the stock bonus programs in the amount of €58 million (previous year €49 million) corresponds to 9.8 million (previous year 8.4 million) stock options with a subscription ratio of 1:1. In addition, the 2005 figure also includes 1,685,000 hedging transactions on stock option programs and stock appreciation rights with a positive fair value of €23 million

Like the fair values of bonds, note loans and liabilities to banks, the fair values of the derivative financial instruments are calculated according to the net present value method; the fair values of options according to the Black & Scholes model. They represent the theoretical value of these instruments upon dissolution of the transactions at the end of the period. Under the premise that these instruments are held until the end of their term, these are unrealized gains and losses that, by the end of the term, will be fully set off by gains and losses from the underlying transactions in the case of fully effective hedging transactions.

For the purpose of showing this reconciliation appropriately for the period, relationships are created between hedging transactions and underlying transactions and recognized as follows:

Within a fair value hedge, both the hedging transaction and the hedged risk of the underlying transaction are recognized at their fair value (market value). The value fluctuations of both trades are shown in the income statement, where they will be fully set off against each other in the case of full effectiveness.

Within a cash flow hedge, the hedging transactions are also principally recognized at their fair value (market value). In the case of full effectiveness of the hedging transaction, the value changes will be recognized in equity until the hedged payment flows or expected transactions impact the result. Only then will they be recognized in income.

Hedging transactions that, according to IAS 39, are not part of a hedge, are recognized at their fair value (market value). Value changes are recognized directly in income. Even if no formal hedging relationship was created, these are hedging transactions that are closely connected to the underlying business and whose impact on earnings will be netted by the underlying transaction (natural hedge).

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 nominal volume of hedges on stock option programs is calculated from the difference between target stock price and basis price, multiplied by the number of issued subscription rights.

The currency derivatives are used primarily for pound sterling, Danish krone, Slovak koruna, Czech koruna, Polish zloty, Japanese yen, Swiss franc, Hungarian forint, Russian ruble and Turkish lira.

The derivative financial instruments have the following maturities:

€ million	Fair values		
	up to 1 year	Maturities 1 to 5 years	over 5 years
Interest rate transactions			
Interest rate swaps	4	15	6
within fair value hedges	[4]	[15]	[–]
within cash flow hedges	[–]	[–]	[6]
not part of a hedge	[–]	[–]	[0]
Interest limitation agreements	–	7	–
within fair value hedges	[–]	[–]	[–]
within cash flow hedges	[–]	[7]	[–]
not part of a hedge	[–]	[–]	[–]
Currency transactions			
Forex futures/options	(4)	–	0
within fair value hedges	[–]	[–]	[–]
within cash flow hedges	[(7)]	[–]	[–]
not part of a hedge	[3]	[–]	[0]
Interest rate/currency swaps	0	(30)	0
within fair value hedges	[–]	[(16)]	[–]
within cash flow hedges	[0]	[–]	[–]
not part of a hedge	[–]	[(14)]	[0]
Stock price-related transactions			
Hedging of stock bonus programs	46	56	–
within fair value hedges	[–]	[–]	[–]
within cash flow hedges	[41]	[50]	[–]
not part of a hedge	[5]	[6]	[–]
Total	46	48	6

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 probable fluctuation bands. In accordance with the treasury guidelines, the observation period used to calculate

the potential loss is 10 days and is subject to the supposition that because of the extent of the positions not all positions can be liquidated within a short period of time. Other parameters include the historical market data for the past 100 days and a 99 percent confidence level.

Liquidity risks

METRO AG acts as financial coordinator for the METRO Group companies to ensure that they are provided with the necessary financing to fund their operating and 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 the 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 %					
Grade	Moody's	Standard & Poor's	Monetary investments				Derivates with positive market values	Total
			Germany	Western Europe excl. Germany	Eastern Europe	Asia and others		
Investment grade	Aaa	AAA	7.3	0.1	0.0	0.0	0.0	96.8
	Aa1 to Aa3	AA+ to AA-	20.4	23.6	0.6	0.5	3.6	
	A1 to A3	A+ to A-	13.4	17.9	6.7	0.1	1.7	
	Baa1 to Baa3	BBB+ to BBB-	0.0	0.0	0.9	0.0	0.0	
Non-investment grade	Ba1 to Ba3	BB+ to BB-	0.0	0.0	0.5	0.6	0.0	1.2
	B1 to B3	B+ to B-	0.0	0.0	0.1	0.0	0.0	
	C	C	0.0	0.0	0.0	0.0	0.0	
No rating			0.7	1.2	0.1	0.0	0.0	2.0
Total			41.8	42.8	8.9	1.2	5.3	100.0

The table shows that as of the closing date about 97 percent of the capital investment volume, including the positive market value of derivatives, had been placed with investment-grade counterparties, in other words, those with good or very good credit ratings. Most of the counterparties that do not yet have an internationally accepted rating are respected financial institutions whose creditworthiness can be considered flawless based on our own analyses. The METRO Group also operates in countries where local financial institutions do not have investment-grade ratings due to the rating of their country. For country-specific reasons as well as cost and efficiency considerations, cooperation with these institutions is, however, unavoidable. These institutions account for 1 percent of the total volume.

