

**Joint Report**  
**of the Management Board [*Vorstand*] of**  
**METRO AG, Düsseldorf**  
**and**  
**the Board of Directors (*Geschäftsführung*) of**  
**METRO Zweite Gesellschaft für Vermögensverwaltung, Düsseldorf**  
**(“METRO Vermögensverwaltung 2”)**  
**on the Domination and Profit and Loss Transfer Agreement**  
**between**  
**METRO AG and METRO Vermögensverwaltung 2 pursuant to § 293a AktG**

To inform the shareholders and to prepare the resolutions to be decided upon by the Extraordinary Shareholders' Meeting (*außerordentliche Gesellschafterversammlung*) of METRO Vermögensverwaltung 2, as well as the Annual Stockholders' Meeting (*Hauptversammlung*) of METRO AG, the Management Board (*Vorstand*) of METRO AG and the Board of Directors (*Geschäftsführung*) of METRO Vermögensverwaltung 2 present the following Report on the Domination and Profit and Loss Transfer Agreement between METRO AG and METRO Vermögensverwaltung 2:

**1. Conclusion of the Agreement; Effectiveness**

The Domination and Profit and Loss Transfer Agreement between METRO AG and METRO Vermögensverwaltung 2 was concluded on November 15, 2002. It is submitted for approval to the Extraordinary Shareholders' Meeting (*außerordentliche Gesellschafterversammlung*) of METRO Vermögensverwaltung 2 on November 18, 2002 and to the Annual Stockholders' Meeting (*ordentliche Hauptversammlung*) of METRO AG on May 22, 2003. In accordance with established practice of the courts, a domination and profit and loss transfer agreement entered into with a limited liability company under German law (*GmbH*) requires the approval of the annual stockholders' meeting (*Hauptversammlung*) of the controlling company as well as of the shareholders' meeting (*Gesellschafterversammlung*) of the GmbH as the controlled company. Further, in order to become legally effective, the Agreement has to be registered in the commercial register of METRO Vermögensverwaltung 2.

## 2. Explanation of the Domination and Profit and Loss Agreement

The essential content of the Domination and Profit and Loss Agreement is as follows:

METRO Vermögensverwaltung 2 submits the governance of its company to METRO AG. Accordingly, METRO AG is entitled to issue instructions to the Board of Directors (*Geschäftsführung*) of METRO Vermögensverwaltung 2 with respect to the management of the company.

Moreover, METRO Vermögensverwaltung 2 is obligated to transfer its entire profit to METRO AG. Subject to the allocation to or the dissolution of reserves, the annual net profit prior to the transfer of profit minus any net loss carried forward from the previous year shall be transferred. Subject to the approval of METRO AG, METRO Vermögensverwaltung 2 may allocate certain amounts from the annual net income to other profit reserves provided that this is permissible under German commercial law and economically justified pursuant to reasonable commercial judgement. Other profit reserves allocated during the term of the Agreement shall be released upon the demand of METRO AG and shall be used to compensate for any net loss or shall otherwise, to the extent legally permissible, be transferred as profit. This Agreement is in conformance with the limits of the transfer of profit as set forth in §301 AktG (*German Stock Corporation Act*).

Pursuant to § 302 AktG, METRO AG shall compensate for potential losses. Accordingly, METRO AG is obliged to compensate for any net loss incurred during the term of the Agreement, unless such loss is compensated for by a withdrawal of the respective amounts from uncommitted reserves (i.e. other profit reserves pursuant to § 272 para. 3 HGB (*German Commercial Act*) and capital reserves from additional capital payments pursuant to § 272 para. 2 no. 4 HGB) allocated to such reserves during the term of the Agreement. In accordance with § 302 para. 3 AktG, METRO Vermögensverwaltung 2 may not waive this claim for compensation of loss nor enter into a settlement agreement on it for a time period of three years from the day on which the registration of the termination of the Agreement in the commercial register is deemed to have been made public.