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

Cash flow risks

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

The finance department also accounts for these risks by defining a benchmark for the relationship between variable and fixed-interest debt. The target structure for the debt portfolio foresees 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	Dec 31, 2006	Dec 31, 2005
Liabilities from suretyships and guarantees	19	28
Liabilities from guarantee and warranty contracts	112	215
	131	243

The decline in liabilities from guarantee and warranty contracts results mainly from the elimination of all potential obligations from the sale of Praktiker real estate. In addition, the divestment of Extra stores markedly reduced the remaining guarantee and warranty contracts by the closing date.

40. Other financial obligations

€ million	Dec 31, 2006	Dec 31, 2005
Purchasing/sourcing commitments	109	90
Other	14	19
	123	109

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/Main.

Resolutions of the annual general meeting of May 22, 2003

The District Court of Düsseldorf (file no. I-6 U 241/06) on December 14, 2006 ruled in the appeals procedure on the legal challenge filed by Dr. Hereth against the resolutions of the annual general meeting in 2003 regarding the approval of the acts of the Management Board (TOP 3) and the election of the auditor for fiscal year 2003 (TOP 5). It fully dismissed the petitioner's appeal against the dismissal of his lawsuit challenging the approval of the acts of the Management Board. The District Court voided the appointment by the annual general meeting 2003 of the auditor for fiscal year 2003 on account of an infringement against the rotation principle laid down in § 319 Section 3 No. 6 HGB a. F. The ruling is not yet effective. Even if the District Court ruling were to become effective, however, it would not impact the effectiveness and existence of the annual financial statements for 2003, according to several expert opinions solicited by the company's Management Board.

42. Stockholding

The list of stockholdings of METRO AG pursuant to § 313 HGB (German Commercial Code) is included in a separate list. In accordance to § 313 Section 4 S. 2 HGB, this list is part of the notes.

43. Events after the balance sheet date

Events of material importance for the evaluation of the asset, financial and earnings situation of METRO AG and the METRO Group did not occur before February 26, 2007 (release of the annual financial statements to the Supervisory Board). The Supervisory Board has the task of examining the consolidated financial statements and making a declaration as to whether it approves the consolidated financial statements.

44. Notes on related parties

In 2006 and 2005, the METRO Group maintained the following business relations to related companies:

€ million	Goods/services provided		Goods/services received	
	2006	2005	2006	2005
Supplies and other services	142	170	27	8

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 with related companies consist primarily of services provided by group companies to the Praktiker group, with €25 million. These concern the time until the divestment of the METRO Group's remaining shares on April 11, 2006. They consist primarily of leasing and services in the areas of procurement, logistics, energy provision and information technology.

Business relations with related companies are based on contractual agreements providing for arm's length prices. In fiscal year 2006, the METRO Group had no business relations with related natural persons.

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 2006 changed as follows:

STOCK OPTIONS/STOCK APPRECIATION RIGHTS

	2006		2005	
	Stock options units	Stock appreciation rights units	Stock options units	Stock appreciation rights units
Outstanding on Jan 1	507,420	1,460,120	1,476,693	3,155,760
Issued	0	0	0	0
Exercised	471,020	1,263,650	575,503	1,058,365
Expired/forfeited	5,470	107,890	393,770	637,275
Outstanding Dec 31	30,930	88,580	507,420	1,460,120

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 that are still in effect 2007 are listed in the following table:

Tranche	Expiration date	Basis price €	Exercising hurdle €	Stock options		Stock appreciation rights	
				Dec 31, 2006 units outstanding	Dec 31, 2005 units outstanding	Dec 31, 2006 units outstanding	Dec 31, 2005 units outstanding
2002	8 weeks after AGM ¹ in 2006	28.73	37.35	0	23,920	0	77,170
2003	8 weeks after AGM ¹ in 2007	26.99	35.09	30,930	483,500	88,580	1,382,950

¹Annual general meeting of METRO AG

During the year under review, 21,250 stock options and 62,480 stock appreciation rights were exercised from the 2002 tranche. The average strike price per right was €43.87. A total of 2,670 stock options and 14,690 stock appreciation rights were forfeited.

From the 2003 tranche, 449,770 stock options and 1,201,170 stock appreciation rights were exercised. The average strike price per right was €44.09. A total 2,800 stock options and 93,200 stock appreciation rights were forfeited and the remaining term of the rights that may still be exercised from the 2003 tranche ends on 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 in €
2004	July 2007	37.14	42.71	21,610,000
2005	July 2008	41.60	47.84	23,825,000
2006	July 2009	43.15	49.62	25,510,000

The target bonus values are based on the assumption that the target prices are attained. The value of the stock bonus paid in 2006 was €32,764,776 at the time of payment and was calculated by independent experts using the Monte Carlo method.

Total expenses on stock-based compensation programs after income from hedging transactions amount to €24 million in fiscal year 2006 (previous year €20 million).

The related provisions as per December 31, 2006 amount to €56 million (previous year €32 million), including €31 million (previous year €21 million) with a remaining term of up to one year.

46. Management Board and Supervisory Board

Company expenses on Management Board compensation in 2006

The company's expenses on the remuneration of the active members of the Management Board essentially consists of a fixed salary and performance-based entitlements as well as the prorated expenses on all stock-based remuneration with expiry dates in fiscal year 2006 or later.

The amount of the variable, performance-based compensation for fiscal year 2006 results from EVA-based compensation entitlements and thus from the company's performance during the current fiscal year. As a result of the bonus bank system, their complete payment is dependent on EVA factors and thus on the company's performance in the next few years.

In accordance to statutory requirements, the value of stock-based compensation allocated to activities during the fiscal year is the main determinant of the amount that flows into overall compensation. If the remuneration is granted for board member activities relating to future periods, only the portion of the value of stock-based compensation that applies to the respective fiscal year is to be disclosed. Accordingly, the stock bonuses granted in 2006 and the stock-based compensation granted in previous years must be considered in prorated amounts as long as their expiry dates are in fiscal year 2006 or later. In this context, hedging transactions carried out by the company are not considered.

Due to the granting of a monetary target bonus, a number of subscription rights in accordance with §§ 285 Sentence 1 No. 9a, 314 Section 1 No. 6a German Commercial Code cannot be released. The payment of the bonuses depends on the previously described conditions of stock option plan.

The company's expenses on the remuneration of active members of the Board of Management in fiscal year 2006 amounts to €15.0 million (previous year €8.5 million). This includes €3.3 million (previous year €3.2 million) in fixed salaries, €8.4 million (previous year €4.3 million) in performance-based entitlements, €3.1 million (previous year €1.4 million) in variable entitlements with long-term incentives and €0.2 million (previous year €0.1 million) in other remuneration.

Other remuneration includes non-cash benefits from the provision of company cars and benefits related to guidelines for promoting international mobility among executives of the METRO Group.

Total compensation of former members of the Management Board

Former members of the Management Boards of METRO AG and the companies that were merged into METRO AG as well as their surviving dependents received €6.2 million (previous year €3.6 million). The provisions for current pensions and pension entitlements made for this group totaled €40.4 million (previous year €40.9 million).

The information released pursuant to § 314 Section 1 No. 6a Sentence 5 to 9 HGB can be found in the extensive remuneration report in chapter X of the group management report.

Compensation of the members of the Supervisory Board

The total remuneration of all members of the Supervisory Board in fiscal year 2006 amounts to a net €1.7 million (previous year €1.6 million).

Additional information on the remuneration of Supervisory Board members can be found in the extensive remuneration report in chapter X of the group management report.

47. Auditors' fees

The following fees related to the services rendered by auditor KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft and its associated companies were recorded as expenses:

€ million	Dec 31, 2006	Dec 31, 2005
Audit	6	5
Other certification or evaluation services	1	1
Tax consultation services	1	1
Other services	0	1
Total	8	8

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

48. Declaration of compliance with the German Corporate Governance Code

The Management and Supervisory Boards of METRO AG at year's end 2006 made a declaration of compliance with the recommendations of the government commission German Corporate Governance Code pursuant to § 161 AktG (German Stock Corporation Act) which can be accessed on the METRO AG website (www.metrogroup.de) at any time.