The Domination and Profit and Loss Transfer Agreement becomes legally effective upon

the registration of its existence in the commercial register at the site of the registered office of METRO Vermögensverwaltung 2 and has retroactive effect as of October 30, 2002 (this is the day of the registration of METRO Vermögensverwaltung 2 in the commercial register). The Agreement may be terminated for the first time with effect to the end of December 31, 2007 with a notice period of three months, but not earlier than five calendar years from the beginning of the fiscal year for which a fiscal unit with regard to corporate income tax and trade tax is acknowledged for the first time. Unless notice of termination is given, the Agreement shall be automatically renewed each time by one calendar year, subject to the same notice period. Furthermore, the Agreement may be terminated for cause without observance of a notice period. This shall particularly apply to METRO AG when METRO AG no longer holds the majority of the voting rights with respect to METRO Vermögensverwaltung 2.

The Agreement contains the customary provisions of a domination and profit and loss transfer agreement concluded for the purpose of establishing a fiscal unit within a group of companies. In order to safeguard recognition as a fiscal unit, it was essential to conclude the Agreement for a term of at least five calendar years. The parties have agreed upon the retroactive effectiveness of the Agreement in order to be able to take advantage of the tax benefits of the fiscal unit beginning from October 30, 2002.

The Domination and Profit and Loss Transfer Agreement does not provide for a compensatory payment nor for a consideration for free float shareholders because METRO AG is the sole shareholder of METRO Vermögensverwaltung 2.

As METRO AG holds all shares in METRO Vermögensverwaltung 2, it was not necessary to have the Domination and Profit and Loss Transfer Agreement audited by professional auditors pursuant to § 293b para. 1 AktG nor to prepare the respective audit report in accordance with § 293e AktG.

### **3. Background and Purpose of the Domination and Profit and Loss Transfer Agreement**

METRO Vermögensverwaltung 2 was established on October 11, 2002 as a 100 percent subsidiary of METRO AG with a nominal capital of EUR 25,000.00 under the company name of METRO Erste Gesellschaft für Vermögensverwaltung mbH and entered in the commercial register of the Local Court of Düsseldorf under HRB 44806. The purpose of

the company is the administration, holding, acquisition and disposal of assets of any kind, especially shares in companies, including taking over their representation.

The background of the establishment of this company, as well as of METRO Erste Gesellschaft für Vermögensverwaltung mbH ("METRO Vermögensverwaltung 1"), is the planned affiliation of the companies of the METRO Group active in retail trade, department stores and specialist stores with two holding companies, in accordance with the focus of their respective businesses. One of these companies, METRO Vermögensverwaltung 1, is to become the divisional holding for the food retail sector and the other one, METRO Vermögensverwaltung 2, for the non-food sector. In this context, it is planned to increase the nominal capital of METRO Vermögensverwaltung 2 of currently EUR 25,000.00 by EUR 499,975,000.00 to EUR 500,000,000.00. METRO AG will undertake to pay the additional nominal capital by contributing in kind to METRO Vermögensverwaltung 2 all stocks held by it in Kaufhof Warenhaus Aktiengesellschaft, registered in the commercial register of the Local Court of Cologne under HRB 18705. As soon as the applicable prerequisites imposed by company law are fulfilled, METRO AG's shares in Media-Saturn-Holding GmbH, registered in the commercial register of the Local Court of Ingolstadt under HRB 1123, are to be contributed to METRO Vermögensverwaltung 2. The contribution of the shares in the third company to be allocated to the non-food sector, i.e. Praktiker Bau- und Heimwerkermärkte Aktiengesellschaft, [*the company specialising in home improvement and do-it-yourself products*] registered in the commercial register of the Local Court of Saarbrücken/Homburg under HRB 3489, is to be deferred until the uncertain tax law situation is clarified and a transfer can be made without impairing the fiscal position. Thus the subsidiaries of METRO AG assigned to the department store and specialist store sector, i.e. the non-food division, will be affiliated under METRO Vermögensverwaltung 2 as the second divisional holding in several steps.

In parallel, it is planned to affiliate the subsidiaries of METRO AG to be assigned to the food retail division under METRO Vermögensverwaltung 1 as a further division holding. Therefore, all shares in real,- Holding GmbH domiciled in Alzey, registered in the commercial register of the Local Court of Alzey under HRB 2837 and in extra Holding GmbH domiciled in Sarstedt, registered in the commercial register of the Local Court of Hildesheim under HRB 2397 are to be contributed to METRO Vermögensverwaltung 1. Consequently, the companies to be assigned to the food retail sector will be pooled at a level below METRO AG in a holding company exclusively responsible for the companies active in this sector.