49. Election to be exempt from §§ 264 Section 3 and 264 b HGB

The following domestic subsidiaries in the legal form of stock corporations or partnerships will use the exemption requirements according to § 264 Section 3 and § 264 b HGB, and will thus refrain from disclosing their annual financial statements for 2006 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
3. Classic Objekt GmbH & Co. München-Pasing KG	Düsseldorf
4. Classic Objekt GmbH & Co. Hamburg-Altona KG	Düsseldorf
A.L.C. Warenvertriebsgesellschaft mbH	Düsseldorf
AXXE Reisegastronomie GmbH	Cologne
Buch und Zeit Verlagsgesellschaft mbH	Cologne
C + C Schaper GmbH	Hanover
CH-Vermögensverwaltung GmbH	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 Rostock GmbH	Rostock
Kerber Beteiligungs-GmbH	Fulda
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	Gäufelden
METRO Achte Gesellschaft für Vermögensverwaltung mbH	Düsseldorf
Metro Beteiligungsmanagement Düsseldorf GmbH & Co. KG	Düsseldorf
Metro Cash & Carry Brunnthal GmbH	Berlin
Metro Cash & Carry Deutschland GmbH	Düsseldorf
Metro Cash & Carry Grundstücksverwaltungsgesellschaft mbH	Düsseldorf
Metro Cash & Carry International GmbH	Düsseldorf
METRO Groß- und Lebensmitteleinzelhandel Holding GmbH	Düsseldorf
Metro Großhandelsgesellschaft mbH	Düsseldorf

Metro International Beteiligungs GmbH	Düsseldorf
Metro Kaufhaus und Fachmarkt Holding GmbH	Düsseldorf
Metro Luxemburg Holding GmbH	Düsseldorf
METRO Neunte Gesellschaft für Vermögensverwaltung mbH	Düsseldorf
Metro Online GmbH	Düsseldorf
Metro SB-Großmärkte GmbH & Co. KG Esslingen	Esslingen
Metro SB-Großmärkte GmbH & Co. KG 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
METRO Zehnte Gesellschaft für Vermögensverwaltung mbH	Düsseldorf
METRO Zehnte GmbH & Co. KG	Düsseldorf
MFM METRO Group Facility Management GmbH	Düsseldorf
MFV METRO Fruit & Vegetables Logistics GmbH & Co. KG	Düsseldorf
MGA METRO Group Advertising GmbH	Düsseldorf
MGB METRO Group Buying GmbH	Düsseldorf
MGB METRO Group Buying International GmbH	Düsseldorf
MGB METRO Group Buying West GmbH	Düsseldorf
MGC METRO Group Clearing GmbH	Düsseldorf
MGE Warenhandels GmbH	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 GmbH & Co. KG	Düsseldorf
MIP METRO Group Intellectual Property Management GmbH	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
SB-Leasing GmbH & Co. KG	Grünwald
SIG Import GmbH	Düsseldorf
SPORTARENA GmbH	Cologne
Wal-Mart Administrations GmbH	Wuppertal
Wal-Mart Germany GmbH & Co. KG	Wuppertal
Wal-Mart Germany Verwaltungs GmbH	Wuppertal
Wal-Mart Mitte GmbH & Co. KG	Wuppertal

Wal-Mart SB Warenhaus AG	Wuppertal
Wal-Mart Stores Beteiligungen GmbH	Wuppertal
Wal-Mart Support GmbH & Co. KG	Wuppertal
Wal-Mart Warenhandelsgesellschaft mbH & Co. Objekt Ratingen KG	Wuppertal
Weinkellerei Thomas Rath GmbH	Düsseldorf
WestBTL Handel-Beteiligungsgesellschaft mit beschränkter Haftung	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
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 Darmstadt KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Dortmund 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 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, Krittenbarg 10 KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Hanau KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Hannover 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 Nürnberg, Roritzerstraße KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Offenbach KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Saarbrücken, Bahnhofstr. 82–92, 98–100 KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Siegburg KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Stuttgart, Königstr. 6 KG	Saarbrücken
Asset Verwaltungs-GmbH & Co. Objekt Stuttgart-Bad Cannstatt, Badstr., Marktstr. 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
Gewerbebau Flensburg GmbH & Co. Objekt Fachmarktzentrum KG	Flensburg
GKF Saar-Grund GbR	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. 10. Objekt-KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. 22. Objekt-KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. 25. Objekt-KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. 3. Objekt-KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. 6. Objekt-KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. 8. Objekt-KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Gewerbegrundstücke KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Grundstücksverwaltung KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Arrondierungsgrundstücke KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Bielefeld KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Bochum Otto Straße KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Bremerhaven-Pferdebade KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Brühl KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Castrop-Rauxel KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Edingen-Neckarhausen KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Emden KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Entwicklungsgrundstücke KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Espelkamp 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
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Freiburg KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Haibach KG	Saarbrücken

GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Hamburg-Neuwiedenthal KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Hannover / Davenstedter Straße KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Hannover Fössestraße 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 Krefeld-Fischeln KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Mönchengladbach-Rheydt 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 Prüm 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 Saarbrücken Saarbaser 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-Nordenstadt KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft mbH & Co. Vermietungs- und Handels-KG	Saarbrücken
GKF Vermögensverwaltungsgesellschaft Objekt Nienburg mbH	Saarbrücken
Horten GmbH	Düsseldorf
Horten Verwaltungs GmbH	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Braunschweig KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Duisburg KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Düsseldorf Berliner Allee KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Düsseldorf Carschhaus KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Erlangen KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Giessen KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Hamburg KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Hamm KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Hannover KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Heidelberg KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Heilbronn KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Hildesheim KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Ingolstadt KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt Kempten KG	Saarbrücken
Horten Verwaltungs GmbH & Co. Objekt 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 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
Immopol GmbH & Co. KG	Pöcking
Kaufhalle AG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Aschaffenburg KG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Bochum KG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Brühl KG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Cloppenburg KG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Darmstadt KG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Frechen KG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Freising I KG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Freising II KG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Gelsenkirchen KG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Hamburg-Wandsbek KG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Köln II KG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Köln III KG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Lüdenscheid KG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Nordhorn KG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Passau KG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Pirmasens KG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Remscheid KG	Saarbrücken
Kaufhalle GmbH & Co. Objekt Siegen KG	Saarbrücken
Kaufhalle Immobilien Verwaltungs-GmbH	Saarbrücken
Kaufhof Warenhaus AG & Co. KG i.L.	Cologne
Kaufhof Warenhaus am Alex GmbH	Berlin
Kaufhof Warenhaus Neubrandenburg GmbH	Saarbrücken
MEM METRO Group Energy Production & Management GmbH ¹	Düsseldorf
MES METRO Group Energy Solutions GmbH	Böblingen
METRO Group Asset Management GmbH & Co. KG	Saarbrücken
METRO Group Asset Management Services GmbH	Saarbrücken
METRO Leasing GmbH	Saarbrücken
MTE Grundstücksverwaltung GmbH & Co. Objekt Duisburg oHG	Pöcking
NIGRA Verwaltung GmbH & Co. Objekt Detmold KG	Pöcking

NIGRA Verwaltung GmbH & Co. Objekt Eschweiler KG	Pöcking
NIGRA Verwaltung GmbH & Co. Objekt Germersheim KG	Pöcking
NIGRA Verwaltung GmbH & Co. Objekt Langendreer KG	Munich
NIGRA Verwaltung GmbH & Co. Objekt Moers KG	Munich
NIGRA Verwaltung GmbH & Co. Objekt Neunkirchen KG	Munich
NIGRA Verwaltung GmbH & Co. Objekt Oberhausen oHG	Munich
NIGRA Verwaltung GmbH & Co. Objekt Rendsburg KG	Pöcking
NIGRA Verwaltung GmbH & Co. Objekt Salzgitter KG	Munich
PIL Grundstücksverwaltung GmbH	Saarbrücken
Renate Grundstücksverwaltungsgesellschaft mbH	Saarbrücken
RUDU Verwaltungsgesellschaft mbH	Wuppertal
RUTIL Verwaltung GmbH & Co. SB-Warenhaus Bielefeld KG	Pöcking
Saalbau-Verein Ulm GmbH	Saarbrücken
Schaper Grundbesitzverwaltungsgesellschaft mbH	Saarbrücken
Secundus Grundstücksverwertungs-GmbH & Co. Objekt Stuttgart-Königstraße KG	Cologne
STW Grundstücksverwaltung GmbH	Saarbrücken
TANDOS Grundstücks-Verwaltungsgesellschaft mbH	Saarbrücken
Wal-Mart Germany Grundstücks-Gesellschaft mbH	Wuppertal
Wal-Mart Warenhandelsgesellschaft mbH & Co. Objekt Ratingen KG	Wuppertal
Wirichs Immobilien GmbH	Saarbrücken
Wirichs Verwaltungsgesellschaft mbH & Co. Objekt Schwelm KG	Saarbrücken
Wirichs Verwaltungsgesellschaft mbH & Co. Objekt Voerde und Kamen KG	Saarbrücken
Wolfgang Wirichs GmbH	Saarbrücken
ZARUS Verwaltung GmbH & Co. Dritte Vermietungs-oHG	Munich
ZARUS Verwaltung GmbH & Co. Objekt Braunschweig Berliner Straße KG	Munich
ZARUS Verwaltung GmbH & Co. Objekt Mutterstadt KG	Pöcking
ZARUS Verwaltung GmbH & Co. Objekt Osnabrück KG	Munich
ZARUS Verwaltung GmbH & Co. Objekte Niedersachsen KG	Pöcking
Zentra Beteiligungsgesellschaft mit beschränkter Haftung	Saarbrücken
Zentra-Grundstücksgesellschaft mbH	Saarbrücken