The planned pooling of subsidiaries under two divisional holding companies has the advantage that the legal company structure is adjusted to the divisions. The divisional holding companies as shareholders are aligned with the respective divisions of their subsidiaries and thus organised in a business-specific manner for exercising their shareholder rights. The divisional holding companies will change their names to “METRO Einzelhandel Holding GmbH” (for the food sector) and “METRO Warenhaus und Fachmarkt Holding GmbH” (for the non-food sector) and adjust the purpose of their businesses accordingly. The divisional holding companies for the areas of wholesale trade and service have already been set up.

Within the scope of the restructuring measures described above, the Agreement as a domination agreement serves to secure for METRO AG the governance of METRO Vermögensverwaltung 2 which due to the planned contribution becomes the sole stockholder of Kaufhof Warenhaus AG and potentially the major shareholder of Media-Saturn-Holding GmbH. METRO AG will therefore be entitled to issue instructions to METRO Vermögensverwaltung 2 from the date of entry of the Domination and Profit & Loss Transfer Agreement in the commercial register. This will allow METRO AG to coordinate the specific interests of METRO Vermögensverwaltung 2 with the interests of METRO AG and the interests of the group as a whole.

As a profit and loss transfer agreement the Agreement serves to establish a fiscal unit with regard to corporate income tax between METRO AG and METRO Vermögensverwaltung 2 pursuant to §§ 14, 17 KStG (*German Corporate Income Tax Act*). In addition, it establishes a fiscal unit with regard to business tax between METRO AG and METRO Vermögensverwaltung 2 according to § 2 para. 2 GewStG (*German Business Tax Act*) which is in any case still applicable to the year 2002.

The fiscal unit under corporate income tax and business tax law leads to a joint taxation of METRO Vermögensverwaltung 2 (Controlled Company) and METRO AG (Controlling Company). As a result, a profit transfer and loss compensation for tax purposes is made possible. Under business tax law, METRO Vermögensverwaltung 2 as a controlled company constitutes a permanent establishment of the controlling company METRO AG. Hence, as long as § 2 para. 2 GewStG is still in force, only METRO AG as the controlling company will be subject to trade tax.

#### **4. Commercial Significance of the Profit Surrender Commitment to Transfer Profits and the Commitment to Compensate for Losses as well as Alternatives to the**

## **Conclusion of the Domination and Profit & Loss Transfer Agreement**

Due to the conclusion of the Domination and Profit and Loss Transfer Agreement, METRO AG is obliged to compensate for any annual net loss of METRO Vermögensverwaltung 2 incurred during the term of the Agreement, unless such loss can be compensated for by withdrawing amounts from other profit reserves which were allocated during the term of the Agreement. The Domination and Profit and Loss Transfer Agreement allows to optimally take into account the profit and loss of METRO Vermögensverwaltung 2 within the scope of the fiscal unit under corporate income and business tax law. The Domination and Profit and Loss Transfer Agreement also serves to optimise the tax deductibility of financing expenses and expenditures in connection with the administration of shareholdings.

There was no commercially reasonable alternative to the conclusion of the Domination and Profit and Loss Transfer Agreement between METRO AG and METRO Vermögensverwaltung 2 by which the above-described objectives could have been realised in the same or better way. In particular, with the conclusion of a different kind of agreement pursuant to § 292 AktG (company lease agreement, company surrender agreement, profit pool or profit portion transfer agreement) or a management contract, it would not have been possible to attain a joint taxation of METRO AG and METRO Vermögensverwaltung 2.

Düsseldorf, November 18, 2002

METRO AG

The Executive Board (*Vorstand*)

(signed)	(signed)	(signed)	(signed)
Dr Körber	Mierdorf	Suhr	Unger

Düsseldorf, November 18, 2002

METRO Zweite Gesellschaft für Vermögensverwaltung

The Board of Directors (*Geschäftsführung*)

(signed)	(signed)	(signed)	(signed)
Dr Haiß	Sachs	Arndt	Hedfeld