¹The company utilizes the exemption option pursuant to § 264 Section 3 HGB only for the management report

50. Overview of major group companies

Name	Head Office	Stake in %	Sales ¹ in € million
Holding companies			
METRO AG	Düsseldorf, Germany		–
METRO Kaufhaus und Fachmarkt Holding GmbH	Düsseldorf, Germany	100.00	–
METRO Groß- und Lebensmitteleinzelhandel Holding GmbH	Düsseldorf, Germany	100.00	–
Cash & Carry			
METRO Cash & Carry International GmbH	Düsseldorf, Germany	100.00	–
METRO Cash & Carry International Holding GmbH	Vösendorf, Austria	100.00	–
METRO Großhandelsgesellschaft mbH	Düsseldorf, Germany	100.00	5,056
METRO Cash & Carry France S.A.S.	Nanterre, France	100.00	3,707
METRO Cash & Carry OOO	Moscow, Russia	100.00	2,031
METRO Italia Cash and Carry S. p. A.	San Donato Milanese, Italy	100.00	1,951
Makro Cash and Carry Polska SA	Warsaw, Poland	100.00	1,782
Makro Cash & Carry UK Holding Limited	Manchester, Great Britain	100.00	1,522
METRO CASH & CARRY ROMANIA SRL	Bukarest, Romania	85.00	1,430
Makro Autoservicio Mayorista S. A.	Madrid, Spain	100.00	1,373
METRO Distributie Nederland B. V.	Diemen, Netherlands	100.00	1,311
MAKRO Cash & Carry Belgium NV	Antwerpen, Belgium	100.00	1,273
MAKRO Cash & Carry CR s.r.o.	Prague, Czech Republic	100.00	1,193
METRO Jinjiang Cash & Carry Co., Ltd.	Shanghai, China	90.00	803
METRO Cash & Carry Österreich GmbH	Vösendorf, Austria	73.00	770
Hypermarkets			
real,- SB-Warenhaus GmbH	Alzey, Germany	100.00	8,663
Consumer electronics centers			
Media-Saturn-Holding GmbH	Ingolstadt, Germany	75.41	7,658
Mediamarket S. p. A.	Curno, Italy	75.41	1,869
MEDIA MARKT SATURN, S.A.	Barcelona, Spain	75.41	1,455
Media Markt Saturn Holding Nederland B. V.	Rotterdam, Netherlands	75.41	810
Media-Saturn Beteiligungsges. m.b.H.	Vösendorf, Austria	75.41	807
Media Markt Polska Sp. z o.o.	Warsaw, Poland	75.41	764
Media Markt Management und Service AG	Geroldswill, Switzerland	75.41	559
Media Saturn France S.C.S.	Ris Orangis, France	75.41	431
MEDIA MARKT-SATURN BELGIUM N.V.	Brussels, Belgium	75.41	339
Department stores			
Kaufhof Warenhaus AG	Cologne, Germany	100.00	3,231
INNOVATION S.A.	Brussels, Belgium	100.00	298
Other companies			
Adler Modemärkte GmbH	Haibach, Germany	100.00	470
DINEA Gastronomie GmbH	Cologne, Germany	100.00	204
METRO Group Asset Management GmbH & Co. KG	Saarbrücken, Germany	49.00 ²	0
MGB METRO Group Buying GmbH	Düsseldorf, Germany	100.00	0
MIAG Commanditaire Vennootschap	Diemen, Netherlands	100.00	0
MGL METRO Group Logistics Warehousing GmbH & Co. KG	Sarstedt, Germany	100.00	0
MGI METRO Group Information Technology GmbH	Düsseldorf, Germany	100.00	0

¹Including consolidated national subsidiaries²METRO AG holds 75 percent of the voting rights.

51. CORPORATE BOARDS OF METRO AG AND THEIR MANDATES

Members of the Supervisory Board

Dr. Eckhard Cordes (Chairman)

since February 5, 2006, Chairman since February 20, 2006
Chairman of the Managing Board of
Franz Haniel & Cie. GmbH

- a) Celsio AG (Chairman), since April 27, 2006
Deutsche Bahn AG, from July 1, 2006 to August 28, 2006
Rheinmetall Aktiengesellschaft
TAKKT AG, since May 31, 2006
- b) FIEGE Holding Stiftung & Co. KG –
Advisory Board (Chairman), since February 5, 2006,
Chairman since April 3, 2006
Air Berlin PLC, London, Great Britain –
Board of Directors, since May 9, 2006
Aktiebolaget SKF, Gothenburg, Sweden –
Board of Directors, since April 25, 2006

Prof. Dr. Theo Siegert (Chairman)¹

until February 4, 2006
former Chairman of the Managing Board of
Franz Haniel & Cie. GmbH

- a) Celsio AG (Chairman)
ERGO Versicherungsgruppe AG
TAKKT AG
- b) None

Dr. Wulf H. Bernotat

Chairman of the Board of Management of E.ON AG

- a) Allianz SE (formerly Allianz AG)
Bertelsmann AG, since May 22, 2006
E.ON Energie AG (Chairman)
E.ON Ruhrgas AG (Chairman)
RAG AG (Chairman)
- b) E.ON Nordic AB, Malmö, Sweden –
Board of Directors (Chairman)
E.ON Sverige AB, Malmö, Sweden –
Board of Directors (Chairman)
E.ON UK plc, Coventry, Great Britain –
Board of Directors (Chairman)

E.ON US Investments Corp., Delaware (OH), USA –
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 Industrierwerke GmbH (Chairman)
- b) Bucerius / WHU MLB gGmbH – Supervisory Board,
since October 30, 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

Ulrich Dalibor

National Chairman of the Retail Section of the Ver.di union

- a) Kaufhof Warenhaus AG
- b) None

Prof. Dr. Dr. h. c. mult. Erich Greipl

CEO of Metro Vermögensverwaltung GmbH & Co. KG

- a) Kaufhof Warenhaus AG
Metro Großhandelsgesellschaft mbH
Real Holding GmbH
- b) BBE Unternehmensberatung GmbH – Board of Directors
Der Grüne Punkt – Duales System Deutschland GmbH
(formerly Duales System Deutschland AG) –
Supervisory Board (Chairman)
KGG Kreditgarantiegemeinschaft Handel in Bayern
GmbH – Board of Directors (Chairman)
Beisheim Holding Schweiz AG, Baar, Switzerland –
Board of Directors (President)

¹The information on Prof. Dr. Siegert relates to the date of his resignation from the
Supervisory Board

a) Member of other statutory supervisory boards of domestic companies

b) Member of comparable German and foreign boards of business enterprises

Jürgen Hennig

Department Head at Metro Großhandelsgesellschaft mbH

a) None

b) None

Anja Kiehne-Neuberg

Section Head of Personnel 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

Business Consultant

a) None

- b) Gebr. Schmidt GmbH & Co. KG – Advisory Board,
since February 7, 2006
Bank Julius Bär & Co. AG, Zurich, Switzerland – Board
of Directors (Vice President until April 12, 2006; since
then ordinary member)
Brändle, Missura & Partner Informatik AG, Zurich,
Switzerland – Board of Directors
Holcim Ltd., Jona, Switzerland – Board of Directors
Karl Steiner AG, Zurich, Switzerland – Board of Directors
Karl Steiner Holding AG (formerly PSW Holding AG),
Zurich, Switzerland – Board of Directors
(Vice President since July 3, 2006)
LB (Swiss) Privatbank AG, Zurich, Switzerland –
Board of Directors
Peter Steiner Holding AG, Zurich, Switzerland –
Board of Directors, since July 3, 2006
PILATUS Flugzeugwerke AG, Stans, Switzerland –
Board of Directors (President), until June 27, 2006
UFJ Bank (Schweiz) AG, Zurich, Switzerland –
Board of Directors, until April 19, 2006
Supra Holding AG, Baar, Switzerland –
Board of Directors

Suprapart AG, Baar, Switzerland – Board of Directors

Valora Holding AG, Bern, Switzerland –

Board of Directors

Rainer Kuschewski

Secretary of the National Executive Board of the Ver.di union

a) Real Holding GmbH

b) None

Dr. Klaus Mangold

Chairman of the German Committee on Eastern European
Economic Relations

Chairman of the Supervisory Board of Rothschild GmbH

a) Drees & Sommer AG

Jenoptik AG

Leipziger Messe GmbH

Universitätsklinikum Freiburg (public corporation)

b) Rothschild GmbH – Supervisory Board (Chairman)

Chubb Corporation, Warren (NJ), USA –

Board of Directors

Magna International Inc., Toronto, Canada –

Board of Directors

Rothschild Europe B.V. – Raad van Commissarissen

(Vice-Chairman)

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

a) Member of other statutory supervisory boards of domestic companies

b) Member of comparable German and foreign boards of business enterprises

Dr.-Ing. e. h. Bernd Pischetsrieder

former Chairman of the Board of Management of Volkswagen AG

- a) Audi AG (Chairman), until December 31, 2006
Dresdner Bank AG
Münchener Rückversicherungs-Gesellschaft
- b) Scania AB, Södertälje, Sweden –
Board of Directors (Chairman)
SEAT S.A., Barcelona, Spain – Consejo de Administración, until December 31, 2006
Tetra-Laval Group, Pully, Switzerland –
Board of Directors

Sylvia Raddatz

Commercial Clerk,
Extra Verbrauchermärkte Deutschland GmbH

- 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) Deutsche Telekom AG, until May 31, 2006
Münchener Rückversicherungs-Gesellschaft
(Chairman)
- b) UnitCredit S.p.A., Milan, Italy – Board of Directors,
since January 11, 2006

Dr. Manfred Schneider

Chairman of the Supervisory Board of Bayer AG

- a) Allianz AG, until October 13, 2006
Bayer AG (Chairman)
DaimlerChrysler AG
Linde AG (Chairman)
RWE AG
TUI AG
- b) None

Peter Stieger

since January 4, 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 mandates

Presidential Committee

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

Personnel and Nominations Committee

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

Accounting and Audit Committee

Dr. Eckhard Cordes (Chairman), from February 20, 2006 until March 14, 2006 and since May 2, 2006
Prof. Dr. Theo Siegert (Chairman), until February 4, 2006
Klaus Bruns (Vice Chairman)
Ulrich Dalibor
Prof. Dr. Dr. h. c. mult. Erich Greipl
Anja Kiehne-Neuberg
Dr. jur. Hans-Jürgen Schinzler

Mediation Committee pursuant to § 27 Section 3 MitbestG (German law on co-determination)

Dr. Eckhard Cordes (Chairman), since February 20, 2006
Prof. Dr. Theo Siegert (Chairman), until February 4, 2006
Klaus Bruns (Vice Chairman)
Prof. Dr. Dr. h. c. mult. 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 January 24, 2006
LP Holding GmbH – Supervisory Board,
since February 13, 2006
Air Berlin PLC, London, Great Britain –
Board of Directors, since May 9, 2006
Skandinaviska Enskilda Banken AB, Stockholm, Sweden –
Board of Directors

Prof. Stefan Feuerstein¹

until July 31, 2006

- a) Dinea Gastronomie GmbH (Chairman), until July 31, 2006
Real Holding GmbH (Chairman), until July 31, 2006
- b) Extra Verbrauchermärkte Management GmbH –
Advisory Board (Chairman), until July 31, 2006

Zygmunt Mierdorf

(Executive Vice President Human Resources)

- a) Adler Modemärkte GmbH (Chairman)
Praktiker Bau- und Heimwerkermärkte AG
Praktiker Bau- und Heimwerkermärkte Holding AG
Real Holding GmbH (Chairman since August 15, 2006)
TÜV SÜD AG, since May 12, 2006
- b) Extra Verbrauchermärkte Management GmbH –
Advisory Board (Chairman), since August 1, 2006,
Chairman since September 12, 2006
METRO Group Asset Management GmbH & Co. KG –
Shareholders' Committee (Chairman)
MGP METRO Group Account Processing International
AG, Baar, Switzerland – Board of Directors (President)
Wagner International AG, Altstätten, Switzerland –
Board of Directors
Tertia Handelsbeteiligungsgesellschaft mbH –
Supervisory Board (Chairman)



Mierdorf

Frans W. H. Muller

since August 1, 2006

- a) Dinea Gastronomie GmbH (Chairman), since August 1,
2006, Chairman since September 12, 2006
Real Holding GmbH, since August 1, 2006
- b) Metro Distributie Nederland B.V. –
Raad van Commissarissen

Thomas Unger

- a) Praktiker Bau- und Heimwerkermärkte AG,
until June 27, 2006
Praktiker Bau- und Heimwerkermärkte Holding AG,
until June 27, 2006
Real Holding GmbH
- b) Assevermag AG, Baar, Switzerland – Board of Directors
(President)
Metro Capital B.V., Venlo, Netherlands –
Raad van Commissarissen, until November 30, 2006
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 26, 2007

THE MANAGEMENT BOARD



Dr. Körber



Muller



Unger

¹The information on Prof. Feuerstein refer to the time of his departure from the Board of Management

a) Member of other statutory supervisory boards of domestic companies

b) Member of comparable German and foreign boards of business enterprises